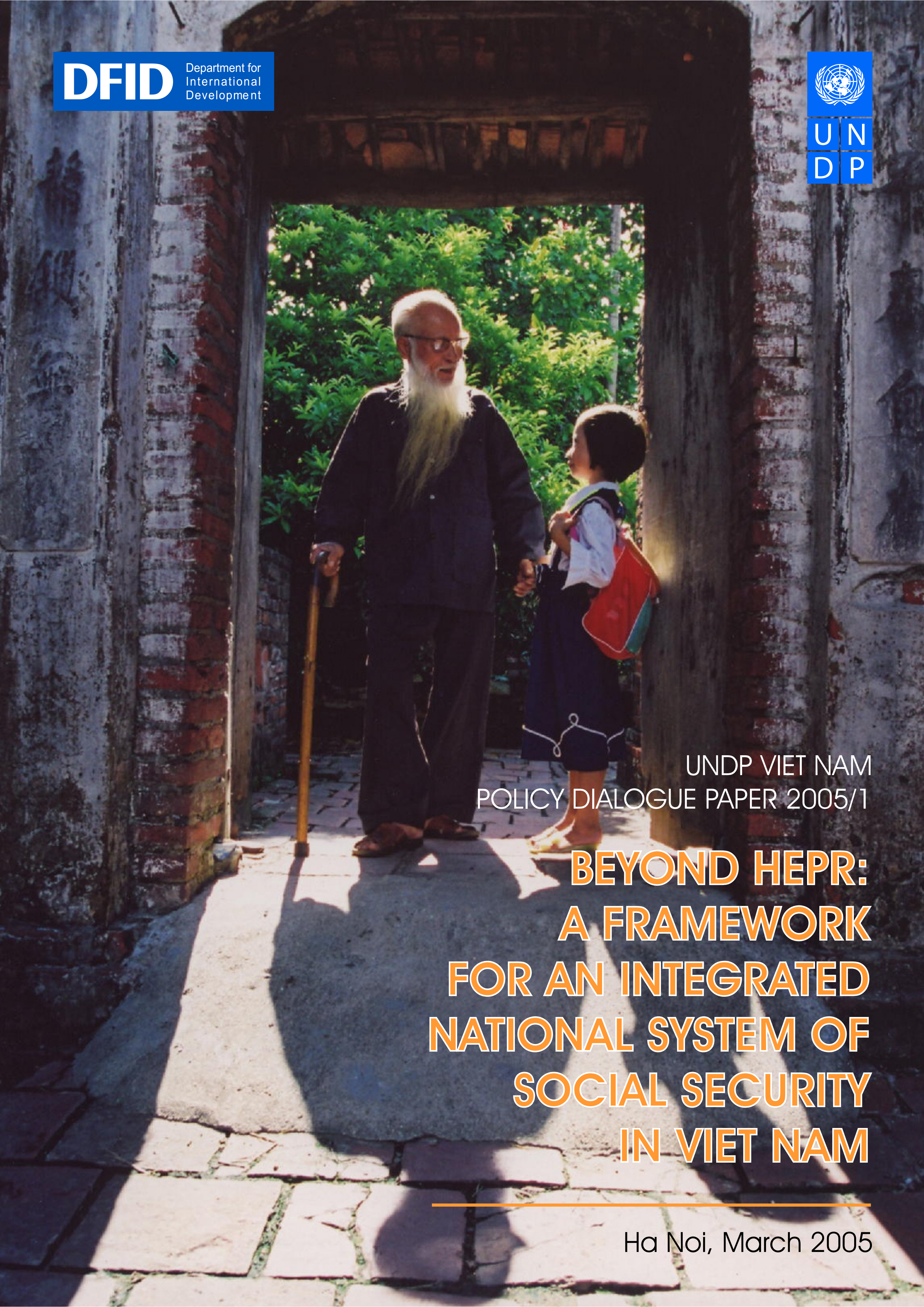

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# BEYOND HEPR: A FRAMEWORK FOR AN INTEGRATED NATIONAL SYSTEM OF SOCIAL SECURITY IN VIET NAM

Ha Noi, March 2005

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# BEYOND HEPR: A FRAMEWORK FOR AN INTEGRATED NATIONAL SYSTEM OF SOCIAL SECURITY IN VIET NAM

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**Ha Noi, March 2005**

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# Foreword

Viet Nam has entered an unprecedented period of social and economic change. Rapid economic growth has created millions of jobs, raised incomes and improved living standards dramatically for millions of Vietnamese people. Economic development has also transformed the nature of economic risk for many households. Viet Nam is still a largely agrarian society in which the dominant economic risks relate to crop failure, other natural disasters and commodity prices. These factors will no doubt remain important for many years to come. Increasingly, however, other sorts of risks will emerge, particularly those associated with the position of the individual in the labour market.

Helping households and individuals manage new kinds of economic risks is one of the most pressing issues facing the Government of Viet Nam. Over the coming years, policy makers will decide the form and dimensions of the national social security system. Improvements to this system will help Viet Nam realise the principles and spirit of the Millennium Declaration, including the Millennium Development Goals. An integrated social security system will contribute to the elimination of hunger and extreme poverty, to the achievement of universal access to basic health and education services and to the promotion of social solidarity. As this paper makes clear, well-designed and efficiently implemented social security programmes can also stimulate economic growth and reduce income inequality.

This paper is the first contribution to a new series of Policy Dialogue Papers produced by UNDP Viet Nam. The objective of the series is to stimulate discussion of emerging issues and to explore policy options in international comparative perspective.

We thank Patricia Justino for her careful review of the current situation in Viet Nam and for her insights derived from international experience. Special thanks are due to Dr. Nguyen Hai Huu, the Director General of the Social Protection Department of the Ministry of Labour, Invalids and Social Affairs, for his guidance and for detailed comments on and corrections of earlier drafts.

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**Jordan D. Ryan**
UNDP Resident Representative

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# List of Acronyms

| | |
|---|---|
| CEM | Committee for Ethnic Minorities |
| DfID | Department for International Development, United Kingdom |
| FDI | Foreign Direct Investment |
| GSO | Government Statistics Office |
| GTZ | *Deutsche Gesellschaft für Technische Zusammenarbeit* |
| HEPR | Hunger Eradication and Poverty Reduction |
| ILO | International Labour Organization |
| MOH | Ministry of Health |
| MOLISA | Ministry of Labour, Invalids and Social Affairs |
| NTP | National Targeted Programme |
| SOE | State-Owned Enterprise |
| UNDP | United Nations Development Programme |
| UNICEF | United Nations Children's Fund |
| VHIA | Viet Nam Health Insurance Authority |
| VHLSS | Viet Nam Household Living Standards Survey |
| VLSS | Viet Nam Living Standards Survey |
| WTO | World Trade Organization |

# Executive Summary

This paper analyses key social security issues in Viet Nam and proposes a conceptual framework for the development of an integrated national social security system. The main objective is to consider how specific components of the existing National Targeted Programme on Hunger Eradication and Poverty Reduction (NTP) could evolve or be incorporated with existing formal sector social security programmes to form an integrated national system. Key institutional, fiscal and macroeconomic prerequisites to the development of a national social security system are discussed. The analysis draws heavily on international experience and is not intended as a programmatic blueprint, but rather as an exploration of key issues requiring further research. The paper addresses four key questions:

1. Does Viet Nam need an integrated national system of social security, and if so, when?
2. What are the advantages and disadvantages of integrating existing social protection mechanisms and policies, including those grouped under the NTP on poverty reduction, into a national system, and what would this change entail in practice?
3. What can Viet Nam learn from the experience of industrialised and other developing countries with regards to the development of an integrated system of social security?
4. What are the advantages and disadvantages of targeting versus universalism in terms of affordability, practicality, institutional capacity and efficiency?

Economic structures in developing countries, such as low incomes, the relative importance of own account work and rudimentary capital markets, render impractical an immediate move to the establishment of comprehensive social security systems. Fiscal and institutional constraints also limit the kinds of choices available to policy makers. However, conditions in developing countries do not rule out public action to increase social security for the most vulnerable people and households. International experience provides numerous examples of practical interventions that are financially and institutionally feasible in countries like Viet Nam. The challenge over the medium term is to establish clear priorities, to achieve better coordination among existing components of the social security system and to increase the efficiency of public resource use.

# 1. Introduction

The Government of Viet Nam formally launched the National Targeted Programme (NTP) on Hunger Eradication and Poverty Reduction (HEPR) in July 1998. At present the NTP includes a range of components including investment in infrastructure in poor communities, subsidised credit, school fee exemptions, health fee exemptions, resettlement or 'sedentarisation' programmes and agricultural extension. A separate, large-scale programme to develop infrastructure in a limited number of communes facing extremely harsh conditions (Programme 135), although at present administratively distinct from the NTP, also forms part of the government's poverty alleviation efforts. The Government has begun the process of redesigning the NTP for the next plan period (2006-2010).

The United Nations Development Programme (UNDP) has consistently supported the efforts of the government to set up and implement the NTP and other programmes as part of a national strategy to achieve immediate reductions in the incidence and intensity of extreme forms of poverty. UNDP has assisted the government in the evaluation of the NTP and Programme 135. The evaluation, which was carried out in collaboration with the Ministry of Labour, Invalids and Social Affairs (MOLISA) and others, was published in November 2004 (MOLISA-UNDP 2004).

The MOLISA-UNDP evaluation has raised a number of issues relating to the new phase of the NTP and Programme 135. Some of these issues are of a technical nature, and are now being addressed by technical working groups involved in the design of the next phase. Other issues touch upon more fundamental questions of policy. Among the latter is the relationship between the NTP and the broader concept of social security, and the important question of whether the social safety net components of the NTP could, over the long term, be combined with existing, though limited, social security programmes, to form the basis of a national social security system.

The purpose of this UNDP Policy Dialogue Paper is to examine the NTP and other social security mechanisms in Viet Nam in international perspective and to explore the question of whether these programmes could form the basis of a nationally integrated system of social security. The paper is conceptual in nature and its main aims are to provide a framework for discussion and to suggest directions for future research relating to the development of an integrated social security system in Viet Nam. The paper addresses four main questions:

i. Does Viet Nam need an integrated national system of social security, and if so, when?

ii. What are the advantages and disadvantages of integrating existing social protection mechanisms and policies, including those grouped under the NTP on poverty reduction, into a national system, and what would this change entail in practice?

iii. What can Viet Nam learn from the experience of industrialised and other developing countries with regards to the development of an integrated system of social security?

iv. What are the advantages and disadvantages of targeting versus universalism in terms of affordability, practicality, institutional capacity and efficiency?

The paper begins with a discussion of the need for an integrated social security framework in Viet Nam in light of economic and social changes that have taken place in the country over the last decade. Section 2 assesses the potential problems arising from the implementation of such a framework, focussing on the two specific issues of the financial viability of extending social security provision to workers not covered under existing programmes and constraints on the extension of contributory systems in view of labour market structures in Viet Nam.

The expectation that current programmes will evolve into a national social security system is based on the following observations:

i. International economic integration in combination with changes in family structures as Vietnamese society becomes more urban and industrialised create new forms of economic risk that demand a more organised response. Old age and illness, for example, are now major causes of poverty in Viet Nam;

ii. Social security programmes reduce socio-economic risk and protect vulnerable groups from a fall in living standards. In doing so, they also stimulate economic growth over the long period by enlarging internal markets and by promoting the accumulation of human capital and the maintenance of social cohesion and political stability.

The concept of social security in Viet Nam is analysed in Section 3. We address four key issues related to the implementation of socially and financially feasible social security policies in a developing economy such as Viet Nam, namely:

i. The notion that social security and poverty-alleviation are not synonymous;

ii. The accessibility of social security programmes to both enumerated and unenumerated sector workers;[1]

iii. The rationale for state involvement in either the implementation or regulation of social security policies or both; and

iv. The progressive nature of social security programmes.

Section 4 discusses the main challenges in the development of a national system of social security in Viet Nam. The section focuses on five specific issues:

i. **Programme coverage**: Existing social security schemes do not cover even their intended beneficiaries. There is hence an immediate need to examine ways to extend existing programmes to include formal sector workers that have been excluded thus far, unenumerated sector workers and the self-employed, urban migrants, ethnic minority groups and other excluded groups;

ii. **Programme prioritisation**: In the presence of budget constraints, the government must prioritise. The most urgent needs are for health and old age security. We review, in particular, the possibility of universal primary health care supplemented by a subsidised health care system and the option of non-contributory social pensions;

iii. **Affordability**: The government could immediately increase the size of the social budget by, among others, requiring greater participation of public and private companies in the provision of security against labour market risks; concentrating safety-nets on specific vulnerable groups rather than the poor in general, and; increasing transfers from richer to poorer provinces;

iv. **Institutional capacity**: Three institutional issues require immediate attention, namely the monitoring capacity of existing contributory systems to reduce evasion; channels of communication and coordination among the three ministries concerned in order to minimise double-counting; and, improving the flow of information within government systems and between programmes and claimants.

v. **Timing**: The government should take advantage of current favourable economic conditions to put in place a fiscal strategy for a future integrated social security system. Although informal arrangements are currently in place that help society cope with existing demands, these arrangements will not be adequate in the future given the current pace of social and economic change. The government must act now, while much of the population still has access to informal arrangements, to prepare for the time when a more organised state response is needed.

