

DISCUSSION PAPER

Employment and social protection in Viet Nam

Vietnam Academy of Social Sciences (VASS)

Hanoi, December 2011

Discussion Paper

Employment and Social Protection in VietNam

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Abbreviations and Acronyms

ADB	Asian Development Bank
CAF	Centre for Analysis and Forecasting
CIT	Corporate Income Tax
ESCAP	Economic and Social Council of Asia and Pacific
FIE	Foreign Invested Enterprise
GDP	Gross Domestic Product
GSO	General Statistical Office
ILO	International Labour Organization
IMF	International Monetary Fund
MOLISA	Ministry of Labour, Invalids and Social Affairs
OECD	Organization for Economic Cooperation and Development
PIT	Personal Income Tax
RIM	Rapid Impact Monitoring
SEDP	Socio-Economic Development Plan
SEDS	Socio-Economic Development Strategy
SOE	State-Owned Enterprise
SME	Small and Medium Sized Enterprise
SSN	Social Security Number
SPF	Social Protection Floor
UI	Unemployment Insurance
UK	United Kingdom
US	United States

VASS	Vietnam Academy of Social Sciences
VHLSS	Vietnam Household Living Standard Survey
VND	Vietnamese Dong
VSS	Vietnam Social Security

Introduction

At the time of writing, Vietnam is in the final months of its implementation of both the Socio-Economic Development Plan (SEDP) 2006-2010 and the Socio-Economic Development Strategy 2001-2010. The country has already passed the key threshold of US\$1,000 per capita income to become a lower middle income country and has therefore entered an important new stage of its development. The new reform agenda aims towards consolidating and sustaining the impressive past achievements in economic growth and poverty reduction. However, in addition to this, promoting job creation and strengthening social protection should both feature highly in the policy agenda for the next decade. Together with the acceleration of market-oriented reforms and the intensification of international economic integration, the country in general, and its labour force in particular, are becoming increasingly exposed to various natural and economic influences which may keep many people out of work. These may even push some of the population back into poverty, and thus drive the country back down to a lower development path. This issue becomes even more urgent given the fact that social protection system in Vietnam is generally weak. These worries have motivated this study, which is focused on the analysis of the interplay between employment and social protection in order to identify some potential policy options for strengthening both with the eventual aim of raising and sustaining the wellbeing of Vietnamese people.

The report is structured as follows:

Section 1 presents characteristics and key issues of social protection in Vietnam. Section 2 reviews relevant studies on the link between employment and social protection. Section 3 provides an empirical analysis on the formal sector's participation in mandatory social insurance, followed by a review of international practices on the interplay between employment and the social protection system. This section sets stage for the policy suggestions in Section 4 and the Appendices provide more details of the issues analyzed in the main text.

1. Overview of social protection in Vietnam

1.1. The labour market and employment: key issues and characteristics relevant to Vietnam's social protection system

This section will provide a concise analysis of the key characteristics of and trends in employment, urbanization and migration. It will then demonstrate how the demographics of Vietnam affect the interplay between employment and the social protection system within the country.

As a result of Vietnam's rapid economic growth, achieved as a result of the economic reforms initiated in the late 1980s, the country has experienced positive changes in its employment structure over the last decade. The historical data from the household surveys collected by the General Statistical Office (GSO) allows the tracking of Vietnam's employment structure back to the early 1990s, and from this it can be seen that agricultural employment has declined steadily over the last two decades, from 70 per cent in 1993 to 47 per cent in 2008, whilst during the same period formal employment has more than doubled, rising from 16 per cent in 1993 to 34 per cent in 2008. At a more disaggregated level, the positive changes have been considerably more notable for the Kinh-Hoa majority than for ethnic minorities in the changes taking place in the South East and Red River Delta, especially when compared with the other geopolitical regions of the country.

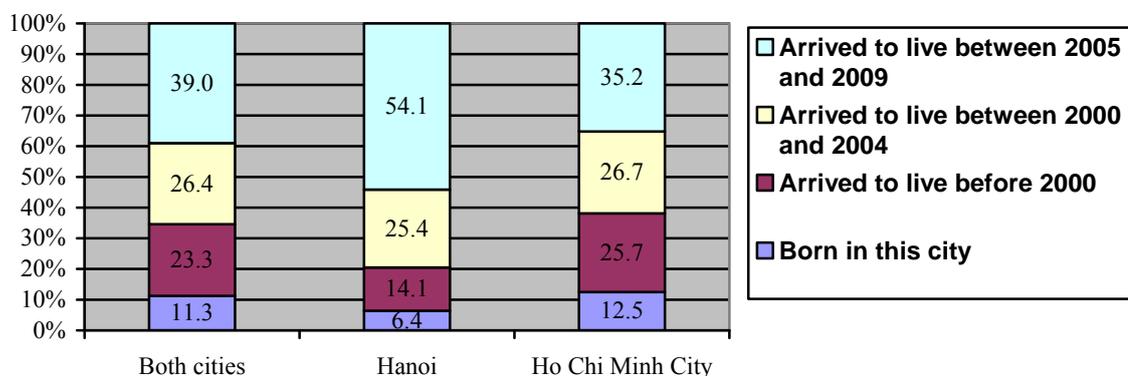
Despite positive shifts in the employment structure, as described in the previous section, the labour market in Vietnam is still characterized by a low share of formal employment. Indeed, analysis of data of the 2007 GSO Labour Force Survey by Cling et al (2009) shows that informal household businesses make up approximately 24 per cent of total employment. This means that they are employing almost half of Vietnam's labourers outside of agriculture, while the public sector and formal business sector share in only 11 per cent and under 16 per cent of total employment respectively.

There are a number of implications that arise from these features within Vietnam's labour market. First and foremost, the dominant share of the agricultural and informal sectors in the total employment statistics implies that underemployment and job quality, which includes the principles not only of decent earnings but also of a more stable income through access to a social protection system, pose a larger challenge than outright unemployment, which has predominantly been an urban, rather than national, phenomenon. Indeed, analysis of the datasets of the household surveys carried out through 1993, 1998, 2002, 2004, 2006 and 2008 finds that

overall national unemployment was kept within a reasonable range of between 1.4-3.2 per cent in total over the extended period from 1993-2008. During this time however, the rates in rural areas fell in the range of 0.4-2.1 per cent, whilst urban rates were between 2.5- 6 per cent respectively. The evidence available to date, particularly from the times of macroeconomic turbulence in 2008 and 2009, shows that qualitative adjustments in the form of shorter working hours and/or reduced earnings/income are more common than outright unemployment. Secondly, as the share of agricultural employment has been steadily falling while wage employment has been conversely rising, the scope for expanding the coverage of social protection has dramatically widened.

With regard to migration trends, one of notable features of the labour market in Vietnam is the relatively high degree of flexibility and mobility (both occupational and geographic) of the workforce (World Bank 2007, Oostendorp et. al. 2008), which has resulted in large and ever increasing rural-to-urban migration flows. Data from an urban-based survey with a sample size of 3,500 households, conducted by the statistical offices of Hanoi and Ho Chi Minh City at the end of 2009, provides the most recent empirical evidence to support this trend.

Figure 1. Migration Trends in Hanoi and Ho Chi Minh City (%)



Source: Urban Poverty Survey 2009

Figure 1 shows that the recent migrants who have arrived in Hanoi and Ho Chi Minh City since 2000 dominate the populations of these two cities, providing 65 per cent of their total number of inhabitants. Notably, the migration flows have a demonstrably upward trend, as evidenced by the growing share of new arrivals over the last decade when compared to the pre-millennium figures. As found in numerous studies, including in particular the most recent assessments of the impact on Vietnam of the global economic crisis, migrant workers are most vulnerable to the influences of rapid price increases in basic commodities and/or declines in labour demand throughout the workplace, as they lack the access to basic social services and other forms of

social protection. This indicates an urgent need to expand these systems to make them more inclusive of the most vulnerable members of the labour market. However, looking forward, the future labour market will to a certain degree depend on national demographic trends. In an analysis of the data from household surveys, VHLSS finds that there have been changes in the age structure of Vietnamese society itself. Specifically, the percentage of the population actually working has risen from 65.4 per cent in 2004 to 66.2 per cent in 2008. As a result, the data of the 2009 survey reveals that Vietnam has been enjoying demographic dividends, with the number of the population working being double that of their dependents. However, as the VHLSS data shows, Vietnamese society has started to experience an aging problem, with the percentage of people aged 60 years and over rising from 9.9 per cent in 2002 to 10.4 per cent in 2004 and 11 per cent in 2008. These changes have important repercussions, as they mean that Vietnam's economic advantage through the availability of young labourers in the workforce may be slowly eroded as the burdens on the social security system inevitably rise over time. These issues will be discussed in subsequent sections.

1.2. Social protection: key issues and characteristics

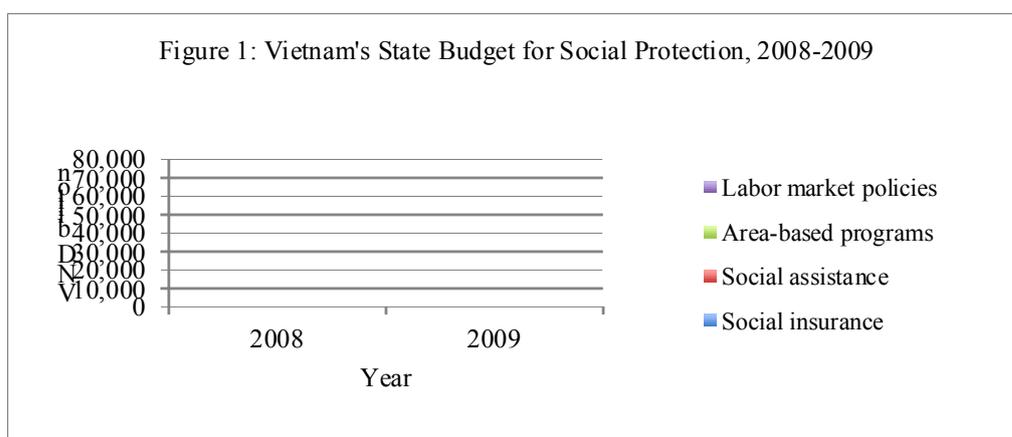
It can be said that Vietnam's social protection system is underpinned with three main pillars¹. These are, in order of significance in terms of fiscal cost and the intensity of linkage with employment: (1) social security, which is so defined to include mandatory and voluntary social insurance, health insurance and unemployment insurance; (2) social assistance and (3) micro and area-based programs, which essentially include poverty reduction programs. A "labour market program/policy" component exists, but it only plays a modest role in the system, with an associated tiny budget allocation and expenditure (ADB, 2009).

In total, all-embracing annual expenditure on social protection has been small, at about VND 29 thousand billion on average, thus accounting for 10 per cent of the State budget, or 3.2 per cent of GDP per annum during 2004-2008 (MOLISA, 2010). In 2009, the share of GDP provided for social protection increased to over 4 per cent, showing a rise of 12 per cent or 0.4 percentage points from the 2008 level (Paulette Castel, 2009). The increase was due in part to a higher budget allocation for financing health insurance for the poor or near poor and for children under 6 as a result of the expansion in cover for health insurance under the Law on Health Insurance 2008. Another part of the increased funding came from the stimulus package launched by the Government in response to the ongoing global financial crisis, which comprised of housing support programs and poverty reduction projects in 61 of the poorest districts, along with Tet allowances granted to the poor.

Figure 2 provides information on government expenditure on social protection in Vietnam in 2008 and 2009, disaggregated by the four above mentioned components. In terms of fiscal cost, the government spent 3.67 per cent of GDP in 2008 and 4.11 per cent in 2009. With regard to the individual components of the social protection scheme, social insurance comes first with a budget expenditure of 1.7 and 1.8 per cent of GDP in 2008 and 2009 respectively, followed by social assistance (1.47 per cent of GDP in 2008 and 1.42 per cent in 2009) and area-based programs (0.41 per cent of GDP in 2008 and 0.69 per cent in 2009), whilst labour market policies come last with a tiny fiscal cost of 0.09 per cent of GDP in 2008 and 0.08 per cent in 2009).

¹ Based on ADB's categorization of social protection into five components: labour market programs/policies; social insurance; social assistance; micro and area based programs; child protection.

Figure 2. Vietnam's government budget for social protection (2008-2009)



The SPS strategy 10th draft has been recently finalized, and includes many changes along with a rough costing of the SPS implementation. According to these estimates, the total cost of the SPS will be 10 per cent of GDP and the government's spending on social protection will be 4% of GDP (MOLISA 2010). The relatively low budget expenditure on social protection to a large extent explains the low coverage and the limited support offered to its beneficiaries. Low coverage of social protection comes naturally however, given the small size of the public and formal business sectors relative to the informal agricultural and non-agricultural sectors, as was briefly described in previous section. Indeed, the coverage of mandatory social insurance, which targets the working population and is the key element of the social protection system, is quite low, being extended to only 8.5 million people, or 18 per cent of the total employment figures for the country. Of those covered, employees of state-owned and foreign invested enterprises overwhelmingly dominate, resulting in unjustifiably unequal treatment. The level of participation in voluntary social insurance is modest, with the number of participants being equal to approximately 50,000 people (MOLISA, 2010).

Table 1. Coverage by various components of the Social Protection System

Scheme	Persons covered	Issues
Social insurance		
Compulsory	9.4 million people in 2009, 18% Labour Force	Participation rate low in non state enterprises (evasion of SI contributions, loose sanctions and insufficient awareness of workers)
Voluntary	50,000 people in 2009	Low participation; monthly contributions (18% income) too high compared to willingness to pay; communication is weak
Health insurance	60% of total population	

Compulsory	30 million people	
Voluntary	11 million people	Low quality of health care infrastructure; discrimination towards Health Card holders (because of the payment mechanism)
Social assistance	571 social establishment serving 14,613 beneficiaries in December 2008 1,23 % of the population (low)	

Source: MOLISA, 2010

In the field of health insurance, Vietnam has made significant achievements in terms of coverage expansion. Since its outset in 1992, health insurance has expanded steadily and as a result, its coverage reached nearly 60 per cent of the total population in 2009 through two schemes: compulsory (30 million people covered) and voluntary (11 million people covered). Of these, the number of participants under the compulsory scheme has increased most rapidly, and they now make up about two thirds of the overall coverage, resulting in notable progress in the country's health sector. However, the participation rate of the rural population, and especially vulnerable groups, is still low. The beneficiaries (as listed in Table 1) of regular social assistance represent only 1.2 per cent of the population, which is much lower than the coverage rate of 2.5-3 per cent of other countries in the region. Unfortunately, the baseline for the level of subsidies, which is just equivalent to 32.5 per cent of the poverty line, cannot allow the beneficiaries to afford even minimal living standards (MOLISA, 2010).

