

# Fiscal space for social protection the case of Vietnam

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# Size of the sector of social protection

- In 2008, social protection expenditures represented about 3.6% of the GDP of which:
  - 2.6% in benefits to the pensioners of the public sector who retired before 1995.
    - When created VSS was unable to finance these benefits
  - 0.9% in allowances to the people with national merit
  - 0.6% in national targeted programs including health insurance and education fees subsidies to the poor
    - Include support to help poor households' access to credit, health insurance, education, housing, clean water, agricultural extension services etc. and development of infrastructure in poor communes
  - 0.3% in aids to victims of natural disasters
  - 0.14% in monthly social allowances
    - Mostly support non-able working people

# Response to the global crisis

- Some fiscal space
  - drop in commodity prices and corporate taxes has probably reduced the expected amount of fiscal revenues but, in recent years, low fiscal deficit 1.7 to 3.8% of GDP
- Increased sector's spending by VND 7.2 tr. or 0.4% GDP
  - Tet bonus: allowances distributed to 2.3 million poor households
  - New poverty reduction program in poorest districts: with direct interventions of teams from ministries to speed up the decision process and improve the coordination of projects and policies
  - Additional support for housing
- This package aims at protect the poor
- Support to ordinary workers
  - Unemployment insurance: just created in January 2009,
  - The government explored how to accelerate its implementation
  - The lack of possible controls makes unworkable any support to the unemployed of the informal sector

# Households vulnerability during the crisis

- In fact, most of the dismissed workers have been from the informal sector:
  - Enterprises in industrial parks reduced labor force through the non-renewal of short-term contracts, voluntary resignations (somehow induced) and lower overtime
  - Reported dismissed workers to MoLISA, those who probably could have benefit from unemployment insurance, rapidly obtained another job
  - Only a small share of the laid-off workers received severance pay benefits
  - Craft villages employ relatives and migrants. Contracts are informal and salaries are paid either on daily rate basis, or on a piece-meal basis; no producers paid termination benefits

# Lessons from East Asia crisis 1997-98

- Poor and new poor well protected with large public works programs, distribution of food, education and health subsidies.
- Mechanisms in place to reduce income shock suffered by ordinary workers:
  - Unemployment insurance: only in South Korea, small coverage
  - Severance pay: only widely respected in Malaysia
  - Unemployment insurance saving accounts: laid-off workers are allowed to borrow from their own future retirement benefits, which they can replenish after finding employment; small coverage
  - Emergency loans for consumption: eligibility based on screening procedures that finally limited the number of beneficiaries to the laid-off of the formal sector
  - Social assistance: direct income support is limited to non-able working persons; in Korea low-interest loans for consumption, housing or business and support for health care and education were expanded to family with unemployed.

# Vietnam Social Protection Strategy

- Continuing poverty reduction programs and,
- Instead of searching ways to support workers of the informal sector, increase social insurance coverage to the whole population
- First milestone: health insurance universal coverage by 2015
  - Since 2005, the State budget buys health insurance cards for the poor and the population of mountainous areas
  - In 2009: to the near poor (half cost) and all the children under 6
  - In 2010: to the students (half the cost)
  - In 2012 and 2014 mandatory for all the remaining population
- Social protection strategy indicate willingness to expand coverage of voluntary pension system that covers the workers of the informal sector

# Fiscal implications 2010 - 2020

- State budget transfers to health insurance increase from 0.35% in 2009 of GDP to 0.5% in 2020
  - Because coverage of State subsidies is expanded to new beneficiaries and, because the
  - Revision of the poverty line in 2010 likely leads to higher number of registered poor than in 2009.
- Funding of poverty reduction programs remains constant in percent of GDP than during 2006-2010 that is 1.6% of GDP (but health insurance and support for education are taken away as they are financed out other funds)
- Relative decrease of payments to the pre-1995 retirees in GDP from 1.6% in 2009 to 0.8% in 2020 (for natural attrition)

# Fiscal space

- Overall the size of social protection could decrease from 3.5% in 2010 to 2.7 or 2.2% of GDP in 2020
- No emergence of quasi-fiscal deficit in the sector of health insurance
  - In 2015, public health expenditures are expected to reach 3.4% of GDP (from 2.3% in 2005)
  - Half is expected to come from public direct funding
  - If universal coverage is achieved, health insurance should cover the other half. If only half of the informal sector is covered, the health insurance law allows increase the contribution rate.
- Pension systems accumulates reserves
- There is some fiscal space to develop new policies and programs in the sector of social protection

# Continuing expansion of coverage

- **Issue:** simulations show that even if all the workers of the informal sector with earning equal or above the minimum wage joined the pension system “tomorrow” only 13.4% of the elderly would likely be pensioners in 2020. At best, 7% of the elderly in the rural areas would be pensioners.
- **Reason:** in order to be financially viable, monthly pension are only paid to workers with at least 20 years of contributions. Many of the workers that could join “tomorrow” are already 40 years old or above. These workers if they participate will receive a rather small lump sum.
- **Concerns:** (a) possible emergence of poverty among elderly (b) erosion of public’s trust in social security
- **Policy response:** financing a pension equal to the minimum wage to the participants not eligible to pension. The expected fiscal space allows implement this policy if 40% of the workers of the informal sector, or less, join the pension system.

# Conclusions

- Today employment in the formal sector is large in Vietnam. In time of crisis these ordinary workers are much less likely able to benefit from government's social policies than workers from the formal sector.
- The government's responses to the crisis aimed at protect the poor
- The lack of possible controls makes the implementation of policies targeted to the unemployed of the informal sector unworkable
- The current social protection strategy of Vietnam is to develop a comprehensive social security system that cover the whole population. The first objective is to reach health insurance universal coverage by 2015
- This study evaluates the fiscal implication of such a strategy given the willingness of the government to continue its efforts to significantly improve living standards in the poorest regions of Vietnam.
- The results indicate that the implementation of these policies still leaves some fiscal space that could be used to also increase rapidly the coverage of social insurance, thus to reduce the size of the informal sector, hence to reduce ordinary households' vulnerability to future crisis.