



International  
Labour  
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## Extending Social Insurance for Informal Workers

Informally employed workers in Viet Nam face significant challenges in accessing the social insurance system. This fact sheet offers a close look at the composition of the uninsured workforce in Viet Nam, as well as exploring recent trends in the formalization of firms and their implications for the expansion of social insurance.



# 1. Who comprises the workforce in Viet Nam?

## WAGE EARNERS (EMPLOYEES)

While the social insurance system in Viet Nam should cover all employees with a labour contract, in practice, many wage earners lack contracts or have incomes that are too low to be covered by the compulsory social insurance system as a result.<sup>1</sup>

Wage earners make up 43 per cent of all workers. Over half of all wage earners are uninsured, representing a quarter of all workers.

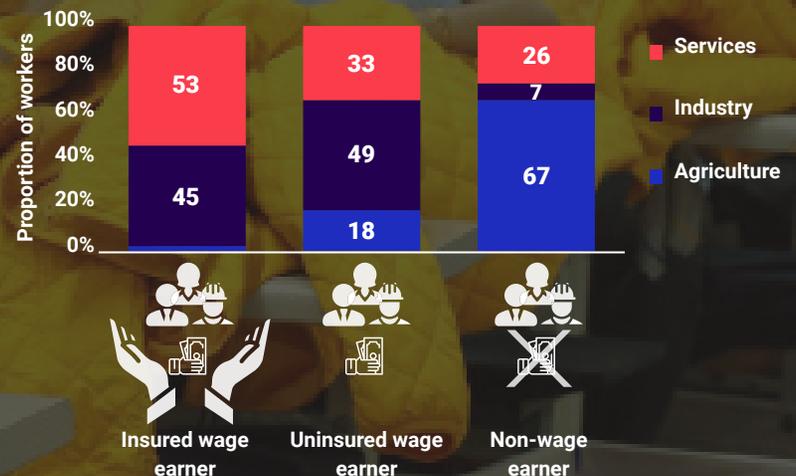
**FIGURE 1** COMPOSITION OF NON-AGRICULTURAL UNINSURED WORKERS



## NON-WAGE EARNERS (OWN ACCOUNT WORKERS)

Non-wage earners living above the rural poverty line can join the voluntary system. Non-wage earners are disproportionately concentrated in agriculture, making them more difficult to incorporate, and around a third work in industry and services.

**FIGURE 2** PERCENTAGE DISTRIBUTION OF WORKERS, BY ECONOMIC SECTOR



<sup>1</sup> To be insured, workers need have incomes above the minimum thresholds governing VSS participation set at the regional minimum wage for wage earners.

## 2. Poverty and vulnerability among uninsured workers in Viet Nam

Uninsured workers are much more likely to be vulnerable or to live in poverty. One in five non-wage earners live below the MOLISA near-poverty line, and nearly 70 per cent of uninsured workers would be considered vulnerable by some international measures.

Almost 70 per cent of uninsured workers are living on less than US\$ 11 per day<sup>2</sup> (VND86,000)

## 3. A closer look at insurability

To extend social insurance coverage to workers in Vietnam, policy tools should mitigate the impacts of high social insurance contributions on workers' household welfare.

Nearly all non-wage earners work in the household sector and will be difficult to incorporate. Moreover, most of these workers have incomes at the margins which are highly volatile. Even if 93 per cent of them live above the rural poverty line, in practice, they lack disposable income to set aside for their future. In fact, many households would fall into poverty if they start to contribute.



<sup>2</sup> The value of US\$ 11 is expressed in purchasing power parity terms (PPP) and should be understood as reflecting the standard of living that 70% of uninsured workers in Viet Nam would have in the United States of America (USA). Using the World Bank's PPP conversion factor this is equivalent to VND86,000 per day.

