

FISCAL SPACE IMPLICATIONS OF THE CRISIS FOR SOCIAL POLICY AND SOCIAL PROTECTION IN VIET NAM.

by: Paulette Castel¹

Background Paper for Conference on the "The Impact of the Global Economic Slowdown on Poverty and Sustainable Development in Asia and the Pacific"

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SUMMARY

1. **Social Protection in Vietnam:** Vietnam has developed in the past strong and successful poverty alleviation programs concentrated on the development of infrastructure and economic opportunities in the poorest areas. It has also started building up a modern social security system; the first priority being the achievement of universal health insurance by 2015. Individual targeted programs such as social assistance (monthly benefits) are small and limited to non-able working people and people with national merits.
2. **Fiscal implications:** In 2008, social protection expenditures represented about 3.7% of the GDP. A very large share of the social protection spending (2.5 p.p.) was employed to pay benefits to the pensioners of the public sector who retired before 1995 and allowances to the people with national merit. On a yearly basis, the national targeted programs together with health insurance and education fees subsidies represented about 0.6% of GDP. Aids to victims of natural disaster represented about 0.32% of GDP and individual targeted programs such as social assistance (monthly benefits) amounted to only 0.14% of GDP.
3. **The government's responses to the crisis targeted the poor:** In response to the impact of the global financial crisis, Vietnam had some fiscal space. In recent years, the fiscal deficit, including ODA on-lending, has ranged from 1.7% to 3.8% of GDP, and it could be financed without monetization. Although the drop in commodity prices and corporate taxes has probably reduced the expected amount of fiscal revenues, the government decided to expand social expenditures by about 7 200 VND billion, or approximately 0.44% of GDP. The package included: the disbursement of a Tet bonus to the poor, the creation of an additional targeted program directed to the 61 poorest districts, and increased housing support.
4. **The crisis affected workers of the informal sector the most:** The economic shocks that have affected Vietnam over the two past years have mostly affected the populations integrated to the market economy. The formal sector is, however, rather small. Even in the industrial parks, many workers are employed under short-term contracts. Enterprises did not renew contracts and often stimulate

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voluntary departures. As a result, only a small share of the dismissed workers has been entitled to severance pay. If the unemployment insurance had been in place, few displaced workers would have also been entitled to unemployment benefit.

5. **Lessons from the East Asia Crisis:** During the era of rapid development, little attention had been given to income support policies. Sustaining rapid growth was the priority to increase employment and raise incomes. Fears that firing costs or social taxes would increase enterprises' labor cost and slow down growth had prevented, therefore, the implementation of wide social protection policies. The governments' responses aimed at protect the poor through direct subsidies and large public works programs. Analyses of the social impacts of the 1997-1998 crisis show that the mechanisms put in place - unemployment insurance, severance pay regulations, unemployment insurance savings accounts, emergency loans facility and social assistance programs – to reduce ordinary workers' vulnerability to income shocks left out most of the affected workers because of the small size of the formal sector.
6. **Vietnam's social protection strategy:** Rather than searching ways to help workers of the informal sector in time of crisis, the Social Protection Strategy of the government of Vietnam appears to focus on the development of a comprehensive social security system that would cover the whole population. The first milestone of this strategy is the decision to achieve universal coverage of health insurance by 2015. In the other sector of social protection, the current strategy does not introduce major change with the trends observed in the past. In that respect State budget's large funding of the national targeted programs on poverty reduction is expected to continue.
7. **Fiscal space and reforms:** This study evaluates the fiscal implication of such a strategy. The projections show of the expected evolution of the sector of social protection show that the large financial burden imposed to the State budget by the payment of the pension benefits to the pensioners of the public sector who retired before 1995 and the social allowances to the people with national merit is expected to decrease. Such decrease will free up enough resources to finance the health insurance new policies and introduce new policies to significantly expand the coverage of social insurance.
8. **Expansion of the pension system:** A rapid expansion of the pension system is impossible without government' intervention. The reason is that middle aged workers, 40 years and above, won't participate if they cannot be eligible to pension income when they reach retirement age. Under the current regulations, only people who have for 20 years are entitled to monthly pension income. As result, the share of elderly with pension could be as low as 14% in 2020. The paper shows that it is fiscally workable that, in the coming years (on a temporary basis) the State budget subsidies the provision of pension income to the people that reach retirement age with less than 20 years of contribution.
9. **Reducing worker's vulnerability to income shocks:** The integration of large population of the informal sector into the pension system with the introduction of notional individual accounts, as foreseen in the Social Protection Paper, will open new possibilities to introduce mechanisms that reduce household's vulnerability to income shocks. In case of lost of employment or reduced income (economic downturn for self-employed, drought, animal-disease epidemic etc. for farmers),

participants to social insurance could be allowed to borrow from their own future retirement benefits. Long-term sickness and disability insurance can be established as well.

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The stimulus package the government of Vietnam implemented in 2009 in responses to the international crisis aimed, principally, at protect the poor. The government also explored possibilities to accelerate the implementation of the unemployment insurance that had been introduced in January. However, because most of the dismissed workers were from the informal sector, no mechanisms could, finally, be rapidly designed to help ordinary households cope with the resulting income shocks. Rather than searching ways to help workers of the informal sector in time of crisis, the Social Protection Strategy of the government of Vietnam appears to focus on the development of a comprehensive social security system that would cover the whole population. The first milestone of this strategy is the decision to achieve universal coverage of health insurance 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. It gives also estimates of the cost of policies that would search to rapidly increase the coverage of social insurance so that, in time of recession, the social protection sector is efficient in reducing workers' vulnerability to income shocks.

The first section presents the fiscal situation of the social protection sector in Vietnam. The second section describes the government's response to the international crisis. The third section examines which households have suffered the most from the crisis. The fourth section passes in review the experience of East Asian countries during the crisis of 1997-1988. The fifth section evaluates the fiscal cost of Vietnam's current social protection strategy. The last section gives estimates of the possible cost of policies that would support a rapid expansion of the social insurance system to the workers of the informal sector.

THE SECTOR OF SOCIAL PROTECTION IN VIETNAM

1. Over the last 20 years, Vietnam has developed a strong and successful poverty alleviation program concentrated on the development of infrastructure and economic opportunities in the poorest areas. It has also started the building of a modern social security system; the first priority being the achievement of universal health insurance by 2015. In that context, individual targeted programs such as social assistance (monthly cash benefits) are small and limited to non-able working people.

