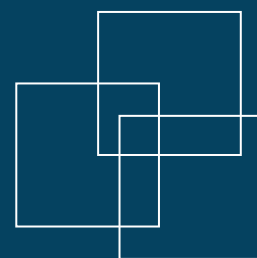


100
1919-2019
SOCIAL JUSTICE
DECENT WORK

Assessing the Adequacy of Tax-financed Social Protection in Viet Nam





Assessing the Adequacy of Tax-financed Social Protection in Viet Nam

Philip James and Shea McClanahan

June 2019

Copyright © International Labour Organization 2019
First published 2019

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: rights@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit www.ifr-ro.org to find the reproduction rights organization in your country.

ISBN 978-92-2-134046-1 (print)
ISBN 978-92-2-134047-8 (web pdf)

Also available in Vietnamese: Phân tích tính thỏa đáng của chế độ an sinh xã hội từ nguồn thuế ở Việt Nam, 2019. ISBN: 978-92-2-134068-3 (print), 978-92-2-134069-0 (web pdf)

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

Printed in Viet Nam

Table of contents

Acknowledgements	vii
Executive summary	ix
Abbreviations	xiii
1. Introduction	1
2. Approach to assessing the adequacy of tax-financed benefits in Viet Nam	5
2.1 Adequacy is multidimensional and system-wide	5
2.2 Approach and scope	8
3. International comparison of benefit values	13
3.1 Child-focused benefits	14
3.2 Disability benefits	16
3.3 Old age pensions	18
3.4 Summary	21
4. National baselines for assessing adequacy	23
4.1 Poverty line	23
4.2 Minimum wage and minimum living standard	25
4.3 Minimum healthy food basket	27
4.4 Average expenditure and income baselines	29
5. Setting adequate benefits in the national context	31
5.1 Setting adequate child benefits	31
5.1.1 Policy rationale for child benefits	31
5.1.2 Adequate levels for child benefits based on Convention No. 102	34
5.1.3 Adequate levels for child benefits based on partial compensation for the cost of a child	35

5.2	Setting adequate disability benefits	38
5.2.1	Policy rationale for disability benefits	38
5.2.2	Adequate levels for disability benefits based on national benchmarks	41
5.3	Setting adequate social pensions	48
5.3.1	Policy rationale for social pensions	48
5.3.2	Adequate levels for social pensions based on national benchmarks	49
5.4	Recommended levels for adequate tax-financed benefits in Viet Nam	51
6	Indexation of benefits	57
6.1	Illustrative inflation impacts	57
6.2	Price indexation	60
6.3	Wage indexation	62
6.4	Mixed methods	63
6.5	Summary of indexation options	65
6.6	Recovering value and ensuring adequacy	66
7	Conclusion	67
	Bibliography	69

Figures

0.1:	Summary of minimum and recommended benefit levels, Viet Nam (VND)	x
2.1:	Population with access to social protection, by age group, Viet Nam (%).....	6
2.2:	Total population living in poverty, by poverty line, Viet Nam (%)	7
2.3:	Income and poverty dynamics, Viet Nam	7
3.1:	Per-child benefits as a percentage of GDP per capita, by country	15
3.2:	Tax-financed disability benefits as a percentage of GDP per capita, by country	17
3.3:	Transfer values for tax-financed old age pensions in low and lower-middle income countries as a percentage of GDP per capita .	19
3.4:	Transfer values for tax-financed old age pensions in Viet Nam compared with upper-middle income countries as a percentage of GDP per capita	20
3.5:	Transfer values for tax-financed old age pensions in Viet Nam compared with high-income countries as a percentage of GDP per capita	21

4.1: Distribution of per capita spending, Viet Nam	27
4.2: Expenditure by consumption class and income decile, Viet Nam (%)	28
4.3: Income and expenditure per capita by income quintile, Viet Nam (VND)	30
5.1: Summary of minimum and recommended benefit levels, Viet Nam (VND).....	56
6.1: Inflation impacts on cash transfer values, Viet Nam.....	58
6.2: Wage growth impacts on relative value of cash transfers, Viet Nam	58
6.3: Consumer price index (general inflation), Viet Nam, 2013–25 (VND)	60
6.4: Consumer price index (food products), Viet Nam, 2013–25 (VND) ..	61
6.5: Average wage growth indexation, Viet Nam, 2013–25 (VND).....	62
6.6: Minimum wage indexation, Viet Nam, 2013–25 (VND).....	64
6.7: CPI and average wage growth weighted indexation mechanism, Viet Nam, 2013–25 (VND)	64
6.8: Value of cash transfers (base value of VND270,000) by indexation method, Viet Nam, 2013–25 (VND).....	65
6.9: CPI (general inflation) plus 5%, Viet Nam, 2013–25 (VND).....	66

Tables

1.1: Coverage targets under the MPSIR (%)	2
1.2: Key Objectives under Decision 488/QĐ-TTg of 14 April 2017 (MPSARD)	2
2.1: Main social assistance benefits for children, persons with disabilities and older persons, Viet Nam	11
4.1: Full range of poverty lines, Viet Nam.....	24
4.2: MOLISA poverty lines, 2016–20	25
4.3: Minimum wage levels for the private sector, Viet Nam, 2013 and 2019 (VND/month)	25
4.4: Minimum living standard based on 2019 minimum wage, Viet Nam (VND/month).....	26
4.5: Food expenditure compared to poverty lines, Viet Nam	28
4.6: Food expenditure compared to minimum wage, Viet Nam	29
5.1: Child benefit values based on ILO Convention No. 102 (VND/month per child)	34
5.2: Minimum adequate child benefits on a poverty line basis, Viet Nam (VND/month).....	35
5.3: Minimum adequate child benefits based on 2019 minimum wage, Viet Nam (VND/month).....	36
5.4: Minimum adequate child benefits based on minimum living standard and dependent allowance, Viet Nam (VND/month)	36
5.5: Minimum adequate child benefits based on average income and expenditure, Viet Nam (VND/month).....	37
5.6: Minimum adequate child benefit based on additional expenditure of households with children (VHLSS), Viet Nam (VND/month)	38

5.7: Summary of the additional costs of living with a disability (%).....	41
5.8: Decision 59 poverty lines compared to additional costs of being disabled (VND/month)	43
5.9: Minimum adequate disability benefits based on MOLISA poverty lines, Viet Nam (VND/month).....	43
5.10: 2019 minimum wage compared to additional cost of being disabled, Viet Nam (VND/month per capita)	44
5.11: Minimum adequate disability benefits based on the minimum wage and Convention No. 102 replacement rates, Viet Nam (VND/month)	45
5.12: Additional costs of disability based on the minimum living standard derived from the minimum wage, Viet Nam (VND/month)	46
5.13: Minimum adequate disability benefits based on minimum living standard measure, Viet Nam (VND/month)	46
5.14: Additional costs of disability based on income and expenditure, Viet Nam (VND/month per capita)	47
5.15: Minimum adequate disability benefits based on income and expenditure measures, Viet Nam (VND/month)	48
5.16: Minimum adequate pension levels compared to 2019 private sector minimum wage, Viet Nam (VND/month)	50
5.17: Minimum adequate old age pensions based on minimum living standard calculations, Viet Nam (VND/month)	50
5.18: Minimum adequate pension levels based on income and expenditure measures, Viet Nam	51
5.19: Summary of minimum benefit levels required according to various definitions of adequacy, Viet Nam (VND)	53

Acknowledgements

This report is an input into a broader report examining the implications of an expanded tax-financed benefits regime in Viet Nam, to support the Government of Viet Nam's efforts to implement the Master Plan for Social Assistance Reform and Development (MPSARD) and the Master Plan for Social Insurance Reform (MPSIR). The report was overseen by Betina Ramírez López of the ILO and relied on technical backstopping from Doan Thuy Dung and Nguyen Hai Dat of the ILO Country Office for Viet Nam in Hanoi. It has also benefited from comments and feedback from members of the Government of Viet Nam's Social Assistance and Social Security Departments of the Ministry of Labour, Invalids and Social Affairs (MOLISA) and from consultation with relevant partners, including the United Nations Children's Fund (UNICEF) and others.

The lead author of this report is Shea McClanahan of Development Pathways, with drafting support and social and economic analysis conducted by Philip James (Development Pathways). Bjorn Gelders (Development Pathways) provided strategic advice and oversight, and Abigail Harvey and Celia Carbajosa (Development Pathways) provided valuable back office support.

Executive summary

The recently approved Master Plan on Social Assistance Reform and Development (MPSARD) action plan calls for a revision of Decree No. 136/2013 ND-CP of October 21, 2013,¹ governing social assistance benefits.² Centrally, that revision will propose new values for monthly social allowances for covered groups. To support this process, this report examines the adequacy of existing benefits under Decree 136/2013. However, assessing the adequacy of social protection benefits and systems is fundamentally a political exercise and, to a large extent, a subjective one, because of the wide variation in international practice and national benchmarks against which to assess adequacy relative to the respective benefits' policy objectives.

This report sets out a number of references to determine the adequacy of tax-financed benefits in Viet Nam and offers a range of options to preserve (and potentially improve and recover) their value into the future. The analysis has focused on three core lifecycle benefits – child, disability and old age – in line with the lifecycle approach adopted in the MPSARD.

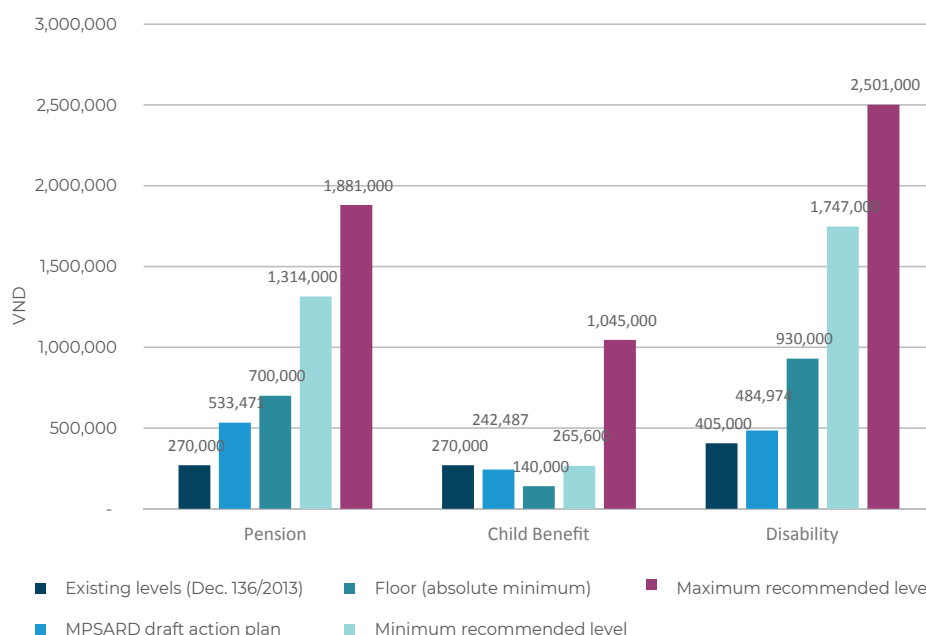
Ideally, the level of benefit should correspond broadly to the overarching policy objective. For example, as benefits intended to replace income, the absolute minimally adequate floor for social pensions and disability benefits (for moderate-to-severe disabilities that allow very limited capacity to work) should be the poverty line, although more generous values would be closer to an ideal standard of adequacy. For child and family benefits, the situation is more complex. The lack of international comparability, questions around the continuing relevance of the minimum standards for family benefits set under ILO Convention No. 102,³ and challenges associated with estimating the cost of children mean that there may be more flexibility to set adequate values according to multiple national priorities. Based on our analysis, we therefore propose a recommended band of acceptable values for each of these lifecycle benefits, as presented in figure 0.1.

¹ Hereafter referred to as “Decree 136/2013” (Socialist Republic of Viet Nam, 2013).

² The use of the term “social assistance” here follows the national nomenclature, but Decree 136/2013 also governs certain non-means tested benefits, in particular the social pension, which is pension-tested.

³ Social Security (Minimum Standards) Convention, 1952 (No. 102).

FIGURE 0.1: Summary of minimum and recommended benefit levels, Viet Nam (VND)



Source: Authors' calculations based on analysis of VHLSS 2016.

In some circumstances, horizontal extension may take precedent over vertical extension. Setting adequate benefit levels – vertical extension – is an important, but far from the only, component of realizing a long-term vision of universal social protection as the foundation of a dignified society and a growing economy. Considering Viet Nam’s intention to establish a multi-tiered social security system, where tax-financed and contributory benefits work together to achieve universal coverage, the question of vertical adequacy of tax-financed benefits may take a back seat to more pressing priorities related to horizontal extension. This may be especially true for child and family benefits, where there is potentially a greater degree of flexibility to set the values of each respective tier at appropriate levels so as to guarantee the right to minimally adequate benefits while preserving and strengthening the incentive to join social insurance, which is a key Government priority under Resolution 28.⁴ For social pensions and disability benefits, however, great care must be taken to ensure that tax-financed benefit levels are high enough to enable a decent standard of living for the millions of Vietnamese citizens who rely on them not only to meet their basic needs, but to live in dignity, prosper and contribute to society.

Once benefit levels are set, it is critical that the Government of Viet Nam establish an objective and regular mechanism to preserve the real value of benefits over time. This report has also explored a number of indexation formulas that could be

⁴ Socialist Republic of Viet Nam, 2018.

adopted to preserve, recover and improve the value of tax-financed benefits into the future. At a minimum, the indexation system should strive to maintain the purchasing power of benefits – to prevent the loss of real value – by tying them to prices. However, we have suggested that some form of wage-based indexation, whether partial or full, could also be considered as a way to maintain the standard of living of beneficiaries relative to the working population, as well as to preserve coherence between the tax-financed and contributory tiers.

The Government of Viet Nam is taking important steps toward ensuring that everyone in Viet Nam can have access to adequate, inclusive social protection across the lifecycle. Setting adequate benefit levels – vertical extension – is an important component, but far from the only one, of realizing a long-term vision of universal social protection as the foundation of a dignified society and a growing economy.

Abbreviations

AME	adult male equivalent
CPI	consumer price index
GDP	gross domestic product
ILO	International Labour Organization
IMF	International Monetary Fund
MPSARD	Master Plan on Social Assistance Reform and Development
MPSIR	Master Plan on Social Insurance Reform
MOLISA	Ministry of Labour, Invalids and Social Affairs
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
RPI	retail price index
UNDESA	United Nations Department of Economic and Social Affairs
UNICEF	United Nations Children's Fund
VHLSS	Viet Nam Household Living Standards Survey
VND	Vietnamese dong

1. Introduction

Viet Nam's social protection system has undergone significant change in recent years, embarking on a path that would significantly expand coverage and improve benefit levels. The system consists of social insurance for workers with formal contracts and others who meet the criteria, and a social assistance system reflecting a logic of ensuring the welfare of persons in difficult circumstances meeting certain narrowly defined eligibility requirements. Social assistance, as it is currently organized in Viet Nam, consists of three components: regular transfers; emergency assistance; and social care and social work.

Regular transfers comprise the largest component of social assistance and include targeted cash support for certain groups of children (such as orphans and children with disabilities), persons with disabilities, single parents, persons living with HIV/AIDS, and older persons aged 60–79 who lack any means of support, as well as the universal social pension for all persons aged 80 and above.

Currently, social assistance transfers have very little impact on poverty and other outcomes due to low coverage and transfer values.⁵ To begin to address the challenges of low coverage and low benefit incidence, recent reform processes in Viet Nam have set the stage for advancing toward continued expansion –including through increasing social assistance transfer values – and greater integration of the social insurance and social assistance systems. These goals are captured in the recently approved Master Plan on Social Insurance Reform (MPSIR)⁶ and the Master Plan on Social Assistance Reform and Development (MPSARD)⁷ and their corresponding action plans.⁸ Specifically, the MPSIR endorses a multi-tiered system, where tax-financed and contributory tiers function together to reach universal coverage. These targets are summarized in table 1.1.

⁵ Kidd et al., 2016.

⁶ As expressed in Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform.

⁷ As expressed in Decision No. 488/QĐ-TTg dated 14 April 2017, on approval of the “Master-plan on social assistance reform and development for the period 2017–2025 with vision to 2030”. Hereafter, referred to as “MPSARD”.

⁸ Note that the MPSARD draft action plan included target values that are referenced throughout this document. The final approved version of the MPSARD action plan does not refer to specific targets for benefit values.

TABLE 1.1: Coverage targets under the MPSIR (%)

Target population	Coverage to 2021	Coverage to 2025	Coverage to 2030
Working age population participating in social insurance schemes	35	45	60
Working age population in unemployment insurance scheme	28	35	45
Persons above normal retirement age entitled to a pension, monthly insurance benefits and social allowances	45	55	65
Working age population participating in the voluntary system	1	2.5	5

The MPSARD adopts a rights-based and lifecycle approach to social assistance expansion and sets out to expand coverage and improve benefit levels for transfers to children, persons with disabilities and older persons. (Transfers aimed at these groups are the focus of this report.) Even so, the Government of Viet Nam has so far made no new expenditure commitments, and the lack of an indexation mechanism has meant that the value of benefits has eroded considerably over time.

TABLE 1.2: Key Objectives under Decision 488/QD-TTg of 14 April 2017 (MPSARD)

Type of benefit	Eligibility/coverage
Social pension	Age of eligibility gradually reduced to 75 (70 for ethnic minorities); inclusion of social insurance pensioners with low pensions.
Disability benefits	Gradually increase coverage to 100% of disabled persons of working age and their caregivers (1.8% of persons of working age).
Carers' benefits	Those unable to work due to their care responsibilities for persons with disabilities
Child benefits (including disability)	A child benefit for children up to 36 months. A child benefit for all children in special circumstances (as legally defined), regardless of age.
Benefit for persons with HIV/AIDS	Persons with HIV/AIDS living in poor families initially and gradually expanded to include those in near-poor families.

In this report, we review the adequacy of existing social assistance benefit levels in Viet Nam and make proposals on how to improve and preserve their value into the future. Chapter 2 provides an overview of the approach used to assess benefit adequacy and the scope of benefits considered; Chapter 3 situates Viet Nam's social assistance benefits in the context of comparable tax-financed child, disability

and old age pensions around the world; Chapter 4 describes the national baseline comparators used in the assessment of national adequacy; Chapter 5 presents the rationale for child, disability and old age pensions in Viet Nam and assesses the adequacy of each type of benefit in terms of international minimum standards and national baselines; Chapter 6 explores the effects of different potential indexation mechanisms on the future value of benefits in Viet Nam; and Chapter 7 offers a conclusion.

2. Approach to assessing the adequacy of tax-financed benefits in Viet Nam

Debates on the adequacy of cash benefits are a normal and ongoing feature of social protection discussions and policy-making processes. While benefit levels should be aligned with the policy objectives the benefits set out to achieve, ultimately, setting the benefit levels is a value judgement of policy-makers (as representatives of society) about what is adequate. However, there are a number of methodologies commonly used to inform the assessment of the adequacy of the value of the transfers.

2.1 Adequacy is multidimensional and system-wide

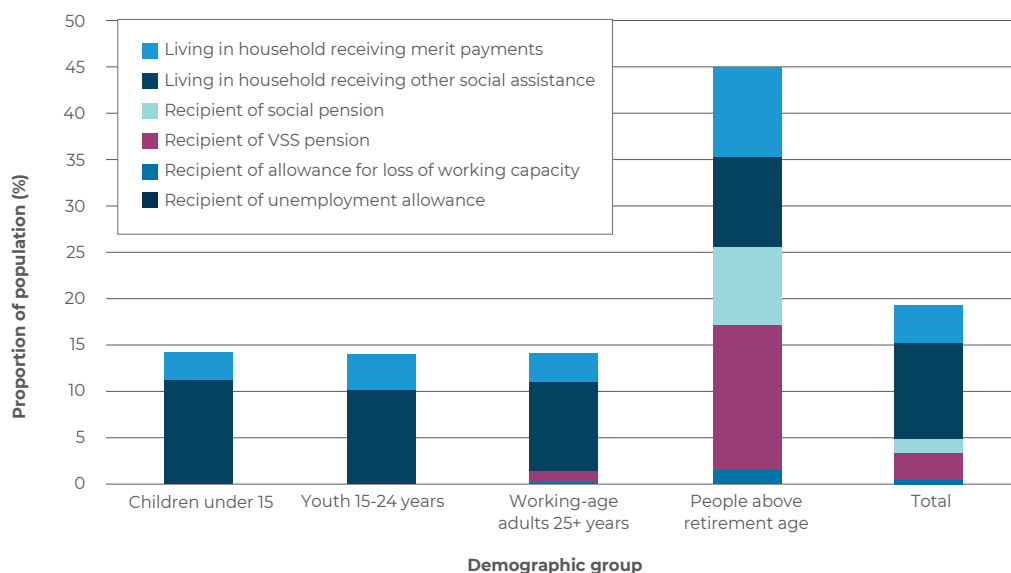
Even if this report focuses on conventional measures of adequacy (i.e. in terms of the relative “generosity” of benefit levels, which the ILO refers to as the “vertical” aspect of coverage extension), discussions about the adequacy of individual benefits for the intended recipient population should not occur in isolation. Rather, a system-wide perspective is needed in order to contextualize the key issues and challenges facing both existing and potential recipients of social protection benefits. Indeed, a full understanding of adequacy calls for a multidimensional perspective, and some have argued that the “horizontal” dimension of coverage extension – and, particularly, its absence – is an essential dimension of adequacy, since “assessment of adequacy...should also be considered at a societal level.”⁹

Because of their design, the social assistance programmes in Viet Nam have relatively small target populations, reflected in low overall coverage of the social protection system. Less than 20 per cent of all Vietnamese households have a beneficiary of any social protection programme, as shown in figure 2.1, according to analysis of the Viet Nam Household Living Standards Survey (VHLSS) 2016. Indeed, there are large coverage gaps across all ages. Younger generations and people of working age are particularly disadvantaged in Viet Nam’s existing social protection system, with more than 85 per cent living in households with no access to any social protection. Meanwhile, some 45 per cent of older persons receive

⁹ See Brimblecombe (2013), who identifies seven dimensions for assessing the adequacy of retirement benefits: benefit levels; exiting labour market at appropriate age; administrative capacity (facilitating adequacy improvements); interaction with other retirement provision; intergenerational equity (sustainability of benefit adequacy); security of adequacy; and coverage. Many of these dimensions are also applicable to other types of benefits.

some form of social protection, with VSS pensions, social pensions and merit payments accounting for the difference between coverage rates for the elderly and for younger cohorts.

