INCREASING SOCIAL INSURANCE COVERAGE IN VIET NAM’S SMES
Increasing social insurance coverage in Viet Nam’s SMEs

By Paulette Castel and Alexander Pick
Abstract

Viet Nam has made significant progress in expanding social insurance coverage in recent years. However, coverage amongst small and medium-sized enterprises (SMEs) remains very low and very few workers in this sector are expected to receive a pension in retirement. Drawing on two datasets for SMEs in Viet Nam, this paper seeks to explain this phenomenon by examining the characteristics of enterprises that are enrolled and those that opt out, and it identifies possible barriers to enrolment, such as high contribution rates. It also examines how enforcement mechanisms and formalisation policies might deter enterprises from enrolling. Drawing on lessons from international experience, the paper recommends a series of policy responses that seek both to address these barriers and to protect the livelihoods of those workers who are not yet covered.
Preface

Viet Nam’s small and medium-sized enterprises (SMEs) have been a driving force behind the country’s economic advancement. They now have the potential to unlock a critical mechanism for safeguarding livelihoods and protecting a large proportion of the workforce against life-cycle risks and the challenges inherent to the development process: expanding coverage of social insurance.

Viet Nam has made important strides in scaling up social insurance since it ceased to be restricted to public sector workers in 1995. Recent legislative changes have enhanced access for low-income workers. However, coverage remains low amongst SMEs, meaning that the majority of salaried employees are uncovered. In turn, this jeopardises the Government of Viet Nam’s target of covering half of the workforce by 2020.

This study, produced as part of the European Union Social Protection Systems Programme, analyses why social insurance coverage is so low amongst SMEs. While firms that enrol in social insurance tend to be more productive, this study finds that a range of factors deter employers and employees from registering, including the cost of contributions, a lack of confidence in the pension system and workers’ tendency to move in and out of different forms of employment. Policies to increase coverage through stronger enforcement risk exacerbating rather than reducing informality.

This evidence serves as the basis for reform proposals that aim to increase social insurance coverage amongst SMEs while also ensuring that workers who are unlikely to enrol in social insurance are able to access some form of social protection. These recommendations reflect both the Vietnamese context and the experience of other countries that have succeeded in expanding social insurance coverage. This study is thus intended not only as an input for the Government of Viet Nam as it considers future policy options for social insurance but also as a resource for the global effort to expand social insurance in order to achieve universal social protection coverage.
Acknowledgements

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### Abbreviations and acronyms

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CESU</td>
<td>General Service Employment Check, France</td>
</tr>
<tr>
<td>CIEM</td>
<td>Central Institute for Economic Management, Viet Nam</td>
</tr>
<tr>
<td>CNY</td>
<td>Chinese yuan</td>
</tr>
<tr>
<td>CPF</td>
<td>Central Provident Fund, Singapore</td>
</tr>
<tr>
<td>DANIDA</td>
<td>Danish International Development Agency, Denmark</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>GSO</td>
<td>General Statistics Office, Viet Nam</td>
</tr>
<tr>
<td>ILSSA</td>
<td>Institute of Labour Science and Social Affairs, Viet Nam</td>
</tr>
<tr>
<td>LFS</td>
<td>Labour Force Survey</td>
</tr>
<tr>
<td>MOLISA</td>
<td>Ministry of Labour, Invalids and Social Affairs, Viet Nam</td>
</tr>
<tr>
<td>SI</td>
<td>Social insurance</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>USD</td>
<td>United States dollar</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-added tax</td>
</tr>
<tr>
<td>VHLSS</td>
<td>Viet Nam Household Living Standards Survey, Viet Nam</td>
</tr>
<tr>
<td>VND</td>
<td>Viet Nam dong</td>
</tr>
<tr>
<td>VSI</td>
<td>Social Insurance Agency, Viet Nam</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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</table>
Executive summary

The Government of Viet Nam is in the process of significantly scaling up its social insurance system. Until 1995, only public-sector workers could expect to receive an income in retirement; under a series of reforms implemented since then, registration with the Vietnamese Social Insurance agency (VSI) has become mandatory for formal workers in the private sector. Informal workers are entitled to contribute to the VSI on a voluntary basis.

Despite these measures, social insurance coverage remains low and only a very small proportion of the workforce can expect to receive a pension in retirement. This study seeks to understand this phenomenon by examining social insurance coverage among small and medium-sized enterprises (SMEs), which employ a large proportion of the workforce and have been an important driver of Viet Nam’s economic development.

As of 2015, 12.3 million individuals were enrolled with the VSI, equating to 23% of Viet Nam’s workforce. This represents significant growth from the previous decade but is still far short of the Government of Viet Nam’s target of 50% coverage by 2020. The proportion of the retired population receiving a contributory pension is lower still: at the end of 2015, the VSI paid monthly pensions to about 2.5 million individuals, of whom 1.4 million were public-sector employees who had retired before 1995.

The coverage gap is to an extent filled by tax-financed merit payments and social pensions, which are available to individuals aged 80 or above without an alternative source of income as well as to poor individuals from age 60 onwards. Nonetheless, more than half the elderly in the bottom two income quintiles are without public income support in old age. As Viet Nam’s population ages, the imperative to address a lack of social protection coverage among the elderly will intensify: the population aged 65 and above will more than treble, from 6.7% of the total population in 2015 to 21.5% in 2050.

Part of the explanation for the low proportion of elderly currently receiving pensions is that the majority of those who have reached retirement age after working in the private sector are only entitled to lump-sum benefits. This is partly a function of the minimum vesting period required for pension receipt. However, even as an increasing number of private-sector workers have the opportunity to contribute for 20 years or more, the tendency for workers (especially young workers) to cash out their social contributions upon leaving a job will severely limit the number of workers who meet the vesting period. A recent proposal by the Government of Viet Nam to eliminate lump-sum payments met strong opposition from workers and was subsequently withdrawn.

There is great potential to increase social insurance coverage among the enterprise sector, particularly SMEs. SMEs account for more than 95% of all firms in Viet Nam, generate 40% of gross domestic product and employ around half of the total workforce. A survey of SMEs used in this study shows that social insurance coverage has grown in recent years to reach 33% of firms in 2015. However, this survey does not include household enterprises, which account for a significant proportion of SMEs.
There has been significant movement both in and out of VSI over the past decade, and clear trends are emerging. Coverage varies by region. New firms are more likely to enrol than established ones. Enrolment increases with income. Very few enterprises with five employees or fewer are enrolled. Almost all firms that are not enrolled with the VSI pay some form of taxation, meaning they are not operating entirely in the shadow economy.

Even among SMEs that are enrolled, the portion of workers’ salaries that is insured is low. To a certain extent, this reflects the fact that an employee’s pensionable wage does not include fringe benefits, which are often a significant component of remuneration in Viet Nam. It is also a consequence of under-reporting of salaries to reduce contributions. The overall effect is to reduce the extent to which the VSI can support a worker’s income in the event of retirement, death or disability.

SMEs in Viet Nam that register their employees with VSI appear to perform better than those that do not. Nonetheless, a range of factors deter firms from enrolling. These include the additional cost of labour (and thus the potential adverse impact on a firm’s competitiveness) associated with social contributions, which have risen significantly in recent years to address solvency concerns to reach 32.5% of workers’ salaries in 2016.

Significant increases to the minimum wage in recent years have heightened the cost of registering low-paid workers at the same time as increasing firms’ salary bills overall. Moreover, employees themselves might be complicit in exclusion from social insurance, agreeing on a higher salary from their employer in exchange for remaining unenrolled.

The local economic or administrative environment makes a difference, with SME’s in certain municipalities more likely to move into the VSI and in other municipalities more likely to move out. Firms that enrol with VSI are more likely to make informal payments to local authorities, suggesting that increased enforcement risks exacerbating corruption.

A number of policy options to increase coverage of social insurance amongst SMEs exist. These include measures to lower or offset the cost of contributions, ease the process of registration for employers and avoid punitive measures that deter enterprises from belatedly registering employees. Expanding coverage will also require reforms to the design of social insurance to make it more attractive to employees, including, for example, by allowing partial withdrawals as a lump sum.

At the same time, it is important to view social insurance as part of a broader social protection system. Ongoing efforts to expand coverage of unemployment insurance might reduce workers’ tendency to cash out of their savings early, underlining the importance of adopting a systemic approach to social protection rather than focusing on one individual programme. In the same vein, ensuring that social assistance arrangements for the elderly provide an adequate benefit will be important in a context where coverage gaps in contributory arrangements will take a long time to close or might not close at all.
Introduction

Viet Nam is experiencing rapid urbanisation, a decline in the number of multigenerational households and rapid demographic transition. In response, the government is seeking to expand social insurance and, in particular, coverage of the public pension system.

Social insurance is a relatively new concept in Viet Nam. Before the country began its transition to a market economy in 1986, only public-sector employees received a retirement income. Private-sector employees’ participation in the Viet Nam Social Insurance agency (VSI) became mandatory in 1995. Since 2008, farmers and other informal sector have been able to contribute voluntarily to the VSI to receive old-age benefits.

Resolution No. 15-NQ/TW of 2012 of the Party’s Central Executive Committee targets an increase in social insurance coverage to 50% of the labour force by 2020. Revisions to the Social Insurance Law implemented in 2014 entitled the state to subsidise participation in the voluntary social insurance system and introduced rules to strengthen compliance in the compulsory system.

Participation in the VSI has grown quickly. Strong economic growth, increased foreign investment and the development of a large industrial sector have resulted in rapid growth of the private sector and wage employment. At the end of 2015, 12.3 million individuals were registered with VSI, an average growth of 7.7% per year over the previous ten years.

Nevertheless, 61% of the employed population in Viet Nam are farmers, employers or own-account workers (including unpaid family workers). A relatively small proportion of individuals in these categories (255 000 in 2015) have joined the voluntary pension system. Thus, while the mandatory system covers about 58% of salaried workers, coverage across the overall labour force is 23%. This small contribution base is one factor undermining the financial sustainability of the VSI, along with projections for rapid population ageing, relatively generous replacement rates and a policy of indexing pension payments to growth in the minimum wage.

Effective coverage, meaning the number of current contributors who will receive an income from the VSI in retirement, is even lower because eligibility for pension benefits requires at least 20 years of contributions. A relatively small proportion of today’s workforce is likely meet this criterion, with the result that they are likely to rely on state support in old age.

At present, state support for the elderly is not extensive: a small monthly social assistance benefit (of around USD 10) is available to individuals aged 80 and above without an alternative source of income. Individuals identified as poor are eligible for a similar benefit from age 60 but there are major gaps in coverage. A system of tax-financed merit payments for families and individuals who took part in the revolution and wars that took place from 1945 onwards also provides income support to some elderly individuals.
Even among those workers who are eligible for pensions, their income in retirement will equate to a relatively low proportion of the salary they received over the course of their career. This is because the pensionable wage is very low in Viet Nam; fringe benefits (a significant portion of workers’ remuneration) are not counted. Moreover, firms tend to under-report salaries to VSI in order to reduce the contributions they must pay.

Increasing social insurance coverage will require higher coverage amongst small and medium-sized enterprises (SMEs), the majority of which are currently not enrolled with VSI. A critical first step to expanding coverage amongst SMEs is to understand the context and motivations that lead to relatively low coverage among workers in the enterprise sector. This paper examines the characteristics of employment and social insurance coverage in the small household businesses and small enterprises that comprise the overwhelming majority of the enterprise sector.