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2. *As the figures reported in Table 1 show, overall social protection expenditures represented about 3.7% of the GDP in 2008.*

Table 1

Vietnam Social Protection Budget 2008 - Estimate			
	VND billion	Percent of GDP	Sources
Social assistance	21,711	1.47	ILSSA ² Social Protection Strategy Paper 2011-2020 (SPS paper)
Allowances under Decision 67	2,036	0.14	
Aid to natural disaster victims	4,762	0.32	
Social services	1,301	0.09	
Benefits to people with national merit	13,613	0.92	
Social insurance	23,044	1.56	
State budget transfer for pre-95 retirees	23,044	1.56	Vietnam Social Security (VSS)
Health insurance	2,217	0.15	
State budget transfer for the poor	2,217	0.15	Vietnam Social Security
Education subsidies	1,432	0.10	MoLISA ³ , NTPPR 2006-2010
Labor market policies	1,327	0.09	SPS paper 2011-2020
National Targeted Poverty Reduction Programs (NTPPR)	4,564	0.31	
NTPPR and P135-II 2006-2010	4,564	0.31	MoLISA, NTPPR 2006-2010, IDA ⁴
Total	54,295¹	3.67	
References			
State budget participation to NTPPR	16,018		MoLISA, NTPPR 2006-2010, IDA. The figures refer to the total spending planned over the 5 years
State budget participation to P135	12,950		
Health insurance subsidies	4,076		
Education subsidies	2,073		
Other expenditures NTPPR	33,445		
GDP	1,477,717		General Statistical office (GSO)
Minimum wage thousand VND	540		MoLISA regulation
Number of recipients of health insurance subsidies	15,829		Vietnam Social Security
Contribution rate	3%		Health Insurance regulation

Note: 1/ The State Budget reports a total of VND 50,265 billion in social spending. This total is higher because it includes some subsidies for health insurance and education fees that, in the State Budget, are included in items specifically related to the health or the education sector. The funding of these policies comes, however, from the funds dedicated to the National Targeted Poverty Reduction Programs. To our understanding, there is no document that reconciles all the sources on social spending. 2/ILSSA: Institut of Labor and Social Sciences 3/MoLISA: Ministry of Labor, Invalids and Social Affairs. 4/IDA: International Development Agency

3. *A very large share of these spending (equivalent to about 2.5 % of GDP) was related to State Budget's long-term commitments towards the people with national merit and the pensioners of the public sector who retired before 1995.* Table 1 does not report the amount of transfers made to the

- households under social insurance and paid by the Vietnamese Social Security administration (VSS).
4. The State budget finances, however, part of the current pensions because when the Vietnamese Social Security administration (VSS) was established in 1995 it was unable to take on the financial burden of paying the benefits paid to people who had worked and retired from the public sector under the old regime. The Vietnamese Social Security administration (VSS) functions as pay-as-you-go system. VSS collects contributions and pay social insurance benefits (in case of maternity, family planning and sick leaves, work injury and professional disease, survivorship and to people that reached pension ages). Because of the economic transition and the rather small size of the enterprise sector, the system at its onset would have run deficits if the government had not transferred this financial charge to the State budget.
 5. Since 1995, social insurance coverage has expanded. Today, the formal sector is, however, still rather small. In 1995, the mandatory coverage of the private sector was restricted to the enterprises with 10 or more employees. Since 2005, all the types of enterprises, whatever their size, have the obligation to register to VSS all their employees with a labor contract of 3 months or longer. In 2006, the Social Insurance Law defined the legal framework to expand the coverage of the pension system to the farmers and the self-employed on a voluntary base, and to start an unemployment insurance scheme. Implementations started in 2008 and 2009, respectively.
 6. The formal sector is still rather small in Vietnam. Data of the VHLSS shows that it represented 38.7% of the wage employment and 16.1% of total employment in 2006 (see Table 2).

Table 2
Participation to social security and poverty rates, 2006

	Persons	Share in total (%)	Poverty rates ¹
Wage employed potential participants to the mandatory social insurance system			
Registered	6,769,062	12.9	7.5
Avoiders, short-term contracts not registered	2,984,041	5.7	9.5
Small business employees not registered	7,707,555	14.7	17.4
Farmers and self-employed potential participants to the voluntary health insurance and pension systems,			
Farmers and self-employed	19,356,539	36.9	11.6
Not in agriculture, aquaculture and forestry	5,028,279	9.6	2
Only in agriculture, aquaculture and forestry	9,924,339	18.9	17.5
In both sectors	4,403,921	8.4	9.5
Low income earners	5,076,316	9.7	35.6
Others people of working-age already covered, inactive or unemployed			
Pensioners below standard retirement age	461,269	0.9	1.3
Inactive and unemployed	10,126,301	19.3	7.5
Total	52,481,082	100.0	13.2

Note: 1/ Poverty rate criteria GSO – VHLSS 2006

Source: Nguyen Thi Thu Phuong, Paulette Castel, 2009

7. Besides pensions and social allowances to people with national merits, ***the State Budget finances national targeted programs. On a yearly basis, these***

programs that include the financing of health insurance and education fees subsidies³ for the poor represented about 0.6% of GDP in 2008.

8. The targeted poverty reduction programs regroup several policies and projects destined to support the poor households and the economic development of the poor communities. Since 1998, two programs have been developed. The National Targeted Program on Poverty Reduction (HEPR 1998-2005, NTPPR 2006-2010) regroups policies and programs that facilitate poor households' access to credit, health insurance, education, housing, clean water, agricultural extension services etc. and develop infrastructure in poor communes. In the poorest localities, the Program for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (Program 135 I 1999-2001 and 2002-2004 and, Program 135-II 2006-2010) has funded infrastructure projects and coordinated social policies.
9. In the sector of health insurance, besides the funding of the free access to health insurance for the poor under the NTPPR programs, the government is willing to achieve universal coverage by 2015. According to the new law on Health insurance, approved by the National Assembly in 2008, mandatory coverage will be gradually implemented until 2014. Currently, contributions to health insurance are mandatory to the wage employed registered to VSS. Workers of the informal sector and family members of the employees of the formal sector can register on a voluntary basis. VSS takes care of the coverage of the pensioners and the beneficiaries of social allowances. As it was mentioned above, the state budget subsidizes the full purchase of the health insurance cards to the poor and the populations of the mountainous areas (previously partly financed through the Health Care Fund for the Poor). Since January 2009, the State budget takes also explicitly the burden of financing the health insurance cards provided to the children under the age of 6 (previously financed by the Children's Fund) and half of the cost of the health insurance cards of the near poor (so that people previously registered as poor but whose income has increased above the poverty line in recent years do not lose health insurance coverage). In 2010, the state and local budgets will take charge of 50%⁴ of the financing of all the non poor or privileged students' insurance cards. Finally over 2012 and 2014, health insurance will become mandatory to all the workers and their family members.

10. Aids to victims of natural disaster represented about 0.32% of GDP and individual targeted programs such as social assistance (monthly benefits) amounted to 0.14% of GDP.

11. The budget destined to provide social assistance to vulnerable groups is rather small, more funding are spent on aids to the victims of natural disaster. Because of its climate and topography, Vietnam is prone to frequent natural disaster (typhoons, floods, etc.). There are about 700 deaths per year as a result of typhoons.⁵
12. Since 2007, the government has indicated its willingness to develop and increase the impact of social allowances. The regulations have been changed in April 2007 and the budget in 2008 has been expanded to VND million 2100 from VND million 510 in 2007 (or approximately from 0.05 % to 0.14% of GDP). The groups

³ These subsidies are part of the National Targeted Programs.