FIGURE 2.1: Population with access to social protection, by age group, Viet Nam (%)



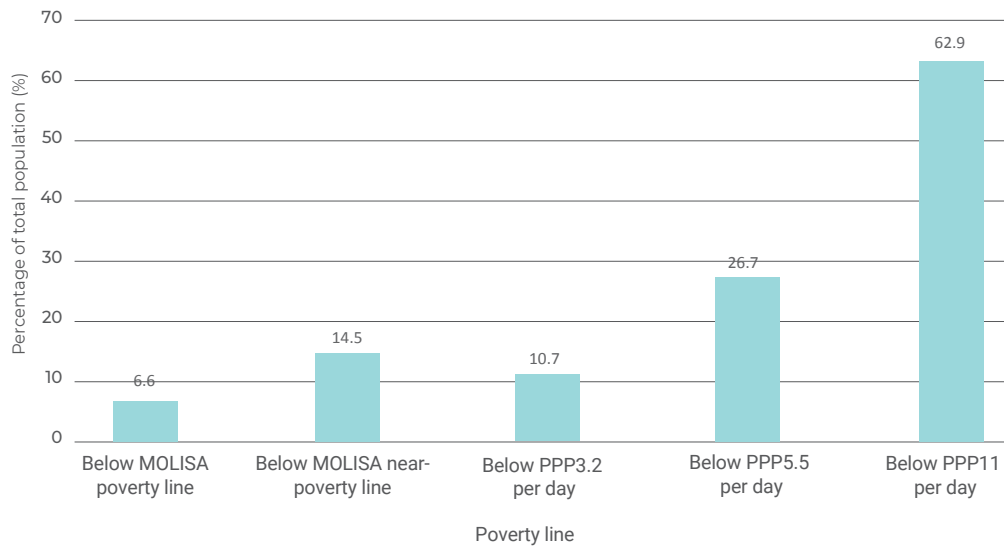
Source: Based on VHLSS 2016.

Commendably, Viet Nam has made significant progress in recent decades, going from among the poorest countries in the world to middle-income status, with incomes rising substantially and poverty falling significantly. However, some 14.5 per cent of people live on incomes of less than 1,000,000 Vietnamese dong (VND) per person per month and fit the definition by the Ministry of Labour, Invalids and Social Affairs (MOLISA) of “near poor”, and 6.6 per cent live below MOLISA’s poverty line of VND700,000 per person per month.¹⁰

Even more people would be considered poor or vulnerable using international measures: using the international poverty line for lower-middle income countries of purchasing power parity (PPP) US\$3.20 per person per day, 11 per cent of people are classified as poor, with per capita income under VND29,000 per day; using the international poverty line for upper middle-income countries of PPP US\$5.50 per person per day (approximately VND49,850), 27 per cent would be classified as poor. By some measures, the poverty rate would reach nearly 63 per cent (see figure 2.2).

¹⁰ The poverty lines are set out in Decision No. 59/2015/QĐ-TTg of November 19, 2015, and are valid from 2016–20 (Socialist Republic of Viet Nam, 2015). The rates cited are for rural areas. The corresponding thresholds for urban areas are higher: VND900,000 (poverty level) and VND1,300,000 (near-poverty line), respectively.

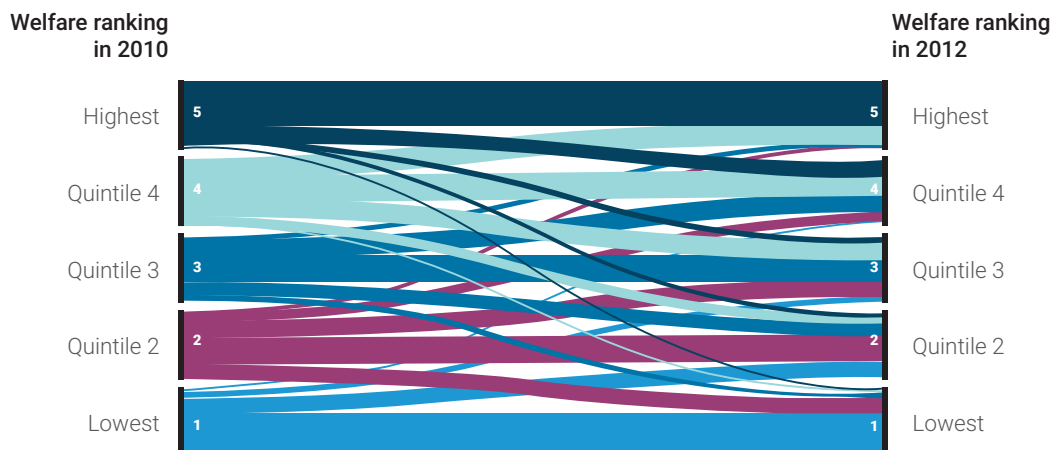
FIGURE 2.2: Total population living in poverty, by poverty line, Viet Nam (%)



Source: Based on VHLSS 2016

Furthermore, because people’s incomes are volatile and highly insecure, it is more accurate to view poverty as a constant risk faced by everyone throughout their lives as their circumstances change, rather than a static characteristic.¹¹ As figure 2.3 shows, even over a very short period, many people in Viet Nam move in and out of poverty, and up and down the income distribution. In practice, this means that virtually everyone will be in need of social protection at different points in their lives.

FIGURE 2.3: Income and poverty dynamics, Viet Nam



Source: Analysis of VHLSS 2010 and 2012.

¹¹ Knox-Vydmanov, 2014.

Therefore, Viet Nam's existing social assistance system, which is designed to target only the groups currently set out in Decree 136, is missing a large proportion of the population that, at any given day, lives in or is at risk of falling into poverty or substantially lowering their living standards. Indeed, multiple micro-level studies have concluded that the system is largely regressive and focused on small defined groups, rather on broad-based benefits across the lifecycle, and is not effectively meeting the needs of its citizens, including the poor.¹²

As a result, the social assistance system writ large is inadequate. To reinforce the idea that adequacy is about more than just benefit levels, Long and Pfau (2009) found that providing broader, and even universal, coverage in pension benefits is more effective for reducing poverty than offering higher level benefits to a more narrowly defined group.¹³ Thus, there may be a justification for prioritizing horizontal extension over vertical extension under certain conditions, and particularly when laying the groundwork for universal coverage, and further vertical extension, in the future.

Besides (horizontal) coverage, other dimensions of adequacy can also impact on the effectiveness of benefits, including the administrative capacity to improve (vertical) adequacy.¹⁴ Administrative constraints are clearly present in Viet Nam. For example, even when the programme's design implies 100 per cent coverage – as with the Government's flagship social pension for those over age 80 – administrative and other barriers to access can prevent full achievement of the targets; some have estimated the effective coverage of the social pension at as low as 60 per cent.¹⁵

Similarly, the absence in Viet Nam of an indexation process or mechanism to protect the value of social assistance benefits affects the "security of adequacy"¹⁶ for recipients over the long run. Without the political, regulatory and governance capacity to preserve the value of benefits over time, the system's effectiveness will erode, and people will suffer. A regular and sustainable indexation mechanism can protect against this occurring and is the subject of Chapter 6.

2.2 Approach and scope

This report addresses the question of adequacy both in its conventional sense, that is, benefit levels or vertical extension, and in terms of the security of the benefit's adequacy into the future. For each type of transfer – child, disability and old age benefits – we consider adequacy of the transfer in terms of:

¹² See e.g. Roelen (2011); Kidd et al (2016); or Palmer, et al (2015) on disability. This conclusion is in contrast to the macro-level analysis conducted by the World Bank, which suggested that the social protection system is providing relief to the poor (see Rab, et al., 2015).

¹³ Long and Pfau, 2009.

¹⁴ Brimblecombe, 2013.

¹⁵ See Kidd, Gelders and Tran (2019); other sources place effective coverage at 100%, but the data are contradictory.

¹⁶ See Brimblecombe (2013).

- (1) an international benchmark of the value of the benefit to recipient in terms of percentage of gross domestic product (GDP) per capita; and
- (2) national measures of
 - (a) poverty line minimum welfare,
 - (b) minimum wage, and
 - (c) income and expenditure calculations.

We exclude sustainability and affordability concerns from the initial adequacy discussion. For simplicity, “adequacy” refers to benefit levels in the remainder of the report.

National adequacy indicators are broad and depend on the rationale for providing the benefit. For example:

- **Pension schemes** are expected to provide an individual with a minimum level of income, thus ensuring their welfare when they can no longer work. According to ILO Conventions No. 102 and No. 128, respectively, pensions should be 40 per cent or 45 per cent of the reference wage after 30 years of earnings.¹⁷
- **Child benefits** are typically provided to assist a household maintain an adequate standard of welfare by providing an additional income to cover some, but not all, of the costs of raising a child, as an expression of (national) collective investment in the future labour force. However, the enormous variation in the values and parameters for child benefits around the world reflects the complexities surrounding how cash-based support to families is defined and justified in different national contexts, and in particular the relative balance of cash benefits and services on offer.
- **Disability benefits** can have multiple rationales, the choice of which significantly affects the assessment of the adequacy of these benefits.
 - » First, they may be designed to ensure that a person with a disability can maintain a standard of welfare comparable to a person without a disability by providing for the additional cost of being disabled. (This is also the case for children with disabilities whereby the benefit is designed to assist families with disabled children with the additional costs in raising them.)
 - » Secondly, for those of working age but unable to work, disability benefits can be an income substitute which allows a disabled person to maintain a minimum welfare level.
 - » The ILO suggests disability benefits should be designed to allow people with disabilities to actively participate in society, education and employment. According to the ILO, this can be achieved through ensuring that benefits in cash and in-kind cover disability-related costs.¹⁸

¹⁷ ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) and ILO Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128).

¹⁸ ILO, 2017.

- » The Viet Nam MPSARD draft action plan is not clear on the methodology to set the disability benefits, however the purpose of these is clearly “effectiveness in protecting people from the welfare losses,” and Decree 136 provides that “disabled children and disabled people [be] eligible for social allowance as stipulated by law on disabled people”. The additional cost methodology is therefore considered the most appropriate to assess adequacy.

In assessing national adequacy, wherever possible and reasonable, we apply the internationally accepted standards for benefit levels as prescribed by ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), and ILO Invalidity, Old-Age and Survivors’ Benefits Convention, 1967 (No. 128). The replacement rates specified in these Conventions serve as benchmarks, which are then qualified, contextualized, and applied against the various national baseline comparators introduced above.

Regular transfers in Viet Nam consist of multiple benefits targeted at very specific populations, which poses challenges for assessing the adequacy of individual benefits. Table 2.1 summarizes the main social assistance benefits administered by MOLISA’s Department of Social Assistance (DSA) and focused on children, people with disabilities and older persons.

TABLE 2.1: Main social assistance benefits for children, persons with disabilities and older persons, Viet Nam

Category of benefit	Eligibility criteria	Benefit Amounts ¹
Child-focused benefits	<p>Orphan benefit: Paid to a child younger than age 16 (age 22 if a full-time student) who has been abandoned, if both parents are deceased, if one parent is deceased and the other is missing or imprisoned, or if both parents are imprisoned.</p> <p>Single parent benefit: Paid to a single and needy main care provider of a child younger than age 16 (age 22 if a full-time student).</p> <p>Child disability benefit: Paid for a child assessed with at least a 61% disability.</p>	<p>VND675,000 a month for a child younger than age 4; or VND405,000 a month for a child aged 4 or older. If the child does not have a legal guardian and is living in extremely difficult circumstances:</p> <ul style="list-style-type: none"> • VND1,350,000 per month for a child younger than age 4 • VND1,080,000 per month for a child aged 4–16 • VND405,000 per month for a child aged 17–22 who is a full-time student. <p>Provinces with higher fiscal capacity may provide a larger allowance. Range: VND405,000–1,350,000 per month</p> <p>VND 270,000 per month for one child; or VND540,000 per month for at least two children. Range: VND270,000–540,000 per month</p> <p>VND540,000 per month if the child is assessed with a disability of 61% to 80%; VND675,000 per month if assessed with at least an 81% disability; If living in extremely difficult circumstances:</p> <ul style="list-style-type: none"> • VND1,350,000 per month if younger than age 4, assessed with at least a 61% degree of disability • VND1,080,000 per month if aged 4 to 16, assessed with at least a 61% degree of disability <p>Range: VND540,000–1,350,000 per month</p>
Disability benefits	<p>Disability benefit: Assessed with at least a 61% reduced working capacity and does not qualify for a contributory pension.</p>	<p>VND405,000 per month with an assessed reduced working capacity of 61% to 80%; VND540,000 per month with an assessed reduced working capacity of at least 81%; VND810,000 per month with an assessed reduced working capacity of at least 81% and living in extremely difficult circumstances; VND405,000 per month with an assessed reduced working capacity of at least 61% and pregnant or raising a child younger than age 3; and VND540,000 per month with an assessed reduced working capacity of at least 61%, pregnant, and raising one child younger than age 3, or with an assessed reduced working capacity of at least 61%, not pregnant, and raising at least two children younger than age 3. Provinces with higher fiscal capacity may provide larger allowances. Range: VND405,000–810,000 per month</p>

Category of benefit	Eligibility criteria	Benefit Amounts ¹
Old age benefits	<p>Caregiver support: Paid to caregivers of persons with an assessed reduced working capacity of at least an 81%.</p> <p>Over-80s pension (pension-tested): aged 80 or older and not receiving any contributory pension.</p> <p>Old age pension (social assistance): Aged 60 to 79, needy, and living alone without family support; aged 60 or older assessed with a reduced working capacity of at least 81%; aged 60 or older and living in extremely difficult circumstances</p>	<p>VND405,000 per month if caring for one person; or VND810,000 per month if caring for at least two people. Range: VND405,000–810,000 per month</p> <p>VND270,000 per month; or VND540,000 per month if poor, and living alone without family support Range: VND270,000–540,000 per month</p> <p>VND405,000 per month if aged 60 to 79, poor, and living alone without family support; if aged 60 or older:</p> <ul style="list-style-type: none"> • VND675,000 per month with an assessed reduced working capacity of at least 81%; • VND1,080,000 per month if needy and with an assessed reduced working capacity of at least 81%, or if living in extremely difficult circumstances. <p>Range: VND405,000–1,080,000 per month</p>

¹ Benefit amounts are expressed in nominal terms, but are, in effect, multiples of a basic social allowance of VND270,000 as set out in Decree 136/2013, which outlines the applicable multipliers for each category of social assistance beneficiary. If a beneficiary meets more than one criteria, the amounts may be aggregated, and these are cases are summarized in the description of the benefit amounts.

Source: Based on ISSA and SSA (2018) and elaborated based on Decree 136/2013 and validated by VSS.

3. International comparison of benefit values

International comparisons of social protection spending are inherently crude, although some measures are more appropriate than others. These comparisons assume that the needs of each person and the systems are comparable across countries, which is often not the case.¹⁹

A range of international comparison methodologies may be used to assess the adequacy of benefits. These methodologies include (1) absolute value of transfers in purchasing power parity (PPP) terms, (2) percentage of GDP allocated to benefits and (3) transfer value as a percentage of GDP per capita. For a variety of reasons, we use the last measure.²⁰

Comparing this measure – the value of the transfer expressed as a percentage of GDP per capita for people receiving the benefit – has several benefits. This measure accounts for a country's ability to pay, adjusts for the relative size of population and – because the data are based on the value of transfer compared to the average GDP per capita – provides some indication of the appropriateness of the transfer relative to the rest of the population.²¹

However, this measure is not without its disadvantages. Notably, it is not able to measure the distribution of incomes or account for the formal economy or demographic distribution. GDP itself is often underestimated in countries which have large hidden or informal economies, so low- or middle-income countries may appear better in percentage GDP per capita comparisons than is warranted. In addition, because it does not measure inequality or distribution of income, the average GDP per capita may be significantly distorted as a result of the income distribution of the country.²² Perhaps the most significant challenge is that consumers face different relative costs: for example, a public health system may

¹⁹ Needs may include services, care, administration, and provision. Social spending measures may not capture important differences. For example, Estonia's spending is relatively low on an international comparison basis; however, Estonia uses a highly streamlined and administratively simple claimant process which allows the country to maintain a relatively lower welfare budget.

²⁰ The absolute value of transfers in PPP measures the total amount spent on transfers (including or excluding administration costs) by each country. While the PPP conversion offers some indication of the relative cost of living, the "absolute value" calculation does not account for population size, demographics or need and may suggest that small countries are not investing sufficiently compared to larger countries. (Although there are significant issues with the methodologies used to construct the PPP comparisons, it remains the internationally-agreed method for international price comparisons.) In addition, using the percentage of GDP allocated to social protection allows the comparison to account for the relative size of a country's economy and therefore its ability to pay. However, it does not provide any indication of relative population size, which can be used as a proxy indicator for need.

²¹ The mean and median income will vary significantly from each other.

require a lower absolute level of protection as a result of the benefit received through the public health system, unlike a private health system where the user must pay at the point of use. Finally, demographic distribution can have a very large impact on the amount of age-related benefits (child or pensions) paid, but GDP per capita cannot account for population structure. As a result, a country with a relatively young population may look extremely poor in an international comparison of old-age pensions.

Despite these drawbacks, the value of transfer as a percentage of GDP per capita is the best international comparator that is available and therefore used here.

3.1 Child-focused benefits

Almost every high-income country – and, increasingly, many low- and middle-income countries around the world – provides support for children and families, delivered through a variety of programmes delivering cash and in-kind benefits.²³ In Asia, at least eight countries have some type of contributory benefit paid to all children (of a defined eligibility age) whose parents are enrolled in social insurance,²⁴ and many other countries – including Armenia, Australia, Georgia, Fiji, Hong Kong (China), Iraq, Kazakhstan, Kyrgyzstan, Mongolia, and New Zealand – pay tax-financed benefits for each child.²⁴

However, comparing values of child benefits around the world poses significant methodological challenges, especially because many countries provide a combination of in-kind benefits, including free or subsidized services, together with cash benefits to support families more comprehensively. For example, some of the Nordic countries (e.g. Norway and Sweden) exhibit among the lowest values of cash benefits while providing extremely generous public services and other social security benefits – including various combinations of free or heavily subsidized childcare, public health care, and high quality public education, as well as generous paid parental leave policies.

Viet Nam does not currently have a conventional child benefit paid for all children up to a certain age. Rather, it has a collection of “child-focused” benefits paid to narrowly defined populations of children who are particularly vulnerable, including orphans meeting certain criteria and children of single parents, among others. In the international comparisons, we use the lower bound value from the range of values for the child-focused benefits, which corresponds to the single parent benefit:

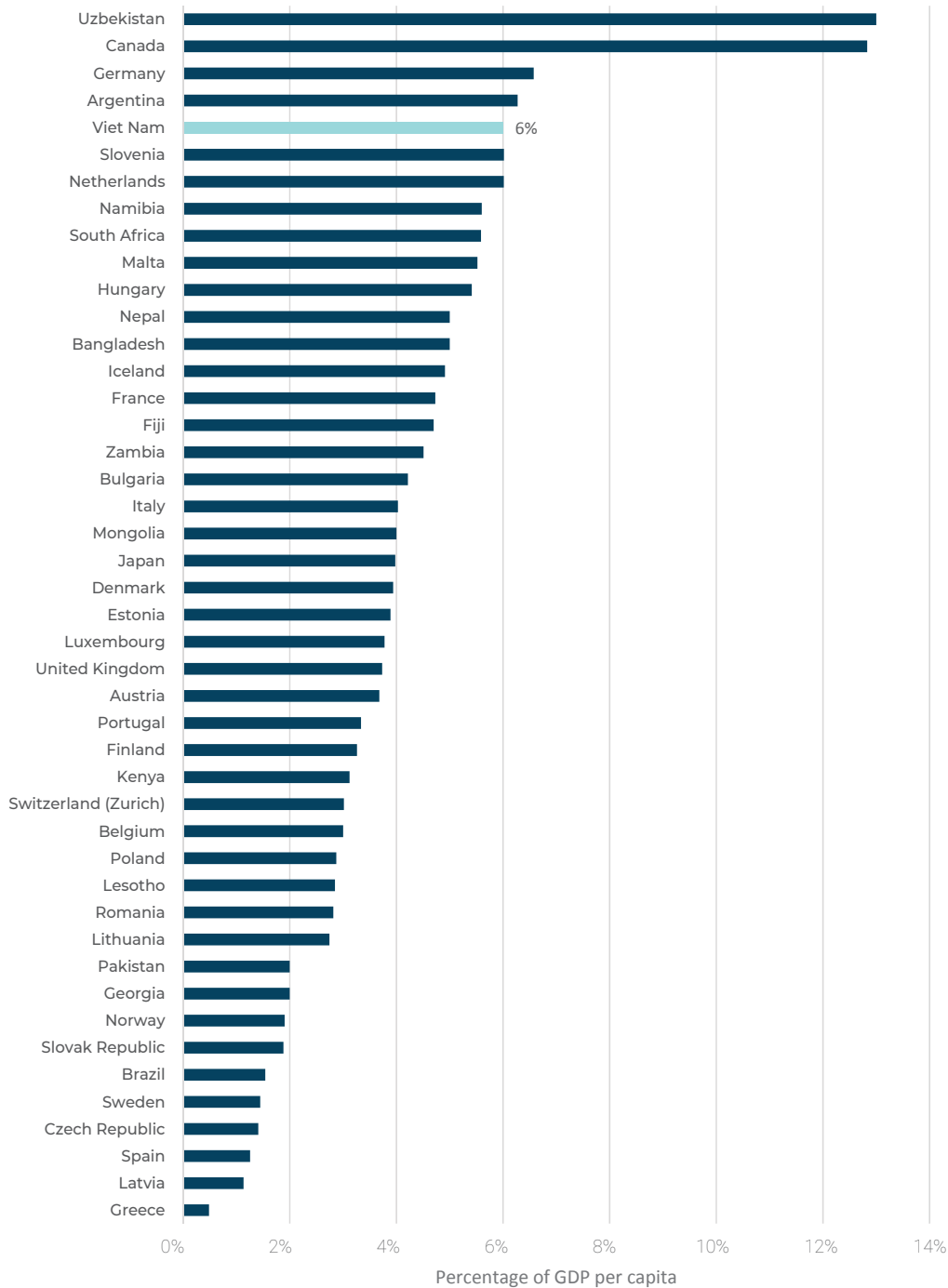
- **Single parent benefit:** VND270,000

Figure 3.1 compares child benefit levels across 39 high-, middle- and low-income countries.