1 We use the term 'unenumerated sector' to refer to individuals in employment categories that are not officially registered. The term is preferable to the commonly used concept of the 'informal sector', which implies self-employment or work in very small firms. However, much work in the so-called 'informal sector' takes the form of regular work for a wage, and only differs from the 'formal sector' in that the latter is registered with the appropriate government authorities. Moreover, many firms in the unenumerated sector are as large or even larger than those in the 'formal' sector. It is also important to bear in mind that information concerning the share of the labour force engaged in wage work as opposed to self-employment is notoriously unreliable. For example, the 1998 Viet Nam Living Standards Survey (VLSS) estimated that only 19 percent of the labour force had any form of wage employment. This figure had risen to 30 percent just four years later (Viet Nam Development Report 2004).

# 2. Why an integrated social security framework?

The rapid pace of economic and social change in Viet Nam has moved the issue of social security to the top of the policy agenda. International and regional economic integration, the increase in salaried and waged employees as a share of the labour force, the penetration of market transactions into all areas of life, sectoral shifts out of agriculture and into manufacturing and services and rural to urban migration have all contributed to shifts in the form and magnitude of social and economic risk for millions of Vietnamese people. A well-designed system of social security can contribute to the nation's development by helping people to manage these risks and also by extending and deepening domestic markets, reducing inequality and providing new levers of macroeconomic management.

### 2.1. Economic and social changes in Viet Nam

Viet Nam is widely recognised as a success story among developing countries owing to the country's rapid rate of growth and poverty reduction. The origins of these achievements lie in the set of comprehensive economic reforms launched in 1986 that are widely known as *doi moi* or renovation (World Bank 1999; CIEM 2000; Haughton, Haughton and Nguyen 2001). The initiation of *doi moi* marked the shift from central planning to the market economy, and included policies such as the removal of price controls, enterprise autonomy, the relaxation of controls on private economic activity, the reduction or removal of trade barriers and the opening up of the Vietnamese economy to foreign direct investment (FDI). In agriculture, land was allocated to households and management decisions were left to farmers resulting in an upsurge in investment and productivity growth.

As a result of these policy changes, Viet Nam's gross domestic product has grown at an average annual rate of seven percent since 1987. A rice importing country in the 1980s, Viet Nam is now a major exporter of rice and other commodities, and has rapidly penetrated international markets for manufactures. Macroeconomic stability, including high savings rates and low rates of inflation, are now the norm. Economic growth has been accompanied by a sharp decrease in recorded poverty in both rural and urban areas and across most socio-economic groups. Poverty in Viet Nam has decreased from 58 percent in 1993 to 28.9 percent in 2002 (Table 1).

**Table 1: Poverty Measures in Viet Nam**

| | 1993 | 1998 | 2002 |
|---|---|---|---|
| **Poverty rate** | 58.1 | 37.4 | 28.9 |
| Urban | 25.1 | 9.2 | 6.6 |
| Rural | 66.4 | 45.5 | 35.6 |
| Kinh and Chinese | 53.9 | 31.1 | 23.1 |
| Ethnic minorities | 86.4 | 75.2 | 69.3 |
| Northern Mountains | 81.5 | 64.2 | 43.9 |
| North East | 86.1 | 62.0 | 38.4 |
| North West | 81.0 | 73.4 | 68.0 |
| Red River Delta | 62.7 | 29.3 | 22.4 |
| North Central Coast | 74.5 | 48.1 | 43.9 |
| South Central Coast | 47.2 | 34.5 | 25.2 |
| Central Highlands | 70.0 | 52.4 | 51.8 |
| South East | 37.0 | 12.2 | 10.6 |
| Mekong River Delta | 47.1 | 36.9 | 23.4 |
| **Food poverty** | 24.9 | 15.0 | 10.9 |
| Urban | 7.9 | 2.5 | 1.9 |
| Rural | 29.1 | 18.6 | 13.6 |
| Kinh and Chinese | 20.8 | 10.6 | 6.5 |
| Ethnic minorities | 52.0 | 41.8 | 41.5 |

*(Continued on page 4)*

**Table 1: Poverty Measures in Viet Nam *(continued)***

| | 1993 | 1998 | 2002 |
|---|---|---|---|
| **Food poverty *(continued)*** | | | |
| Northern Mountains | 42.3 | 32.4 | 21.1 |
| North East | 29.6 | 17.6 | 15.4 |
| North West | 26.2 | 22.1 | 46.1 |
| Red River Delta | 24.2 | 8.5 | 5.3 |
| North Central Coast | 35.5 | 19.0 | 17.5 |
| South Central Coast | 22.8 | 15.9 | 9.0 |
| Central Highlands | 32.0 | 31.5 | 29.5 |
| South East | 11.7 | 5.0 | 3.0 |
| Mekong River Delta | 17.7 | 11.3 | 6.5 |

*Source:* Viet Nam Development Report 2004. Poverty rates and poverty gap based on official GSO poverty line.

Notes: Poverty rates are measured as a percentage of the population below the poverty line.

*Doi moi* has made this phenomenal performance possible. It also increased the need for more effective systems of social security. Viet Nam was not seriously affected by the 1997 East Asian financial crisis owing to the non-convertibility of the national currency and a manageable foreign debt position. Nevertheless, the country did experience a pronounced slowdown in economic growth, a reduction in new FDI and export growth and, for a time, slower employment growth (World Bank 2002). These events demonstrate that economic integration carries with it risks as well as benefits, and that these risks are transmitted to poor and vulnerable groups through labour and product markets.

In addition, Viet Nam has experienced significant social change during the *doi moi* period including changes in age and family structures, employment patterns and labour relations, urbanisation and inter-regional and intra-regional income inequality. These trends have increased pressure on the government to respond more effectively to emerging economic and social risks in a holistic and integrated manner.

**Table 2: Inequality in Viet Nam**

| | 1993 | 1998 | 2002 |
|---|---|---|---|
| Viet Nam | 0.34 | 0.35 | 0.37 |
| Urban | 0.35 | 0.34 | 0.35 |
| Rural | 0.28 | 0.27 | 0.28 |
| | | | |
| Northern Mountains | 0.25 | 0.26 | 0.34 |
| Red River Delta | 0.32 | 0.32 | 0.36 |
| North Central Coast | 0.25 | 0.29 | 0.30 |
| South Central Coast | 0.36 | 0.33 | 0.33 |
| Central Highlands | 0.31 | 0.31 | 0.36 |
| South East | 0.36 | 0.36 | 0.38 |
| Mekong River Delta | 0.33 | 0.30 | 0.30 |

*Source:* Viet Nam Development Report 2004.

Notes: Inequality given by the Gini coefficient. The Gini coefficient ranges between 0 (perfect equality) and 1 (perfect inequality).

The mechanisms, projects and policies grouped under the NTP represent a concerted effort on the part of the government to attack extreme forms of poverty. The NTP and related programmes were developed alongside the existing social security system giving rise to coordination problems both in terms of administration and policy orientation. These coordination problems are likely to intensify in the presence of the rapid socio-economic changes described above. Gaps in the social safety net will become more apparent as an increasing share of the population moves beyond categories now covered by the NTP, the existing social protection system and informal schemes. Steps are therefore needed now to begin the process of moving beyond the existing fragmented framework and towards an integrated national social security system.

## 2.2. Current social security schemes in Viet Nam

The Vietnamese government has consistently shown a strong commitment to social development. The share of government spending directed to social services has remained steady at about 30 percent since 1994. In 2002, the largest component of social spending was education, followed in descending order by pensions and other social relief such as support for war heroes, other social expenditures and health (Table 3).

**Table 3: Public Expenditure on Social Sectors in Viet Nam**

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Social expenditure | 32.0 | 33.0 | 32.3 | 33.4 | 33.3 | 30.2 | 29.8 | 31.3 | 29.7 |
| Education | 7.8 | 8.6 | 8.7 | 10.1 | 10.2 | 9.4 | 9.6 | 10.1 | 10.4 |
| Health | 5.0 | 4.4 | 4.4 | 4.3 | 4.1 | 3.7 | 3.4 | 2.9 | 3.0 |
| Pensions and social relief | 13.3 | 13.5 | 13.0 | 13.0 | 11.7 | 10.6 | 10.4 | 11.2 | 9.3 |
| Other | 5.8 | 6.9 | 6.1 | 6.1 | 6.7 | 6.4 | 6.4 | 7.1 | 7.0 |

*Source:* Viet Nam Development Report 2004. Based on Ministry of Finance estimates.

Note: Figures are in percent of total Government expenditure.

Modern social security systems include three basic elements: (i) social insurance including compulsory and voluntary schemes (generally contributory programmes) covering the risk of interruption to normal earnings as a result of unemployment, illness, invalidity and maternity and to even out income over the life-cycle of the worker; (ii) means-tested social assistance, designed to relieve hardship and provide economic support to vulnerable groups through public (cash and in kind) transfers; and (iii) categorical transfers, which provide additional resources for social relief (for example, Child Benefit in the UK and *allocation familiale* in France) (Atkinson and Hills 1991).

Viet Nam has in place a fairly sophisticated set of social security policies that cover the standard categories of social insurance, assistance and relief implemented in more developed countries. The coverage of these programmes, however, is extremely limited. The most common forms of social security in Viet Nam, as in most developing countries, are informal and delivered through family and community social networks.

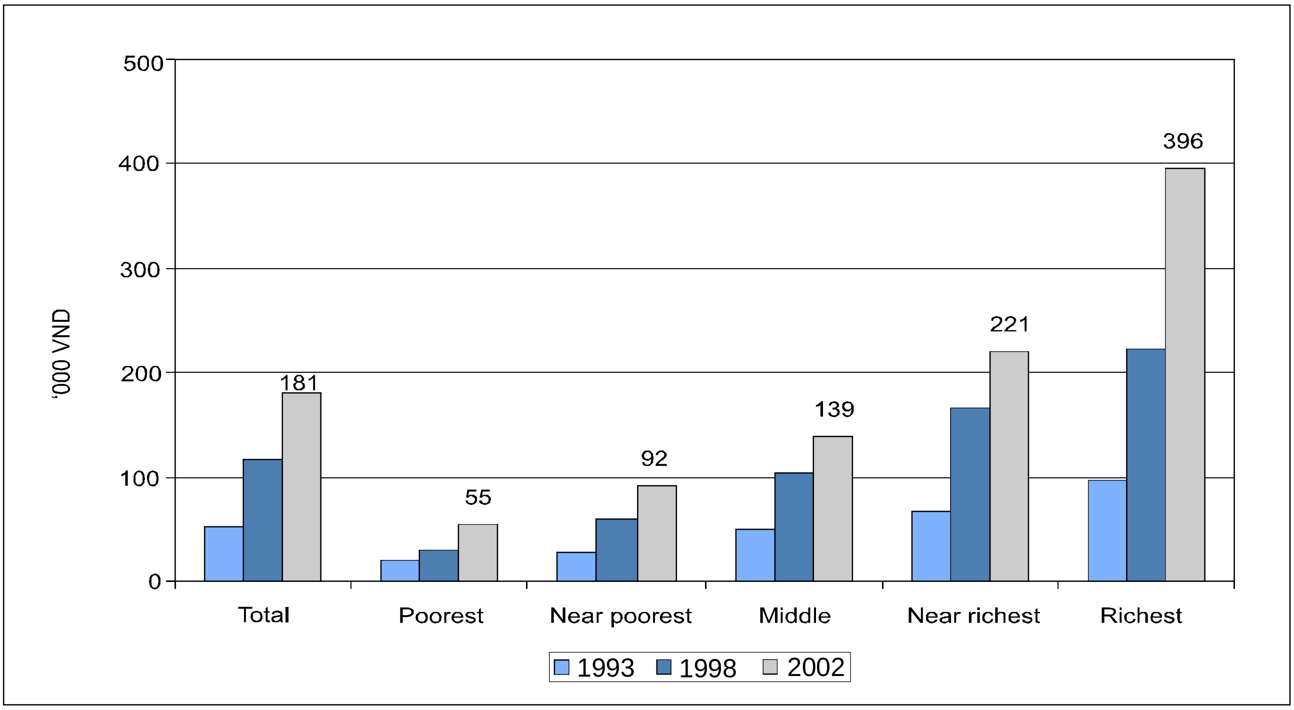
Moreover, the overall impact of existing programmes is regressive. As shown in Figure 1, social welfare payments—including pensions, other forms of insurance, and social assistance payments—increase with income. In fact, the evidence suggests that payments to richer households have grown faster than transfers to the poor over the past decade.