⁴ The State budget will directly finance 30%; local budget will finance the remaining 20%.

⁵ Vietnam Development Report, 2007.

targeted are mostly individuals whose capacity to work is seriously limited. As a result, the social assistance programs have little impact on the working poor: about one third of the registered poor are not eligible, and approximately half the budget is received by non poor⁶.

GOVERNMENT'S RESPONSE TO THE GLOBAL CRISIS

1. ***In response to the impact of the global financial crisis***, Vietnam had some fiscal space. In recent years, government's current revenues have usually outperformed the plan. The fiscal deficit, including ODA on-lending, has ranged from 1.7% to 3.8% of GDP⁷ and it could be financed without monetization.⁸ Although the drop in commodity prices and corporate taxes has probably reduced the expected amount of fiscal revenues, ***the government decided to expand social expenditures by about 7 200 VND billion, or approximately 0.4% of GDP*** (see Table 3). The package included: the disbursement of a Tet bonus to the poor, the creation of an additional targeted program directed to the 61 poorest districts, and increased housing support.
2. According to MoLISA figures, the ***Tet bonus*** was distributed to 2.3 million of poor households (approximately 9.2 million people). The amount of the allowance per individual was particularly high, VND 200 thousand, equivalent to one month of the poverty line used by MoLISA to determine poverty in the rural areas in 2006⁹.
3. The remaining part of the budget was destined to increase the ***housing support*** program and intensify the ***development policies in the poorest region*** where poverty has been declining but remains very high in comparison to the rest of the country. Under the Decree 30a, each of the 61 poorest districts was given in advance VND 25 billions to develop projects. In June 2009, 11 of 62 district poverty reduction projects had been approved, and 37 economic groups, corporations and enterprises had agreed to support 57 poor districts¹⁰. The main objective of this additional program is in one year to reduce the poverty rate in these districts to levels lower than 40%, to reduce it to the average level of the province by 2015 and to the region by 2020. Its particularity is to give ministries the responsibilities to create teams that directly help in the field local authorities design and submit development plans. Lessons from the implementation of the previous programs had showed that often local authorities in the poorest areas lack of the skills to push forward their projects. The greater involvement of teams from ministries is also expected to help increase the coordination between the different policies.

⁶ Pham Anh Tuyet, Paulette Castel, 2009.

⁷ The World Bank, 2009.

⁸ International Development Agency, 2007

⁹ Given the progression of the consumer prices, this level is about equivalent to the food poverty line per capita of 2008.

¹⁰ GSO, press release June 2009

Table 3

Vietnam Social Protection Budget 2009 - Estimate			
	VND billion	Percent of GDP	Sources
Social assistance	23649	1.42	
Allowances under Decision 67	2036	0.12	ILSSA, SPS paper 2011-2020
Tet 2009 bonus	1700	0.10	MoLISA ¹ , stimulus package
Aid to natural disaster victims	4879	0.29	ILSSA, SPS paper 2011
social services	1343	0.08	ILSSA, SPS paper 2011
Benefits to people with national merit	13691	0.82	ILSSA, SPS paper 2011
Social insurance	25879	1.56	
State budget transfer for pre-95 retirees	24829	1.49	ILSSA, P.Castel pension model
Severance pay 2009, 200 000 workers	1050	0.06	WB stimulus package ²
Health insurance	6051	0.36	
State budget transfer for the poor	3789	0.23	author estimate ⁴
Children under 6	2013	0.12	author estimate ⁵
Near poor	249	0.01	author estimate ⁶
Education subsidies	1432	0.10	MoLISA NTPPR 2006-2010
Bonus to low income civil servants	360	0.02	WB stimulus package ²
Labor market policies	1342	0.08	ILSSA, SPS paper 2011
Poverty reduction program	9689	0.58	
NTPPR and P135 2006-2010	4564	0.27	ILSSA, SPS paper 2011
Poorest 61 district (decree 30a)	1525	0.09	WB stimulus package ²
Housing additional aid	3600	0.22	WB stimulus package ²
Total	68402	4.11	
References			
GDP	1663444		author estimate ³
Minimum wage thousand VND	650		MoLISA regulation
Number of poor health ins. recipients	16193		author estimate ⁴
Number of near poor thousand	2128		author estimate ⁶
Number of children under 6 thousand	8602		author estimate ⁵
Contribution rate	3%		Health Insurance regulation

Notes:

1/ Distributed to 2.334 million households.

2/ Government stimulus package in Taking Stock, June 2009.

3/ Based on preliminary GSO estimate of GDP growth rate of 5.3% in the year and CPI trend in the first 8 months of 2009.

4/ Based on the number of poor households beneficiaries of the Tet bonus, VSS figures and VHLSS 2006 data; the study estimates that about 7.9 mln people living in mountainous areas (6 years old and above) benefit from health insurance subsidies.

5/ Based on Census 2009 total population and GSO population forecast 1999-2024.

6/ Based on GSO reported poverty rate at the end of 2008 of 13.5%, the number of near poor in 2009 is the gap between the resulting number of poor in 2008 (age 6 and over) and the number of poor reported by MoLISA for the distribution of the Tet allowance in 2009 (age 6 and over).

HOUSEHOLDS VULNERABILITY DURING THE CRISIS

1. The government's response described above has more likely well supported the economic activity in the poorest rural localities. However, ***the economic shocks that have affected Vietnam over the two past years have mostly affected the populations integrated to the market economy of both the formal and the informal sectors.***
2. Estimations¹¹ based on the past trend of employment elasticity to growth in Vietnam at aggregated and enterprises' level forecast a possible reduction of employment in 2009 of about half million persons (between 195 and 659 thousand people depending on the expected GDP growth rate). A survey¹² conducted by CIEM and the WB of the enterprises of the industrial parks indicates that in March, April and May 2009, about 40% of the surveyed enterprises decreased their level of employment. VASS rapid assessment reports also important reduction of employment in enterprises of the industrial park of Thang Long near Hanoi¹³.
3. ***The government, accordingly, explored possibilities to accelerate the implementation of the unemployment insurance*** that had just been introduced in the beginning of the year. Open unemployment did not increase, however, sharply. Reports of MoLISA¹⁴ indicate that about 80 % of the laid-off workers reported to the local offices (workers who, more likely, would have been eligible to unemployment insurance) obtained another job in the following months. It is possible that these reports under-estimate the overall reduction in formal employment. Anecdotal evidences in the footwear industries indicate that some idle workers are still on their former enterprises employment roll. They continue to contribute to social security through their former enterprise with the expectation of being re-hired when activity will recuperate¹⁵. In another cases, enterprises obtained workers resignation but delayed the reporting of the downsizing to social security. Workers received their social insurance book much later (6 months later). Some workers never came to retrieve their social insurance book and lost all the social coverage and rights they had accumulated so far.¹⁶
4. Most of the dismissed workers would not have been eligible to unemployment insurance anyway. The share of temporaries and seasonal workers in enterprises' employment is relatively high in Vietnam. In 2006, about 30.6% of the 9.7 million wage employed that worked in the enterprises' sector were not registered to social security (see Table 2). Most of the downsizing appears to have been realized through the non-renewal of short-term contracts, voluntary (somehow induced¹⁷) resignations and lower overtime.

