A VISION FOR THE 2030 SOCIAL PROTECTION SYSTEM IN VIETNAM

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ADB	Asian Development Bank
ADL	Activities of daily living
AI	Artificial intelligence
ALMP	Active Labor Market Policy
ALTC	Aged and long-term care
CCT	Conditional cash transfer
CHS	Commune health station
CPI	Consumer Price Index
DB	Defined benefit
DFAT	Department of Foreign Affairs and Trade (Australia)
DOLISA	Department of Labor, Invalids and Social Affairs
EAP	East Asia and Pacific
ECA	Europe and Central Asia
ESCs	Employment Service Centers
FDI	Foreign direct investment
FINDEX	Global financial inclusion database (World Bank)
G2P	Government to Person
GDP	Gross domestic product
GoV	Government of Vietnam
GSO	General Statistics Office of Vietnam
MPSARD	Master Plan for Social Assistance Reform and Development
NCD	Non-communicable diseases
ICT	Information and communication technology
ILO	International Labor Organization
ILSSA	Institute of Labour Science and Social Affairs
IMF	International Monetary Fund
ISHC	Intergenerational Self-Help Club
JICA	Japan International Cooperation Agency
LFS	Labour Force Survey
LIC	Low-income country
LMICs	Low- and middle-income countries
LTC	Long-term care
LTGM	Long-term Growth Model
MDB	Multilateral development bank
MDC	Matching defined contribution
MICS	Multiple Indicator Cluster Survey
MOET	Ministry of Education and Training (Vietnam)
MOF	Ministry of Finance (Vietnam)
MOH	Ministry of Health (Vietnam)
MPI	Ministry of Planning and Investment (Vietnam)
MOLISA	Ministry of Labor, Invalids, and Social Affairs (Vietnam)
MPSARD	Master Plan for Social Assistance Reform and Development
TDR	Total dependency ratio
TVET	Technical and vocational education and training

NGO	Nongovernmental organization	UN	United Nations
NTP	Nationally Targeted Program	UNFPA	United Nations Population Fund
OADR	Old age dependency ratio	UI	Unemployment Insurance
ODA	Official development assistance	USD	United States Dollars
OECD	Organization for Economic Cooperation and Development	VAE	Vietnam Association of the Elderly
PROST	Pension Reform Options Simulation Toolkit (World Bank)	VAT	Value-added tax
ROK	Republic of Korea	VHLSS	Vietnam Household Living Standards Survey
RR	Replacement rate	VND	Vietnamese Dong
SDGs	Sustainable Development Goals	VSS/VSSF	Vietnam Social Security Fund
SHA	Social Health Insurance	VWU	Vietnam Women's Union
SEDP	Socio-Economic Development Plan	WB	World Bank
SI	Social Insurance	WDI	World Development Indicators
SP	Social protection	WHO	World Health Organization
HCI	Human Capital Index	YDR	Youth dependency ratio
HCMC	Ho Chi Minh City	WHO	World Health Organization
SRM	Social risk management	YDR	Youth dependency ratio
SDRSP	Sustainable Poverty Reduction Support Program		

Acronym	**Expanded descriptor**
ACH	Automated Clearing House; a mechanism to automate interbank clearing of large value payments
DFS	Digital Financial Service Providers; licensed entities that provide alternative means of access to basic banking and financial services
KYC	Know Your Customer; regulatory due diligence required to be done by financial service providers to on-board customers
MNO	Mobile Network Operators
MOLISA	Ministry of Labour, Invalids and Social Assistance
NAPAS	National Payments Corporation of Vietnam
NPCI	National Payments Corporation of India

SA	Social Assistance (type of benefit payments made by Govt of Vietnam)
SI	Social Insurance (type of benefit payments made by Govt of Vietnam)
SBV	State Bank of Vietnam (Vietnam's central bank)
VNPost	Vietnam Post
VSS	Vietnam Social Security
VST	Vietnam State Treasury
WB	World Bank

Introduction

This note aims to outline a long-term vision for the social protection (SP) system in Vietnam. It brings together disparate lines of SP policy and operational system engagements across the three pillars of the social protection system: social insurance, social assistance and social care, and active labor market programs. It is motivated by the need for a SP vision that goes beyond incremental reforms of the individual pillars and moves towards a more coherent, relevant, effective and efficient SP *system* in which the whole is more than the sum of its parts (and the parts are also reformed). It should be a system which is more attuned to the needs of a middle/upper middle-income country that is navigating rapid structural reform, accelerating demographic transition, and facing a transition from a focus on chronic absolute poverty to one of relative poverty where social exclusion and inequality are of increasing concern. As Vietnam changes, so too its SP systems will need to evolve and adapt to remain effective and relevant. This system should also be one which captures the transformative opportunities offered by new technologies.

The time horizon for the vision of the SP system in this note is around 2030: long enough that reforms that need to be sequenced and gradual can be designed and delivered, but within the long-term planning horizon of the Vietnamese authorities under Socio-Economic Development Plan (SEDP) 2021-2025 and SEDP 2021-2030**.** This document lays out the main elements of what a reformed, coherent and relevant SP system could look like for Vietnam in 2030. The vision is ambitious but, we think, realizable with the right choices and political commitment to reform. It also aims to align with the stated directions of SP reforms in various Government of Vietnam policy and strategy documents. The note does not aim to be comprehensive on all elements of the future system, but rather contains a mix of programs that such a system cannot do without along with some options for how to achieve the reform goal.

The note has three main audiences. The first is the leadership and agencies of the Government of Vietnam, including those at the OOG level, those within national level implementing agencies—such as the Ministry of Labor, Invalids, and Social Affairs (MOLISA), Ministry of Finance (MOF), Ministry of Planning and Investment (MPI) and others—the National Assembly, and subnational policymakers who are at the frontline of delivering SP programs and who can be an important bottom-up source of experimentation and innovation. The second is World Bank management and staff. While the Bank has been engaged for more than a decade supporting the Government of Vietnam (GoV) with development of their SP system, a need exists for the technical work under individual pillars of the SP system to be embedded within a bigger picture framework and direction. The third is other stakeholders in the Vietnamese SP policy and research community, such as think tanks and academics, employers and unions, and also development partners with whom the Bank works and/or who also engage with GoV in supporting SP reforms.

This note is intended to increase understanding of the challenges that face the existing SP system, and the reforms that will be needed for the system by 2030. The first section reviews what a successful SP system looks like, and what it should strive to achieve in any country context. The second section looks at the challenges facing Vietnam and its current SP programs, reviewing the macro trends that will shape the objectives of these programs before looking at how well equipped the SP system and its three component pillars (social insurance, social assistance, and labor market programs) are to meet these objectives. The last section turns to a vision for 2030, discussing what the SP system should strive to look like and achieve by 2030, and supplying an overview of reforms for the system and its pillars to achieve this vision.