In this section, we review existing policies and identify elements of present schemes that could be combined into a future integrated system of social security in Viet Nam.

### *2.2.1. Social insurance policies*

Social insurance in Viet Nam dates back to 1947. Originally the system was restricted to public sector employees but was expanded in 1993 to cover private enterprises and joint venture companies. Viet Nam's contributory social insurance scheme is similar to those implemented in other developed countries. Current mandatory programmes include retirement pensions, disability benefit, maternity benefit, and unemployment benefit, which was added in 2002. These programmes are implemented by Viet Nam Social Security, and contribution rates are 15 percent for employers and five percent for employees.

**Figure 1: Per Capita Social Welfare Income for Vietnam by Expenditure Quintile 1993-2002**
(thousand VND per annum)




*Source:* General Statistical Office

Over 80 percent of the costs of these programmes are met by central government as the mandatory system under Viet Nam Social Security was only introduced in 1995.[2] The Labour Code, published in 1994 and revised in 2002, provides the framework for the development of social security and was the basis for decrees on the social insurance scheme for pensions and other benefits. The government has plans to extend this scheme to include unemployment and disability benefits.

Viet Nam Health Insurance, established by the government in 1995, now covers around 13 percent of the total population. It consists of compulsory and voluntary schemes under the Ministry of Health (MOH). Contributions amount to two percent from employers and one percent from employees. Voluntary health insurance is available through the purchase of cards usually valid for one year. Pupils and students can join the voluntary health insurance programme, and the government also provides health insurance free of charge to very poor households under the NTP and now to all children less than six years of age.[3] Assistance with health insurance costs for the poor currently takes a number of different forms, including subsidised access to health insurance and direct state payments to hospitals or other service providers. Basic health care is free but patients are charged for additional treatment and medicines. Public expenditure on health care as a share of the government budget has decreased significantly since 1994, accounting for only three percent in 2002 (Table 3).

2 However, even after 1995 funding from contributions has been very small because of the high rate of evasion. Shortfalls to the public pension scheme (more than half of the total) are covered by general revenues obtained from taxes levied on the whole population, the majority of which does not have access to social insurance. Efforts have been made to shift social security financing from the state budget to the new Viet Nam Social Security Organisation. However, in 1999, the government was still the main funding source (World Bank 2002).

3 Under Article 15.2 of the revised Law on Care, Protection and Education for Children (2004) all children under six years of age are entitled to free primary health care and medical examinations at public medical establishments. However, a recent assessment by UNICEF and the Ministry of Health concludes that resources allocated for this purpose are not sufficient and as a result only a very small share of total health services provided to young children is free (UNICEF and MOH 2005).

Social and health insurance are not redistributive (Table 4).[4] The social insurance system covers only 11 percent of the labour force and does not reach those most in need. The majority of the population covered by existing social insurance arrangements consists of people in the middle and upper income groups, notably active and retired public sector workers and formal sector employees (Viet Nam Development Report 2004). This situation is not unique to Viet Nam. Social security programmes can include progressive elements that provide low-income workers a higher rate of return on their contributions than upper-income workers. In many countries, however, these programmes benefit relatively privileged groups such as the military and government employees and therefore do not work to reduce inequality (Midgley 1984; Mesa-Lago 1991).

**Table 4: Average Benefits from Social Insurance and Social Subsidies (1998)**

| | Social Insurance | | Social Subsidies | |
|---|---|---|---|---|
| | Incidence (%) | Average level of benefit (pc pa) | Incidence (%) | Average level of benefit (pc pa) |
| First quintile | 13.9 | 1,010,353 | 7.3 | 251,192 |
| Second quintile | 12.1 | 903,628 | 10.0 | 175,030 |
| Third quintile | 11.6 | 849,509 | 9.6 | 182,875 |
| Fourth quintile | 9.1 | 745,967 | 9.4 | 181,074 |
| Fifth quintile | 9.5 | 731,642 | 11.6 | 196,422 |

*Source:* World Bank (2002).

### *2.2.2. Social assistance policies*

Existing social assistance schemes (assistance and relief transfers) provide limited financial support under strict conditions. Social assistance funds do not reach all of the poor, but only those who are experiencing extreme hardship, and spending on these schemes represents a very small proportion of social spending (ILO 1999a). As in the case of social insurance, social assistance schemes are not progressive, although they are slightly less regressive than social insurance (van de Walle 2003) (Table 4). This section briefly describes five categories of social assistance currently operating in Viet Nam.

**Social Guarantee Fund for Veterans, War Invalids and Others Who Have Contributed to National Liberation Struggles**

One of the legacies of Viet Nam's thirty years of war is the acceptance by the state of responsibility to assist veterans, their families and others who have contributed to the national liberation struggle. These individuals receive special transfers from the Social Guarantee Fund for Veterans and War Invalids, a fund that covers around two to three percent of the population. Beneficiaries of state pensions and invalidity benefits come mainly from the same groups. Benefits for preferred groups, including disabled war veterans and martyrs' families, account for 35.3 percent (2.9 trillion VND) of central government social protection expenditures (ILO 1999a). This is up from 30.3 percent (1.5 trillion VND) in 1994 (Prescott 1997).[5]

**The National Targeted Programme on Hunger Eradication and Poverty Reduction (NTP) and Programme 135**

The NTP on HEPR coordinated by MOLISA consists of 13 components including support for infrastructure development (over and above that provided under Programme 135); subsidised production credit; agricultural, forestry and fishery extension services; 'sedentarisation' of mobile, upland populations; and health care, education and housing support. Subsidised credit is delivered through the Viet Nam Bank for Agriculture and Rural Development and the Bank for Social Policy (which, prior to 2003, was known as the Bank for the Poor).

4 Crop insurance schemes have existed in the past but these have been discontinued. The issue of crop insurance is currently under study, and initiatives to expand voluntary contributory pension cover to farmers are also under consideration.

5 Updated expenditure figures are not yet available.

Program 135 (or more formally the Programme for Socio-economic Development in Communes Face with Extreme Difficulties) is managed by the Committee for Ethnic Minorities (CEM) and contains five sub-components. Most of the funds, however, are used for infrastructure investments in extremely disadvantaged communes and commune 'cluster centres'.

MOLISA and CEM are the lead agencies of the two programmes. However, a number of other agencies are involved in implementation, including the Ministry of Health (health care assistance), the Ministry of Education and Training (school fee exemptions), the Ministry of Agriculture and Rural Development (agricultural extension and sedentarisation) and the Social Policy Bank (credit programmes).[6]

Taken together, the NTP and Programme 135 have delivered substantial resources to poor communities, and in view of the fact that many of the target communes are located in isolated, upland areas and populated by ethnic minorities it is likely that the programmes have contributed to social stability. The recent UNDP-MOLISA evaluation concluded that the targeting of beneficiaries was generally effective, and that most recipients were in fact very poor (MOLISA-UNDP 2004). The programmes are nationally designed and financed, and in the spirit of 'national ownership' some donors have begun to provide direct financial support.

From this perspective the NTP and Programme 135 represent a considerable national achievement. The main problems are low coverage rates and fragmentation due to the proliferation of components. The MOLISA poverty line used to identify the poor is significantly lower than the General Statistical Office's (GSO) 'international' poverty line based on the Viet Nam Household Living Standards Survey (VHLSS).[7] According to the recent UNDP-MOLISA evaluation, only 17 percent of Vietnamese households have access to subsidised credit, of which about 70 percent are on the MOLISA list of poor households. Less than ten percent of households have access to free health insurance and about 20 percent received tuition fee exemptions.

The UNDP-MOLISA evaluation also found that few poor households received the full range of benefits, and that as a result the very poor did not necessarily benefit to the extent intended. The NTP therefore does not constitute an effective social safety net for the poorest households. Other shortcomings identified in the evaluation include over-centralisation of programme management, weak financial management systems (in particular, accounting, auditing and review mechanisms), and the need for more effective monitoring.[8]

### Social Guarantee Fund for Regular Relief

Monthly benefits from the Social Guarantee Fund for Regular Relief cover about 0.32 percent of the total population, including the homeless elderly, orphans and the seriously disabled poor. There is also a small amount of assistance for homeless people, mostly street children. The coverage of these schemes is very limited. Lack of resources and weak management of the programme are the main constraints. For this and similar programmes—for example the Contingency Fund for Pre-Harvest Starvation and Disaster Relief—national funding is inadequate, local government cannot close the funding gap, and as a result most intended beneficiaries are excluded and even those included receive such small amounts that the programmes do not have the intended impact. Assistance levels also vary by province, district and even commune (ILO 1999a). In the late 1990s, these funds accounted for only 0.3 percent of total government expenditure (ILO 1999a).

### Contingency Fund for Pre-Harvest Starvation and Disaster Relief

The main objectives of this programme are to provide aid to disaster-struck areas, and to provide short-term assistance to the poor, usually in the form of food aid (or cash to buy food) during the pre-harvest slack season. In 1997, government expenditure on disaster relief represented 2.4 percent (200 thousand million VND) of social protection spending (ILO 1999a). This figure represented a fall of 7.9 percent from 1994 levels (Prescott 1997). Pre-harvest food relief accounted for 1.2 percent of the total social protection expenditure budget in 1997 (ILO

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5 This system of administration has encountered some problems (UNDP-MOLISA 2004 and Section 4 below).

7 The headcount poverty rate using the MOLISA poverty line was 13 percent in 2002 as compared to 29 percent under the GSO poverty line. The government is currently in the process of developing a unified poverty line expressed as expenditure per household per month for rural and urban areas.

8 Similar conclusions are reported in Neefjes (2004) and Minford et al. (2004).

1999a).[9] The schemes suffer serious shortcomings, including diversion of funds to other uses when no disasters occur, leaving insufficient resources in reserve when disasters do take place. The Contingency Fund for Pre-Harvest Starvation and Disaster Relief constitutes the only form of social assistance accessible to many poor households, although only about half of claimants actually receive help.[10] However, the central government has allocated substantial resources to food relief efforts since then, notably following typhoon 'Linda' in 1997, severe floods in the central region in 1999, and large scale Mekong floods in 2000 and 2001. A review of relief and rehabilitation efforts and effects during the latter floods in the Mekong Delta showed that food relief was generally adequate and delivered in a timely manner (Neefjes 2002).

Additional funds are generated through private channels, including mass organisations (with support from the media) and international non-government organisations, in particular after large-scale natural disasters. Some of those funds are channelled through an *ad hoc* central committee in the case of large-scale disasters, but most go directly to local authorities (provinces and districts) and local cells of mass organisations (such as the Viet Nam Red Cross). Local authorities also use core funds from their regular budget for relief and rehabilitation, and in the case of small-scale disasters this may be the only financing source. Allocations are typically made for immediate relief (food and non-food items), support to livelihood recuperation (for example, boats and nets) and to support the rebuilding of homes and improvements to defences against floods and typhoons. These disbursements are generally targeted to the most vulnerable households. Comprehensive national level data on the amounts involved are not available (Neefjes 2002; Lempert *et al.* 2004).

**Informal Arrangements**

Other social security mechanisms in Viet Nam are informal in nature, such as support provided by family members, informal work exchange and food assistance among neighbours, and loans made available by family, neighbours and moneylenders. Informal arrangements still provide a measure of security for millions of Vietnamese households.[11] However, these mechanisms tend to decline in importance as family structures change and as labour mobility and dependence on wage employment increase. The danger in countries like Viet Nam where economic and social changes are progressing at a rapid pace is that the government will continue to rely on informal security arrangements long after they have lost their capacity to protect the majority of people against risks to their living standards.

### 2.3. Potential problems and challenges

Policy makers in developing countries face a common set of problems in the course of developing integrated systems of social security. Viet Nam is no exception. Low rates of coverage are the most critical limitation on existing social security programmes in Viet Nam as in other developing countries. Fiscal constraints are generally cited as the main reason for low coverage. However, as discussed below, this explanation is less persuasive than it appears at first glance. The structural differences between developing countries and more advanced economies are generally more important. These include the underdevelopment of financial systems (in particular capital and insurance markets), organisational and administrative constraints and the persistence of traditional labour market structures.

#### *2.3.1. Financial constraints*

Developing countries are subject to fiscal constraints that are aggravated by limited government capacity to collect taxes and correct market failures (Newbery and Stern 1987). Upper income groups attempt to evade taxes, including social security taxes, since they do not expect to benefit directly from government programmes that help the poor (Becker, Büchner and Sleeking 1987). Similar problems have been reported in Viet Nam (Viet Nam Development Report 2004). Rapid demographic change and poorly developed financial markets are also cited as common characteristics of developing countries that render it difficult or impossible for governments to finance social security. The widely held view that countries like Viet Nam cannot afford social security programmes,

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9 More recent evaluations of these programmes are not available.

