Escaping the low income - low social protection trap in developing countries: What are the options?

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Abstract

International experience suggests that attempts to rapidly expand formal safety net coverage through cash transfers typically founder in low income countries, which must look to alternative mechanisms to boost social protection. This paper explores this challenge through the case of Vietnam. Despite over a decade of rapid economic growth and poverty reduction, approximately 40% of Vietnam’s population is below or just above the poverty line and is highly vulnerable to community-wide and household-specific shocks. Yet Vietnam’s social protection budget has largely financed formal entitlement programs that are failing to deliver substantial reductions in vulnerability for this broad spectrum of the rural population. This paper outlines the state of social protection in Vietnam and presents an agenda for improving effective coverage rates. It closes by assessing the political and bureaucratic feasibility of social protection reforms in other developing countries.

Key words: Social protection, safety nets, developing countries, Asia, Vietnam

* The author would like to thank Professor Mukul G. Asher for his assistance on a previous draft. The usual caveat applies.
1. INTRODUCTION

The challenge of protecting the poorest and most vulnerable members of society from economic and other shocks is shared by both developed and developing countries. Countries in which a substantial percentage of the population is poor have a particular need for effective social protection, as do countries rapidly undergoing socioeconomic transformations, such as urbanization and economic liberalization (Ortiz, 2001; Cook et. al, 2003).

Yet the means for poor countries to achieve effective protection are severely limited by both low public expenditure and low administrative capacity. In addition, social protection cannot be divorced from the broader set of economic and social policies affecting the rate and distribution of economic growth and human capital formation. The political economy of development in countries rapidly urbanizing and industrializing from low levels may also create difficulties in developing coalitions supporting pro-poor policies (Ramesh, 2000). As a result of such constraints, formal social security and protection programs typically cover only a small minority of those in need of assistance, and what limited assistance exists is poorly targeted.

How can this situation be changed? What practical options for effectively improving social protection in low income countries exist for national policy-makers and donors to consider? This paper adopts a case study approach to these questions, recognizing that answers must be country specific and that broader lessons for low income countries (sharing, as they do, key constraints) may be drawn. It explores the state of, and prospects for strengthening, social protection as a key component of social policy in Vietnam. The Vietnam case is interesting because in some ways it tests the outer limits of the possible for very low income countries: it enjoys a longstanding commitment to social development, generally strong social organization, and government coffers that have expanded rapidly as a consequence of its rapid economic growth over the past fifteen years.

This paper has five sections. The first presents some background on Vietnam and its reforms. The second reviews generic options for strengthening social protection based on international experience. The third assesses the state of social protection measures in Vietnam, arguing that the failings of the current system are being exacerbated in some cases by misguided policies, and by low implementation capacity in others. The fourth outlines an agenda for institutional and policy reform that might enable relatively rapid improvements in the situation over the medium term. The concluding section assesses the political feasibility of the proposed strategy, one that has implications for other low income countries.

2. BACKGROUND

For at least the past twenty-five years, Vietnam has been widely cited as a country with moderate levels of human development despite being very poor (NCSSH, 2001; Fritzen, 1997). Its per capita GDP in the early 1990s placed it below that of
Bangladesh and India, and on par with the average for least developed countries. Yet several important social indicators, such as infant mortality, life expectancy and adult literacy, place Vietnam in the same company as considerably richer countries, such as Thailand, the Philippines and China (NCSSH, 2001). A high-level policy commitment to primary education and health care (as in other socialist countries such as China and Cuba), coupled with strong social organization, underpinned Vietnam’s considerable pre-transition achievements (Fritzen, 2002; World Bank et. al, 2001).

With the economy languishing under the constraints of state planning, the aftermath of decades of war and continued international isolation, Vietnam launched a comprehensive economic reform program in 1987 known as doi moi (renovation). Documented extensively elsewhere (Fforde and de Vylder, 1996), the reforms generated economic growth rates that have consistently placed Vietnam (with China) among the most rapidly growing economies in the world over the 1990s. The doi moi reforms were, economically speaking, a huge success.