²³ See MISSOC (2018), ISSA and SSA (2017–18), and Stanescu and Nemtanu (2015).

²⁴ These include Azerbaijan, the Islamic Republic of Iran, Israel, Japan, Thailand, Tajikistan, Turkmenistan and Uzbekistan. See McClanahan and Gelders (2019).

²⁵ Ibid.

FIGURE 3.1: Per-child benefits as a percentage of GDP per capita, by country

Source: Development Pathways Benefits Database.

At first glance, the values of the single parent benefit appear to compare quite well with international standards. However, we must emphasize that this is due to the different underlying policy logic and objectives of the Vietnamese child-focused benefits relative to other conventional child benefits around the world. These different underlying policy logics limit the comparability of the existing Decree

136/2013 child-focused benefits with international child benefits, or with the kind of conventional child benefit laid out in the MPSARD.²⁶

Child-focused benefits in Viet Nam are paid for children deemed particularly vulnerable for reasons other than normal childhood, such as orphanhood, poverty, or disability; in contrast, the conventional child benefit would be paid for all children, recognizing the inherent vulnerabilities associated with childhood, the cost that children represent to families, and as a right borne of citizenship in Viet Nam. The conventional child benefit set out in the MPSARD draft action plan – covering all children up to 36 months²⁷ and gradually expanding to higher ages of eligibility, paid at a value of 5 per cent of GDP per capita (approximately VND242,287)²⁸ – would be relatively generous by international standards.

Chapter 4 revisits the underlying policy logic of child-focused benefits and its differences from the kind of conventional child benefit envisaged in the MSARD action plan.

3.2 Disability benefits

Unlike child benefits, the social assistance disability benefit in Viet Nam is comparable, from a policy objective standpoint, to other disability benefits around the world. As in many countries, the value of the benefit varies according to the degree of disability. We use the value for a social assistance disability benefit paid for a moderate degree of disability (from 61 per cent to 80 per cent),²⁹ as follows:

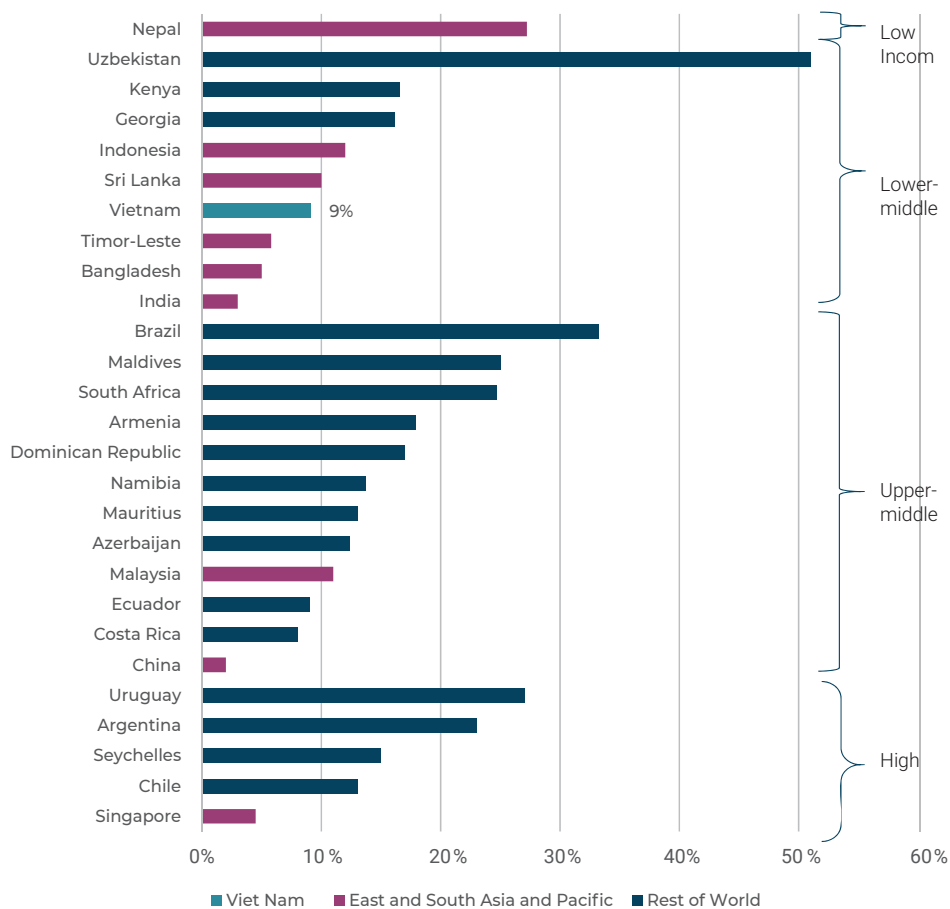
- **Disability benefit (moderate disability):** VND405,000 a month

²⁶ The most likely objective of the single parent benefit in Viet Nam is to compensate for, or partially replace, the lost income that results when a family lacks one earner. Similarly, Viet Nam's orphan benefit, paid for a child who has lost both parents, would arguably aim to offer more complete income support to a child who has lost both parents. In both cases, the benefit logic is fundamentally at odds with a conventional child benefit, which is designed to address the marginal cost of a child and has no direct income replacement function.

²⁷ Decision 488 states that "...children under 36 months...are entitled to social transfer."

²⁸ Based on International Monetary Fund (IMF) (2018).

²⁹ Decree 28/2012 implementing the Law on Persons with Disabilities establishes the coefficients used for social allowances paid to persons with disabilities. It sets out three categories, according to the degree of disability or loss of working capacity: those with mild disabilities and reduced working capacity of less than 61 per cent; persons with "severe" disabilities who have a reduced working capacity of 61 per cent to 80 per cent; and those with "particularly severe" disabilities and a reduced working capacity of greater than 81 per cent. Hereafter, we refer to the middle range, representing a reduced working capacity of 61 per cent to 80 per cent, as a "moderate" disability, which is comparable to how this term is used in other countries.

FIGURE 3.2: Tax-financed disability benefits as a percentage of GDP per capita, by country

Source: Development Pathways Disability Database. The benefits represent the minimum transfer level for a national disability benefit.

Figure 3.2 compares the level of disability benefits as a percentage of GDP per capita across 27 different countries, including Viet Nam. At 9 per cent of GDP per capita, Viet Nam's disability benefits compare well with other lower-middle income countries, in the middle of the range of disability benefits from 3 per cent in India to 17 per cent in Kenya. Compared to all other countries, Uzbekistan provides a very generous level of disability benefits and is therefore an outlier internationally. When compared to upper-middle income countries Viet Nam falls into the lower third of countries. It is also below the average of 14 per cent of all 36 countries (excluding Uzbekistan).

The MPSARD draft action plan set a target to increase disability benefits to the equivalent of 10 per cent GDP per capita,³⁰ which Viet Nam is already approaching, but still below the international average of 14 per capita from figure 3.2. At the same time, the MPSARD draft action plan aims to increase caregiver benefits,

³⁰ Disability benefits would be the equivalent of 20 per cent GDP per capita for those with severe disabilities under the MPSARD.

which are currently approximately equivalent to disability benefits at VND405,000 to 20 per cent, which will imply doubling investment in these benefits.

However, because adequacy is also tied to coverage, it is important to mention the challenges the system faces in defining, identifying and assessing the degree of disability. Whereas globally, an estimated 15.6 per cent of the adult population is living with a disability,³¹ in Viet Nam, census data suggests that around 7.8 per cent of the whole population – or 6.7 million people – were living with a disability in 2009.³² Moreover, disability rates vary across Viet Nam at the district level, with lower prevalence in those areas with better healthcare and infrastructure.³³ The figures almost certainly underestimate the extent of disability in Viet Nam, and indeed, studies show that current social protection programmes are reported to be inaccessible for many and are failing to meet the needs of people living with disabilities.³⁴

Therefore, even if the disability benefit rates in Viet Nam compare relatively well internationally, a number of important gaps remain. Chapter 5 assesses the extent to which the benefits are meeting the needs of persons with disabilities, particularly focusing on the additional costs of living with a disability.

3.3 Old age pensions

Almost all countries have statutory old age pension systems, and an increasing number of countries – including Viet Nam – offer either universal or means-tested tax-financed “social pensions”.³⁵ In Viet Nam, a pension-tested social pension is paid to all persons over age 80 years who do not qualify for a contributory pension, and a poverty targeted social pension is paid to persons aged 60–79 and assessed as poor.³⁶ In addition, persons who are aged 80 or older and assessed as poor receive a higher-rate transfer. Here, we consider the value for the flagship social pension in Viet Nam:

- **Over-80 pension (non-poor): VND270,000**

³¹ WHO and World Bank, 2011. The prevalence appears to be higher in lower income countries (18 per cent) compared to higher income countries (11.8 per cent), while the population living with severe disabilities is smaller, but still significant, at 2.2 per cent (based on 2004 data).

³² See Palmer et al. (2015).

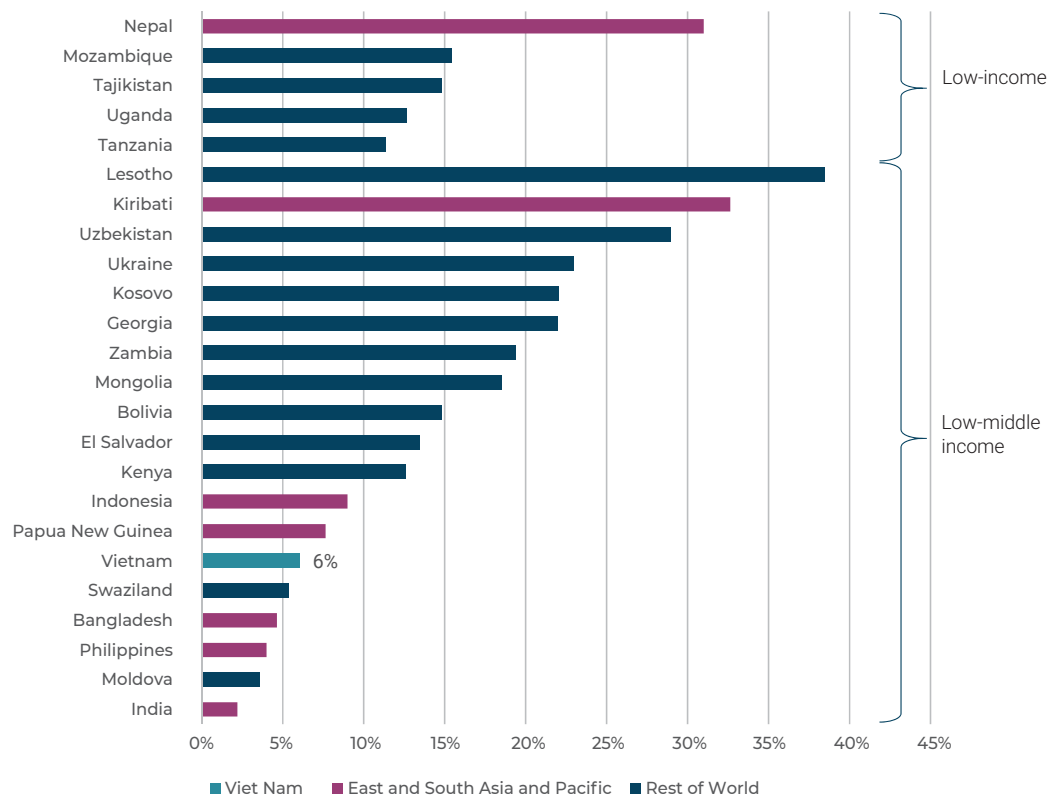
³³ See Mont and Nguyen (2018).

³⁴ See Palmer et al. (2015).

³⁵ See ISSA and SSA (multiple years).

³⁶ In addition, the persons assessed as poor must be living alone and without any family support.

FIGURE 3.3: Transfer values for tax-financed old age pensions in low and lower-middle income countries as a percentage of GDP per capita



Note: Pension values represent the lowest value pension benefit paid at the national pensionable age.

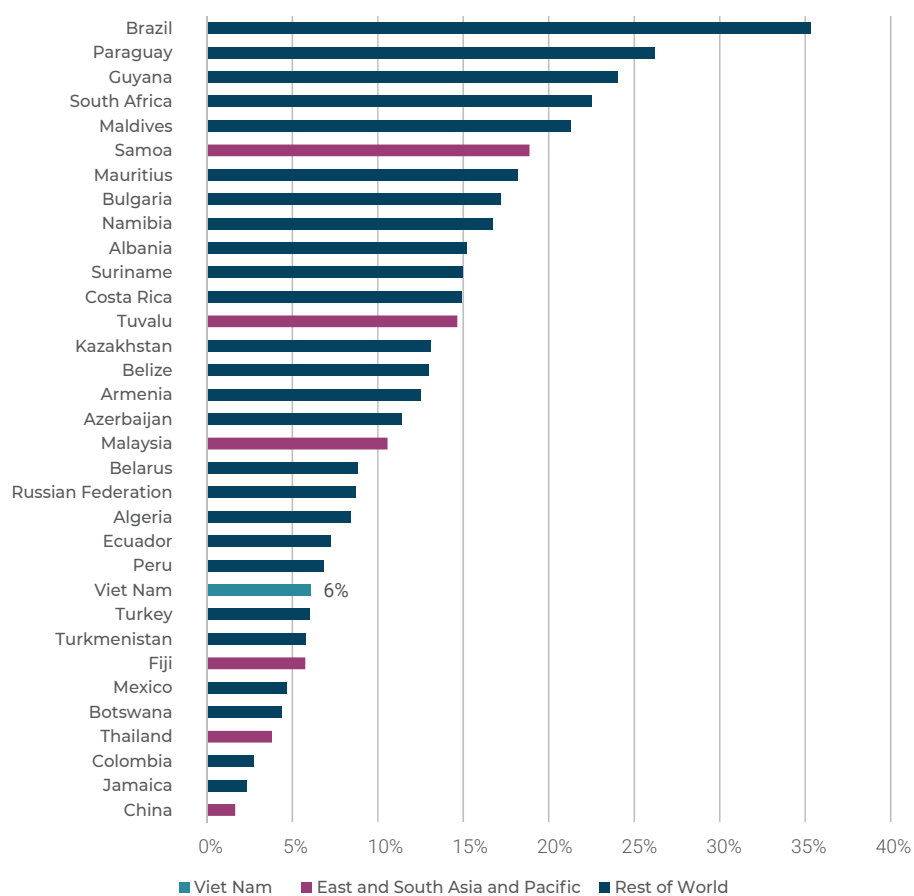
¹ As defined in United Nations Security Council Resolution No 1244 of 1999.

Source: Based on HelpAge International Social pensions database.

Figures 3.3 to 3.5 compare the value of social pensions as a percentage of GDP per capita in lower-middle, upper-middle and high income countries, respectively. Of the sampled countries, Viet Nam is in the lower half of lower-middle income countries, bottom third of upper-middle income countries and is the least generous compared to high income countries. The average of lower-middle income countries is 15 per cent and of high-income countries 19 per cent; Viet Nam pays below the mean in all groups.

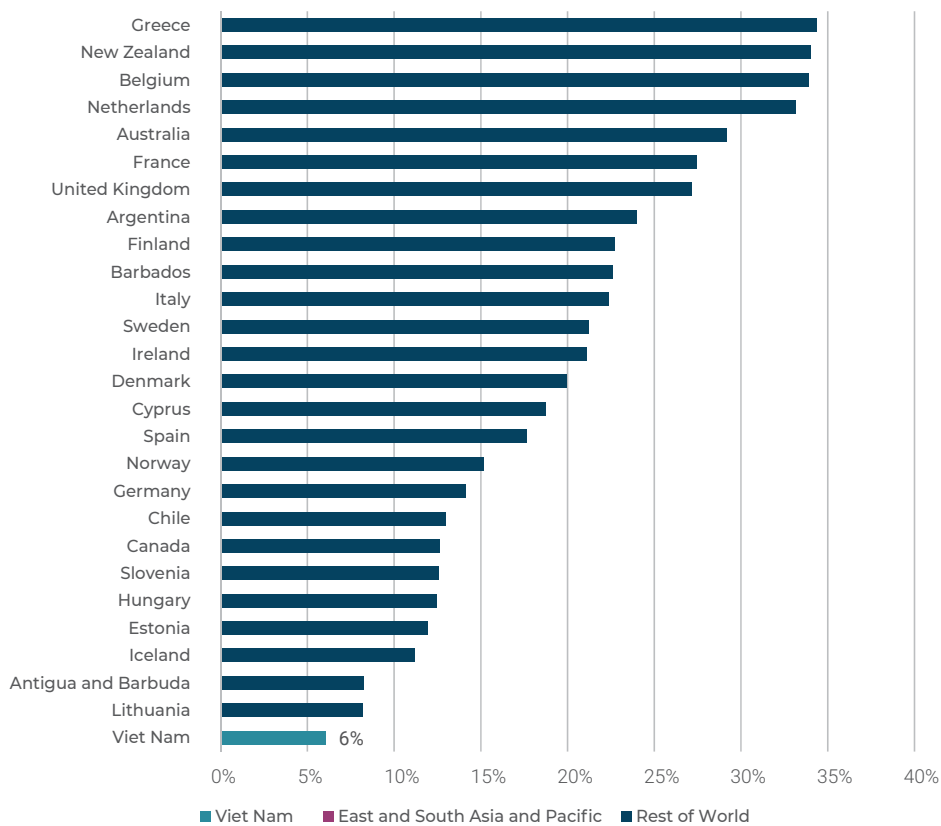
The MPSARD action plan targets would steadily increase pension values to 11 per cent GDP per capita (21 per cent for persons with severe disabilities), which would move Viet Nam from 15th to 12th position out of the 19 lower-middle income countries in figure 3.3. When compared to upper-middle income countries, this aspiration would move Viet Nam nearly into the top half of countries considered in figure 3.4.

FIGURE 3.4: Transfer values for tax-financed old age pensions in Viet Nam compared with upper-middle income countries as a percentage of GDP per capita



Source: Based on HelpAge International's Social pensions database.

FIGURE 3.5: Transfer values for tax-financed old age pensions in Viet Nam compared with high-income countries as a percentage of GDP per capita



Source: Based on HelpAge International's Social pensions database.

3.4 Summary

While there are inherent challenges with comparing benefit levels across countries, Viet Nam's disability benefits and old-age pensions levels compare reasonably with other similar countries paying similar benefits, although Viet Nam is in the bottom quarter of low-income countries with respect to pensions and the bottom half for disability benefits.

For child benefits, Viet Nam does not have a conventional child benefit, but its child-focused single parent benefit compares very favourably with conventional tax-financed child benefits around the world, keeping in mind the significant methodological challenges associated with comparing child and family benefits, in particular.

In all cases, the increases proposed in the MPSARD draft action plan would have gone some way to adjusting Viet Nam's relative positions, but these were not approved. Going forward, the revision to Decree 136/2013 will need to take into account not only the relative adequacy of similar benefits in other countries, but the relative adequacy of benefits when measured against national comparators, which are taken up in Chapter 4.

4. National baselines for assessing adequacy

While international comparisons can be useful to benchmark a country compared to its peers and to indicate an aspirational target level of benefits, a full assessment of the adequacy of benefit levels within Viet Nam requires comparison to national indicators.

Sections 4.1 to 4.4 present the four comparators used to assess the adequacy of each of the benefits in Viet Nam:

- (1) poverty and near-poverty line;
- (2) minimum wage and minimum living standard;
- (3) cost of a minimum healthy basket of food; and
- (4) average expenditure.

4.1 Poverty line

A range of official poverty lines have previously been calculated for Viet Nam using various methodologies. Table 4.1 below shows the poverty lines in the year that they were calculated and inflated to 2013, the year in which the benefit levels in Viet Nam were set under Decree 136/2013.

TABLE 4.1: Full range of poverty lines, Viet Nam

Target population ¹	Year	Poverty line (VND/month)	Poverty line 2013 ²
International (US\$1.25/day)	2012	474 204	517 878
International (US\$2.00/day)	2012	758 726	828 604
GSO-WB poverty	2012	871 308	915 555
MOLISA (MOLISA calculated) ³			
Rural	2013	400 000	400 000
Urban	2013	500 000	500 000
GSO-WB extreme poverty	2012	580 872	634 370
GSO-WB poverty (pre-2010)	2008	279 843	n.a. ⁴
MOLISA near-poor			
Rural	2013	520 000	520 000
Urban	2013	650 000	650 000

¹ See Decision 59 (Socialist Republic of Viet Nam, 2015) and Demombynes and Hoang Vu (2015). ² Most recent year poverty line inflated by inflation in ILO actuarial model, inflated to 2013 for comparison with the year in which the benefit levels were set. ³ The MOLISA poverty lines are set every five years for the Socio-Economic Development Plan and are calculated using a cost-of-basic-needs methodology based on expenditure for a reference food basket as well as a basic non-food allowance, using 2100 kcals per person per day as the calorific norm. See Demombynes and Hoang Vu (2015). ⁴ Pre-2010 baseline and therefore inappropriate to inflate to post 2010 years.

Decision 59 reassessed these poverty lines and rebased them for the 2016 to 2020 period,³⁷ as shown in table 4.2. Three income measures are provided by Decision 59: poverty line, near-poverty line and the medium income. These are the official multidimensional poverty lines applicable during the period 2016–20. These measures provide the most appropriate comparators when assessing the adequacy of benefits in Viet Nam.

³⁷ Socialist Republic of Viet Nam, 2015.

TABLE 4.2: MOLISA poverty lines, 2016–20

MOLISA poverty category	Poverty line (VND/month)
Poverty	
Rural	700 000
Urban	900 000
Near-poverty	
Rural	1 000 000
Urban	1 300 000
Medium income ¹	
Rural	1 500 000
Urban	1 950 000

¹ Medium income considered between the near poverty income threshold and the stated threshold above.
Source: Decision 59/2015.