Benchmarking Vietnam's social protection against to those of other ASEAN countries (Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, and Thailand) would provide some useful information about the current situation that Vietnam finds itself in now. Vietnam shares, in common with these countries, the three main characteristics of social protection system. These are: disintegrating administration of social protection by its ministries, departments and organizations; limited coverage to a small proportion of the formal sector; and a focus on the protection of the older sections of society (Singh, 2008). Compared with Cambodia, Indonesia, Lao, Malaysia, and Myanmar, Vietnam's social security system is relatively more comprehensive, with social insurance components and a commitment to adopt universal health insurance coverage by 2014. According to the Law on Health Insurance, 30 per cent of the population should be exempted from the payment of contributions (through, for example, the provision of health cards for children under 6 years old), a significant share of the population (20 per cent) should be partially exempted (through Health Card subsidies of up to 50 per cent) and the rest should fully contribute. The expansion of social health protection coverage to the informal economy and to rural workers has proved difficult, however, despite

the government's partial subsidy of the premium. This may be linked to a lack of awareness, the poor availability of health care services or the limited development of community based schemes and other area-based organizations that could play the role of intermediary structures. Unlike Thailand and the Philippines² however, Vietnam still lacks the exhaustive micro and area-based schemes, specifically the micro insurance, agricultural insurance and social fund that they have in place. More specifically, agricultural insurance (mainly for rice crops), which was launched by Vietnam Insurance Corporation (Bao Viet) in 1983 and which expanded during the following 15 years to cover 26 provinces, was stopped as a consequence of severe losses. The Social Fund merely acts as a form of reduction or exemption from school fees and health insurance contributions, while households and/or individuals have to extensively rely on such informal mechanisms as savings, family and the community network to cover their day to day requirements.

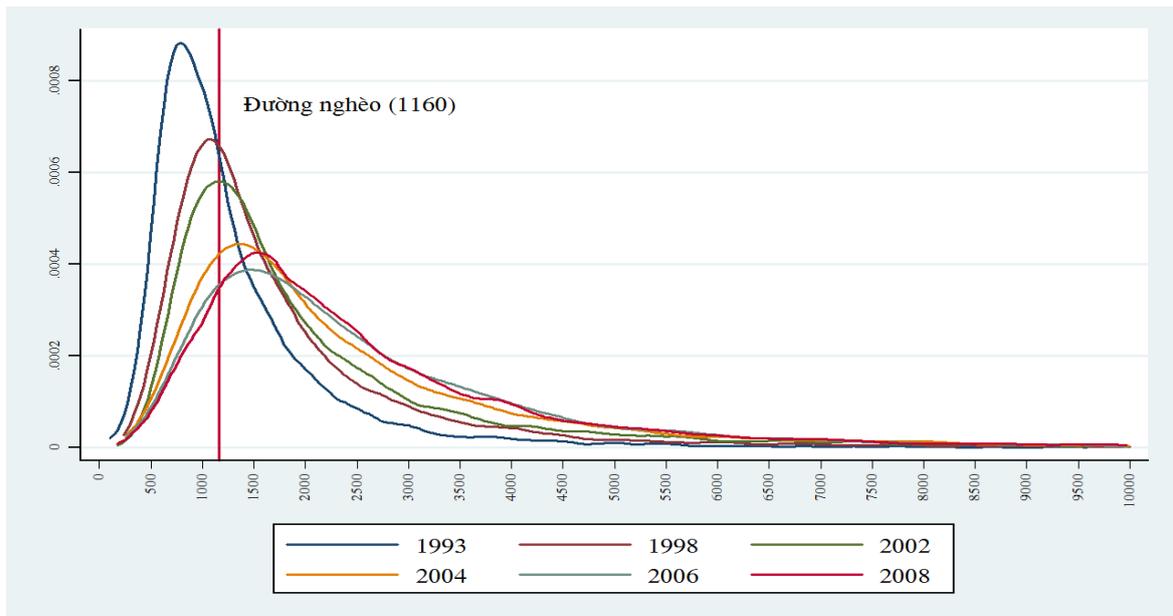
² The Philippines also applies all of the sub-components of the micro and area-based programs, as Thailand does, except for the agricultural insurance.

1.3. Strengthening the Social Protection System for achieving better labour market outcomes and sustaining fast poverty reduction

Vietnam is now in the final months of the five-year socio-economic development plan (SEDP) 2006-2010 and the government is in the process of preparing both the SEDP 2011-2015 and next ten-year socio-economic development strategy, (SEDS) 2011-2020. As previously mentioned, Vietnam has crossed the \$1,000 per capita income threshold and has moved on from its previous status as a less developed country. It has set an ambitious and overarching objective of becoming a largely industrialized economy by 2020 and has even started to discuss plans for avoiding the so called middle-income trap thereafter, whereby national productivity and income growth stalls after per capita income crosses this threshold. Thus, given all of these considerations, Vietnam has undeniably entered a qualitatively new stage of its ongoing development.

In the meantime though, although unemployment has not been a major issue in Vietnam, underemployment and the lack of decent work that generates sufficiently good earnings to protect the worker against periods of economic uncertainty still cause serious concern, especially given the country's ambitious development objectives. The social protection system has an important role to play in helping Vietnam to achieve these important changes within its labour market. However, the need for reducing risk and vulnerability actually arises from a broader and more fundamental perspective of making growth more pro-poor and development more inclusive in the current economic context, an area which will be discussed at some length in the following sections.

Figure 3. Distribution of Per Capita Expenditures 1993-2008 (in 1993 Prices)



Source: Our construction on the basis of data of VLSSs 1993 and 1998, and VHLSSs 2002, 2004 and 2006 Household Surveys

Figure 3 shows that distribution of per capita expenditures makes a discernable shift rightward over time, which coincides with the increasing pace of economic growth through the period of 1993-2006, resulting in a considerably increased proportion of the population whose per capita expenditures were above the poverty line. It also indicates that whilst in 1993 and 1998 the proportion of the population “just below” the poverty line is greater than proportion of the population “just above the poverty line”, in 2002 it reaches parity and from 2004 onwards the figures are reversed. An analysis of poverty dynamics also helps to pinpoint some important policy implications for the future. This analysis can be done on the basis of a three-wave panel data that is constructed from the datasets of the three consecutive household surveys from VHLSS taken in 2002, 2004 and 2006. This three-wave panel dataset contains 1,828 observations (Baulch and Vu, 2010) and the results from this analysis reveal that approximately 65 per cent of the population is never poor, which is an encouraging sign. Of the remaining 35 per cent though, one fourth is chronically poor and the remaining three fourths are in transitory poverty. This implies that the policies and programs to protect people from economic shocks, and thereby prevent them from falling into poverty are becoming increasingly important. As the reform process accelerates and the integration process intensifies, households, poor and non-poor alike, are facing growing number of risks – both systemic (or economy-wide) and idiosyncratic (household-specific and individual). Thus to reduce economy-wide risks, policies to ensure macroeconomic stability should be put in place and to protect people from idiosyncratic risks, Vietnam should strengthen the social protection system.

The current global economic crisis demonstrates how the country in general, and individual labourers and households in particular, are vulnerable to external market forces. After experiencing a mini-crisis in the form of very high inflation (over 20 percent year-on-year in early 2008) Vietnam subsequently became an innocent victim of the unfolding global financial crisis in late 2008 and early 2009. Evidence collected on the ground by CAF from the rapid impact monitoring of the global economic crisis (RIM) during 2009 shows that low skilled migrant workers disproportionately suffered from the economic fallout. The majority of them saw their incomes fall, in very real terms, because of the substantial rise in food prices, housing rental and other living costs, and a reduction in working hours or even job losses. Many of them do not participate in the social security program, and for those who do participate, coverage is only partial, and as mentioned earlier, health insurance is not strongly counter-cyclical as many of the workers who were laid-off had to return their health insurance cards to their employers. This means that in effect, they were largely unprotected against these economic problems. As migrant workers constitute the main bridge that links poor rural households with urban-based fast growth through the systems of remittances, they therefore, as empirically established by VASS (2007), played an important role in keeping poverty down in a rapid and sustainable way throughout the 1990s and the first half of the 2000s. The economic shocks that hit these migrant workers, the majority of whom are unprotected by social security, can thus result in a considerable slowdown in poverty reduction. It is therefore more vital than ever that Vietnam's Social Protection programme is improved to address these problems.

2. The link between employment and social protection: A literature review

2.1. Social security and employment

Social security is indispensable for numerous reasons. Firstly, while wages alone probably allow the earners to afford basic items such as food, clothing and shelter, they may not be adequate to cover all of their contingent expenses, or support the earner's dependents, or cover either they or their dependents for losses or interruptions in their earnings resulting from unemployment, invalidity or the earner's death. With insurance, earners are guaranteed against their uncertain and varying earning capacity or expenditure by distributing individuals' losses over the whole population of wage earners. Secondly, because of the prohibitive costs set by the private sector exploitation of the field of social insurance, it is social security that is realistic, primarily because social security contributions are often assisted by public funds, or shared by employees (although this is not true in the case of self-employed workers registering under voluntary social insurance) and secondly, because social security goes hand in hand with social gain. Therefore, access to social security can be seen as an important indication of a decent job. Finally, only social security, with the backing of legal compulsion, can protect the low-income labourers who, as has been shown, are highly vulnerable to various types of risks if they have to rely on their own.

Box 1. Social Security: A New Consensus. The Linkage between Social Protection and Employment

Human rights

Social security is a basic human right: Universal Declaration of Human Rights (1948), Article 22: Everyone, as a member of society, has the right to social security; International Covenant on Economic, Social and Cultural Rights (1966), Article 9: « *recognize the right of everyone to social security, including social insurance* » ... One area of social security (access to health) is addressed by a specific right: the right to health

Macro level

Social security / protection stabilizes aggregate domestic demand in times of crisis when external demand contracts due to reduced economic activity ... Most of the fiscal stimulus packages adopted by the governments included social protection components

Social security / protection contributes to limit in the long run the negative social impacts of any future crisis (investing today in for example, unemployment benefit systems will be beneficial in the case of future crises)

Income transfers through social security have a powerful effect on the income inequality and poverty ... Idea of redistribution and fairness

Households' level

At the micro-level Social security/protection stabilize income of individuals who are affected by unemployment or under-employment and hence help to avoid hardship and social instability;

They prevent households from taking non-reversible coping strategies such as taking children out of school, etc

Enterprise level

Access to social health protection improves productivity levels at enterprise level

Companies that included Social Protection in their own development strategies to meet the social compliance demands of global buyers become more competitive and make products of better quality (which is comparable to making better factories)

Source: ILO (2001)

2.2. Labour Market Policies and Employment

Active labour market programs typically have the following components:

- (i) Direct employment generation through promoting small and medium enterprises, public works.
- (ii) Labour exchanges or employment services, such as job brokerage or counselling, which aim at linking supply with demand for labour.
- (iii) Skills development programs - training and retraining of the labour force.

According to MOLISA (2010), the labour market programs have significant role in employment generation within Vietnam. While approximately 1.5 million people enter the labour force per annum, the labour market programs create around 300,000 new jobs per year – however empirical evidence is still yet to be found to support this claim. Although public works are not yet popular in Vietnam, the presence of a large public investment program with a strong focus on infrastructure projects poses an effective alternative. This was demonstrated clearly in 2009, when the Vietnamese economy was hit hard by the current global economic crisis, largely because of its high degree of dependence on export and foreign investment. In response, the Government of Vietnam accelerated disbursements on planned public investment in infrastructure projects, particularly in rural areas. For example, to accelerate the program to support the 62 poorest districts, which was introduced on the 27th of December 2008, in the early 2009, the Government of Vietnam decided to give each of the participating provinces an advance of VND 25 billion, or approximately \$1.5 million. Thus the construction sector, which employs a large number of unskilled labourers, benefited greatly from this particular stimulus package.

The stimulus package also includes components that provide targeted support to small and medium sized enterprises. Specifically, starting from the 10th of February 2009, the Government provided credit guarantees for small and medium enterprises (SMEs), with a fiscal cost of VND 200 billion, in order to lessen the hardships of labour-intensive SMEs which had been hit the hardest by the global economic crisis. Furthermore, small and medium sized enterprises benefited from a 30 per cent deduction of Corporate Income Tax (CIT), due for payment in the fourth quarter of 2008 and throughout 2009. The Government also allowed a delay of up to 9 months for the tax payment incurred for 2009.

One of the components of the fiscal stimulus package is support for laid-off workers in troubled enterprises, in the context of the economic downturn, through providing affected firms with interest-free loans for paying salaries, making social insurance contributions and delivering severance pay to laid-off workers. Enterprises eligible for loans included those that had to cut at

least 30 per cent of their workforce, as well as those who had to lay off 100 employees or more due to financial difficulties, and companies owing employees their salaries were able to borrow an equal amount. The loans were made by the Vietnam Bank for Investment and Development, with a maximum duration of 12 months.

Results of the stimulus package have been particularly striking with regard to the labour market. Despite the very difficult situation that the labour market found itself in, with widespread cuts in working hours and layoffs at the end of 2008 and the first quarter of 2009, conditions started to turn around towards the end of the second quarter and fully recovered by the end of the third quarter of 2009, when many of the previously badly affected export-oriented firms started to experience the opposite problem of a labour shortage. This was due largely to the strong rebound in the labour-intensive construction sector, to which many of the workers that had been laid off from the export firms moved to work. In short, as a poor developing country with a backward infrastructure because of its history of lengthy wars, in challenging times of economic downturn the Government of Vietnam has in its hand a powerful tool to achieve better labour market stability through the use of fiscal stimulus packages.