10 The likelihood of a claimant receiving help depends on location and on other expenditures out of the fund that year (ILO 1999a).

11 See, for example, Cox (2002).

and that social security programmes are therefore inappropriate to their social and economic needs, is largely based on the perception that these financial constraints are binding and inevitable.

Yet according to Drèze and Sen (1991), Burgess and Stern (1991), Guhan (1992) and a number of other scholars the evidence does not support this common presumption. Although it may be the case that some of the more complex and expensive programmes adopted in high-income countries are not immediately replicable in poorer countries, a range of alternatives exist that are both practical and financially viable. Examples can be found in countries as diverse as China, Costa Rica, Chile, Cuba and Sri Lanka. In these countries, successful social security programmes have been implemented at relatively low cost owing to low prevailing wage levels, strong public commitment and efficient administration (Drèze and Sen 1991) (see Box 1). Furthermore, in developing countries, financial benefits and costs diverge significantly from social benefits and costs. Social benefits and costs take into account market imperfections including positive and negative externalities.[12] Careful consideration of these economy-wide effects is required before the true benefits and costs of investment in social security can be estimated (Midgley 1984; Atkinson and Hills 1991; Drèze and Sen 1991).

**Box 1: Programme costs in international perspective**

Dev (1996) has calculated that central and state spending on rural development and social services in India was equal to 6.9 percent of GDP in the 1993/1994 fiscal year, or 7.5 percent if food subsidies are included. However, Guhan (1992) has shown that if India were to implement Tamil Nadu's relatively comprehensive social security system nationwide the cost would represent only 0.3 percent to 0.5 percent of GDP. Countries including China, Sri Lanka and Cuba have achieved impressive improvements in the provision of basic needs, education and health care at low cost relative to national income: the percentage of GDP allocated to public expenditure on health was two percent in China in the 1980s, one percent in Sri Lanka in 1981 and 2.7 percent in Cuba in the same period (Drèze and Sen 1991, p. 27). Drèze and Sen therefore argue that the successful implementation of redistributive programmes in these economies 'does not lie in the size of financial allocations to particular public provisions. Their real success seems to be based in creating the political, social and economic conditions under which ambitious programmes of public support are undertaken with determination and effectiveness, and can be oriented towards the deprived sections of the population' (p. 28).

### Demographic transition

As countries grow, fertility and mortality patterns change. People generally live longer as living standards and access to health care improve. Urbanisation, education and access to birth control reduce fertility rates. The result is a rise in the share of older people in the population. Demographic changes such as these have gradually increased pressure on social security mechanisms in developed countries. Under pay-as-you-go systems, the ageing of the population could mean that younger generations receive less in their own old age than they must now contribute in the form of social security contributions (see Myles 1995). Although alternatives exist to pay-as-you-go systems, such as fully-funded systems or semi-private old age and health insurance, developed countries have found it difficult to implement them. Politics is an important factor as retirees now form an increasingly well-organised and vocal interest group. Governments in industrialised countries are thus often faced with the necessity of making unpopular decisions to shore up the finances of social security programmes. Developing countries like Viet Nam are in a position to learn from this experience and design programmes that are financially sustainable over the long period.

### Financial markets in developing countries

A more problematic issue is the fact that financial markets in Viet Nam are incomplete and in some cases non-existent. Poorly formed domestic private insurance markets impose a heavy burden on public social security systems and raise important questions regarding the effect of social security on savings and investment. These effects are directly relevant to policies for the promotion of economic growth.

[12] See Section 2.4 below.

Economic theory suggests that social security systems will not have an effect on savings (and hence the capital stock) when the following conditions apply: i) benefits equal the expected value of taxes; ii) taxes do not exceed voluntary savings (which is the case with most fully funded systems); and, iii) the interest rate equals the growth rate of total wages. However, if the system is designed as a compulsory saving programme so that consumers benefit from larger future earnings, the system will encourage savings and thus increase the stock of capital available to the economy (Myles 1995).

However, if benefits exceed taxes paid (which is the case in some pay-as-you-go systems), social security benefits may be perceived as an effective increase in wages and therefore stimulate current consumption. Feldstein (1974) and Takayama (1992) claim to have detected this result empirically in the United States and Japan, respectively. Lack of trust due to missing or incomplete financial markets in developing countries would tend to aggravate these effects.

#### *2.3.2. Administrative constraints*

Other potential problems in developing countries include administrative inefficiency, lack of adequately trained personnel and low literacy levels, which prevent people from claiming the benefits to which they are entitled (Midgley 1984). Unduly complex social security legislation can compound these problems. The recent evaluation of the NTP (UNDP-MOLISA 2004) suggests that these problems are present in Viet Nam.

Administrative and managerial inefficiencies increase the costs of social security programmes in developing countries (Mesa-Lago 1983). Inefficiencies are greater in countries that do not have a single social security system based on clear, unified legislation, a unique fund and administration, and uniform financing and benefits. Simplification of registration, record-keeping and collection of contributions reduces administrative costs and eases pressure on government institutions. Good administration can, in turn, reduce political opposition to the implementation of social security programmes. This is an important factor to take into consideration in Viet Nam since a reduction in tax evasion by high earners would significantly decrease the financial burden of social security programmes on the majority of the population. We will return to this issue in the last section of the paper, which considers administrative arrangements in Viet Nam.

#### *2.3.3. Labour structures*

Labour market structures are another constraint on the implementation of social security systems in countries like Viet Nam. Nearly 60 percent of the labour force in Viet Nam is engaged in agriculture, a sector in which incomes are variable, productivity is often low and underemployment widespread. Consequently, existing social security schemes cover only workers in government service, in quasi-governmental sectors and those working in relatively large, registered firms on regular employment contracts.[13] Extending the coverage of existing social insurance and social assistance to the majority of the population represents a formidable future challenge. Progress towards a more universal system should be based on careful consideration of the costs in comparison to economic, social and political benefits.

A related issue concerns the relationship between social security policies, work incentives and the need to avoid dependence on government transfers among those able to work. For example, social security policies could influence the labour supply by lowering the age of retirement or extending the period of unemployment (Atkinson and Stiglitz 1981). In the presence of perfect capital markets, tax premiums paid would equal desired savings, and workers would be able to borrow at the same interest rate used to compute social security benefits (Aaron 1982). When these assumptions do not hold, social security policies could affect consumption, savings and labour supply decisions, even when taxes are equal to benefits. In countries like Viet Nam, where capital and insurance markets are imperfect, fine-tuning the value of the benefits is needed to minimise negative economic incentives and to avoid unwarranted dependency on government transfers. Legislation setting the minimum retirement age would encourage older workers to stay in the labour force. Fully funded systems are also a viable alternative as they imply substitution effects between pensions and private savings in which social benefits are

[13] See Midgley (1984); Ahmad et al. (1991); Mouton (1975) for evidence on Africa and Mesa-Lago (1991) for the Latin American case. The Viet Nam Labour Code covers government employees and employees of enterprises with more than ten workers.

equivalent to private savings. In this case, the provision of benefits does not alter consumers' behaviour (Atkinson and Stiglitz 1981). We will return to this issue in the final section of the paper.

### 2.4. Potential opportunities generated by social security policies

As noted above, many authors have argued that developing countries should delay the establishment of national social security systems, citing the current state of social security in industrialised countries and economic conditions in the developing world. The dominant view is that in much of the developing world conditions of extreme poverty impel a large segment of the population to seek protection against short-term covariant risks (in other words, immediate threats to living standards such as crop failure) rather than income smoothing over time or between generations (see Ahmad et al. 1991). It is argued that countries with large agricultural sectors, and in which much of the labour force relies on seasonal work or otherwise informal labour arrangements (and therefore subject to substantial income variability) are unsuited to the development of formal social security systems. Limited administrative capacity is also cited as a major obstacle to the adoption of social safety nets and social security instruments. Finally, opponents of social security argue that political structures in the developing world are not conducive to progressive policies that imply some measure of income redistribution.

It is the contention of this paper that these arguments overstate the negative aspects of social security in rich countries and underemphasise the potential positive contribution to growth, equality, social cohesion and political stability in developing countries. The case for the establishment of social security programmes in countries like Viet Nam rests on a more balanced assessment of the benefits and costs of these systems. Countries like Viet Nam can learn important lessons from the evolution of social security systems in developed countries and avoid some of the shortcomings of these systems.

Countries including Chile, China, Costa Rica, Cuba, Jamaica, Sri Lanka and the southern Indian state of Kerala have implemented social security systems based on efficient targeting, extensive public participation and careful consideration of the specific characteristics of the local economy. These systems have largely succeeded in protecting the most vulnerable groups from extreme poverty during the process of industrialisation in the same way that social security programmes were crucial to the process of socio-economic development in the now industrialised countries in the first half of the twentieth century.

In calculating the benefits and costs of social security programmes it is important to consider external effects, in other words, economic effects not mediated by the market or actual prices. These effects include:

i. The acceleration of human capital formation through improvements to education and health care (Saint-Paul and Verdier 1992; Perotti 1993) and the elimination of extreme forms of destitution;

ii. Demand side effects prompted by the redistribution of purchasing power to consumers who spend a greater share of income on domestically produced goods and services than on imports (Murphy et al. 1989);

iii. The promotion of social and political stability as the benefits of economic growth are spread more widely across the population resulting in less social and political discontent (Alesina and Perotti 1993).

These effects emanate from the redistributive aspects of social security policies. In the 1970s mainstream development theory emphasised the positive social and political implications of 'redistribution with growth' (Chenery et al. 1974), but by the 1980s these policies had fallen out of favour as developing countries struggled to manage the fiscal shocks of the debt crisis and falling commodity prices. Recent years, however, have seen the re-emergence of interest in redistribution as economists have attempted to explain the superior performance of East Asian countries relative to Latin America and Sub-Saharan Africa. The renewed focus on poverty reduction among the international financial institutions and other donor agencies has also provoked questions concerning the appropriate components and dimensions of social safety nets in developing countries. Although there are no generic solutions to the problems of poverty and insecurity, countries like Viet Nam can derive important lessons from the experience of industrial countries and a range of developing countries that have experimented with various forms of state-led social security mechanisms to reduce inequality and marginalisation and promote economic growth.

# 3. The concept of social security in Viet Nam

Previous sections have indicated that Viet Nam would benefit from moving towards a national system of social security. In this section we consider the question of what form this system should take. In order to address this question we must first define the concept of social security in more concrete terms. The International Labour Organisation (ILO) provides one of the most widely accepted definitions of social security, a definition that has evolved over time on the basis of a series of international conferences, covenants and conventions. According to the ILO definition:

> *Social security is the protection that society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, invalidity and death; the provision of medical care; and the provision of subsidies for families with children* (ILO 1984).

This definition of social security is familiar in Viet Nam, and has been discussed extensively in the context of the government's continuing dialogue with ILO and in specific projects supported by other international partners, including GTZ, the World Bank, and the Asian Development Bank, among others. A number of authors have put forward alternative definitions of social security or social protection intended specifically for conditions in developing countries (for example Ahmad 1991; Ahmad and Hussain 1991; Burgess and Stern 1991; Schmidt 1995; Norton, Conway and Foster 2001; Kabeer 2002; Barrientos and Shepard 2003). These authors share a view of social security that extends beyond sudden loss of expected income to include the prevention and alleviation of chronic poverty and the provision of minimum standards of living.

The approach to social security chosen by any given country depends on national policy objectives and the specific structural conditions of the economy. A number of existing studies touch upon various aspects of social security in Viet Nam (ILO 1999a; World Bank 2002; Viet Nam Development Report 2004). Deliberations over the design of the next phase of the NTP have also refocused attention on social security issues. However, a strategy for the future of social security in Viet Nam over the medium to long term founded on a coherent set of policy objectives has yet to emerge. This in part reflects the bewildering array of definitions of social security or social protection proposed by international and national institutions, many of which are too broad or general to be of practical use in Viet Nam. Competing definitions reflect not only competing visions of the evolution of social security in Viet Nam but also different interpretations of international experience and its implications for national policy formation.

This does not mean that the debate in Viet Nam has been unproductive. The policy dialogue on the most appropriate definition of social security for Viet Nam has been useful in that it has helped to raise several key issues. First, a distinction must be made between social security and poverty-alleviation policies. A second and related point is that the intended beneficiaries of these programmes and policies must be explicitly identified. Third, attention must be paid to the appropriate role for the state in the provision of social security programmes. Finally, the redistributive dimension of social security policy requires careful consideration in the developing country context.

### 3.1. The distinction between social security and poverty-alleviation policies

The main objective of social security policies in developing countries implicit in the literature is the relief of extreme forms of destitution and vulnerability. Definitions of social security in developing countries are typically broad and have resulted in the identification of social security with anti-poverty policies such as asset creation policies (for example, Integrated Rural Development Programmes in India) and employment generation programmes (such as the Employment Guarantee Scheme in Maharashtra, India and the Food for Work Programme in Bangladesh).[14] In this formulation social security is identified with 'social safety-nets'.