4.2 Minimum wage and minimum living standard

Minimum wages are normally set at a point which provides working people with an adequate, although minimum, income. As such, the minimum wage effectively provides an indication of what a government accepts as the minimum costs of achieving a decent standard of living. Thus, minimum wage levels can be a useful comparator to assess the adequacy of benefit values in Viet Nam. The minimum wage comparison argues that each person in receipt of benefits should be able to maintain their income relative to what the perceived minimum is. Viet Nam is separated into four regions, each with a different level of private-sector minimum wage due to differences in price and expenditure needs, the levels of which are shown in table 4.3.

TABLE 4.3: Minimum wage levels for the private sector, Viet Nam, 2013 and 2019 (VND/month)

Region	2013 monthly minimum wage	2019 monthly minimum wage
I ¹	2 350 000	4 180 000
II ²	2 100 000	3 710 000
III ³	1 800 000	3 250 000
IV ⁴	1 650 000	2 920 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong.

³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

The minimum wage for public-sector workers is set at just below VND1.5m per month in 2019. The methodology used to calculate this wage is different from that of the private sector minimum wage and it is more pragmatically than analytically set. As such, the private sector minimum wage will be used for the adequacy analysis.

The minimum wage in Viet Nam has two components: an adult component and a dependent component. The same wage is paid regardless of whether an individual has a dependent. A dependent is classified as any person not of working age, and so could account for a child or for a person of pensionable age.³⁸ The adult component of the minimum wage is referred to as the “minimum living standard”. The minimum living standard for an adult of working age without a disability is calculated from household survey data (VLHSS), taking the average food expenditure of income deciles 2 and 3 plus the average expenditure on non-food items, including housing.

The remainder of the minimum wage accounts for the cost of the dependent of the working adult. It is assumed that each working adult will have one dependent; a working family of two parents is assumed to have two children. The minimum living standard for a dependent is calculated based on the adult’s food expenditure plus non-food expenditure excluding housing costs. Housing costs account for roughly 17 per cent of non-food expenditure in the adult calculation. A dependent is assumed to cost 70 per cent of the cost of a working adult less housing costs. This methodology suggests that the minimum living standard of an adult accounts for approximately 61 per cent of the minimum wage, and the dependent cost is 39 per cent of the minimum wage. The minimum wage is often then negotiated with employers and may be revised downwards from the empirically calculated minimum wage. Table 4.4 shows the adult and dependent parts of the minimum wage calculated from the agreed minimum wage in 2019.

TABLE 4.4: Minimum wage levels for the private sector, Viet Nam, 2013 and 2019 (VND/month)

Region	2019 monthly minimum wage	Dependent minimum living standard	Adult minimum living standard
I ¹	4 180 000	1 630 000	2 550 000
II ²	3 710 000	1 445 000	2 265 000
III ³	3 250 000	1 265 000	1 985 000
IV ⁴	2 920 000	1 135 000	1 785 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

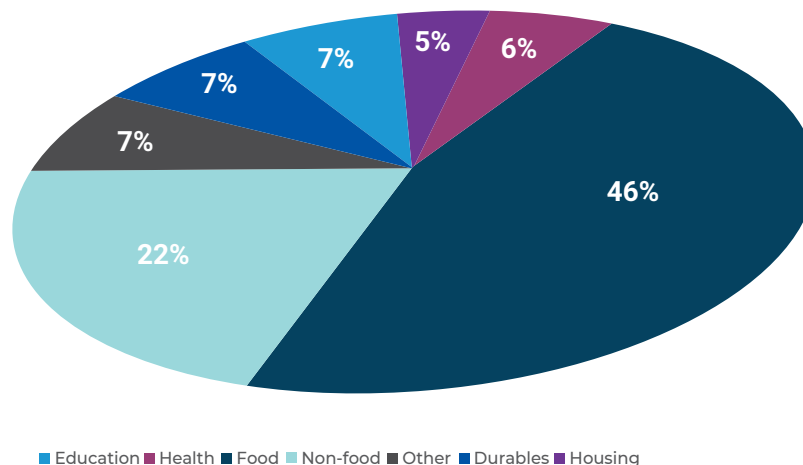
³⁸ It is our understanding that the dependent does not include people with disabilities who are unable to work.

4.3 Minimum healthy food basket

An alternative national standard comparator is the amount of money which households are required to spend on food per capita to achieve a minimum nutritional intake. A minimum nutritional intake is defined by the WHO and is normally between 2100 Kcal and 2300 Kcal per day. This is normally measured by the World Food Programme's triannual assessment, however, to our knowledge, Viet Nam is not included in these assessments.

Instead, the methodology used by the Government of Viet Nam to calculate the minimum wage provides a strong indication of the cost of a minimum healthy food basket. The minimum wage is set based on four indicators:³⁹ minimum living standards; wage survey; economic capacity; and inflation. The minimum living standards element is further subdivided so that 45 per cent accounts for basic food costs and 55 per cent for non-food costs.⁴⁰ This division is remarkably similar to our analysis of the VHLSS 2016 data, which suggests that, on average, 46 per cent of per capita expenditure is spent on food, as shown in figure 4.1, with other essentials such as health, education and housing accounting for a further 6 per cent, 5 per cent and 7 per cent, respectively. Further, consumption expenditure is 73 per cent higher in urban areas compared to rural areas, and non-food expenditures 98 per cent are higher in urban areas than rural areas.

FIGURE 4.1: Distribution of per capita spending, Viet Nam



Source: Analysis of VHLSS 2016

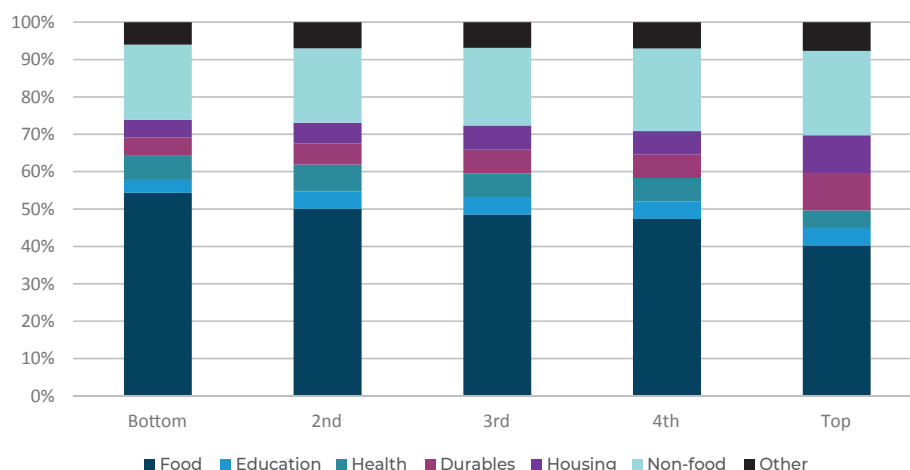
Breaking this data down by income decile shows that food remains the main component of expenditure across all income deciles, accounting for between 41 per cent and 54 per cent of total expenditure for the top and bottom deciles,

³⁹ An adjustment to the "analytically accurate" minimum is made to account for the cost to businesses in the final level.

⁴⁰ Fair Wear, 2015.

respectively, as shown in figure 4.1. Those in the top income decile spent more than three times more on food when compared to those in the lowest income decile, who spent just over VND570,000 per capita per month. A comparison of urban and rural expenditure shows little variation in the proportion of average spending spent on food.

FIGURE 4.2: Expenditure by consumption class and income decile, Viet Nam (%)



Source: Analysis of VHLSS 2016.

This discussion suggests that the percentage of total expenditure devoted to food is relatively stable and corresponds closely to the components used to calculate the minimum wage. Therefore, if benefit adequacy is based on the cost of a minimum healthy food basket, this would be between 45 per cent and 54 per cent of total expenditure.

TABLE 4.5: Food expenditure compared to poverty lines, Viet Nam

Decision 59 poverty line	Poverty line (VND/month)	Food expenditure (45%)	Food expenditure (54%)
Poverty			
Rural	700 000	315 000	378 000
Urban	900 000	405 000	486 000
Near-poverty			
Rural	1 000 000	450 000	540 000
Urban	1 300 000	585 000	792 000
Medium income			
Rural	1 500 000	675 000	810 000
Urban	1 950 000	877 500	1 053 000

This suggests that a minimum food basket adequacy should be VND570,000 based on expenditure data (figure 4.2),⁴¹ a poverty-based minimum of VND450,000 for rural areas and VND585,000 for urban areas (table 4.5),⁴² and a minimum wage-based measure of a minimum VND1,314,000 for a rural location and VND1,881,000 for an urban location (table 4.6).⁴³

TABLE 4.6: Food expenditure compared to minimum wage, Viet Nam

Region	2019 monthly minimum wage (VND/month)	Food expenditure (45%)	Food expenditure (54%)
I ¹	4 180 000	1 881 000	2 257 200
II ²	3 710 000	1 669 500	2 003 400
III ³	3 250 000	1 462 500	1 755 000
IV ⁴	2 920 000	1 314 000	1 576 800

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

It is important to note that these measures should be considered the minimum threshold amounts and not necessarily sufficient for a good standard of living. The minimum wage measures are most likely to indicate the levels required for a minimum standard of living,⁴⁴ and therefore these are the recommended comparator levels.

4.4 Average expenditure and income baselines

The final comparator considered here is income and expenditure by quintile. Figure 4.3 shows that per capita expenditure in Viet Nam is much lower than per capita income. Calculated mean income (VND3.1 million per capita per month) is double the medium income for a rural individual according to Decision 59 and more than 50 per cent greater than the medium income in urban areas. We can use the income per capita and the expenditure per capita data as an alternative comparator to assess the adequacy of benefits.

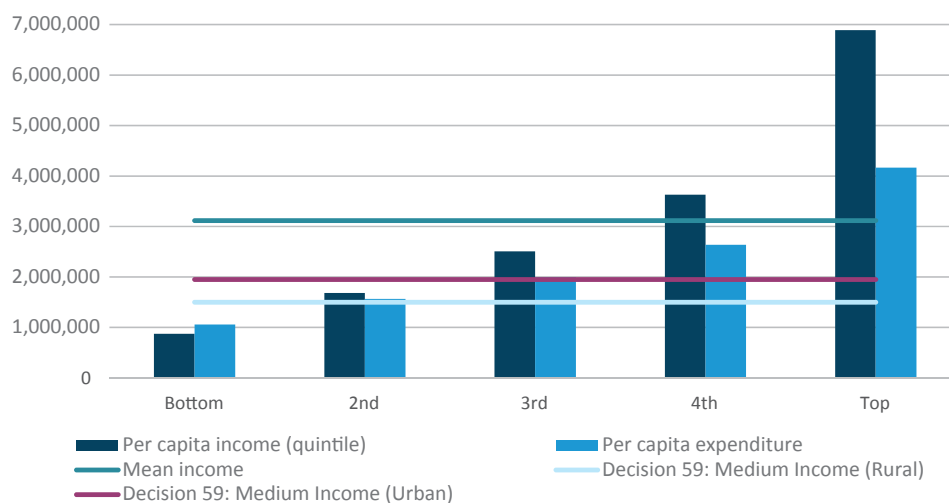
⁴¹ The suggested minimum food basket adequacy is the amount spent on food by those in the lowest income decile.

⁴² The poverty-based minimum uses the near-poverty food expenditure, assuming that Viet Nam would not opt to use the poverty measure.

⁴³ Based on region I minimum wage.

⁴⁴ The minimum wage measure necessarily assumes that any income at this level is fully expended.

FIGURE 4.3: Income and expenditure per capita by income quintile, Viet Nam (VND)



Source: Analysis of VHLSS 2016.

Using the four national comparators presented in Chapter 4, the next chapter sets out a range of levels for of each type of benefit that might be considered to be adequate relative to the various baseline comparators.

5. Setting adequate benefits in the national context

This chapter explores what levels might be considered adequate for child (or child-focused) benefits, disability benefits and social pensions in Viet Nam, using the four national comparators presented in Chapter 4. Sections 5.1 to 5.3 set out a range of levels for each benefit type that might be considered “adequate” relative to the various baseline comparators. Throughout the chapter, the term “adequate” is used in a neutral and analytical sense, where values are presented to provide a basis against which policy-makers might assess whether the benefits are meeting their respective policy objectives. The term “adequate” should not be taken to mean “recommended”, although we discuss which benchmarks might be more or less appropriate in the context of individual benefits. Section 5.4 then compares these adequacy indicators to current levels and MPSARD draft action plan proposed levels, where applicable.

5.1 Setting adequate child benefits

Children are not just a cost; they are an investment. In Viet Nam, all parents and caregivers must contend with the direct and immediate cost of having a child, but the idea to institute a child benefit for all children up to age 36 months – as expressed in the MPSARD – demonstrates a recognition of the inherent value children bring to societies and the need to invest in their futures. Indeed, direct support for all children is increasingly viewed around the world as a means of balancing the costs of raising children (which, absent adequate social protection, are borne entirely by their parents and relatives) against the collective benefits of children for society at large – as the future workforce, the future tax base, and as future caregivers for ageing elders (whether or not the elders were parents themselves).

5.1.1 Policy rationale for child benefits⁴⁵

All family and child benefits systems around the world reflect an underlying policy logic that itself reflects diverse priorities; for example, in Europe, family policies combine a number of instruments to income redistribution, pronatalism and equal opportunities.⁴⁶ These multiple objectives are frequently met through a

⁴⁵ This section builds on ideas already presented in McClanahan and Gelders (2019).

⁴⁶ Lewis, 1997; Hantrais, 2004; Bennett, 2006.

combination of policies aimed at meeting both the direct costs of having or bringing up children – i.e. those related to food, clothing and other necessities – as well as other indirect costs related to their care, such as a caregiver’s foregone income due to unpaid care work. Because societies organize and distribute the responsibility for welfare in different ways across state, community and individuals, determining the appropriate value for a child benefit is complex.

Traditionally, direct cash benefits paid to parents for children have had the primary purpose of compensating caregivers for the **direct costs** of children through some form of horizontal redistribution (from childless persons to parents or caregivers⁴⁷).⁴⁸ In this sense, child benefits use a similar logic to disability benefits: they are designed to compensate (but only in part) for the “extra” cost of having a child and therefore allow households to maintain a reasonable standard of welfare. However, it is important to emphasize that the “cost” of a child is a function of the relative mix of public and private services available to families raising children, and there is no single correct or international best practice for estimating cost.

The additional costs of having a child can be significant; for example, in the United States, a child can cost an estimated US\$10,000 to US\$15,000 per annum.⁴⁹ Donni (2015) describes various methods to assess additional costs of having children and lists an empirically defined range of 10 to 32 per cent. A systematic review of evidence from Europe found that the relative cost of a child represents 20 to 30 per cent, or around a quarter, of the budget of a couple without children. This has been found to be relatively stable over time, although economies of scale mean that the marginal costs reduce with the birth of more children, usually after the third child, but tend to increase with the age of the child.⁵⁰

Arguably the most straightforward approach is to use expenditure-survey methods to compare expenditures by households with children with those of childless households. Roughly, for people in the informal economy, the difference in average monthly per capita income between a couple without children and a couple with one child is around VND600,000. It is important to note that this estimate overlooks a number of important nuances. In Viet Nam, patterns of expenditure vary significantly across the income distribution, in different parts of the country, and for different groups. In addition, parents may adapt or reduce consumption in some areas in response to having a child.⁵¹ Nevertheless, it serves as a useful point of reference when assessing benefit adequacy.

There is inherent subjectivity with setting adequate benefit levels for all benefits, but particularly benefits for children, since international guidelines for setting adequate child and family benefits are either lacking in specifics or arguably based on outdated notions of a family model based on one male breadwinner. ILO

⁴⁷ For the purposes of this report, “childless persons” includes persons not currently bringing up dependent children.

⁴⁸ Bennett, 2006; Hantrais, 2004.

⁴⁹ Sarlo, 2013.

⁵⁰ Ibid.

⁵¹ For a full discussion of the methodological challenges to estimating the cost of children, see Letablier et al. (2009).

Convention No. 102, for example, suggests a benchmark of 3 per cent of an ordinary adult male labourer. However, this does not appear to be linked to the cost/needs of the child, and the suggested benchmark appears to be low relative to what countries around the world actually spend. And ILO Recommendation 202, in calling for basic income security for children, leaves the determination of minimum levels for individual countries to define according to national standards, provided they ensure that the child can access “nutrition, education, care and any other necessary goods and services.” Despite these drawbacks, to our knowledge the Convention No. 102 standard is the only international standard for calculating child benefits, so we will examine the Convention No. 102 levels in the Vietnamese context.

However, we also propose using a replacement rate approach that assumes that a child benefit will not compensate for the full costs of a child but is nevertheless informed by the average child’s actual needs (as measured in terms of cost). The additional costs of raising children ranged from 10 per cent to 32 per cent in the literature reviewed; the international comparison of per child benefit values around the world suggests that only two countries (Canada and Uzbekistan, both of which pay 13 per cent per capita) are paying an amount that could be considered sufficient to cover the full marginal cost of a child to a family. Instead, most countries are only partially compensating families for these costs. As such, we will propose adequacy measures based on a proportion, rather than the total, cost of a child. This partial replacement approach is warranted for two additional reasons. First, it is likely that the marginal cost of a child decreases with each additional child.⁵² Second, a flat-rate benefit for all children would have a strongly redistributive effect on lower-income and single-parents households; hence the value of the benefit would represent a more significant share of the “cost” of children for families in the lower ends of the income distribution who need the most support.⁵³

To approximate the cost of a child, we use 25 per cent of the household budget of a childless couple as the most likely level. We calculate the costs in terms of the benchmarks discussed in sections 4.1 to 4.4. The additional costs of having a child are described as “per couple” and the comparators that we have described are “per person”: as such, the poverty lines are doubled (i.e. for two people), the minimum wage comparator assumes that both partners in the couple are on the minimum wage, and mean incomes are doubled.

We then calculate an adequate benefit level range, based on a replacement rate to cover the partial costs of bringing up children. In the absence of an international benchmark for the replacement rate, we propose adequacy thresholds of 40 per cent and 50 per cent of the estimated total marginal cost of a child. In this way, a child benefit would aim to compensate families for up to half the cost of a child.

⁵² See, e.g., Letablier (2009).

⁵³ See McClanahan and Gelders (2019).

5.1.2 Adequate levels for child benefits based on Convention No. 102

Part VII of ILO Convention No. 102 of 1952 establishes minimum standards for a family benefits to be paid in respect of children. Article 44 offers two means of calculating the total value of benefits, including:

- 3 per cent of the wage of an ordinary adult male labourer multiplied by the total number of children of persons protected; or
- 1.5 per cent of the said wage, multiplied by the total number of children of all residents.

The two rates reflect options for contributory and non-contributory systems: the higher-rate value (3.5 per cent) would apply to workers (and their children) covered under social insurance arrangements; the lower-rate value (1.5 per cent) would apply for tax-financed child benefits paid for all resident children.⁵⁴ In the absence of reliable data on the prevailing wage of an ordinary manual labourer,⁵⁵ we use the private sector minimum wage as the basis for applying the replacement rate. Table 5.1 presents the per child values of a child benefit in Viet Nam based on ILO Convention No. 102.

TABLE 5.1: Child benefit values based on ILO Convention No. 102 (VND/month per child)

Region	2019 monthly minimum wage	C102 minimum standard (1.5%)	C102 minimum standard (3%)
I ¹	4 180 000	62 700	125 400
II ²	3 710 000	55 650	111 300
III ³	3 250 000	48 750	97 500
IV ⁴	2 920 000	43 800	87 600

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong.

³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

C102 = Social Security (Minimum Standards) Convention, 1952 (No. 102).

Clearly, the minimum standard range for tax-financed family benefits is extremely low, with values of VND43,800–VND62,700 representing only around 0.9 per cent to 1.2 per cent of GDP per capita in Viet Nam. And, while the higher-rate (3 per cent) values would seem more appropriate, even the upper bound (VND125,000, or 2.5 per cent) is still only half of the value of child benefits envisioned in the MPSARD draft action plan and is significantly lower than the international average (4 per

⁵⁴ According to Article 43, “The benefit specified in Article 42 shall be secured at least to a person protected who, within a prescribed period, has completed a qualifying period which may be three months of contribution or employment, or one year of residence, as may be prescribed.”

⁵⁵ VHLSS does not allow for comparisons of the labour income of individuals in the informal economy.

cent) for countries that pay conventional tax-financed child benefits. Therefore, we suggest that a needs- or cost-based approach to calculating an adequate child benefit may be more appropriate.

5.1.3 Adequate levels for child benefits based on partial compensation for the cost of a child

The cost of bringing up a child in Viet Nam is significant, regardless of the whether costs are calculated using the poverty line, minimum wage, basic food basket or average income or expenditure methodologies. The following paragraphs propose ranges for minimum acceptable child benefit values based on each of these methodologies.

As the primary policy objective of conventional child benefits is not poverty reduction, it is unlikely that the Government would want to set child benefits to poverty levels. However, table 5.2 shows that, even by the near-poverty measure, the most likely cost of a child is between VND500,000 and VND650,000 per month, and the minimum corresponding acceptable child benefit would range between VND200,000 (rural, replacement rate of 40 per cent) and VND325,000 (urban, 50 per cent replacement). For a poverty-line based benefit, the corresponding range would be VND140,000 to VND225,000.

TABLE 5.2: Minimum adequate child benefits on a poverty line basis, Viet Nam (VND/month)

Decision 59 poverty line	Poverty line	Couple poverty line	Child cost, most likely (25%)	Minimum adequate child benefit (40%)	Minimum adequate child benefit (50%)
Poverty					
Rural	700 000	1 400 000	350 000	140 000	175 000
Urban	900 000	1 800 000	450 000	180 000	225 000
Near-poverty					
Rural	1 000 000	2 000 000	500 000	200 000	250 000
Urban	1 300 000	2 600 000	650 000	260 000	325 000

A more appropriate measure would be the additional cost based on the wage brought in by two adults on a minimum wage, although in reality, both parents may not be working and therefore using the minimum wage for a couple may overestimate the cost of raising a child in some cases.⁵⁶ The most likely costs of raising a child based on minimum wage vary between VND1.5 million to VND2 million, suggesting that, for a child benefit to be adequate based on minimum wages (that is, cover 40–50 per cent of the cost of a child), it would need to be set between VND584,000 (40 per cent, region IV) to VND1,045,000 (50 per cent, region I).

