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## **Social Protection in the Mekong: policy trends and future directions**

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# Social Protection in the Mekong: policy trends and future directions

## ABSTRACT

The article analyses the current and possible future development of social protection systems in three Mekong countries: Cambodia, Lao PDR and Viet Nam. The three countries are at differing levels of development but face a number of shared challenges including poverty and malnutrition, climate change and food price volatility. Their social protection systems range from an embryonic system in Laos to an 'emerging' system in Viet Nam. Following an overview of the three countries and their social protection systems (drawing on the ADB comparative Social Protection Index), we discuss in detail the social protection system in each country, the impact of that system and the role and impact of development partners. This section also looks at key future developments. Part 3 discusses a number of key challenges facing social protection systems and part 4 concludes with a discussion on the possible future directions in social protection in the region.

## 1. Mekong countries: an overview

### Population and economy

There is a large variation in population between the three countries from Lao PDR with just over 6 million people to Viet Nam with close to 90 million. Viet Nam is the most economically developed of the three and is now categorised by the World Bank as a lower-middle income country as is Lao PDR, whereas Cambodia is categorised as a lower income country. Both Cambodia and Lao PDR are categorised by the UN as amongst the 'Least Developed Countries' i.e. countries suffering from structural handicaps to economic development such as low income, low levels of human resources or capital, and high levels of structural economic vulnerability. Table 1 sets out some basic economic and demographic facts about the three countries.

**Table 1: Economic and demographic data**

Country	Population (2010, million)	GNI per capita (2012, \$)	World Bank categorisation	Population below international poverty line of US\$1.25 per day (%)
Cambodia	14.4	880	Low income	23
Lao PDR	6.4	1,260	Lower-middle income	34
Viet Nam	89.0	1,400	Lower-middle income	17

Source: United Nations, World Bank.

Cambodia and Lao PDR are heavily reliant on agriculture which makes up about one-third of economic output, whereas it accounts for just over 20% of Viet Nam's output. However, a

high proportion of the labour force in all three countries is still employed in agriculture (from about half in Viet Nam to three-quarters in Lao PDR) while the majority of the population lives in rural areas (from about two-thirds in Lao PDR and Viet Nam to 80% in Cambodia). On the one hand, countries dependent on agriculture are exposed to risks such as climate-related risks and food price shocks. On the other hand, it is more difficult to scale up social protection measures to address such shocks as the large informal sector associated with agriculture in these countries makes it difficult to rely on traditional social insurance approaches.

Each of the three countries currently have a quite young population. The proportion of the population over 60 is 5% (Cambodia), 4% (Lao PDR) and 7% (Viet Nam). Conversely, in Cambodia (31%) and Lao PDR (36%) about one third of the population is 14 or under while in Viet Nam this is a quarter (23%).

### Social protection

In terms of government-provided social protection systems, by any account both Cambodia and Lao PDR have very limited systems.<sup>1</sup> The recently updated Social Protection Index 2013 (ADB, 2013a) indicates that Cambodia and Lao PDR score lower in terms of the social protection index (SPI)<sup>2</sup> developed by the ADB than any other Asia-Pacific country except Papua New Guinea (see table 2 and Figures 1 and 2).<sup>3</sup> In terms of expenditure as a percentage of GDP, both countries also rank very low with expenditure lower than all other countries except Papua New Guinea and Vanuatu.

**Table 2: Social protection index and social protection expenditure as % of GDP (2009)**

Country	SPI	SP expenditure as % of GDP
Cambodia	0.020	1.0
Lao PDR	0.026	0.9
Viet Nam	0.137	4.7

Viet Nam has a more developed social protection system, ranking close to China on the SPI and above other ASEAN countries such as Thailand, Indonesia and the Philippines. However, much of Viet Nam's social protection spending is focussed on social insurance schemes for those in formal employment and a number of studies have shown that the overall impact of

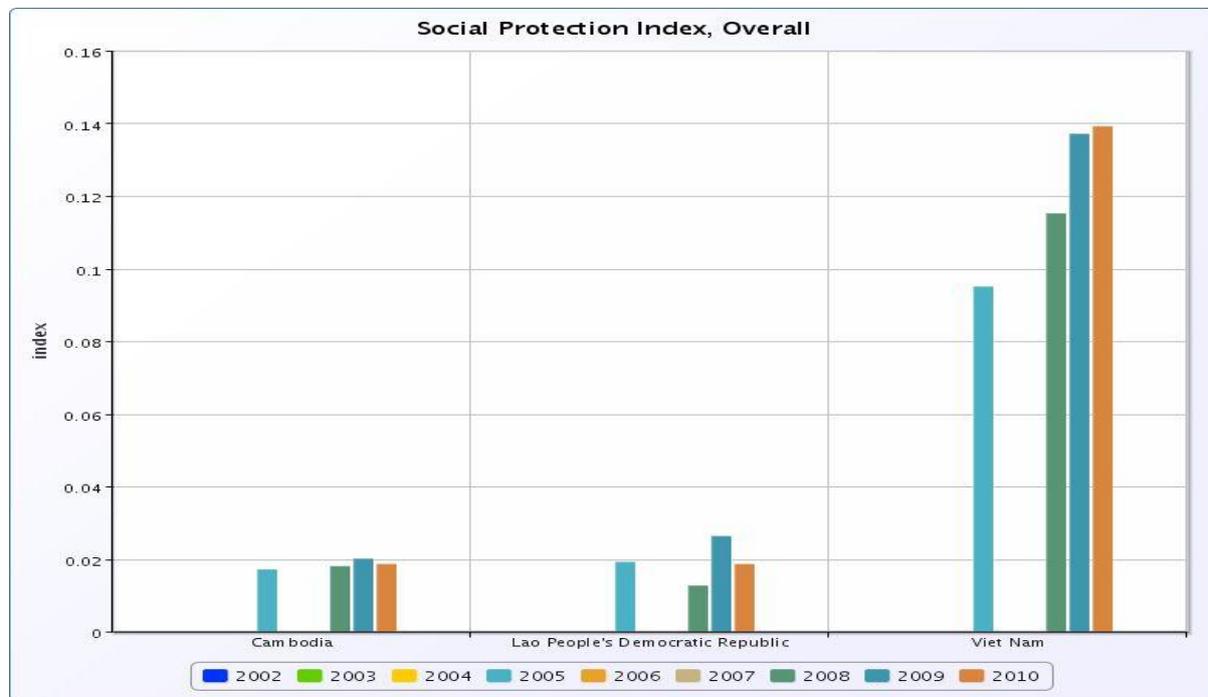
<sup>1</sup> For a recent discussion of social protection in Southeast Asia, see the special policy focus of the Journal of Southeast Asian Economies Volume 31, Number 1, April 2014 on 'Building Social Protection Systems in Southeast Asia' edited by Jonathan Pincus.