Their impact on the social sectors, in contrast, have caused much debate (Nguyen, 1997; Fritzen, 1999). On the positive side, Vietnam has avoided precipitous decline in social indicators and coverage of services, quite in contrast to most transition countries. In fact, it has managed to expand coverage levels in almost all social service areas. Any set of economic reforms that generate the large-scale reductions in poverty seen in Vietnam – from 58% to 37% between 1992-98, according to a large scale living standards survey (GSO, 1999) – is bound to have generally positive impacts on most social indicators.

Yet doi moi introduced a broader set of institutional reforms that also badly disrupted the service delivery network, such as the disbandment of the agricultural cooperatives that had underpinned rural service delivery (Fritzen, 1999). Major changes in the way services are planned for, financed and implemented were often made ad hoc in the first years of the transition. Some fifteen years on, major reviews of the social sectors (UNICEF, 2000; World Bank et. al, 2001) outline an unfinished agenda of institutional and policy reform to cope with both old and new challenges. Indeed, some observers point to growing regional and socioeconomic inequalities, a ‘crisis’ of affordability of social services for the poor, and the generally poor quality of public services as evidence of a growing gap between reform needs and progress in the social sectors (Fritzen, 2002).

Nowhere is this disjunction greater than in the field of social protection. The tumultuous context of doi moi has generated much talk in government and the donor community concerning how to develop a reinforced social safety net during economic and other shocks to protect the most vulnerable in society (van de Walle, 1999). Yet long an important function of the old cooperatives, social protection assistance is at present extremely limited in wide stretches of the country. With many millions of households precariously clustered just above the poverty line, the lack of a functional safety net poses a serious social – and by extension political – risk (particularly since economic growth in recent years has decelerated). Serious organizational reform is likely to be necessary to revive the pace of poverty reduction and social development and perhaps even to avoid decline.
3. POLICY OPTIONS BASED ON INTERNATIONAL EXPERIENCE

The Vietnamese government refers to vulnerability as “the inability of an individual...to exploit opportunities presented by society for their self-betterment” (Socialist Republic of Vietnam, 1998a, p. 9). In a narrow sense, safety nets can be defined as “measures adopted to mitigate short-term adverse effects of economic reforms on the poor” (Chu and Gupta, 1998, p. 64). This is an important part of the meaning of social protection in Vietnam, where concern over adverse, short-term impacts of continued economic reform play into ongoing debates over how quickly economic restructuring should proceed. More broadly, safety nets are linked to the quest for social security, understood as the reduction of vulnerability or poverty by social means (Howell, 2001).

There are two primary means for strengthening social security. The first is promoting the poor out of poverty, by enhancing general living standards and expanding basic human capabilities. Employment generation or education policies are a good example of promotion-oriented strategies.

The focus of this paper is concerned primarily with the second means: policies that aim directly to reduce the vulnerability of the poor to shocks, i.e. social protection. These two aims may involve separate policy instruments, but in the long term, they are mutually reinforcing: “promoting the poor facilitates their protection, by both private and social means, while protecting the poor facilitates their longer-term promotion” (Ravallion, 1995, p. 296). It is thus important to see safety nets as an important part of a pro-poor strategy, not just as a separate measure to compensate the short-term losers in the process of economic reform in order to secure sociopolitical stability.

Safety nets to protect the poor have fallen into two categories for most developing countries: formal and informal. In the East Asian ‘miracle’ or ‘tiger’ economies such as South Korea, Taiwan and Malaysia, safety nets were primarily family based; countries relied primarily on localized kinship networks and their own dynamic economic growth to serve in this capacity. These countries did not have extensive formal safety nets in place as their economies began their ascent (John, 2002). Their experience suggests that to the extent that private, family-based welfare provision exists, it should be encouraged. Doing this may require modifications to the legal and administrative framework underlying state-civil society relations. In Indonesia, Malaysia and Thailand, for example, religious organizations have been active participants in safety nets (Ramesh, 2000).

