

# NPRS-PRF

Helping Accelerate Poverty Reduction in Asia and the Pacific

## STRENGTHENING VIET NAM'S SOCIAL SECURITY SYSTEM

A technical assistance (TA) was undertaken to provide support in strengthening Viet Nam's social security system. It was an attempt to help the Government of Viet Nam to look beyond traditional social security structures and mechanisms to ensure that the poor are covered by social insurance.

Social security protection in Viet Nam is still largely limited to a small part of the population—including its civil servants and private sector workers employed in the formal sector—leaving a large part of the population without any form of social security protection.

With millions of households living just above the poverty line, the lack of social security coverage is a major challenge. It leaves the informal network of family and social groups as the ultimate safety net.

As the country moves toward the industrialization and modernization of the rural economy, it is therefore necessary to address these shortcomings in the current national social security system (SSS) to improve the living conditions of rural people.

### Viet Nam's Social Security System<sup>1</sup>

Introducing social security in Viet Nam has been considered since 1945, but it was only in 1961—when the “Temporary Social Security Regulation for Government services” was promulgated and attached to Government Decree No. 218/CP—that an SSS for civil servants and employees of the armed forces was effectively put in place.<sup>2</sup>

Later on, Viet Nam's SSS was created, providing benefits in case of maternity, sickness, work injury, old age, invalidity, and death for private sector workers.

In 1995, Viet Nam's SSS initiated reforms to take account of the transformation to a market economy. The SSS saw an increase in total contributors from 2.9 million in 1995 to 4.5 million in 2002, although this still covers only 11% of the 40 million workforce. While the coverage of the system is extending, it still largely excludes those working in informal sectors from social security protection.<sup>3</sup>

The challenges to Viet Nam's SSS include: (i) large numbers of employees having no clear labor relations (i.e., not having labor

contracts and insurance policies; (ii) low incomes of many residents, resulting in small contributions to the system; and (iii) lack of familiarity with the concept of social insurance.<sup>4</sup>

In addition, Viet Nam's SSS is faced with, long-term sustainability issues that include an aging population and limited income of the social security fund. Moreover, legal, institutional, and financial management constraints hamper the development of the system.

### Enhancing Social Safety Nets and Ensuring Long-Term Financial Resource Mobilization

Support to strengthen Viet Nam's SSS was given by ADB through technical assistance (TA) 4276 (Developing the Social Security System for the Socialist Republic of Viet Nam<sup>5</sup>). The TA aimed to to develop a sustainable SSS with an expanded coverage.

TA 4276 was initiated when support was urgently required, as the Government was about to start drafting a Social Security Law.<sup>6</sup>

The TA had two components—that is, providing assistance to the Ministry of Labor, War Invalids, and Social Affairs on the economic and legal implications of the draft Social Security Law; and support in upgrading the business processes of Viet Nam's SSS.

Under the first component, a survey was conducted on the situation of social insurance of employer–employee participation in small non-state-owned enterprises in the three cities of Ha Noi, Da Nang, and Ho Chi Minh. The survey was initiated to review the expansion policy<sup>7</sup> in the amended Labor Law.

In addition, a survey targeting the informal workforce was conducted in an effort to explore opportunities for the informal sector's involvement in the SSS. Results of the survey were used to draft the social security strategy for the poor and the informal sector.

Key survey results include:<sup>8</sup>

- 99.2%<sup>9</sup> of the enterprises surveyed had been contributing to social insurance for their employees and 86.8% of workers<sup>10</sup> contributed to social insurance;
- 96% of employees interviewed suggested that the salary or wage specified in the labor for calculating the social insurance contribution;
- in the short-term social insurance management (e.g. sickness, pregnancy, work-related accidents, and diseases), 23% suggested that funds should be managed by enterprises, while 73% recommended the current setup of the fund being managed by the social insurance office;
- 73.8% agreed with the government's intention to increase social insurance contributions by 3% every 2 years from 2010 until it reaches 22%;
- 88.7% agreed with the implementation of unemployment insurance from 2009 and the corresponding rate, while 77.02% agreed with the proposed contribution rate of 1%–employer, 1%–employee, and 1%–government.