<sup>2</sup> On the construction of the SPI, see ABD (2013a, p. 6 et seq.).

<sup>3</sup> The ADB defines social protection as including 'policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income'. Thus, it includes some expenditure on labour market programs but this does not greatly affect the index for the three countries as expenditure on such policies is very small (see ADB, 2013a, p. xx).

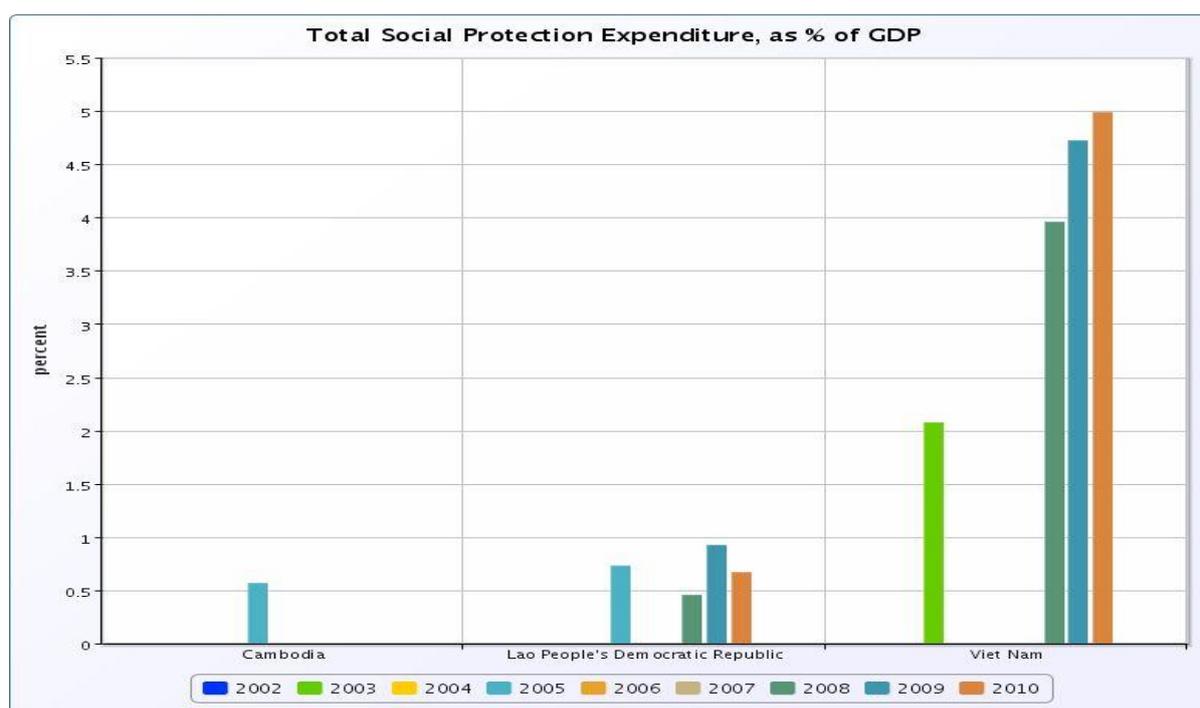
social protection expenditure is regressive, i.e. it does not target the least well off (Evans et al., 2007; Gao et al., 2013). Thus in terms of Gentilini and Omamo's (2011) models of social protection, Cambodia and Lao PDR would be categorised as 'limited' while Viet Nam might be categorised as 'emerging'.<sup>4</sup>

**Figure 1: Social Protection Index**



<sup>4</sup> 'Emerging' countries are 'those where social protection has begun to be institutionalised' whereas countries with 'limited' systems include countries with 'high needs (poverty, food insecurity and/or malnutrition rates) combined with limited fiscal space and redistribution capacity' (Gentilini and Omamo, 2011, 335-6).

**Figure 2: Total social protection expenditure as % of GDP**



Source: ADB, 2013.

## 2. Country studies

### Cambodia

#### Context

Cambodia's recent economic growth has been impressive, with medium term growth forecasts of over 7% (IMF, 2013a; ADB, 2013b; OECD, 2013b). However, the International Monetary Fund (IMF) highlights that this forecast is subject to considerable risks including global economic uncertainty and domestic factors such as labour market instabilities, and climate risks. The level of reliance of the economy on the garment industry is also a particular risk. Should risks materialise, the IMF suggests that the policy space to cushion the impact of risks would be limited due, in part, to the high level of dollarization which constrains effective monetary policy. The OECD (2013) identifies increasing enrolment at all levels of education (particularly secondary and tertiary) and ensuring a better return to education as a critical policy challenge while the ADB (2013b) identifies the high incidence of child malnutrition as a critical development challenge.