3. Employment and Social Protection Vietnam

3.1. An empirical analysis on the formal sector's participation in mandatory social insurance

In spite of their apparently different focuses, employment and social protection in general, and social security in particular, are inextricably inter-linked. On the one hand, having a job significantly raises the chance that a person of working age has access to social security as a key element of the social protection system, although it does not guarantee it. Having said that, any type of employment would inevitably lower the probability of a working person falling into poverty, and thereby reduce the burden on the social assistance system as another important component of social protection. On the other hand, various components of social protection also impact employment through a considerably more complicated mechanism. For instance, access to social protection systems such as health care, social assistance, or childcare, may contribute to increase the employability of job seekers, especially women. When the provision of social security benefits (such as unemployment benefits or minimum income allowances) are tied to conditions such as the active search for employment (through, for example, registration in jobs centres) and/or the attendance of vocational training courses, the chances of finding a new job are greatly increased. Social security benefits (such as health insurance, sickness benefit, or old age pensions) also contribute to employees' productivity and stability in their respective jobs. With a more stable workforce, the employers also have a tendency to invest more in the human capital of their employees through such schemes as training and career development. A schematic representation of the inter-dependence between employment and social protection in Vietnam is given in Figure 4.

The term 'social security' may have different meanings in different cultures and therefore to avoid confusion, this paper interprets it as corresponding with the system of social insurance managed by Vietnam Social Security (VSS). As such, it includes social insurance, health insurance and the recently introduced unemployment insurance scheme. VSS collects voluntary and mandatory contributions and awards a range of contributory short-term benefits for maternity, sickness and job loss, and long-term benefits (pensions) to its participants.

In Vietnam, social security is the largest component of the social protection system if the fiscal cost measure is used (see **Figure 2** in the previous section). More importantly however, it has the closest inter-dependence with employment – but there are a number of questions that arise in this regard. First, does employment always guarantee access to the social security system and if

not, what particular types of employment are actually covered? Second, what are the social and financial implications of no coverage or partial coverage at household levels? Third, how does social security coverage impact upon employment or reduce the impact of any form of economic crisis on employment? Beside mandatory social security schemes, social protection measures and programs (such as subsidized health care, social assistance benefits, access to social services such as schools, child care, training, and job centres) play an important role in increasing the employability of vulnerable groups.

First question: Does employment always guarantee access to the social security system and if not, what particular types of employment are actually covered?

With regard to the first question, most labourers are excluded from the social security system because of the key features of the labour market in Vietnam, as described in Section 1. As illustrated in **Figure 2**, people who work in agriculture and the informal business sector, which together share in approximately 75 per cent employment (see previous section) are not covered by mandatory social security. Furthermore, expansion of voluntary social security to these sectors appears to be problematic for two reasons. Firstly, labourers in agriculture and the non-agricultural informal business sector are normally low-income earners and therefore contributing to social insurance based on their low-income level would provide them with a low pension that is not adequate to cover their living costs in the latter phases of their life cycle. Secondly, the mandatory requirement of at least 20 years of contribution itself is a barrier to the expansion of coverage, for the simple fact that many labourers will never meet the criteria required to be eligible for a pension (VASS, 2009).

Having a job in the formal business sector, which provides only 25 per cent of Vietnam's total employment figures, greatly raises the chance of being covered by social security, but even this far from guarantees it. Data on social insurance contributors by Vietnam Social Security (VSS) are rather limited, while General Statistical Office (GSO) of Vietnam provides no official records on the number of contributors either. It is estimated that out of a population of 13 million people who are entitled to be covered by social insurance (the mandatory scheme) only 9 million are presently covered. Fortunately, since 2007, the annual GSO's Enterprise Census has included a question on the number of workers who participate in the social insurance program in each enterprise that the census covers. We therefore have conducted an intensive quantitative analysis of datasets collected in two waves of the GSO enterprise census conducted in 2007 and 2008. This analysis helps to shed light on some of the above mentioned questions.

Enterprises censuses implemented by GSO in 2007 and 2008 collected firm-level information on 131,168 and 155,607 registered firms respectively. Although the quality of the data is not

perfect, the datasets are very helpful for the empirical analysis of the linkage between employment and social security. While detailed results of our analysis of these datasets are presented in the Appendix, the main findings are presented in a more illustrated form through tables and their interpretation in the main body of this report.

The average rate of participation in the social security program for registered firms was 67 per cent in 2007, and it increases by 3 percentage points to reach 70 per cent in 2008. The firm's participation rate in the state sector is extremely high, being close to 100 per cent, which therefore indicates nearly universal coverage, given reporting errors. Almost all the state firms, regardless of central or local level, are participating in the social insurance program. Joint-stock enterprises are also actively participating in the social insurance program. The foreign invested sector, which includes all foreign investment firms, joint-ventures with state capital and joint-ventures with other types of ownership form, also has a very high rate of participation. In 2007, the average rate of participation of the foreign invested sector was 95 per cent. It increased by 2 percentage points to 97 per cent one year later, in 2008. Within the foreign investment sector, joint-venture firms with state capital are the most active in participating in the social insurance program while joint-venture firms with other types of ownership possess the lowest rate of participation (see details in Appendix II).

Figure 4: Employment and Social Protection in Vietnam

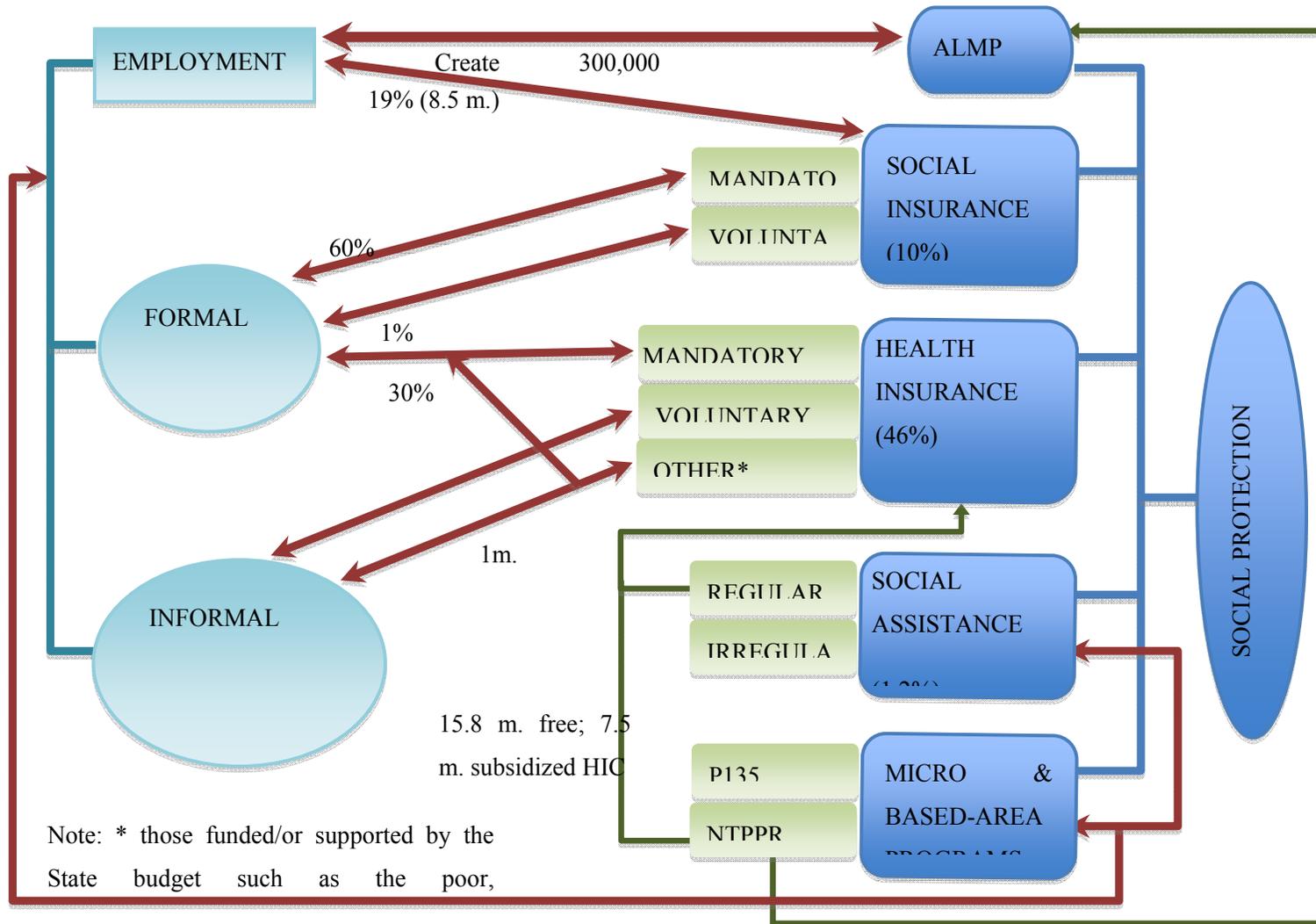
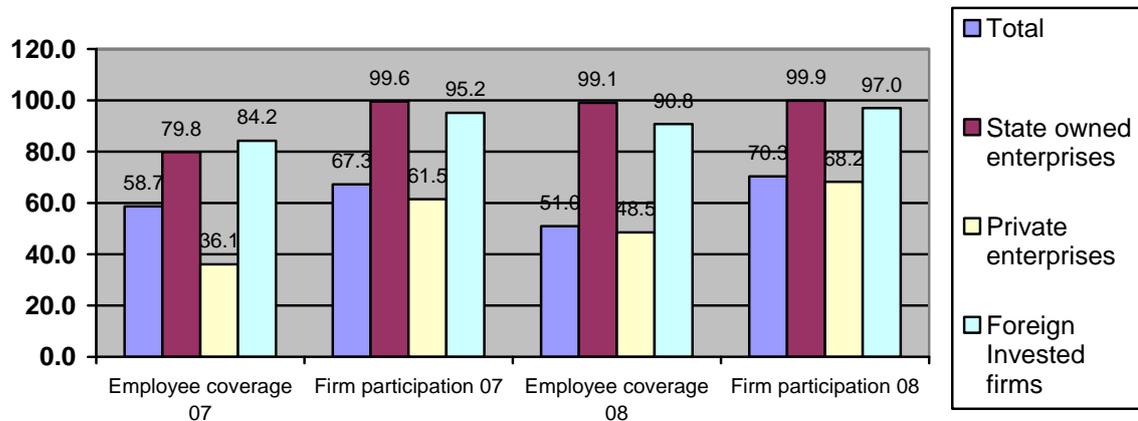


Figure 5. Firm's participation in and employee's coverage by social security in Vietnam



Source: Authors' calculation from data of GSO's Enterprise Censuses 2007 and 2008

At the employee level, on average, only 59 and 51 per cent of total employees working in the enterprises were covered by the social security program in 2007 and 2008 respectively, as opposed to 67 and 70 per cent at the firm level over the same time period. The shortfall of employee coverage from firm participation in the social security program may well be explained by the presence of a discernible proportion of temporary and/or labourers without employment contracts in almost all firms in Vietnam, as the Social Security Law only covers workers with labour contracts of at least three months in length.

The above analysis therefore shows that participation in the social security program varies across types of employment. The coverage is almost non-existent for agricultural and informal sector employment. In the formal business sector however, coverage rate varies across firms with different ownership forms: it is almost universal for employees of state-owned enterprises, very high for jobs in foreign invested firms, but is low for labourers in domestic private sector firms. The Social Security Law only applies to companies of ten employees or greater, therefore small and medium enterprises have no incentive to increase their number of employees since they would then have the obligation to pay social security contributions as soon as they started to employ ten or more. This "rigid" or un-progressive system therefore provides a specific disincentive towards the formalization of small and medium enterprises.

The level of firm and employee participation in mandatory social security also varies across the different industries. As can be seen from **Figure 6**, the highest rate of employee coverage, in excess of 80 per cent, is observed in the "financial, banking and insurance activities", and the

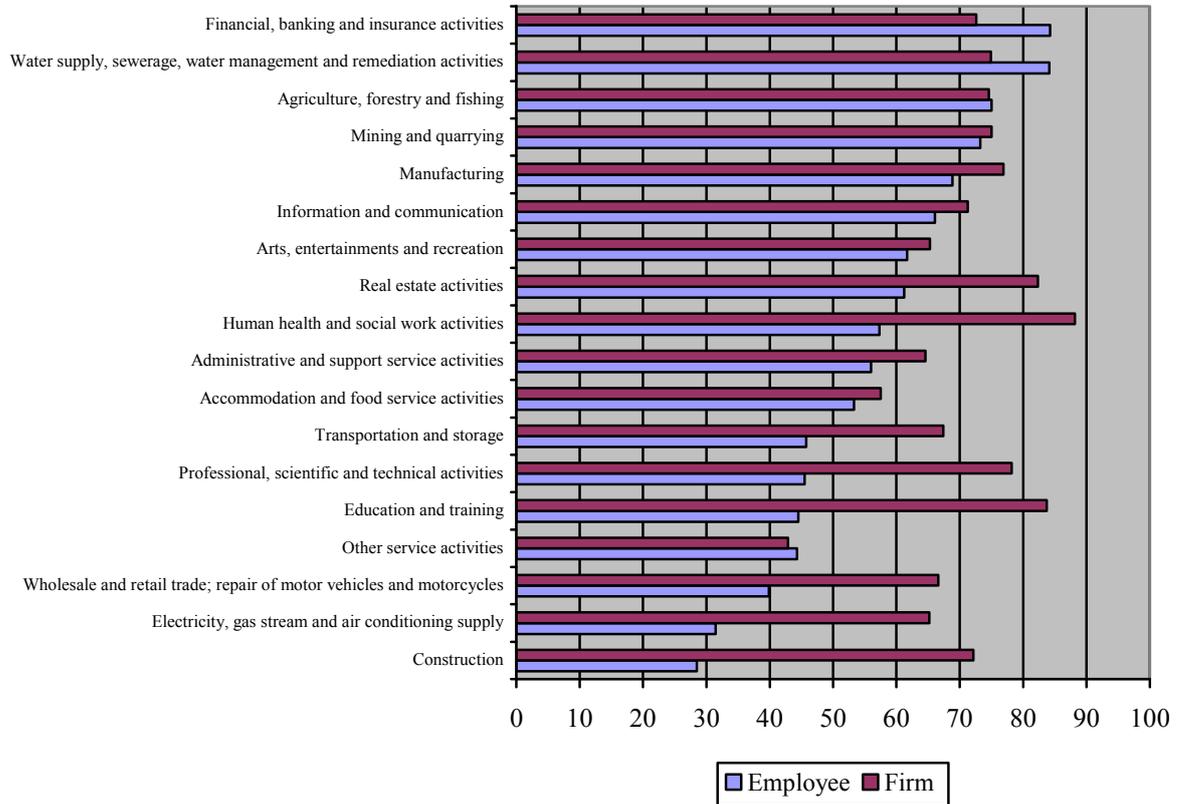
“water supply, sewerage, water management remediation activities” sectors. However, the highest rate of firm participation in the social security program is found in different sectors, namely “human health and social work activities”, “education and training” and “real estate activities”, which have over 80 per cent of firms participating. Data analysis also finds that there is a divergence between firm participation and employee coverage rates, with the correlation coefficient between these two variables as low as 0.27. The divergence may indicate how well the participating firms register their employees with VSS, and as can be seen from **Figure 6**, 7 out of 18 classified sectors have an employee coverage rate of below 50 per cent. In other words, less than half of employment in these sectors is registered with VSS, with the lowest rate of under 30 per cent being seen in the construction sector. This may be explained in part by business nature of some specific sectors where the proportion of temporary/short-term contracted (e.g. under three months) workers is high, such as construction. But it may also be explained by the firm’s incentives to under-register their employees with VSS in order to cut costs. The issue of underreporting will be discussed at some length after a presentation of the results of our econometric analysis in the following section.