¹¹ Nguyễn Việt Cường, Phạm Thái Hưng, Phùng Đức Tùng, 2009

¹² CIEM-WB survey, 2009

¹³ Nguyen Thi Thu Phuong, 2009

¹⁴ MoLISA, 2009

¹⁵ Such behavior of unemployed workers waiting to be re-hired by their former employer was common in the United States during the period of strong economic growth (Felstein 1976)

¹⁶ Nguyen Thi Thu Phuong, 2009

¹⁷ Several interviewees indicate that enterprises' regulations become more severe to workers easing the dismissal of unhealthy workers and for minor mistake. Irregular hours of work and reduced over-time increased also the relative cost for migrant workers to remain near the working site.

5. **According to the Labor code, employer has to pay to the laid-off workers termination benefit or severance pay of half month salary for each working year.** In fact, few enterprises paid such benefit to all their dismissed workers. In some cases, enterprises only paid 1 or 2 month salary to the workers who voluntary resigned¹⁸. In other cases, the workers with less than 1 year of work in the enterprise received effectively half of a month of salary but, no benefit have been paid to workers “caught with mistakes” or dismissed, because of their low ranking in term of productivity (ranking established each year to define the level of employee’s Tet bonus).
6. Besides the large enterprises of the exports sector, mentioned above, export oriented craft villages have also suffered from the drop of the activity. There are about 2790 craft villages in Vietnam. Nine have become bankrupt, and 124 others have slow down their activities¹⁹. Many migrant workers have lost their employment. There has been, however, no evidence of important movements of reverse migration (migrants returning to rural areas). Most of the people who lost employment shift to casual multi-task employment and remained in the region. Thanks to savings accumulated during the period of growth and probably also because of the strong recovery of the construction sector supported by the government’s stimulus package, most of the craft villages’ residents have not fallen into open unemployment and their living conditions have not deteriorated into critical levels.
7. Reviews of the evolution of employment in 3 craft villages around Hanoi indicate that ***in these craft villages no businesses or producers pay any types of insurance, redundancy or unemployment benefits for their workers.*** Contracts are informally and signed on an annual basis, and salaries are paid either on a pay-as-you-work daily rate basis, or on a piece-meal basis.
8. ***In Vietnam, the international crisis has not been the only economic shock that ordinary workers had to cope with in recent years.*** Confronted with the acceleration of the inflation and ballooning imports of consumption goods, the government decided in March 2008 the implementation of a stabilization package including: a drastically cut of the growth rate of credit, the freeze of some public investment projects and reductions in government expenditures²⁰. GDP growth, as a result, decreased from 8.5% in 2007 to 7.5% in 2008. The resulting burst of the real-estate bubble and the drop in public investment provoked the decline of the growth rate of the sector of the construction (see Table 4). This shock had probably a large impact on workers of the informal sector. According to the VHLSS, the construction sector occupied in 2006 about 2.6 million workers, of which 87.9% worked in the informal sector.

¹⁸ Nguyen Thi Thu Phuong, 2009

¹⁹ Nguyen Thi Thu Phuong, 2009

²⁰ Taking Stock, the World Bank, June 2008.

Table 4
GDP growth by economic sector

	Per year			In the first semester (preliminary estimates)			
	2006	2007	2008	2006	2007	2008	2009
Growth rates – 1994 prices							
Total GDP	8.2	8.5	6.2	7.4	7.9	6.5	3.9
Agriculture, forestry and fishery	3.7	3.8	4.1	3	2.7	3.0	1.3
Industry and construction	10.4	10.2	6.1	9.3	9.9	7.0	3.5
Industry	10.2	9.7	8.0	9.5	10	8.3	2.4
Manufacturing	13.4	12.4	9.9	11.8	12.3	11.4	1.1
Construction	11.0	12.2	-0.4	8.3	9.5	0.9	8.7
Services	8.3	8.9	7.2	7.7	8.4	7.6	5.5
Retail trade	8.6	8.8	6.4	7.9	7.8	7.2	6.5

Source: GSO

9. ***These evidences show that in Vietnam, the sector of social protection offers little support to the workers and their families that are affected by the economic activity slow down.*** Even if unemployment insurance had been put in place, a small share of the displaced workers really belongs to the formal sector. According to the labor code, the payment of severance pay allowances should provide some income support to cope with the income lost. The disbursement of termination benefits by the firms in time of crisis is, however, difficult. Firms that must release a large number of workers are the enterprises that more likely lack also funds to make the expected payments to the dismissed workers.
10. ***Living standards have not fallen to dramatic because workers in the industrial parks are young²¹ and because many households still rely on various sources of income.*** Many of the migrant workers who work in the craft villages and the construction sector in Hanoi still maintain their agricultural work at home and only take up craft jobs during the off-farm seasons while some of their household members remain on the farm.
11. For those who became poor only those who had been previously registered as poor and had managed to escape poverty have likely been reconsidered as poor. The others are having little chance to be recognized as poor because social

²¹ They have less likely large number of dependents

assistance screening process is rather slow in Vietnam and the list of the poor are reestablished only when a new poverty line is issued (usually every 5 years).

THE EXPERIENCE OF VIETNAM AT THE LIGHT OF THE EXPERIENCE OF EAST ASIA DURING THE CRISIS OF 1997 – 1998

1. Although Vietnam's has been through considerably lower hardship than Indonesia, Malaysia, South Korea, Thailand and the Philippines during the 1997-1998 the lessons drawn at that time about the ability of these countries' social protection systems to help the people affected by the crisis are interesting for Vietnam.
2. The presentation that follows is based on the book edited by Gordon Betcherman and Rizawanul Islam (2001) that regroups the studies commissioned by ILO and the World Bank and funded by the ASEAN after the crisis of 1997-1998 to understand the experience and discuss the policy lessons that have emerged.
3. ***Governments' responses in the sector of social protection principally aimed at protect the traditionally poor and the newly poor from the crisis through the implementation of large public works programs and the distribution of food, education and health subsidies.*** The crisis had wider social impacts than increasing poverty rates, however. In the first year of the crisis, the Korean, Malaysian and Thai labor market experienced downward pressures on both employment and wages, declining labor force participation and shift in employment from the formal to the informal sector. Like in Vietnam, rates of open unemployment remained rather low because most of the displaced workers moved to the informal sector (self-employment, casual jobs, agriculture and un-paid household's employment). Thailand encouraged urban-to-rural migration flows with the implementation of public works and projects in the rural areas.