Overall the poverty headcount in Cambodia has fallen significantly from 47.8% of the population in 2007 to 19.8% in 2011 (national poverty line) (World Bank, 2013). The most recent detailed data (2009) indicates that poverty in rural areas is very significantly higher than in Phnom Penh (90% of the poor live in rural areas), with other urban areas falling

between the two. The poverty headcount is highest in Northern and North-Eastern provinces (MoP, 2009) but due to population density the incidence of poverty is higher in and around the Tonle Sap/Mekong basin. There are significant numbers of people who are at risk of falling back into poverty. The most recent assessment shows that the fall in poverty is due to the fact that many of the poor—who were just below the poverty line in 2004—were able to move just above the poverty line in 2011 (World Bank, 2013). However, a small shock of US\$0.30 per day would cause Cambodia's poverty rate to double. This level of vulnerability is emphasised by a study of nine rural villages which showed that, although the poverty headcount fell overall in the period from 2001 to 2008, 44% of households moved in and out of poverty during this period (CDRI, 2012).

There have been a number of studies of the impact of the global economic/financial crisis of 2008-09 on the region (ASEAN, 2012a) and in Cambodia (ASEAN, 2012b; World Bank, 2011). These indicate the impact of the global crisis on Cambodia due to factors such as a fall in Foreign Direct Investment (FDI), fall in tourism and decline in exports (such as garments). In general, social protection measures did not form a major part of the Royal Government of Cambodia's (RGC) response to the crisis, although a number of DPs introduced or strengthened social protection measures (such as food assistance) in response to the crisis (including the establishment of the World Bank-DAFT Trust Fund for Smallholder Agriculture and Social Protection). ASEAN (2012a and b) and the World Bank (2011) argue that the crisis indicates the need for strengthened social protection measures to provide protection in the (likely) event of future crises.

### **Social protection and development partner activity**

Although the right to social protection is reflected in the Cambodian constitution, Cambodia has a very limited government-funded social protection system (Tech, 2012). The state system includes social insurance programs for certain public servants (civil servants, military, police, and their dependents) and a social insurance scheme (currently limited to work injuries) for private sector workers, currently mainly textile workers.

However, RGC – with the support of DPs – has developed and agreed a National Social Protection Strategy (NSPS). The NSPS is based on three main approaches:

- Protecting the poorest and most disadvantaged who cannot help themselves through the social services;
- Preventing the impact of risks that could lead to negative coping strategies and further impoverishment; and
- Promoting the poor to move out of poverty by building human capital (education, health, and livelihood support) and expanding opportunities.

However, progress on implementation of the NSPS has been slower than expected. The agency responsible for co-ordination of the Strategy (Council for Agriculture and Rural Development (CARD) is not an implementing agency and has limited authority over line Ministries; and line Ministries have limited knowledge and capacity on social protection issues. In addition, there is some uncertainty about the extent to which RGC is prepared to match its rhetorical commitment by investing resources in social protection.

As noted above in figure 2, the RGC does not (at least in financial terms) prioritise social protection measures with respect to overall government expenditures. In the past, social protection tended to develop in a somewhat ad hoc manner in response to particular pressures. However, the establishment of the NSPS creates the possibility of a more structured approach to the development of policies. Given the very limited development of state social protection, there are a range of gaps in social protection coverage. However, at this stage in the development of the Cambodian social protection system, the key issue is to identify the priority areas for investment.

There is considerable DP activity in this area:

- World Food Program (WFP) is involved in the provision of school feeding, school, scholarships and food-for-work/assets programs (funded by DAFT);
- The World Bank and DAFT are involved in the development of a cash transfer pilot for maternal and child nutrition;
- GIZ has developed a targeting mechanism (IDPoor) which is used, for example, to identify recipients of health equity funds, and which appears to work well, according to an accuracy assessment conducted by the World Bank (Ministry of Planning and World Bank, 2012);
- The International Labour Organisation (ILO) has undertaken a social protection expenditure review and a financial assessment of the National Social Protection Strategy (ILO, 2012a and b);
- ILO is also supporting the implementation of the NSPS through the establishment of a Single Window Service of social protection and employment services;
- UNICEF is involved in policy development in a range of areas involving social protection including commissioning innovative studies of the rate-of-return of social protection expenditure (Mideros et al., 2012);
- UNDP is involved in developing a structure for monitoring and evaluation of the implementation of the NSPS;
- ADB adopted an emergency food assistance project in 2008 in response to the global crisis and this has been continued; and
- DAFT (in conjunction with other DPs) has funded health equity funds to ensure access for the poorest to health care.

DPs have played a significant role in raising the importance of social protection as a policy issue in Cambodia and, in particular, in supporting the development of the NSPS. The DPs have formed a Social Protection Core Group (including DAFT, ADB, GIZ, UNDP, UNICEF, WFP, ILO, and World Bank) which works with CARD on the implementation of the NSPS. However, there is a degree of fragmentation in donor activity so that the activities listed above do not add to up to a cohesive whole.

### **Impact of social protection measures and development partner engagement**

Given the very limited nature of state-provided social protection in Cambodia, while there appear to be no formal evaluations, it can be inferred that economic and social impact must

be somewhat limited. In terms of DP-funded social protection measures, a number of studies do show positive outcomes for particular measures. An evaluation of the WFP school meals program found that it increased school enrolment, school attendance and completed education (Cheung and Perrotta, 2011).<sup>5</sup> Similarly an evaluation by Nielsen et al. (2010) identified a significant effect on enrolment, with a stronger effect on girls' enrolment; reduced drop-out; and a nutrition effects on girls with participating girls approximately one kg heavier than those not involved.

There have also been a number of positive evaluations of the health equity funds. A recent review of the literature (Annear, 2010) found that:

- Targeting of the poor by HEFs is accurate and cost-effective;
- Coverage of the poor is extensive but not complete; and
- Health equity funds:
  - provide access to public health facilities for the poor;
  - are an effective form of financial protection for health;
  - reduce financial barriers to access;
  - increase utilisation of public health services, especially by the poor; and
  - correct the underutilisation of facilities.