A wide range of policy options have been attempted as formal safety nets in developed and developing countries. The challenge for policy makers is to design safety nets that are targeted to those in greatest need, and to do so cost-effectively and sustainably. Major instruments include consumer subsidies, formal social insurance, direct transfers and targeted social insurance (Chu and Gupta, 1998).

1. Consumer subsidies. Governments often subsidize the consumption of specific goods deemed to be important for securing welfare and security. Ideally, to reduce
inefficiency, commodities to be subsidized would be those consumed only by the poor, but few goods fit this description. The stylized fact about consumer subsidies is that they should be limited in time and targeted so as to avoid excessive public expenditure.

2. Formal social insurance (pensions and unemployment). Social insurance refers to the financing of benefits by compulsory contributions or pay-roll taxes, and differs from private insurance in that contributions need not fully cover benefits for certain groups – such as the elderly – who are considered too weak to purchase insurance in the marketplace. A further characteristic is that there may be an element of public subsidy. In theory, social insurance performs a preventive function whereby all present and formerly economically active persons build up entitlements to receive protection in the event of contingencies such as unemployment, sickness, maternity, old-age, invalidity and death.

<table>
<thead>
<tr>
<th>Table 1. Broad estimates of workers and the elderly enrolled in any formal social security program, selected regions and Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD countries</td>
</tr>
<tr>
<td>Eastern European transition economies</td>
</tr>
<tr>
<td>Middle-income countries of South America</td>
</tr>
<tr>
<td>Most of East Asia</td>
</tr>
<tr>
<td>Sub-Saharan Africa and South Asia</td>
</tr>
<tr>
<td>Vietnam (estimate)</td>
</tr>
</tbody>
</table>

Source: Chu and Gupta (1998); for Vietnam, based on ILO (1999)

Coverage of formal nets in Vietnam is typically limited to a minority of formal-sector workers (table 2). Since “economic development is the major determinant of coverage rate,” (James, 1999, p. 8) formal coverage will rise with income. Most countries with operating social insurance schemes are well into the middle-income range. At present, only a handful of Asian countries, including China, the Republic of Korea and Mongolia, have some form of unemployment insurance beyond a pilot level, and none of these extend to a clear majority of the intended population. Though rapidly expanded in response to the East Asian financial crisis, coverage rates in the Republic of Korea approach only half of all employees (Drouin, 1999).

There are two basic reasons for this low coverage. First, it is virtually impossible for fiscal reasons for developing countries to provide universal coverage. (One of the few recent attempts to do this – in Bolivia – was abandoned within three years.) Second, the costs of enforcing collection from a stable group of workers are only sufficiently low in the formal sector – lowest of all for government employees. Indeed, an ILO review in the wake of the Asian financial crisis failed to identify any reliable mechanisms to extend coverage of formal social insurance (Drouin, 1999).

3. Direct transfers to uninsured vulnerable social groups. The bulk of Vietnam’s current social assistance falls into this category. International experience suggests that the extent to which such transfers actually assist in protecting the poor depends on four variables: administrative capacity, practical constraints and transaction costs, political will for means testing, and overall fiscal outlays. Delivery mechanisms can
take place through government, or NGO’s and other community groups (James, 1999).

4. Targeted employment creation on public works. If formal mechanisms for unemployment insurance are unlikely to substantially assist the very poorest, particularly in rural areas, this category offers a practical alternative. International experience with such programs highlights the need to make public works labor-intensive, flexibly organized and to keep pay low so that only the needy participate (i.e. in order for schemes to be ‘self-targeting’) (ILO, 1999; Howell, 2001).

4. THE STATE OF SOCIAL PROTECTION IN VIETNAM

Table 2 sums up available data on government safety net programs for a number of vulnerable groups. Though much information is sketchy, the basic conclusion is unmistakable: formal safety nets cover only a small portion of Vietnam’s population; in fact, “only 2.2% of the population lives in households that have received a payment from any of the poverty programs” (World Bank et. al, 1999, p. 125). Where cash support is provided, it is very limited; even adding the additional 40% which community contributions form on average within safety net expenditure, overall expenditure constitutes on average only some 5% of household income for recipients (table 3).