Different rates of participation in the social security program (or in other words, compliance with regulations) by firms in the various sectors, as **Figure 6** indicates, might well be explained by the dominance of one ownership form over the others in a particular sector. Therefore, to make sure that like is compared with like, we have conducted an econometric analysis of the same datasets. Specifically, we have employed a logistic regression model to examine the firm’s characteristics and how that has an impact on the firm’s participation in the social security program. Explanatory characteristics that are used in the econometric analysis include ownership structure (SOE, FIE, domestic private enterprises, location (Hanoi and Ho Chi Minh City; North, South, Centre); size (number of employees: from 5 to 9, 10-49, 50-99, 100-199, 200-499 and 500 and above), industry (18 sectors as above) and participation in the world market. All these factors are found statistically significant in explaining firm’s participation in social security program. Specifically, with other things being equal, ownership matters as described earlier, so does firm’s size, as employment in bigger firms is much more likely to be covered by social security program. Location is also a determinant of both firm and employee participation in the program, where the two largest cities, Hanoi and Ho Chi Minh City, take the lead followed by the northern-based firms. Central and southern based firms are almost equally likely to participate, but at lower rates. Notably, firms that participate in trading with the world are more likely to participate than those that do not. This might partially be explained by the higher level of exposure of these firms to

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global initiatives such as corporate social responsibility, which is exercised quite actively by foreign clients on their local suppliers, under pressures from their customers in the West.

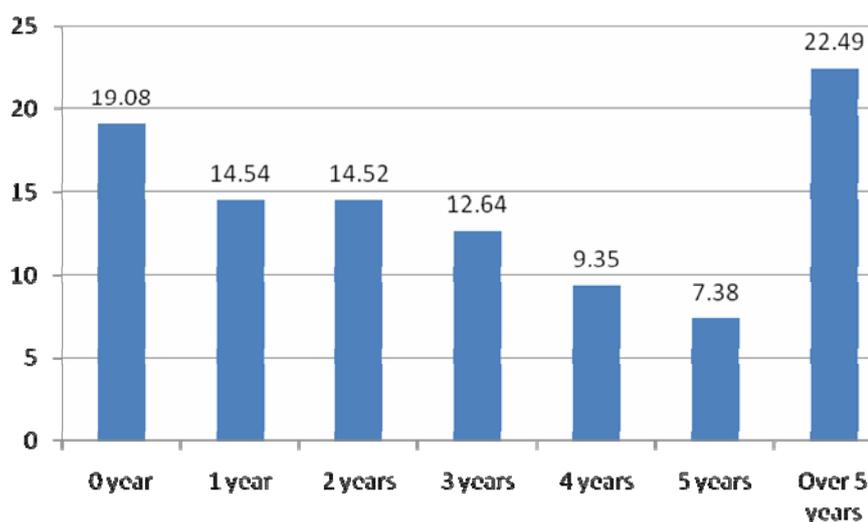
Figure 6. Firm and Employee Participation Rate in Social Security in 2008 (%)



Source: Authors' calculation from data of GSO's Enterprise Censuses 2007 and 2008

Supplementary analysis of these datasets also finds some evidence that newly established firms, and consequently, employees in these firms, are less likely to participate in social security program. These findings were based on studies of the age profile of firms that failed to answer both questions on the number of employees who participate in social security and amount of firm's contribution to social insurance managed by VSS (see **Figure 7**). If these missing answers are treated as firm's non-participation in social security program, most of these firms came to existence within the last 3 years (over 60 per cent) and the last 5 years (over 77 per cent). In practice, there is a stylized fact that older firms tend to comply better with regulation on social security contribution. This in turn may be explained by the theory that newly established firms need some time to learn how to comply with various kinds of regulations, or that they deliberately delay compliance for as long as possible in order to cut down business costs during their start-up.

Figure 7: Age distribution of firms for which participation information is missing (%)



Source: Authors' calculation based on Enterprise Census 2008

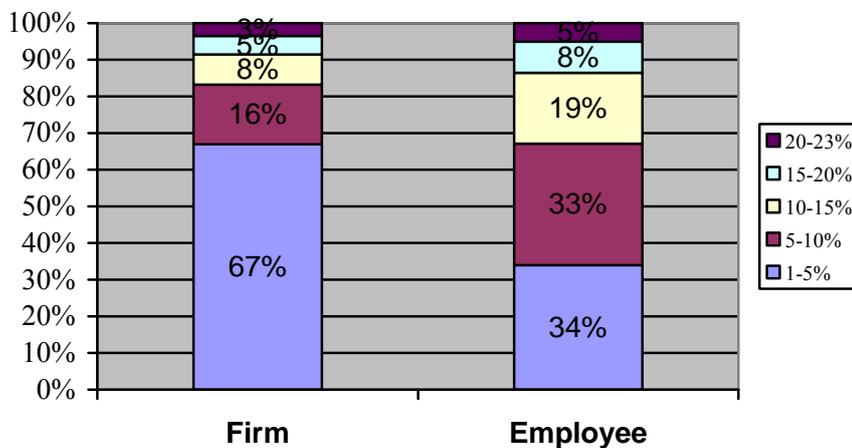
This behaviour has resulted in under-reporting of the wages being used for the calculations of the social security contributions. Analysis of Enterprise Census 2007 by To Trung Thanh and Castel (2009) found that among enterprises that contribute, the share of the wage bill of the contributions paid to the Vietnam Social Security scheme averages out at only 7.6 per cent, which is only one third of statutory overall rate of 23 per cent³. The rate varies across ownership forms, being highest for foreign invested firms (9.5 per cent), followed by state-owned enterprises (7.6 per cent) and domestic private firms (5.9 per cent). In terms of the distribution of the share of contributions out of wages by employee, **Figure 8** shows that 34 per cent of participating labourers work in firms that make social security contributions at 1 and 5 per cent of wages and

³ This 23 per cent statutory rate is made up by contributions the for old age and survivorship (15 per cent, of which 10 per cent paid by the employer and 5 per cent by the employee); sickness, maternity and family planning leaves (4 per cent, by the employer); work injury and professional disease (1 per cent, by the employer); and health insurance (3 per cent, of which the employer pays 2 per cent and the employee 1 per cent)

33 per cent of between 5-10 per cent. Distribution by firm looks somewhat different, with a considerably greater percentage of firms contributing less than 5 per cent of the wages they pay.

In short, for the overwhelming majority of participating employees, the coverage is only partial, falling noticeably short of the statutory contribution rate. This is because firms either do not register all their employees or do not report all the wages they pay their employees. This raises the question as to why this prevails and what it implies for the social security system and for its participants, which will be addressed in next section.

Figure 8. Share of contributions to Vietnam Social Security (VSS) in wages



Source: Adapted from To Trung Thanh and Castel (2009)

With regard to the first part of the question, To Trung Thanh and Castel (2009) find some evidence from the data collected by the Enterprise Census in 2007, that the highest wage earners are most likely to be found working in firms that do not pay social security contributions on current wages⁴ while the lowest net wage earners are most likely to be found working in firms that do pay contributions on their current wages. This means that the shortfall of actual social security payments from the current wage based contributions is captured by employees in the form of increased net wages. This unfortunately implies that labourers value additional current

⁴ These firms pay contributions on reported wages, which are either minimum wages or at a level that does not change over time and therefore lags behind current wages.

earnings considerably higher than future social security benefits. This was confirmed by recent surveys conducted by a team that including the CAF to monitor the impacts of the global economic crisis on Vietnamese firms and workers. The interviews conducted revealed that workers may quickly move across firms just because of wage differential of as low as VND 100,000 per month, even at the expense of losing their health insurance card and other social security benefits. This may be explained by their severe current cash constraints and would therefore point to why they value current earnings very highly, but may also reflect the lack of public appreciation or awareness of the important role of social security benefits in reducing the risks associated with old age or unforeseen circumstances.

Second question: what are social & financial implications of no coverage or partial coverage?

Partial coverage, as previously described, has a number of implications for the social security system and its participants. For example, as per the Social Security Law of Vietnam, sick leave benefits are equal to 75 per cent of the wages earned in the previous month and therefore if the reported wages are too low, social security benefits can replace only a small part of current wage, thereby not achieving the system's objective of avoiding the large drop of income caused by the ill health. Old-age pensions can replace only small part of the pre-retirement income if the reported wages falls considerably short of their current wages. To Trung Thanh and Castel (2009) make a further point about the policy leakage caused by the underreported wages and associated underpaid contributions to VSI, given the regulations on minimum pensions. According to the Social Security Law, all participating employees are entitled to a minimum pension equal to their minimum wage if they have contributed for at least 20 years. This is intended to protect low wage earners in old age by transferring resources from average high wage earners to them. But under-reporting may result in an unfair and costly policy leakage, where the policy may benefit a large group of average and high income earners whose reported wages considerably fall short of current wages. This will in turn undermine the capacity to increase coverage and the impact upon the long-term financial sustainability of the social security system.

Third question: how social security coverage impacts employment or reduces the impact of crises on employment?

With regard to the question on how social security feeds back to employment, the link from social security to employment is indirect, through the former impacting with an aggregate demand when

an economic shock occurs. In case of shocks at the level of an individual, social security benefits (such as maternity, sickness, health insurance or unemployment benefits) contribute to smooth out households' consumption, whilst at a macro level, social security benefits contribute in reducing the decline in aggregate demand, and therefore work to preserve jobs. The positive impact of social security on the preservation of jobs is therefore visible in times of crisis when social insurance in general, and unemployment insurance in particular, act as automatic stabilizers to counteract falling demand.

Together with taxes, which are adjusted automatically according to changes in GDP, automatic stabilization contributes to increase or decrease the Government's social spending (on unemployment insurance, welfare and other transfers) as GDP fluctuates. This is particularly prevalent when the economy goes into a recession or economic crisis, as unemployment rises along with the decrease in GDP. This activates payments of unemployment benefits as well as other transfers to the affected people, and these payments are pumped back into the economy in an automatic and stabilizing way, thus helping the beneficiaries keep their consumption at a reasonable level, thereby preventing aggregate demand from falling too low and consequently unemployment from rising further. In times of an overheated economy, when unemployment falls below the so called natural unemployment rate, the contribution to unemployment insurance would help to partially cool down aggregate demand and thereby the economy. The effect of the automatic stabilizer depends on the size of the government and how responsive taxes and government spending are to cyclical changes, which demonstrate the importance of the level of progressivity within the tax system. An automatic stabilizer cannot cancel all of the effects of the disturbance however, and often comes with associated higher government budget deficits during recessions. That being said, it is still of great importance in terms of financial stabilization if it is complemented by discretionary monetary and fiscal policy⁵.

⁵ According to IMF (2009), there seems to be a need for raising the automatic stabilizer in both advanced, low income and emerging market countries because of their widespread presence of pro-cyclical fiscal policies. It is noted that in doing so, these countries should take into consideration the following important caveats, which are the constraint on fiscal space, financing and debt solvency faced, especially for developing countries with shallow domestic debt markets or limited access to external financing like Latin America and Caribbean countries (Calderón and

There is some limited evidence about the lack of the counter-cyclical nature of health insurance that we collected from a recent rapid assessment of the impacts of the global economy on the Vietnamese national economy. From our fieldwork interviews with firms and workers, it was found that when a worker was laid off, they had to return health insurance card to the firm, if they wanted to receive some form of severance pay from their employer. The main reason was, as was shown by our interviews, that firms often “purchase” health insurance cards for their employees on a quarterly basis and if they return the purchased cards to VSS, they do not need to make health insurance contributions for the following periods and thereby can make a financial saving in their contributions. As labourers prefer cash to promises of payments of benefits in case of ill health, they normally return the health cards, therefore the laid-off workers are not insured against health shocks in economically challenging times. The associated rising uncertainty may however constrain their consumption (depending on the degree of their risk aversion) and as a consequence, the counter-cyclical nature of health insurance, which was intended in its original design, is severely undermined.