After presenting the data and defining some terms used in the study, this study gives an overview of Viet Nam’s social insurance system, the challenges it faces and the changes introduced by the Social Insurance Law revision of 2014. The last three sections look at the situation of SMEs in Viet Nam, examine the reasons why SMEs are so reluctant to enrol in social insurance and propose policy changes based on international experience that could help boost coverage of this sector.

Notes

1 The fertility rate fell sharply, from five children per woman in 1984 to two in 1996 (Rama, 2014,[15]).

2 The share of employment in agriculture, forestry and fishery dropped from 62% of total employment in 2000 to 44% in 2015 (GSO/Ministry of Planning and Investment, 2015[9]).
1. Viet Nam’s social insurance system

The institutional setting of social insurance is evolving rapidly

Before the Viet Nam Social Insurance agency (VSI) was created in 1995, the state provided a retirement income and other social insurance benefits to public-sector employees, the military, the police and members of the Party’s organisation. The budget still covers pension rights from that period through transfers to the VSI. Today, participation in the VSI is mandatory for all employees with a labour contract of at least one month (considered ‘formal employees’ for the purposes of this paper). Wage earners are insured against income loss for old age, survivorship, maternity, disability, sickness, work injury and occupational diseases.

Since 2008, other categories of workers have been entitled to participate voluntarily in the pension system. Both systems are managed out of a single fund, although participants in the voluntary and compulsory systems are not entitled to the same benefits.

The pension system is run on a pay-as-you-go (or unfunded) basis. The pension age is 55 for women and 60 for men.¹ For all participants, receipt of regular pension benefits requires a vesting period of 20 years. The pension income of private-sector employees’ is calculated according to the length of the contributory period and the beneficiary’s average pensionable wage.² A lump sum as a multiple of the beneficiary’s pensionable wage (up to a maximum of 38 wages) is paid to workers who do not meet this vesting period. For those eligible for a pension from the mandatory system, a minimum pension equal to the nationwide minimum wage is guaranteed. A minimum pension is not available to participants in the voluntary system.

Different rules determine pension rights for different groups. Public-sector employees have advantageous terms relative to private-sector employees, while women also benefit from lower retirement ages and higher pension benefits for the same contributions than men (World Bank/ILSSA, 2009[1]). However, it is important to note that men are currently more likely than women to receive a pension: 8% of women aged 60 or above receive a contributory pension versus 12% of men in the same age cohort (ILO/UNFPA, 2014[2]).

The Social Insurance Law of 2006 and its revision in 2014 introduced mechanisms to converge pension rights, so that the gap in benefits does not deter workers from moving between the public and private sectors. These measures address concerns over unequal treatment of the public and private sectors and improve the VSI’s financial situation (discussed below) but the benefits will only materialise in about 30 years.³

There are major concerns around the long-term financial sustainability of the Social Insurance Fund. Although it is currently accumulating reserves, growth in the Fund’s expenditure exceeds growth in revenues and the system is technically insolvent: the present value of projected expenditure exceeds the present value of its projected revenues (World Bank, 2012[3]).
Demographic trends are an important driver of the deterioration in the pension system’s sustainability. Viet Nam’s population aged 65 and above will more than treble, from 6.7% of the total population in 2015 to 21.5% in 2050 (UN DESA, 2017[4]). In turn, the VSI’s dependency ratio is expected to increase from about 0.11 beneficiaries per contributor (excluding pensioners who retired before 1995) to 0.50 by 2050 (World Bank, 2012[3]).

Other factors undermining the system’s long-term financial sustainability include low retirement ages for men and women relative to average life expectancy. The formula for calculating pension benefits is also generous while investment returns generated by reserves have so far been lower than expected. Finally, the policy of indexing pension payments to the minimum wage rather than price inflation is also weakening the fund’s financial position, especially in a context where the minimum wage has increased significantly in recent years (as is discussed below).

In response to sustainability concerns, the Government of Viet Nam has steadily increased contribution rates in recent years (Table 1.1). In 2016, the overall rate for social contributions in the compulsory system was 32.5% of employees’ salaries, up from 22% in 2006. The contribution rate in 2016 included 26% for social insurance (8% payable by the employee, 18% by the employer), 4.5% for health insurance (1.5% employees, 3% by employer) and 2% for unemployment insurance (1% employees, 1% employers).

For participants in the mandatory system, a minimum social contribution is calculated according to the nationwide minimum wage. For participants in the voluntary pension system it is linked to the poverty line set by the Ministry of Labour, Invalids and Social Affairs (MOLISA) in rural areas.

Further increasing the contribution rate to increase revenues is not feasible. As is discussed in this study, high social security contributions risk deterring enterprises from enrolling with the VSI. Expanding the contribution base by enrolling a higher proportion of the workforce is an important component of the policy response to this situation.

Table 1.1. Social contribution rates (2005-16)

<table>
<thead>
<tr>
<th>% of workers’ salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Mandatory scheme</strong></td>
</tr>
<tr>
<td>Maternity, sick leave etc.</td>
</tr>
<tr>
<td>Old-age survivorship etc.</td>
</tr>
<tr>
<td>Unemployment</td>
</tr>
<tr>
<td>Health</td>
</tr>
<tr>
<td>Work injury, occupational disease</td>
</tr>
<tr>
<td><strong>Voluntary Scheme</strong></td>
</tr>
<tr>
<td>SI voluntary old-age benefits</td>
</tr>
</tbody>
</table>

Note: 1. Health insurance is mandatory for all workers. The contribution rate is 4.5% for own account and independent workers. Participation in the voluntary system is not bundled with enrolment in health insurance. Source: MoLISA (2006[5]; 2008[6]; 2014[7]).
Social insurance coverage is closely linked to the formal sector

At the end of 2015, the VSI compulsory system covered about 12.1 million individuals. This number, which corresponds to the 12.3 million salaried individuals who reported being employed under a written contract in the 2015 Labour Force Survey, represents only 58% of total wage earners (Table 1.2). However, this is a significant increase from 2012, when 38.7% of wage earners were covered by social insurance (OECD, 2014[8]).

Table 1.2. Social insurance coverage for total labour force, dependent and wage employed in 2015, thousand

<table>
<thead>
<tr>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total labour force</td>
<td>53,984</td>
</tr>
<tr>
<td>Employed population</td>
<td>52,840</td>
</tr>
<tr>
<td>Unemployed</td>
<td>1,144</td>
</tr>
<tr>
<td>Participants in SI</td>
<td>12,320</td>
</tr>
<tr>
<td>Coverage of total labour force</td>
<td>23%</td>
</tr>
<tr>
<td>Own account, employers and unpaid family workers</td>
<td></td>
</tr>
<tr>
<td>Employed population</td>
<td>32,049</td>
</tr>
<tr>
<td>Participation in voluntary scheme</td>
<td>255</td>
</tr>
<tr>
<td>Coverage rate</td>
<td>0.8%</td>
</tr>
<tr>
<td>Wage employed incl. in agriculture and cooperatives</td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>20,791</td>
</tr>
<tr>
<td>Participation in mandatory scheme</td>
<td>12,065</td>
</tr>
<tr>
<td>Coverage rate</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: GSO/Ministry of Planning and Investment (2015[9]).

In the absence of information on the age of VSI beneficiaries, it is not possible to calculate with precision pension coverage among the elderly. At the end of 2015, the VSI paid monthly pensions to about 2.5 million individuals, of whom 1.4 million were public-sector employees who retired before 1995. However, some beneficiaries have not reached the statutory retirement age because of disability, early retirement or survivorship.

Some 10% of individuals aged 50 and above received a contributory pension in 2012 (MoLISA/UNDP, 2016[10]). Recipients tended to be relatively well educated and male: around 12.1% of men aged over 50 received a contributory pension, versus 7.4% of women in the same age cohort. Coverage amongst ethnic minorities was only 2.4%.

By comparison, two social assistance programmes for the elderly covered 1.6 million individuals in 2015. The largest programme, accounting for 80% of this coverage, provides a transfer to individuals aged 80 or over without alternative sources of income (such as merit payments or contributory pensions). An allowance for individuals aged 60 or over who are classified as poor covers a far smaller number of individuals but pays a larger benefit.

In total, household survey data indicates that about 20% of the population aged 65 and over received public old-age income support of some sort in 2012. This figure includes beneficiaries of contributory pensions, non-contributory social pensions and merit payments to individuals and families involved in Viet Nam’s revolution and the wars of the 20th century.

As Viet Nam’s population ages, the imperative to address this lack of social protection coverage among the elderly will intensify. The policy response will require a combination
of social insurance and social assistance reforms. More than 50% of the elderly in the poorest two quintiles had no public income support in 2012 and low-income individuals are likely to remain excluded from social insurance (Castel, La and Tran, 2015[11]).

The VSI does not provide regular information on pension income. Expenditure data from 2014 indicate an average monthly payment of VND 3.3 million per beneficiary, equivalent to USD 147 or about 66% of the monthly gross domestic product (GDP) per capita. According to the 2012 household survey, the elderly in the poorest quintile received monthly pension benefits of about USD 71, on average. Average merit pensions were about USD 50 and social pensions about USD 12.5 (Castel, La and Tran, 2015[11]).

Figure 1.1. Number of people receiving VSI lump-sum payments

![Graph showing number of people receiving VSI lump-sum payments and new pensioners from 2005 to 2015](image)

Source: Authors’ calculations based on GSO (2016[12]).

To date, a majority of individuals who worked in the private sector and reached retirement age have only been entitled to lump-sum benefits. The number of applications for lump-sum benefits has soared over the past ten years (Figure 1.1). In 2015, the VSI granted old-age pension benefits to about 130,000 individuals. By contrast, it paid lump-sum benefits to more than 629,000 individuals in the same year.

The largest demand for lump-sum payments is from people under retirement age (Figure 1.2 and Table 1.3). Some three-quarters (77% in 2015) of lump-sum beneficiaries are working-age individuals who left covered wage employment (temporarily or definitively) and wanted to cash out their social insurance contributions. The proportion of women taking lump sums is not notably higher than that of men, except for those aged under 25. Lump-sum beneficiaries are, moreover, very young (74% are under 35 years old) with relatively short tenure (on average, fewer than four years). Such workers should have been confident about contributing for 20 years over the course of their working life to secure old-age pension benefits.
A first version of the Social Insurance Law of 2014 prohibited individuals from cashing out social insurance contributions before retirement age. This proposal triggered a wave of strikes in industrial areas of the south, notably among Pou Yuen factory workers. Workers explained that being able to cash out social insurance in a lump sum was convenient for individuals with no unemployment insurance and for rural workers who, after a short period of work in formal enterprises, wanted to be self-employed or independent contractors. According to ILSSA, fear of mis-management of pension contributions and corruption also influenced opposition. As a consequence, the government reinstated the possibility of cashing-out past social contributions.

The remaining recipients of lump-sum payments are workers who reached pension age but do not have 20 years of participation. More than 50% of private-sector employees who currently reach retirement age cannot satisfy this requirement. In 2015, 20 years after private-sector workers were first enrolled in VSI (albeit on a voluntary basis at first), around 273,000 individuals were entitled to old-age benefits.