Table 5
Employment Status Trends 1997-1999

TABLE 1.7
Employment Status Trends, Crisis Countries, 1997-99

	Indonesia			Korea			Malaysia			Philippines			Thailand		
	% Distribution		% Change	% Distribution		% Change	% Distribution		% Change	% Distribution		% Change	% Distribution		% Change
	1997	1998	1997-98	1997 ^a	1998 ^a	1997-98	1997	1998	1997-98	1997	1998	1997-98	1997 ^b	1998 ^b	1997-98
Employer	1.7	1.7	3.4				2.6	2.9	13.5				2.5	2.7	1.3
Self-employed	43.7	45.2	6.3	28.1	29.2	-2.3	16.9	17.7	5.0	37.5	37.6	2.5	30.7	32.2	1.9
Unpaid family worker	19.6	20.6	8.1	8.8	9.5	1.2	6.0	6.0	0.3	14.8	13.4	-7.4	20.3	19.7	-5.5
Employee	35.0	32.4	-4.9	63.1	61.3	-8.3	74.5	73.4	-1.1	47.7	49.0	5.0	46.4	45.4	-5.0
Total	100	100		100	100					100	100		100	100	

a. Figures are for fourth quarter.

b. Figures are for February.

Sources: Country papers and updates and Horton and Mazumdar (this volume).

4. During the era of rapid development, little attention had been given to income support policies. Sustaining the rapid growth has been given the priority to

increase employment and raise incomes. Fears that firing costs or social taxes would increase enterprises' labor cost and slow down growth had prevented the implementation of wide social protection policies. When the crisis hit, none of the affected countries (with the exception of South Korea) had in place mechanisms that really help ordinary workers cope with the income drops.

5. ***The programs developed before the recession (see Box 1) addressed rather well the risk of income loss associated with the lost of formal employment but these policies did not know how to assist the unemployed from the informal sector.***²² The reason is that all the programs put in place to reduce workers' vulnerability impose requirements and the possibility to implement verification methods.²³ In such a context, no programs that target workers of the informal sector can be promoted during the crisis. Only complementary program like poverty alleviation programs can be implemented.

²² This conclusion that policy makers had little practice or knowledge on how to assist the unemployed from the informal sector was made also by Grosh M., Revenga A, and Zaman H. (2009) when assessing the policy options in response to the current crisis.

²³ Alejandra Cox Edwards, Chris Manning, 1999.

BOX 1. Asian Crisis: Income support programs for the unemployed

Unemployment insurance: Only Korea had in place an unemployment insurance scheme. In response to the crisis, coverage in 1998 was extended to the small enterprises and the temporary and part-time workers. Despite these reforms only 12 percent of unemployed workers were receiving benefits in mid-1999.

Severance pay: Severance pay was widely prescribed in countries' labor codes, with allowances ranging from 2 to 6 months' salary (increased to 10 months in Thailand). While figures show a high degree of compliance among employers in Malaysia, employees' reports indicate that compliance was rather limited in Thailand. Special funds had been set up in Korea and Thailand to guarantee that severance allowances would be paid in case of enterprises' bankruptcy.

Unemployment insurance saving accounts: In Indonesia, Malaysia and Thailand, some retrenched workers could withdraw, in case of unemployment, part of the savings they had in state-run provident funds designed to provide retirement benefits. In such a mechanism workers are allowed to borrow from their own future retirement benefits, which they can replenish after finding employment. Only a small share of employed workers had access to this benefit, however.

Emergency Loan Facility for Displaced Workers: the Philippines introduced this program to allow ordinary workers who did not usually have access to loans from the banking sector to use emergency subsidized loans for consumption. The loans were payable within two years, with a one-year grace period. Beneficiaries must have been up to date in their payments on any other loans before their separation from their job. The Department of Labor and Employment, finally, had to certify that the potential borrower was an employee of a firm listed in the department's roster of formal establishments that were encountering difficulties. This condition probably explains that the beneficiaries have been more likely retrenched employees from formal sector establishments.

Social assistance: Korea expanded its social assistance program (Temporary Livelihood Protection Program for the Unemployed) so to include assistance to the families with unemployed members. Initially, financial aid was restricted to poor households with no working-able members. Working poor households could benefit from specific support and had access to subsidized loans to help set up and operate a business. The original program had stiff eligibility criteria (in particular regarding the value of the household's property) that were later eased. The program offered long-term, low-interest loans for livelihood expenses, housing costs, and business operations and supplies medical care and education. In the case the unemployed person became unable to work, the program provided direct income support.

FISCAL SPACE: EXPECTED TREND OF SOCIAL EXPENDITURES 2010-2020

1. Although the social protection strategy of the government of Vietnam has not been totally spelled out, the recent measures indicate ***that rather than searching ways to cover the informal sector, the approach would consist, instead, to develop policies that convert the informal sector into a formal sector.***
2. The Social Strategy Paper drafted by ILSSA (MoLISA) is the principal source of information about government's plan for the next 10 years in the social protection sector. The strategy is not finished yet, so the figures and the comments presented in this section are preliminary and relevant only in reference to what has been presented so far.
3. ***The first milestone of this strategy is the decision to achieve universal coverage of health insurance by 2015.*** The government appears to be willing to create the fiscal space for this policy. Since 2005, the State budget has supported the acquisition of health insurance cards by the poor and the populations of the mountainous areas. This year State budget transfers cover also the buying of health insurance cards to the children under 6 years old, and the near poor. In 2010, it will cover half of the premium of the students.
4. In the sector of social insurance, the draft of social protection strategy paper stresses the importance of developing in Vietnam a comprehensive and financially sustainable system of social protection policies that cover the whole population. The goal is that, by 2020, 85% of the wage employed of the enterprises' sector will contribute to social insurance and, 30% of the self-employed and the workers employed in small business will participate to the voluntary pension system.
5. The voluntary social insurance system includes only a pension scheme, so the overall architecture of a comprehensive social insurance system that provides income security in case of long-term sickness and disability and loss of employment in case of economic crisis remains to be built. The proposal of transforming the current system into a system of notional savings accounts could help however introduce new schemes.
6. The figures in Table 6 give some estimates of the fiscal implications of the current strategy.

Health insurance

7. The major increase of the State budget funding to the sector of social protection will come from the implementation of the health insurance policies designed to move the country toward universal coverage. ***State budget transfers are expected to increase from about 0.36 % of GDP to 0.5% of GDP.*** Two trends explain this increase.
8. First, starting 2010 the State budget will co-finance half of the health insurance cards of the students. Direct transfers will finance 30% of the expense and local authorities will finance the remaining 20%. Because many local budgets are also financed with State budget transfers, it is rather difficult to estimate how much of

the local portion will be financed with other resources than public finance. For simplicity, the projections in Table 6 assume that the State budget finances the total amount of these subsidies (i.e half of the insurance card of each student). The cost of this policy is estimated to amount VND 1.4 bln in 2010.