With regard to impact of unemployment insurance (UI) on employment, evidence is non-existent, as the former was introduced only at the beginning of 2009 and therefore payments of unemployment benefits, if any, could start only at the beginning of 2010, i.e. only after 12 months of the first payment being made, and as such, there is no evidence on how this scheme impacts upon employment in Vietnam. There is, however, growing evidence (see ILO, 2010) that the UI scheme in Vietnam provides an incentive to workers to quit their jobs more often than if they did not have any protection because of the so-called “lump-sum rule”, as the scheme not only provides benefits to workers that are fired but also provides benefits to workers who quit voluntarily and even to individuals who rapidly find new employment or return to their former employer after a short break or vacation. This rule has contributed to modify profoundly the relationship between employees and their jobs, by contributing to increase volatility of the work force. The ILO recommends the removal of the lump-sum rule as soon as is possible, considering that it will over time contribute to increasing the misuse of the UI scheme, and thus to escalating and unnecessary costs.

Fajnzylber, 2009); the inherent inflation caused by supply shocks; and increasing government size.

3.2. Extending the coverage of social security to the informal sector

While the social security schemes in most OECD countries cover around 90 per cent of the population, those of South Asian countries cover less than 10 per cent of their particular populations. This reflects the fact that over 90 per cent of the labour force are informal wage workers, or self-employed, and thus find themselves without legal social protection.

The coverage gap in social protection originates from many factors. Firstly, most developing countries are not wealthy and a high share of their workforce is employed in the informal sector. Secondly, the pressures on welfare states lead to reductions in their social expenditures and the pressures on employers lead to the formal employment of their labour force. Thirdly, most informal employees work in agriculture, rural non-farm activities, and the urban informal sector (Chen, 2008). Along with these, there are other factors such as low per capita GDP, population ageing, and a lot of employment-based social protection schemes that directly affect the labour force. The coverage expansion is inefficient due to the failure of accurate targeting and introducing such systems as employment-linked schemes to mobilize employers' contribution in creating formal employment, commercial schemes based on premiums paid/saving by workers, private voluntary schemes, means-tested schemes and universal schemes aiming at households/individuals could improve this. For social insurance pension and healthcare systems in Latin America, the low coverage is attributed to both factors related to the system (legal mandatory/voluntary coverage or exclusion, segmentation vs. unification of the health system, and financial arrangements) and unrelated to the system (issues of informality and the characteristics of these workers, levels of development, location, gender, and ethnicity) (Mesa-Lago, 2008).

Low coverage of social security results in the need for extending social security to the informal sector, or in other words, formalization of the job market. There is a wide range of literature covering comprehensive social security to follow, but the gap between the theories and the practices raise many challenges in the actual implementation of policies designed to facilitate the transformation of the labour market, especially considering the issues regarding its definition (Chen, 2008), its scale and nature (Cook, 2008), the complexity of its extent (Jütting et al., 2008) and the linkages between the formal and informal economy (Valodia, 2008).

Looking into the national social protection programs of the countries that have accomplished or are in the process of developing their own systems such as Ghana, Malawi, South Africa,

Uganda, Zambia, Ukraine, Brazil, and Chile, can help cast light on the institutional dynamics of expanding social protection in terms of future policy directions (IATT, 2008). There is a tendency to raise the investment in social protection by virtue of the evidence that investment brings about positive results in poverty reduction and increased school attendance. Contrary to the approaches found in Central and Eastern Europe, with intensified support for families and institutional care for children, Brazil, Chile, and Mexico are increasing promoting nationally owned social protection systems. Meanwhile African countries are constructing their own social protection policies, mostly taking the form of pilot cash transfers provided for the poorest. The expansion of social protection in these countries demonstrate the different possible approaches, but a common thread in all of them is a fragmented approach arising from each countries different objectives, often resulting in institutional homes with limited capacity, devoted to small pilots rather than national programs. For a more comprehensive system, it is necessary to build a consistent approach to the institutional strengthening of social protection, to enhance the harmonization in social protection support and delivery, and to deliver cash transfers unconditional on the provision of social services.

The analysis of Tokman (2008) on labour reform in Latin America suggests that a strategy of inclusive and protected employment should include five components: better regulations of informal activities; ensuring labour rights in informal enterprises; shifting labour reforms towards flexible but secure employment contracts; recognition of the existence of employment relationships; and introducing regulation and guaranteeing social protection on a universal basis. Given the diverse composition and expansion of the informal economies in developing countries, Lal (2008) proposes a two-pronged strategy to address informality: A combination of strengthening the dynamism of the formal sector to reduce the drift into informality and changing the terms of engagement within the both informal and formal sectors themselves. Dividing the mechanism of support that social security offers the informal sector into three pillars, basic security, economic security and social security⁶, ESCAP (2003) observes that basic security,

⁶ *Basic security*: a decent standard of living, food, health, education and shelter for the large mass of the population; *Economic Security*: access to productive income generating work and with core labour standards applied to all forms of work for a large proportion of the working age population; *Social Security*: the core contingencies that affect populations such as old age, death, unemployment, illness, disability and property loss (ESCAP, 2003).

which involves “a decent standard of living, food, health, education and shelter for the large mass of the population”, is essential, but is a long-term objective in the South, East and Southern-East Asian regions. It is the vulnerability of the working poor that needs to be handled immediately by implementing strong economic policies and creating instruments that work towards reducing the number and improving the status of informal workers. Among which, great attention should be paid to policies concerning macroeconomics and trade, credit and market access, and infrastructure, and which should be taken into consideration as part of a more comprehensive approach to social protection.

3.3. Employment and Social Assistance

According to ADB's definition, social assistance and welfare services provide protection to society's most vulnerable groups, which it defines as those with no other means of support such as single parent households, victims of natural disasters or civil conflict, handicapped people, or the destitute poor. Social assistance may include "welfare and social services" to highly vulnerable groups such as the physically or mentally disabled, orphans, or substance abusers. It may also include "cash or in-kind transfers" such as food stamps and family allowances, "temporary subsidies" such as life-line tariffs, housing subsidies, along with support through the lowering of the prices of staple food in times of crisis (ADB, 2009).

Social assistance, or basic social protection, does not seem at first glance to have such a close and direct link with employment as social security does. As previously mentioned, however, any kind of employment, even low-income jobs in the informal or agricultural sectors, would substantially lower the likelihood of that person falling into poverty, and would thereby reduce their burden on the social assistance system. The short-term impact of employment on social assistance in Vietnam has, to some extent, been visible during the current global economic crisis. Thanks to the healthy performance of the construction industry and the other non-tradable sectors, which in turn have been largely attributable to the stimulus packages, mainly through the loose monetary and expansionary fiscal policy, the economic recovery in Vietnam is widely acknowledged to be impressive. Notably, the labour market has seen a big turnaround, from the frequent layoffs and shortened working days of the past to the current apparent labour shortages in many of the industrial parks. This may have helped many low income labourers from falling into poverty and as a result, the Government did not have to introduce any special social assistance measures in addition to the one-off handouts that it provided to poor households on the eve of the 2009 New Year Festival (VND 200,000 per person with a maximum of VND 1,000,000 per household).

Over the longer term though, employment figures impact upon future social assistance through old age pensions. These are designed to redress the risk of poverty in old age, as an individual's capacity for work fades away and as a consequence, they are unable to earn sufficiently to support themselves. If the system works well, decent employment, in the form of reasonable earnings and adequate social security coverage, may help current employees from falling into poverty, thus reducing the burden on the social assistance system of the future. However, the link between current employment and current social security with future social assistance does not

always work. Specifically, if the majority of labourers do not participate in the social security program now, as discussed earlier, current employment for low wage earners does not guarantee that they will not have to rely on some form of social assistance system in the future. This issue will become increasingly acute over the long term, as Vietnam slowly moves away from its “demographic dividend” period and an ever increasing percentage of its population start to age. The acceleration of urbanization may also change the traditional family structure, with an associated decline in extended family support and a resultant growth in the number of poor elderly who will have to resort to social assistance funds if they do not have access to a pension. In other words, broadening social security coverage for the working population should be a priority now, as it its overarching reach transcends most policy areas and forms the bridge between the present and the future, through the direct links between current employment and the funding of the future social assistance system.

With regard to effects of social assistance on employment, some sub-components of the poverty targeting programs are directly designed to promote employment, either directly or indirectly. Specifically, the areas regarding the training provided to members of poor households are intended to raise the skills of participants and thereby help them better integrate themselves into the labour market. The subsidized credit, available for poor households, is intended to improve the access for the poor to credit and to lower the associated borrowing costs for them. As such, it can potentially generate more jobs and thus reduce rural under-employment. According to MOLISA (2010), during the four years from 2006 to 2009, approximately 5 million poor households took out subsidized loans of between VND 6-7 million. Approximately 3.7 million members of poor households were provided with instructions and guidance on production, and 100,000 members participated in vocational training free of charge, of whom 60,000 subsequently found a job in the labour market or set up their own business, thereby raising both their own incomes and the incomes of their families. Household survey data provided by VHLSS for 2006 and 2008 reveal that 39.5 and 46.4 per cent of total households in the MOLISA poor list accessed subsidized credit in 2005 and 2007, respectively, while the figures for the beneficiaries of the job training program for the poor are slightly more modest, at 4.1 and 4.2 per cent, respectively (GSO, 2010).

There is also growing evidence that many vulnerable people are unable to access both jobs and training because they are too poor, as they cannot afford the transportation costs that will bring them to the training centre. Reasons for this include living in remote areas and having no direct

transportation means, being isolated mothers that need to take care of their children, or possibly being amongst those sections of society that suffer from diseases and don't have access to the necessary health care, amongst others. It is therefore important to link access to employment (through skills development and training, jobs centres, and job matching) with the social assistance and basic social protection schemes, through the provision of cash benefits (such as minimum income provision and health cards) in association with in kind benefits (such as child care, schools, proper housing and even food in some cases).

In short, social assistance in Vietnam has played an important role in improving labour market outcomes in particular and in reducing poverty in general. As such, it importantly includes numerous elements of the recently launched global initiative on the social protection floor (SPF), as detailed in sub-section 3.5).

3.4. Social protection as an automatic stabilizer

Literature, on the role of government expenditure as an automatic stabilizer, mainly focuses on unemployment insurance, except for Darby and Melitz (2008), who emphasize the counter-cyclical effect of transfers and provide evidence on the varying effects of unemployment insurance on an economy in recession. Lee et al (1999) examined the impacts of unemployment insurance on economic activity in two US states that faced moderate and high unemployment rates, namely California and Michigan. They found that unemployment benefits and contributions had no effect on the two state economies and its role as an automatic stabilizer could not be detected over the time span of the study. They also demonstrated that the counter-cyclical effects of the unemployment support systems at a national level have declined over time by at least 40 to 45 per cent in comparison with the 1960s and 1970s.

Other studies confirming the importance and variable-size stabilizing functionality of unemployment insurance such as Dolls et al (2009), assert that social transfers, especially the rather generous unemployment insurance systems in Europe, play a key role in stabilizing both disposable income and household demand. They feel that this explains the automatic stabilization gap between the EU and the US and shows that increasing government expenditure is a successful way of tackling this kind of crisis. In particular, these types of tax and transfer systems absorb 38 per cent of a proportional income shock, 48 per cent of an unemployment shock, and 23-32 per cent of a shock in disposable income, as measured over the 19 European countries, while they show that the rates in the US systems are lower at 32, 34 and 19 per cent respectively. Benefits alone account for 19 per cent of the stabilization effect in the case of unemployment shock in the EU as compared with 7 per cent for the US in the same case. A wide difference is also found between EU members, with lower discernable stabilization effects prevalent in Central and Northern Europe and more pronounced effects noticeable in Eastern and Southern Europe.

The empirical analysis provided by Darby and Melitz (2008) of the 21 OECD countries during 1982-2003 to assess the extent and composition of unemployment insurance proves that age and health related social expenditure, as well as incapacity and sickness benefits, all react to the cycle in a stabilizing manner, which matches the studies' results in terms of labour economics. In practice, the characteristics of the social protection systems of different countries lead to differences in the magnitude to which unemployment insurance and financial transfers impact upon the cyclical changes. The automatic stabilizer is lower in developing economies, where

there exists only a rudimentary form of unemployment insurance and even in advanced economies, differences can be noted. The US and UK offer a system with a shorter duration of benefits than most other developed countries (for example France, Germany, Canada and Japan), which also lowers their automatic stabilizer effect. Also, it can be seen that different social spending patterns, which are higher in European countries and much lower in emerging countries, result in different level of automatic stabilization.

In the US, the less generous unemployment insurance is supplemented by discretionary actions during recessions, a recent example of which is the Extended Unemployment Compensation program. This response makes the unemployment insurance program more counter-cyclical, but nevertheless it still exhibits the characteristic lag between need and implementation.

In emerging economies, while the reforms of the social safety net is likely to take time to become effective, a targeted cash transfer program could be applied or scaled up temporarily during times of economic crises. As an example, Jordan's response to the food and fuel price crises in 2007 demonstrates how this can work in practice. Jordan provided subsidies to farmers (to encourage the production of wheat and barley), whilst at the same time giving consumers fixed-price bread and barley. Simultaneously, Jordan prohibited the export of eggs, some types of vegetables and fruit, and exempted 13 basic commodities, energy saving products and agricultural inputs from taxes and duties. It also introduced compensatory measures amounting to 4.3 per cent of GDP to ensure public acceptance and protect vulnerable groups in the population. These steps noticeably contributed to the stabilization of the Jordanian economy, in spite of the ongoing crisis.

In low-income countries, the implementation of comprehensive unemployment insurance may further worsen the segmentation between the formal and the informal labour markets. However, well-designed public work programs (with cash or in-kind remuneration ensuring an appropriate self-targeting at the poor) could be used in response to an economic shock or to bolster the market in times of economic uncertainty.

3.5. The Social Protection Floor (SPF) Initiative

Committing to multilateral action to deal with the fallout of the ongoing global financial and economic crisis, in April 2009, the United Nations System Chief Executive Board for Coordination (CEB) launched nine joint initiatives, of which the sixth was SPF. This initiative is now provided as a “work in progress” manual.