⁵⁶ However, Viet Nam has one of the lowest gender gaps in employment in the region. See OECD (2017).

TABLE 5.3: Minimum adequate child benefits based on 2019 minimum wage, Viet Nam (VND/month)

Region	2019 monthly minimum wage	Effective minimum wage for a couple	Child cost, most likely (25%)	Minimum adequate child benefit (40%)	Minimum adequate child benefit (50%)
I ¹	4 180 000	8 360 000	2 090 000	836 000	1 045 000
II ²	3 710 000	7 420 000	1 855 000	742 000	927 500
III ³	3 250 000	6 500 000	1 625 000	650 000	812 500
IV ⁴	2 920 000	5 840 000	1 460 000	584 000	730 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

The minimum wage is made up of two components: the minimum living standard (adult-based) and the dependent allowance (described in 4.2). Based on the estimated cost of a dependent in the minimum wage calculation, the child benefit is suggested to be adequate if between VND550,000 and VND685,000 on average per month as shown in table 5.4. We also calculate adequacy based on an additional cost of a child being 25 per cent of the income of two adults: this necessitates doubling the minimum living standard for a single person. Based on the minimum living standard of an adult, it is suggested that an adequate child benefit would be between VND430,000 and 540,000 on average per month.

TABLE 5.4: Minimum adequate child benefits based on minimum living standard and dependent allowance, Viet Nam (VND/month)

Region	Dependent-based minimum adequate child benefit (40%)	Dependent-based minimum adequate child benefit (50%)	25% of the adult-based ¹ minimum adequate child benefit (40%)	25% of the adult-based ¹ minimum adequate child benefit (50%)
I ¹	650.983	813.728	510.509	638.136
II ²	577.786	722.233	453.107	566.384
III ³	506.147	632.684	396.927	496.158
IV ⁴	454.753	568.442	356.623	445.779
Average	547.417	684.272	429.291	536.614

¹ Minimum living standard for an adult is doubled as the 25 per cent additional cost of a child is based on a couple's earnings. ² Hanoi and Ho Chi Minh City. ³ Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ⁴ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁵ Remaining localities.

Estimating the cost of a child based on the average food basket (section 4.2.3) may lead to overestimates, because the cost of feeding a child may be slightly smaller than an adult. Because adult male equivalents (AME) vary by age and sex,⁵⁷ we use AMEs of males and females of 0–18 years, which are 0.83 and 0.73 of the adult equivalent, and we take the midpoint between these (0.78) to calculate the food basket for a child. This means that an average food basket for a child, in the lowest income quintile, ranges from VND444,600 to VND1,025,000 based on the rural minimum wage, giving a minimum benefit range of around VND178,000 to VND410,000 (at a 40 per cent replacement rate).

On a general income and expenditure basis, the most likely cost of a child is between VND660,000 and VND1,555,000. Table 5.5 demonstrates that the spending of a two-person household is only marginally higher than the per capita mean expenditure. Therefore, a reasonable estimate of the cost of a child is about VND660,000 per child per month on an expenditure basis, and an adequate child benefit using this methodology would range from VND265,000 (40 per cent replacement rate) and VND332,000 (50 per cent replacement rate).

TABLE 5.5: Minimum adequate child benefits based on average income and expenditure, Viet Nam (VND/month)

Measure	Per capita value	Per two person household	Child cost, most likely (25%)	Minimum adequate child benefit (40%)	Minimum adequate child benefit (50%)
Mean income (VLHSS 2016)	3 110 000	6 215 000 ¹	1 555 000	622 000	777 500
Mean expenditure (VLHSS 2016)	2 280 000	2 654 000 ¹	664 000	265 600	332 000
Decision 59: Medium Income ²					
Rural	1 500 000	3 000 000	750 000	300 000	375 000
Urban	1 950 000	3 900 000	975 000	390 000	487 500

¹ Calculated for a 1-2 person household using the VLHSS 2016 data ² Medium income considered between the near poverty income threshold and the stated threshold above.

The VHLSS also allows us to compare the cost of living (proxied by expenditure) of households with children and those without. Although this analysis poses a number of methodological challenges,⁵⁸ it yields another indicator of the cost of raising a child in Viet Nam. The data show that households with children spent an additional VND600,000 per child,⁵⁹ which is extremely similar to the most likely

⁵⁷ For example, Weisell and Dop (2012) suggest that the AME of a 3-year-old male child was 0.44 and a 12-year-old female child was 0.809. Claro (2010) provides a full list of age and gender related adult-equivalent conversion factors, ranging from newborns at 0.29 to male teenagers (15–18 years) at 1.18 and female teenagers (15–18 years) at 0.86.

⁵⁸ Letablier, 2009.

⁵⁹ While there may be many single parent households this is roughly equivalent to VND300,000 per parent.

additional cost shown in table 5.5. Therefore, because this figure holds up against actual expenditure data according to analysis of VHLSS 2016, and it corresponds to 25 per cent of average expenditures (which is in line with the international literature on estimating the cost of children), this measure is arguably the most appropriate basis for calculating an adequate child benefit in Viet Nam. Table 5.6 suggests that an adequate child benefit to partially compensate families for the additional costs of bringing up a child in Viet Nam would range from VND240,000 to VND300,000.

TABLE 5.6: Minimum adequate child benefit based on additional expenditure of households with children (VHLSS), Viet Nam (VND/month)

Measure	Per capita value	Minimum adequate child benefit (40%)	Minimum adequate child benefit (50%)
Additional expenditure of households with children compared to households without (VHLSS 2016)	600 000	240 000	300 000

5.2 Setting adequate disability benefits

Ensuring that persons with disabilities receive the assistance they require to live full lives is important not just for recipients of benefits; not meeting these needs can be a significant drag on the economy. For example, some have estimated that disability costs the economy of Bangladesh the equivalent of 1.74 per cent of GDP in lost output and services.⁶⁰ Therefore, adequate benefit levels for persons with disabilities should not only bring them to a minimum standard of welfare, but enable them to prosper and contribute to society.

5.2.1 Policy rationale for disability benefits

Persons with disabilities and their households face additional costs to attain the same standard of living as a non-disabled household.⁶¹ For example, households and families including a person(s) with a disability face more costly transport, health care services, heating, laundry services, special diets or personal assistance needs. The costs of these additional needs can be significant and smaller households tend to face higher costs compared to larger households.⁶²

A disability can range from minor impairments that may add costs at the margin, to moderate and severe disabilities that may mean significant additional costs to living. In Viet Nam, these costs include additional expenditure on standard

⁶⁰ Ali, 2014.

⁶¹ See, e.g., Tibble (2005); WHO and World Bank (2011); and UNDESA (2018).

⁶² Mitra, et al., 2017.

household items such as health, transportation, food and specific disability-related costs such as assistance devices, personal care and house or vehicle adaptation.⁶³ According to focus group discussions, health care costs, which could reach as much as VND1 million per month (or one third of the minimum wage in Ha Noi), were the most burdensome of costs faced by disabled individuals. These costs required disabled persons to adopt a range of coping mechanisms such as relying on others, informal borrowing or creating their own informal jobs.⁶⁴

There are significant methodological challenges involved in estimating the additional cost of disability, however. Census data suggest that around 7.8 per cent of the population are living with a disability,⁶⁵ similar to other countries around the world. The relatively low prevalence rate reflects the fact that household surveys tend to have a low granularity and ability to disaggregate disabilities by location, type and severity, especially when these disaggregations are meant to be nationally representative. Similarly, census disability questions, if included, tend to be limited in nature and also difficult to disaggregate.

In addition, if the needs of disabled people are not being met, they are unable to spend on necessary health care, and thus the analysis of their household spending underestimates true costs. In Viet Nam, rehabilitation services were limited to basic physical rehabilitation, and mental and longer-term services were in short supply.⁶⁶ Likewise, while some 20 per cent of people with disabilities were in need of physiotherapy, only 6 per cent received it, and only half of those who needed any medical assistance actually received it.⁶⁷ In addition, very few people take advantage of subsidized travel in Viet Nam,⁶⁸ highlighting the fact that even when services are theoretically provided, the costs of these services are not captured in consumption data if people are not able to access them. Thus, those not consuming services were not facing additional costs despite requiring additional assistance.

Despite these methodological concerns, a number of analysts have attempted to assess the additional costs of living with a disability. Table 4.1 summarizes the existing evidence from a selection of low-, middle- and high-income countries. In Sierra Leone, average living costs of a person with a severe disability are 1.3 times that of a person without a disability.⁶⁹ In India, household per capita income was 8.5 per cent lower for a household with a disabled individual compared to one without.⁷⁰ In Cambodia, households with disabled members required an additional 17 per cent in income (or US\$40 per month).⁷¹ A review of 31 countries calculated

⁶³ Palmer et al., 2012; Palmer et al., 2015.

⁶⁴ Palmer et al., 2015.

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ Tonga Disability Action Committee (TDAC), 2006.

⁶⁸ Palmer et al., 2015.

⁶⁹ Trani et al. (2010).

⁷⁰ Raut, Pal, and Bharati, 2014.

⁷¹ Palmer, et al., 2016.

the additional costs based on household income, at between 17 per cent and 99 per cent.⁷² Additionally, the “average” cost of disability has been estimated to be 29 per cent in Australia and 23 per cent and 40 per cent in Ireland.⁷³ In Viet Nam, the cost of living was found to 11.5 per cent and 9 per cent higher for those with a disability.⁷⁴

Furthermore, the costs of disability vary according to age groups, severity of disability,⁷⁵ and type of disability. For example, moderate disabilities have been associated with increase in the cost of living by about a third compared to average, while a severe disability increases the cost of living by more than 40 per cent.⁷⁶ Table 5.7 references literature from a selection of developed countries (Australia, China, Ireland, Spain and the United Kingdom), which concludes that the costs of moderate disability add between 21 per cent to 40 per cent to the living costs, and severe disabilities add between 33 per cent and 70 per cent to living costs.⁷⁷ In India, those households with people with mental disabilities face the greatest additional costs (16.02 per cent), while speech and locomotor disabilities were associated with lower costs (1.49 per cent and 3.75 per cent).⁷⁸

In addition, costs vary according to geographical location and living arrangements. For example, research shows that smaller households tend to be more affected as the costs relative to income levels are higher.⁷⁹ In India, those living in urban areas face greater additional costs than those in rural locations (11 per cent versus 4 per cent),⁸⁰ and in Cambodia the cost of disability in urban areas was estimated to be US\$86 per month compared to US\$35 in rural areas.⁸¹ And, in Viet Nam, the risk of deprivation was higher in rural disabled households compared to urban households.⁸²

⁷² Antón et al., 2016.

⁷³ Regarding Australia, see Saunders (2006); regarding Ireland, see Cullinan, Gannon and Lyons (2011) and Cullinan, Gannon and O’Shea, (2013).

⁷⁴ Mont and Cuong, 2014; Braithwaite and Mont, 2009.

⁷⁵ Ibid.

⁷⁶ UNDESA, 2018.

⁷⁷ We are not aware of any detailed studies that disaggregate additional costs by severity in Viet Nam and other lower-middle income countries.

⁷⁸ Raut et al., 2014.

⁷⁹ UNDESA, 2018.

⁸⁰ Raut et al., 2014.

⁸¹ Palmer et al., 2016.

⁸² Palmer et al., 2012.

TABLE 5.7: Summary of the additional costs of living with a disability (%)

Reference	Country	Average or any disability	Mild or lower disability	Moderate disability	Severe disability
Saunders (2006)	Australia ¹	29		30	40
Braithwaite and Mont (2009)	Bosnia and Herzegovina	14			
Palmer et al. (2016)	Cambodia	17		3–116	14–158
Loyalka et al. (2014)	China	Adult: 8–43			
Raut et al. (2014)	India	Children: 18–31		30	33
Cullinan et al. (2011)	Ireland	8.52			30 ³
Cullinan et al. (2013)	Ireland	23			70
WHO and World Bank (2011)	Sierra Leone	40			64
Braña Pino and Antón Pérez (2011)	Spain			40	39
Zaidi and Burchardt (2005)	the United Kingdom		11	34	
Morciano et al. (2012)	the United Kingdom			21	
Braithwaite and Mont (2009)	Viet Nam	9			
Mont and Cuong (2014)	Viet Nam	11.5			

¹ The WHO and World Bank (2011) report these as 29 per cent and 37 per cent. ² Income based estimate. ³ Costs are 1.3 times for a non-disabled household.

This review of the additional costs faced by persons living with disabilities provides the basis for the discussion of adequacy of disability benefits.

5.2.2 Adequate levels for disability benefits based on national benchmarks

As argued previously, adequate disability benefits should take into account the additional costs associated with being disabled. ILO Conventions No. 102 and No. 128 establish a minimum standard replacement rate of 45 per cent or 50 per cent,

respectively, for tax-financed benefits for persons with permanent disabilities who have no capacity for gainful employment.^{83, 84}

The fact that the recommended replacement rate is 5 percentage points higher for persons with disabilities than for non-disabled persons is an indication that the Conventions recognize the additional costs associated with being disabled. Empirical evidence suggests, however, that adding 5 percentage points is insufficient to cover the additional cost of living with a disability.⁸⁵ Therefore, in our analysis we calculate our baseline data with a baseline plus the empirically indicated cost of a disability, rather than the additional 5 per cent indicated in the Conventions. This enables us to avoid overestimating the additional cost of disability in our assessment of benefit adequacy.

Based on the literature, we can estimate the additional cost of a disability at 10 per cent, 33 per cent and 40 per cent, as shown in tables 5.7–5.13. The 33 per cent and 40 per cent figures are based on United Nations Department of Economic and Social Affairs (UNDESA) estimates of the costs of moderate and severe disabilities, respectively.⁸⁶ The 10 per cent figure is based on two studies that estimated the additional cost of disability in Viet Nam at 9 per cent and 11.5 per cent.⁸⁷ The Viet Nam-specific estimates are far lower than the UNDESA estimates, likely due to the methodological problems outlined in section 2.1.

In the analysis that follows, we estimate adjusted benchmarks for persons with disabilities using the poverty line, minimum wage, and income and expenditures comparators, in order to account for the additional costs they face in carrying out daily tasks. We then use the new benchmarks as a basis for calculating a range of adequate benefit levels using the replacement rates for invalidity outlined in Conventions No. 102 and No. 128, but discounted to 40 per cent and 45 per cent, respectively, in order not to overestimate the cost of disability.

⁸³ The reference for the tax-financed benefits are the prevailing levels of earnings of unskilled manual labourers.

⁸⁴ Over time, there has been growing recognition of the need to support persons with disabilities who have the capacity to work to remain in the labour market. The Conventions do not provide for scaled benefits for reduce degrees of disabilities, but many countries around the world, including Viet Nam, provide different replacement rates for different degrees of disabilities. In this analysis, we account for different degrees of disability (or working capacity) through the variation in the additional costs of disability, according to the degree of disability.

⁸⁵ See our review of the literature in section 4.1.2.

⁸⁶ UNDESA, 2018.

⁸⁷ Mont and Cuong, 2014; Brathwaite and Mont, 2009. Both studies had methodological challenges that we believe lead to a significant underestimate of the true additional cost of being disabled.

TABLE 5.8: Decision 59 poverty lines compared to additional costs of being disabled (VND/month)

Decision 59 poverty line	Poverty line	10% additional disability costs	33% additional disability costs	40% additional disability costs	Adjusted poverty line range for persons with disabilities	
					Lowest value	Highest value
Poverty						
Rural	700 000	70 000	231 000	280 000	770 000	980 000
Urban	900 000	90 000	297 000	360 000	990 000	1 260 000
Near-poverty						
Rural	1 000 000	100 000	330 000	400 000	1 100 000	1 400 000
Urban	1 300 000	130 000	429 000	520 000	1 430 000	1 820 000

Table 5.8 shows the adjusted poverty and near-poverty lines including the additional costs faced by those people living with a disability. In effect, the “true” poverty and near-poverty line for a disabled person in Viet Nam are significantly higher than the MOLISA poverty lines, which are set based on an average of the general population, both disabled and non-disabled. For example, we estimate that the poverty line for people living with a disability in a rural location is actually between VND770,000 and VND980,000 rather than the VND700,000 calculated for the general population. And, the more the severe the disability, the greater the additional costs. A person living with a disability in Viet Nam who is on the poverty line faces additional costs of between VND231,000 and VND297,000, using the UNDESA moderate disability benchmark. These increase to between VND280,000 and VND360,000 when the disability is classed as severe.

TABLE 5.9: Minimum adequate disability benefits based on MOLISA poverty lines, Viet Nam (VND/month)

Decision 59 poverty line	Adjusted poverty line for persons with disabilities		Minimum adequate disability benefit range (40%, C102)		Minimum adequate disability benefit range (45%, C128)	
	Moderate	Severe	Moderate	Severe	Moderate	Severe
Poverty						
Rural	931 000	980 000	372 400	392 000	418 950	441 000
Urban	1 197 000	1 260 000	478 800	504 000	538 650	567 000
Near-poverty						
Rural	1 330 000	1 400 000	532 000	560 000	598 500	630 000
Urban	1 729 000	1 820 000	691 600	728 000	778 050	819 000

C102 = Social Security (Minimum Standards) Convention, 1952 (No. 102); C128 = Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128).

Table 5.9 summarizes the range of minimum disability benefits that would result from applying the ILO Convention replacement rates (discounted by 5 per cent) to the MOLISA poverty lines. Using the adjusted Convention replacement rates of 40 per cent and 45 per cent to the UNDESA-based disability-adjusted poverty lines, we estimate that disability benefits in Viet Nam should be an absolute minimum of VND372,400 for a person with a moderate disability living in a rural area and VND392,000 for a person with a severe disability. These are slightly higher for those living in urban areas at VND478,800 to VND504,000.

As with child benefits, the primary objective of a disability benefit is not poverty reduction, so using a poverty-based measure for disability benefits has several problems. First, the poverty lines are based on the general population and as such dictate very low incomes. The additional cost of being disabled is a percentage measure and therefore, when applied to very low incomes, the “true” absolute costs are underestimated. Second, it is unlikely that a government would want to pay a social allowance that is a fraction of the poverty line, and indeed the ILO Conventions tied replacement rates to average wages, not poverty. Even using the near-poverty lines, the minimum disability benefits (40 per cent replacement rate), would be only VND532,000 for a moderate disability and VND560,000 for a severe disability in a rural area, rising to VND692,000 to VND728,000 respectively in an urban location.

TABLE 5.10: 2019 minimum wage compared to additional cost of being disabled, Viet Nam (VND/month per capita)

Region	2019 minimum wage	10% additional disability costs	33% additional disability costs	40% additional disability costs	Adjusted minimum wage for persons with disabilities	
					Low value	High value
I ¹	4 180 000	418 000	1 379 400	1 672 000	4 598 000	5 852 000
II ²	3 710 000	371 000	1 224 300	1 484 000	4 081 000	5 194 000
III ³	3 250 000	325 000	1 072 500	1 300 000	3 575 000	4 550 000
IV ⁴	2 920 000	292 000	963 600	1 168 000	3 212 000	4 088 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

The minimum wage is likely to be a better point of comparison than the poverty line because the minimum wage is set through a process that calculates the minimum cost of living adjusted by some level of collective bargaining with the business community. It is also closer to the logic underpinning the ILO Conventions, which base tax-financed benefits on the average wage of an

ordinary manual labourer. This method of setting the minimum wage provides the lower bound of an acceptable cost of living for the formal, private-sector workforce, and is likely to be even a bit lower due to the addition of the cost of business.⁸⁸ Adding the additional costs of being disabled to these data allow us to estimate an adjusted minimum wage for persons with a disability in each region, shown in table 5.10.

Applying the adjusted Convention replacement rates results in an adequate disability benefit range of VND1,553,200 to VND2,501,730 per month for a moderate disability, and VND1,635,200 to VND2,633,400 per month for a severe disability, as table 5.11 shows. The cost of living methodology used to set the minimum wage in Viet Nam means that it is likely to more accurately reflect the minimum needs of the individuals. Thus, the minimum wage with the disability adjustment is likely a reasonable reflection of the cost of living with a disability.

TABLE 5.11: Minimum adequate disability benefits based on the minimum wage and Convention No. 102 replacement rates, Viet Nam (VND/month)

Region	Adjusted minimum wage for persons with disabilities		Minimum adequate disability benefit range (40%, C102)		Minimum adequate disability benefit range (45%, C128)	
	Moderate	Severe	Moderate	Severe	Moderate	Severe
I ¹	5 559 400	5 852 000	2 223 760	2 340 800	2 501 730	2 633 400
II ²	4 934 300	5 194 000	1 937 720	2 077 600	2 220 435	2 337 300
III ³	4 322 500	4 550 000	1 729 000	1 820 000	1 945 125	2 047 500
IV ⁴	3 883 000	4 088 000	1 553 200	1 635 200	1 747 350	1 839 600

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

Because of previously cited challenges with the political acceptability and the potentially limited representativeness of the private sector minimum wage in a context like Viet Nam, we also use the minimum wage-derived minimum living standard component as a further reference point to calculate the additional cost of being disabled, as shown in table 5.12.

⁸⁸ The agreed national minimum wage is generally already reduced compared with the analytical minimum wage due to the interests of employers in collective bargaining.

TABLE 5.12: Additional costs of disability based on the minimum living standard derived from the minimum wage, Viet Nam (VND/month)

Region	Minimum living standard of an adult of working age	10% additional disability cost	33% additional disability costs	40% additional disability costs	Minimum living standard for a person living with a disability	
					Moderate	Severe
I ¹	2 552 543	255 254	842 339	1 021 017	255 000	1 021 000
II ²	2 265 535	226 553	747 626	906 214	226 000	906 000
III ³	1 984 633	198 463	654 929	793 853	198 000	794 000
IV ⁴	1 783 116	178 312	588 428	713 247	178 000	713 000
Average	2 146 457	214 646	708 331	858 583	214 000	859 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

Using the minimum wage-derived minimum living standard, we estimate that on average the range of additional costs of living with a disability is between VND214,000 and VND859,000 per month. A person living with a UNDESA-defined moderate disability is estimated to face additional costs compared to a person without a disability on average of 708,000 per month.

