CHALLENGES TO THE EXTENSION OF SOCIAL PROTECTION TO THE INFORMAL ECONOMY

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OUTLINE

- SOCIAL PROTECTION GAPS IN VIETNAM
- INFORMAL EMPLOYMENT IN VIETNAM (DEFINITION, SIZE, CHARACTERISTICS)
- CHALLENGES TO THE EXTENSION OF SOCIAL PROTECTION TO THE INFORMAL ECONOMY
- CONCLUSION
Social protection gaps

Coverage is still limited

– Low coverage for informal sector
– Low compliance in the formal sector (13 m. out of 17 m.)

Total labour force: 54.9 million

Based on data from 2017
Low coverage of workers in informal economy

<table>
<thead>
<tr>
<th></th>
<th>Without SI</th>
<th>Mandatory SI</th>
<th>Voluntary SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal economy workers:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- without SI</td>
<td>97.9%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>- mandat. SI</td>
<td>19.1%</td>
<td>80.5%</td>
<td>0.4%</td>
</tr>
<tr>
<td>- Voluntary SI</td>
<td></td>
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</tbody>
</table>
Expansion of SI is high priority

Resolution No. 28 sets out specific targets for “accelerating the increase in the number of informal sector workers participating the social insurance scheme.”

But how?
Who is the target group? Size? Characteristics?
What are the specific challenges?
Who are those in informal employment?
Defining informal employment


“all workers without social insurance (especially compulsory social insurance) and without labour contract with one-month term and over.”
Informal employment in Viet Nam

- SIZE
- CHARACTERISTICS (SECTOR, EMPLOYMENT STATUS, AGE, SEX etc.)
- CHALLENGES
Size of informal employment

with agriculture = 78.6%

11.3m. informal sector
6.4m. formal sector
Women in more vulnerable employment

56.4% (Men)
43.6% (Women)

Legend:
- Employees
- Employers
- Own-account workers
- Contributing family workers
High informal employment among young and old people

- **15-24**: 60.2%
- **25-54**: 54.3%
- **55-59**: 68.8%
- **60+**: 81.4%
Informal workers in urban/rural areas

60% of informal economy workers in rural areas

40% of informal economy workers in urban areas
Employment status of informal economy workers

- **Wage worker**: 54%
- **Own-account**: 32%
- **Contributing family worker**: 12%
- **Employer**: 2%
Out of total 20.3 mio wage workers ...

9.6 mio (48%) are informal:
• 4 mio in informal sector enterprise
• 5.4 mio in formal sector enterprise
• 200,000 in household

Part-time and temporary employees, workers in MSMEs, domestic workers, daily wage earners less likely to be formal
Out of total 7.66 mio. own-account workers ...

75.5% (= 5.7 mio) are informal
## Average earnings

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Total</th>
<th>Employer</th>
<th>Own account worker</th>
<th>Wage worker</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nationwide</strong></td>
<td><strong>5,510.8</strong></td>
<td>11,674.1</td>
<td>5,369.8</td>
<td>5,154.2</td>
</tr>
<tr>
<td>Formal workers</td>
<td><strong>6,777.2</strong></td>
<td>13,160.3</td>
<td>7,491.7</td>
<td>6,127.6</td>
</tr>
<tr>
<td>Informal workers</td>
<td><strong>4,437.1</strong></td>
<td>8,906.7</td>
<td>4,680.0</td>
<td>4,071.7</td>
</tr>
</tbody>
</table>

Unit: 1000 VND
Sectors with high informality

- Agriculture: 53%
- Construction: 90%
- Wholesale and retail trade: 69%
- Transport and storage: 65%
- Hotels and restaurant: 80%
- Domestic work: 98%
Why are informal workers not covered by social protection?
Missing middle often excluded

Adequate protection limited to those in formal employment (if at all)
Adequacy of benefits also important

Lack of coordination between contributory and non-contributory schemes
Limited impact of voluntary SI scheme

- Low contributory capacity (vulnerable workers)
- Lack of information
- Mismatch between benefits and needs of workers (only long-term benefits)
- Qualifying conditions
- Lack of public trust
Participation of informal workers in voluntary SI

- Wage worker: 3.1%
- Contributing family worker: 0.9%
- Own-account: 0.3%
- Employer: 1.2%
- Total: 1.9%
Different barriers
Legal barriers

Social security legislation excludes workers based on duration of employment (<1 month) e.g. daily wage earners, casual workers.

Legal frameworks not sufficiently specific to cover new forms of employment:
- e.g. ambiguous employment relationships
- e.g. multiple employers
- e.g. disguised self-employment
Financial challenges

- **Limited contributory capacities**
  e.g. self-employed workers “double contribution challenge”

- **General costs of formalization**
  e.g. high entry costs or operational costs

- **Contribution schedule**
  e.g. farmers unable to pay monthly
Administrative challenges

• Administrative processes may be too complex, burdensome (accessibility)
  • e.g. lack of registration papers, pay slips or income and contribution records
  • Limited capacities of MSMEs

• Limited access to social security services in remote areas (availability)

• Labour mobility and lack of portability
Implementation gaps

- Limited institutional capacities (administrative, fiscal, human and technical resources, M&E)

- Limited institutional coordination

- Lack of enforcement and compliance
  - 5.4 mio wage worker in formal sector are not registered
Information gaps

- Low level of knowledge and awareness about social security topics
  - Among workers, employers,
  - Among SI officers in VSS & DOLISA, collection agents etc.
  - Lack of targeted communication campaigns

- Lack of trust
Many challenges for the extension of coverage go beyond social security

Lack of integration of SP with other policy areas, e.g.

• Lack of formalization of enterprises
  – Most MSMEs not registered (60% no business registration, 98% of them not registered to VSS) due to complex registration processes; financial costs, corruption in public administration, lack of incentives

• Employment policies, skills and training

• Labour law (e.g. new forms of employment)
A Long Way to Go
Thank you

Quynh Nguyen