Table 6
Vietnam Social Protection Budget Estimate 2011 – 2020

	VND billion			% of GDP		
	2010	2015	2020	2010	2015	2020
Social assistance	23361	31904	35629	1.22	0.90	0.57
allowances under Decision 67	3205	7080	13036	0.17	0.20	0.21
aid to natural disaster victims	5000	7500	10000	0.26	0.21	0.16
social services	1386	1574	1715	0.07	0.04	0.03
benefits to people with national merit	13770	15750	10878	0.72	0.45	0.17
Social insurance (pre-95 retirees)	26759	39235	45916	1.39	1.11	0.74
Health insurance cards	9288	16920	29274	0.48	0.48	0.47
Poor, population in mountainous areas	4887	7915	12190	0.25	0.22	0.20
Children under 6	2711	5315	9392	0.14	0.15	0.15
Students all children 6 to 14 years	1493	2970	5738	0.08	0.08	0.09
Near poor	197	720	1954	0.01	0.02	0.03
Education subsidies	1863	3419	6025	0.10	0.10	0.10
Labor market policies	1357	3514	3730	0.07	0.09	0.06
Targeted poverty alleviation program	4564	11003	15310	0.24	0.31	0.25
Total	67192	105994	135884	3.50	3.00	2.19
References						
GDP	1922151	3527750	6217101			
minimum wage thousand VND	750	1376	2426			
number of poor thousand	12340	10115	7890			
Poor, population in mountainous areas 15 years old and above	15924	14342	12715			
number of near poor thousand	1789	3496	5241			
number of children under 6 thousand	8628	9093	8944			
number of children 6 to 14 years	12496	12755	13288			
contribution rate health insurance	3%	3%	3%			
Total population	86656	91670	96252			
Health insurance fully subsidized persons in percent	28.3	25.6	22.5			
Poverty rate	14.4	13.9	13.8			
Poor and near poor rate in percent	16.5	17.7	19.3			

Source: author's calculations based on ILSSA Social Protection Paper draft paper, ILSSA pensions forecast, MoLISA, VHLSS and GSO data.

- Second, in 2010 the official poverty line will be revised and the lists of the poor will be totally revised. Under the current line, any household that receives an income per capita lower than 200 th VND per month in the rural areas, and 260

th VND in the urban areas are reported being poor. These thresholds could be increased to 300 and 390 th VND, respectively. ILSSA projects that according to these new levels, the number of registered poor could be of 12.34 mln persons in 2010. This larger number of persons should lead to an increase of about VND bln 1.1 of the amount of State subsidies destined to buy health insurance cards for the poor (given a stable number of beneficiaries living in mountainous areas). A side effect is that the increase of the number of the poor reduces slightly the number of the near poor and, therefore, the corresponding amount of transfers required to support the acquisition of health insurance by this group of households.

Social assistance

10. The revision of the poverty line will also lead to some increase of the amount of social allowances. However, the eligibility criteria are much more related to people's working capacity than household's poverty situation. The impact is not expected, therefore, to be important.
11. ILSSA's Social Strategy Paper foresees that the level of the basic allowance will be readjusted, so that it is equivalent to 50% of the minimum living standards (probably around 200 VND per month, the basic level used for the distribution of the Tet bonus). The forecast in 2015 and 2020 are also consistent with an increase of the number of beneficiaries in line with the growth of the population, and further adjustments of the basic level of the social allowances in line with the GDP growth (or the minimum wage growth in our projections).
12. Regarding the other items of social assistance spending, the amount of benefits paid to the people with national merits is expected to steadily decrease over time. The relative amount of spending disbursed as emergency aid to the victims of natural disaster is also expected to decrease. As a result, the overall budget of social assistance in relation to the GDP could decrease from 1.2 % in 2010 to 0.6% in 2020. It is likely, however, that the relative weight of the aids to the victims of natural disaster will rather remain constant in percent of GDP because of the climate change the risks of natural disasters increase. The sector of social services will likely also attract the remaining savings generated by the decline of the allowances paid to the people with national merit. Under this other set of assumptions, ***the sector of social assistance would use resources equivalent to about 1.2% of GDP in 2010 and of 0.8% of the GDP in 2020.***

Social insurance

13. Another fiscal space will probably appear in the area of social insurance as the financial burden of financing the benefits paid to the pre-1995 retirees decreases. VSS does not provide any information about the distribution by age, gender and level of pensions of these pensioners. Estimates realized for the building of long-term projections of the pension system with ILSSA indicate that ***this burden could decrease from 1.4% in 2010 to 0.7% in 2020.*** This result is obtained if, like in recent years, the government adjusts the level of the benefit according to the progression of the minimum wage. Any lower annual increase would create more fiscal space.

Education subsidies, active labor market policies

14. Regarding the policy supporting the access to school to the poor, the estimation assumes that the budget will remain constant in percent of GDP. The fiscal space created by the regular reduction of the number of the poor is assumed to be used to improve the quality of schooling provided in the poor areas and to support larger access to high education levels.

National Targeted Poverty Reduction Programs

15. Over the next 10 years, the NTPPR programs, the program 135 and the programs 30a should continue. It is unclear, by now, if the funding of the projects implemented under the Decree 30a in the 61 poorest districts will gradually replace or not the projects implemented under the Program 135-II. Regarding the NTPPR, if the global envelope is not expanded, the funding of the health insurance policies will significantly reduce the funds available to other projects. All these issues are under debate, and no detailed plans are currently available.
16. The estimates reported in Table 6 assume that ***the State will commit funds of about 1.6% of GDP for the next 5 years, and of 1.2% for the period 2016-2020***; this for all the programs combined together. If we consider that the funding of the health insurance policies and the programs to improve the access and the quality of education to the poor won't be included in these amounts but will be obtained from other sources, this funding correspond to the level of commitment of the period 2006-2010 on the other projects and policies related to the provision of agriculture extension services, vocational training, community development and infrastructure, the distribution of productive land, the access to clean water and housing improvements. According to our estimates, the resources assigned to these programs by the national government amount to 1.6% of the 2006 GDP (see Table 7). The projections assume also that the resources associated to the projects implemented under the Decree 30a are included in this budget.