The impact of DP engagement in Cambodia can be assessed at two levels: (i) at the overall policy level of the development of social protection; and (ii) in relation to the more specific policy measures which they support. As noted above, in those areas which have been formally evaluated there is strong evidence that measures supported by DPs have had a positive social impact. In addition, in specific areas, DPs have been successful in engaging line Ministries and in winning a commitment from the Royal Government of Cambodia (RGC) to take over responsibility for implementation and funding of specific measures. In relation to the health equity funds, for example, the RGC now funds 40% of the cost and there is an agreement that this percentage will continue to rise in coming years. In the area of school meals, WFP has also signed an agreement with the Ministry for Education to take over responsibility for the program and this is being piloted in two provinces. Similarly, in the case of IDPoor, the RGC will meet 60% of the costs by 2014 and this is planned to increase to 100%.

### **Future developments**

Given the recent agreement of the NSPS, the focus of social protection work in Cambodia is on:

- i) strengthening the implementation process of the NSPS and embedding it in the RGC agencies;

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<sup>5</sup> See also Filmer and Schady (2006) who found positive outcomes from an earlier scholarship program focussed on improving school attainment of girls.

- ii) implementing key measures agreed as part of the NSPS process, such as the cash transfer (CT) payment being developed by the World Bank, DAFT and other DP in conjunction with CARD; and
- iii) strengthening and expanding (where relevant) existing measures which have been shown to work and planning for their long-term hand-over to the RGC.

Arising from a recent, Mid-Term Review (MTR) of the NSPS, CARD plans to develop a costed work plan for implementation of the Strategy which could provide an opportunity to address some of the weaknesses in implementation. The conditions of success for this include a greater level of commitment from the RGC both at policy and budget level, additional financial investment by DPs, renewed coordination by the DPs combined with a greater focus on working with line agencies, and a strategic review of where investments are likely to be most successful.

## **Lao PDR**

### **Context**

The Lao PDR economy has seen strong growth (7-8%) and further solid growth (8%) is predicted (IMF, 2012; ADB, 2013). Nonetheless there are significant risks to the economy including the economic slowdown in China and climate-related risks.

Although the poverty headcount at the national poverty line has fallen from 33.5% in 2002-3 to 27.6% in 2007-8 (most recent data) and probably further in subsequent years, poverty at the international poverty line (\$1.25 per day) remains the highest of the three countries and significant groups of people remain at risk of poverty. Urban areas and districts along the Thai border have experienced rapid growth and poverty reduction, but other groups continue to lag behind. The Northern part of the country remains poorer than the Southern and central regions. Upland areas and priority districts are poorer than lowland and non-priority districts, and poverty reduction in these areas has been relatively slow. Poverty rates vary according to ethnicity, with the Lao-Tai displaying lower poverty incidence. The Mon-Khmer, in contrast, have a poverty incidence more than two and a half times the rate of the Lao-Tai.

Studies indicate that the global crisis had a more limited impact on Lao PDR than on other countries in the region (ASEAN, 2012c). Accordingly the GoL did not adopt any substantial stimulus measures or social protection measures. ASEAN argue that, given the existing high level of vulnerability to climate risk and the likelihood that exposure to economic risk will increase with increased integration into the world economy, there is a need for the GoL to address gaps in its existing safety net.

### **Social protection and development partner activity**

The state social protection system in Lao PDR is very limited (Phetsiriseng, 2012). Less than 10% of the population is employed in the formal economy and eligible for social insurance coverage. Currently, social insurance schemes cover the majority of the formally employed workers through two schemes - the social insurance scheme for the public sector, covering the civil servants, military and police; and a social insurance scheme for the private sector, covering private sector workers employed in enterprises with 10 or more employees.

There are a significant number of DPs involved in social protection in a very broad sense (including health) but there are only a small number of initiatives involving cash or in-kind transfers (e.g. WFP school meals and disaster relief, World Bank conditional cash transfer re nutrition) and these are all pilot projects. DPs have not had any structured arrangement to meet and co-ordinate activities of social protection (unlike the other two Mekong countries). DAFT has recently approved a major rural development program – Laos Australia Rural Livelihoods Program (LARLP) – which has a component that supports two social protection schemes: (1) a poverty-targeted cash and asset transfer scheme towards resilient livelihoods and (2) a universal old age pension through the senior citizen’s allowance). In the Lao PDR context, this is a significant development. WFP and DAFT are also involved in supporting and funding school meals programs.

One important ongoing initiative is the ILO-led assessment based national dialogue on the National Social Protection Floor (SPF).<sup>6</sup> The GoL has made commitments to the SPF but still needs to develop a full understanding of the fiscal policy impact of adopting and implementing the universal guarantees under the SPF. The ILO initiative involves an intensive period of consultation with the GoL and development partners on social protection in Lao PDR. Given the limited level of government capacity and technical assistance needed to introduce new social protection initiatives, there will be a period of capacity-building followed by a discussion of the policy options and budget implications. After decisions on policy preferences, ILO will carry out an assessment of costs and fiscal space. This process should help to build better understanding of social protection and to build government capacity. It should also help to create an environment in which government is more likely to take a positive approach to succession planning for the DAFT social protection program (LARLP).

### **Impact of social protection measures and development partner engagement**

Given the very limited nature of state-provided social protection in Lao PDR, its overall economic and social impact is limited, although there do not appear to be any formal evaluations. There are few published evaluations of the limited pilot projects which have taken place in Lao PDR. In an evaluation of school feeding projects in two Northern provinces, Buitendijk et al. (2011) found that very little conclusive evidence that school feeding affected enrolment or nutritional status in this population. They suggest that this has been due to poor targeting of the interventions. As in Cambodia, the GoL does not prioritise social protection measures with respect to overall government expenditures. Social protection has tended to develop in a somewhat ad hoc manner in response to particular pressures. Given the very limited development of state social protection, there are a range of gaps in social protection coverage.