### Table 1.3. Number of beneficiaries of VSI lump sums in 2014 and 2015, by age group

<table>
<thead>
<tr>
<th></th>
<th>Under 25</th>
<th>25 under 35</th>
<th>35 under 45</th>
<th>45 under pension age</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Number of beneficiaries</td>
<td>11,1258</td>
<td>24,6460</td>
<td>87,841</td>
<td>37,630</td>
</tr>
<tr>
<td>Percentage o/w women</td>
<td>66</td>
<td>56</td>
<td>51</td>
<td>38</td>
</tr>
<tr>
<td>Average number of years of participation in VSI</td>
<td>1.9</td>
<td>3.4</td>
<td>5.5</td>
<td>6.1</td>
</tr>
<tr>
<td>2015 Number of beneficiaries</td>
<td>96,411</td>
<td>25,0658</td>
<td>94,490</td>
<td>42,084</td>
</tr>
<tr>
<td>Percentage o/w women</td>
<td>66</td>
<td>56</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>Average number of years of participation in VSI</td>
<td>2.0</td>
<td>3.5</td>
<td>5.2</td>
<td>6.3</td>
</tr>
</tbody>
</table>

*Source: Authors’ calculations based on GSO (201613).*
As time passes, more individuals will be able to contribute to the VSI for 20 years. However, this might not reduce the tendency to cash out. Aside from the lack of trust in the system, many jobs will remain unstable because of changes to the structure of the economy, business cycles and modern management methods, which increasingly aspire to use flexible labour forces. According to Cling et al (2014[1]), enterprises in Viet Nam are already inclined to use short-term workers: these account for 24% to 36% of private-sector employment, compared with 8% in lower-middle income countries on average.

**The revision of the Social Insurance Law in 2014 has expanded coverage**

The 2014 revision of the Social Insurance Law sought to reduce obstacles for participation and supported policies to expand coverage, including those related to controls, employees’ right to information and data sharing between agencies. The main points were as follows:

- Starting in 2018, coverage was extended to labour contracts lasting from one to three months; these were previously exempted from social insurance contributions.
- Participants were enabled to combine pension rights in the mandatory and voluntary scheme (based on years of participation and the amount of income or wages on which contributions are paid) to obtain old-age benefits.
- The age ceiling was removed for participants reaching pension age in the compulsory system. They can thus continue to participate in the voluntary social insurance system to complete the vesting period and obtain old-age benefits or they can “buy” missing years.
- In the voluntary pension system, the minimum required contribution was significantly reduced.4
- More types of income were made subject to social insurance contributions.
- Provincial People’s Committees were given a larger role; they became responsible for setting specific goals to expand social insurance coverage in their socio-economic development annual plan.
- Viet Nam’s Fatherland Front (an official grassroots organisation, well embedded in rural areas) is now involved in the information campaign and mobilisation for social insurance.
- More agencies and actors were empowered to control and supervise compliance with social insurance. MOLISA, the VSI and provincial People’s Committees were authorised to inspect, handle violations and settle complaints on social insurance. Trade unions and employers’ representatives can investigate a firm’s participation in social insurance. Employees have the right to be informed – twice a year by their employers and once a year by their local social insurance agency – of the amount of social contributions transferred in their name to the VSI.
- The revised law calls for the modernisation of the VSI management information systems, with electronic social insurance cards, individual records and online access to personal information. The modernisation also involves information exchanges between public agencies (registry of enterprises, tax authorities, social insurance), with the sharing of information regarding wage tables and reported labour costs for tax purposes.
- Penalties were increased for delayed payments of social contributions.
According to Circular 59/2015/TT-BLDTBXH, which details the Social Insurance Law, social insurance contributions must be paid on the salary reported in the labour contract, as well as on allowances not necessarily specified in the labour contract but associated with the employee’s or the job’s “position, title, responsibility, heaviness, hazardousness, dangerousness, seniority, region, mobility, attraction and the like”. Social insurance contributions are not payable on fringe benefits such as an “initiative bonus, meals between shifts, gasoline, telephone, travel, accommodation and child care allowances, assistance upon the death of employees’ relatives, the marriage of employees’ relatives, employees’ birthdays, subsidies to the employees in difficult situations in case of work accidents or occupational diseases, and other allowances and assistance”.

According to the Labour Code (2012\[13\]), a worker and an employer should conclude a written contract specifying the remunerated work, working conditions, and rights and obligations of each party. For temporary work of under three months, however, a verbal contract is sufficient. According to ILSSA, this dispensation should be modified in the next revision of the Labour Code, since it confuses the interpretation of the 2014 Social Insurance Law that applies to all employees and requires written contracts.

Employers are obliged to register employees with the VSI and maintain updated information on remuneration and social contributions paid for each employee. Monthly contributions are made to the mandatory VSI system and employers are responsible for calculating the amount due. The 2014 Social Insurance Law requires employers to inform employees every six months about the firm’s payment of social insurance contributions. Employees have the right to ask, once a year, the amount paid in their name.

The regulations regarding other government taxes and registration vary, depending on a firm’s size, revenues and legal status. Based on Decree 78/2015/ND-CP and the analysis of ILSSA carried out for this study, there are three categories of SMEs:

- Very small household businesses in agriculture, aquaculture, petty food, etc., with income lower than provincially defined levels are legally exempted from registration.
- Household businesses with fewer than ten employees and no limited liabilities must register at the district level. Most household businesses (excluding those with low turnover or income) pay taxes by the presumptive method; they must declare and pay value added tax (VAT), excise tax, royalties, environmental protection tax, environmental protection charge and personal income tax (PIT).
- Enterprises with ten or more employees must be in the national registry (since 2010). This registry is connected to the tax agency database. Small enterprises are classified as those with fewer than 200 employees, and medium-sized ones, fewer than 300. In the trade and services sector, however, small firms employ ten to 50 employees and medium-sized firms up to 100. As of 2018, the Ministry of Finance was considering reducing the corporate income tax rate for SMEs from 20% to 17% (Viet Nam News, 2018\[14\]).
Notes

1 Early retirement is possible for some special categories.

2 The pensionable wage is the average wages on which contributions were paid over the beneficiary’s working life. In case of private-sector employees, past wages are indexed against inflation.

3 Starting in 2025, the same rules will be applied to new entrants.

4 Participation is open to all citizens aged 15 years or above without age ceiling. Benefits are limited to an old-age pension and lump sum payments to entitled survivors. Contribution rates are the same as in the mandatory scheme but applied to a lower minimum income equal to MoLISA’s poverty line in rural areas. State support varies from 10% to 30% of the minimum contribution; pension benefits are calculated as in the mandatory scheme; eligibility requires 20 years of accumulated participation either in the voluntary or the mandatory system. There is no minimum pension.

References


GSO (2016), VSI administrative dataset, General Statistics Office of Viet Nam, Ha Noi.


1. VIET NAM'S SOCIAL INSURANCE SYSTEM


2. Social insurance amongst Viet Nam’s small and medium-sized enterprises

Viet Nam’s small and medium-sized enterprises (SMEs) have made a key contribution to the country’s economic success story of the past two decades. Although estimates regarding their current contribution to the economy vary with different definitions of SMEs, they are considered to account for some 40% of gross domestic product, around half of total employment and at least 95% of all enterprises in Viet Nam (Vandenbergh, Chantapacdepong and Yoshino, 2016[1]; World Bank, 2017[2]).

While it is known that social insurance in Viet Nam covers about 58% of salaried workers, the percentage of enterprises that participate in social insurance is difficult to estimate. This paper uses two databases: the CIEM survey of SMEs (henceforth the SME survey) and the yearly Enterprise Census (both of which are detailed in Annex A). These provide insights on firms’ participation in social insurance and employees’ income coverage but provide limited or no information on the non-compliant sector.

Understanding social insurance participation and income coverage amongst SMEs

The SME survey indicates that 33.5% of SMEs participated in social insurance in 2015. However, this does not include very small household businesses (comprising one or two employees), which are numerous in Viet Nam. According to a survey of the informal sector in Ha Noi and Ho Chi Minh City (Cling et al., 2010[3]), such businesses mostly use verbal contracts and rarely contribute to social insurance. SME participation in social insurance is, therefore, likely to be lower than is indicated by the survey.

The SME survey shows that participation in social insurance has increased steadily over the past ten years (Figure 2.1). The increase in most regions has been impressive: participation rose by 25% in Hai Phong, 20% in Ho Chi Minh City, 17% in Ha Noi (excluding Ha Tay) and 14% in Long An. The highest participation rates in 2015 were in Ha Noi (43%) and Ho Chi Minh City (47%).
Social insurance participation is about two times higher in new firms (those established after the Enterprise Law of 2000) than in older ones (Figure 2.2). New firms account for most of the increase in participation between 2006 and 2015. The establishment of the National Enterprise Registry and its connection with the tax authorities’ database might have prompted owners and managers to register their employees with social insurance. However, enumerators of the SME survey might have used the registry to replace firms that had disappeared from previous rounds. In that case, the survey might overestimate the share of new SMEs that participate in social insurance.

**Figure 2.1. Evolution of SMEs’ social insurance coverage by province/municipality in Viet Nam (2006-15)**

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<tbody>
<tr>
<td>Ha Noi</td>
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<td>Phu Tho</td>
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<td>Ha Tay</td>
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<tr>
<td>Hai Phong</td>
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<td>Nghe An</td>
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<td>Quang Nam</td>
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<td>Khanh Hoa</td>
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<td>Lam Dong</td>
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<td>HCMC</td>
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<tr>
<td>Long An</td>
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<tr>
<td>Total</td>
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</tr>
</tbody>
</table>

Source: Authors’ calculations based on CIEM/ILSSA/MoLISA (2015).

**Figure 2.2. Increase in social insurance coverage among SMEs by age of firm in Viet Nam (2006-15)**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Before Doi Moi (1985)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Before ent. Law (2000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 2006 (SI law)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 2010 (Nat. Registry)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010 and after</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on CIEM/ILSSA/MoLISA (2015).
Figure 2.3. SME social insurance coverage by sector in Viet Nam (2006, 2015)

Source: Authors’ calculations based on CIEM/ILSSA/MoLISA (2015[4]).

Social insurance participation appears to have grown in all sectors of the economy except tobacco and transport equipment (Figure 2.3). However, these results should be treated with caution since the survey was not designed to be representative of SMEs’ distribution by sector.

Very few (5.2%) enterprises with fewer than five employees participate in social insurance (Table 2.1). By contrast, all firms with 200 or more employees cover all or part of them. About 83.9% of firms that do not participate in social insurance are household businesses with fewer than ten employees. Similarly, more than half (59.5%) of uncovered employees work in household businesses, 38.3% in small enterprises and 2.1% in medium-sized enterprises.

Table 2.1. Distribution of SME not paying social contributions and uncovered employment by size in 2015

<table>
<thead>
<tr>
<th>Size of firms in number of employees</th>
<th>Firms not paying social insurance</th>
<th>Uncovered employment</th>
<th>Firm’s coverage rate: % of firms paying social insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 5</td>
<td>49.8</td>
<td>24.7</td>
<td>5.2</td>
</tr>
<tr>
<td>5 to 9</td>
<td>34.1</td>
<td>34.8</td>
<td>22.6</td>
</tr>
<tr>
<td>10 to 49</td>
<td>15.8</td>
<td>38.3</td>
<td>62.6</td>
</tr>
<tr>
<td>50 to 199</td>
<td>0.2</td>
<td>2.1</td>
<td>97.8</td>
</tr>
<tr>
<td>200 to 299</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>33.5</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on CIEM/ILSSA/MoLISA (2015[4]).
Figure 2.4. Variation between compliant and non-compliant SMEs in 2015

Source: Authors’ calculations based on CIEM/ILSSA/MoLISA (2015[4]).