The first principle of the SPF is that people who combine multiple disadvantages need to be “supported with sufficient resources and personalized employment and social services, to help them participate in society and become more employable” – and the SPF is designed to contribute to the increase in employability of the unemployed through the use of its “activation policies”. By linking the financial transfer (for instance minimum income, social assistance, or priority access to basic social services such as crèches or nurseries) with the fulfilment of certain conditions, the SPF aims to reduce both poverty and the vulnerability of the underemployed (such as part time workers and the working poor) and thus contribute to an increase in equity with those that have better jobs.

By increasing the pressure and obligations on recipients through compulsory activation to seek and accept jobs, to follow training programmes (skillfare) or to undertake work beneficial for the community (workfare), the SPF is helping recipients to help themselves. In this vein, most of the transfers are becoming conditional, even the provision of last resort benefits such as the minimum income guarantee schemes. The system aims to improve the probability for the unemployed to get a job (either wage employment or self-employment) through the development of their skills, their enrolment in training programmes and through increasing the availability of resources such as job centres. It also works by supplementing the basic salaries of the working poor, either by ensuring that they have an incentive to work (as compared to those who benefit from basic social transfers without working) or by introducing other financial incentives to “make work pay”, in the form of tax reforms.

The second principle is that the SPF, through “partial contributory schemes”, can contribute to the formalization of the economy. It does this by providing access to subsidized social protection schemes, as an intermediary between contributory schemes and social assistance, to help informal economy workers to start paying contributions – even if this is at a very advantageous rate. This also has the added benefit that the worker now knows that they have been officially registered, which is the first step towards their integration into the “formal sector” of the labour market.

Under the SPF, countries are encouraged to design their own national versions, giving their workforce a basic set of rights and transfers that enables and empowers their citizens access to a minimum standard of goods and services – and promotes the idea that this access should be defended by any decent society at all times. The main elements of the SPF include: (i) access to essential services such as water and sanitation, adequate nutrition, health and education, housing, and other services including life and asset saving information; and (ii) access to essential social transfers: i.e. social transfers, in cash and in kind, paid to the poor and vulnerable to provide a minimum income and health security. The national SPF frameworks will differ between countries however, because each national SPF is constructed on that country's existing social protection system and national development strategy. While many countries have a comprehensive, unified social protection system already in place, others have disparate schemes covering such areas as health, education, housing, food, old age pensions, disabilities, children and the like – all of which exist outside of a unifying and coherent structure.

The empirical analysis of this by the ILO (2009) shows that an SPF is of paramount importance and is generally feasible for most countries to implement. The ILO specifically found that:

Most countries can afford some elements of an SPF.

An SPF has positive impacts on a country's poverty levels, the health, nutrition and social status of its recipients, its economic activity and entrepreneurial small scale investments (notably in agriculture), and has no negative effects on the labour market participation of its poor population.

The combination of modest cash benefits for children and modest pensions for the elderly could reduce the poverty head count by around 40 percent.

The cost of this set of benefits would not be expected to exceed around 4 per cent of GDP

Thus by providing a minimum level of social protection, and therefore sustaining poverty reduction in both times of prosperity and crisis, an SPF acts as an economic stabilizer, smoothing income at the household level. Adopting an SPF will improve the efficiency of social protection schemes and aid economic development at both a national and global level. As the SPF Initiative takes into account both regional and global policy frameworks, integrating the SPF into a country's development strategy will also help to improve the performance of its social protection policies. This will build a coherent social consensus among a country's policies, allowing each

different sector to save both human and capital resources in conducting the various activities where they overlap with each other. Each national SPF may well focus on different outcomes, but the overall SPF framework provides an overarching consultative, inclusive and participatory system. This allows and encourages the involvement and participation of government representatives, UN partners, parliaments and civil society in its ongoing development and deployment.

4. Policy Implications

4.1. Conclusions

Vietnam has achieved rapid economic growth in the last two decades and as a result, favourable labour market outcomes have been achieved. However, despite its low unemployment rate, underemployment and the lack of decent jobs that provide reasonable and stable earnings are still some of the biggest issues that the country is facing. Specifically, most of the labourers in Vietnam are regularly exposed to various types of risks while they remain without the cover of a social protection system. Although the informal safety net, in the form of both informal credit and the solidarity among migrant workers shown in the current global economic crisis has been quite effective, and made a discernible contribution to Vietnam's strong economic rebound in 2009, it cannot be relied upon forever. The rapid urbanization process, and the changes in the way that society in general and the individual family in particular is structured, may well mean that the support from within extended family, and from within community as a whole, may fade away, as has been observed in more advanced economies. This demonstrates the urgent need to make social protection more "formalized" and better structured, in order to cope with the impending changes. Furthermore, the level of benefits provided to participants is currently low and is therefore not attractive to existing and prospective participants, meaning that the financial sustainability of the social security system over the long term is thrown into doubt.

All of these call for, among other things, a substantial strengthening of the social protection system. This can be done by broadening its coverage and allowing the system to reach out - through adapted and attractive social protection benefits - to the majority of Vietnamese people. This should include low-income and vulnerable labourers, as many are not covered because of their employment in agriculture, or within the non-agricultural business sector, or because compliance with regulations on social security contributions by registered firms, particularly domestic private firms, is still weak. Policies therefore should facilitate two transitions (i) from employment in agriculture to wage employment in manufacturing and services with higher productivity and associated higher incomes; (ii) from employment within the non-agricultural informal sector to formal sector jobs by encouraging unregistered firms to register, while forcing registered firms to better comply with the regulations of the Social Security Law. Efforts should also be made to facilitate voluntary participation in social security and to improve the financial sustainability of the social security system.

To this effect, a number of policy interventions are suggested as follows:

4.2. Policy Suggestions

4.2.1. Introducing a single social security number (SSN), issued to everyone at birth

This proposal deserves special attention, as it is both feasible and important. It is feasible thanks to the increasing availability of information technology systems. Furthermore, there has already been some discussion as to how best coordinate a social security system with the recently introduced broad-based personal income tax (PIT) system. Currently, millions of Vietnamese labourers have their own unique PIT number, so it is worth considering using this single identifying number for multiple purposes, among which could be included social security. This would help reduce administration costs and ease the process of broadening social security coverage. It can in particular help to better manage the unemployment insurance scheme, which currently operates slowly, at the expense of both workers and their employers. PIT numbers could easily help to improve the operation of the health insurance scheme, as another critical component of the social security system.

This is an important point, because Vietnam's national labour market has become increasingly integrated spatially, with workers becoming considerably more spatially mobile. This has been largely driven by the movement of labour out of agriculture and towards the industries and services that provide higher productivity, and which thus provide an associated higher income. Today, there is a major problem with the lack of benefit portability. When workers move from one province or region to another, or when they move from a compulsory to a voluntary scheme, they lose their previously accrued benefits. This issue will be partially solved with the development of a single SSN number that is used to identify the same individual in every scheme in which they participate. Such a system would also help firms to match their demand for labour with a considerably broader pool of job seekers covering the whole of Vietnam. Firms would then become more competitive and grow faster, which in turn would compel them to better comply with social security regulations, as was indicated by the earlier findings on company size and social security compliance. All of these processes will eventually help to broaden the coverage of the social security system throughout the country.

4.2.2. Encouraging unregistered enterprises to become registered

As the mandatory scheme starts to dominate the social security system, and labourers consequently start to participate through their firms, an important way to broaden the coverage of the system is to encourage the numerous unregistered firms to become registered. Otherwise, the workers in the small companies that employ less than ten people are not covered, as the social security law only applies to companies of ten employees and more. From an economic perspective, there are different costs and drawbacks in being unregistered when compared with becoming formal. The former largely involves the inability of the unregistered firm to get access to formal credit, with the resultant higher capital costs, while the costs associated with being formal are mainly found in the form of tax payment and social security contributions, which the firms in the informal sector normally evade. Thus any policies that raise the costs of being unregistered and lower the costs of being registered would encourage unregistered firms to get registered, and vice versa⁷.

Specifically, small and medium sized enterprises tend to have no incentive to increase the number of employees that they have, since they would then have to pay mandatory social security contributions as soon as the threshold of ten employees is reached. This “rigid”, or unprogressive, system therefore provides a distinct disincentive towards the formalization of small and medium sized enterprises. To counter this disincentive, it is suggested that a more progressive system of social protection should be considered, targeting firms of less than ten employees, in which social contributions (and social benefits) would be fixed at a lower level and therefore made more accessible to the small and medium enterprises. There is also the possibility of partial participation in the social security system, for example in health insurance only, which would again make the systems more accessible to the smaller firms and thus increase registration. However, to promote registration, firms must be provided with some sort of incentive, such as

⁷ One of the recent policies that may affect formalization is the introduction of personal income tax (PIT) in 2009. As it is noted in World Bank 2008, PIT falls mainly on formal wage and salary earnings, and as such it can be seen as disincentive to formalization. Consequently, the drive towards broadening the tax base works against the broadening of social security coverage. This highlights the need to better address potential cross-over issues when a particular policy is designed in order to minimize its unintended effects.

better access to bank credit, or support in training for example, in addition to exemption from any form of registration fees or any other costs otherwise associated with registration. As such, the registration and formalization of small and medium enterprises would clearly have a positive contribution towards broadening the coverage of social protection within the country.

4.2.3. Improving enforcement of the Social Security Law

Improving the enforcement of the Social Security Law can be done by strengthening the labour inspection system, as well as by facilitating some of global initiatives on decent work such as corporate social responsibility. As previously indicated, the more a firm trades with the outside world (and therefore has a greater exposure to these type of global initiatives), the more it tends to fully comply with the regulations laid down in the Social Security Law. The analysis also found that the larger firms tend to better comply with regulations on social security participation, thus implying that any policy that helps firms to grow should work towards broadening social security coverage. The reciprocal findings on the low compliance of the smaller domestic firms may be partly attributed to their relative youth, but may also be due to the tougher business conditions that they face, which force them to cut costs wherever they possible, often by evading or avoiding regulatory compliance. This may suggest the need to create an equal playing field for all firms, regardless of their ownership forms, and that additional work may be needed in order to find ways that can help private sector firms offer their employees better protection through the social security program.

4.2.4. Extending the voluntary schemes

In parallel with the transformation of a large part of rural labourer force into industrial workers, and encouraging unregistered firms to get formalized, efforts should also be made to extend social security coverage to the informal sector through the expansion of the voluntary schemes. To this effect, voluntary schemes should be made more flexible, and more specifically, the requirement of the 20 years worth of contributions for pension eligibility should be reconsidered as it excludes a large number of non-participants, thus constituting a barrier to the expansion of coverage. Secondly, greater flexibility should also be considered with regard to the level of contributions and their associated benefits, so that the system can include a wide variety of people whose preferences vary substantially. Thirdly, more effort should be put into advertising and awareness raising activities, alongside strengthening the existing schemes. These could then be used to showcase the schemes, allowing prospective participants to see the real benefits of their participation.

4.2.5. Moving from the “pay-as-you-go” scheme toward a fully funded system

Over the long term, the financial sustainability of the social security program will become an increasingly larger issue. The main reason for this is that the era of the demographic dividend, which Vietnam has been enjoying for well over the last decade, is expected to fade away over the next thirty years. Vietnam will then face the same challenge of an aging population which the majority of more advanced economies in East Asia and the rest of the world are currently facing. Vietnam should therefore consider the possibility of taking advantage of the country’s young working population in order to move away from the pay-as-you-go scheme toward a fully funded system with clearly defined benefits. As this is a very sophisticated issue, in both political and technical terms, and pension reform is expected to be a long process, Vietnam may need to carefully analyse the experiences from more the advanced countries that have already undergone this process. However, it is clear that Vietnam cannot simply mechanically mimic the social security systems in the other industrial countries and needs to develop its own approach, in order to deal with its own unique needs.

4.2.6. Implementing the SPF for the working population

This can be done by better linking access to employment (through skills development, jobs centres, and job matching) with social assistance and basic social protection. This is accomplished through the provision of cash benefits (such as minimum incomes and health cards) or in kind benefits such as access to child care, better schools, proper housing, or even food in some cases. The provision of work programs, which could help any worker to find employment in more challenging times, should also be considered seriously.

A vital measure in starting the implementation of this process in Vietnam would be the introduction of a single common form of identification, as mentioned earlier. This, in conjunction with a unified selection system which allowed those persons eligible for the receipt of basic social protection or social assistance, or those who are enrolled in capacity building programs, to be identified, selected and easily tracked, will both simplify the system and improve its efficiency. Today the identification and selection for these types of programs are done by completely different institutions, with no coordination or communication, and this will clearly have to be changed as a basic precursor to the implantation of the other policy suggestions.

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Appendices

Appendix I.

Overview of the Enterprise Census as the Data Source for the Study

The data on social security contributors in Vietnam is rather limited. Vietnam Social Security (VSS) provides absolutely no data on its contributors although there are web-based links which are supposed to provide the data, and the General Statistical Office (GSO) of Vietnam also provides no official records on the number of contributors. Fortunately, since 2007, the annual GSO's Enterprise Census has included a question on the number of labours who participate in the social security program in each enterprise that the census covers.

Parts of the study rely heavily on two iterations of the GSO enterprise census, which were taken in 2007 and 2008. The census data provided the unique source of information which has helped us to understand and analyse the enterprise sector in a systematic way. This has been especially useful in allowing us to draw conclusions at the national level, although it is worth noting that the data collection was conducted through a reporting system, rather than utilising a process in which interviews were made between the survey administrators and respondents, therefore some inconsistencies and missing data values must be expected.

The definition of 'enterprise' used in the census is "an economic unit that independently keeps a business account and acquires its own legal status." As such, it excludes registered enterprises which have not begun operations, enterprises that have been disbanded, and economic sub-units that do not keep separate business accounts such as branches. This definition will differ from that used for firms officially registered with the government, as per the Enterprise Law, as the latter also includes firms that are not yet to operational.

In terms of ownership structure, a distinction is maintained between state, non-state and foreign direct-invested (FDI) enterprises. State enterprises comprise enterprises funded entirely by state capital, including limited liability companies, as well as stock companies with more than 50 per cent of shares publicly available. Non-state enterprises are enterprises set up by domestic capital, with publicly available shares of less than 50 per cent, including: (i) cooperatives; (ii) private companies; (iii) private limited liability companies; (iv) private stock companies; and (v) stock

companies with a less than 50 per cent public share of registered capital. FDI enterprises are firms with 100 per cent of capital invested by foreigners as well as joint ventures.