Development partner engagement on social protection in Lao PDR has been very limited to date. As noted above, this may change with the ongoing assessment based national

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<sup>6</sup> The Social Protection Floor is a concept developed by ILO. A social protection floor is a nationally defined set of basic social security guarantees that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level. See Schmitt and Chadwick (2014) for a discussion of the experience in the region.

dialogue on the Social Protection Floor. However, it is as yet difficult to predict the outcome of this process.

### **Future developments**

The two main activities in this field are (i) the assessment based national dialogue on the Social Protection Floor and (ii) the new LARLP program. While the GoL has supported the concept of the SPF, there is a tendency by GoL to commit to the adoption of significant social projects aiming at poverty reduction without an assessment of the budget implications involved with the result that these are not implemented (or only partially implemented) beyond donors' support. Thus the likely policy outcome of the SPF assessment process is unclear. A key success factor of the LARLP will be whether the program is effective at obtaining GoL buy-in and positively influences future policy on social protection.

## **Viet Nam**

### **Context**

The Vietnamese economy has grown significantly in recent decades although the rate of growth fell to 5% in 2012. Significant, if lower, levels of growth are predicted in the medium term (5-6% p.a.). Risks to growth include weaknesses in the banking sector, an overreliance on State Owned Enterprises (SOEs) and climate risks (see ADB, 2013; IMF, 2013b and OECD, 2013c).

Poverty (under the national poverty line) has fallen steadily from 18.1% in 2004 to 10.7% in 2010 (ILSSA, 2012).<sup>7</sup> Using the international poverty line (\$1.25 per day), poverty in Viet Nam is lower than in either of the other two countries (17%). However, research shows that poverty varies significantly by region and by ethnicity. Poverty rates are highest in the mountainous Northern areas and central highlands and lowest in the Mekong and Red River Deltas (Lanjouw et al., 2013). However, because of their large populations, the Mekong and Red River Delta regions still account for a significant number of the poor. Despite ongoing urbanization, poverty in Viet Nam is still largely a rural phenomenon: 95% of the poor live in rural areas and the urban poverty rate is generally low (World Bank, 2012). Poverty is markedly higher amongst ethnic minorities than Kinh and Hoa households.<sup>8</sup> Even within the same region, there remains a large gap in poverty between ethnic minority households and Kinh/Hoa households. In addition, despite the overall fall in poverty, the World Bank (2012, 1-2) highlights the fact that

many [households] have incomes very near the poverty line and remain vulnerable to falling back into poverty as a result of idiosyncratic shocks, (such as job loss, accidents, or death or illness of a household member), or related economy-wide

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<sup>7</sup> For a detailed analysis of the latest poverty data see World Bank (2012). In 2010, this data indicates that 20.7% of the population lived in poverty and 8% percent lived in extreme poverty.

<sup>8</sup> The Kinh (the Việt or mainstream Vietnamese) account for 87% of the population. The Hoa are ethnic Chinese.

shocks, (such as the effects of climate change on rainfall and temperatures, human and animal influenza pandemics, and impacts of the 2008–09 global financial crisis).

Given its reliance on exports, the global crisis of 2008-09 had a significant impact on Viet Nam due to a fall in demand, a reduction in tourism, and a reduction in FDI (ASEAN, 2012d). The Government of Viet Nam (GoV) launched a stimulus package of about 8% of GDP with social protection expenditure accounting for 16% of the total. This included (i) a once-off targeted cash transfer at Tet (New Year) to poor households; (ii) a new targeted program to 61 poorest districts (with a poverty rate over 50%); and (iii) a program providing housing support to about half a million poor rural households on the poverty list. However, research indicates that the main largely geographically-targeted anti-poverty programs did not act as an expanded safety net in response to the crisis and that, for example, migrant workers who lost employment and returned to their home area received little support due to the territorial focus of existing social assistance schemes (ASEAN, 2012d, 14). In addition, research indicates that the crisis had little if any impact on social protection policy formulation (Bender and Rompel, 2010). ASEAN (2012d) argues that the social safety net needs to be reformed so as to be more responsive to future shocks.

### **Social protection system and development partner activity**

As shown by the Social Protection Index, Viet Nam has a significantly more advanced system of social protection than the other two countries (Taun, 2012). Viet Nam has a developed social insurance system which provides a wide range of protection to workers in the formal sector. However, due to the extensive informal sector and difficulties of implementation, the social insurance scheme covers only about 20% of the total labour force.

Unlike Cambodia and Lao PDR, Viet Nam has a reasonably well developed pensions scheme (World Bank, 2012). This is a defined benefit (DB) scheme and operates on a PAYG basis. It covers about 20% of the working age population with about 10% of the older population (over 60) receiving pensions. Although the scheme has significant assets (5% of GDP in 2010), it faces a number of challenges including low coverage rates and inequities between different groups (e.g. public servants receive preferential treatment). In the longer-term, the ageing of the population – which will mean that, like China, Viet Nam gets old before it gets rich – will pose challenges to the financial stability of the system (World Bank, 2012; ILO, 2013). The GoV have moved to address a number of these challenges based on the Party Resolution on social security of 2012. This, inter alia, sets a target of increasing coverage to 50% by 2020. Achieving this target will involve addressing issues such as the high level of informal working, extensive use of short-term contracts (not covered by pension insurance) and evasion.

Viet Nam also has a scheme of unemployment insurance, introduced in 2009 with the support of the ILO, which covers about 15% of the labour force. A revised Employment Law (adopted in 2013) provides for the expansion of the UI scheme to employers with less than 10 employees.

Viet Nam has an extensive range of social assistance payments, operated by a number of different Ministries but mainly the Ministry of Labor, Invalids and Social Affairs (MOLISA). This leads to a highly fragmented system. The World Bank has estimated that in one province alone there are about 15 different social assistance schemes. There are also

difficulties in targeting and administration of social assistance. Targeting is based on poor lists identified at village level but these may not be well focussed and inefficiencies are believed to exist (e.g. Evans et al., 2012). There is no Management Information System (MIS) and payment of benefits is also subject to inefficiencies and possible maladministration.