Most firms that do not participate in social insurance are very small (Figure 2.4D). On average, they also pay lower wages, are less productive and face lower taxes compared with firms that do participate in social insurance (Figure 2.4A-C). However, it is notable that some firms that do not participate in social insurance are among the more productive in the SME sector.

Firms that are not compliant with social insurance are not entirely in the shadow economy. Some 97% of firms that do not pay social security contributions do pay other taxes. However, only one in five firms that do not pay social security contributions does pay VAT (Table 2.2).

Table 2.2. Share of compliant and non-compliant SMEs paying taxes in 2015

<table>
<thead>
<tr>
<th>Compliance with social contributions</th>
<th>Share of firms paying taxes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VAT</td>
</tr>
<tr>
<td>Non-compliant</td>
<td>20</td>
</tr>
<tr>
<td>Compliant</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on CIEM/ILSSA/MoLISA (2015[4]).
Under-reporting of income reduces contributions and entitlements

The extent to which social insurance arrangements protect a contributor’s income in the event of an income shock depends in part on the proportion of their income on which contributions are paid. To avoid significant declines in consumption and well-being, contributions are often computed as a proportion of total earnings; however, this is often not the case for employees registered for social insurance in Viet Nam. This reflects the important role that fringe benefits play in workers’ remuneration and a tendency to under-report earnings to reduce social security contributions.

Because meals, the cost of training and other fringe benefits are not subject to social security contributions, this ratio is expected to be smaller than the official contribution rate of 32.5%, meaning the value of pension benefits will fall significantly below an individual’s total remuneration while he or she were employed. For example, if fringe benefits amounted to 25% (50%) of employees’ remuneration, the ratio of social contributions to the wage bill in that firm would equal 24.4% (16.2%) of earnings.

There is too little information on fringe benefits to estimate this ratio either on average or by firm, meaning it is not possible to calculate the relative importance of fringe benefits and under-reporting of income. However, data from the Enterprise Census (Table 2.3) indicate that the proportion of firms that do not pay contributions on total earnings subject to social contributions is very large, indicating substantial under-reporting.

Table 2.3. Share of compliant SMEs under-reporting employees’ wages to social insurance in 2014

| Share of firms probably under-reporting wages to social insurance if non-taxed fringe benefits represent 25% of employees’ income | 79.2% |
| Share of firms probably under-reporting wages to social insurance if non-taxed fringe benefits represent 50% of employees’ income | 74.3% |

*Note: Non-taxed fringe benefits include meals and cost of training that are not subject to social contributions. Source: Authors’ calculation based on GSO (2014[5]), Enterprise Census.*

Cross-checking VSI figures with data from the Enterprise Census indicates that, in 2006, contributions were paid on wages equal to 46.4% of the wages actually paid by private sector enterprises on average (Cling et al., 2014[6]). More recently, MOLISA conducted a survey of enterprises in 2012 to understand the obstacles they face regarding social insurance participation. A large percentage of the enterprises acknowledged they under-reported wages to the VSI, paying contributions that were, on average, based on 66% of employees’ actual wages.

Williams and Padmore (2013[7]) observe that employers in Eastern European countries use “envelope wages” to encourage voluntary departures without any social costs. Analysis by Williams (2013[8]) reveals that under-reporting wages to social insurance affects low-skilled salaried employees in Eastern Europe (8% in Hungary, 11% in Poland, 14% in Bulgaria, 17% in Latvia and 23% in Romania). In these countries, up to 38% of employees’ gross income was, on average, received as envelope wages. In Latin American countries, the gap between sectors’ total wage bill and that reported for social insurance purposes has been shown to be as high as 26.8% in Colombia, 19% in Chile, 18.4% in Brazil and 6.5% in Uruguay (Gómez Sabainí, Cetrángolo and Morán, 2014[9]).
Notes

1 Viet Nam defines three classes of SMEs - micro, small and medium-sized enterprises - according to the number of people they employ and their total capital (Le, 2012[10]). These thresholds vary according to the sector in which the SME is active: Agriculture, forestry and fishery; Industry and construction; and Trade and services. To qualify as an SME, firms in the first two sectors can employ up to 300 people; those in the trade and services sector can only employ up to 100.

References


3. Drivers and barriers to registration for social insurance in Viet Nam

Several studies have identified a positive relationship between firm performance, formalisation and enrolling employees in social insurance. Using data from SME surveys in 2007 and 2009, Rand and Torm (2012[1]) observed that formalisation is associated with higher profits and investment, increased access to credit, a higher share of covered workers and, more generally, greater chances for a firm to fulfil its growth potential.

Demenet et al. (2016[2]) found similar results in Ha Noi and Ho Chi Minh City over the same period. The authors observe that, compared with informal units, formalised household units (with at least one employee) perform better in terms of added value, have greater access to utilities and are more likely to use premises and accounting books. Both formal and informal units were, however, comparable in size (with an average of 1.5 and 1.6 employees). To answer doubts over the possibility that firms that become formal are intrinsically different from those that remain informal, the study checks that the results hold when initial characteristics are taken into account.

In the same spirit, a recent study by Lee and Torm (2017[3]) based on GSO Enterprise Census data for 2006-11 measures the gain in firms’ performance when covered employment increases. Firms with a higher proportion of covered employees have higher revenues and higher profitability per worker. The authors relate this effect to a finding that firms achieve a better performance when their management treats employees as valuable assets.

Finally, Rand et al. (2008[4]) and Rand and Tarp (2011[5]; 2012[6]) show that female owners of firms are more likely than male owners to provide employees with fringe benefits, such as paid vacation, sick leave and maternity leave, regardless of whether the firm is registered with the VSI. Several reasons could explain this finding. Young women may seek covered employment because they value fringe benefits more than men do; women managers may be more likely than their male counterparts to hire risk-averse women; and finally, female managers could be more ethical than males. In the SME survey, the proportion of women owners and managers increased from 31.3% in 2006 to 41.2% in 2015; this increase may have contributed to the increase in social insurance coverage over that decade.

SMEs prefer not to enrol in social insurance for a range of reasons, not just cost

Based on these results, rational firms should seek to formalise. However, data from the SME survey on firms that survived over the period 2006-15 indicate that the large majority (72%) did not participate at all. Although there was significant movement both in and out of formalisation over this period, the same proportion of firms in the sample (13%) moved out of social insurance as moved in (Figure 3.1).

This finding corresponds to the observation by Cling et al. (2010[7]) that household units in Ha Noi and Ho Chi Minh City showed significant movements in and out of the informal sector (in terms of registering businesses) in the years 2007-09. While 20% of
firms in both cities formalised in 2009, 15% of the formal units in Ho Chi Minh City and 31% in Ha Noi entered the informal sector. According to the authors, these large movements could have resulted from the economic crisis in 2008.

**Figure 3.1. SMEs’ movements between non-compliance and compliance (2006-15 and 2013-15)**

Looking at the SME survey only for the period 2013-15 reveals a possible inflexion point. The share of firms that moved into social insurance almost doubled (to 27%) over this period while far fewer firms moved out (6%). Nevertheless, 63.4% of the firms surveyed in 2013 had not registered employees in social insurance by 2015.

The large proportion of SMEs not registering with social insurance or opting out suggests that many firms are deterred from doing so. The cost of social contributions, combined with increases in the minimum wage, is a critical impediment to enrolment.

The social contribution rate increased by 10.5 percentage points in less than a decade, from 22% in 2006 to 32.5% in 2014, a level that is high relative to most East Asian countries (Schmillen and Packard, 2016). In theory, social contributions are financed by both employers and employees but ultimately the enterprise bears the total cost of labour; the increases in social contributions resulted in a 9% increase in formal labour costs over the decade (per employee registered in VSI).

Over the same period, the minimum wage increased several times (Box 3.1). These increases have the effect of further raising firms’ wage bills and the cost of social contributions, especially in firms that under-report wages to the VSI and compute social contributions based on the minimum wage. For such firms, the overall increase in labour costs in the formal sector over the period was significant (Figure 3.2).
Box 3.1. The minimum wage in Viet Nam

Following Viet Nam’s accession to the World Trade Organization (WTO) in 2007, the minimum wages applied to foreign direct investment (FDI) and domestic enterprises gradually merged and differentiated levels by region were introduced. As a result, several minimum wages presently exist in Viet Nam:

- A nationwide minimum wage, applicable to civil servants and used as a reference to calculate certain incomes and indicators (such as the minimum pension).

- Four regional levels, applicable to the whole enterprise sector, household units and farms (Decree No. 103/2014/ND-CP). These regional levels are higher: the minimum wage in the enterprise sector is two times or more the basic nationwide minimum wage (the monthly minimum wage in Region 4’s enterprise sector is VND 2.4 million, compared with the national minimum wage of VND 1.21 million per month).

Based on household survey data, 94.5% of full-time employees nationwide reported monthly income equal to or higher than the minimum wage applied in Region 4 in 2014. Moreover, almost all employers seem to regard the basic nationwide minimum wage as the lowest limit for earnings.

Only 1.5% of wage earners working full-time in 2014 reported lower monthly earnings and only 4.1% of those working part-time reported lower equivalent hourly rates.1 Based on Labour Force Survey data for 2013, Schmillen and Packard (2016[9]) conclude that few workers earn wages below the minimum wage and that enforcement is high.

As noted previously, increases in the minimum wage have a direct impact on the sustainability of the social insurance system, since growth in the minimum wage serves as a benchmark for annual increases in minimum pension payments. Although higher minimum wages have the effect of increasing VSI revenues, they also generate larger entitlements in the future and thus increase the system’s liabilities.

Note: 1. Persons working less than 152 hours per month with earnings per hour lower than VND 6,000 in 2014.

A second issue relates to firms’ concerns about being visible to authorities. Using SME surveys of 2005 and 2007, Rand and Tarp (2012[6]) observed that formal (registered) enterprises were more likely to make informal payments. This situation is also evident from similar data for 2013 and 2015 (Rand et al., 2016[10]): firms that have a tax number are more likely to make informal payments than those that do not. The relationship does not hold, however, when firms’ fixed effects are considered.
A third concern related to formalisation is that employees could collude with employers to avoid paying social insurance. Anecdotal evidence indicates that workers agree not to participate in social insurance when employers explain that they would receive a lower take-home pay. We are not aware of studies in Viet Nam on how the savings from social insurance avoidance are divided between wage premiums and higher profits.

International evidence of workers’ preference for self-employment over covered wage employment also helps explain a lack of participation in social insurance (Perry et al., 2007[14]). Workers value their wages more than their social insurance benefits. Moreover, they are concerned that their wages would drop if they were covered and had to pay social contributions. In workers’ minds, the present value of the social insurance tax wedge is larger than the present value of the expected benefits, whose concretisation is vague and uncertain, especially when they distrust the authorities who administer them.