SOME OF THE KEY MESSAGES OF THE NOTE INCLUDE:

- ***The SP system will increasingly become a core part of economic policy and not only social policy.*** The future system will increasingly need to be one that stimulates national savings to support inclusive growth and respond to an ageing population, promotes a more efficient labor market, and manages national-and household-level risks. Serving a changing country in a changing world, the enhanced focus will be one of supporting the country, households, and individuals during states of transition, be it from unemployment to employment; from states of poverty and vulnerability to more stable situations; from youth to old-age; during a move from one job to another or from one part of the country to another; during periods of sickness or injury, or in the aftermath of weather-related shocks. In doing so, the future SP system will be meeting the needs of a growing middle-income population with higher expectations of the state for social protection.

- ***The SP system in Vietnam will need to become more inclusive of a wider population, incrementally covering the large "missing middle" with better social protection risk management instruments***. The system as a whole can achieve progressive universalization of coverage even as the social assistance pillar remains targeted to those most in need.

- ***There will need to be a rebalancing across the core objectives of the SP system, with greater emphasis on the prevention and promotion functions of the SP system***, while continuing its protection function for the shrinking share of chronically poor people. In doing so, the SP system will help more people to manage shocks and transitions and smooth their consumption over time and across states. It should also place a stronger emphasis on promoting human capital acquisition with its cash transfer programs and leveraging sustainable movement out of poverty. It will also need to be more adaptive to accommodate increasing weather and other shocks.

- ***Vietnam will need to spend more on its SP system over time, including on social assistance safety nets, on social insurance as the population ages and coverage expands, and on active labor programs, on which spending is currently marginal***. The incremental spending by 2030 could be between around 2.5 and 4 percent of GDP, though this figure could be contained by deeper reforms of the pension system.

- ***How the SP system is financed will need to evolve if the intention is to have wider inclusion of the informal sector in preventive programs, with general revenue funding playing a larger role through blended financing for traditionally contributory programs***. An increasing share of SP system revenues will come from general revenues relative to social contributions, in the form of both direct transfers for social assistance and subsidies to incentivize the participation of informal workers in contributory schemes. This would mean that the rigid traditional divide between non-contributory social assistance and contributory social insurance would blur, as funding of "insurance" becomes increasingly blended between personal contributions and general revenue-financed premium subsidies.

- ***The delivery system for social protection would overtime need to become much more integrated, with common identification, enrolment, payment and other platforms across major programs***. The system will also need to become more dynamic and client-oriented, with a more unified "front-end" for service delivery to make SP services more convenient and cost-effective. Transformative technology will play an important role in promoting a more integrated, coherent and effective SP delivery system.

- ***As the SP system modernizes further, there will be a growing role for private sector players (both for-profit and not-for-profit) in delivery of services, placing new demands on the public sector to regulate and contract with non-government providers***. Non-government players will play an increasing role both in providing specific elements of SP service delivery (e.g., payments), and in being outsourced providers of complex services such as aged care, disability and job training services.

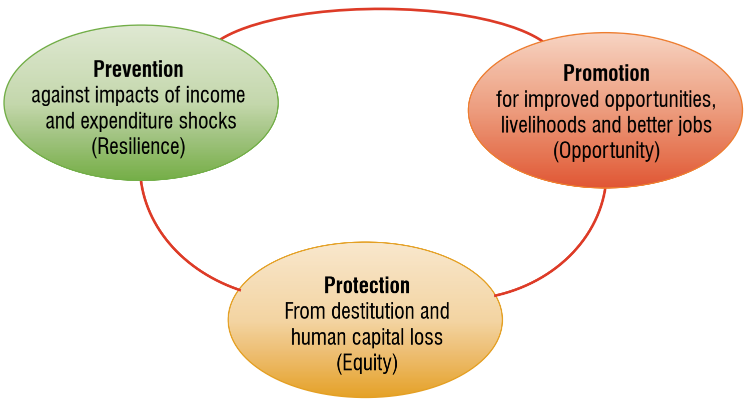
Part 01

The objectives and main elements of a coherent social protection system

No single, globally-recognized definition of "social protection" exists, yet the ideal objectives of well-developed social protection systems are defined fairly consistently across countries. Thus, it is widely accepted that a strong SP system should be able to fulfill three core functions, otherwise known as the "Three P's" (3Ps) (Figure 1) (World Bank 2012). These are:

- **Prevention:** An SP system should help prevent or mitigate the impacts of income and expenditure shocks that arise due to unforeseen circumstances such as health shocks, unemployment, or inadequate income in old age. SP systems may also contribute to crisis preparedness, be it in the face of either economic or natural disasters. To achieve these objectives, the system should implement measures ex ante to smooth consumption in the face of shocks. The prevention function is also referred to as the *resilience* objective of an SP system.
- **Protection:** An SP system should protect from destitution and chronic poverty, (including as a consequence of natural disasters) and should mitigate inequality. This objective can also include protection against some of the consequences of poverty, such as the withdrawal of children from school or damaging reductions in nutrition intake. The protection function is also referred to as the *equity enhancing* function of an SP system.
- **Promotion:** An SP system should move households sustainably out of poverty by improving opportunities and helping individuals access more productive jobs and sources of livelihoods. This is called the promotion objective, also sometimes called the enhancing opportunity objective of the SP system.

Figure 1: Functions of a Social Protection System –The Three P's



Though this report focuses on the 3Ps framework for thinking about the core functions of an SP system, two related frameworks are also important to consider when designing SP system reform. The first is the social risk management (SRM) framework, which characterizes SP system objectives in terms of three risk management strategies: prevention, mitigation, and coping. Here, prevention is associated with ex ante measures, often in the labor market, that make households more resilient to shocks before they occur; mitigation is associated with insurance-type mechanisms that promote consumption smoothing in the face of shocks; and coping deals with the consequences of shocks or chronic poverty where they have already occurred, while minimizing the adoption of negative coping strategies (Holzmann and Jorgensen, 2001; Jorgensen and Siegel, 2019). The SRM framework shares common features with the 3Ps approach but adds value in SP discussions by incorporating the formality of risk management arrangements (informal, public, market-based or some combination thereof) and by emphasizing information asymmetries. A second framework is the life cycle approach, which looks at how SP programs respond to risks across individuals' life cycle. This approach is useful in terms of looking at issues that impact people differently at different stages in their lives, including inter-generational equity or the matching of SP programs and spending according to patterns of poverty and demographic shifts.