Finally, Viet Nam has set up a number of specific anti-poverty programs such as P-135 (Indochina Research and Consulting, 2012) and the National Targeted Program for Poverty Reduction (NTP-PR) (Jones and Thi Van Anh, 2010). NTP-PR is a national program with twelve sub-components covering a variety of areas that are implemented by different ministries and public agencies and that fall into the following three categories (i) policies and projects facilitating production development and increased income for poor people; (ii) policies facilitating poor people's access to social services; and (iii) projects on capacity building and increasing awareness.

The Communist Party of Viet Nam has recently agreed an important policy resolution (PR 15) on social protection (this was originally intended to be a Government strategy but its adoption as a Party Resolution is seen as enhancing its importance). This, inter alia, calls for a modernisation of social protection service delivery and a reduction in fragmentation

There are a number of agencies involved in social protection (in the sense of cash transfers) including WB, GIZ (which is based within MOLISA), UNDP and UNICEF, while ILO has carried out a Social Protection Floor assessment (Bonnet et al. 2012) and is also involved in pension policy issues and the development of unemployment insurance. The DPs meet on a regular basis as a social protection working group and MOLISA is working with the DPs to identify the respective roles which they can play in the implementation of PR 15 on social protection. There is a broadly shared vision amongst development partners and Government of a way forward in relation to social assistance including development of MIS, better targeting, consolidation of programs and improved service delivery.

However, Viet Nam's overall development success is leading to a change in the relationship with its key DPs. While the main multilateral agencies (World Bank and ADB) are planning to maintain a significant lending portfolio in Viet Nam (albeit at less concessional rates), bilateral development partners are gradually changing their approach. Development assistance is increasingly focussing on agendas where progress has been more limited (e.g. governance). Several long-standing development agencies (e.g. UK DFID) have announced that they will phase out development assistance and focus bilateral relations on economic and political matters.

## **Impact of social protection measures and development partner engagement**

Studies indicate that the impact of social insurance payments is regressive, i.e. they do not go to the least well off (Evans et al., 2007; Gao et al., 2013). In fact almost 40% of all social security spending goes to the richest quintile of the population (Evans et al., 2007).<sup>9</sup> Studies also indicate that the impact of public transfers on poverty was “negligible due to low coverage of the poor and relatively low amounts transferred to the poor” (Nguyen and Van der Berg, 2011).

DPs, in particular, the World Bank, GIZ, the ILO, UNICEF and others, have played an important role in supporting the GoV in the development of its social protection policies. For example, concerns identified by the WB about the fragmentation of social assistance policies are reflected in the PR 15 while the Bank and ILO are working with MOLISA to support reforms in pensions policy. However, the size and relative wealth of Viet Nam means that GoV capacity (financial and human) is relatively high and that DPs have to adopt a flexible approach if they wish to influence government (Cling et al., 2009).

## **Future developments**

In terms of financial sustainability of the pension system, Viet Nam seems most likely to opt for parametric reforms with, for example, adjustments to the pension formula and, in the longer-term, an increase in pension age. A draft Social Insurance Law, currently being discussed by the National Assembly, proposes to revise the pension formula to lower the replacement rate and to increase retirement age for State employees by 4 months each year from 2016 until it reaches 60 years for women and 62 years for men, with increases for private sector workers from 2020. Most recently (May 2014), an initial report from the National Assembly in response to the law broadly accepts the replacement rate revision but proposes to raise retirement age only for ‘high-skilled and management workers and some other special cases. In any case, strengthening of the capacity of the implementing agencies, in particular Viet Nam Social Security (VSS) will be required both in terms of IT capacity but also in areas such as investment management.

In terms of social assistance, a key priority for the GoV will be the implementation of the priorities set out in PR 15. Linked to this, the WB has negotiated a Social Assistance Program (SASSP) with MOLISA which is intended to commence in 2014. The aim of the program is to address (i) the fragmentation of existing programs which gives rise both to overlapping and coverage gaps; and (ii) inadequate delivery mechanisms (including the lack of a unified database and MIS. The objective of the program is to support the GoV in building a modern management and delivery system for social assistance that is effective in reducing poverty. The SASSP will support the implementation of PR 15 by (i) developing solutions for system modernisation and consolidation of programs; and (ii) piloting these through a new social assistance cash transfer program for poor households with children (0-15 years) in three provinces. This new payment will replace a number of existing schemes. It aims to help parents make better health, nutrition and education decisions for their children that will reduce the risk of future poverty by (i) providing cash to parents; (ii) setting and monitoring co-responsibilities around health and education; and (iii) supporting parents

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<sup>9</sup> This is not surprising as by definition social insurance schemes initially tend to cover those in formal employment.

through a network of ‘social collaborators’ who will visit households and provide advice. The program is planned to involve funding of up to \$60 million and will be implemented over the period 2014-17.

## **4. Challenges**

### **Poverty and malnutrition**

In all three countries, poverty remains a significant challenge. Although poverty levels in Cambodia have fallen, a large proportion of the population is vulnerable to falling back into poverty due to economic and climate shocks. As highlighted in recent studies, Cambodia remains vulnerable to such shocks and the limits on monetary policy mean that fiscal policy (including social protection measures) forms a key policy response. More specifically, in a number of areas Cambodia faces particular development challenges – such as child malnutrition – which can be addressed by social protection measures. Over 40% of children under five are stunted and Cambodia performs worse than other countries from the same region and income group.<sup>10</sup> A recent study highlights the impact of stunting on educational attainment and shows that effects associated with stunting at the age of five meant that children were nearly 20% less likely to be able to read a simple sentence and nearly 13% less likely to be able to write a simple sentence (Save the Children, 2013). This research indicates the value in terms of economic development and, in particular, economic participation by the poor and vulnerable of addressing malnutrition.