A wide range of factors could explain this position. Workers’ myopia regarding old-age risks or excessive confidence in their savings choices (Barr and Packard, 2005[15]), lack of trust in the public system (Forteza, Lucchetti and Pallares-Miralles, 2009[16]), time inconsistency, psychological predisposition and cognitive limitations (Bernheim and Rangel, 2005[17]) are all factors that may also prevent workers from making sound lifecycle financial-planning decisions. Consequently, employees might move to jobs where remuneration is entirely monetary or collude with employers to under-report their wages to social insurance (Gertler and Gruber, 2002[18]; Bosch, Melguizo and Pagés, 2013[19]; Perry et al., 2007[14]). Nonetheless, the examples of Uruguay and Mexico demonstrate policies that have been effective in encouraging workers to value social insurance participation (Box 3.2).
Box 3.2. Aligning social insurance to employee incentives in Uruguay

As in many countries, domestic and construction workers in Uruguay often have intermittent and unstable jobs. They also have limited negotiating power and little awareness of their social rights. Furthermore, the social insurance tax wedge for construction workers is extremely high (72%) because of the greater risk of work injury and due to the wage bonus (aguinaldo) that employers must distribute every June and December. The latter would have deterred employers from registering workers if the social insurance agency had not used these features to increase the willingness of workers to register: this salary premium must be collected by the social insurance agency and repaid by the agency to the workers.

The social insurance agency used an extensive information campaign to heighten workers’ awareness of the possibility of receiving the aguinaldo and to increase the pressure on employers to comply with social insurance. Consequently, the relative share of the construction sector and domestic employees in covered employment increased by 25% in the 2000s. It is difficult to identify how much of this increase was due to the information initiative since it was part of a wider formalisation policy that included systematic inspections of building sites, financial rewards for good payers, credit lines for firms with financial difficulties and the re-engineering of the relations and the services provided to participants.

In Mexico, employees’ expectation of social benefits motivates them to monitor firms’ compliance with social insurance (Kumler, Verhoogen and Frias, 2012[20]). This idea is likely behind the importance placed on employees’ monitoring in the Social Insurance Law revision of 2014.

Collusion between employers and employees to avoid social contributions might result in higher wages (a portion of the unpaid contributions) for employees in firms evading labour taxes compared with fully covered employees. However, this would be at odds with the negative income gap faced by informal sector employees that is frequently observed across countries. In a study on informal sector employment in Brazil, Meghir, Narita and Robin (2015[21]) demonstrate that wages are on average higher in the formal than in the informal sector because formal firms tend to be larger, achieve higher productivity levels and thus pay higher wages. Nonetheless, when firms with similar levels of productivity are compared, formal firms typically pay less than informal ones.

Key questions for policy makers

This study analyses the following three questions in greater detail to inform policymakers about the challenge of expanding social insurance coverage:

1. To what extent are regulations well adapted? Do local enforcement policies promote or hinder social insurance coverage?
2. Did the steady increase of the minimum wage and payroll tax negatively affect social insurance coverage?
3. Do employees benefit, through higher net wages, from avoiding contributions (paying social contributions on wages that are smaller than their actual wages)?
To what extent are regulations well adapted? Do local enforcement policies and environment promote or hinder social insurance coverage?

This study finds that enterprises with covered employment (contributing to VSI) have a greater tendency to make informal payments, compared with firms that do not participate in social insurance. Table 3.1 compares the probability of informal payments by firms with and without covered employees among inspected firms; it shows that small business units with covered employees are much more likely to be making informal payments than other small firms.

Table 3.1. Share of inspected SMEs reporting informal payments (2007-15)

<table>
<thead>
<tr>
<th>Participation in VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>18%</td>
<td>50%</td>
<td>50%</td>
<td>40%</td>
<td>40%</td>
<td>48%</td>
<td>67%</td>
<td>0%</td>
<td>30%</td>
<td>88%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 to 9</td>
<td>33%</td>
<td>50%</td>
<td>41%</td>
<td>44%</td>
<td>44%</td>
<td>48%</td>
<td>67%</td>
<td>0%</td>
<td>83%</td>
<td>73%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 to 49</td>
<td>52%</td>
<td>51%</td>
<td>59%</td>
<td>61%</td>
<td>61%</td>
<td>57%</td>
<td>83%</td>
<td>73%</td>
<td>78%</td>
<td>86%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 to 199</td>
<td>53%</td>
<td>52%</td>
<td>56%</td>
<td>78%</td>
<td>78%</td>
<td>57%</td>
<td>83%</td>
<td>73%</td>
<td>100%</td>
<td>86%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200 to 299</td>
<td>68%</td>
<td>68%</td>
<td>65%</td>
<td>67%</td>
<td>67%</td>
<td>75%</td>
<td>100%</td>
<td>86%</td>
<td>83%</td>
<td>83%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CIEM/ILSSA/MoLISA (2015[8]).

The results in Table 3.1 are solely from firms that were inspected and thus exclude firms operating entirely in the shadow economy, which officials could have difficulty locating. However, Table 3.2 indicates that a large proportion of enterprises are inspected each year.

Table 3.2. Inspection rates of SMEs contributing or non-contributing in VSI (2007–15)

<table>
<thead>
<tr>
<th>Participation in VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
<th>Not in VSI</th>
<th>In VSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>50%</td>
<td>50%</td>
<td>45%</td>
<td>83%</td>
<td>83%</td>
<td>44%</td>
<td>0%</td>
<td>50%</td>
<td>0%</td>
<td>31%</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>5 to 9</td>
<td>63%</td>
<td>65%</td>
<td>62%</td>
<td>83%</td>
<td>78%</td>
<td>88%</td>
<td>10%</td>
<td>19%</td>
<td>38%</td>
<td>53%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 to 49</td>
<td>64%</td>
<td>83%</td>
<td>74%</td>
<td>87%</td>
<td>63%</td>
<td>12%</td>
<td>40%</td>
<td>16%</td>
<td>39%</td>
<td>61%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 to 199</td>
<td>77%</td>
<td>92%</td>
<td>95%</td>
<td>93%</td>
<td>77%</td>
<td>13%</td>
<td>70%</td>
<td>33%</td>
<td>71%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200 to 299</td>
<td>96%</td>
<td>89%</td>
<td>89%</td>
<td>25%</td>
<td>83%</td>
<td>13%</td>
<td>13%</td>
<td>82%</td>
<td></td>
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</tbody>
</table>

Source: CIEM/ILSSA/MoLISA (2015[8]).

Firms in the SME survey indicated that their main reasons for making informal payments are: 1) the difficulty in complying with government regulations and 2) competitive pressures in the market. Both arguments could similarly apply to firms with regard to social insurance participation.

About half of the enterprises that MOLISA surveyed in 2012 in relation to social insurance complained about the difficulty of complying with labour-management and wage regulations. The reporting process is time-consuming and requirements are inconsistent or unclear across the process. In response to this study, Ha Noi’s labour office inspection unit confirmed the need to eliminate confusing requirements.

Moreover, it is common for firms to under-report wages to social insurance. For example, large companies routinely ask employees to work overtime (for which pay is not subject to social contributions) instead of hiring new employees. Firms of all kinds might do this to keep labour costs low and enhance their competitiveness.
Annex B presents the results of logit regressions of social insurance participation against SME’s characteristics. Surprisingly, moving into the formal sector – becoming registered, paying taxes – is not clearly associated with moving into VSI. The coefficients associated with “Paying the bureau registration tax” are not significant. Getting a tax code and paying corporate tax is sometimes associated with moving out of VSI. Paying VAT, on the other hand, is sometimes associated with moving into VSI.

Another significant result is that over the period 2006-15, and particularly between 2009 and 2011, inspections likely prompted firms to move out of VSI. Over that period, firms that moved into VSI were more likely to have made informal payments than other firms. These results are worrying and echo the observations made above.

Provincial fixed effects are important, indicating that the economic and institutional environment play a significant role in social insurance participation. Certain provinces and municipalities – like Ho Chi Minh City, Lam Dong and Khanh Hoa – appear to be favourable to firms moving into VSI. Long An and Hai Phong are also favourable to firms’ participation in VSI. At the opposite end, the economic and/or institutional context in Ha Tay and Quang Nam are more conducive to movements out of VSI.

The importance of economic sectors in explaining provincial differences was also tested. The coefficients were not significant once other controls related to firms’ efficiency, size, etc. were taken into account. The construction, household services and food-processing sectors (which are characterised by large gaps in social insurance coverage) are not particularly more present in the low-performing provinces. This suggests that other factors – such as the labour force’s education, the degree of urbanisation and local authorities’ governance capacity – could play a role.

The remaining results show, as expected, that firms that are more efficient (productivity, premises dedicated to the business) and/or larger (number of full-time employees) are more likely to move into VSI. A wider financial relationship and higher market integration (paying VAT, borrowing, clients in the public sector), good management practices (use of accounting books) and women owners or managers are also associated with higher propensity for VSI inclusion. At the opposite end, units that moved out of VSI are more likely to pay lower wages and to be oriented towards local business activities (customers within the commune).

**Have increases in the minimum wage and social contribution rate negatively affected social insurance coverage?**

To answer this question, firms’ yearly changes of covered employment were regressed against changes in the minimum wage (specific to the firms’ district) and by the ratio of social contributions to labour costs. The profit margin, sector (public, domestic or FDI), share of women and covered workers in total employment as well as the previous year’s employment level, also by firm, were included in the expressions to control for other characteristics associated with higher VSI coverage and employment growth.

Year and provincial dummies, as well as the change in the average level of productivity in the branch in which each firm has its main activity over the period, capture the specificity of the economic and institutional environment. The same expression, but with the outcome being total employment, was also tested. The analysis covers firms with fewer than 300 employees included in the GSO Enterprise Census over the period 2009-14. The relation was tested on three samples in which outlier firms with very large
increases in employment (i.e. with a final level 5, 10 or 20 times higher than the initial level, respectively) were excluded.

The results show that past increases in the minimum wage had a negative impact on average growth in firms’ total and covered employment. A 1% increase in the minimum wage reduced the annual growth in total employment in a range of -0.3% and -0.4% between 2009 and 2014. The impact is larger on covered employment, ranging between -1.1% and -1.2% per year.

The major impact of the increase of the minimum wage on employment related to the increase in the financial burden of social contributions. Enterprises employing low-skilled workers as well as firms that pay social contributions based on the minimum wage (instead of actual wages) were both affected.

The relationship between employment growth and the burden of social contributions on labour costs is negative. The impact is higher than for the increase in the minimum wage: a 1% increase in the cost of social insurance to the overall wage bill reduced annual growth in total employment between 2009 and 2014 in a range of -1.7% and -2.6%. The impact was larger for covered employment, ranging between -2.0% and -2.9% per year.

These results indicate that, at least in the short term, the financial burden associated with social insurance constrains both growth in social insurance coverage and employment.

Do employees benefit through higher net wages from firms avoiding social contributions?

It is difficult to observe the extent to which under-reporting wages and evading social taxes lead to higher wages for employees. Moreover, evasion of labour taxes blurs the comparison of wages between individuals because covered and uncovered workers with the same characteristics (education, experience, age, jobs, etc.) might end up with different take-home wages.

To overcome these problems, Nguyen, Nordman and Roubaud (2013[22]), with data from household surveys of 2002, 2004 and 2006, use fixed effects and quantile regressions to compare, within the same range of earnings as a proxy of productivity, the individual wages of workers with similar characteristics. They found that the earning gap between wage earners in the formal and informal sectors diminishes along the wage curve. These results do not confirm but are consistent with the assumption that workers at the higher end of the wage distribution receive part (or all) of unpaid social contributions through wages.