Corresponding to the 3Ps, an SP system, like the one in Vietnam, broadly has three types of programs—or pillars (Table 1). "Prevention" programs tend to be insurance schemes, such as social insurance or social security programs, that provide insurance against various shocks and risks. They are designed to promote risk management ex ante and allow for consumption smoothing in the face of shocks. In Vietnam, the "prevention" function of the SP system is largely fulfilled through its social insurance (SI) system, though SI coverage for most risks remains very partial. "Protection" programs can encompass a broad range of systems, including social assistance, social welfare, or safety net programs, with this terminology varying across countries. These programs generally are cash, in-kind transfers, or "near-cash" (e.g. vouchers and food stamps) transfers, and also include consumer price subsidies— though these are less protective if poorly targeted. In Vietnam, the "protection" function of the SP system is largely fulfilled through its social assistance system. "Promotion" programs consist of a diverse range of interventions, including ones to promote long-run human capital acquisition (e.g. early nutrition or school feeding programs), livelihoods (e.g. microcredit), or active labor market interventions such as employment services and targeted training and skills development programs. In Vietnam, promotion programs exist across all SP systems, but the "promotion" function is the primary the focus of the labor market program system. The three pillars of SP are all underpinned by labor market policies and institutions such as labor regulation, wage determination etc., as well as by key building blocks of the delivery systems such as payment systems and the national ID system.

Table 1. The Objectives, Policy Pillars, and Programs of a Social Protection System

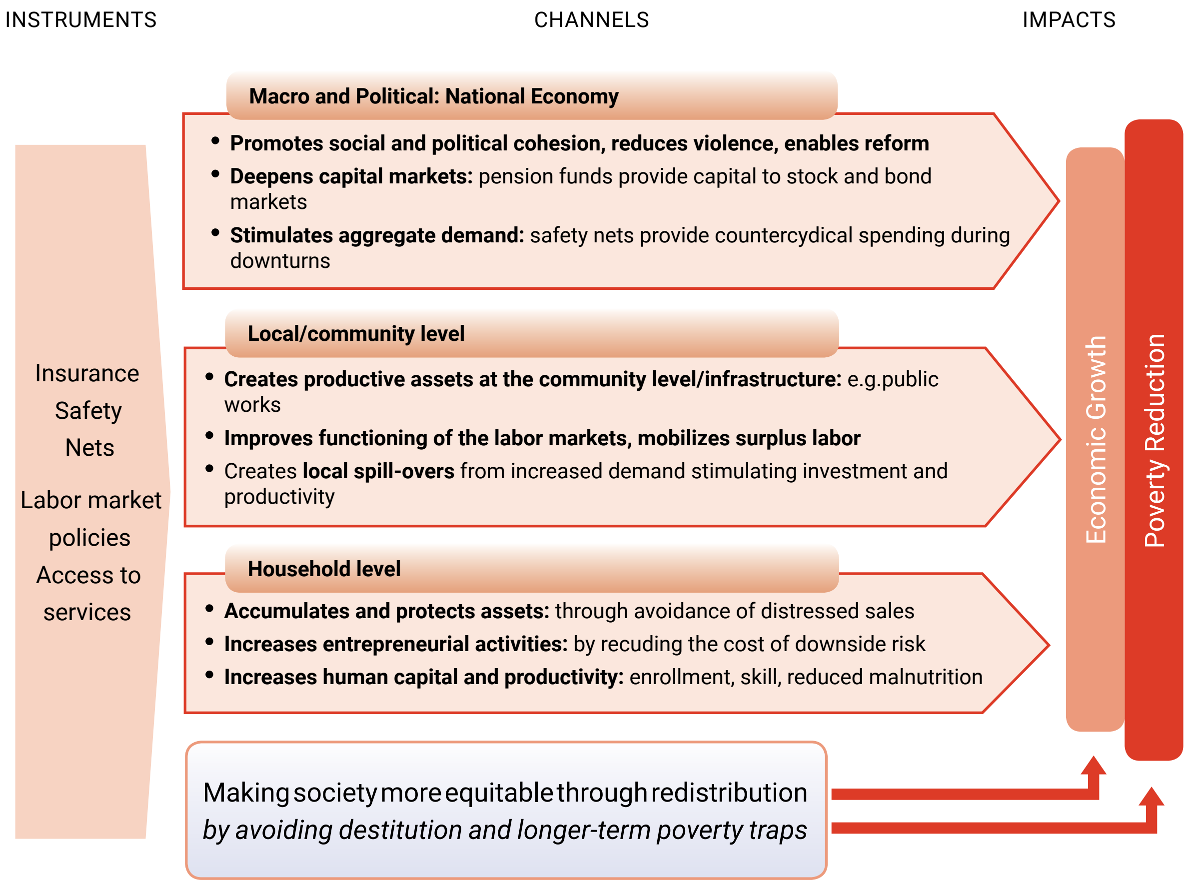
SP System Objective	SP System Pillar	Program Examples
Prevention Help people smooth consumption in the face of shocks and across the life cycle	**Social Insurance** Insurance-type programs, with or without public subsidies	Pensions, survivor and disability benefits Sickness and work injury benefits Maternity/paternity benefits Health insurance Other social insurances (e.g. weather and disaster risk insurance)
Protection Reduce or mitigate poverty and inequality	**Social Assistance** Social assistance, safety net and social care services	Cash transfers (conditional and unconditional) Social pensions Food and in-kind transfers School feeding Public works projects Targeted consumer subsidies Long-term social care services

SP System Objective	SP System Pillar	Program Examples
Promotion Improve people's chances of moving sustainably out of poverty	**Labor Market** Active and passive labor market programs, and programs to promote sustainable work	Employment services (e.g. job brokerage, training, counselling) Labor market information systems Passive labor programs (e.g. unemployment insurance)
Cross-Cutting Policies and Institutions Labor regulation; wage setting and industrial institutions; training systems; population identification and registration systems; financial sector		

Though these three functions are distinctly defined, a well-designed SP system should implement policies and programs that pursue these functions in mutually reinforcing ways. For one, a great number of programs can clearly promote more than one function. For example, conditional cash transfers (CCT) have an immediate poverty alleviation purpose (protection) and also promote longer-term human capital acquisition (promotion), while public works projects can boost employment during lean seasons (prevention) or help recovery in the aftermath of a disaster (protection). The ways in which programs can promote, or undermine, all three functions must be considered during their design. Thus, interventions to support the protection function should not be so generous that they undermine the incentive to work, since that would undermine the promotion function. Similarly, effective prevention policies should be designed to provide more security to households so that they are encouraged to take more risks in the pursuit of higher returns from their efforts. In short, any SP policy or program should go beyond promoting any single of the 3Ps, but rather should support all of them in an inter-dependent and mutually reinforcing manner (Figure 1).