Coverage of social transfers is also generally not effectively targeted towards relatively poor groups. Social subsidies and the social insurance fund both benefit better-off households more than poor households. Various government and NGO poverty alleviation programs are somewhat better targeted: some 60% of government anti-poverty assistance received by households goes to the poorest 40% of households (World Bank et. al, 1999).

Why is coverage so low? One reason is that aggregate expenditure on the social sectors as a percentage of GDP is low in Vietnam. This is true in absolute terms and as a percentage of GDP (table 4). Cross-national expenditure data is unreliable for the social sectors, but what data do exist that the share of social expenditure to GDP rises – fact nearly doubles – from the poorest to the richest of the East and Southeast Asian developing countries. Despite greatly increased expenditure on the social sectors leading up to the period shown in table 4, Vietnam is still caught in a low GDP-low social spending trap.
Table 2. Available data on safety net programs, 1998

<table>
<thead>
<tr>
<th>Beneficiaries</th>
<th>Estimated numbers</th>
<th>Programs to assist</th>
<th>% of social assistance budget spent on program</th>
<th>Coverage level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployed</td>
<td>6.85% of workforce.</td>
<td>Proposals exist to introduce to formal sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sick</td>
<td></td>
<td>Health insurance:</td>
<td>6 million have health insurance of which about 62.2% are mandatory, and 37.8% are voluntary, of which 3.4 mill. are students&quot;**</td>
<td>about 3 millions of the poor received formal exemptions**</td>
</tr>
<tr>
<td>State sector employees</td>
<td>about 3.2 million active, 1.2 retired</td>
<td>Social insurance / pensions</td>
<td>38%</td>
<td>approximately 3% of population*</td>
</tr>
<tr>
<td>Retired state employee</td>
<td>about 1.2 million</td>
<td>Social insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>War affected</td>
<td></td>
<td>Special transfers</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Affected by disasters or crop losses</td>
<td>crop losses: 2.9 mil; 1,400 deaths or serious injuries on average per year</td>
<td>Contingency Fund for Natural Disasters and Pre-Harvest Starvation</td>
<td>73 bill. Vietnamese Dong</td>
<td>49% (of those affected by crop losses)</td>
</tr>
<tr>
<td>Poor (general)</td>
<td>15.7% (approximately 2 million households)</td>
<td>HEPR-related programs</td>
<td>20%</td>
<td>2.2% of overall population*</td>
</tr>
<tr>
<td>Social subsidies group (also includes drug addicts and prostitutes):</td>
<td></td>
<td>Social subsidies</td>
<td>1-4%</td>
<td></td>
</tr>
<tr>
<td>- Orphans</td>
<td>155,757</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- displaced children</td>
<td>19,047</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- invalids including who can work and cannot work</td>
<td>1.3 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Old people living by themselves</td>
<td>133,829</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Source: Socialist Republic of Vietnam, 1998a
# Source: UNDP and MOLISA, 1999a
** Source: World Bank et. al, 2001
$ Source: SRVN et. al, 2000
Poor targeting of expenditure may be just as important as low aggregate expenditure. For many programs, there are no reliable means for monitoring eligibility for, and receipt of, entitlements. Many people within the target groups may not even know they are entitled to certain assistance by law. Definitions for target group eligibility (the handicapped, street-children etc.) may be unclear. In addition, the system of intergovernmental finance is failing to provide sufficient resources where they are needed the most, the poorest provinces. Since an estimated 43% of the social insurance outlays are financed from non-budget resources, including mandatory and voluntary contributions, social assistance programs in poorer localities, which may have a higher percentage of vulnerable populations, are under funded.