TABLE 5.13: Minimum adequate disability benefits based on minimum living standard measure, Viet Nam (VND/month)

Region	Adjusted value for persons with disabilities		Minimum adequate disability benefit range (40%, C.102)		Minimum adequate disability benefit range (45%, C.128)	
	Moderate	Severe	Moderate	Severe	Moderate	Severe
I ¹	3 394 883	3 573 561	1 358 000	1 429 000	1 528 000	1 608 000
II ²	3 013 161	3 171 749	1 205 000	1 269 000	1 356 000	1 427 000
III ³	2 639 562	2 778 486	1 056 000	1 111 000	1 188 000	1 250 000
IV ⁴	2 371 545	2 496 363	949 000	999 000	1 067 000	1 123 000
Average	2 854 788	3 005 040	1 142 000	1 202 000	1 285 000	1 352 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

Using the adjusted minimum living standard including a disability (table 5.13), an adequate level of disability benefit for a person living with a disability would be on average VND1,142,000 to VND1,285,000 per month. For a person living with a severe disability, this increases to VND1,202,000 to VND1,352,000 per month on average.

Unlike for pensions and child allowances, food basket equivalent values are not considered as a comparator for disability benefits as the additional costs incurred by people with a disability are associated with transport, home adjustments, education and health care, and are less likely to be associated with specific dietary requirements. Therefore, the food-basket comparator is inappropriate in this case.

TABLE 5.14: Additional costs of disability based on income and expenditure, Viet Nam (VND/month per capita)

Measure	Base value	10% additional disability cost	33% additional disability costs	40% additional disability costs	Adjusted value for persons with disabilities	
					Lowest value	Highest value
Mean income (VLHSS)	3 110 000	311 000	1 026 000	1 240 000	2 421 000	4 350 000
Mean expenditure (VLHSS)	2 280 000	228 000	752 000	912 000	2 508 000	3 190 000
Decision 59: Medium income ¹						
Rural	1 500 000	150 000	495 000	600 000	1 650 000	2 100 000
Urban	1 950 000	195 000	643 000	780 000	2 145 000	2 730 000

¹ Medium income considered between the near poverty income threshold and the stated threshold above.

In table 5.14, we compare the mean income, expenditure and medium income levels to calculate the additional costs of being disabled. The additional costs associated with disability are derived based on the additional expenditure required to attain a similar standard of living to that of a non-disabled person. As such, mean expenditure based on the VLHSS is considered the most appropriate comparator for disability benefits to assess adequacy. Table 5.14 shows that the mean expenditure of a disabled person is likely to range between VND2,508,000 and VND3,190,000 per month.

TABLE 5.15: Minimum adequate disability benefits based on income and expenditure measures, Viet Nam (VND/month)

Measure	Adjusted value for persons with disabilities		Minimum adequate disability benefit range (40%, C102)		Minimum adequate disability benefit range (45%, C128)	
	Moderate	Severe	Moderate	Severe	Moderate	Severe
Mean income (VLHSS)	4 136 000	4 350 000	1 654 400	1 740 000	1 861 200	1 957 500
Mean expenditure (VLHSS)	3 032 000	3 192 000	1 212 800	1 276 800	1 364 400	1 436 400
Decision 59: Medium Income ¹ (rural)	1 995 000	2 100 000	798 000	840 000	897 750	945 000
Decision 59: Medium Income ¹ (urban)	2 593 000	2 730 000	1 037 200	1 092 000	1 166 850	1 228 500

¹ Medium income considered between the near poverty income threshold and the stated threshold above.

Table 5.15 applies the Convention replacement rates to the UNDESA-adjusted values for those with moderate and severe disabilities. On an expenditure basis, a person living with a moderate disability would require, at an absolute minimum, a disability benefit valued at VND1,212,000 per month, and for those with a severe disability, VND1,276,800 per month.

5.3 Setting adequate social pensions

Guaranteeing the human right to income security in old age is one of the bedrocks of the welfare system. Viet Nam has taken important steps to protect its older citizens through the establishment and expansion of a multi-tiered pension system. The tier 1 social pension paid to persons over 80 years is pension tested, while a means-tested pension is available for persons aged 60 to 79 who are assessed as poor. Simultaneous investments in extending the coverage of the tier 2 of social insurance pensions will complement plans to expand the social pension by reducing the age of eligibility for the pension-tested pension, eventually closing the age-related coverage gap that currently exists between the two tiers.

5.3.1 Policy rationale for social pensions

A high proportion of older people are not able to work or do not contribute to household income. Kidd et al. (2016) state that almost half of women and more than a third of men aged 65–69 in Viet Nam are no longer in the labour force. The participation rate falls further for older age groups: 15 per cent of men and under 10 per cent of women over the age of 80 participate in the labour force. Therefore, the primary function of a social pension is to provide basic and adequate income security to all older people as their ability to provide for themselves declines.

Social pensions are paid in recognition of older people’s contributions to society and the economy over their lifetimes, but they also “make[] social, economic and political sense”.⁸⁹ There is ample evidence that older people use their pensions to support other members of the household, including children and young people, and are therefore an investment in the future labour force. Pensioners also use their income to generate new economic activities; their extra spending from pensions can stimulate demand and consumption; and pensions can encourage both public and private savings and investment.⁹⁰

5.3.2 Adequate levels for social pensions based on national benchmarks

ILO Conventions No. 102 and No. 128 set minimum replacement rates for tax-financed pension levels at 40 per cent and 45 per cent, respectively, of the prevailing wage of a male manual labourer. In the absence of reliable data on the wages of ordinary manual labourers in the informal economy, we apply the replacement rates to various national baselines –including the private-sector minimum wage, the minimum living standards calculation, and an amount based on expenditures – to present a range of potentially adequate benefit levels.

We do not, however, apply the replacement rates to the MOLISA poverty line because the first role of a pension payment is to avoid large reductions in the welfare of older persons when they stop working and in so doing, ensuring that they do not fall into poverty. Further, old-age pensions are individual-level entitlements that often represent an older person’s sole source of income, and in Viet Nam as in many countries, the over 80s pension does not depend on whether or not the older person receives additional support. Because the poverty line is already a nationally defined minimum measure, minimum pension levels should not fall below poverty line levels stated in Decision 59, and applying a replacement rate to the poverty line is therefore inappropriate.⁹¹

Pensions are normally an income replacement vehicle and are designed to replace some, if not all, of the lost earnings as a result of leaving the work force. In this way, the private sector minimum wage is potentially a more appropriate reference and is consistent with the logic of ILO minimum standards. Table 5.16 shows the minimum adequate levels for tax-financed old age pensions (social pensions) in Viet Nam based on the Conventions’ replacement rates of 45 per cent and 40 per cent, as applied to the private-sector minimum wage in all four regions. In Viet Nam, the minimum wage varies between VND2.9 million to VND4.1 million. Based on the Convention methodology, an adequate pension would range from around VND1,168,000 (region IV, 40 per cent replacement rate) and VND1,881,000 (region I, 45 per cent replacement rate).

⁸⁹ Kidd et al., 2019, p. 1.

⁹⁰ See e.g. Kidd and Tran (2019).

⁹¹ Applying the replacement rates to the poverty line results in pensions that fall well below the poverty line, ranging from VND280,000 (40% replacement rate from C102 for the rural poverty line) to VND585,000 (45% replacement rate from C128 for the near poverty line).

TABLE 5.16: Minimum adequate pension levels compared to 2019 private sector minimum wage, Viet Nam (VND/month)

Region	2019 monthly minimum wage	Adequate Pension (40%)	Adequate Pension (45%)
I ¹	4 180 000	1 672 000	1 881 000
II ²	3 710 000	1 484 000	1 669 500
III ³	3 250 000	1 300 000	1 462 500
IV ⁴	2 920 000	1 168 000	1 314 000

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

Table 5.17 shows the minimum adequate pension benefits based on the minimum living standard derived from the minimum wage. An adequate pension based on minimum living standards would range – on average – from VND850,000 to VND965,000 per month, varying by region up to VND1,150,000 per month in the major cities.

TABLE 5.17: Minimum adequate old age pensions based on minimum living standard calculations, Viet Nam (VND/month)

Region	Adult-based minimum living standard	Adequate Pension (40%)	Adequate Pension (45%)
I ¹	2 552 543	1 021 017	1 148 644
II ²	2 265 534	906 214	1 019 491
III ³	1 984 632	793 853	893 085
IV ⁴	1 783 116	713 247	802 402
Average	2 146 457	858 583	965 906

¹ Urban Hanoi and Ho Chi Minh City. ² Rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong. ³ Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces. ⁴ Remaining localities.

The food basket method allows us to assess how much income an adult needs to purchase sufficient food to remain healthy. Empirical evidence on nutrition suggests that as a person ages, their nutritional requirements fall compare to the average.⁹² Therefore, adjusting the food basket values by the adult equivalent

⁹² Adult equivalent conversion factors for adults over the age of 51 are 0.75 for females and 0.9 for males. This suggests as people age their nutritional requirements fall. As such a comparison of pension levels to the average food basket is inappropriate. An assessment of the VLHSS suggested that the lowest income decile spent VND570,000 per month on food; on a minimum wage calculation, this was estimated at VND1,314,000 per month. Taking the adult equivalent transformation of 0.825, the cost of a food basket is VND470,000 to VND1,080,000.

factors for older people, we find that an adequate pension level based on the Convention replacement rates would be between VND188,000 per person per month and VND430,000 per person per month.

In addition, pensions are designed to maintain a level of welfare within a population; as these are normally based on mean income, it is reasonable to compare pension levels to calculated mean income. We also compare to mean expenditure data to anchor the income measure in a cost of living indicator. Table 5.18 presents the income-based measures of adequate pensions, with an absolute minimum of 600,000 per person per month (40 per cent replacement rate for Decision 59 medium income in rural areas), rising to 1,400,000 per person per month based on mean income (45 per cent replacement rate). The expenditure-based measure suggests that the minimum adequate pension level should be between VND910,000 and VND1,030,000 per month.

TABLE 5.18: Minimum adequate pension levels based on income and expenditure measures, Viet Nam

Measure	Per capita value (VND/ month)	Adequate Pension (45%)	Adequate Pension (40%)
Mean income (VLHSS)	3 110 000	1 400 000	1 244 000
Mean expenditure (VLHSS)	2 280 000	1 030 000	910 000
Decision 59: Medium income ¹			
Rural	1 500 000	675 000	600 000
Urban	1 950 000	875 500	780 000

¹ Medium income considered between the near poverty income threshold and the stated threshold above.

5.4 Recommended levels for adequate tax-financed benefits in Viet Nam

Table 5.18 summarizes the findings from the previous sections and compares the values of existing social assistance benefits and the MPSARD draft action plan proposed values against various indicators of adequacy as derived from national comparators.

The existing benefits shown include:

- **Single parent benefit:** VND270,000
- **Disability benefit (moderate disability):** VND405,000 a month
- **Over-80 pension (non-poor):** VND270,000

The MPSARD draft action plan proposed target values include:

- **Child benefits:** 5 per cent of GDP per capita, or VND242,487
- **Disability benefits:** 10 per cent of GDP per capita, or VND484,574
- **Old-age pensions:** 11 per cent of GDP per capita, or VND533,471

By most measures, the social assistance benefits levels currently set by Decree 136 are inadequate, as table 5.18 shows. Indeed, generally speaking, the benefits only perform adequately when measured against the levels derived from the MOLISA poverty lines as set by Decision 59. However, the poverty lines themselves are quite low compared with observed average expenditure of the population and GSO calculated minimum living standard. We would argue that poverty measures are, by and large, an inappropriate tool for assessing the adequacy of lifecycle social assistance benefits in Viet Nam. More generally, the kinds of benefits considered here – child, disability and old age – are not designed to reduce poverty, though they may well achieve that if they cover large enough populations. Instead, they are designed to mitigate loss of income due to common lifecycle risks. Therefore, we suggest that minimum wages, minimum living standards or other baselines, like expenditure, would be more appropriate measures of comparison.

In fact, while we have used the replacement rates suggested in ILO Conventions No. 102 and No. 128 as a basic framework for establishing a range of adequate levels against different national benchmarks,⁹³ ILO Social Protection Floors Recommendation, 2012 (No. 202) also specifies the aim of a social protection floor, namely: “preventing or alleviating poverty, vulnerability and social exclusion.” Therefore, particularly for those benefits that very often constitute the sole source of income for recipients – like social pensions or disability benefits for those who cannot work – anything below the poverty line is, almost by definition, inadequate.

⁹³ Or a variation of the Conventions in the case of child benefits.

TABLE 5.19: Summary of minimum benefit levels required according to various definitions of adequacy, Viet Nam (VND)

Type of benefit	Current values ²	MPSARD draft action plan targets ³	Replacement rate ⁴	MOLISA poverty lines ⁵		Minimum adequate benefit levels based on national baseline comparators ¹							
				Poor	Near Poor	Basic food basket	Region I	Region II	Region III	Region IV	Average minimum living standard	Average expenditure	
Child (single parent benefit)	270 000	5%	242 487	40% of the cost of a child	140 000	200 000	178 000	836 000	742 000	650 000	584 000	550 000	265 600
				50% of the cost of a child	175 000	250 000	222 500	1 045 000	927 500	812 500	730 000	684 000	332 000
Disability ⁶	405 000	10%	484 574	40% of baseline (C102 less 5%)	372 400*	532 000*	N/A	2 223 760	1 937 720	1 729 000	1 553 200	1 142 000	1 212 800
				45% of baseline (C128 less 5%)	418 950*	598 000*	N/A	2 501 730	2 220 435	1 945 125	1 747 350	1 285 000	1 364 400
Old age pension (over 80)	270 000	11%	533 471	40% of baseline (C102)	280 000*	400 000*	188 000*	1 672 000	1 484 000	1 300 000	1 168 000	858 000	910 000
				45% of baseline (C128)	315 000*	450 000*	211 500*	1 881 000	1 669 500	1 462 500	1 314 000	965 000	1 030 000

* Values are presented for demonstration purposes but are not adequate as they fall below the poverty line.

¹ 'Adequate' here is not used as a value judgement but rather to denote the corresponding values associated with the replacements used in this analysis. All values are monthly.

² Decree 136/2013.

³ The target values that were included in the MPSARD draft action plan were not included in the final approved action plan. Nevertheless, they are included here to inform discussions about further revision of Decree No. 136/2013.

⁴ The replacement rates are derived from the minimum standards set out in ILO Conventions No. 102 of 1952 (40 per cent) and Convention No. 128 of 1967 (45 per cent) for old age and disability benefits. In the case of disability benefits, the Convention rates are 45 per cent and 50 per cent for C102 and C128, respectively; however, the rates used here are discounted by 5 per cent to avoid double counting the additional cost of disability, which is already included in the baseline comparators used for disability based on empirical research. For child benefits, the Convention parameters are not used as they were deemed to be too low (See section 5.1.2). Instead, the table shows replacement rates of 40 per cent and 50 per cent, to partially replace the marginal cost of a child for a household.

⁵ MOLISA poverty lines are according to Decree 59/2015. This table presents rural poverty for simplicity. Urban poverty rates are also reviewed in the preceding analysis.

⁶ Values are presented for a moderate disability (at least 61%). The values required to provide an adequate benefit for severe disabilities are higher and are reviewed in the preceding analysis.

N/A = not applicable; C102 = Social Security (Minimum Standards) Convention, 1952 (No. 102); C128 = Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128).

Not surprisingly, given their low values, the existing tax-financed benefits in Viet Nam do not fare well when compared to the more appropriate indicators of adequacy. For example, disability benefits (for a moderate disability) are between 74 per cent and 84 per cent too low when compared with the minimum wage-derived levels; between 65 per cent and 77 per cent too low when compared to the minimum living standard; and based on the expenditure-derived measure, current disability benefit levels in Viet Nam fall short by between 67 per cent and 69 per cent. We conclude therefore that the current levels need to be increased over time by about three to four times in current prices. Assuming the disabled person has a very limited capacity to work, we suggest that the absolute “floor” or lower bound for a moderate disability benefit lies between VND770,000 and VND980,000, or the range of adjusted poverty lines for disabled persons, taking into account the additional costs of disability.

A similar story emerges for the social pension. The current level of pension for the non-poor aged over 80 is below even the rural poverty-derived level – a measure which we have established is inadequate, as the floor for any pension benefit should be the poverty line – suggesting that many elderly in Viet Nam are at serious risk of falling into poverty. And the evidence bears this out: according to a 2014 survey, 94 per cent of older people stated that the social pension was insufficient for their needs.⁹⁴ Further, while the current levels appear more “adequate” for those aged 60–79 and classed as poor who are eligible for a pension of VND405,000 per month, there are arguably many older people, who by virtue of receiving the over 80 non-poor pension, are effectively poorer than their “poor” counterparts who receive the higher benefit. Using the minimum wage as the comparator, the current pension levels are 56 per cent to 86 per cent deficient. It is important to note that all the pension benefits paid in line with the Conventions relative to the minimum wage are likely to be sufficient to protect pensioners from falling into poverty or near poverty. And similarly, when compared to the adequate levels derived from average expenditure data, the current pension levels are wholly inadequate.

Therefore, for social pensions and disability benefits, the absolute minimum “floor” for tax-financed benefits in a multi-tiered system are:

- **Social pension:** VND700,000 per month
- **Disability benefits:** VND770,000–VND980,000 per month, with a most likely value of VND930,000 per month⁹⁵

We have argued that a better measure of adequacy for benefits intended to replace income are the values derived based on minimum living standards-calculations, expenditure indicators or the minimum wage. Therefore, the recommended levels for adequate tax-financed social pensions and disability benefits are:

⁹⁴ See Kidd et al., 2019.

⁹⁵ Assumes the extra cost of disability is 33 per cent, in line with UNDESA estimations.

- **Social pension:** VND858,000–VND1,881,000 per month⁹⁶
- **Disability benefits:** VND1,142,000 –VND2,501,730 per month

As discussed in section 3.1, child benefits present interesting challenges, as neither the existing single parent benefit nor the orphan benefit is a conventional child benefit like the one proposed under the MPSARD, which would be paid to all children under age 36 months. Rather, the existing child-focused benefits are directed at specific groups of vulnerable children. Therefore, their values and intended purpose are not directly comparable to conventional child benefits. For this reason, we have taken the lowest value existing benefit (single parent benefit) to show how it fares against the “adequate” values for a conventional child benefit, as suggested by our analysis. Table 5.19 shows that the existing single parent benefit compares quite well to the expenditure-based measures but compares less well against the “preferred” minimum wage-based levels. Nevertheless, we should recall that the level of the single parent benefit (VND270,000, or 6 per cent of GDP per capita) was relatively generous by international standards. This suggests that a future conventional child benefit in Viet Nam, such as the one proposed in the MPSARD draft action plan (at 5 per cent of GDP per capita), may offer a reasonable starting value for a child benefit going forward.

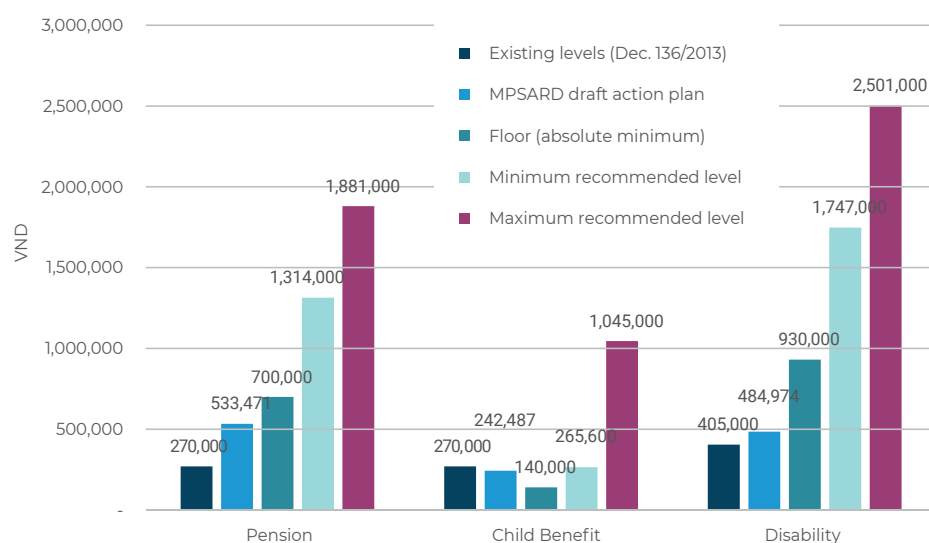
In addition, considering Viet Nam’s intention to establish a multi-tiered social security system, where tax-financed and contributory benefits work together to achieve universal coverage, the question of vertical adequacy of tax-financed benefits may take a back seat to more pressing priorities related to horizontal extension. This may be especially true for child and family benefits, where there is potentially a greater degree of flexibility to set the values of each respective tier at appropriate levels so as to preserve and strengthen the incentive to join social insurance, which is a key Government priority under Resolution 28.

Based on the analysis of adequacy using national benchmarks, we suggest that an appropriate absolute minimum “floor” for a conventional child benefit could be the value derived from the MOLISA poverty line, assuming a replacement rate of 50 per cent of the cost of a child. However, the recommended levels for adequate tax-financed benefits would be based on expenditure measures or the minimum wage, as follows:

- **Minimum floor for child benefits:** VND140,000 per month
- **Recommended levels:** VND265,000–VND1,045,000 per month

The absolute minimum floor and recommended range of values are summarised in Figure 5.1.

⁹⁶ For both benefits, the lower bound corresponds to the minimum living standards (using the corresponding lower bound replacement rate) and the higher bound, the minimum wage for Region I (using the higher bound replacement rates).

FIGURE 5.1: Summary of minimum and recommended benefit levels, Viet Nam (VND)

Source: Authors' calculations based on analysis of VHLSS 2016.

In this section, we have presented a range of levels for key tax-financed lifecycle benefits in Viet Nam that could be considered adequate by different measures. As the Government of Viet Nam takes decisions regarding the appropriate benefit levels required to undergird a more effective multi-tiered social protection system, it will be crucial to also put in place an objective mechanism to preserve the value of benefits going forward.

The following pages lay out a number of approaches to indexation that might be considered in Viet Nam as a means of preserving, and even improving, the values of Viet Nam's social assistance benefits well into the future, and potentially recovering some of the value lost since 2013. However, regardless of the adequacy of the value of the transfer, we cannot forget that the overwhelming challenge in Viet Nam is one of coverage, so efforts to improve adequacy cannot be undertaken independently.

6. Indexation of benefits

Currently, there is no mechanism in place to ensure that the values of social assistance benefits outlined under Decree 136 are maintained. Thus, the real value of transfers has eroded significantly since their levels were set in 2013.