Finally, SP systems must be understood as being more than tools to implement social policy and should instead be viewed as instruments with the capacity to advance wider economic policy and inclusive growth strategies. Many countries, including Vietnam, have a tendency to view social protection as a "soft" or "non-productive" sector (in the term of socialist economics), wherein strengthening SP systems is seen to involve a trade-off with advancing economic growth. However, increasing global evidence shows that well-designed SP systems can make a *positive* contribution to growth while also making that growth more inclusive (Alderman and Yemstov 2012, Ostry et al 2014, Mathers and Slater 2014, World Bank 2005, World Bank 2019). Recent research from the IMF, for example, has found that progressive and sensibly designed redistribution has a positive impact both on growth levels and the duration of growth periods, with the direct and indirect impacts of redistribution adding up to 0.5 percent to GDP growth. A cross-country review paper that looked at all SP spending found that moving from 0 to 2 percent of GDP spending on SP increased growth by 0.1-0.4 percentage points across a range of countries (Zaman and Tiwari, mimeo). At a microeconomic level, SP interventions of different kinds have also been shown to have positive returns, with economic internal rates of return at 8-17 percent being typical (Alderman and Yemstov, 2012). The reasons for these positive macro and micro economic effects can be seen by looking at the channels through which an SP system may influence drivers of growth at national, community and household levels, and at macroeconomic and microeconomic levels (Figure 2).

Figure 2. Channels of SP System impact on Growth



Source: Alderman and Yemtsov 2012

Part 02

The Vietnamese Country Context and Social Protection System

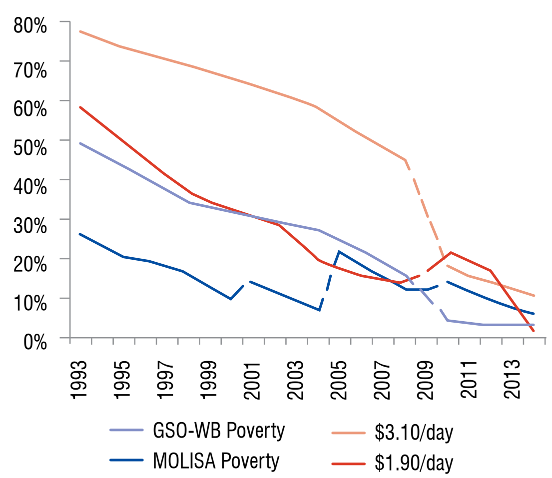
The demands of Vietnamese households and society are changing, and the country's SP system will have to address and adapt to these macro-trends. Vietnam already has the three main pillars of its SP system, and reforms are increasingly being made to coordinate what were once clearly distinct systems. This section looks at the big picture trends facing Vietnam that the SP system will have to account for and address moving forward, before looking at the existing system and its current capacity to do so.

SOCIO-ECONOMIC MACRO TRENDS

In the coming decade, the Vietnamese population will come to expect and demand that the state does more to provide social protection. For example, opinion surveys indicate that two thirds of Vietnamese adults expect the state to take primary responsibility for the provision of income in old age, indicating a significant mismatch between social expectations and current reality (Jackson and Peter, 2015, Eckardt et al. 2016). This changing demand will be the product of a number of mega-trends facing the country.

Successful development and falling poverty rates

Figure 3. Vietnam's poverty rate has fallen sharply in recent decades



Source: WB SCD (2016)

Absolute poverty has fallen sharply in Vietnam in recent decades, reducing demand for an SP system dedicated to addressing widespread chronic poverty. Pockets of Vietnam remain poor, yet these are increasingly concentrated in remote areas and among ethnic minorities.

Remarkably, this progress has been achieved with only a modest increase in measured inequality. The Vietnamese (expenditure) Gini coefficient rose from 32.6 in 1993 to 34.8 in 2014, a low rate compared to other countries in the region, such as China or Thailand, that have rates in the mid- to high-40s. Nonetheless, perceptions of inequality in Vietnam, supported by the growth in the number of "super-rich" individuals in the country, suggest that formal measures of inequality might not reflect the full picture. We know from global experience, for example, that asset inequality is higher than the consumption inequality that the Gini coefficient measures, while inequalities of opportunity, especially for such groups as ethnic minorities or internal migrants, can be an equally persistent sources of income disparities within countries.

Meanwhile, the Vietnamese middle class is growing, with its own set of socio-economic demands. Most notably, though integration into global markets has been a cornerstone of Vietnam's economic success, it has made the country more vulnerable to economic volatility and shocks. While the country's structural transformation led to rising incomes on average by moving workers into more productive (and often export-oriented) sectors of the economy, individual workers and households must now bear the risks of greater churn within the labor market during global economic cycles.

Thus, the SP system must now improve its ability to target its poverty alleviation efforts to segments of the population that have proven thus far to be the hardest to reach, while balancing the need to provide more risk management tools to the segments of the population that have moved

out of poverty and into the middle class.[1] At the household level this is likely to require a stronger safety net and stronger employment services to provide basic protection from economic volatility and avoid extended periods of job search and unemployment.

High informality

Despite Vietnam's impressive growth performance, the share of informal sector workers (defined here as people working without a contract and mostly without full social insurance) remains stubbornly high. Overall, around 76 percent of all workers, and 55-60 percent of non-agriculture workers, remain in the informal sector (Cunningham and Pimhidzai 2018). In part, this reflects the fact that Vietnam remains a predominantly rural country, with 65 percent of the population living in rural areas in 2017 (WDI). However, such high non-agriculture informality rates, especially following a time of more rapid urbanization, suggests that informality rates remain high even among the urban population, and that the urbanization process is not significantly contributing to bringing down informality. This is likely to be exacerbated by the growth of gig economy jobs outside the traditional labor contract model. At the recent rate of change, it is estimated that only around 43 percent of Vietnamese workers would be in contracted wage jobs by 2040 (Cunningham and Pimhidzai, op. cit).

1 Indeed, as the poverty rate continues to fall, it is possible to question the policy relevance for the SP system of the existing MOLISA and GSO poverty thresholds beyond their demonstrable importance to poverty tracking and monitoring.