Table 3. Incidence of social welfare income, 1998

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Social Insurance Fund</th>
<th>Social Subsidies</th>
<th>Poverty Alleviation Programs</th>
<th>NGO Assistance</th>
<th>Total Social Welfare Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quintile 1 (poorest)</td>
<td>15,961</td>
<td>11,282</td>
<td>1,472</td>
<td>1,152</td>
<td>29,868</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>42,020</td>
<td>15,597</td>
<td>2,415</td>
<td>554</td>
<td>60,586</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>77,120</td>
<td>24,500</td>
<td>1,053</td>
<td>313</td>
<td>102,986</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>153,840</td>
<td>23,535</td>
<td>869</td>
<td>298</td>
<td>178,542</td>
</tr>
<tr>
<td>Quintile 5 (richest)</td>
<td>207,654</td>
<td>21,776</td>
<td>659</td>
<td>443</td>
<td>230,532</td>
</tr>
<tr>
<td>Total</td>
<td>99,325 (82.4%)</td>
<td>19,339 (16.0%)</td>
<td>1,294 (1.1%)</td>
<td>552 (0.5%)</td>
<td>120,537 (100%)</td>
</tr>
</tbody>
</table>


*exchange rate: approximately 13,000 VND:US$1 in 1998.

For these reasons, formal safety nets at present do not offer significant coverage or protection to reduce the vulnerability of rural populations, a point emphasized in table 2. These programs are not equipped to handle an acceleration in the numbers of vulnerable households in an economic downturn.

If the poor cannot rely much on formal safety nets, informal, family- and neighborhood-based ones are in fact highly active (SRVN et. al, 1998). Largely as a result of these informal transfers, a major recent review found that the situation of some individuals and households classified as “vulnerable” is in many cases not dire relative to non-vulnerable households (SRVN et. al, 1998). Yet informal nets serve to exacerbate disparities in ‘coverage’ just as formal ones do. Remittances from overseas Vietnamese, estimated at an astonishing two billion dollars per year (about 5% of GDP), are highly unevenly distributed geographically. In a classic shortcoming of intra-community risk
pooling, locally redistributed resources are obviously relatively lacking in poorer areas (Fritzen, 2000). There is an unavoidable role for more formal mechanisms of social protection as Vietnam deepens its economic reforms.

Table 4. GDP and public expenditure on health and education in selected East Asian countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>1286</td>
<td>3.5</td>
<td>45</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>1726</td>
<td>3.3</td>
<td>57</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1755</td>
<td>3.4</td>
<td>60</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2439</td>
<td>2.0</td>
<td>49</td>
</tr>
<tr>
<td>China</td>
<td>3291</td>
<td>3.0</td>
<td>99</td>
</tr>
<tr>
<td>Philippines</td>
<td>3815</td>
<td>5.1</td>
<td>195</td>
</tr>
<tr>
<td>Thailand</td>
<td>5599</td>
<td>6.5</td>
<td>364</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7963</td>
<td>6.2</td>
<td>494</td>
</tr>
</tbody>
</table>

Source: UNDP (2000)

5. AN AGENDA FOR SOCIAL PROTECTION REFORM

Vietnam’s challenge is that facing many developing countries. How can it effectively leverage the contribution of civil society and its own resources to provide meaningful assistance for the most vulnerable groups, given obvious resource and other constraints? Following the framework presented in section three, priority strategies can be divided into two main categories: directing support towards those who are already vulnerable, and strengthening risk-reducing mechanisms that help prevent households from falling into that trap to begin with. The following six measures fall evenly between those two categories.

1. Target vulnerable sub-groups with higher formal safety net coverage and support. The social insurance fund illustrates the magnitude of the targeting problem in Vietnam; as demonstrated in table 3, fully 73% of the income all households in a major living standards survey reported from this source was from the richest 40% of households. Financing increased support to more vulnerable sub-groups could be achieved by allocating new resources to the sector, though this option is limited by their already high percentage within the state budget. More feasible in Vietnam would be to hold the line on existing benefits which are not well-targeted onto the poor (such as the social insurance program), while clarifying target group definitions to achieve greater transparency in benefit distribution (UNDP et. al, 1999).