Social security systems do reduce poverty and contribute to national poverty reduction strategies when combined with policies such as employment generation schemes, public investment in infrastructure and education and training policies that provide equal or preferred access to the poor. The main objective of social security is not, however, to lift individuals and households above the poverty line, but rather to protect them against economic and social risks.[15] In fact, many schemes do not target the very poor at all, but rather are intended to cover specific groups of people who are for some reason excluded from the labour force such as disabled or retired workers.

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14 The appeal of the concept of 'social protection' to mainstream economists reflects this limited view of the role of the state in poverty alleviation and the provision of social security.

15 Ahmad et al. (1991), Guhan (1994) and Sinha and Lipton (1999) provide detailed discussion of various risks facing the poor.

Conceptually, there is nothing barring developing countries from introducing social security systems similar to those in place in wealthier countries. Viet Nam already has in place legislation and policies covering social insurance (including health insurance), social assistance transfers and categorical relief policies. However, countries like Viet Nam must address specific sets of design issues in the process of establishing social security programmes. We discuss some of these conceptual concerns in the remainder of this section and move on to practical implementation issues in Section 4.

### 3.2. The beneficiaries of social security policies in developing countries

The ILO definition of social security assumes that beneficiaries are workers facing a 'stoppage or substantial reduction of earnings' due to illness, pregnancy, disability or old age. These workers have contributed a percentage of their earning during their working lives towards social security funds, contributions that entitle them to benefits to help them maintain their standard of living in the event of the life contingencies listed above.

In Viet Nam and other developing countries social security policies cannot limit their focus to workers since a large share of the population is self-employed or employed as casual labourers in the unenumerated sector. For these people, economic risks are a fact of daily life and not limited to specific life events, accidents or illness. Furthermore, formal sector workers in developing countries are likely to be substantially better-off than those in small scale agriculture, other forms of own production or casual wage work.

Social security policies in developing countries must therefore extend beyond the formal sector to cover workers in the unenumerated sector and other vulnerable groups (Jhabvala 1998). In Viet Nam, these groups include urban migrants, ethnic minority groups and individuals in chronic poverty that are particularly vulnerable to social and economic change (for example, the elderly who lack access to incomes of younger family members, the disabled and orphans). These groups are already targeted under the NTP. However, these programmes only cover those below a low 'food poverty line' that excludes many vulnerable individuals and households. Extending social security programmes to these groups raises practical resource allocation issues that are addressed below.[16]

### 3.3. The role of the state

The government has a long tradition of administering social security and poverty alleviation programmes. The theoretical logic for state involvement in the provision of social security rests on two main grounds. The first views social security as a public good, in other words a good or service that would be under-produced if left to the private sector. Only the state can create the necessary incentives to increase the supply of social security instruments, or to compel individuals to take part in compulsory systems. In addition, the government has a greater interest in producing and distributing information about economic risks and vulnerabilities than private actors. The second justification for state action refers to market failures stemming from poorly formed or absent capital, futures and insurance markets.

These two theoretical justifications for the role of the state in social security provision are relevant to countries at Viet Nam's stage of development. Incomplete capital and insurance markets leave the vast majority of the population exposed to economic risks associated with illness, crop failure, price fluctuations and so forth. And since risk is so widespread across all segments of society the economic, social and political costs can be extremely large from society's point of view.

Family and community-based arrangements provide some social insurance against life contingencies and uncertainties in developing countries, including Viet Nam.[17] However, two problems arise in relation to informal

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[16] See Section 4.3.

[17] Informal social security schemes in developing economies encompass a range of communal and family arrangements, which may include one or several of the following (Agarwal 1991; Drèze and Sen 1991; Platteau 1991): (i) diversification of sources of income through seasonal migration, trading arrangements, the growing of mixed crops when the household owns land, and livestock; (ii) reliance on communal resources, such as land and forests, which enable the households to increase their production and diversify incomes (they serve both as an alternative and a complementary source of food, medicinal herbs, fuel, fodder, water, manure, timber, fibre, and so on); (iii) support given by social relations (patronage, kinship and friendship) and informal credit networks;(iv) drawing upon household stores (of food, fuel and so forth) and adjustment of current consumption patterns; and (v) 'grass-roots' organisations, which arise generally from local initiatives.

provision of social security. To begin with, families and communities are often exposed to the same risks at the same time (for example, bad weather, price changes or infectious diseases). Informal security networks may therefore fail when they are needed most (Burgess and Stern 1991; Platteau 1991; and Ahmad 1991).

Moreover, evidence suggests that traditional forms of family and communal arrangements disappear in the course of modernisation and urbanisation (World Bank 1994).[18] The erosion of informal networks represents a significant institutional and fiscal challenge for developing countries. Countries like Viet Nam must find ways to replace traditional systems with formal, often state-led systems, as the process of industrialisation unfolds and as the state's limited financial and technical resources are drawn towards competing priorities.

The existence of budget constraints implies that the government must establish explicit priorities for social security and carefully prioritise objectives. For instance, Chile's compulsory private sector savings plan (see Box 2) limits the state's role to regulation. In this case, the government decided to concentrate on monitoring and enforcement mechanisms to guarantee programme compliance.

Strengthening of informal social security relations represents another alternative strategy. The government can, for instance, subsidise families and communities that provide care for the elderly and ill. Such programmes are administratively simpler and cheaper than direct implementation of services by the government. Moreover, Drèze and Sen (1991) make the point that 'public involvement and activism may have the role both of drawing the attention of the government to problems that may otherwise be neglected and of forcing the hand of the government by making it politically impossible—at least unwise—for it to ignore impending threats' (p. 29). Other asset-protection policies may complement social security. Land reform, policies to stimulate self-employment and wage employment, minimum wage policy, and food subsidies are not in themselves adequate substitutes for social security policy, but can form part of a broader government strategy to reduce economic risk for the most vulnerable segments of the population (see Osmani 1991 and Guhan 1994).

### 3.4. The progressive nature of social security policies

Redistribution is an explicit component of social security programmes in European countries and, to a lesser extent, in North America. These programmes redistribute income in two ways. First, social assistance programmes are generally funded from taxes, and therefore effectively transfer cash from higher to lower income groups (assuming that the underlying tax system is progressive). Second, pay-as-you-go systems in place in most developed countries involve intergenerational transfers from workers to the elderly in the present.

Schmidt (1995) has shown that formal social security systems in many developing countries redistribute income from the poor to the middle classes, rather than the other way round. This occurs because the schemes are financed through regressive taxation and thus the poorer segments of the population end up facing higher marginal tax rates. Yet the fact that social security programmes are often regressive works to undermine the programmes themselves, since the vast majority of the population is neither aware of nor benefits from social security policies. Moreover, developing countries cannot rely entirely on contributory systems in view of the extent of poverty in these countries, the higher incidence of tax evasion and the underdevelopment of financial markets (particularly capital and insurance markets). The design of progressive systems of social security is of crucial importance in developing countries when financial resources are scarce. For countries like Viet Nam, this implies close attention to the structure of the system including contribution and benefit rates and the establishment of effective monitoring systems to guarantee accurate and timely payment of contributions by both employers and employees. We will return to these design consideration concerns in the next section.

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[18] Patron-client relations, for example, are undermined by the rise of local markets for casual labour and labour migration, emigration of the poorer workers to cities or other rural areas, integration of national commodity markets and substitution of products purchased on the market (for example, fertilizers) for those previously produced locally (Agarwal 1991; Platteau 1991; Dasgupta 1993). Networks based on kinship also are disappearing due to class differentiation and geographic mobility (Agarwal 1991, p. 198).

# 4. Proposals for programme design and implementation in Viet Nam

The obvious starting point for programme design in Viet Nam is the existing set of formal social insurance and social assistance schemes and social safety net elements now grouped under the NTP and other policies in support of vulnerable groups. It is often much easier to build on existing institutions and policies, especially those with well-understood strengths and weaknesses, than to begin from a clean slate. What is needed is a strategy to combine existing schemes into a single integrated framework in order to facilitate administration, reduce gaps and overlaps in coverage, and make the system more progressive.

Existing programmes already cover four main areas of an integrated social security programme:

i. Existing social insurance schemes for the formal sector can immediately be made part of a national social security system;

ii. Existing health insurance schemes can be made part of a national social security system although weaknesses need to be addressed;

iii. Existing social safety net provision under the NTP (in particular, special support for ethnic minorities and support to vulnerable people) could be combined with the Fund for Pre-Harvest Starvation and the Social Guarantee Fund for Regular Relief to form the basis for a national social assistance strategy;

iv. Programmes in support of war invalids, veterans and people who have made meritorious contributions to the resistance wars (including pension schemes and other special assistance for these groups) can to some extent form part of pension and disability benefit programmes.

### 4.1. Components of an integrated system of social security in Viet Nam

Atkinson (1989) argues that social security is a term that can be used either to denote an objective of government policy or to describe a set of policies. In industrialised countries, the term social security usually means the latter, while in developing countries the objectives of social security systems are more important than the means. Until now, the government has focused on designing and implementing sets of policies. These have, however, fallen short of their objectives in terms of coverage and sustainability. A more practical way to approach social security in Viet Nam would be to focus on the objectives of the system and then build specific insurance, assistance and relief policies around these goals. Two crucial objectives of an integrated system of social security in Viet Nam would be to achieve a level of coverage that would protect all vulnerable people, and provide a level of benefits that would have a material impact on the lives of recipients. In light of the issues discussed in previous sections, it is clear that an integrated system of social security in Viet Nam would operate at three social and economic levels: namely, the formal sector, the unenumerated sector, and other vulnerable groups.[19]

#### *4.1.1. Individuals employed in the formal sector*

These workers have access to standard social insurance and social assistance schemes financed by both employers and employees. They also have access to health insurance, including compulsory and voluntary schemes. Current contribution levels to social insurance and health insurance schemes are feasible as long as compliance improves. In view of the need to use scarce public resources elsewhere, the government must gradually reduce the level of public funding to these schemes and eventually revert to a supervisory role. The experiences of China and Chile provide some valuable lessons (see Box 2). However, the government would need to strengthen monitoring systems considerably in order to enforce compliance by both public and private companies.

#### *4.1.2. Self-employed and unenumerated sector workers*

Bringing social security to the self-employed and workers in the unenumerated sector is the biggest single challenge facing the development of a national social security system in Viet Nam. The literature on social security in developing countries has suggested several possible strategies to extend social security coverage to these people. One solution is the direct extension of existing formal social insurance schemes to excluded

[19] Appendix A presents a schematic description of the operation the various components of social security in Viet Nam.

**Box 2: Two models for formal sector pensions: China and Chile**

**A. China**

The Chinese pension system has been in place since 1951 and has undergone several rounds of reform over the last two decades. One of the most significant reforms took place in 1986, when the Chinese government introduced the concept of individual contributions into the pension system. The government established special agencies that managed pension funds independently of employers, who ceased to be the main providers of social security benefits. The reforms were implemented across the country, though they acquired different characteristics in different provinces. Some provinces set up fully funded pension programmes that often extended coverage to include private and joint-venture enterprises. In 1991, a new resolution established a three-tier pension scheme for state-owned enterprise (SOE) workers. The three tiers consisted of: (i) a basic pension for all retirees jointly financed by the state, enterprises and workers; (ii) a supplementary scheme funded by the enterprise from its trading surpluses; and (iii) an account funded by individual workers, on a voluntary basis, and payable at retirement as a lump sum. This policy removed sole pension responsibilities from enterprises and the responsibility for the new collective funds was to be shared between the state, enterprises and individual workers. Some provinces began experimenting with a two-tier approach funded by employee and employer contributions without the guaranteed government backed basic pension. This approach was particularly popular with employees in private and joint-venture enterprises, which often had few retirees on their payrolls. In 1997, the government decreed that pension design was to be a government responsibility and not the responsibility of enterprises. The government then established a unified nationwide basic pension insurance system to replace all pilot programmes by the end of the century. Urban pensions now cover 90 percent of all active workers falling into the group for which participation is compulsory. This corresponds to about 45 percent of the urban labour force from the early 1990s. The basic old age pension has two components: a notional defined contribution plan with an individual account established for each worker; and a defined benefit plan known as the 'social pension' based on a social pooling account. Pools are based on location (cities, prefectures or provinces) or industry (civil aviation, railroads). The current level of employee contributions to individual accounts has increased to eight percent. The maximum enterprise contribution is set at 20 percent of total payroll, but in practice there is substantial variation ranging from 15 to 30 percent. Retirement age is 60 for men, 55 for women in salaried positions and 50 for women in blue-collar jobs. Those working in designated dangerous industries may retire five years earlier; senior professionals may retire five years later. The recommended consecutive length of service to qualify for a pension is not less than 15 years, although practice varies. Early retirement is allowed at 50 for men or 45 for women who have 10 years' coverage and are disabled. Coverage of these schemes is limited to the urban sector. The government has also attempted to increase coverage by introducing pension schemes for the rural population, namely the 'Basic Plan for Old Age Social Insurance in the Countryside'.