Having an informal job has several implications for workers, including lower wages on average relative to contracted workers (Cunningham and Pimhidzai 2018). Furthermore, the social protection programs that are attached to formal employment—such as unemployment insurance, or pensions—by default exclude the vast majority of the population that remains informally employed, the exception being health insurance, so which premiums are subsidized for the poor and near-poor. SP programs, if they are to successfully in achieving their purpose of providing protection and risk management for all, must be designed to be cognizant and inclusive of informal workers.

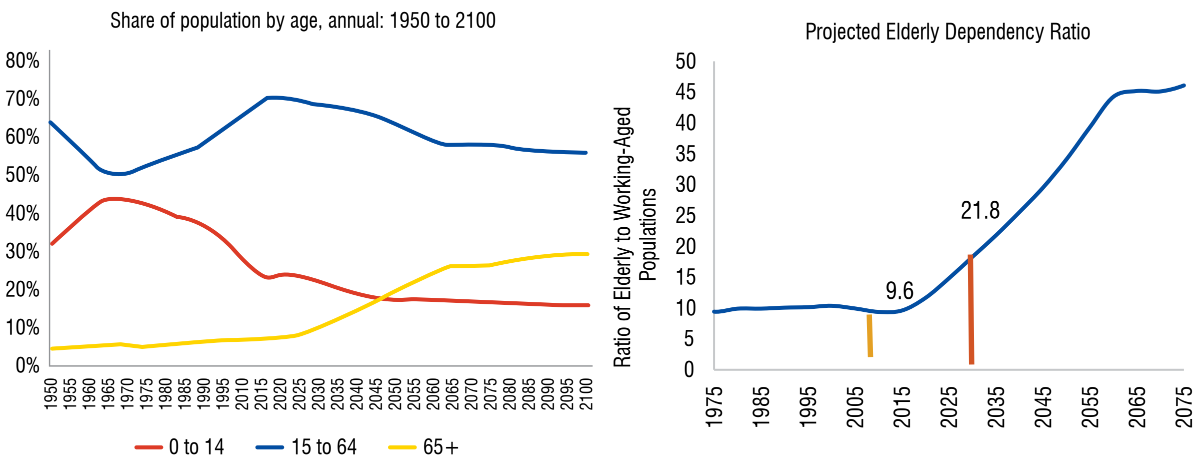
Low labor productivity

A second labor market challenge concerns Vietnam's relatively low labor productivity rates. Labor productivity remains well below that of neighbors that Vietnam sees as either models or competitors, standing at only about one fourteenth of Singapore's, one sixth of Malaysia's and one third of Thailand's. To sustain its growth rates, Vietnam will need encourage as many of its workers to stay in the labor market and to increase their productivity—mainly by finding employment in higher-productivity sectors and jobs that match their skills. The SP system will therefore play an important role in encouraging its beneficiaries to work as a means of exiting poverty, while offering employment services to make productive matches of workers and jobs, shifting them progressively into higher productivity sectors.

Changing demographics

Vietnam is at a demographic tipping point, with the country about to experience one of the most rapid rates of population aging ever seen globally. The elderly share of the population (age 65 and over) will rise from 7 percent to 15 percent by 2035 (Figure 4(a)). Furthermore, if we use age 60 as a cutoff—aligning with the pension system that currently assigns this as the retirement age for men—the elderly share of the population has already surpassed 10 percent and is projected to rise to double to around 20 percent by 2035. This implies that the age dependency ratio will also increase. While Vietnam in 2015 had around 10 working-aged people (age 15-64) to every person 65 and over, by 2035 that ratio will have fallen to around 4.6 workers per elderly person (Figure 4(b)). At their core, these trends reflect positive outcomes from economic development, namely falling fertility and rising life and healthy years of life expectancy. However, they present major challenges to the pension and public spending systems that these are not currently equipped to manage. The finances of the pension system, for one, could rapidly deteriorate in the absence of deeper reforms (World Bank, Vietnam Taking Stock 2016).

Figure 4. The growth of the elderly population in Vietnam will increase the elderly dependency ratio



Source: UN DESA (2015)

An ageing population thus presents two challenges that the SP system must address. The first is that of encouraging more workers to remain employed— by increasing incentives for older urban workers to postpone retirement, and/or by better supporting the responsibilities that working-aged individuals have towards the care of children and elderly household members. The second is to meet the demands of the growing elderly population, both in terms of having an adequate source of income to prevent them from falling back into poverty in their old age, as well as having access to adequate long-term care.

Climate change

Though Vietnam is already feeling the effects of climate change, these are expected to intensify in coming decades and increase the exposure of the Vietnamese population to shocks, as well as increase their magnitude and costs. Around 60 percent of Vietnam's land area and 70 percent of its population is exposed to multiple natural hazards. In addition, climate change is expected to increase the frequency, severity and intensity of these hazards, especially with hydro-meteorological events (Eckardt et al. 2016). To date, however, the SP system is not well designed to be sufficiently adaptable and responsive to play an effective role in disaster preparedness and response, beyond traditional relief interventions.

Table 2. Implications of Socio-Economic Trends on the SP System

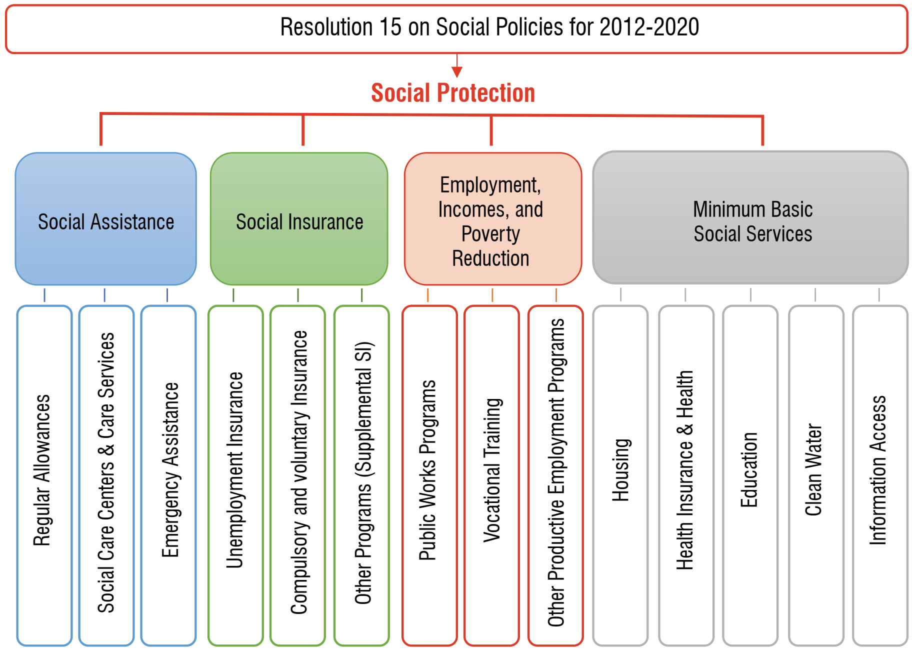
Socio-Economic Trend	Required SP System Response
Falling poverty rates	More targeted programs to combat extreme poverty, support human capital formation, and a new focus on preventing people from falling back into poverty
Rising inequality	Address demands for redistribution
Labor market volatility	Provide protection from the consequences of unemployment caused by market cycles and structural transformation (provide income during times of unemployment, and opportunity to re-train and find new jobs)
High informality	Programs expand their coverage beyond formal workers
Low labor productivity	Improved job matching and skills training
Ageing population	Provide income and care for a growing number of people; Encourage increased (and more productive) employment of older and other workers to compensate for shrinking workforce
Climate change	Protection from shocks of climate change