2. Encourage non-State sector participation in welfare service provision. Given the predominance of informal transfers, the large role played by civil society in several other neighboring countries and budgetary limitations, probably the single most effective step
the government could take is to create a facilitative environment for private transfers and civil society organizations to get involved in welfare provision. The conceptual basis for doing this in Vietnam is already widely acknowledged in the concept of socialization (xã hội hóa), in which the state shares responsibility with the communities and mass organizations for the financing and provision of social services (Marr, 1994). This concept needs extending to embrace the concept of civil society as well, since much welfare provision will take place through non-state groupings altogether (whereas mass organizations in the Vietnamese political tradition are still considered parts of the state apparatus). Involving civil society in welfare provision may eventually be seen as analogous to the active encouragement of the private sector in economic reform, which is being voiced by high-level political leaders in Vietnam at present.

While informal safety net assistance is currently being supplied by many community groups, family members and neighbors, there is also evidence of “community failure” or “family failure” as well – instances in which cultural norms of mutual assistance appear to be disregarded in practice (SRVN et al., 1998). Mechanisms for local government to help motivate or leverage community involvement in protecting vulnerable groups may have a large impact in such a context, though concrete measures have yet to be identified. Incentives such as direct public subsidies for civil society-based care-giving arrangements, might be considered. In particular, Vietnam should explore ways to tap into its overseas Vietnamese community more extensively for resources as well as talent and organizational energy (via local NGOs they are founding in increasing numbers).

3. Create mechanisms to mitigate social costs of industrial reforms. Vietnam is preparing to deepen structural reforms to the economy. In the medium term, these will have a profound effect on generating employment in the modern sectors of the economy. There may be short-term costs, however, in terms of transitional unemployment, which the Government can help alleviate.

There are two main policy levers available. The first is transitional assistance to unemployed formal-sector workers, including various employment relocation programs, vocational education and credit provision. The second is unemployment insurance. For both, the main beneficiaries of these programs are a relatively small group of workers in the formal sector. Compared with the rural poor, these groups tend to have more resources for dealing with vulnerability. To the extent possible, unemployment insurance programs should be funded by some combination of worker and employer contributions and should minimize the level of government subsidies provided. The best unemployment insurance is greater job creation in the private sector. Changes in the labor law and enterprise law and their implementation, as well as continued macroeconomic and structural reforms, will be required for this (Webster 1999).

China’s industrial reform experience has points of similarity and contrast with Vietnam. The biggest similarity lies in the combination of low formal coverage for safety nets with extended kinship-based (informal) networks. Yet China has a much higher percentage of workers who are still dependent on their enterprises for basic welfare and social services. As of 1992, over one hundred million workers – some 10% of the
population – were employed in the state sector of specifically urban areas; these were areas that had enjoyed some formal safety net coverage prior to the reforms. Enterprises had provided such protections as guaranteed job security, housing, pension benefits, and social services such as day care and schools. Resistance to their removal served as a major brake on enterprise- and social welfare reform in China over the course of the decade.

The Chinese authorities introduced several social sector reforms in conjunction with industrial reforms. Unemployment insurance was introduced in 1986 and is administrated at the city and county-government level (not through enterprises themselves). It is limited to formal sector workers, and had provided benefits to only 200,000 SOE workers by 1992, a small number relative to total workforce in sector (Hu Zu Liu, 1998). Vietnam’s position may be more fortunate in that it has a far smaller percentage of workers in these sectors, and thus can better target them for transitional assistance.

4. Reduce community-wide vulnerabilities. The overall objective is to reinforce a safety net system that serves an insurance function for vulnerable communities and households. Some recent analysts (van de Walle 1999) have suggested that existing safety nets are failing to adequately shield households from co-variate risk, defined as risks that tend to strike neighboring households or communities simultaneously. Some type of independent contingency fund, funded in poorest provinces by central transfers and with decentralized decision-making for fund use within central guidelines, is essential to buffer poor communities. A contingency fund for natural disasters and “pre-harvest starvation” currently exists but is under funded and has poorly specified management mechanisms. Better disaster preparedness and support – through capacity building (including monitoring and evaluation capacity) for all concerned agencies, and better coordination with international agencies – are also vital to this aim (Nguyen and Dao, 2002).