## 4. The perspective of employers

### 1 Social insurance reforms have not slowed down private sector development and job creation

In 2006, the Law on Social Insurance increased VSS contribution rates for private companies. Contrary to expectations, the number of formally registered enterprises grew, and there was a surge in the creation of micro and small enterprises. The number of people employed by formal enterprises also grew significantly, with the gains distributed relatively equally between men and women. Women represented around 43 per cent of the workers in registered enterprises in 2003 and 46 per cent in 2016.

### 2 Formal enterprise activity is increasingly centred around urban areas

Formal enterprise activity is concentrated in urban areas. More than a third (34 per cent) of workers employed by formal enterprises are in Ha Noi and Ho Chi Minh City, rising to 55 per cent including nearby provinces.<sup>2</sup>



Between 2004 and 2017 the private sector grew six-fold from around 91,000 to around 573,000 formally registered enterprises

The number of people employed by formal enterprises grew from 5.8 million (12 per cent of total labour force) to almost 15 million (26 per cent of total labour force)

<sup>2</sup> Out of a total of 14.7 million workers employed in formal enterprises, five million are in the two main cities, rising to eight million including Binh Duong, Dong Nai and Hai Phong and other provinces close to the two main economic centres.

### 3 Compliance rates are lower among smaller enterprises

Reforms to the social insurance system have not led to a sizeable increase in compliance to contributions. More than half of contributors within the private sector work for large enterprises, who tend to show higher profits and declare a larger share of their employees. Compliance is low among the growing number of micro and small enterprises.

5.5 million employees working for registered enterprises are still not contributing to VSS

### 4 Labour costs can constrain coverage expansion among smaller firms

Labour costs, measured as the unit labour cost,<sup>3</sup> rose significantly from 2003 to 2016 for all types of firms (see Figure 4).

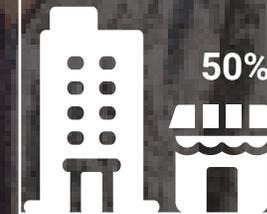
However, in relative terms, smaller enterprises face higher costs. Overall, labour costs account for less than 10 per cent of gross revenues. While larger enterprises have reined in the cost of labour as a percentage of gross revenue, micro and small enterprises have seen their relative costs increase and their profit margins decline.

<sup>3</sup> Measured as the total labour cost to total number of employees.



Between 2005 and 2016, compliance has ticked up only slightly from 58 per cent to 62 per cent

95%



50%

Among the top 1 per cent in pre-tax profits, coverage of VSS is 95 per cent. Among micro-enterprises, it is below 50 per cent

FIGURE 4 INCREASE IN UNIT LABOUR COSTS



From 2003 to 2016 labour costs as a proportion of gross revenues grew from...



2.1 per cent to 4.1 per cent among micro-enterprises



6.8 per cent to 7.7 per cent among large enterprises

## 5. A solid basis for social insurance extension

There is considerable room for extending social insurance to workers that are not covered. If current trends of growth in the economy and labour markets continue, registration of new formal sector firms will see an increase in coverage regardless of policies on insurance compliance.

However, uninsured workers still face a high degree of vulnerability, and many work in sectors and areas that are hard to reach. Very likely, many are working precisely for those micro-enterprises facing high and increasing labour costs, and therefore showing low compliance and low profitability. Therefore, the success of specific strategies to extend coverage to these workers and enterprises will depend on their ability to offset these costs.



### Sources and information

Analysis for this paper was conducted using the GSO Vietnam Enterprise Survey from 2004 to 2017 and Vietnam Household Living Standards Survey 2016 (VHLSS).

Icons used for the graphics in this paper are sourced from [www.flaticon.com](http://www.flaticon.com)

For more detail on the analysis on extension of social insurance for informal workers in Vietnam, see:

Galian, C. (2019). Long-term Formalization Dynamics in Enterprises: Social security and formality in enterprises from 2004 to 2007. Report prepared for the ILO. International Labour Organization. Hanoi.

McClanahan, S. and Gelders, B. (2019). Assessing the potential for multi-tiered child benefits in Vietnam. International Labour Organization. Hanoi.

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