Source: WB staff.

CONTEXT OF THE CURRENT SP SYSTEM IN VIETNAM

The Government of Vietnam is clearly aware of many of the challenges facing the SP system and has taken active policy initiatives in recent years to strengthen social protection—though these have largely enacted incremental changes of individual parts of the system rather than addressing the SP system in its totality. In 2012, the Central Committee of the CPV adopted Resolution 15 on Social Policies for 2012-20, includes social protection as one of two pillars of social policy.[2] Under this resolution, social protection will be realized through the expansion of social assistance, social services, social insurance and poverty reduction programs (Figure 5). In 2017, the Government approved the Master Plan for Social Assistance Reform and Development (MPSARD), which assessed the performance of the social assistance system and identified ways of making it more comprehensive and effective at addressing vulnerability and exclusion in the country. It also set out specific goals for expanding the coverage of existing social assistance programs, including expanding the coverage and benefits for the elderly, people with disabilities, children in need (orphans, abandoned children, severely disabled children, and specially disadvantaged children) or those facing emergencies or difficult circumstances. Finally, it proposed the phased introduction of a new policy to provide cash transfers to infants and young children below the age of 4—though this has yet to be funded.

Figure 5. Key Elements of the Government's Social Policy and Social Protection



Source: Government of Vietnam, 2012.

Despite these reforms, Vietnam currently has an SP system comprised of a fragmented collection of programs that only partially fulfill the system's three core functions. The "prevention" function is undercut by a social insurance pillar comprised of insurance programs that have low coverage rates and are financially unsustainable. Meanwhile, the social assistance pillar, and the safety net it provides, is underfunded and patchy in its service delivery, is supported by equally underfunded social care services, and ultimately fails to adequately fulfill the system's "protection" function for many. Finally, "promotion" function programs lack a well-defined strategy, instead relying on a strategy that blends an area-based, anti-poverty focus with a strategy of individual interventions. In this fragmented and underfunded system, the three SP functions, and the policy pillars that support them, fail to operate as an integrated and coherent system, thus undercutting the efficacy of each pillar in its respective tasks.

2 The other pillar is policies for "national devotees", i.e., those who had contributed to the national revolution.

This section reviews the context of the existing SP system, looking at the systems' structure, past reform efforts, and challenges. It starts with a discussion of the SP system as an entity, looking at efforts to integrate its programs into this common system. Next, it looks at the three policy pillars that make up the system: social insurance, social assistance, and labor market programs.

SOCIAL PROTECTION POLICY AND STRATEGY

Social insurance pillar

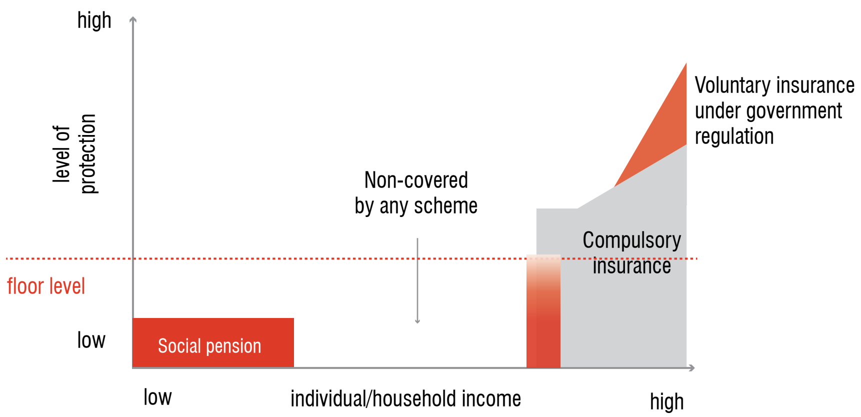
The main objective of the social security pillar—which in Vietnam consists primarily of its social insurance and health insurance systems—is to smooth individuals' consumption across their lifetimes and in the face of shocks.[3] This system will be exceptionally important for Vietnam as the country ages and, along with social assistance

3 This note focuses for SI primarily on pensions and unemployment insurance. A fuller discussion of health insurance has been done in earlier World Bank publications, e.g., Moving Towards Universal Coverage of Social Health Insurance in Vietnam: Assessment and Options, Dao et al, 2014 World Bank.

transfers to elderly households, will be a key tool in managing the social consequences of this demographic change. A strong pension system would ensure that people have a steady source of income after retirement, thus preventing them from slipping back into poverty or from needing a younger family member to drop out of the labor force to care for them. Furthermore, such a system would need to remain financially sustainable. However, the existing system is designed to be overly generous to a relatively small segment of the Vietnamese population while failing to both remain financially sustainable or provide old-age financial protection to the majority of the population. In other words, it is extremely important to note that when pension fund runs deficits it takes away resources for the uncovered population and therefore parametric reforms are paramount not just for fiscal purposes but for equity.

The pension system consists of three different schemes, yet the coverage rate of the system remains low and has increased only modestly, and as a result is not well prepared to support a rapidly growing elderly population. The primary scheme of the pension system is a compulsory insurance scheme that is part of Vietnam Social Security (VSS). In 2018, this scheme covered about 25 percent of the working age population (14.6 million people). Given the important role of employers in the system, its coverage extends almost exclusively to workers in the formal sector—a serious constraint given the country's high informality rate. To address this shortcoming, a voluntary contributory scheme was established in the 2006 Social Insurance Law and SI Law amendments. However, this scheme has failed to attract a significant number of informal sectors workers and covered only about 300,000 people in 2018. Finally, a modest non-contributory social pension scheme covers an additional 1.6 million elderly people—largely pension-tested people over the age of 80, with a smaller group means-tested people between the ages of 60 and 79. The coverage rate of the formal pension system is comparable to that of other countries at similar income levels and with similar informality rates to Vietnam. However, the pace of coverage expansion has been slow, and will increasingly struggle to keep up with ageing. The people that this system does cover are heavily concentrated among the top 40 percent of the income distribution (because of the focus on formal workers) with the social pension protecting the poorest workers and those 80 and over. The challenge, therefore, will be in addressing the "missing middle" of people that remain excluded from any pension scheme (Figure 6).