A public information campaign and consultation were also conducted during the drafting of the social security law to ensure inclusion of the interests of the poor, particularly those in the private or informal sector.

To realize a financially sustainable and equitable pension system in Viet Nam, TA 4276 recommended that a pension system should:<sup>11</sup>

- provide adequate deferred income for workers after their retirement;
- not give rise to perverse incentives that distort labor-market decisions;
- not impose a fiscal burden on government and not act as a brake on economic growth;
- be taken in combination with targeted social assistance and informal security networks;
- define and implement safety nets to protect the elderly from poverty; and
- address the needs of the rural population and the informal sector by instituting a voluntary retirement saving scheme.

Under the second component, studies were carried out to assess and strengthen Viet Nam's SSS. The following were key recommendations made by the studies to the Government of Viet Nam:<sup>12</sup>

- while the current cash position of the SSS is extremely positive, the fund is likely to be exhausted by 2025 unless changes are made to the scheme design;
- placing a portion of Viet Nam's SSS assets in the capital markets will produce better returns, thereby extending the life of the fund and stimulating the development of capital markets;
- employers should be represented in Viet Nam's SSS management board;
- alter its SSS top-down management approach by restructuring the organization into five regions each, headed by an assistant director-general;
- develop a new procedure for moving cash to and from provincial and district offices; and

- adopt new procedures for information disclosure on the fund's financial standing.

## Social Insurance for the Poor and the Elderly

TA 4276 was an attempt to help the Government of Viet Nam to look beyond traditional social security structures and mechanisms to ensure that the poor are covered by social insurance. It was the first initiative by any development partner in Viet Nam to support the exploration of policy options for the expansion of social security coverage.

From among the recommendations of the TA, three issues clearly need to be addressed immediately: i) ensuring nondepletion of fund and improvement of investment performance; ii) addressing the needs of the rural poor, informal sector, and the elderly; and iii) reforming the existing SSS.

### Endnotes

- <sup>1</sup> Social security is a system of mechanisms, policies, and measures by the state and the society for supporting members of the society in face of risks, socioeconomic shocks that lead to the reduction or loss of income due to illness, maternity, occupational accidents and diseases, old age, or other objective reasons.
- <sup>2</sup> Available: [www.asean-ssa.org/Vietnam/briefhistory.as](http://www.asean-ssa.org/Vietnam/briefhistory.as)
- <sup>3</sup> Asian Development Bank (ADB). 2003. Technical Assistance to the Socialist Republic of Viet Nam for Developing the Social Security System (SSS).
- <sup>4</sup> Available: [http://english.peopledaily.com.cn/200611/30/eng20061130\\_326908.html](http://english.peopledaily.com.cn/200611/30/eng20061130_326908.html)
- <sup>5</sup> TA 4276 (Developing the Social Security System for the Socialist Republic of Viet Nam); executing agencies were the Ministry of Labor, Invalids, and Social Affairs or MOLISA and Viet Nam's SSS; approval date – December 2003; completion date – December 2006; and TA amount – \$750,000 was financed by the Poverty Reduction Fund (contributed by the United Kingdom Department for International Development Fund and administered by ADB) and \$150,000 from the Viet Nam Government.
- <sup>6</sup> Background and Key Points Discussed at the Peer Review Meeting (13 June 2003).
- <sup>7</sup> The 2002 expansion policy in the amended Labour Law opens the participation of more employees in social insurance.
- <sup>8</sup> Center for Informatics. 2006. Result of Survey on the Situation of Social Insurance Participation of Employer and employee in Small Non-State Owned Enterprises. Ha Noi.
- <sup>9</sup> The study surveyed 250 small and non-state-owned enterprises.
- <sup>10</sup> With 8,904 workers expected to participate in social insurance.
- <sup>11</sup> The Services Group, Inc. 2007. Synthesis of Recommendations: Developing a Social Security System in Viet Nam.
- <sup>12</sup> IOS Partners. 2006. Final Report (Developing the Social Security System).

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