*Source:* Whiteford (2003).

**B. Chile**

Chile implemented a private, fully funded social security pension in 1981. This system replaced the former pay-as-you go system and is one of the first fully funded systems in operation in the developing world. This system is contributory and based on a private mandatory savings plan. Workers must contribute 10 percent of their monthly earnings during their working life to an individual account. Of this amount a fixed administrative fee is subtracted. In addition, workers pay a commission to finance survival and disability insurance. The total pension is expressed in terms of '*unidades de fomento*', a monetary unit indexed monthly to inflation. This protects pensions against inflation, a common problem in Latin America. The final value of the pension depends on: (i) the funds accumulated in the individual account; (ii) the accumulated interest on the account; and (iii) life expectancy. Workers that had previously contributed towards the pay-as-you-go scheme received 'recognition bonds' from the government corresponding approximately to the amount of their lifetime contribution towards the old system. At retirement (65 for males and 60 for females) workers can choose between an annuity with an insurance company, a programmed retirement or a combination of the two. Disability and survivor pensions are provided through private insurance companies. Under this system, private fund management companies administer pension funds. These companies are only allowed to perform this function and cannot be involved in any other type of financial services. The pension system is strictly regulated by the government through a Superintendency of Administrators of Pension Funds. The state provides additional guarantees. In particular, the state will distribute a minimum pension for all insured workers that have worked for a minimum of 20 years. This amount is not, however, indexed to inflation. This system has successfully eliminated imbalances resulting from demographic and political factors, such as the aging of the population and the tendency of populist governments in Latin America to engage in excessive public spending or promises before elections. The system also protects pension funds from political and financial cycles and has induced positive effects on savings and capital accumulation in Chile. The pension programme has had a significant impact on the development of financial and capital markets in Chile and, consequently, on economic growth. The economic circumstances of Chile in the early 1980s were, however, quite different from those of Viet Nam today. In particular, the level of GDP per capita was much higher and a larger share of the labour force worked in the formal sector. But as the Vietnamese economy develops, the Chilean model could potentially become a viable option over the long period.

*Source:* Arenas de Mesa and Bertrandou (1997).

groups without significant modification. Although this solution has the advantage of building on existing institutional and administrative frameworks, the cost of the programmes would be very high given the large share of the labour force that still falls into these categories.

As already mentioned in this paper, the immediate extension of full-scale, western-type social insurance schemes is not financially possible at this time. An alternative solution would be to restructure or adapt existing schemes to extend coverage to excluded groups. The NTP and other targeted programmes pursue this strategy. Although these programmes have reached many of those previously excluded from other forms of social security, coverage of the relevant groups is poor and benefit levels are too low to achieve a significant impact on living standards. As pointed out in the UNDP-MOLISA (2004) evaluation, reliance on means testing has had a negative effect on programme coverage.

This points to a third possible solution: namely, the introduction of non-contributory schemes financed from general taxation. The amount of benefits distributed by similar programmes in other developing countries is generally small enough to discourage the participation of better-off groups but large enough to support the most vulnerable segments of society. These programmes are typically progressive and include a large redistributive component as they depend on the ability of the government to transfer resources from better-off to low-income groups. They effectively amount to a mixture of self-targeting and universalism (Besley and Kanbur 1993). These schemes are discussed in greater detail below.[20] A prerequisite to this alternative strategy is to strengthen the tax system and tax collection. These policies would provide basic protection for groups that are presently excluded from all forms of social security. At the same time, they would allow Viet Nam to gradually strengthen the financial capacity of the system as the process of economic development unfolds. Eventually, the government could consider moving to a national contributory system, complemented by social assistance transfers to specific vulnerable groups.

#### *4.1.3. Vulnerable groups not included in the two categories above*

These individuals should be assisted by a combination of social assistance transfers financed from the central government budget (that is, out of the tax system). The most relevant programmes would build on the current NTP and other safety net schemes already in place in Viet Nam. These include benefits under the NTP for those below the poverty line, including special policies for ethnic minority groups and vulnerable people (including the disabled, elderly people, single mothers and orphans), the Fund for Pre-Harvest Starvation and the Social Guarantee Fund for Regular Relief. The Fund for Pre-Harvest Starvation is, under current circumstances, a relief fund provided under the combined heading of Contingency Fund for Disaster Relief and Pre-Harvest Starvation. As recommended by ILO (1999a), a separation of these two funds is advisable. Given the seasonal nature of Viet Nam's agricultural activities, the Fund for Pre-Harvest Starvation should become a regular assistance system for specific vulnerable groups. One particular important group is landless households in rural areas.

The Disaster Relief Fund, by way of contrast, would only need to operate when calamities take place. Contrary to common practice at present (MOLISA-UNDP 2004), payments under this fund should only be made when verified disasters take place and the funds should not be used for any other purposes. There is also a case for decentralisation of decision-making to the province level relating to the use of those funds.

### 4.2. Challenges ahead

Several issues require immediate attention as the government moves towards a more integrated approach to social security. These are programme coverage and targeting, affordability, institutional and administrative capacity, and timing. The remainder of this section discusses these issues in turn.

#### *4.2.1. Programme coverage and targeting*

Simply extending existing social insurance provision from the formal sector to workers in the unenumerated sector is generally not a realistic solution in developing countries. The extension of social security should relate

[20] See Section 4.2.

directly to the immediate needs of those who are to be brought into the system. Institutional and budget constraints must also be considered. The first step in any process of extending coverage is a detailed examination of the characteristics of excluded population groups and their needs. Rigorous cost-benefit analysis, encompassing social and economic costs as discussed above, is a basic prerequisite to system design.

A national integrated programme in Viet Nam would imply extending coverage of existing programmes to:

i. Individuals that are now meant to be covered by existing schemes but are not; and,

ii. Individuals and households not currently covered by existing schemes.

Three important groups fall under the latter category: unenumerated sector workers, rural to urban and rural to rural migrants, and ethnic minority groups.

**The unenumerated sector**

Workers in the unenumerated sector (including farmers) are not covered by existing systems of social security. According to World Bank estimates based on the 2002 VHLSS, the share of individuals above the age of 15 working for wages at least part of the time is 30 percent. This is likely a gross underestimation of the prevalence of wage work given the tendency of household surveys to under-report paid as opposed to own account work. A large proportion of the labour force lists farming (47 percent) or household enterprise labour (23 percent) as the main source of employment (World Bank 2002). As noted above, the share of workers reporting wage work has increased markedly in recent years.

The NTP cover some very low income groups, yet many other households remain vulnerable to social and economic risks and have few assets to help them cope with shocks.[21] Underemployment is a serious problem for workers in the unenumerated sector, particularly in rural areas. Illness and injury are also important problems for these workers. Currently only enterprises with more than ten workers contribute to the Viet Nam social insurance scheme. One solution would be to lower this threshold to five workers (as in India). Another approach would be to design occupational schemes for vulnerable workers (see Box 3). Alternatively, the introduction of non-contributory schemes could provide some protection (see Section 4.2.2 below).

**Box 3: Social security for the unenumerated sector in South India**

The South Indian state of Kerala has one of the most effective systems of social security in the developing world. The inclusion of workers in the unenumerated or unorganised sector is an important characteristic of Kerala's development model. The programme involves the use of welfare funds, administered by tripartite statutory welfare boards. Examples of these welfare funds include the general Kerala Labour Welfare Fund Scheme (covering low paid government employees, self-employed workers like artisans and skilled and unskilled rural workers), and more specific welfare funds for toddy workers, headload workers, motor transport workers, coir workers, cashew workers, handloom workers, khadi workers, construction workers, abkari workers and agricultural workers. The headload workers have traditionally been Kerala's most social and politically active group and their labour union is one of the most politically influential in India, despite the casual nature of this work (see Heller 1996). Altogether there are over 25 social security and pension schemes implemented in Kerala. Of those, the ones with the largest impact in terms of budget allocation and coverage are the agricultural workers pension scheme, the destitutes and widows pension scheme and the pension scheme for the disabled (Government of Kerala 1997c). It is not always the case that the unorganised sector is synonymous with lack of regulation. In Kerala, workers in the traditionally unorganised sectors have gained political power through their unions and have managed to influence government policies regarding the provision of social security and minimum rights in terms of employment, wages, work security and even child labour. Kerala is therefore a good example of the importance of public participation in the development process. Today, Kerala has one of the most literate populations in India. Improvements in health care have led to large decreases in mortality. Social insurance schemes cover most of the population, including those in the unorganised sector.

21 According to World Bank calculations based on the 2002 VHLSS, 10.2 percent of all Vietnamese households have no assets (World Bank 2002).

**Rural to urban and rural to rural migrants**

Rapid economic change in Viet Nam over the past decade has led to an increase in rural to urban migration by individuals and households. A strict system of residence permits designed to control mobility remains in place. Access to social benefits and social services is normally dependent on residency status and many of those who move to urban areas do so illegally, hence losing their residency status and access to social security schemes. Provinces are often reluctant to reclassify residency status since the size of block grants from the central government to the provinces is linked to population. More information is needed about mobile households and individuals, their living conditions, and survival strategies since they are not captured by existing surveys. The absence of information on rural to rural migration is particularly acute, although the rapid rise in agricultural wage work would suggest that the number of people falling into this category has grown.

The present strategy of deterring people from moving is not only difficult to enforce but could be counterproductive. Indeed, the government expects the urban share of the national population to exceed 40 percent over the medium term. Preparations are needed now to address the economic security of the expected influx of rural dwellers into the nation's cities. Viet Nam would benefit from the adoption of a less restrictive registration system that allows for sufficient labour market flexibility, such as the introduction of national social security numbers to track beneficiaries in place of the current reliance on residency permits (see Box 4).

**Box 4: Urban migrants in China**

As in Viet Nam, the Chinese government uses residence permits to regulate access to social security benefits and to control population movements and labour supply. This has resulted in two problems (World Bank 2002). The first is that migrants to urban areas have restricted access to social benefits, as they cannot officially obtain work without a residence permit. Second, many rural workers remain in the countryside resulting in oversupply of labour, exacerbating rural unemployment and underemployment. In an attempt to deal with these problems, the Chinese government has recently announced its intention to abolish parts of the residence permit system in order to increase labour market flexibility. One solution would be to issue national social security numbers that are not attached to residency status. This is a similar system to that in operation in industrialised countries. The change would be implemented gradually and take into account problems faced by very large cities, which industrialised countries do not face.

**Ethnic minority groups**

Ethnic minority groups are on average worse off than the majority Kinh population according to most social and economic indicators. In 2002, 69.3 percent of ethnic minority households lived under the national poverty line, as compared to 23.1 percent of households of Kinh and Chinese origin (Table 1). In addition, 34.3 percent of all ethnic minority children under five in the Northern Mountains and 45.3 percent in the Central Coast and Central Highlands recorded low weight for age compared to 25.7 percent for the whole of Viet Nam and 23.2 percent for households of Kinh or Chinese ethnicity (World Bank 2002). The share of ethnic minority groups amongst the poor has also increased from 20 percent in 1993 to over 30 percent in 2002 (Viet Nam Development Report 2004).[22]

The government has in place special assistance programmes for ethnic minorities under the NTP. This programme has experienced serious problems of targeting and coverage (UNDP-MOLISA 2004). Given the extent of poverty amongst these groups, it is unlikely that most ethnic minority households would be able to move to a system of contributory social security in the foreseeable future. Social assistance transfers, whether in cash or in kind, will be essential to secure ethnic minorities against existing and future socio-economic risks. One area in which the government can act immediately is to increase the number of ethnic minority households with access to benefits by making information about these programmes more readily available (see Section 4.4.3 below). Non-contributory schemes would facilitate access to benefits while reducing administrative costs and mis-targeting.

22 See also DFID-UNDP (2003).

### *4.2.2. Programme prioritisation*

The government must prioritise to make best use of limited public resources. For the vulnerable groups discussed above, the risks of ill-health and economic insecurity in old age stand out as issues demanding immediate attention. Infirmity and old age represent leading causes of households falling into poverty in Viet Nam (World Bank 2002; Justino and Litchfield 2003; Viet Nam Development Report 2004).