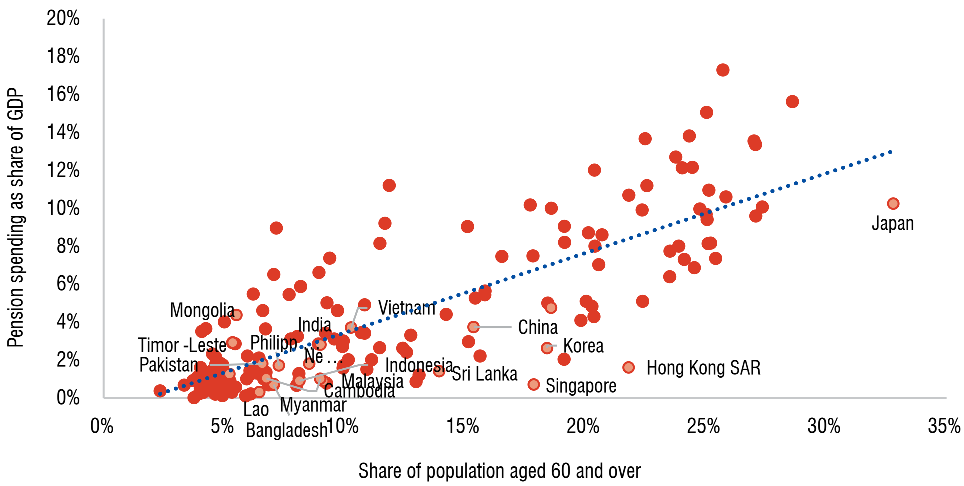
Figure 6. Vietnam has a large "missing middle" in pension coverage



The second major challenge to the system is that it is facing major challenges to make the system financially sustainable. Spending on pensions in Vietnam is just around 4 percent of GDP, which is above the average spending in EAP region but around the global average for a country with its share of population over 60. Revenues for pensions in Vietnam (around 5 percent of GDP) are currently higher than spending (over 3 percent of GDP), and are an important source of funding the budgetary deficit. However, Vietnam faces the unique challenge of having an immature pension system at a time when its population is already ageing and is set to make greater demands on pension system finances.

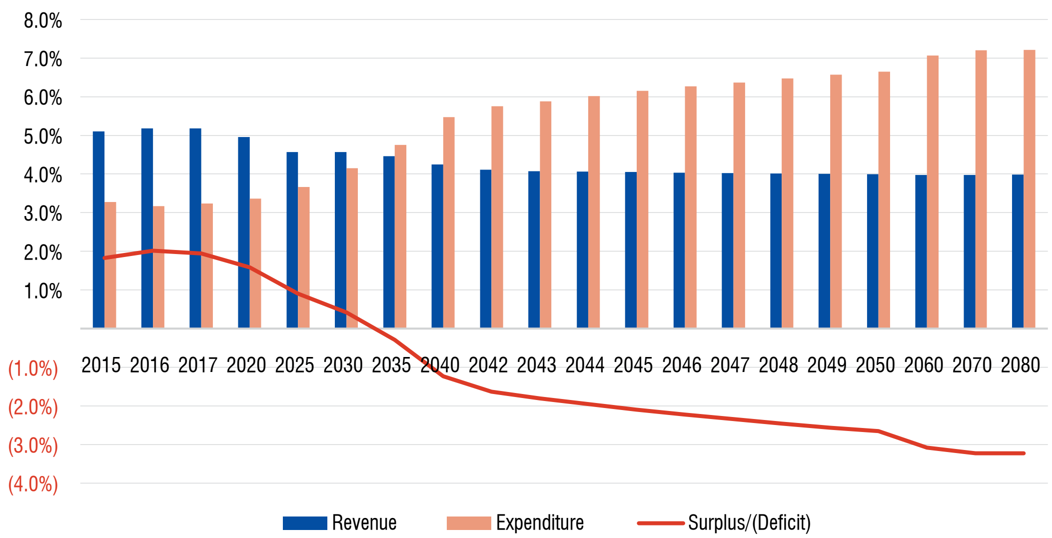
Given its demographics and scheme parameters, there are major risks to financial sustainability of Vietnam's pension system in the absence of further reforms. If no reforms are made, the pension system will have a deficit by the early 2030s and will have a deficit equivalent to about 1 percent of GDP by 2040, and around 3 percent of GDP by 2050 (Figure 8).

Figure 7: Vietnam spends around the global average on pensions given its demographics, despite having an immature system with low coverage



World Bank pensions database, latest available year.

Figure 8. Projected Financial Balance of the Pension Fund in Vietnam



Source: World Bank staff estimates using PROST and VSS data

Table 3. Official Retirement Ages in Selected Countries, 2016

Economy	Official retirement age	Economy	Official retirement age
Korea	65	Indonesia (2)	56, rising to 65 by 2026
Japan	65	Mexico	65
Singapore	62	Brazil	60 (women)/65 (men)
Philippines	65	Lao PDR	60
Thailand (1)	60 civil servants/55 private	Australia	67
Hong Kong China, SAR	65	New Zealand	65
China	50 and 55 (women)/60 (men)	Malaysia	60
Vietnam	55 (women)/60 (men) with Labor Code moving to 60 and 62		

Source: World Bank pension database and WB staff updates.
Notes: (1): Thailand has announced the civil servant retirement age will be raised to 65; (2) Indonesia has legislated an increase in age for the private sector to 65, to be phased in by 2026.