In the context of Government commitments to build a multi-tiered and integrated social security system comprising social insurance and social assistance, which together work to achieve universal coverage, ideally, the indexation mechanism selected should be consistent across both types of benefits to prevent a relative divergence in the real value of benefits going forward. The social insurance system already has an indexation mechanism that takes account of changes in the cost of living (consumer price index) and economic growth, but Resolution 28 (MPSIR) and its accompanying action plan set out plans to review the indexation and consider introducing a wage-based component.⁹⁷ However, Resolution 28 (III.11) specifically states that the social pension should be indexed independently of wages.⁹⁸ This analysis explores the implications of a variety of methods, keeping in mind that the political space for introducing wage-based components to an indexation formula, especially for tax-financed benefits, will be limited.

The following pages outline various options for indexing social assistance benefits to preserve their value, but it will be important to ensure coherence between the indexation mechanisms eventually applied for both the social insurance and social assistance systems. Therefore, we consider price- and wage-based methods, as well as mixed approaches, to provide a better understanding of their implications.

6.1 Illustrative inflation impacts

The spending power of a set amount of cash is eroded overtime by increases in product prices. A lack of an indexation mechanism for cash transfers, or incomplete indexation, negatively affects benefits generosity; incomplete indexation of benefits has resulted in recipients losing ground in a majority of countries within the Organisation for Economic Co-operation and Development (OECD).⁹⁹

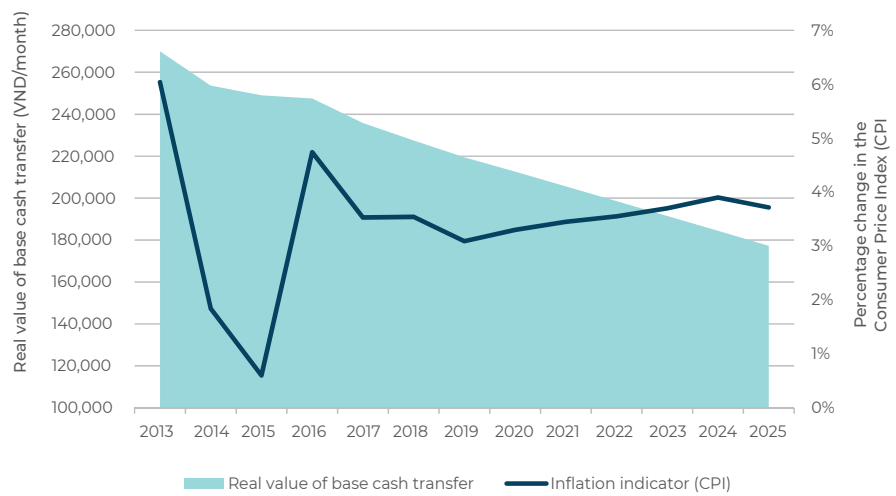
⁹⁷ The MPSIR action plan sets out to “Develop ... the scheme on separation of pension indexation with wage, changing the way of pension adjustment towards more distributive and sharing.”

⁹⁸ Specifically, it calls for “Adjusting social pension allowances according to the State budget capability; the basic pension shall be adjusted mainly on the basis of the increase of the consumer price index, the capacity of the social insurance fund and the state budget.”

⁹⁹ OECD, 2011a.

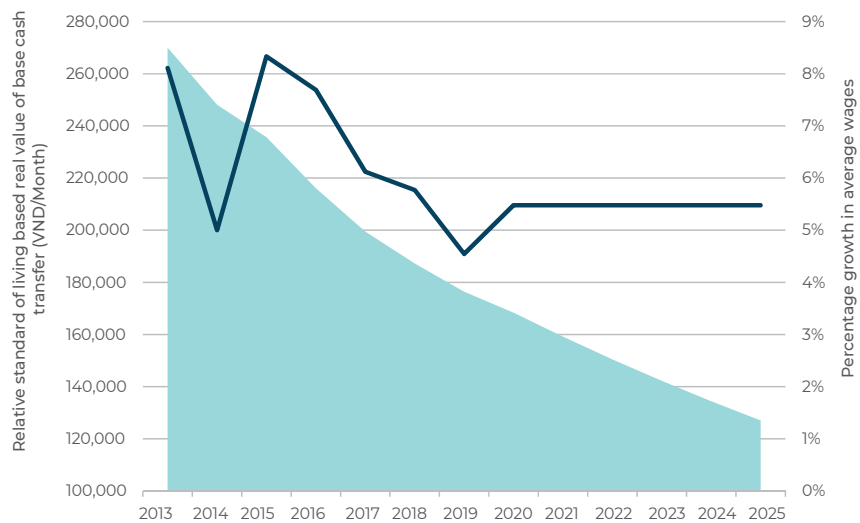
Benefit values in Viet Nam are dictated by Decree 136 and were set at a base level of VND270,000 in 2013, with a different coefficient applied for each benefit type. The value of these transfers has not changed since 2013 and therefore the real value of these transfers has been eroded by price increases. Although inflation has been low in Viet Nam, largely below 5 per cent since 2015, the value of cash transfers has been eroded so that in real terms they are now worth only VND225,000 per month in 2013 prices (figure 6.1),¹⁰⁰ a loss of value of 17 per cent. Using International Monetary Fund (IMF) projected consumer price index inflation rates for Viet Nam to 2025, we estimate that without indexation the real value of the cash transfers by 2025 will be one third lower than in 2013 (figure 6.1).

FIGURE 6.1: Inflation impacts on cash transfer values, Viet Nam



Source: Authors' calculations based on official Government of Viet Nam CPI data.

FIGURE 6.2: Wage growth impacts on relative value of cash transfers, Viet Nam



Source: Authors' calculations based on official Government of Viet Nam CPI data.

¹⁰⁰ The cash transfer of VND270,000 today would buy only 235,000 worth of goods in 2013.

Given the reduced spending power, it is likely that the transfers, even if adequate initially, will not be adequate in any future assessment. Figure 6.2 shows an even more dramatic reduction in the relative value of the benefits as a result of wage growth in the rest of the economy; since 2013, 38 per cent of the relative value of the benefits have been lost, and this increases to 53 per cent by 2025 if an indexation mechanism is not implemented. ILO states that to maintain the adequacy of pensions and other benefits, benefit levels must be adjusted periodically following changes in the cost of living or general earning levels.¹⁰¹

The benchmark used for indexation significantly impacts both the welfare of the recipients and the total cost to the Government of the benefits. Generally, in countries that have adopted formal indexation methods, benefits are indexed either to prices or to wage growth. Price methodologies aim to ensure that benefit payments keep pace with cost of living and include using measures such as the consumer price index or retail price index. Wage indexation is similar, but the welfare measure aims to keep benefit payments in line with the relative standard of living, as opposed to prices. Therefore, the choice between these two indexation methodologies is linked to the rationale for the benefit in the first place, as well as to the projected fiscal envelope available within the government budgets to fund these payments.

Furthermore, partly due to cost implications, but also because the indexation method chosen has a greater effect at lower income levels,¹⁰² the choice of indexation method is often a political decision and not an analytical one. For example, about half of OECD countries have switched their indexation mechanism to a less favourable one, which maintains the absolute value and improves the sustainability of their benefit systems.¹⁰³ Even the ILO – which calls for pensions to be adjusted periodically following changes in cost of living or general earning levels – does not go as far as to recommend one method or the other at the global level.¹⁰⁴ In countries facing serious demographic challenges, such as Viet Nam, purely wage-based indexation may be unaffordable.

The following sections explore the implications of both price and wage indexation methodologies for protecting the value of social assistance benefits in Viet Nam. In addition, we also discuss the options of indexing benefits to GDP (economic output), GDP per capita (economic output per person), and GNI per capita (national income per person). An indexation methodology based on GDP per capita or GNI per capita growth provides a measure of a country's ability to pay but also ensures that growth gains can be shared out across the country.

We examine a range of indexation measures below. Each measure assumes that the indexation method was applied from 2013 onwards.

¹⁰¹ ILO, 2018.

¹⁰² Joumard et al., 2012.

¹⁰³ OECD, 2015.

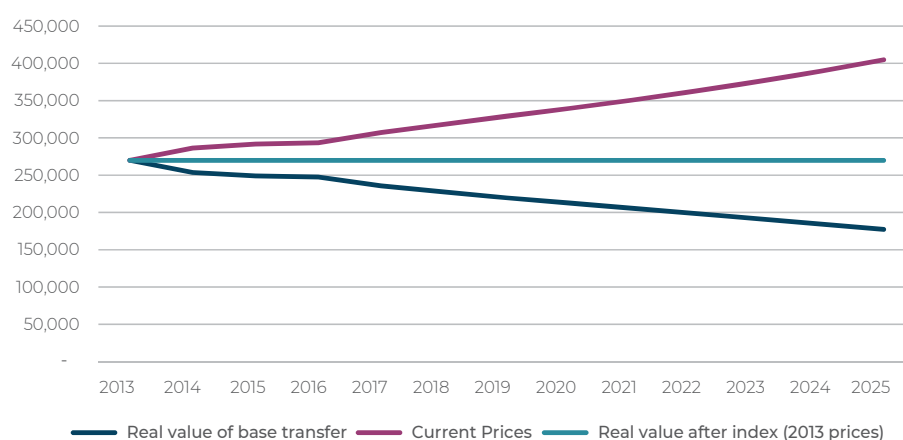
¹⁰⁴ ILO, 2018.

6.2 Price indexation

The ILO (2018) found that for those pension schemes which had some form of indexation, price indexing was the most regularly used methodology. Price indexation regularly adjusts transfer levels to compensate recipients for changes in the purchasing power of the transfers. The standard price index benchmark is the consumer price index (CPI), from which headline inflation figures are derived. The CPI takes a basket of commonly consumed goods and assesses the relative changes in the prices of these goods from one year to the next. The alternative inflation measure, the retail price index (RPI), takes a similar basket of goods plus housing costs. Due to methodological reasons, RPI is almost always higher than CPI and therefore the choice of RPI or CPI is often related to cost.¹⁰⁵

Viet Nam, however, only maintains regular data on CPI and therefore this is the main option for a price indexation methodology. The CPI is built around a basket of goods normally purchased by an average person, some of which are food products. It is important that benefits at least enable the recipient to buy basic goods, including food, and therefore we investigate the impact on the base level of benefits using food price inflation as well as CPI.

FIGURE 6.3: Consumer price index (general inflation), Viet Nam, 2013–25 (VND)



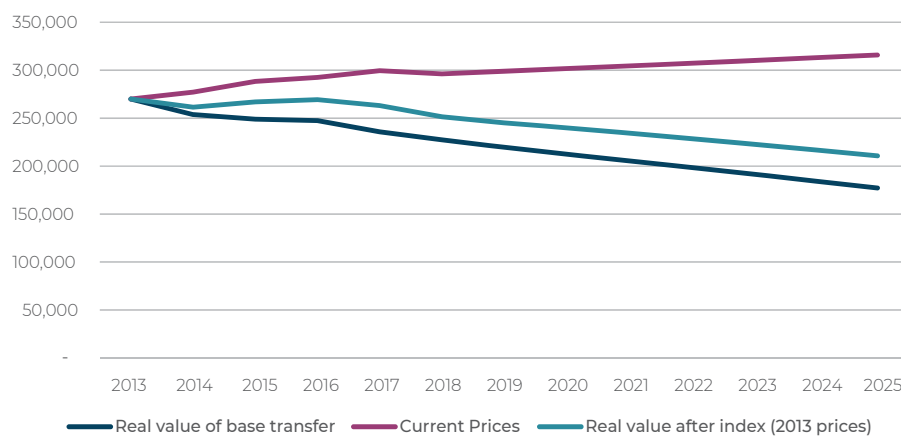
Source: Authors' calculations based on data from Government of Viet Nam and IMF projections (2019–25).

Figure 6.3 shows the real value of the base transfer. The real value of the base transfer is calculated as the base transfer value (VND270,000) less the change in inflation each year. Figure 6.3 current prices show the absolute value of the benefits if the base transfer value had been indexed to general inflation since

¹⁰⁵ While the RPI minus housing costs is, in theory, similar to the CPI, the calculation methodology means that they can be quite different in practice. The root of the difference is that the CPI uses the geometric mean of a basket of goods while the RPI uses the arithmetic mean of a similar (but not exactly the same) basket of goods. This is an important difference for spending and indexation choices. The arithmetic mean is almost always greater than the geometric mean, meaning that the RPI is always higher than the CPI, even when housing costs are excluded and accounting for differences in the coverage and population base.

2013. The current prices would be the cash figure of the benefit paid to the recipient. For reference, the real value after indexation is also shown in 2013 prices: this allows us to directly compare the real value of the base transfer and the effect of the indexation method.¹⁰⁶ As in figure 6.3, the index method is CPI/general inflation and spending power is eroded by general inflation, such that the value of the benefits is maintained in real terms after the index is applied (green line). If the CPI method were applied from 2013 onwards, the cash value of the base transfer in 2019 would be VND330,000, suggesting current levels are 22 per cent short of what is required to maintain the benefits' purchasing power compared to 2013.

FIGURE 6.4: Consumer price index (food products), Viet Nam, 2013–25 (VND)



Source: Authors' calculations based on data from Government of Viet Nam and straight-line projections post-2019.

Figure 6.4 uses the CPI of food to index the 2013 benefit value. The data shows that, while the current value of the transfer increases (orange line), the real value after the index reflects a decline in real purchasing power of 10 per cent in 2019 compared to 2013. Because in Viet Nam, general CPI is driven by large increases in health care costs, food cost changes have been more modest in comparison and therefore the food CPI index method is less generous than the general CPI method.

Using a price index function of either CPI or CPI-food would help maintain at least some purchasing power of the cash transfers in real terms. Due to the smaller price increases, the use of CPI-food still leads to the loss of some value of the benefit in real terms (as a result of CPI being greater than CPI-food), but it is still 17 per cent higher than if no indexation method were used.

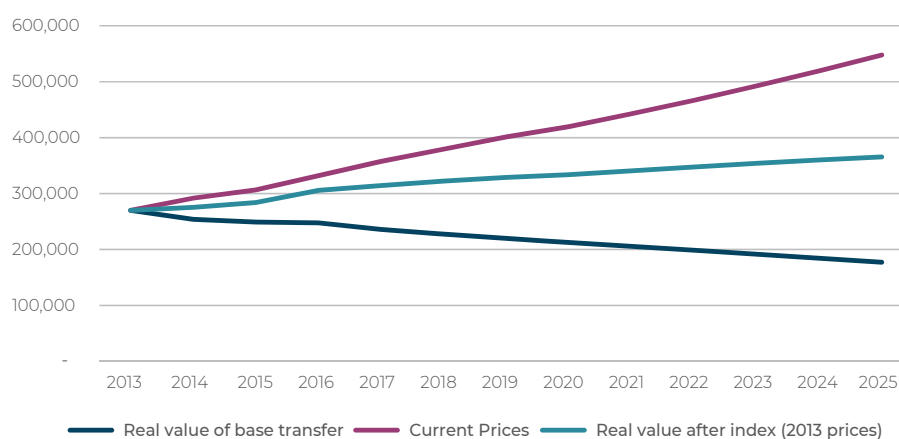
¹⁰⁶ This is calculated by applying the relevant indexation method to the original cash transfer value (current price in figure) and then rebasing these prices to 2013 prices for comparison, using general inflation measures.

6.3 Wage indexation

Linking benefit levels to wage levels in the economy ensures that the standard of living of recipients relative to the rest of the population is maintained. A wage index tracks relative changes in the price of labour across the economy. The coverage of the wage index can vary; for example, it may include or exclude bonus and in-kind payments, although the computation methodology is normally the same. The coverage in the wage index is important for the indexing social security benefits. For example, if bonus and in-kind benefits make up a large proportion of the wage (or wage growth) and are excluded from the wage index, the relative standard of living of social security recipients could fall even if benefits were indexed to wages.

An estimate of yearly wage growth is regularly produced by the IMF for Viet Nam. This measure is sufficient to provide a basis for a wage indexation methodology. Figure 6.5 shows indexation based on average wage growth from the IMF, which is then projected from 2019 to 2025 on a straight-line basis. The green line shows increases in the real value (i.e. after inflation) of the benefit over time if the benefit were indexed to wages; this increase can be explained by the fact that wage growth since 2013 has been lower than CPI in Vietnam. This effectively means that wage indexation mechanisms are less affordable, and this true in general around the world. Whitehouse (2009) shows that in OECD countries, on average, wage-indexed pensions cost 23 per cent more than if a price-indexed method was used.¹⁰⁷ In Viet Nam, using the average wage based method the real value of benefits in 2025 are projected to be 27 per cent higher than that in 2013.

FIGURE 6.5: Average wage growth indexation, Viet Nam, 2013–25 (VND)



Source: Authors' calculations based on IMF average wage growth and projections 2018 to 2025.

¹⁰⁷ Whitehouse, 2009.

6.4 Mixed methods

Mixed method approaches are considered a half-way option between wage indexation and price indexation. These approaches take into account some element of price increase and some element of wage inflation when setting benefit levels.

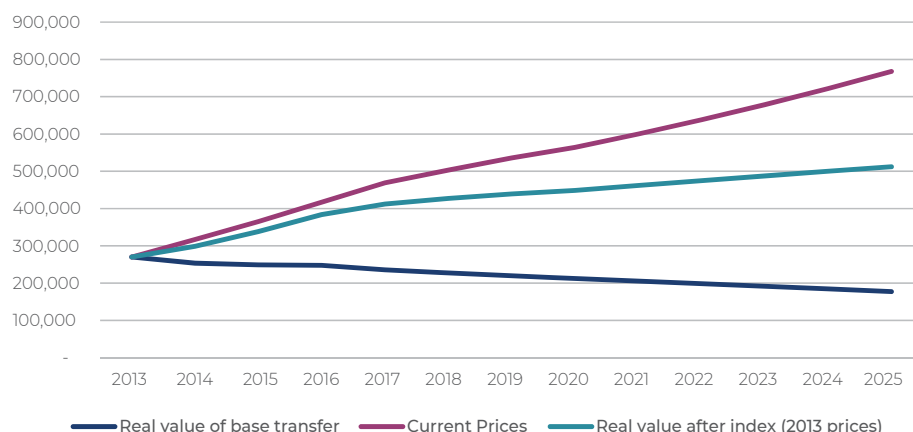
Viet Nam is in a privileged position, given the way that the minimum wage is set in the country. Viet Nam's National Wage Council set an official minimum wage and reassesses this yearly. It is based on an assessment of the cost of living, relative living standards and some bargaining with businesses. This methodology, although imperfect, includes a price index element via the cost of living adjustment, a wage index element as a result of an assessment of relative living standards and the cost to business or collective bargaining means that some element of ability to pay is also included. Therefore, this can act as a mixed methods approach to index benefits.

It is possible that social security benefits could be linked to changes in the minimum wage as determined by the National Wage Council, although linking minimum wage decisions and social security benefit levels could provide governments with adverse incentives to restrict the growth of minimum wages to limit the growth in spending on social security. A significant advantage is that the minimum wage is readily available and regularly updated to maintain parity with the rest of the economy. However, due to questions about the representativeness of official minimum wages in countries with large informal economies, the minimum wage may not be the most appropriate basis for indexation.¹⁰⁸

Figure 6.6 shows what would have happened to the benefit value if it was indexed in 2013 to changes in the minimum wage. This method shows significant increases in the base value and in the real purchasing power of the base transfers. By 2025 it is projected that, using the minimum wage to index benefits, the CPI-based real value of the base transfer will be 89 per cent higher than in 2013. This analysis is distorted, however, because of the large increases in the minimum wage between 2013 and 2016, which total 54 per cent. Since 2016, the increases in minimum wage at an average of 6 per cent have more closely matched those of the average wage and therefore future increases are expected to be less significant and more affordable than previously.

¹⁰⁸ That said, preliminary analysis of the informal economy in Viet Nam suggests that some 75 per cent of wage earners working informally had income higher than the private-sector minimum wage, according to analysis the VHLSS 2016; see McClanahan and Gelders (2019) on the feasibility of a short-term benefits package in Viet Nam. This suggests that the minimum wage may not be as unrealistic a benchmark as previously thought.

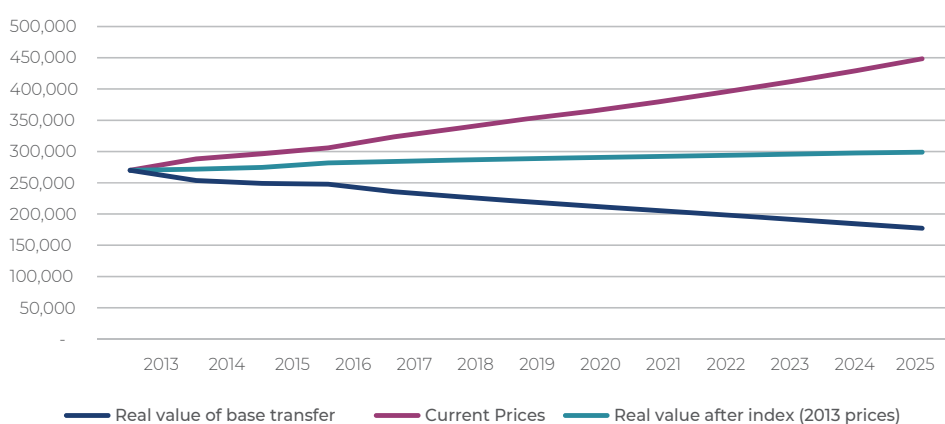
FIGURE 6.6: Minimum wage indexation, Viet Nam, 2013–25 (VND)



Source: Authors’ calculations based on data from Government of Viet Nam and straight-line projections post-2019.

A more traditional mixed method approach would be to weight price inflation and wage inflation which would allow fiscally sustainable benefit levels while protecting the recipients’ purchasing power and allowing them to share in the benefits of the economic expansion. A weighting of two-thirds CPI and one-third average wage growth would allow a small increase in the real value of the benefits, which is largely driven by the growth in average wages, as shown in figure 6.7.¹⁰⁹

FIGURE 6.7: CPI and average wage growth weighted indexation mechanism, Viet Nam, 2013–25 (VND)



Source: Authors’ calculations based on data from the Government of Viet Nam and IMF.