Before going into the details of the analysis, there are a few points regarding the data that are worth discussing. Given the caveats in the datasets, we present the results of our calculations dependent on the mechanism used to treat the missing variables in order to improve clarity and transparency. The primary method of treating the missing values of the status of contributions to the social security fund is to consider them purely as missing values, and drop those observations out of the sample, as the missing values will not affect the averaged contributing rates if they are randomly missing.

Appendix II.

Social Security Coverage: Findings from the Analysis of Datasets from GSO's Enterprise Census

Our analysis is mainly focused on estimating the participation of Vietnamese enterprises and their employees in the compulsory social security program. Table 2 summarizes the rates of participation in the social security fund of Vietnamese enterprises, in which all of the missing values in the participating status have been removed. The national averaged participation rate is 67 per cent in 2007 and increases by 3 percentage points to 70 per cent in 2009. The participation by the state is extremely high and almost all the state firms, regardless of central or local level, are participating in the social security program. Joint-venture enterprises are also actively participating in the social security program. The foreign investment sector, which includes 100 per cent of foreign investment firms, joint-ventures with state capital and joint-ventures with other types of ownership form, has a very high rate of participation. In 2007, the averaged rate of participation of the foreign investment sector was 95 per cent. It increased by 2 percentage points to 97 per cent one year later. Within the foreign investment sector, joint-venture firms with state capital are the most active in participating in the social security program while joint-venture firms with other types of ownership possess the lowest rate of participation.

The relatively low rate of participation at the national level is due to the private sector. In 2007, the average rate of participation in the social security program was 61.5 per cent, and it increased by 7 percentage points to 68.2 per cent in 2008. Within the private sector, private limited companies, which are the majority (accounting for 60 per cent of the total private sector in 2007, and 56 per cent in 2007) possess the lowest rate. At the employee level, on average, in 2007 only 59 per cent of total employees working in the enterprises have been members of the social security program, in comparison with 67.28 per cent at the firm level. While almost all state and FDI firms are participating in the program, the rate of participation in terms of the number of employees is reduced significantly (for state enterprises, 79.8 per cent vs. 99.5 per cent in 2007, and for FDI firms, 84.2 per cent vs. 95.2 per cent in 2007). These discrepancies might well reflect either temporary or contractless hiring of labours by the firms involved.

Table 2: Rates of Firms' Participation in the Vietnam Social Security (treating missing as missing)

Enterprise census		2007						2008					
Level		Employee			Firm			Employee			Firm		
Industry		Total employees	SI members	Participation Rate %	Total firms	SI members	Participation Rate %	Total employees	SI members	Participation Rate %	Total firms	SI members	Participation Rate %
		Total	5 713 698	3 352 302	58.67	46 234	31 106	67.28	6 641 136	3 837 903	57.79	112 742	79 299
State enterprises	1 483 809	1 184 262	79.81	3 520	3 504	99.55	1 322 769	1 090 179	82.42	3 306	3 301	99.85	
Central State Enterprises	622 134	534 434	85.90	944	941	99.68	503 942	435 926	86.50	784	783	99.87	
Local State Enterprises	415 736	329 351	79.22	1 384	1 377	99.49	331 460	284 672	85.88	1176	1 174	99.83	
Joint Stock with State Capital >50%	445 939	320 478	71.87	1 192	1 186	99.5	487 368	369 581	75.83	1346	1 344	99.85	
Private enterprises	2 897 973	1 046 121	36.10	38 715	23 797	61.47	3 739 015	1 386 586	37.08	104 793	71 493	68.22	
Collective	136 838	21 974	16.06	2 096	1 792	85.5	146 374	28 124	19.21	4 011	3 019	75.27	
Private	392 338	53 266	13.58	5 642	3 508	62.18	494 551	71 022	14.36	25 649	12 081	47.10	
Collective name	388	200	51.61	17	13	76.47	588	231	39.32	47	32	68.09	
Private Limited Companies	1 467 819	455 420	31.03	23 165	13 137	56.71	1 843 128	575 713	31.24	58 395	43 018	73.67	
Joint Stock no State Capital	537 412	249 571	46.44	6 502	4 065	62.52	827 231	388 737	46.99	15 115	11 792	78.02	
Joint Stock with State Capital <50%	363 180	265 692	73.16	1 293	1 282	99.15	427 144	322 760	75.56	1 576	1 551	98.41	
Foreign Investment	1 331 916	1 121 919	84.23	3 999	3 805	95.15	1 579 353	1 361 139	86.18	4 643	4 505	97.03	
100% foreign	1 134 766	959 285	84.54	3 164	3 014	95.26	1 361 085	1 174 826	86.32	3 760	3 646	96.97	
Joint venture with State enterprises	123 124	111 522	90.58	461	450	97.61	125 742	113 600	90.34	445	441	99.10	
Joint venture with others	74 027	51 112	69.05	374	341	91.18	92 527	72 714	78.59	438	418	95.43	

Note: Authors' calculation based on datasets of 2007 and 2008 enterprise censuses

Although the rate of compulsory participation we have reported above is relatively low compared to expectations, the real situation is even worse. In

Table 3 we report the rate of compulsory participation in the social security program in which we treat the missing observations in the participating indicator as non-participating. There are some reasons for us to support this way of treating the missing values. First, the question on the number of labours participating in the compulsory social security program is so simple and straight forward as to make confusion over how a firm should answer it incredibly unlikely. Second, firms who appear to have missing values in the participation indicator are those who, on the whole, also have a high propensity to not participate in the social security program and thus also did not provide the number of social security participators. In the Enterprise Census 2007, 86,532 out of 131,168 enterprises did not fill out the question asking for the number of labours who were participating in the social security program. In a similar vein, in the Enterprise Census 2008, 44,588 firms did not provide the data in the participation indicator, accounting for 28.7 per cent of total enterprises. Results of further investigation reveal that more than 99 per cent of firms who have missing values are from the private sector. We argue that private firms are not participating in the social security program in order simply to reduce their costs of business.

As shown in

Table 3, the rate of participation is significantly reduced when treating the missing values as not participating. In particular, in 2007, the participation rate is reduced by 44 percentage points, to 23.7 per cent in comparison with the analysis when we treat the missing values as real missing values. Obviously, the reduction is due to the extremely low rate of participation throughout the private sector. Private firms had a rate of 19.3 per cent and only 20.6 per cent of private limited companies were joining the program. In 2008, the participation was much improved and on average, 51 per cent of all the firms were program members.

Table 3: Rates of Firms' Participation in the Vietnam Social Security (treating missing as non-participating)

Enterprise census	2007			2008		
Industry	Total firms	Contributing to VSS	Participation Rate %	Total firms	Contributing to VSS	Participation Rate %
Total	131 168	31 106	23.71	155 607	79 299	50.96
State enterprises	3 558	3 504	98.48	3 332	3 301	99.07
Central State Enterprises	954	941	98.64	787	783	99.49
Local State Enterprises	1 400	1 377	98.36	1 187	1 174	98.9
Joint Stock with State Capital >50%	1 204	1 186	98.5	1 358	1 344	98.97
Private enterprises	123 390	23 797	19.29	147 314	71 493	48.53
Collective	6 219	1 792	28.81	6 688	3 019	45.14
Private	37 323	3 508	9.4	40 468	12 081	29.85
Collective name	31	13	41.94	53	32	60.38
Private Limited Companies	63 658	13 137	20.64	77 648	43 018	55.4
Joint Stock no State Capital	14 801	4 065	27.46	20 862	11 792	56.52
Joint Stock with State Capital <50%	1 358	1 282	94.4	1 595	1 551	97.24
Foreign Investment	4 220	3 805	90.17	4 961	4 505	90.81
100% foreign	3 342	3 014	90.19	4 018	3 646	90.74
Joint venture with State enterprises	464	450	96.98	452	441	97.57
Joint venture with others	414	341	82.37	491	418	85.13

Source: Authors' calculation based on datasets of Enterprise Census 2007 and 2008

At the industry level, there is also some heterogeneity in the level of participation in the compulsory social security scheme. We divide the enterprises into 18 groups of industries as follows:

- agriculture, forestry and fishing; mining and quarrying;
- manufacturing; electricity, gas stream and air conditioning supply;
- water supply, sewerage, waste management and remediation activities;
- construction;
- wholesale and retail trade;
- repair of motor vehicles and motorcycles;
- transportation and storage; accommodation and food service activities;
- information and communication;
- financial, banking and insurance activities;
- real estate activities; professional, scientific and technical activities;
- administrative and support service activities;
- education and training; human health and social work activities;
- arts, entertainments and recreation;
- other service activities.

In Table 4 we show the rate of participation in which missing values are treated as really missing values. Industries with the lowest rate of participation include ‘Other service activities’ (45.3 per cent in 2007 and 42.9 per cent in 2008) and ‘Accommodation and food service activities’ (51.5 per cent in 2007 and 57.5 per cent in 2008). However, those industries are not worrying because they have a rather limited number of firms. In fact, if our previous justification about missing values is true, the picture is much clearer in Table 4B in which we summarize the participation rate with the missing values treated instead as non-participating values. Several industries with a large number of firms appear to have a very low rate of participation. For instance, ‘Wholesale and retail trade’ and ‘Repair of motor vehicles and motorcycles’, with a combined total of 52,321 firms which accounts for 40 per cent of total firms in 2007, has in total 13.7 per cent of firms participating in the program (although it increased by 38 percentage points to 51.4 per cent in 2008). In any circumstances, firms in the ‘financial, banking and insurance activities’ sector

always have a higher rate of participation and this will be shown more clearly in our regression analysis in the next section.

It is interesting to note that, there are several industries in which the rate of participation has dropped significantly over the two year period. Those include ‘aquaculture, forestry and fishing’, ‘mining and quarrying’, ‘electricity, gas stream and air conditioning supply’ and ‘financial, banking and insurance activities’. However, this abrupt drop might be explained easily by linking it to the entry of new upstart firms into the market, which this once again confirms our argument regarding the role of newly established firms in explaining the low rate of participation in the social security program.

Table 4. Firms' Participation Rates to the Vietnam Social Security (treating missing as missing)

Enterprise census		2007						2008					
Level		Employee			Firm			Employee			Firm		
Industry		Total employees	SI members	Participation Rate %	Total firms	SI members	Participation Rate %	Total employees	SI members	Participation Rate %	Total firms	SI members	Participation Rate %
		Agriculture, forestry and fishing	229 030	177 228	77.38	750	715	95.33	226 202	169 729	75.03	1 067	796
Mining and quarrying	170 804	117 248	68.64	472	445	94.28	177 802	130 250	73.26	845	634	75.03	
Manufacturing	3 124 132	2 082 718	66.67	13 717	10 316	75.21	3 543 268	2 439 284	68.84	21 095	16 217	76.88	
Electricity, gas stream and air conditioning supply	24 358	12 451	51.11	462	438	94.81	29 641	9 326	31.46	2 252	1 468	65.19	
Water supply, sewerage, waste management and remediation activities	45 954	38 406	83.57	203	180	88.67	53 869	45 321	84.13	407	305	74.94	
Construction	881 523	273 729	31.05	6557	4 763	72.64	972 357	276 847	28.47	13 534	9 765	72.15	
Wholesale and retail trade; repair of motor vehicles and motorcycles	537 330	256 993	47.83	12 779	7 193	56.29	767 818	306 145	39.87	47 005	31 315	66.62	
Transportation and storage	260 494	122 614	47.07	2 252	1 523	67.63	299 898	137 182	45.74	5 403	3 642	67.41	
Accommodation and food service activities	107 551	58 094	54.02	2 326	1 199	51.55	133 247	71 024	53.30	3 325	1 913	57.53	
Information and communication	49 924	38 950	78.02	739	430	58.19	49 932	32 981	66.05	2 077	1 480	71.26	
Financial, banking and insurance activities	41 372	34 955	84.49	1 089	1 020	93.66	59 614	50 223	84.25	1 662	1 207	72.62	
Real estate activities	25 808	18 483	71.62	569	362	63.62	37 979	23 264	61.25	2 188	1 802	82.36	
Professional, scientific and technical activities	95 519	48 785	51.07	2 361	1 426	60.4	133 531	60 729	45.48	7 260	5 675	78.17	
Administrative and support service activities	73 404	43 752	59.60	1 174	615	52.39	94 366	52 820	55.97	2 532	1 636	64.61	
Education and training	8 910	3 718	41.72	263	162	61.6	16 151	7 187	44.50	830	695	83.73	
Human health and social work activities	7 148	3 715	51.97	139	95	68.35	9 882	5 663	57.30	279	246	88.17	
Arts, entertainments and recreation	21 088	15 171	71.94	178	132	74.16	24 468	15 091	61.68	357	233	65.27	
Other service activities	9 327	5 296	56.78	203	92	45.32	10 521	4 662	44.31	620	266	42.9	

Source: Authors' calculation based on datasets of the 2007 and 2008 enterprise censuses

Table 5: Firms' Participation Rates to the Vietnam Social Security (treating missing values as non-participating)

Enterprise census Industry	2007			2008		
	Total firms	Contributing to VSS	Participation Rate %	Total firms	Contributing to VSS	Participation Rate %
Agriculture, forestry and fishing	2 385	715	29.98	2 429	796	32.77
Mining and quarrying	1 359	445	32.74	1 686	634	37.6
Manufacturing	26 013	10 316	39.66	30 166	16217	53.76
Electricity, gas stream and air conditioning supply	2 949	438	14.85	3 213	1468	45.69
Water supply, sewerage, waste management and remediation activities	416	180	43.27	560	305	54.46
Construction	17 743	4 763	26.84	20 957	9765	46.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	52 321	7 193	13.75	60 881	31315	51.44
Transportation and storage	6 499	1 523	23.43	8 318	3642	43.78
Accommodation and food service activities	5 113	1 199	23.45	6 070	1913	31.52
Information and communication	1 885	430	22.81	2 360	1480	62.71
Financial, banking and insurance activities	1 668	1 020	61.15	1 890	1207	63.86
Real estate activities	1 717	362	21.08	2 406	1802	74.9
Professional, scientific and technical activities	6 471	1 426	22.04	8 797	5675	64.51
Administrative and support service activities	2 510	615	24.5	3 217	1636	50.85
Education and training	785	162	20.64	357	246	68.91
Human health and social work activities	255	95	37.25	490	233	47.55
Arts, entertainments and recreation	419	132	31.5	820	266	32.44
Other service activities	653	92	14.09	33 970.84	17 676.1	50.96

Source: Authors' calculation based on Enterprise Census 2007 and 2008

Appendix III.