Table 7
National Targeted Programs on Poverty Reduction and Program 135-II
Planned Budgets 2006 – 2010

	National budget	Donors	Local budgets & community contribution	Credit	Total
NTPPR Resources allocated by programs					
extension services	200		100		300
vocational training	2,500		500		3,000
model duplication	40		260		300
community development	10	55	10		75
infrastructure	1,050	550	2,050		3,650
capacity building, advocacy, monitoring	155	105	115		375
NTPPR Resources allocated by sectors					
distribution of land	800		200		1,000
health assistance	4,076				4,076
education assistance	2,073				2,073
housing, access to drinking water	1,600		3,500		5,100
credit	3,614			2,6000	29,614
Program 135 - II ¹					
production support					2,225
infrastructure					8,750
O&M infrastructure					875
Capacity building					525
Living standard support					525
Management and supervision					50
State Budget Funding					
	VND billion	% GDP of 2006 ²			
Health assistance	4,076	0.4			
Education assistance	2,073	0.2			
Credit	3,614	0.4			
Other NTPPR programs	6,355	0.7			
Program 135- II	9,065	0.9			

Note: 1/ Initial budget in which 70% on State Budget's funding; the overall budget was afterward expanded to take into account ODA additional funding (US\$ 300 million)

2/ VND bln 973 790.

Sources: The National Targeted Program on Poverty Reduction 2006-2010; International Development Association, 2007: Program document for a proposed credit for a proposed first program 135 phase II support operation

Overall social protection spending and fiscal space

17. Given all these expected development and set of assumptions, ***the overall size of the social protection sector over the next 20 years could decline from 3.5% of GDP in 2010 to 3.0% in 2015 and 2.2% in 2020.***
18. Still, a very large share of these spending are used to pay pensions benefits to the pensioners of the public sector who retired before 1995 and social allowances to the people with national merit: 1.6% of GDP in 2015 and 0.9% in 2020. The decrease of the financial burden of these policies is, however, important enough to free up resources to finance the health insurance policy and possibly create some fiscal space to implement new ones. ***The fiscal space will really materialize, however, only if no important quasi fiscal deficit develops along the implementation of this budget: in the sectors of health insurance and social insurance.***

Health insurance expected financial position

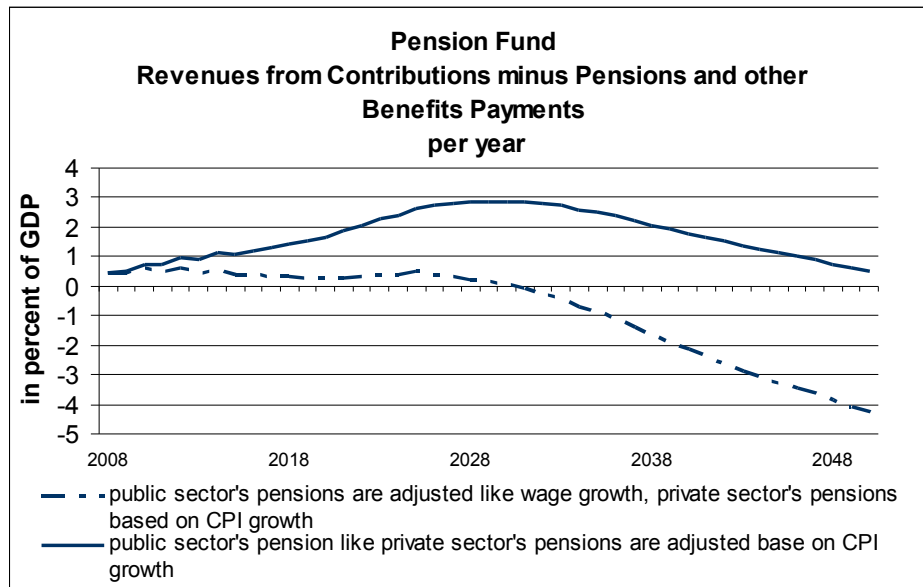
19. In 2005, total health expenditures amount to 5.2% of GDP of Vietnam and public health expenditures represented 2.3% of GDP²⁴. Half of the public health expenditures were financed through health insurance; the other half was financed through State budget transfers. International evidence shows that health expenditures per capita increase, at least, at the same pace than GDP per capita²⁵ and often they increase more rapidly. In fact in Vietnam, it would be desirable that public health expenditure increase more rapidly than GDP per capita because the poor currently under use health care services. Moderate forecast²⁶ indicate that, in 2015, total health expenditures could amount 8.8% of GDP and that the level of public health expenditures could amount 3.4% of GDP. If in 2015, like in 2005, the State budget finances only half of this budget, health insurance must collect resources of about 1.7% of GDP in 2015.
20. Our simulations indicate that if universal coverage is achieved the policy to link the basic premium for health insurance to the minimum wage (and thus to the general income growth) is successful in balancing health insurance finances in 2015 and probably in supporting the growth of the health sector in the 5 following years. If only half of the workers of the informal sector do not respect the regulation and/or if formal employment in the enterprise sector does not develop as well as expected, the revenue short-fall could range between 0.3 % and 0.5% of GDP. In such a case, one possible solution could be to increase the contribution rate as it is envisaged in the Health Insurance Law.
21. If the government is successful in achieving large coverage of the population in the sector of health insurance, the concerns of the emergence of an unmanageable deficit in the next decades are low.
22. In the area of pensions, concerns in the short-term are also low. First, the State Budget bears already the financial burden related to the benefits paid to the people who retired before 1995. Second, the system was open to the private sector in 1995, so very few of the new contributors have reached retirement age with pension rights. As a result, the system currently accumulates reserves and

²⁴ Health sector account MoH

²⁵ This is the option used in the Jahre 2008

²⁶ P.Castel, 2007

provides resources (through the buying of public bonds and regular loans) to other social areas (like the health insurance in 2005) and public projects. There are, however, concerns about the financial viability of the pension system in the medium or long term. Today retirement age is low and pension benefits paid to the retirees of the public sector are rather high in relation to what workers have contributed. If public sector's pensions keep being adjusted annually according to the growth of the minimum wage, this situation in the medium term will produce deficit, as the graph below illustrates.



Note: the optimistic scenario assumes that enterprises and employees in the private sector progressively pay contributions on current wages instead than on the minimum wage.
 Source: ILSSA social insurance forecast (preliminary results)

FISCAL SPACE AND REFORMS TO REDUCE HOUSEHOLDS VULNERABILITY TO INCOME SHOCKS

1. **The analysis above suggests that in the next 10 years, the expected evolution of the public spending in Vietnam should give space for the government to pursue the building up of a comprehensive social security system that covers all the population.** As it was already mentioned, reliance on universal coverage programs along the implementation of large poverty reduction programs appears to be the key feature of the Vietnam's social strategy. On the one hand, the expansion of social insurance scheme should help reduce ordinary household's vulnerability to income shocks, especially in period of crisis. On the other hand, poverty reduction programs should reduce the pockets where poverty rates are particularly high.
2. **This strategy, if not boosted, will not be effective in protecting most of the current workers and their families from income shock because, solely, it will take many years to develop and to reach significant share of the population.** The government has recently introduced a voluntary pension

scheme to give workers of the informal sector the opportunity to secure income during old-age. It is too soon to tell if the scheme has effectively attracted participants. Simulations with data of the VHLSS 2006 show, however, that the system will most likely provide income support to few elderly in the next 30 years. Even if all the workers of the informal sector with earning equal or above the minimum wage join the pension system in the coming years, only 13.4% of the elderly will likely be pensioners in 2020. At best, in 7% of the elderly in the rural areas will be pensioners.