Using data from the Enterprise Census of 2006 and comparing employees in similar branches of activities, Castel and To (2012[23]) also observe a wage premium in favour of partially covered employees. Data from firms operating in the same sector show that the average wage of firms that fully protect employees, i.e. pay contributions to VSI on total wages, is lower than that of firms that under-report wages for social contributions.
References


4. Recommendations for strengthening social insurance coverage

The Social Insurance Law of 2014, information campaigns and the VSI’s improved management tools should (over time) increase social insurance coverage among SME employees. However, as the previous sections demonstrate, multiple barriers to enrolment remain, including the cost of contributions, a lack of trust in the system and administrative factors. At the same time, the broader social protection system is unable to guarantee adequate coverage to the many workers currently excluded from social insurance.

This section recommends possible policy responses to these challenges, based both on the particular environment of SMEs in Viet Nam and other countries’ experience in scaling up coverage of social insurance. Some proposals would require a transition period during which certain obligations are accommodated or tailored to provide the opportunity for enterprises and workers to move from non (partial) compliance and no (partial) participation to full compliance and participation. Their implementation would, therefore, require adjustments beyond the narrow legal and regulatory framework of social insurance.

Reduce obstacles to participation

Household businesses and small firms that register employees with social insurance face significant direct and indirect increases in their labour costs.

- Social contributions amount to 32.5% of salaries.
- Procedures are complex and, possibly, increase law-abiding firms’ vulnerability to demands for informal payments from local officials.
- There is no clear path for existing SMEs willing to amend their position and register employees with social insurance. The possibility of a large debt for unpaid contributions is a strong deterrent.

Measures to mitigate the burden of registration for micro and small businesses might include:

- Paying social insurance should be a simple procedure that requires no registration, no labour contract and no record-keeping. The CESU system in France could serve as a model, at least for businesses with few employees (Box 4.1).
- Managers or owners of small firms or household units who would like to amend their situation should be allowed to ask, with their employees’ approval, that VSI waive past contributions. This measure could be limited to household units and small businesses under a certain income ceiling.
- A flat tax credit per employee could partially or totally reimburse employers for social contributions and reduce the impact of compliance on firms’ margins. This measure would help prevent social contributions from consuming the earnings
that small employers could invest or use as collateral for new loans to support their business’s growth.

- An income ceiling could be introduced to limit eligibility for these tax subsidies. This would partly address equity concerns associated with the implicit transfer to individuals who are relatively well-off by dint of being employed and to paying subsidies from the public purse to employers for doing something they should have done anyway.

**Box 4.1. France’s General Service Employment Check**

Since 2006, France’s General Service Employment Cheque (or CESU) makes it much easier for households to pay their employees’ social insurance contributions. Households who register their employees can benefit from income tax breaks. For employers, its principal advantage is administrative simplicity: there is no need to register for social insurance, write a labour contract, produce payslips, keep records or calculate social contributions. For employees, the principal advantage is the access to social insurance, even with multiple employers and intermittent jobs.

Before the system went online, employers used CESU chequebooks, which all banks issued for free. The CESU cheques had two components. The first part was used to remunerate the worker, who were able cash the cheques at their bank or CESU repayment centres. The employer decides upon the remuneration, which must be determined by hour and conform to the minimum applicable wage, plus an additional 10% for paid vacations.

The second part of the cheque reported the same information as the first part and the employer’s choice to pay either the minimum level of social contributions or the amount computed on the employee’s total remuneration. This part was sent to Social Insurance services, which used it to calculate the amount of social insurance contributions, which were subsequently deducted from the employer’s bank account. Cheques have since been replaced with an online payment platform to make the system even simpler. In France, 78% of household employers use the system; similar schemes have been rolled out in Belgium and Switzerland.

An identical model would not be practical in Viet Nam where many small businesses or household units are informal or are exempt from income tax. However, the fact that there is no need for a labour contact, that social security payments can be irregular and that several employers can contribute during the same period for one employee makes this system an interesting model for Viet Nam. Adapted to the local context, it could help to extend the coverage of household and small business units.

*Source: International Labour Organization (2013[1]).*

**Incentivise employees to participate**

The revision of the Social Insurance Law of 2014 sought to increase workers’ willingness to participate in social insurance. Inspired by China’s success in expanding social insurance coverage (Box 4.2), it adopts a multi-prong approach to increasing registration:
It makes social insurance more affordable by reducing the minimum contribution in the voluntary system to particularly low levels proportional to the poverty line (VND 158 000 per month in rural areas, and VND 198 000 in urban areas).

It supports the participation of the poor and very low-income people in the voluntary system, with government subsidies ranging from 10% to 30% of the minimum level of contributions (based on the poverty line).

It mandates that employers inform employees twice a year about the payment of social insurance contributions.

Box 4.2. Expanding social insurance coverage in China

China is a striking example of a country that has recently expanded social insurance coverage. Between 2010 and 2015, the number of individuals covered by the basic old-age pension system increased from 360 million to 858 million. The government’s goal is to achieve universal coverage by 2020 (Xu, (n.d.)[2]). The impact of China’s reforms on coverage among wage employees in SMEs specifically is not known, since urban workers are covered by programmes run by local authorities (ILO, 2015[3]).

After several reforms, China introduced a system with two components: a solidarity component and individual accounts. Great progress was made in participation in the solidarity component, which provides a basic pension of about CNY 55 (Yuan renminbi) or USD 8 per month (Gu, 2012[4]). The minimum contribution is quite low (4% to 8% of per-capita average rural income, slightly higher in urban areas) and participation is subsidised, with local government matching 10% to 33% of these contributions.

Other features have contributed to China’s success, such as the “token participation” that allows participants to pay a flat contribution of CNY 100 per year. Similarly, participants can pay a lump sum to make up for the contribution gap when they reach pension age having contributed for at least 15 years but still have insufficient savings. Another particularity is that participants are eligible for non-contributory pensions under family-binding conditions (i.e. if all the participant’s adult children contribute to the basic pension programme).

China’s specific political economy has also probably contributed significantly to the impressive growth in participation. Although participation in the pension system is voluntary for urban and rural residents, “China retains a degree of moral persuasion to encourage participation” (Dorfman et al., 2012[5]).

Matching contributions are also used in India, Mexico, Thailand and many other countries to encourage participation. In the United States, evidence shows that matching contributions positively affect participation, but the government’s financial incentives, in the form of tax deductions or matching employees’ contributions in 401(k) plans, have not reached many low- and moderate-income families (Duflo et al., 2007[6]).
However, measures aimed at enhancing participation among low-income workers (particularly in rural areas) are unlikely to have a significant impact on coverage among SME employees, the majority of whom earn the minimum wage (set for the enterprise sector) or more. Instead, several measures could incentivise employees to participate in social insurance:

- Replace workers’ entitlement to a lump sum upon exiting a job with the possibility of partially withdrawing funds for specific purposes, such as financing education or housing. This possibility exists for members of Singapore’s Central Provident Fund, for example (Box 4.3).

- Compute the amount workers can withdraw by indexing workers’ contributions above a certain threshold to the VSI Fund’s return, as is done with past unpaid contributions. This measure would increase employees’ willingness to participate because it retains a popular feature of the current system and makes social insurance a safe saving option. For the VSI, participants who use this option are not leaving the system; they continue to contribute to social insurance.

- For social insurance payments by cheque, include paid vacations or a wage premium that the VSI pays to employees once or twice a year. This measure would increase employees’ willingness to participate because it allows irregular workers to receive other fringe benefits and higher income.

**Box 4.3. Flexibility through Singapore’s Central Provident Fund**

Singapore’s Central Provident Fund (CPF) is a mandatory, individual account system composed of three separate accounts: Ordinary, Special and Medisave. A separate retirement account is created at age 55 with transfers from the Ordinary and Special accounts. Members in their early 60s can start to draw on the assets in their retirement accounts.

A popular CPF feature allows participants to withdraw funds from the Ordinary and Special accounts before age 55 for certain investments, including home ownership, college education, insurance and “topping-up” the retirement funds of elderly parents (Government of Singapore, n.d.). Participants who choose these options reduce the pension income they will obtain from the fund at retirement. However, financing college education and owning a home (and being free from high rent payments) are investments that reduce the risks of an excessive drop in welfare during retirement (Hateley and Tan, 2003).


**Switch from punishing defaulting enterprises to supporting them**

The Social Insurance Law revision of 2014 strengthens enforcement around social insurance by increasing penalties and by involving the Ministry of Finance and provincial authorities in VSI inspections, in addition to the Ministry of Labour. Sharing databases among local tax agencies and VSI offices, as well as coordinating inspection efforts, will increase the process’s efficiency. As the example of Brazil shows, enforcement capacity is an important input to policies for increasing social security coverage (Box 4.4).
Nonetheless, the large number of SMEs and household businesses that are currently not enrolled raises concerns around the impact of stronger enforcement. It is possible that an excessively punitive regime for businesses currently defaulting on their VSI obligations will discourage compliance and reduce the sector’s opportunity for development.

Defaulting enterprises, once inspected, face the following consequences:

- They must pay past contributions inflated by two times the VSI Fund’s return of the previous year.
- They must pay a fine of 12% to 15% of the amount of social contributions due on the wages of the employees not registered with the VSI.
- The penal code foresees additional penalties of VND 0.5 billion to VND 1 billion.

To maximise SMEs’ chances of survival and the growth of covered employment, several measures could accompany the strengthening of enforcement policies:

- Increase the probability of inspections and consider rotating inspectors across areas (requiring additional staff in peri-urban and rural areas, etc.).
- Limit the recall period for contributions and require lump-sum amounts when no proper documentation is available to avoid excessively high debts and to speed up the process.
- Spread the payments of contribution arrears over time (along with the corresponding penalties).
- Apply a large discount on the amount of penalties as long as the firm is up-to-date with payments of contributions and arrears.
Box 4.4. Strengthening enforcement of labour regulations in Brazil

Labour inspections gained importance in Brazil during the second half of the 1990s. For budgetary reasons, the government decided to expand the fiscal base (including social security contributions) and enforcement of labour regulations became much stricter. The inspection system was redesigned and a performance-based pay system was introduced, with employees’ bonuses (sometimes up to 45% of initial wages) tied to the enforcement agency’s overall efficiency.

To deter corruption, inspectors rotate across enforcement areas; inspections can be triggered by a random firm audit or a report of non-compliance. In the case of violations, firms that do not contest the fine and pay it within ten days of notification receive a 50% discount on the amount of the fine. Firms filing an appeal must deposit the total value of the penalty until the case has been reviewed and a second decision reached. Fines can be either fixed or indexed to firm size and profitability.

In practice, small and medium firms usually pay the fines early to take advantage of the discount. Larger firms, with their own legal departments, tend to contest the fines and often avoid paying them.

A randomised experiment by De Andrade, Bruhn and McKenzie (2014[10]) shows that enforcement helps reduce informality among firms in Brazil. The authors estimate that 22% to 27% of firms that received an inspection during their study registered with the municipality. The authors also point to the difficulties inspectors faced during the experiment to locate informal firms or talk to their owners.

In Brazil, the coverage gap of salaried workers declined by 10.7 percentage points between 2003 and 2012. Brazil’s success in increasing covered employment at the same time as raising the minimum wage by 61% has prompted a variety of studies. Their findings show that, besides profound changes in enforcement, a large range of factors including structural changes and government policies in other sectors (finance, education and social) were also significant.

Indeed, the sharp rise of the minimum wage has been shown to have slowed down the reduction of uncovered employment (Fairris et al., 2016[11]; Haanwinckel and Soares, 2016[12]). However, growth in exports (Fairris et al., 2016[11]), higher availability of credit for small firms (Catão, Pagès and Rosales, 2009[13]) and improved workers’ qualifications thanks to increased school attendance over the past decades (Haanwinckel and Soares, 2016[12]; de Moura and Barbosa Filho, 2016[14]) contributed to a contraction of the informal sector.