5. Reduce household-level risks and vulnerabilities. An ambitious agenda for reducing household risks can be mapped out, whereby the primary limits are fund availability and administrative capacity. To address these constraints, each of the programs below should apply two principles widely emphasized in the international literature: i) resources should be targeted to poor areas; and ii) schemes should employ self-targeting—“whereby conditions are built into program design such that only the poor choose to participate” (World Bank et. al, 1999, p. 127)—wherever possible. Several options are available within this category.

The first is to expand work-based, self-targeted employment generation schemes, linked to public infrastructure creation. The increased availability of publicly provided employment on infrastructure projects (self-targeted to poor because of low daily wage rates) as a key element of regional development plans could have a significant impact on seasonal rural underemployment. At present a number of agencies and levels of government implement these schemes; scope exists for systematizing their contribution to safety net coverage.
The second possibility is to research and pilot food stamps program. Food stamps are a specific means of reducing both household and, at times, community vulnerabilities, and they have been employed successfully by a number of countries in the region (Howell, 2001). Stamps that can be used as payment for food items are issued to households falling into a specific target group, such as the ‘hungry’ category, or households with nutritionally deficient children; the regional distribution of stamps can similarly reflect the distribution of poverty or malnutrition. The main drawback associated with such schemes is the high administrative capacity associated with identifying eligible households, but capacity may be considered a comparative strength of Vietnam’s administrative apparatus, at least outside mountainous areas.

A third measure is to explore mechanisms to increase household access to (non-subsidized) credit and savings facilities. In doing so it will be important to lessen emphasis on subsidized credit since it “limit(s) the overall reach of the programs and tend(s) to direct credit at more dynamic and better informed households” (ILO, 1999, p. 23). Accessible facilities for the poor to contribute savings are currently lacking in rural areas and could make a positive contribution to reducing vulnerability to shocks (Nguyen and Dao, 2002).

Agricultural and veterinary extension services in poorest areas have been widely piloted in Vietnam, but meaningful assistance to farmers is available in only a small number of better-off communities. This is particularly true in poor provinces with little budget to supplement central transfers for such programs (Fritzen, 2000). Redesigning these extension models to make them appropriate to upland-based household production strategies (including systems appropriate for poor households) is a special priority.

The prospects for actuarially sound voluntary health and social insurance have generated some debate. Some analysts (Nguyen, 1997) are optimistic that coverage can be expanded beyond the current minority (less than 10%) with access to some health insurance; others (UNICEF, 2000) feel coverage will expand too incrementally to play a major role in cushioning socioeconomic shocks over the medium term. The balance of evidence lies with the second group. Few, if any, countries have succeeded in quickly expanding such insurance coverage to a large rural population at Vietnam’s level of socioeconomic development (Ramesh, 2000). Improving the current system of fee exemptions for basic services for the poor will be just as important as formal health insurance in this regard, but is subject to the constraint of high administrative capacity necessary for the identification and issuance of exemptions (World Bank et. al, 2001).

6. Boost administrative and fiscal capacity for safety nets. As noted earlier, the current low coverage of services is related both to low resource availability and to poor administrative capacity. Several steps need to be taken to improve such capacity. Improving information and planning systems is the first one. It is currently impossible to say with an acceptable degree of precision what percent of target groups are being covered by formal social assistance. Improved information systems will also assist in another approach: better program coordination and integration across related sub-
programs, notoriously weak in Vietnam (van Arkadie, 1993). Secondly, Vietnam should build on its incremental decentralization efforts to move towards more flexible, community-based implementation of at least a substantial component of funds allocated for safety nets (Fritzen, 1999 and 2000).

Finally, fiscal reforms should aim at mobilizing from better-off localities a higher share of local revenue for safety net programs, while concentrating central-level transfers onto relatively poor areas. Provinces at present devote on average only 1% of their budget to social protection interventions (ILO, 1999). Boosting this figure in better-off provinces, with better supplementation for the coffers of poorer provinces, is an important component of the approach.

6. ASSESSMENT: THE FEASIBILITY OF REFORM

Three points have dominated the discussion so far. First, international experience as well as the literature suggests that countries shift gradually to more formal safety net systems in line with their economic development. Attempts to rapidly expand formal systems at low income levels will likely founder due to competing budget pressures and low administrative capacity.