**Health security**

Unexpected medical costs and employment loss due to illness are closely associated with poverty in Viet Nam as elsewhere. The government has introduced health security measures such as health insurance cards for the poor and ethnic minority groups living in remote areas and free health treatment cards.[23] Although user fees for health care were introduced in the early 1990s, certain groups, such as the disabled, orphans, patients suffering from TB or leprosy, and the poor, are exempted from fees. The UNDP-MOLISA (2004) NTP and Programme 135 evaluation reports that these programmes do not reach all of the poor, and reimbursement rates for health providers are often too low, which constitutes a disincentive to providers in delivering services to the poor (Sepehri 2005). More research is needed on the extent to which exemptions are implemented, and which costs (for example, examinations, drugs, and laboratory tests) are covered (World Bank 2002). Also, although according to recent estimates the poor tend to report a lower incidence of illness than better-off groups, the illnesses that they report tend to be more serious (Table 5).[24] At the same time, the poor make less use of existing health services than better-off groups (Table 5). Out of pocket expenditures for health care are also lower for the poor than for the rich (Table 6). However, health costs represent a larger share of non-food expenditure among poor households than for upper-income groups (Sepehri 2005).

**Table 5: Health Outcomes by Selected Quintiles**

| | First quintile (poorest) | Second quintile (near poorest) | Fifth quintile (richest) | Viet Nam |
|---|---|---|---|---|
| Proportion of people who were ill over last 12 months | 33.5 | 40.4 | 34.3 | 37.4 |
| Proportion of ill people who were unable to work | 13.4 | 13.3 | 6.7 | 10.9 |
| Percentage using health services or getting self-treatment | 34.4 | 43.1 | 37.4 | 39.8 |
| Average health service utilisation visits per year | 8.3 | 11.6 | 10.4 | 10.8 |

*Source:* Viet Nam Development Report 2004, based on 2002 VHLSS estimates.

**Table 6: Out of Pocket Expenditures in Health in 2002 per Consumption Quintile**

| | Percentage seeking professional care | In thousand VND per year | | | | | | In percent of household expenditure |
|---|---|---|---|---|---|---|---|---|
| | | Treatment | Medicines | Health tools | Contribution | Health insurance | Total | |
| 1st qt | 46.3 | 151.6 | 137.1 | 3.3 | 2.4 | 4.5 | 298.8 | 4.31 |
| 2nd qt | 48.4 | 254.4 | 187.1 | 5.5 | 2.3 | 7.4 | 456.7 | 5.02 |
| 3rd qt | 48.8 | 365.9 | 213.0 | 6.2 | 2.0 | 10.9 | 598.1 | 5.28 |
| 4th qt | 52.6 | 553.9 | 262.9 | 8.6 | 1.9 | 16.8 | 844.0 | 5.78 |
| 5th qt | 56.3 | 1110.4 | 449.8 | 21.4 | 1.4 | 31.1 | 1614.1 | 5.77 |
| Viet Nam | 50.6 | 520.6 | 260.6 | 9.6 | 2.0 | 15.1 | 807.9 | 5.29 |

*Source:* Viet Nam Development Report 2004, based on 2002 VHLSS estimates.

Note: Out-of-pocket expenditure for health is calculated per ill person who sought care or bought medicine.

[23] The government has also implemented other national programmes related to health such as rural water and sanitation programmes, TB and malaria eradication and nutrition programmes to eliminate malnutrition.

[24] It is a well known fact that the poor tend to report a lower number of periods of ill health than the rich. This is due to different perceptions concerning what constitutes illness. The poor are also less likely to miss work to recover from less serious illnesses than the rich.

A new policy was introduced in 2000 to increase health security by extending health insurance coverage through the Viet Nam Health Insurance Authority (VHIA). The policy consists of a combination of compulsory savings for those in formal employment, voluntary savings through the acquisition of health cards and the provision of free VHIA health cards to the poor. After five years of implementation the shortcomings of this approach are now apparent. First, the system covers only around 14 percent of those below the GSO poverty line and 36 percent of individuals below the GSO food poverty line (World Bank 2002). Second, access to services is often restricted.[25] Third, health card holders are frequently required to pay formal and informal charges to service providers. There is presently an urgent need to reassess Viet Nam's health policies in order to ensure that the poor have access to health care. Such a reassessment should compare Viet Nam's current approach to alternative strategies adopted in other countries in the region and elsewhere. China, for example, has introduced a programme based on contributions from employees and employers. The system has managed to extend coverage without imposing an undue burden on public budgets (see Box 5). Viet Nam could benefit from careful consideration of this and other alternatives to identify viable mechanisms of providing basic health care to all Vietnamese regardless of who they are, where they live and how much they earn.

**Box 5: Health insurance in China**

China has achieved considerable success in extending health insurance coverage in urban areas using a combination of individual savings accounts and an employer-financed pooled fund. The health insurance design includes well defined limits on the amounts to be paid from each fund. As a result, pay-as-you-go premiums for statutory health insurance schemes in urban areas are now around eight to nine percent of total wages (World Bank 2002). The government has also initiated pilot programmes to find ways to make these funds more effective. A new system has been introduced in two Chinese cities under which workers pay half of total contributions into individual savings accounts, while employers pay their half into a pooled fund. When an employee falls ill, medical expenses are paid first from the individual account, and from personal savings. However, if expenses in any given year exceed the amount in the individual account plus five percent of the employee's total wage, the excess is paid by the employer-financed pooled fund. If medical costs then exceed five times the employee's annual wage, they are covered by a supplementary medical insurance policy (World Bank 2002). This is quite a complex system but it has increased the efficiency with which scarce health resources are used.

### Old age security

Viet Nam has experienced significant demographic change in recent years. Total fertility rates have declined (that is, the average number of children delivered by each woman during her lifetime) from nearly five in 1979 to 2.3 in 1999 (Viet Nam Census 1999). As a result, the ratio of people 60 years of age and older per 1000 of the population to those aged between 15 and 59 is expected to increase from 14 percent in 1999 to 17 percent in 2024 (Ministry of Health 2000). Policies in support of economic security for the elderly must be put in place now when older people represent a relatively small share of the population. Testing and development of policy alternatives is needed to design instruments and programmes suited to conditions in Viet Nam.[26]

Older people are disproportionately vulnerable to economic and social change, particularly individuals and households that do not possess savings or other assets and cannot rely on their children for support. Gorman (2004) suggests addressing the problem of old age security in developing countries by implementing non-contributory pension (social pension) programmes.[27] One of the main advantages of social pensions over means-tested pensions (targeted to the poor) is that the latter entail large administrative costs that reduce the resources available for beneficiaries without necessarily covering all of the poor. A number of developing countries have introduced large-scale social pension systems, including Antigua, Argentina, Bangladesh, Bolivia, Botswana, Brazil, Chile, Costa Rica, Dominica, India, Mauritius, Mexico, Namibia, Nepal, South Africa, Senegal and Uruguay.

25 See also UNDP-MOLISA (2004).

26 MOLISA has implemented pilot schemes for voluntary pension insurance for farmers in three provinces. Evaluation of these schemes is not yet available.

27 Further evidence is provided by the World Bank (1994), Wilmore (2001), Devereaux (2002) and Schwarz (2003).

**Box 6: Non-contributory pensions in South Africa**

The South African Government has in place a relatively generous social pension system. The scheme formed part of the government's efforts to extend the existing pension systems to all racial groups after the end of apartheid. The system provides cash transfers to individuals above a specified age regardless of access to other forms of pension income. The amount paid is equal to twice the median per capita income of African households, which constitute the majority of the poor in South Africa. In 1993, benefits were roughly equivalent to US$3 per day to all women over the age of 60 and all men over 65 (Case and Deaton 1998). Today, the social pension is worth more than US$110 per month (Gorman 2004). Benefit payments represented 1.4 percent of South African GDP in 2000. The scheme has been shown to redistribute income to the poorest households and coverage of the poor is universal (Case and Deaton 1998). As in many other developing countries, households in South Africa often consist of large families extending over several generations. Social pensions have had a positive impact on child welfare, as pension recipients tend to use their incomes to invest in the education and health of their grandchildren. Social pensions have assumed particular importance in South Africa because of the rapid spread of HIV/AIDS, which has increased pressure on older people who now must take care of grandchildren (Gorman 2004). In South Africa, girls living in households with an older woman receiving a pension are around three to four centimetres taller than girls in other households (Gorman 2004). Similar evidence has also been recorded in Brazil. De Carvalho Filho (2000) has found that social pensions in Brazil increase school enrolment (particularly of girls) amongst 12 to 14 year olds. Pensions in South Africa have also been a useful tool to increase access to formal credit and to provide food security since they are a reliable source of income (Ardington and Lund 1994). For instance, in drought years in Namibia social pensions are used to buy food for the whole family (Devereaux 2001). Gorman (2004) reports that in South Africa, amongst households with three or more generations, households in which one member received a pension were less likely to fall below the poverty line than other households. He estimates that social pension transfers have reduced poverty in South Africa by about 12.5 percent (Gorman 2004). The corresponding figure for Brazil is eight percent (De Carvalho Filho 2000). The pension system in South Africa provides an example of successful 'tagging' (Akerloff 1978). Under the social pension system, cash transfers are targeted to households that have certain characteristics associated with poverty. In this case, the relevant characteristic is old age. By limiting the receipt of transfers to one easily identified group, administrative costs are kept lower than those associated with pure universal schemes (under which transfers would be available to everyone in the population) or means-tested schemes (in which only old people below the poverty line would be targeted).

Non-contributory social pensions command widespread public and political support, which facilitates their implementation. They have many administrative advantages over means-tested provision because the target group is clearly identified. The system is, therefore, more transparent than means-tested systems and easier to understand, both for claimants and administrators. It is also very simple to target since birth certificates, electoral registration documents or other common means of identification can be used to establish eligibility. Moreover, the implementation of social pension systems can make use of existing institutions such as local post offices and banks. Administration is also less costly than for other forms of support. In Botswana and Namibia, administration accounts for two to three percent of benefit payments, far less than means-tested pension schemes. The overall costs in terms of GDP are also low. The social pension programme in Namibia represents less than two percent of GDP, and South Africa's scheme, funded through general taxation, was equivalent to 1.4 percent of GDP in 2000.

Social pensions are available to all, including unenumerated sector workers and other groups typically excluded from formal sector benefits. They are not attached to employer or employee contributions. Because the absolute size of benefits is small and many recipients would not enter the labour force in any case, social pensions do not constitute a disincentive to work.

A key lesson from existing social pension programmes is that the benefit level should start from a low base and build up gradually as the tax system develops. In Bolivia, for example, the Bonosol is equivalent to only 75 cents per day. Even at this level, the programme has a material impact on the living standards of the very poor. The World Bank (1994) proposes a flat benefit set at 20 percent of average wages. In a country with a young population this would require a payroll tax of only two percent. One idea is for countries implementing the system for the first time to cover the most vulnerable subgroups of the population first. For example, benefits in the first instance could be limited to pensioners over 75 years of age. More research is needed in Viet Nam to determine which subgroups are most in need and the appropriate level of benefits for these groups.

Weeks et al. (2004) have proposed the introduction of a universal social pension in Viet Nam. A non-contributory social pension funded by the central government would reduce the extent of variation in social support that now occurs at the provincial and district levels. In administrative terms, Viet Nam has the advantage of a well-organised administrative system that reaches down to the commune level. Communes are responsible for registering the population and are thus able to verify the age of applicants without the need to introduce further institutional arrangements.

### 4.3. Affordability

Viet Nam, like all developing countries, faces tight budget constraints. Programme sustainability demands that social schemes extended to unenumerated sector workers, the self-employed, migrants and other vulnerable groups should not impose an excessive burden on public finances. Several ways in which the government could finance the required increase in the social budget have been suggested throughout this paper:

i. State-owned and private companies must participate in programmes to provide workers security against labour market risks, and participation must be obligatory and enforced;
ii. The development of insurance and capital markets is needed to provide institutional investors such as pension funds adequate and secure investment opportunities;
iii. Social safety nets should target easily identified groups rather than the poor in general;
iv. Transfers from richer to poorer provinces must be adequate, transparent and well-monitored (ILO 1999a, UNDP-MOLISA 2004);
v. Institutional and administrative costs should be reduced;
vi. Careful social cost-benefit analysis of policy alternatives is required to establish priorities, set benefit levels and provide benchmarks for social impact.

The last component has taken on some urgency in view of the increasing level of public expenditure on social programmes. The government needs to determine the optimal level of support necessary to secure individuals against socio-economic risks without unduly increasing dependence on government assistance.

Weeks et al. (2004) assess the costs of a non-contributory social pension in Viet Nam and argue that social pensions are financially viable. The authors estimate the cost of a pension for all individuals over 65 (retired or not) for 1998, using 1993 prices (Table 7). The calculations assume that pensions could be distributed through existing institutions, with no net administrative costs. The level of the pension in Table 7 is derived from two simple calculations: the ratio of the poverty line to average per capita consumption, and the ratio of the proposed pension to the 1998 VLSS poverty line. In the case of a pension set equal to the poverty line, the cost in 1998 would have been 2.2 percent of GDP. This corresponds to an increase of one-third in total social expenditure or a 15 percent increase on total current expenditure. Lower values for the ratio of the pension to the poverty line implies lower costs. The authors point out that as the economy grows the cost of the pension cost would decline. For example, assuming four percent growth in consumption expenditure between 1998 and 2003, the ratio of the poverty line to average consumption would fall from 0.64 to 0.52, and the total cost of a pension equal to the poverty line would fall below two percent of GDP. These calculations imply that even a social pension equivalent to the poverty line would be well within the government's fiscal capacity. These low costs further suggest that other programmes, such as universal child support (also mentioned in the study), and universal primary health care are also feasible.