There is also a very high level of need in Lao PDR. Poverty (on the basis of the international poverty line of \$1.25 per day) is much higher than in Cambodia or Viet Nam (34%). While the poverty head count (on the basis of the national poverty line) has fallen, large numbers of people are relatively close to the poverty line and at risk of falling back into poverty. The Lao Statistics Bureau (2009) has estimated that increasing the poverty line by 10% would increase the poverty headcount rate by 25%. Child malnutrition is a particular issue with 47% of children under five suffering from stunting.

As noted above, while poverty rates are relatively low in Viet Nam compared to other Mekong countries, the overall standards of living are low and large groups of people are clustered just above the current poverty line and, therefore, at risk of moving into poverty. In addition, 30.5% of children aged 0-5 are stunted. Thus there is a clear need for a consolidated and modernised social safety net along the lines of the project agreed between the World Bank and MOLISA.

### **Climate change**

The three countries are vulnerable to economic shocks and, in particular, to climate change. All three are ranked low on the GAIN climate change index (Viet Nam at 109, Cambodia at 140 and Lao PDR at 142 out of 176 countries ranked) due to high vulnerability and low

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<sup>10</sup> Malnutrition is not just a problem of poverty but although almost 18% of children in the upper quintile are stunted, this percentage is 2.6 times higher for the bottom quintile (47.9%).

readiness scores.<sup>11</sup> The Global Climate Risk Index 2013 indicates that Cambodia and Lao PDR were amongst the ten countries most affected by climate change in 2011, while Viet Nam was amongst the top ten countries most affected over the period from 1992-2011 (Harmeling and Eckstein, 2012). In Viet Nam, the Institute of Labour Science and Social Affairs estimates that climate risks and other natural hazards result in annual economic losses equivalent to 1-1.5% of GDP.

While climate change is, of course, a much broader issue, the concept of 'adaptive social protection' is relevant to addressing issues of climate change. This concept integrates social protection, disaster risk reduction and climate change adaptation (Jones et al., 2010; Davies et al., 2009; Davies et al., 2013). Davies (2009, 211-12) identifies a number of characterising features of adaptive social protection including:

- An emphasis on transforming productive livelihoods as well as protecting, and adapting to changing climate conditions rather than simply reinforcing coping mechanisms;
- Grounding in an understanding of the structural root causes of poverty for particular people, permitting more effective targeting of vulnerability to multiple shocks and stresses;
- Incorporation of rights-based rationale for action, stressing equity and justice dimensions of chronic poverty and climate change adaptation in addition to instrumentalist rationale based primarily on economic efficiency;
- An enhanced role for research from both the natural and social sciences to inform the development and targeting of social protection policies and measures in the context of the burden of both geophysical hazards and changing climate-related hazards; and
- A longer term perspective for social protection policies that takes into account the changing nature of shocks and stresses.

Second, there are specific tools (which could fall within the definition of social protection) which could be utilised to reduce climate risk, such as agricultural index-based insurance and micro-insurance contracts against the loss of the harvest or animals which can play an important role in economies heavily reliant on agriculture as in the Mekong (Cai et al., 2009; De Bock and Gelade, 2012).

### **Food price volatility**

The 2007 and 2008 food price spikes adversely affected the Mekong countries. Rice accounted for about 61% of total value of agricultural products in Cambodia in 2008, 47% in the Lao People's Democratic Republic, and 44% in Viet Nam (FAOSTAT). The fluctuating price of rice increased food prices in these countries which contributed to an increase in inflation. Inflation rates in Viet Nam were 12.6% in 2007 (or about 1% per month) and 25% in 2008 (or about 2.1% per month). In 2007, the price of staple foods (primarily rice) increased 14.5%, while the price of food, generally, increased 19.5%.

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<sup>11</sup> See <http://index.gain.org/ranking>

Poor people are vulnerable to volatile prices because they spend a substantial amount of their income on purchased food: Food expenditure accounts for almost 53% of total household expenditure in Viet Nam and 64% in Cambodia. Vu and Glewwe (2009) show that price increases of 50% or more raise the poverty incidence by about 3 percentage points in Viet Nam. Ivanic and Martin (2008) similarly estimated that a 50% rise in rice price in Cambodia translates into a poverty incidence that increases by 2.5 percentage points, equivalent to 400,000 more poor people in the country. Lao PDR has similar food consumption structures and habits as Cambodia and Viet Nam and so a similar impact could be predicted there.

Increases in food prices raise the real incomes of those selling food but reduce the welfare of net food purchasers. Poor government policy and coordination reduced the benefits of high food prices (see IFAD 2011), by creating higher input costs. Ultimately, a majority of the population were worse off with increased food prices. While Cambodia arguably had the best response in terms of safety nets with a school feeding program and food for work, its emergency program comprised of short terms projects that were reactive, slow to identify target groups and missed the critical period, reducing the effectiveness of the response. Rural people relied on various coping strategies, which in some cases pushed them into a debt burden and poverty trap. Safety nets could have been more effective if a program of assistance and a database was already in place. Programs that were effective in Cambodia included: the WFP breakfast program; the targeting mechanism IDPoor supported by GIZ; and the ADB's Emergency Food Assistance Project.

The conclusion from a study (IFAD, 2011) of policy responses to the food price crisis in four Mekong countries (the three discussed here and Thailand) was that:

The most direct measure ever to help poor and vulnerable groups during food price hikes is by direct support – through either a targeted food/rice subsidy programme or temporary cash and/or conditional cash transfers such as the food-for-work and school meal programmes. This secures their daily subsistence during food crises and protects them from further welfare deterioration... . These programmes are typically a cost-effective use of limited government funds, as it is cheaper to prevent people falling into poverty than to lift them out of it afterwards.

A World Bank review of safety net readiness covering 13 vulnerable countries (which included Indonesia but none of the Mekong countries) assessed readiness to respond to food price volatility based on the following criteria: the presence of safety net programs, program coverage, administrative capacity, and to a lesser degree, targeting effectiveness (Grosh et al., 2011). The study found that while a number of countries are more prepared than they were in 2008, there is still a significant medium term agenda on safety net preparedness in the face of crisis. In this context, the study called for continued investment and a scale up of safety nets to mitigate poverty impacts and help prevent long term setbacks in nutrition and poverty.