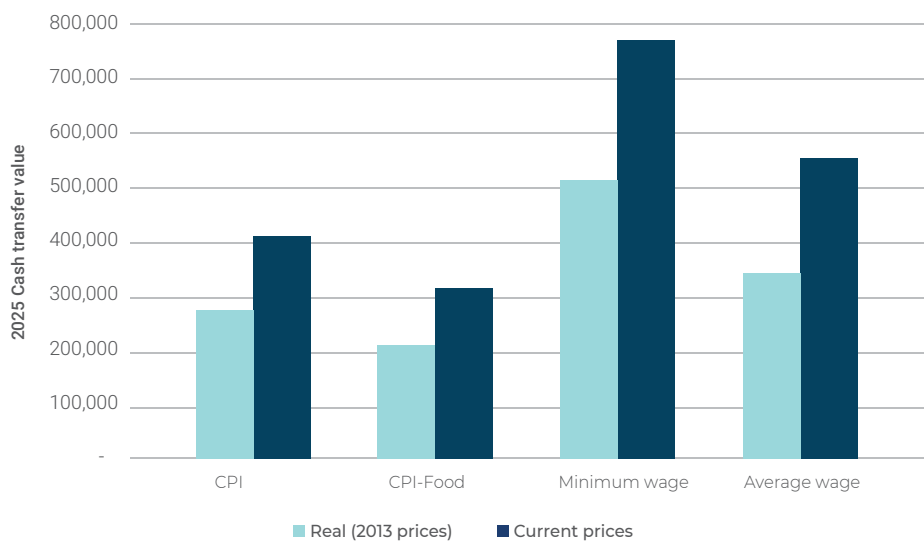
¹⁰⁹ This method could be considered a compromise approach and is consistent with methods being proposed by the ILO for indexing social insurance benefits.

6.5 Summary of indexation options

Figure 6.8 presents the implications of a range of indexation options for the value of social assistance benefits in Viet Nam. The current prices are the 2025 value of the cash transfer, and the real prices are current prices adjusted for CPI inflation. As Viet Nam has largely had low inflation, and pay rises and output growth have outstripped inflation, almost all non-price indexation methods will lead to increases in the real value of benefits. If indexed to wages or output growth, then it could allow some of the value eroded between 2013 and 2018 to be recovered. However, we argued in the mixed methods discussion that an indexation method based on minimum wage will provide the advantages of the price and wage methods combined. Further, the minimum wage is automatically updated each year and thus would entail low administrative costs to deliver.

Regardless of the method chosen, it is crucial that adjustments are made regularly to cash transfer levels to maintain either a comparable standard of living or purchasing power of those receiving the benefits. Likewise, ensuring coherence between the social insurance and social assistance systems will be important for maintaining the relative value of benefits in each system.

FIGURE 6.8: Value of cash transfers (base value of VND270,000) by indexation method, Viet Nam, 2013–25 (VND)



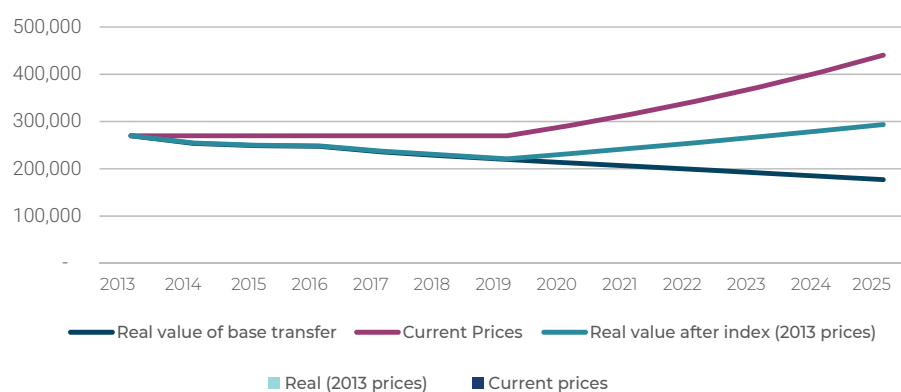
Source: Authors' calculations based on data from the Government of Viet Nam and IMF.

Indexation choices also have distributional implications, particularly where social pensions are concerned. More generous indexation procedures for benefits such as pensions tend to redistribute money from the poor to the rich on average because of the higher early mortality rates in lower income deciles. Therefore, price indexation may be a more equitable method of indexation. This demonstrates that there are multiple trade-offs and value judgements that are required when making an indexation choice. The choice of indexation methodology is not a purely analytical choice but depends on the rationale for providing the benefits in the first place.

6.6 Recovering value and ensuring adequacy

Much of what is demonstrated above assumed that the indexation is applied from 2013. In reality the social security system is playing catch-up as recipients have already lost about 18 per cent of the value of their benefits since 2013. Therefore, the indexation mechanism may want to allow some catch-up from 2020 onwards. For example, figure 6.9 shows how inflation eroded the real value of the benefits because the levels have remained static to 2019. However, from 2020 to 2025 levels are protected against inflation plus a further 5 per cent. This means that by 2024 they recover their purchasing power equivalent to that in 2013. An additional percentage could also be used to uprate benefits to slowly make them adequate as discussed in the previous chapter.

FIGURE 6.9: CPI (general inflation) plus 5%, Viet Nam, 2013–25 (VND)



To demonstrate this, we target achieving adequacy by 2025. This means that each year purchasing power must be maintained, plus a catch-up percentage and an additional uplift each year until the benefits meet at least a minimum adequate level in 2025. For example, taking the simple pension (coefficient 1) we estimated that a minimum adequate level of pension is not less than VND700,000 in 2018 prices. This is the equivalent to VND890,000 in 2025 prices.¹¹⁰ By indexing the current level of VND270,000 to CPI we protect from any further erosion in spending power; we then add a catch-up percentage to recover the lost purchasing power from 2013 – 2019 and an additional uplift to bring the pension to the 2025 minimum adequacy level. This is calculated as an additional 19 per cent per year above CPI indexing; 5 per cent per year to recover the lost purchasing power and 14 per cent increase to place the benefits on a trajectory to adequacy in 2025. We have demonstrated that other indexation methods increase the real value of benefits more quickly than simple CPI therefore the catch-up and uplift level would be lower for other indexation methods. For example, using minimum wage projections to index the value of benefit from 2020 onwards, the total uplift to achieve minimum adequacy of VND700,000 (2016 prices) and recover purchasing power is 15.6 per cent.

¹¹⁰ 270,000 inflated by the projected CPI data to 2025.

7. Conclusion

This report has set out a number of references for determining the adequacy of tax-financed benefits in Viet Nam and offered a range of options to preserve (and potentially improve and recover) their value into the future. We have argued that assessing the adequacy of social protection benefits and systems is fundamentally a political exercise and, to a large extent, a subjective one, because of the wide variation in international practice and national benchmarks against which to assess adequacy, relative to the respective benefits' policy objectives.

Because of the nature of tax-financed benefits in Viet Nam, and specifically those laid in Decree 136/2013, whereby a multiplier is applied to a basic social allowance for different groups based on varying levels of presumed need, a thorough assessment of the adequacy of each individual benefit would not be possible. Therefore, the analysis has focused on three core lifecycle benefits – child, disability and old age – in line with the lifecycle approach adopted in the MPSARD.

We have argued that, as benefits intended to replace income, the minimally adequate floor for social pensions and disability benefits (for moderate-to-severe disabilities that allow very limited capacity to work) should be the poverty line, although more generous values would be closer to an ideal standard of adequacy. For child and family benefits, the situation is more complex. The lack of international comparability, questions around the continuing relevance of the Convention No. 102 standards, and challenges associated with estimating the cost of children mean that there may be more flexibility to set adequate values according to multiple national priorities.

Considering Viet Nam's intention to establish a multi-tiered social security system, where tax-financed and contributory benefits work together to achieve universal coverage, the question of vertical adequacy of tax-financed benefits may take a back seat to more pressing priorities related to horizontal extension. Indeed, under a multi-tiered system, the adequacy of benefits must also be understood in terms of the overall functionality and coherence between the two tiers. The Government has expressed a clear intention under Resolution 28 to grow social insurance membership, with specific and ambitious targets for expansion. Ultimately, to preserve the incentive to join social insurance, benefit levels in the tax-financed first tier must be lower than the lowest level of pensions offered in the contributory tier. Therefore, great care must be taken to build the institutional "architecture" – a key component of which is setting benefit levels – to ensure that the two tiers act as

one social security system, offering adequate protection for those who are unable to pay contributions, and higher level benefits for those insured under VSS.

This report has also explored a number of indexation formulas that could be adopted to preserve, recover and improve the value of tax-financed benefits into the future. At a minimum, the indexation system should strive to maintain the purchasing power of benefits – to prevent the loss of real value – by tying them to prices. However, we have suggested that some form of wage-based indexation, whether partial or full, could also be considered to maintain the standard of living of beneficiaries relative to the working population, as well as to preserve coherence between the tax-financed and contributory tiers.

The Government of Viet Nam is taking important steps toward ensuring that everyone in Viet Nam can have access to adequate, inclusive social protection across the lifecycle. Setting adequate benefit levels – vertical extension – is an important component, but far from the only one, of realizing a long-term vision of universal social protection as the foundation of a dignified society and a growing economy.

Bibliography

- Ali, Z. 2014. *Economics of disability in Bangladesh*, Working Paper 29 (Bangladesh, EEP/Shiree). Available at: https://assets.publishing.service.gov.uk/media/57a08998e5274a27b200016b/Economic-Costs-of-disability-in-Bangladesh_revised-paper.pdf [18 Jun. 2019].
- Antón, J. et al. 2016. "An analysis of the cost of disability across Europe using the standard of living approach", in *SERIEs*, Vol. 7, pp. 281–306. Available at: <https://link.springer.com/content/pdf/10.1007%2Fs13209-016-0146-5.pdf> [18 Jun. 2019].
- Bennett, F. 2006. "Paying for children: Current issues and implications for policy debates", in J. Lewis (ed.): *Children, changing families and welfare states* (Northampton, Edward Elgar).
- Braithwaite, J.; Mont, D. 2009. "Disability and poverty: A survey of World Bank poverty assessments and implications", in Alter: *European Journal of Disability Research*, Vol. 3, pp. 219–32.
- Braña Pino, F.J.; Antón Pérez, J. 2011. "Pobreza, discapacidad y dependencia en España", in *Papeles de Economía Española: Aspectos económicos y sociales de la dependencia*, No. 129.
- Cullinan, J.; Gannon, B.; Lyons, S. 2011. "Estimating the extra cost of living for people with disabilities", in *Health Economics*, Vol. 20, No. 5, pp. 582–599.
- Cullinan, J.; Gannon, B.; O'Shea, E. 2013. "The welfare implications of disability for older people in Ireland", in *The European Journal of Health Economics* Vol. 14, No. 2, pp. 171–183.
- Demombynes, G.; Hoang Vu, L. 2015. *Demystifying poverty measurement in Vietnam*, Vietnam Development Economics Discussion Paper 1 (Vietnam, World Bank Group). Available at: <http://documents.worldbank.org/curated/en/923881468303855779/pdf/949390WP00PUBL0m0Feb0201500PUBLIC0.pdf> [18 Jun. 2019].
- Development Pathways. 2019. Development Pathways Disability Database (London). Available at: <http://www.developmentpathways.co.uk/publications/#disability-database> [14 November 2019].

- Donni, O. 2015. *Measuring the cost of children: Knowing the real cost of children is important for crafting economic policy* (IZA: World of Labor). Available at: <https://wol.iza.org/uploads/articles/132/pdfs/measuring-the-cost-of-children.pdf> [18 Jun. 2019].
- Fair Wear. 2015. *Vietnam Country Study 2015*. Available at: https://www.fairwear.org/wp-content/uploads/2011/12/Country-Study-Vietnam-FINAL_web.pdf [18 Jun. 2019].
- Hantrais, L. 2004. *Family policy matters: Responding to family change in Europe* (Bristol, The Policy Press).
- HelpAge International. *Social pensions database*. Available at: <http://www.pension-watch.net/> [23 Jun. 2019].
- International Social Security Association (ISSA) and Social Security Administration (SSA). 2016. *Social security programs throughout the world* (Washington, DC, United States Social Security Administration). Available at: <https://www.ssa.gov/policy/docs/progdesc/ssptw/> [25 April 2019].
- International Labour Organization (ILO). 2017. *World Social Protection Report, 2017–2019* (Geneva).
- . 2018. *Social protection for older persons: Policy trends and statistics 2017–19*, Social Protection Policy Paper 17 (Geneva). Available at: <https://www.social-protection.org/gimi/RessourcePDF.action?id=55212> [18 Jun. 2019].
- International Monetary Fund (IMF). 2018. "Viet Nam, gross domestic product per capita, current prices, April 2018", in *World Economic Outlook Database*. Available at: <https://bit.ly/2LhYNRW> [23 Jun. 2019].
- Joumard, I; Pisu, M.; Bloch, D. 2012. "Tackling income inequality: The role of taxes and transfers", in *OECD Journal: Economic Studies*, Vol. 2012/1. Available at: <https://www.oecd.org/eco/public-finance/TacklingincomeinequalityTheroleoftaxesandtransfers.pdf> [18 Jun. 2019].
- Kidd, S.; Abu-el-Haj, T.; Khondker, B.; Watson, C.; and Ramkissoo, S. 2016. *Social assistance in Viet Nam: a review and proposals for reform* (Ha Noi, UNDP and MOLISA). Available at: <https://www.developmentpathways.co.uk/publications/social-assistance-in-vietnam-review-and-proposals-for-reform/> [14 November 2019].
- Kidd, S.; Gelders, B.; Tran, A. 2019. *Potential impacts of social pensions in Viet Nam* (Ha Noi, ILO).

- Knox-Vydmanov, C. 2014. "Why 'the poor' don't exist (and what this means for social protection policy)", in *Pathways' Perspectives on Social Policy in International Development*, No. 16 (London, Development Pathways). Available at: <https://www.developmentpathways.co.uk/publications/poor-dont-exist-means-social-protection-policy-pathways-perspective-16/> [14 November 2019].
- Letablier, M.T.; Luci, A.; Math, A.; Thévenon, O. 2009. *The costs of raising children and the effectiveness of policies to support parenthood in European countries: A literature review* (Brussels, European Commission). Available at: <https://ec.europa.eu/social/BlobServlet?docId=2268&langId=en> [18 Jun. 2019].
- Lewis, J. 1997. *Lone mothers in European welfare regimes: Shifting policy logics* (London and Philadelphia, Jessica Kingsley Publishers).
- Long, G.; Pfau, W. 2009. "Ageing, poverty, and the role of a social pension in Vietnam", in *Development and Change*, Vol. 40, No. 2., pp. 333–60. Available at: <https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1467-7660.2009.01517.x#accessDenialLayout> [24 Jun. 2019].
- Loyalka P.; Liu L.; Chen G.; Zheng X. 2014. "The cost of disability in China", in *Journal of Demography*, Vol. 51, No. 1, pp. 97–118.
- McClanahan, S. and Gelders, B. 2019 (forthcoming). *Assessing the potential for multi-tiered child benefits in Viet Nam* (Ha Noi, ILO).
- Mitra, S.; Palmer, M.; Kim, H.; Mont, D.; Groce, N. 2017. "Extra costs of disability: A review and agenda for research", in *Journal of Disability and Health*, Vol. 10, No. 4, pp. 475–484.
- Mont, D.; Cuong, N. 2014. "Disability and poverty in Vietnam", in *The World Bank Economic Review*, Vol. 25, No. 2, pp. 232–359. Available at: <http://documents.worldbank.org/curated/en/793841468320699746/pdf/812700JRN0WBEC00Box379814B00PUBLIC0.pdf> [18 Jun. 2019].
- Mont, D.; Nguyen, C. 2018. "Spatial variation in the poverty gap between people with and without disabilities: Evidence from Vietnam", in *Social Indicators Research*, Vol. 137, No. 2, pp. 745–763. Available at: <https://link.springer.com/article/10.1007/s11205-017-1619-z> [18 Jun. 2019].
- Morciano, M.; Hancock, R.; Pudney, S. 2012. *Disability costs and equivalence scales in the older population*, ISER Working Paper Series No. 2012-09 (Institute for Social and Economic Research).

- Mutual Information System on Social Protection (MISSOC) (Multiple years). Comparative tables database. Available at: <https://www.missoc.org/missoc-database/comparative-tables/> [18 Jun. 2019].
- Organisation for Economic Co-operation and Development (OECD). 2015. *Pensions at a Glance 2015: OECD and G20 indicators* (Paris, OECD Publishing). Available at: https://www.oecd-ilibrary.org/docserver/pension_glance-2015-en.pdf?expires=1554902671&id=id&accname=guest&checksum=70745C66A8105C4B89847DA687C294EA [18 Jun. 2019].
- . 2017. Family Database in the Asia-Pacific region. Available at: <http://www.oecd-korea.org/user/nd8662.do?View&uQ=&page=1&pageSC=REGDATE&pageSO=DESC&dmlType=&pageST=SUBJECT&pageSV=&boardNo=00002453&itemShCd1=&itemShCd2=&itemShCd3=&dmlType=> [17 June 2019].
- Palmer, M.; Groce, N.; Mont, D.; Hong Nguyen, O.; Mitra, S. 2015. "The economic lives of people with disabilities in Vietnam", in *PloS One*, Vol. 10, No. 7. Available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4510056/> [18 Jun. 2019].
- Palmer, M.; Thuy, N.T.M.; Guyen, Q.T.N.; Duy, D.S.; Huynh, H.V.; Berry, H.L. 2012. "Disability measures as an indicator of poverty: A case study from Vietnam", in *Journal of International Development*, Vol. 24(S1), pp. S53–S68 .
- Palmer, M.; Williams, J.; McPake, B. 2016. *The cost of disability in a low-income country*. Available at: <https://www.un.org/development/desa/disabilities/wp-content/uploads/sites/15/2016/02/The-Cost-of-Disability-in-a-Low-Income-Country.pdf> [18 Jun. 2019].
- Raut, L.; Pal, M.; and Bharati, P. 2014. "The economic burden of disability in India: Estimates from the NSS data", in *SSRN Electronic Journal*. Available at: https://www.researchgate.net/publication/263579957_The_Economic_Burden_of_Disability_in_India_Estimates_from_the_NSS_Data [18 Jun. 2019].
- Rab, H.N., Martinez-Vasquez, J.; Shah, A.M.; Vu, Q.H.; Nguyen, M.V; Monkam, K.F.M; Prasad, A.; Doan, Q.H.; Iyer, I. 2015. Making the whole greater than the sum of the parts: *A review of fiscal decentralization in Vietnam* (Ha Noi, World Bank).
- Roelen, K. 2011. *Stopping child poverty in its tracks: The role of social protection in Vietnam*, IDS working paper 2011/371, CSP working paper 002. Available at: <https://www.ids.ac.uk/files/dmfile/Wp371.pdf> [15 Nov. 2019].

- Sarlo, C. 2013. *The cost of raising children* (Fraser Institute). Available at: <https://www.fraserinstitute.org/sites/default/files/cost-of-raising-children.pdf> [18 Jun. 2019].
- Saunders, P. 2006. *The cost of disability and the incidence of poverty*, SPRC Discussion Paper No. 147 (Sydney, Social Policy Research Center). Available at: <https://www.sprc.unsw.edu.au/media/SPRCFile/DP147.pdf> [18 Jun. 2019].
- Socialist Republic of Viet Nam. 2013. Decree No. 136/2013 ND-CP of October 21, 2013 on provision of social support policies for social protection subjects (Ha Noi).
- . 2015. Decision No. 59/2015/TTg dated 19 November 2015 promulgating multidimensional poverty levels applicable during 2016–2020 (Ha Noi).
- . 2018. Resolution No. 28-NQ/TW dated 23 May 2018 of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform (Ha Noi).
- Stanescu, S.M.; Nemtanu, M.I. 2015. "Family benefits in member states of the European Union: A comparative perspective", in *European Review of Applied Sociology*, Vol. 8, No. 10, pp. 29–41.
- Tibble, M. 2005. *Review of existing research on the extra costs of disability* (Leeds, UK, Corporate Document Services).
- Tonga Disability Action Committee (TDAC). 2006. *Tonga national disability identification survey*. Nuku’Alofa, Tonga.
- Trani J. et al. 2010. *Disability in and around urban areas of Sierra Leone* (London, Leonard Cheshire International), as cited in World Health Organization (WHO) and World Bank (2011).
- United Nations Children’s Fund (UNICEF). 2017. *Study on targeting approaches and mechanisms of social assistance schemes for children*.
- United Nations Department of Economic and Social Affairs (UNDESA). 2018. *Realization of the sustainable development goals by, for and with persons with disabilities: UN flagship report on disability and human development* (New York). Available at: <https://www.ohchr.org/Documents/HRBodies/CRPD/UN2018FlagshipReportDisability.pdf> [18 Jun. 2019].

Weisell, R.; Dop, M. 2012. The adult male equivalent concept and its application to household consumption and expenditures surveys (HCES)" in *Food and Nutrition Bulletin*, Vol. 33, No. 3 (supplement), pp. S157–S162. Available at: <https://journals.sagepub.com/doi/pdf/10.1177/15648265120333S203> [18 Jun. 2019].

Whitehouse, E. 2009. *Pensions, purchasing power risk, inflation and indexation*, OECD Social, Employment and Migration Working Papers No. 77 (OECD Publishing). Available at: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.463.4211&rep=rep1&type=pdf> [18 Jun. 2019].

World Health Organization (WHO) and World Bank. 2011. *World Report on Disability* (Geneva, WHO). Available at: https://www.who.int/disabilities/world_report/2011/report.pdf. [18 Jun. 2019].

Zaidi A.; Burchardt T. 2005. "Comparing incomes when needs differ: Equivalization for the extra costs of disability in the U.K." in *Review of Income and Wealth*, Vol. 51, No. 1, pp. 89–114. Available at: <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1475-4991.2005.00146.x> [22 Jun. 2019].

ILO Country Office for Viet Nam

48 - 50 Nguyen Thai Hoc, Ha Noi

+84 24 3 734 0902

hanoi@ilo.org

www.ilo.org/hanoi

[Vietnam.ILO](https://www.facebook.com/Vietnam.ILO)



With the financial support from Irish Aid and Government of Japan



ILO/Japan
Multi-bilateral
Programme