### 4.4. Institutional capacity

The structure of government administration in Viet Nam consists of four levels: the central government, 64 provinces (or cities with province status) and 582 districts or cities. Government structures reach down to district level. In addition, there are over ten thousand communes or wards, nearly 90 percent of which are rural. A rural commune or ward consists of a number of hamlets and adjacent territories. An urban commune is a section of a city. The commune level of administration is responsible for delivering a variety of government programmes to households and individuals.

**Table 7: Estimated Budgetary Cost of a Universal Pension (in 1998, prices of 1993)**

| Item | | Measure | Value | | | |
|---|---|---|---|---|---|---|
| Share of population 65&over | | percentage | 4.9 | | | |
| private consumption | | bn 1993 dong | 194841 | | | |
| GDP | | bn 1993 dong | 274811 | | | |
| private consumption/GDP | | percentage | 70.9 | | | |
| gov't expend/GDP: social services | | percentage | 6.8 | | | |
| all current | | percentage | 14.7 | | | |
| Total | | percentage | 21.9 | | | |
| | | | | | | |
| cons per capita | (VLSS) | dong, thds | 2784 | | | |
| Int'l poverty line* | | dong, thds | 1790 | | | |
| | | | | | | |
| Estimated pension cost: | | | | | | |
| pension/poverty line | | ratio | 1.00 | .90 | .80 | .70 |
| pov line/average consumption | | ratio | .64 | .64 | .64 | .64 |
| pension per person | | 1993 dong, thds | 1790 | 1611 | 1432 | 1253 |
| pension exp/GDP | | percentage | 2.2 | 2.0 | 1.8 | 1.6 |
| [assuming 10 percent admin cost] | | [percentage] | [2.4] | [2.2] | [2.0] | [1.8] |
| increase in expend: social services | | percentage | 33.0 | 29.7 | 26.4 | 23.1 |
| all current | | percentage | 15.3 | 13.8 | 12.2 | 10.7 |
| total | | percentage | 10.3 | 9.2 | 8.2 | 7.2 |

*Notes and Sources:*

1. Private consumption & GDP: IMF 1999, p. 4 & 6, with the ratio of private consumption to GDP assumed to be unaffected by deflating; and 1993 used as base year instead of 1994.
2. Poverty line: that used in the VLSS 1998.
3. Government expenditure: from Chapter 4, Table IV.1.
4. Population statistics: *World Development Indicators 2001*.
5. The last three rows assume no net administrative cost.

* Using the MOLISA food poverty line would reduce the pension and cost calculations by twenty-eight percent (that is, the food poverty line in 1998 was .719 of the international standard poverty line.

In terms of existing social security arrangements, MOLISA is responsible for coordinating social assistance and social insurance programmes. Health and education programmes (including those that are part of the NTP) are coordinated, respectively, by the Ministry of Health and the Ministry of Education. Viet Nam Social Insurance administers all social insurance schemes in the formal sector.

At present considerable overlap exists between policies administered under the social and health insurance programmes and HEPR policies. The administration of safety nets under the NTP also runs parallel to the implementation of various relief funds as described in Section 2 above. An evaluation of these administrative arrangements is needed urgently as a first step towards the development of an integrated national framework. The advantages of an integrated framework include:

i. Reduced administrative costs and double-counting;
ii. Improved dissemination of information to beneficiaries;
iii. Improvements to programme design and responsiveness to changing conditions;
iv. Clearer priorities for public action.

Several issues need to be addressed within the context of existing administrative arrangements. These include monitoring capacity, administrative capacity and the efficiency and coverage of information channels.

#### *4.4.1. Monitoring capacity*

Evasion of tax and social insurance contributions is high in Viet Nam, although estimates of the dimensions of the problem vary. Non-registration, under-declaration of workers employed and their earnings are common forms of evasion. Monitoring is also one of the main weaknesses of the NTP. The government's capacity to extend coverage of social security programmes depends on the extent to which monitoring capacity can be strengthened in order to increase the efficiency of resource use and build public confidence in the programmes themselves. Particular attention should be paid to the training of administrative staff, the establishment of adequate accounting, auditing and programme monitoring systems, and transparent and streamlined systems of allocating central funds to provinces.

#### *4.4.2. Administrative capacity and efficiency*

A national integrated social security system would need better channels of communication and coordination among the three participating ministries in order to avoid problems of double-counting. In addition, improved coordination efforts are needed between the line ministries and the Ministry of Finance. Increased administrative efficiency and managerial skills at the local level are also imperative (see Box 1). Another important issue is the stimulation of demand for social security services. Greater demand often results in more efficiency as the case of Kerala has shown (Box 3). For example, strengthening the role of trade unions both in formal and unenumerated sectors would help engage beneficiaries in the process of programme development (Box 3). Active public participation is the key to accountability and transparency, which in turn improve implementation and help build public trust in and support for social security policies and programmes.

#### *4.4.3. Improvement of information channels*

The government must work to improve the quality of participation of all groups in the formulation and implementation of the social security system. In particular, better systems are needed to inform relevant groups of existing programmes and their entitlements. Physical access to the relevant institutions must also be facilitated. Some of the most vulnerable groups of the population do not have access to social assistance schemes simply because they live far from the urban centres, because they are unaware of the existence of the schemes, or because they do not know how to apply for benefits. According to the World Bank (2002), many of the Vietnamese households currently receiving benefits do not know why they are receiving them or whether they are receiving the correct amount. Also many of those that should be receiving benefits seem not to be aware of their eligibility. Lack of awareness is particularly pronounced among ethnic minority groups as a result of the language barrier. The provision of information in minority languages would help to address this problem. Relevant information can be easily posted on the walls of commune centres, or transmitted over radio or television in the local language (World Bank 2002).

### 4.5. Timing considerations

Now is an opportune time for Viet Nam to begin the process of designing a new integrated national system of social security. The government should be able to take advantage of currently favourable economic conditions to put in place fiscal and institutional strategies for the medium term. At the same time, Viet Nam has the advantage of relatively effective informal arrangements that can help address immediate social needs. These will not be sufficient to cover future economic and social risks but will ease pressure on the government, giving policy makers adequate time to plan for the future.

The extension and reformulation of current social policies to form an integrated system of social security should begin now to make certain that coverage is in place when it is needed. Leaving these decisions until much later could expose large numbers of people to economic risks associated with urbanisation, economic integration and an aging population. Moreover, delays could actually make it more difficult to develop an integrated system if employers come to view the absence of social security contributions as an economic right in itself, and the public become inured to out of pocket expenditures on health, education and support for elderly family members.

# 5. Conclusions and Recommendations

This paper has addressed a number of key issues relating to the development of an integrated national social security system in Viet Nam. We have seen that some existing components of the National Targeted Programme on Hunger Eradication and Poverty Reduction could form the basis of an integrated national system. But this outcome is by no means guaranteed. Key economic, institutional and fiscal obstacles must be overcome before the government is in a position to develop a more coordinated, comprehensive system.

Yet, as this paper has argued, the benefits of developing an integrated system of social security are likely to far outweigh the costs. An integrated system would be more efficient, reducing double-counting and unnecessary expenditures. It would bolster social cohesion and political stability during a period of rapid economic change. It would protect the most vulnerable members of society from economic dislocation and severe deprivation, and in doing so reinforce national anti-poverty programmes. It could sustain economic growth by expanding domestic markets and redistributing income to consumers who are more likely to buy locally produced goods than imports.

Viet Nam is not in a position to immediately introduce a comprehensive social security system like those in place in the industrialised world. The relative importance of own account work and the unenumerated sector render these methods inappropriate to the Vietnamese context. Moreover, capital markets are still rudimentary and average incomes are low.

However, this paper has argued that alternative policies and programmes have been introduced in other developing countries that have provided a measure of economic security to vulnerable people. Some of these alternatives are administratively and fiscally feasible in Viet Nam. Combined with existing components of the NTP and other programmes, these options could form the basis of an integrated social security system over the medium term. The challenge for Viet Nam's policy makers is to establish clear priorities for the social security system in order to make the best use of scare resources.

These priorities should be based on careful policy research. This paper has raised a number of issues that require closer, more systematic examination. These include:

i. The identification of emerging economic risks and the impact of these risks on vulnerable groups;
ii. The relationship between illness, old age, disability and the incidence of poverty;
iii. An analysis of conditions in the unenumerated sector, including sectoral distribution, the relative importance of casual wage work and regular wage work, firm size and productivity;
iv. Social cost benefit analysis of policy and programme alternatives, including the impact on poverty, income distribution, income variation, social cohesion and political stability;
v. An analysis of the political economy of taxation, including tax incidence, distribution, enforcement and the implications of accession to the World Trade Organisation (WTO) and other trade pacts.

Some of this research can be conducted on the basis of existing empirical evidence. However, a pressing need also exists for dedicated surveys specifically tailored to the study of economic risk and vulnerability, including data collection pertaining to rural to urban and rural to rural migration, intra-household distribution of income and other resources and constraints on labour market participation.

Once the programmatic priorities have been identified, additional work is needed to improve coordination among line ministries, the Ministry of Finance and local authorities in order to reduce inefficiency and streamline administration. Accountability and transparency will also be vital to strengthen monitoring systems and build public support for social security policies and programmes. Efficient implementation is vital to ensure that social security programmes are affordable and that limited resources reach the intended beneficiaries.

This paper has argued that research and planning should begin now to ensure that an integrated national system of social security is in place before large numbers of Vietnamese people are exposed to additional economic risks associated with industrialisation and development. An early start would also help to establish the notion that responsibility for social security must be shared among workers, employers and government. The initiation of a national dialogue involving government, mass organisations, civil society, employers, donors, researchers and other development partners will be of critical importance to the emergence of a national consensus on the future of Viet Nam's social security system.

## APPENDIX: An Integrated National System of Social Security for Viet Nam

| Components of Integrated Social Security System | Existing Components | Additional Components | Requirements |
|---|---|---|---|
| 1. Social insurance for formal sector workers (private and public) | ▪ Pensions<br>▪ Employment injury<br>▪ Sickness benefits<br>▪ Maternity benefits (up to two births) | ▪ Unemployment benefits<br>▪ Invalidity benefits<br>▪ Extension of maternity benefits | ▪ Lower government contributions<br>▪ Strengthen monitoring system<br>▪ Enforce payment of employers' contributions<br>▪ Require greater participation from public and private (national and foreign) companies |
| 2. Social insurance for unenumerated sector workers and self-employed (including urban migrants and minority ethnic groups) | ▪ Health exemptions under HEPR (for those below poverty line) | Immediate requirements:<br>▪ Health insurance<br>▪ Pension system (private/public mix as in China, non-contributory pensions as in South Africa or occupation group pensions as in South India)<br><br>Medium-term requirements:<br>▪ Employment injury<br>▪ Maternity benefits<br>▪ Invalidity benefits<br>▪ Child benefits<br><br>Long-term requirements:<br>▪ Unemployment benefits | ▪ Reduce number of administrative institutions<br>▪ Reduce/eliminate residential permit system; consider system of national social security no.<br>▪ Eliminate excessive means-testing<br>▪ Establish better communication channels between the various ministries, between ministries and local administration and between ministries, local administration and donors<br>▪ Improve information for claimants (including translating key documents into minority languages)<br>▪ Gradually integrate this scheme with formal sector policies |
| 3. Social assistance for specific vulnerable groups (including minority ethnic groups, the disabled, lonely elderly, single mothers and orphans) | ▪ Benefits under HEPR for those below poverty line (includes special support for vulnerable people and ethnic minorities)<br>▪ Fund for Pre-Harvest Starvation<br>▪ Social Guarantee Fund for Regular Relief | ▪ Food security schemes (basic meals for children in schools and pregnant vulnerable women)<br>▪ Assistance with community and family care | ▪ Slim down institutional arrangements<br>▪ Transfer of resources from better-off provinces to poorer provinces<br>▪ Reduce coverage to specific vulnerable groups rather than all the poor<br>▪ Improve information for claimants<br>▪ Strengthen community and family networks |
| 4. Social assistance for special groups<br>4.1. War veterans<br>4.2. Families of dead soldiers | ▪ Social Guarantee Fund for Veterans and War Invalids (pensions and benefits for survivors) | | ▪ Gradually reduce benefits as number of individuals decreases in population |
| 5. Social relief | ▪ Contingency Fund for Disaster Relief | ▪ Split fund from Fund for Pre-Harvest Starvation | ▪ Make payments contingent on disaster<br>▪ Disallow use of funds for other purposes |

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