Second, despite its historical achievements of its social sectors, Vietnam conforms to this general story. Despite being a low income country, one might have hoped that two factors – its ideological commitment to social development and large increases in real government expenditure enabled by a decade of growth – would have helped it escape from the ‘low formal coverage’ trap in safety nets.

This spending has not been well targeted. Households currently classified as “poor or hungry” (ngheo doi) and those in better-off rural and urban areas lifted just above the poverty line together comprise approximately 40% of the overall population. Much of the increased expenditure on safety nets has been spent on formal entitlement programs that are failing to deliver substantial reductions in vulnerability for this spectrum of the population.

Third, a number of more cost-effective and feasible investment modalities exist to more rapidly reduce vulnerability. These include reorienting expenditure towards programs with greater impact, boosting administrative capacity and encouraging non-state involvement in welfare and social service provision.

What is the feasibility of the reform agenda described above, both for Vietnam and other low income countries? While specific policies to improve social protection will differ across countries, four types of systemic capacities will be important to reform success. Vietnam’s experience can help show how these may constrain reform adoption in a specific country context.

The first capacity is for fiscal reorientation. The reform agenda for Vietnam does not foresee significant increases in fiscal commitments to social protection programs, already moderate within an increasingly tight state budget. But the process of shifting
expenditure away from politically influential groups (such as war veterans and civil service pensioners) towards subgroups that are by definition more socially invisible is a politically risky and painful one. This reform barrier is generic to other contexts, and underlies the slow progress seen to date in the so-called 20/20 initiative (whereby governments and donors pledged to devote at least 20% of their budgets to social programs) since the 1995 World Summit for Social Development in Copenhagen (UNDP et al, 1999).

The second demand is for the state to open to greater civil society involvement in service provision. In Vietnam, the primary barrier to this is ideological. The dominant development discourse in Vietnam is still heavily slanted towards the state as ultimate service provider (Marr, 1994). Ideology will slow reform more in some regions and sectors than others. The role of religious organizations in remote areas, for instance, is highly sensitive, as the internationally reported unrest in the Central Highlands region in 2001 and 2002 proved. In urban areas, where the private sector and associational life are rapidly expanding, more diversification can be expected.

A third requirement for the agenda described above to be implemented concerns greater implementation capacity. The ‘policy-implementation’ gap is indeed wide in Vietnam’s poorest areas, due to insufficient central resource transfers, the absence of any systematic policy of capacity building, and poor socioeconomic infrastructure (Fritzen, 2000). These are exactly the regions that have the greatest demands for enhanced social protection. Improvements to bureaucratic coordination at central and local levels – a classic problem in socialist polities (van Arkadie, 1993) – will be essential. Numerous initiatives are underway to improve the institutional environment for service delivery at local level, such as an incipient decentralization agenda (in theory improving incentives for service delivery) and a ‘grassroots democratization’ initiative (to increase transparency and enforcement of rules underlying minimum standards). Yet these reforms tend to be limited by existing governance arrangements that centralize power and depend on the Communist Party policing its own ranks (Fritzen, 2002). Decentralization reforms much in vogue world-wide as a solution to poor governance performance in fact tax administrative capacity in new ways that have been difficult for countries to handle.

Ultimately, prospects for social protection agenda above are linked to a fourth requirement, which involves a political calculus. Will political benefits outweigh potential political costs? In Vietnam, political benefits would potentially accrue to the national and local leadership, who by adopting the strategy would reaffirm commitment to broadly-based, equitable growth as a defining element of Vietnamese socialism. Costs figure in terms of bureaucratic opposition to reorientation and elite (urban-based) interests supporting a ‘growth-fist’ agenda. In Vietnam, the pattern of economic growth in recent years may be increasing regional and rural-urban inequalities in ways that make it politically more difficult to adopt a broadly based “growth with equity” agenda (Fritzen, 2002).
The constraints will need to be flushed out for each low income country context, and for sub-regions of larger countries as well. But the case of Vietnam suggests that political and bureaucratic barriers to social protection reform will be considerable.
REFERENCES