To take another example, it has recently been argued that social protection transfers can provide a more efficient and effective response to food price crises than trade restrictions, drawing on evidence from the 2008 world food price crisis (Anderson et al., 2013). A separate study, based on the experience in Indonesia during the 2008 food price crisis, suggests that cash transfer programs may be even more effective during crises to protect the consumption of many essential micro-nutrients compared with non-crisis periods but in

order to ensure that all micro-nutrients are consumed, specific nutritional supplementation programs are also likely to be required (Skoufias et al., 2011). Thus, once priority areas for the strategies have been identified there may be further possibilities to use social protection instruments to achieve the desired objectives.

## Migration

There is considerable internal migration *within* the three countries considered here.<sup>12</sup> In addition, there is migration *between* these countries, although migration is also to neighbouring countries such as China and Thailand. In terms of internal migration, this is an issue for national systems of social protection and, as we have seen, ASEAN has argued that safety nets should not discriminate against returning migrants so as to provide better protection against economic or other shocks. In terms of external migration (between the three countries), it might be argued that there is a need for some form of co-ordination between the social protection systems of the three countries.<sup>13</sup> There is little evidence that barriers to social protection act as a major inhibitor of migration given otherwise favourable economic conditions;<sup>14</sup> and there is in any case very little to co-ordinate given the very limited social protection systems in Cambodia and Lao PDR. It would seem likely that this issue needs to be addressed in a broader ASEAN context and that a higher priority in terms of migration would be issues such as skills recognition, rights and protection of migrant workers; and access to education and health care (ADB and IOM, 2013).<sup>15</sup>

## 5. Conclusion

It is clear that social protection can play an important role in addressing these challenges. There has been an increasing recognition in recent years – both in the academic community and amongst key international agencies – of the importance of investing in social protection in developing countries, both from a social and economic perspective (see, for example, Barrientos and Hulme, 2008; Gentilini, 2009; Handayani, 2010; Gentilini and Omamo, 2011; Barrientos, 2012a; Alderman and Yemtsov, 2013). In a review of the literature Gentilini and Omamo (2011, 332) identify that social protection can promote economic growth in three core ways:

- i) by supporting the *accumulation of human capital*, e.g. by direct investment in nutrition;

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<sup>12</sup> See Hall (2012); ADB and IOM (2013) and Pasadilla and Abella (2012) for a discussion and some estimates of migrant numbers.

<sup>13</sup> For proposals concerning ASEAN as a whole, see (Pasadilla and Abella, 2012)

<sup>14</sup> See, for example, China where a social protection system which is very unsupportive of migration has not prevented massive internal migration.

<sup>15</sup> It is important to note that both Cambodia and Lao share significant outward economic migration to Thailand, where safe migration efforts do need to also be linked with bilateral arrangements for improved social protection systems

- ii) by allowing people to adopt *higher-risk, higher-income livelihood opportunities*, e.g. through innovative approaches to insuring the poor against risk (Vargas Hill et al., 2009)
- iii) by *alleviating some market failures*, e.g. targeted programs that generate local economic multipliers.<sup>16</sup>

In the Mekong, innovative recent research has estimated the ‘rate of return’ on social protection investment (cash transfers, social pensions, scholarships and public works) utilising a micro-simulation model (Mideros et al., 2012). The research found that, over a period of 20 years, such investment (costing initially about 1.6% of GDP declining to 0.8%) would slightly increase the education level of the population (by 0.02 and 0.14 years on average), increase household consumption and generate an economic return (approximated by the increase in household consumption) of around 5% over 15 years and between 12% and 15% over 20 years.

At the same time, it should be recognised that the development of social protection systems is linked to the level of economic development of a country. As would be expected, the recent Social Protection Index shows that “there is a positive relationship between a country’s GDP per capita and its SPI” (ADB, 2013a, 16).<sup>17</sup> In addition, research indicates that poorer countries simply have less fiscal capacity for redistribution (Ravallion, 2009).<sup>18</sup> Therefore, it is important to adopt a focussed approach to the development of social protection policies in low and low-middle income countries such as the Mekong countries. In order to achieve the maximum return on investment, policies should focus on measures which address both economic and social objectives.<sup>19</sup>

As have seen, the Mekong countries are highly exposed to economic and climate risks, including food price volatility. In addition, while the poverty head count has fallen in all three countries, a large proportion of the population remains just above the poverty line and at risk of falling back into poverty. It is important, therefore, that social protection policies focus on supporting economic capacity and resilience and protecting against vulnerability and economic shocks both at a structural level and at individual level across the life-cycle. In addition, social protection policies should address particular issues of concern, such as nutrition and educational attainment, drawing on evidence-based best practice in other relevant countries.

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<sup>16</sup> Barrientos (2012) suggests a somewhat different (but overlapping) framework by which social protection supports growth: (i) alleviating credit constraints; (ii) improving consumption and asset security; and (iii) improving household resource allocation.

<sup>17</sup> Although as the study points out, this relationship is not linear and there is a significant variation in the level of social protection spending of countries at the same level of GDP per capita.

<sup>18</sup> As Gentilini and Omamo (2011) point out Hagemeyer and Behrendt’s (2009) claim that the costs of a social protection package involving access to basic health care, minimum income support to elderly, disabled and children and employment guarantees and social assistance to unemployed and working poor is ‘within reach of even poorest countries’ is based on a very unclear notion of affordability (in the case of Ethiopia for example, the costs would range from 9.2% to 44.6% of GDP).

<sup>19</sup> Thus the notion – in the most recent Social Protection Index report (ADB, 2013) that countries in the Asia-Pacific should set a specific ‘strategic target’ of spending a certain level of GDP per capita (5%) on social protection is simplistic (at best) and unlikely to assist in the development of coherent social protection systems.

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