

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: SEFM

TA No., Country and Name		Amount Approved: US\$750,000	
TA 4276 - VIE: Developing the Social Security System		Revised Amount: N/A	
Executing Agencies Ministry of Labor, Invalids and Social Welfare/ Viet Nam Social Security	Source of Funding PRF	Amount Undisbursed: US\$194,899	Amount Utilized: US\$555,101
TA Approval Date: 18 Dec 2003	TA Signing Date: 29 Mar 2004	Fielding of First Consultants: 12 July 2004	TA Completion Date Original: 31 Dec 2005 Actual: 31 Dec 2007 Account Closing Date Original: 31 Dec 2005 Actual: 30 Jun 2008
<p>Description</p> <p>Viet Nam has experienced strong economic growth in recent years and has been aiming to enhance social safety nets by strengthening the social security system (SSS). It provides various benefits in case of old age, maternity, and unfortunate events that are not easily predicted. These benefits are critical to prevent and reduce the poverty of low-income households and those vulnerable to sudden shocks such as sickness, work injury, and death of an income-earning family member. Social security coverage in Viet Nam, however, has been largely limited to a small part of the population—mainly on civil servants and private sector workers employed in the formal sector—leaving a large part of the population without the safety net. With millions of households living just above the poverty line, the lack of social security coverage was a major challenge. It left the informal network of family and social groups as the ultimate safety net.</p> <p>The challenges to Viet Nam's SSS included: (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. In addition, Viet Nam's SSS was faced with long-term sustainability issues that include an aging population and limited income of the Social Security Fund (SSF). Moreover, legal, institutional, and financial management constraints hampered the development of the system.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The TA was designed to address the SSS challenges faced by Viet Nam and also help develop a sustainable and pro-poor SSS with expanded coverage. The outcome was to reduce vulnerability of the SSS, especially for poor and low-income households. The TA had two main components—that is, providing assistance to the Ministry of Labor, Invalids, and Social Affairs (MOLISA) on the economic and legal implications of the draft Social Security Law; and support in upgrading the business processes of Viet Nam Social Security (VSS). The TA had the following outputs for each component.</p> <p>In component A (implemented by MOLISA), the following outputs were envisioned: (i) a study on the informal sector's involvement in the SSS, with focus on policy options, to be the base for a draft social security strategy for the poor and informal sector, (ii) a draft Social Security Law, and related implementing policies as well as amendments to the Labor Code and Income Tax Law, and (iii) a proposal for SSS design to improve financial sustainability and coverage, which should be backed by statistical models and actuarial analysis.</p> <p>In Component B (implemented by VSS), the following outputs were envisioned: (i) formulation of a plan for administrative redesign of VSS, (ii) development of an independent VSS investment policy to preserve assets and enhance liquidity and increase income for the beneficiaries, and by assessing the feasibility of financial sector investments, (iii) financial analysis and projections for the SSF, (iv) recommendations for upgrading the accounting system based on newly adopted accounting standards, (v) proposal for an information technology system design for VSS based on new pension system and business processes, and (vi) survey on the informal sector's involvement in the SSS.</p>			

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

Delivery of Inputs and Conduct of Activities

Through policy dialogue, surveys and workshops with stakeholders, the TA provided MOLISA and VSS with recommendations useful to the development of SSS in Viet Nam. In particular, the TA has provided an in-depth analysis to draft the Social Security Law, initially to the third Draft in 2004 and as the final activity of this project, the analysis of the fifth Draft Social Security Law. The analysis was provided in consultation with MOLISA and VSS as part of a comprehensive reform proposal.

The original inputs included a team of international and national consultants to provide consulting services for 43.5 person-months. Component A involved 17.5 person-months (international: 5.5, national: 12) of consultant input, and all consultants were selected on an individual basis. A consulting firm was hired for component B, which involved 26 person-months (international: 8, national: 18) of consultant input. The consultant input for Component A was decreased to 14.8 months (international: 4.8, national: 10). The TA total amount was reduced to \$555,101 from \$750,000 due to the contract variation to incorporate the reduction of both (i) the consultant input and (ii) allocations for Travel, Equipment, Translation/Interpretation, and Seminars, Conferences, Workshops, and Training costs in accordance with the needs of the project. The consultant input was reduced because, during implementation of the TA, it became clear that one of the TA outputs under the Component A – drafting implementing policies and regulations for the new Social Security Law - was not required by MOLISA.

For Component A, in addition to providing the expected outputs, the TA also engaged a domestic research institution to conduct a survey on social security participation of employers and employees in small-sized non-state registered enterprises, which was requested by MOLISA during implementation of the TA. The survey, conducted in the three cities of Ha Noi, Da Nang, and Ho Chi Minh, was initiated to review the expansion policy in the amended Labor Law. A few extensions of the TA completion date were required mainly in the context of change in implementation arrangement to enable MOLISA to conduct the survey on social security participation of employers and employees in small-sized non-state registered enterprises requested by MOLISA in 2005.

For component B, studies were carried out to assess and strengthen Viet Nam's SSS. In addition to the final report, the consultants produced 6 major reports: (i) Assessment Report on VSS Administrative Capacity and Procedures; (ii) Fiscal & Policy Options Analysis; (iii) VSS Informal Sector Survey Report; (iv) Analysis: Administrative and Accounting Issues for potential New Social Security System; (v) Account and Auditing Consultant Report; and (vi) VSS IT Strategy Report.