Table 8

Pension income coverage of elderly in the best case¹

	2010	2020
Total number of elderly (th. persons)	14004	17769
Of which with no pension or lump sum (%)	69.9	35.7
Of which with pension from mandatory system (%)	15.1	13.4
Of which with		
Of which with	15.1	51.0
	100.1	100.1

Note: 1/ figures based obtained in simulations of the VHLSS 2006 data under the assumption that, starting 2007, all workers contribute either to the mandatory or the voluntary pension system

3. The most important reason for that result is that, in order to be financially viable, the pension system requires that the beneficiaries of monthly pension income contribute a minimum of 20 years. Many of the workers of the informal sector that could join social insurance “tomorrow” are already 40 years old or above. They cannot, therefore, contribute for 20 years before reaching retirement age even if they delay retirement up to the age of 60 for women and 65 for men. The same issue is also observed in the case of the mandatory system and workers of the enterprises’ sector. The mandatory system was open to private sector’s employees in 1995. All of the workers who have been registered to social security when they were 40 years old or above won’t reach retirement age in the coming years with 20 years of contribution. According to the regulations, workers who reach retirement with less than 20 years of contribution are entitled to a rather small lump sum.
4. Currently poverty rate among the elderly is not particularly high. If rural to urban migration intensifies, the issue of poverty could emerge. Providing universal income support to all the elderly in the rural areas would be, however, unaffordable. As it was mentioned already at best only 7% of the elderly in the rural areas could be pensioners in 2020. Providing income support to the poorest would probably also be difficult to implement because the program would have to screen rather large populations. In 2020, about 12 million of elderly people could be living in the rural areas.
5. There is, however, another reason to worry about this trend than the emergence of poverty among the elderly. The fact that many participants to the pension system are only entitled to small lump sum amounts is eroding the public’s trust in social security. Right now, workers in Vietnam do not seem to value social security benefits. Studies and numerous anecdotal evidences indicate that wages are more often under reported and registration avoided, if possible. The

- figures in Table 8 indicate that even if all the workers of the informal sector participate in the voluntary pension system “tomorrow”, half of the elderly in 2020 could be entitled only to lump sum amounts. Even if poverty among the elderly does not increase because relatives and friends will bring support, public’s opinion will perceive that social insurance is costly and irrelevant.
6. Table 9 presents an estimate of the cost in 2020 of a program that would provide pension income equal to the minimum wage to the elderly who have participated in the pension system but are eligible only to a lump sum²⁷ when they reach pension age. The cost of the program consists in the financing of the gap between the minimum wage and the retiree’s lump sum. In the calculation the lump sum is transformed into an annuity as if social security could keep and invest the lump sum and use it with the returns to finance part of the overall benefit. Like the figures in Table 8, these estimates are based on simulations that assume that all the workers join the pension system. This is the reason that explains that the number of retirees from the voluntary system is so high.
 7. The cost of 3.0% of GDP looks particularly high. In practice, the cost of this policy could be lower. This estimate is the higher limit. If 40% of the workers from the informal sector join “tomorrow” the pension system joined, the cost would be in the range of the subsidies the State budget paid in 2008 to cover the benefits of the persons who retired before 1995 (1.5% of GDP).

Table 9
Cost of providing a minimum pension
to the elderly that participate in the voluntary pension system
but reach pension age with less than 20 years of contribution

	Number of beneficiaries	Cost percent of GDP
Retirees from the mandatory pension system who worked in the public sector	74 931	0.03
Retirees from the mandatory pension system who worked in the private sector	98 126	0.04
Retirees from the voluntary pension system	6 483 048	2.86
Share of elderly with pension income		
if lump sum are paid to those with less than 20 years of contribution	14.2%	
If the government subsidies pension to the retirees that have contributed less than 20 years (half of workers of the informal sector participate in the coming years)	39.1%	

Source: author’s own calculations

8. Other policies (matching contributions, subsidized loans etc.²⁸) can help provide support to the current middle aged workers so that they secure income during their old-age. The example presented above shows that these policies are fiscally workable. It is important to observe that the cost of such policies would be declining over time. Their implementation is temporary and related to the fact that

²⁷ To all the persons that between 2008 and 2020 contribute to the pension system but reach retirement age with less than 20 years of contribution.

²⁸ Vietnam Development Report, 2007

today many workers have no incentive to join the pension system since they cannot contribute for 20 years before reaching retirement age.

9. ***The integration of large population of the informal sector into the pension system will open new possibilities to introduce mechanisms that reduce household's vulnerability to income shocks.*** Under these mechanisms, in case of lost of employment or reduced income (economic downturn for self-employed, drought, animal-disease epidemic etc. for farmers), participants to social insurance can be allowed to borrow from their own future retirement benefits (see Box 1, above). Long-term sickness and disability insurance can be established as well. The introduction of notional defined contribution accounts, as foreseen in ILSSA Social Strategy Paper draft paper will help that process.

CONCLUSION

1. Today a large proportion of workers in Vietnam are employed in the informal sector. Although the enterprise's sector is rapidly developing, many workers are employed in small business units, are farmers or do casual works. Large enterprises also hire significant part of their workforce under short-term contracts. 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.
2. The government's responses to the crisis aimed at protect the poor. Social allowances were distributed to poor households, the budget for housing support was expanded and additional funds have been allocated to the targeted programs that are implemented in the poorest localities. The lack of possible controls made the implementation of policies targeted to the unemployed of the informal sector unworkable. In a similar context, governments during the East Asia crisis of 1997 and 1998 could also not really help the ordinary workers affected by the crisis. They expanded their support to the chronic poor and implemented large programs of public works to protect the newly poor. No specific programs could significantly help the ordinary workers who had lost their job.
3. The social protection strategy of the government of Vietnam has not been totally spelled out, yet. The recent measures indicate, however, that rather than searching ways to help workers of the informal sector in time of crisis, the approach of Vietnam is to develop a comprehensive social security system that cover the whole population. The first milestone of this strategy is the decision to achieve universal coverage of health insurance 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.
4. The paper follows by showing that achieving large population's coverage with social insurance (including pension system) will take, at best, many years. At worst it won't be possible because in the short and medium term public's opinion will perceive that social insurance is costly and irrelevant and, young workers won't be willing to participate.
5. The paper, finally, shows that the implementations of policies that boost participation in the pension system are fiscally workable. The integration of large groups of the informal sector into the pension system could, furthermore, open

new possibilities to introduce mechanisms that reduce ordinary household's vulnerability to income shocks: unemployment insurance saving accounts, disability, survivor pension schemes etc.

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