Source: Based on Almeida and Carneiro (2012[15]); Cardoso and Lage (2006[16]).

Adopt a systematic approach to social protection

The evidence presented in this paper indicates it will take a long time for social insurance coverage to increase in Viet Nam. It is realistic to assume certain groups will not be reached at all. Other social protection mechanisms offer possibilities to accelerate increases in coverage or to ensure that workers are covered by other sources of support, especially in old age. In particular, it is important to consider the interaction between social insurance, unemployment insurance and non-contributory pensions.
Viet Nam is in the process of developing a new legal framework for social insurance, which will include pensions and unemployment insurance. This is an important opportunity to achieve coherence across social insurance and increase coverage. Expanding coverage of unemployment insurance could reduce workers’ tendency to cash out their pension savings. As of 2015, 11.5 million workers contributed to unemployment insurance, up from 6 million in 2009.

At the same time, there is significant scope to reform tax-financed income support for the elderly provided through merit transfers and social pensions. An important guiding principle for a coherent, systemic approach to social assistance and social insurance is that all elderly should have access either to a contributory or a non-contributory arrangement (MoLISA/UNDP, 2016[17]).

- Expanding coverage of unemployment insurance would reduce employees’ incentives to cash-out social insurance in case of unemployment though not for those who decide to become self-employed or to work in informal SMEs.
- Expanding coverage and expenditure on social pensions would reduce gaps in social protection coverage among the elderly. Aligning contributory pensions to non-contributory pensions and merit payments, for example by harmonising retirement ages and other eligibility criteria, will be an important corollary of such reforms.
- Plans to expand social insurance should be part of a larger strategy for revising firms’ tax dispensation. The range of remuneration subject to social contributions might need to be increased. Pension benefits will remain unattractive as long as overtime pay and other allowances are not subject to social insurance. However, the cost to companies of doing so also needs to be taken into account.

References


Annex A. Description of datasets

The analysis of the drivers and barriers of social insurance coverage uses bi-yearly panel datasets over the period 2007-15. Two datasets were used. The first is the SMEs survey conducted by Viet Nam’s Central Institute for Economic Management (CIEM) and other partners including ILSSA, funded by the Danish International Development Agency (DANIDA).\(^1\) The survey is based on face-to-face interviews with 2,600 non-state SMEs operating in ten provinces and municipalities (Ha Noi, Hai Phong, Ho Chi Minh City, Ha Tay, Phu Tho, Nghe An, Quang Nam, Khanh Hoa, Lam Dong and Long An).

The first-round dates from 2006. To include firms from the informal sector, the survey combined registered establishments\(^3\) and household enterprises located during the Establishment Census of 2002 and random on-site identification by enumerators within the same districts. Joint ventures and state-owned enterprises were excluded. Stratified sampling was used to ensure an adequate number of enterprises in each province with different ownership forms. At each new round, every two years, extinct enterprises are replaced, based on ownership (household units, and private, limited liability and joint stock companies). The survey covers 18 sectors, of which the dominant ones are food processing, fabricated metal products and wood-product manufacturing. The firms’ average size is about four full-time employees. Cling et al. (2010)\(^{[18]}\) note that this data does not likely represent the whole universe of Viet Nam’s household units. They cite a more extensive survey of the informal sector in Ha Noi and Ho Chi Minh City in 2007 and 2009, in which the firms’ average size is only 1.5 employees.

The second dataset is the result of the Enterprise Census, which Viet Nam’s General Statistics Office (GSO) conducts every year. Based on the list of registered enterprises, the census covers only the large sector of household units and small enterprises of the formal sector that mostly participate in social insurance (90% of the small units surveyed in 2014 did). By contrast, in the SMEs survey, only one-quarter of small and medium firms participated in social insurance that year. The data of the GSO Enterprise Census is relevant, however, to measure the extent of employees’ coverage by firms: it provides information on the number of employees reported to the VSI and the amount of social insurance contributions that each firm paid. The panel of GSO dataset is, thus, used over 2009-14 to analyse how changes in the minimum wage and the payroll tax over the period affected covered employment. Gian Thanh Cong conducted the regression analysis and the construction of the panel data.

Annex notes

\(^1\) More details at [www.wider.unu.edu/project/small-and-medium-enterprise-sme-survey](http://www.wider.unu.edu/project/small-and-medium-enterprise-sme-survey).

\(^2\) Ha Tay province was merged into Ha Noi at the beginning of 2009, but Ha Tay is maintained as a separate province in this report so that results can be compared with those of previous years.

\(^3\) Lists were obtained from the Establishment Census 2002 and the Industrial Survey 2004-06.
Annex B. Regression outputs

In each regression, the left-hand variable in the relationship is equal to 1 or -1 if the firm moved in or out VSI, respectively, over the period. The variable is equal to 0 if the firm participated or did not participate in VSI during the whole period. On the right-hand side of the regression, firms’ changes (or no changes) in attitude toward VSI are correlated to variables that account for: firms’ efficiency and market integration, firms’ size and visibility to local enforcement, firms’ tax payments, formal registration and the gender of the owners or managers. Firm fixed effects and provincial fixed effects were tested, along with random effects, to take into account the possible importance of firms’ idiosyncratic behaviour or economic and institutional context. A positive (negative) coefficient means that an increase in the corresponding variable or a change in the corresponding state increases firms’ likelihood to move into (out of) VSI.
## Annex Table B.1. Panel logit regression of social insurance participation against SME characteristics

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<th></th>
<th></th>
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<tbody>
<tr>
<td>Share of customers that are state enterprises</td>
<td>0.927</td>
<td>0.836</td>
<td>0.384</td>
<td>0.155</td>
<td>1.410**</td>
<td>1.01</td>
<td>0.679</td>
<td>0.413</td>
<td>0.575</td>
<td>-0.034</td>
<td>-2.009</td>
<td>-0.896</td>
<td></td>
</tr>
<tr>
<td>Share of customers in the same commune</td>
<td>-0.985</td>
<td>-2.104**</td>
<td>-1.175</td>
<td>-2.108</td>
<td>-0.79</td>
<td>-1.647**</td>
<td>-0.903</td>
<td>-1.975</td>
<td>-1.222</td>
<td>0.002</td>
<td>0.137</td>
<td>-0.778</td>
<td></td>
</tr>
<tr>
<td>Having accounting books</td>
<td>2.114***</td>
<td>2.408***</td>
<td>2.138***</td>
<td>3.623***</td>
<td>2.187***</td>
<td>2.161***</td>
<td>1.905***</td>
<td>2.968***</td>
<td>2.285**</td>
<td>0.024*</td>
<td>0.045</td>
<td>1.667***</td>
<td></td>
</tr>
<tr>
<td>Having informal loans</td>
<td>0.104</td>
<td>0.087</td>
<td>0.791***</td>
<td>0.44</td>
<td>-0.03</td>
<td>0.129</td>
<td>0.741***</td>
<td>0.547</td>
<td>0.281</td>
<td>0.017**</td>
<td>1.005**</td>
<td>0.088</td>
<td></td>
</tr>
<tr>
<td>Creditors in the same commune</td>
<td>-0.023</td>
<td>-0.279</td>
<td>-0.645</td>
<td>-1.074</td>
<td>0.401</td>
<td>0.249</td>
<td>0.101</td>
<td>0.094</td>
<td>1.240*</td>
<td>0.020*</td>
<td>-0.928</td>
<td>0.821**</td>
<td></td>
</tr>
<tr>
<td>Creditors outside commune</td>
<td>0.209</td>
<td>-0.564*</td>
<td>0.209</td>
<td>-0.266</td>
<td>0.32</td>
<td>-0.081</td>
<td>0.797**</td>
<td>0.818</td>
<td>0.175</td>
<td>-0.027***</td>
<td>1.684***</td>
<td>0.502*</td>
<td></td>
</tr>
<tr>
<td>Creditors outside district</td>
<td>0.423</td>
<td>-0.011</td>
<td>-0.037</td>
<td>-0.316</td>
<td>0.475</td>
<td>0.319</td>
<td>0.106</td>
<td>0.508</td>
<td>0.602</td>
<td>0.007</td>
<td>0.541</td>
<td>-0.083</td>
<td></td>
</tr>
<tr>
<td>Creditors in other provinces</td>
<td>0.361</td>
<td>-0.493</td>
<td>0.755</td>
<td>1.324</td>
<td>1.094</td>
<td>0.301</td>
<td>0.684</td>
<td>2.521</td>
<td>1.697</td>
<td>-0.002</td>
<td>1.191</td>
<td>-0.6</td>
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<tr>
<td>Foreign creditors</td>
<td>-1.185</td>
<td>21.111</td>
<td>0.394</td>
<td>1.989</td>
<td>-0.7</td>
<td>22.005</td>
<td>3.531</td>
<td>2.009</td>
<td>-15.13</td>
<td>-0.014</td>
<td>0</td>
<td>-2.892*</td>
<td></td>
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<tr>
<td>Having access to main road</td>
<td>0.05</td>
<td>0.185</td>
<td>0.705</td>
<td>0.215</td>
<td>-0.019</td>
<td>0.058</td>
<td>0.671</td>
<td>0.283</td>
<td>-2.559***</td>
<td>0.003</td>
<td>2.279**</td>
<td>-0.172</td>
<td></td>
</tr>
<tr>
<td>Premises used for production purposes</td>
<td>-0.285</td>
<td>-0.407</td>
<td>0.23</td>
<td>0.254</td>
<td>-0.246</td>
<td>-0.263</td>
<td>0.308</td>
<td>0.442</td>
<td>-0.62</td>
<td>-0.009</td>
<td>1.507*</td>
<td>0.477</td>
<td></td>
</tr>
<tr>
<td>Premises used exclusively for production</td>
<td>-0.36</td>
<td>-0.141</td>
<td>0.875</td>
<td>1.236</td>
<td>-0.153</td>
<td>0.182</td>
<td>1.174*</td>
<td>1.651**</td>
<td>-1.236</td>
<td>-0.001</td>
<td>1.908*</td>
<td>1.015**</td>
<td></td>
</tr>
<tr>
<td>Share of wage in revenue or productivity</td>
<td>0.276</td>
<td>0.154</td>
<td>-0.074</td>
<td>0.417</td>
<td>-0.271</td>
<td>0.071</td>
<td>-0.159</td>
<td>0.216</td>
<td>0.006***</td>
<td>0</td>
<td>0.004**</td>
<td>0.001*</td>
<td></td>
</tr>
<tr>
<td>Had policy compliance inspections</td>
<td>0.352</td>
<td>0.099</td>
<td>0.406</td>
<td>-0.035</td>
<td>0.323</td>
<td>-0.072</td>
<td>0.512</td>
<td>-0.606</td>
<td>0.579</td>
<td>0.01</td>
<td>0.714</td>
<td>-0.670**</td>
<td></td>
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<tr>
<td>Had technical compliance inspections</td>
<td>0.439*</td>
<td>0.43</td>
<td>0.009</td>
<td>0.955</td>
<td>0.003</td>
<td>0.155</td>
<td>-0.061</td>
<td>0.808</td>
<td>-0.583</td>
<td>-0.025**</td>
<td>-0.373</td>
<td>-0.464*</td>
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<tr>
<td>Had other inspections</td>
<td>-0.254</td>
<td>-0.348</td>
<td>-0.792</td>
<td>-1.549</td>
<td>-0.172</td>
<td>-0.319</td>
<td>-0.674</td>
<td>-0.758</td>
<td>-1.094</td>
<td>-0.029*</td>
<td>-1.203</td>
<td>0.524</td>
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<td>Provided informal payments</td>
<td>-0.14</td>
<td>0.468*</td>
<td>-0.18</td>
<td>-0.047</td>
<td>0.111</td>
<td>0.628**</td>
<td>-0.245</td>
<td>0.189</td>
<td>-0.333</td>
<td>0.028***</td>
<td>-0.195</td>
<td>0.421**</td>
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<td>Tax code</td>
<td>-1.122</td>
<td>-0.055</td>
<td>-1.853*</td>
<td>0.703</td>
<td>-1.412</td>
<td>1.115</td>
<td>-1.405</td>
<td>1.589</td>
<td>-3.204</td>
<td>-0.002</td>
<td>-0.884</td>
<td>-0.776***</td>
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<tr>
<td>Pays corporate tax income</td>
<td>-0.449</td>
<td>0.44</td>
<td>0.121</td>
<td>0.736</td>
<td>-0.705*</td>
<td>0.278</td>
<td>-0.274</td>
<td>0.18</td>
<td>-1.628**</td>
<td>0.019</td>
<td>-0.849</td>
<td>-0.423</td>
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<tr>
<td>Pays VAT</td>
<td>0.548*</td>
<td>0.896***</td>
<td>0.182</td>
<td>0.476</td>
<td>0.424</td>
<td>0.299***</td>
<td>0.221</td>
<td>0.631</td>
<td>-0.154</td>
<td>0.008</td>
<td>-0.642</td>
<td>0.085</td>
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<tr>
<td>Pays bureau registration tax</td>
<td>-0.568</td>
<td>-0.412</td>
<td>0.595</td>
<td>-1.335</td>
<td>-0.414</td>
<td>-0.267</td>
<td>0.484</td>
<td>-1.671</td>
<td>0.664</td>
<td>-0.01</td>
<td>-2.971</td>
<td>-0.123</td>
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</tr>
<tr>
<td>Share of tax in revenue</td>
<td>0.502</td>
<td>-0.003</td>
<td>0.263***</td>
<td>-0.005</td>
<td>0.425</td>
<td>-0.004</td>
<td>0.217**</td>
<td>-0.006</td>
<td>-0.000**</td>
<td>0.000***</td>
<td>0.000**</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Number of full-time employees</td>
<td>0.047***</td>
<td>0.063***</td>
<td>0.125***</td>
<td>0.139***</td>
<td>0.051***</td>
<td>0.064***</td>
<td>0.124***</td>
<td>0.137***</td>
<td>0.020**</td>
<td>0.001***</td>
<td>0.176***</td>
<td>0.013**</td>
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</tr>
<tr>
<td>Firm’s ratio average wage/minimum wage</td>
<td>0.181***</td>
<td>0.120*</td>
<td>0.233***</td>
<td>0.196*</td>
<td>0.188***</td>
<td>0.160**</td>
<td>0.258***</td>
<td>0.220*</td>
<td>0.176**</td>
<td>-0.005</td>
<td>-0.305</td>
<td>0.276</td>
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<tr>
<td>Established before 2000</td>
<td>0.01</td>
<td>0.173</td>
<td>0.422</td>
<td>-0.757</td>
<td>-0.007</td>
<td>0.04</td>
<td>0.316</td>
<td>-1.179</td>
<td>2.266*</td>
<td>-0.005</td>
<td>-3.055</td>
<td>0.276</td>
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</tr>
<tr>
<td>Established before 2006</td>
<td>-0.216</td>
<td>0.101</td>
<td>0.788</td>
<td>-0.225</td>
<td>-0.363</td>
<td>-0.21</td>
<td>0.453</td>
<td>-1.123</td>
<td>1.572</td>
<td>-0.017</td>
<td>-0.352</td>
<td>1.660***</td>
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<tr>
<td>Established before 2010</td>
<td>0.249</td>
<td>-0.388</td>
<td>0.725</td>
<td>-1.293</td>
<td>0.194</td>
<td>-0.912</td>
<td>0.332</td>
<td>-2.268*</td>
<td>2.899*</td>
<td>0.024</td>
<td>0.403</td>
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<tr>
<td>Established in 2010 or after</td>
<td>0.487</td>
<td>-2.775</td>
<td>0.433</td>
<td>-2.852</td>
<td>0.235</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### INCREASING SOCIAL INSURANCE COVERAGE IN VIET NAM’S SMES © OECD 2018