Determinants of Participation into the Compulsory Social Security

The descriptive analysis above helps us see the role of ownership in explaining the low rate of participation in the social security program in Vietnam. However, to propose relevant policy recommendations we need to conduct a multivariate analysis of the determinants of participation. We employ a logistic regression model to examine the factors that motivate enterprises to participate in the social security program. Specifically, we fit a model of a dummy variable that takes a value of unity if firms are in the program, and zero otherwise, on firms' characteristics including ownership structure, location, sector and their participation in the world market. We will estimate the model using both cross sectional data and panel data using the 2007 and 2008 enterprises censuses. In Error! **Not a valid bookmark self-reference.** we report the regression results for 2007 using the entire 2007 Enterprise Census in which missing values are treated as non-participation. Comparable results for the same year for which missing values are treated as really missing are presented in Table 6. To see how these factors affect the probability of joining the social security program we gradually add covariates into the regression models. We start with a basic model in which only ownership dummies are added in column 1; in column 2, regional dummies are added; in column 3 we include sectoral dummies; in column 4 we added dummies of employee scale and finally we added the openness indicator in column 5.

A couple of observations can be seen from tables 5 and 6. First, all the firm characteristics enter well in the model. Almost all the covariates are highly statistically significant. In columns 1 and 2 of Table 5 all the ownership and regional dummies are statistically significant at 1 per cent. Second, the results are very robust in terms of the sign as well as the magnitude of the coefficients. Firms in private and foreign-invested sectors have much lower probability of joining the program than State-owned enterprises. Although this finding has been seen in the descriptive analysis in the previous section we are able to see the magnitude of difference in this section. Holding everything at a fixed level, the odds of participating into the compulsory social security program for private firms over the odds of participation of other firms is -4.96 which is much higher than the odds ratio in the case of foreign-invested enterprises (-1.56). These ratios do not change by much when we control for the location and economic sector of firms.

Across the economic industries, the differences in joining the social security program are not very large. Firms in financial, banking and insurance activities industry have the probability of

participating about 4 times higher than firms in other sectors. For other sectors the differences are not big as the magnitudes of the odds ratios are not high, although the differences are highly statistically significant. Smaller firms in terms of employee scale have lower possibilities of participating. The results of our model estimation show that small firms with 5-9 labours tend to participate by 3.8 times less than other firms; firms with 10-49 employees have the odds ratio of the participating probability equal to -2.7 showing that their probability of joining the social security program 2.7 times lower than other firms. The (absolute) odds ratios keep decreasing when there are more employees. Furthermore, firms that are participating in the world markets have a little higher probability of joining the social security than firms completely doing business in the domestic markets. Table 7 summarizes the results of the same analysis based on the 2008 Enterprise Census and confirms what we have seen in Error! Not a valid bookmark self-reference.. More interestingly, the results when we treat the missing values as really missing and drop them out of the sample also point to the same conclusion (see Table 8 and Table 9). As shown in these tables, the low level of participation is largely completely associated with private sector, in particular small enterprises.

The robust results of the logistic regression analyses above lead us to a firm conclusion about the propensity to join the compulsory social program in Vietnam. State-owned and foreign-invested enterprises are very active in participating in the compulsory social security program. Non-participants are usually from private sector, in particular small firms with few employees. Noting that, thanks to the Enterprise Law, in the last few years there have been many enterprises newly registered and most of those are private firms, it is however sad to mention that these new firms are exactly those who have the lowest probability of participation – although in their defence it is felt that they have mitigating circumstances. Firstly, whilst new firms have many mission critical priorities, unfortunately joining the social security program is not likely to be one of them. Secondly, participation will also mean that business costs are increased, at exactly the time that new businesses are trying to lower them. Unfortunately, these two key factors are unlikely to change, and so will always pose exactly the same problems for this sector of the market.

Table 6 summarizes the variables we use in the models.

Mathematically, we will estimate the following multivariate logistic model:

$$\ln \frac{p_i}{1 + p_i} = \beta_0 + \beta_1 X_i + e_i$$

where p_i is the probability that firm i participate in the compulsory social security program, X_i is the vector of firm's characteristics including ownership structure, location, industry and participation in the world market; e_i is the error term. Ownership structure is partitioned into three groups: State-owned enterprises, private sector and foreign-invested sector. Two dummy variables, including a dummy for private sector and another dummy for foreign-invested firms enter the models to capture the ownership structure. We group the provinces into 4 groups including: Hanoi and Ho Chi Minh City, North, Central and South. Those four groups are captured by three dummy variables. Economic sector is grouped into 18 categories and captured by 17 dummies. We also follow a convention (Mazumdar, 2003; Shaffer and Le, 2009; Mazumdar, 2009) to divide firms into 6 groups according to the labour scale. Those groups include 5-9, 10-49, 50-99, 100-199, 200-499 and 500 and above.

In Error! Not a valid bookmark self-reference. we report the regression results for 2007 using the entire 2007 Enterprise Census in which missing values are treated as non-participation. Comparable results for the same year for which missing values are treated as really missing are presented in Table 6. To see how these factors affect the probability of joining the social security program we gradually add covariates into the regression models. We start with a basic model in which only ownership dummies are added in column 1; in column 2, regional dummies are added; in column 3 we include sectoral dummies; in column 4 we added dummies of employee scale and finally we added the openness indicator in column 5.

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Table 6. Probability of joining the social security program in 2007

Dependent variable: Participation in social security (missing values = no participation)	(1)	(2)	(3)	(4)	(5)
Private sector	-4.962**	-4.969**	-5.070**	-3.544**	-3.542**
Foreign-invested firms	-1.557**	-1.486**	-1.947**	-1.373**	-1.392**
North		0.310**	0.166**	-0.510**	-0.507**
Central		-0.100**	-0.152**	-0.625**	-0.623**
South		-0.246**	-0.311**	-0.629**	-0.626**
Mining and quarrying			1.032**	0.746**	0.746**
Manufacturing			1.184**	0.835**	0.836**
Electricity, gas, steam and air conditioning supply			0.14	1.304**	1.304**
Water supply, sewerage, waste management			0.253	0.547**	0.549**
Construction			0.814**	0.715**	0.715**
Wholesale and retail trade; repair of motor vehicles			0.072	1.054**	1.052**
Transportation and storage			0.509**	0.554**	0.546**
Accommodation and Food service activities			0.549**	0.767**	0.768**
Information and communication			0.056	1.077**	1.031**
Financial, banking and insurance activities			2.282**	4.287**	4.287**
Real estate activities			0.244*	1.661**	1.662**
Professional, scientific and technical activities			0.487**	1.429**	1.425**
Administrative and support service activities			0.594**	1.190**	1.189**
Education and training			0.235	1.392**	1.395**
Human health and social work activities			1.264**	1.533**	1.534**
Arts, entertainment and recreation			0.099	0.574**	0.577**
Other service activities			-0.067	0.666**	0.668**
Employee size: 5 - 9				-3.800**	-3.799**
Employee size: 10 - 49				-2.752**	-2.751**
Employee size: 50 - 99				-1.716**	-1.716**
Employee size: 100 - 199				-1.187**	-1.189**
Employee size: 200 - 499				-0.648**	-0.651**
Trading with the world market					0.625**
Constant	3.381**	3.388**	2.973**	4.952**	4.947**
Observations	131 161	131 161	131 161	67 516	67 516

Note: * significant at 5%; ** significant at 1%, odd-ratios are reported

Table 7. Probability of joining the social security program in 2008

Dependent variable: Participation in social security (missing values = no participation)	(1)	(2)	(3)	(4)	(5)
Private sector	-3.682**	-4.050**	-4.393**	-3.589**	-3.589**
Foreign-invested firms	-1.513**	-1.573**	-1.879**	-1.409**	-1.427**
North		-1.426**	-1.452**	-1.386**	-1.385**
Central		-1.377**	-1.363**	-1.279**	-1.278**
South		-1.623**	-1.608**	-1.419**	-1.419**
Mining and quarrying			0.911**	0.682**	0.683**
Manufacturing			1.022**	0.724**	0.724**
Electricity, gas, steam and air conditioning supply			1.500**	1.658**	1.658**
Water supply, sewerage, waste management			0.849**	0.634**	0.633**
Construction			0.958**	0.771**	0.771**
Wholesale and retail trade; repair of motor vehicles			1.085**	1.174**	1.173**
Transportation and storage			0.722**	0.603**	0.601**
Accommodation and Food service activities			0.04	0.178**	0.179**
Information and communication			0.727**	1.086**	1.075**
Financial, banking and insurance activities			1.829**	3.367**	3.367**
Real estate activities			1.751**	1.751**	1.751**
Professional, scientific and technical activities			1.247**	1.510**	1.510**
Administrative and support service activities			0.644**	0.670**	0.669**
Education and training			0.247	-2.235	-2.234
Human health and social work activities			1.586**	1.628**	1.628**
Arts, entertainment and recreation			1.544**	1.497**	1.498**
Other service activities			0.401**	0.407**	0.406**
Employee size: 5 - 9				-2.927**	-2.924**
Employee size: 10 - 49				-3.148**	-3.146**
Employee size: 50 - 99				-2.004**	-2.003**
Employee size: 100 - 199				-1.386**	-1.385**
Employee size: 200 - 499				-0.797**	-0.797**
Trading with the world market					0.512**
Constant	3.550**	4.715**	4.052**	6.171**	6.167**
Observations	155 604	155 604	155 604	117 637	117 637

Note: * significant at 5%; ** significant at 1%, odd-ratios are reported

Table 8. Probability of joining the social security program in 2007

Dependent variable: Participation in social security (missing values = missing)	(1)	(2)	(3)	(4)	(5)
Private sector	-4.549**	-4.215**	-4.201**	-3.305**	-3.308**
Foreign-invested firms	-2.276**	-2.018**	-2.108**	-1.373**	-1.446**
North		4.899**	4.873**	4.726**	4.729**
Central		4.589**	4.606**	4.411**	4.414**
South		4.919**	4.866**	4.695**	4.699**
Mining and quarrying			0.091	-0.267	-0.261
Manufacturing			0.397	-0.1	-0.09
Electricity, gas, steam and air conditioning supply			-0.453	-0.403	-0.396
Water supply, sewerage, waste management			-0.55	-0.768	-0.751
Construction			0.115	-0.424	-0.416
Wholesale and retail trade; repair of motor vehicles			0.018	0.025	0.028
Transportation and storage			0.119	-0.237	-0.248
Accommodation and Food service activities			-0.461	-0.372	-0.363
Information and communication			-0.031	0.125	0.07
Financial, banking and insurance activities			0.605*	1.359**	1.357**
Real estate activities			0.232	0.571	0.583
Professional, scientific and technical activities			0.085	0.172	0.169
Administrative and support service activities			0.002	0.126	0.134
Education and training			0.101	0.303	0.319
Human health and social work activities			0.348	0.1	0.111
Arts, entertainment and recreation			-0.311	-0.474	-0.465
Other service activities			-0.34	-0.276	-0.267
Employee size: 5 - 9				-3.588**	-3.582**
Employee size: 10 - 49				-2.586**	-2.580**
Employee size: 50 - 99				-1.601**	-1.596**
Employee size: 100 - 199				-1.255**	-1.252**
Employee size: 200 - 499				-0.648**	-0.642**
Trading with the world market					0.848**
Constant	4.811**	3.696**	3.569**	5.594**	5.582**
Observations	44 635	44 635	44 635	40 448	40 448

Note: * significant at 5%; ** significant at 1%

Table 9. Probability of joining the social security program in 2008

Dependent variable: Participation in social security (missing values = missing)	(1)	(2)	(3)	(4)	(5)
Private sector	-4.905**	-5.144**	-5.391**	-4.114**	-4.113**
Foreign-invested firms	-2.228**	-2.110**	-2.470**	-2.005**	-2.030**
North		-0.621**	-0.672**	-0.511**	-0.511**
Central		-0.839**	-0.860**	-0.582**	-0.581**
South		-1.342**	-1.367**	-0.810**	-0.810**
Mining and quarrying			1.349**	0.824**	0.825**
Manufacturing			1.062**	0.505**	0.505**
Electricity, gas, steam and air conditioning supply			1.042**	1.386**	1.386**
Water supply, sewerage, waste management			0.736**	0.445*	0.445*
Construction			0.995**	0.623**	0.624**
Wholesale and retail trade; repair of motor vehicles			0.800**	1.119**	1.119**
Transportation and storage			0.628**	0.459**	0.457**
Accommodation and Food service activities			0.041	-0.005	-0.004
Information and communication			0.395**	1.044**	1.037**
Financial, banking and insurance activities			1.169**	3.145**	3.145**
Real estate activities			1.402**	1.532**	1.533**
Professional, scientific and technical activities			1.089**	1.480**	1.480**
Administrative and support service activities			0.369**	0.458**	0.458**
Education and training			0	0	0
Human health and social work activities			1.458**	1.633**	1.633**
Arts, entertainment and recreation			1.930**	1.646**	1.647**
Other service activities			0.143	0.196	0.197
Employee size: 5 - 9				-4.654**	-4.651**
Employee size: 10 - 49				-3.699**	-3.697**
Employee size: 50 - 99				-2.408**	-2.407**
Employee size: 100 - 199				-1.835**	-1.834**
Employee size: 200 - 499				-1.364**	-1.365**
Trading with the world market					0.673*
Constant	5.598**	6.298**	5.710**	8.670**	8.666**
Observations	111 018	111 018	111 016	80 286	80 286

Note: * significant at 5%; ** significant at 1%



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