For Component A, the performance of MOLISA (one of the executing agencies) is rated satisfactory, as is the performance of the consultants² based on the outputs produced by the TA. However, for Component B, the performance of VSS and the consultants is rated partly satisfactory. Despite the consultants' submission of all the outputs for Component B, based on the terms of reference in the TA paper, communication and understanding between VSS and the consultants did not generate the expected results.

Evaluation of Outputs and Achievement of Outcome

Overall, TA 4276 has achieved its expected outcome. The TA was initiated when support was urgently required, as the Government was about to start drafting a Social Security Law. The TA was originally expected to commence in January 2004 and be completed by December 2005; however, the TA was completed in December 2007 mainly due to the need for further internal discussions within the Government with its various stakeholders, and additional assistance for the draft of the Social Security Law including the survey, requested by MOLISA, on social security participation of employers and employees in small-sized non-state registered enterprises.

Based on the TA reviews and recommendations, the Social Security Law was ratified by the National Assembly in June 2006, which came into effect on 1 January 2007. Among others, the TA helped the Social Security Law to include (i) unemployment insurance comprising unemployment benefit, vocational training benefit, and (ii) job seeking supports, and voluntary social insurance comprising old age benefit and survivors' benefit. The new Social Security Law was a landmark as it provided unemployment insurance for the first time in Viet Nam.

Provisions of the new Social Security Law on voluntary social insurance came into effect on 1 January 2008, and provisions on unemployment insurance have just come into effect since 1 January 2009. It is reported that 6,200 people had participated in voluntary social insurance by the end of 2008. Of the figure, 80 percent were people who were previously participating in compulsory social insurance. Under unemployment insurance scheme, both employer and employee have to contribute the same rate of 1% based on whichever is lower – the contractual

² Only one consultant's performance (under Component A - Satisfactory) was rated out of 6 consultants (under Component A: 5, under Component B: 1).

salary/allowances or the statutory cap which is set at 20 times the minimum salary. This requirement applies to all employers with at least 10 employees. Vietnamese workers who signed contracts of at least one year with foreign, government or individual companies will be eligible for unemployment insurance, accounting for 60 percent of the average salary of the employee. In August 2008, the Government promulgated Decree 94/2008 stipulating functions, tasks, powers and organizational structure of Vietnam Social Security. This Decree provided VSS with some new functions and tasks including management of the new unemployment fund and the voluntary old-age pension scheme.

As a result, the SSF is on the increase. It is reported that in 2008 the SSF collected nearly VND30.22 trillion (US\$1.7 billion) of social insurance premiums from employees and employers, up by 27 percent compared to 2007. The coverage of social security has also increased significantly. For instance, participants of social security increased from 4.2 million in 2000, 5.4 million in 2003 to 6.2 million in 2005 and 7.4 million in 2007. The number of beneficiaries has increased from 1.8 million in 2003 to 2.1 million in 2007. However, its financial sustainability is still a concern since, contrary to the TA's recommendation most of the accumulated pension fund assets have been still lent to or invested in government-guaranteed sources, including state-owned commercial banks, government budget, government bonds, or the Development Bank, which usually earn lower average rates of return than the average market rates for bank deposit.³ The TA's original objective to establish an independent investment policy for VSS was not met as the annual plan for SSF management is still decided by VSS' management board under the direction of the Prime Minister.

Overall Assessment and Rating

Overall, the TA is rated as successful because the TA design is relevant and it provided all the support envisioned to help the Government of Viet Nam expand traditional social security structures and mechanisms to ensure that the poor are covered by social insurance. The Government is actively implementing the new law on social security, especially voluntary social insurance and unemployment insurance with the aim of ensuring social welfare and assisting workers during the economic downturn. About 6,200 people had participated in voluntary social insurance at the completion of the TA and the number is expected to grow.

Major Lessons

The TA design did not anticipate the lack of coordination between MOLISA and VSS during implementation. This lack of coordination apparently emerged during implementation. In addition, flexibility in implementation of the TA was necessary as it impacts the general population. SSS is a new concept that requires a lengthy policy debate and survey period to reach a consensus.

Recommendations and Follow-Up Actions

There has been considerable development in the social security area since the new Social Security Law came into effect in 2007. Viet Nam's SSS is currently facing many challenges including high rate of employees having no formal labor relations, low income of residents which results in their small contribution to the system, and resistance from many in taking part in social insurance. Therefore, it could be important to provide further assistance to Viet Nam in order to develop further improvements towards a comprehensive system of social security. There is also a need to develop a comprehensive regulatory framework for social security, extending the coverage of social insurance, health insurance and social assistance, adjusting pension policies in line with its economic development, and reducing poverty in a sustainable way. Finally, it will be important to address the role of VSS in the context of not only its financial sustainability but also development of capital market in Viet Nam as an effective institutional investor considering the rapid growth of the SSF.

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³ VSS investment portfolio in 2007: loan to the state budget 18.24%, government bonds and treasury bills 20.05%, loan to the Development Bank 15.85%, and loan to state-owned commercial banks 41.37%. From 2000 to 2006, the amount of income earned from social insurance investment was fivefold from 824.16 billion VND to 4.08 trillion VND, but the average interest rate stands at only 7.58%.