| The owner or manager is a man | 0.048 | -0.838*** | -0.842*** | -1.347*** | 0.218 | -0.670** | -0.525* | -0.930* | 1.634*** | -0.011 | 0.671 | -0.481* |
| Year=2008 | 0.541** | -0.761* | 0.500* | -0.547 | 1.072*** | -0.003 | -0.418* |
| Year=2010 | -2.111*** | -2.043*** | -1.228*** |
| Year=2012 | -0.38 | -0.339 | -0.746* |
| Whether firm has business registration | 1.944 | 17.682 | -0.108 | 2.029 | 1.586 | 16.429 | -0.95 | -0.583 | 3.605* | -0.017 | -19.414 | -2.528* |
| Lam Dong | 1.729* | 3.413*** | 0.189 | 5.039*** |
| Ho Chi Minh City | 1.627*** | 3.318*** | 1.923*** | 5.602*** |
| Long An | 1.026 | 2.418*** | 0.632 | 3.700** |
| Phu Tho | 0.482 | 2.330*** | -0.938 | 1.381 |
| Ha Tay | -1.673*** | -0.573 | -1.416* | -1.686 |
| Hai Phong | -0.428 | 2.113*** | -0.121 | 1.955* |
| Nghe An | 1.228** | 1.892*** | -0.1 | 1.113 |
| Quang Nam | -0.501 | 0.894 | -1.293* | 0.492 |
| Khanh Hoa | 1.612** | 2.386*** | 1.376* | 3.945** |

**Note**: The source is CIEM/ILSSA/MoLISA (2015[19]), Viet Nam’s Central Institute for Economic Management (CIEM) and other partners including ILSSA, funded by the Danish International Development Agency (DANIDA).
Annex Table B.2. Panel regression of impact of the changes in the minimum wage and the payroll tax on total and covered employment

<table>
<thead>
<tr>
<th>Dependent variable: Change in Employment (d.L)</th>
<th>Eq1</th>
<th>Eq2</th>
<th>Eq3</th>
<th>Eq1</th>
<th>Eq2</th>
<th>Eq3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in minimum wage</td>
<td>-1.133***</td>
<td>-0.441***</td>
<td>-1.201***</td>
<td>-0.411***</td>
<td>-1.160***</td>
<td>-0.347***</td>
</tr>
<tr>
<td>Profit rate</td>
<td>0.049***</td>
<td>0.086***</td>
<td>0.050***</td>
<td>0.089***</td>
<td>0.053***</td>
<td>0.091***</td>
</tr>
<tr>
<td>Private</td>
<td>-0.132***</td>
<td>-0.146***</td>
<td>-0.139***</td>
<td>-0.167***</td>
<td>-0.166***</td>
<td>-0.193***</td>
</tr>
<tr>
<td>FDI</td>
<td>0.031***</td>
<td>0.038***</td>
<td>-0.005</td>
<td>0.002</td>
<td>-0.040***</td>
<td>-0.029*</td>
</tr>
<tr>
<td>Share of female employment</td>
<td>0.028***</td>
<td>0.033***</td>
<td>0.035***</td>
<td>0.040***</td>
<td>0.046***</td>
<td>0.049***</td>
</tr>
<tr>
<td>Share of covered employees</td>
<td>-0.607***</td>
<td>0.160***</td>
<td>-0.656***</td>
<td>0.184***</td>
<td>-0.614***</td>
<td>0.208***</td>
</tr>
<tr>
<td>Change in productivity</td>
<td>0.002</td>
<td>0.001</td>
<td>0.005**</td>
<td>0.003*</td>
<td>0.003</td>
<td>0.002</td>
</tr>
<tr>
<td>Level of productivity</td>
<td>-0.000***</td>
<td>0</td>
<td>-0.000***</td>
<td>-0.000***</td>
<td>-0.000***</td>
<td>-0.000***</td>
</tr>
<tr>
<td>Province dummies</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year dummies</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Employment in t-1</td>
<td>-0.000***</td>
<td>0</td>
<td>-0.001***</td>
<td>-0.000***</td>
<td>-0.001***</td>
<td>-0.001***</td>
</tr>
<tr>
<td>Constant</td>
<td>1.264***</td>
<td>0.294***</td>
<td>1.465***</td>
<td>0.414***</td>
<td>1.548***</td>
<td>0.507***</td>
</tr>
<tr>
<td>Number of observations</td>
<td>360677</td>
<td>360677</td>
<td>362177</td>
<td>362177</td>
<td>364637</td>
<td>364637</td>
</tr>
</tbody>
</table>

Note: Eq1, Eq2 and Eq3 firms with less than 5, 10 and 20 times increase in employment, respectively.
### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributors</td>
<td>Individuals who participate in social insurance. The term is vague because it may cover current or active contributors (people for whom social contributions in a specific period have been paid) or the people registered with social insurance and for whom social contributions have been paid at some point in the past and are not currently active. For example, in Viet Nam, unemployed people who contributed in the past are registered with social insurance, but they are not current active contributors.</td>
</tr>
<tr>
<td>Covered employment</td>
<td>The employees registered with social insurance and for whom employers are paying contributions.</td>
</tr>
<tr>
<td>Formal/informal</td>
<td>The status of a business regarding its obligation to register to local authorities and usually to the tax office. The informal sector incorporates businesses that are not registered whatever the number of employees or their participation in social insurance.</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>The social benefits provided by employers, which include employers’ social contributions and, hence, employees’ access to social insurance benefits (maternity leave, old-age pension, etc.). Fringe benefits may include additional benefits, such as paid vacations. Fringe benefits are not necessarily financed through social insurance. For example, employers may grant sick leave (maintaining wages during illness) without participating in social insurance.</td>
</tr>
<tr>
<td>Household business</td>
<td>In these units, there is no legal distinction between the owner(s) and the business. The proprietor owns every asset, and there is unlimited liability. Under Viet Nam decree and regulations, household units employ fewer than ten employees. Household units, except those with small turnover (the threshold is set at the provincial level), must register at the district level; enterprises are registered in the national registry.</td>
</tr>
<tr>
<td>Social insurance (SI)</td>
<td>This term is preferred to “social security”, which is often used in this kind of report, because the Vietnamese translation of “security” creates confusion for some readers.</td>
</tr>
<tr>
<td>Sole proprietorship, unincorporated enterprises</td>
<td>These firms share the same type of legal status as household units.</td>
</tr>
<tr>
<td>Tax wedge</td>
<td>The gap between a firm’s total labour costs and employees’ take-home wages. Social, health and unemployment contributions are the principal causes of this gap, but sometimes other contributions (to trade unions, for example) and provisions for severance pay (the amount paid to laid-off employees) are included in the tax wedge.</td>
</tr>
<tr>
<td>Social contributions</td>
<td>In Viet Nam, one’s social contribution is equivalent to one’s calculated payroll tax. This is because in Viet Nam, contributions to social insurance are tied to contributions to health insurance and unemployment insurance.</td>
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</table>