One major contributor to this financial unsustainability of the contributory pension scheme is Vietnam's early retirement age, though recent reforms of the Labor Code indicate movement in the right direction. The official retirement ages in the SI Law currently set at 55 years for women, and 60 years for men, though these have recently been revised in the Labor Code to 60 and 62 respectively. These ages are quite low by global and regional standards (Table 3), especially as many countries have or are in the process of increasing their retirement ages and harmonizing these ages between men and women. Nearly all Europe and Central Asia (ECA) transition countries have increased their retirement ages to 63-65, and several OECD countries are already at 67 years or higher. In the EAP region, economies such as Japan, Korea, the Philippines, and Hong Kong SAR, China have already set official retirement ages at 65, while others remain at or below 60 (though most of these are considering raising these ages). A growing number of OECD and other countries are also linking retirement ages to the increase in life expectancy at retirement, or in several cases eliminating an official retirement age altogether outside the public sector. Most also have common rates for men and women. An additional problem with these low retirement ages is that they are quite inequitable when compared to the 80-year-old eligibility threshold for the social pension scheme, since recipients of the compulsory pension have significantly higher incomes and benefit levels, on average, than do the social pension recipients.

Table 4. Annual Pension Accrual Rates by Region/Country, late 2000s

Region/Country	Average Annual Accrual Rate
East Asia and Pacific	1.8%
Vietnam	2.25% (men) & 2.75% (women)
China	1%
Korea	1%
Eastern Europe and Central Asia	1.7%
Latin America and Caribbean	1.2%
Middle East and North Africa	1.6%
High-Income OECD	1.6%
World Total	1.7%

Source: World Bank pensions database.

A second contributor to the financial unsustainability of the pension system is the generosity of the benefits it provides relative to contributions. Even after the 2014 reforms, Vietnam continues to have high replacement rates due to high accrual rates and unpredictable pension indexation. The situation on accruals will improve somewhat when the 2014 reforms are fully implemented, though the adjustments will only become fully effective in 2022. Nonetheless, even with this reform, accrual rates will remain relatively high (Table 4). This results in the highest replacement rates in the region for workers outside the public sector.[4] Despite this, absolute benefit levels for many remain low, as the wages on which contributions are based are often declared at minimum wage to reduce the contribution burden. While understandable, this practice has resulted in low revenues and low absolute benefit amounts, while still representing replacement rates against declared wages that are unsustainably high from a system financing perspective. Following the 2014 amendment, VSS is focusing on this issue and aiming to levy contributions on a higher share of total worker compensation, but this will have no impact on current pensioners and only limited impact on those who have short remaining contribution lives.

4 Replacement rates are lower for private sector workers due to the method of revaluing the wages that were received in the past so that the system is more generous for public sector workers.

Indexation rates, meanwhile, are set in a discretionary process that make the outcomes unpredictable. Nominally, the 2014 reforms specify that pension benefits should be adjusted "on the basis of the increase in consumer price index (CPI) and economic growth to be consistent with the state budget situation and social insurance regulations." In practice, however, the relative importance of CPI and broader economic and fiscal measurements of growth change, and rates are decided in a process where MOLISA makes initial recommendations, the National Assembly supplies its own proposals, and the MOF makes the final decision based on financial considerations.

A final challenge is that Vietnam also has relatively high contributions for pensions (currently the highest in developing Asia), which could undermine its labor cost competitiveness (Table 5). In the EAP, the only country with a higher contribution rate than Vietnam until recently was China, though it made a significant reduction in employer contributions in 2019 and is now below Vietnam. Most of Vietnam's neighbors have significantly lower pension contribution levels, in some cases helped by significant public subsidies for matching worker contributions. This is a potential competitiveness issue for Vietnam in terms of labor costs, and the potential to raise contribution rates to improve financial sustainability seems low.

Table 5. Pension Contribution Rates in the East Asia Pacific and Latin America, latest year

Country	Employee	Employer	Total
Indonesia	2 %	3.7 %	**5.7 %**
Thailand	3 %	3 %	6 %
Mexico	1.7 %	6.9 %	8.6 %
Korea	4.5 %	4.5 %	9 %
Philippines	3.3 %	7.1 %	**10.4 %**
Malaysia	11.5 %	11 %	22.5 %
Vietnam	**8** %	14 %	22 %
Brazil	7.65 %	20 %	27.65 %
China *	8 %	16 %	24 %

Source: WB pension database. Note: *For China, this is maximum rate, and some prefectures have lower rates.

The Vietnamese Government is clearly aware of the above challenges outlined above, and recent proposals for further reforms seem largely in the right direction (though on key areas as yet not specific enough to assess their cumulative impact). The amendments to the Social Insurance Law made in 2014 were a sensible first step towards making the pension system somewhat more sustainable, though they did not go far enough or fast enough to avert the financial deterioration of the systems by the 2020s. Resolution No. 28 and the Action Plan on Social Insurance (2018) go further and aim to use the VSS to develop a diversified, multi-layered, modern and integrated social security system using the principles of equality, equity, sharing and sustainability. Other sensible reforms have been proposed to enhance the financial sustainability of the pension system, though these they are unlikely to be legislated before 2022 at the earliest, and the initial proposals may not fully reflect the urgency of the situation. Ambitious targets exist for expanding pension coverage to the informal sector, though there is limited specificity on how this will be achieved or financed. The timing of Vietnam's demographic transition and the subsequent rise in demand for old age financial protection, however, necessitates that reform be implemented as quickly as possible, despite the inevitable political economy challenges.

Social assistance pillar

- **In the past 15 years, Vietnam's social assistance system has become broader and somewhat more protective.** Significant coverage expansion has taken place, driven by a broadening of coverage to the elderly, people with disabilities and orphans, and by responses to "socialization" drawbacks and income support linked to privatization of energy prices. The existing system is no longer a simple last-resort income support system for people who could not work and did not have family support, and instead has begun its transition towards becoming a system that supplies a safety net to the wider Vietnamese population.

However, these changes have been introduced in an ad hoc manner, creating a fragmented system that is not guided by a clear central goal or vision. The social assistance system is so complex that it is difficult for potential applicants (and often administrators) to understand and easily access. According to MOLISA, there exist 8 Laws, 1 Master Plan, 14 Decrees of Government, 37 Decisions of Prime Minister and 13 Circulars of Ministries that regulate issues related to social assistance. The system retains a strong emphasis on programs for "national devotees," in reference to people that have provided a special service to the country, especially during past armed conflicts. As a result, until recently, there did not exist an overarching vision to guide the program design and system expansion. Several of the newer programs were introduced in a piecemeal fashion to mitigate the impacts of certain reforms, and there has been no flagship program to provide a "backbone," or strategic coherence and client friendliness, to the system at large. This contrasts with the approach taken in a number of middle-income EAP countries, such as China, the Philippines, and Indonesia, which have one or more key backbone social assistance programs. This policy fragmentation in Vietnam's SA system is reflected in the disconnect between the delivery systems of the various SA programs, as well as the weak alignment between policy objectives and budgetary allocations.

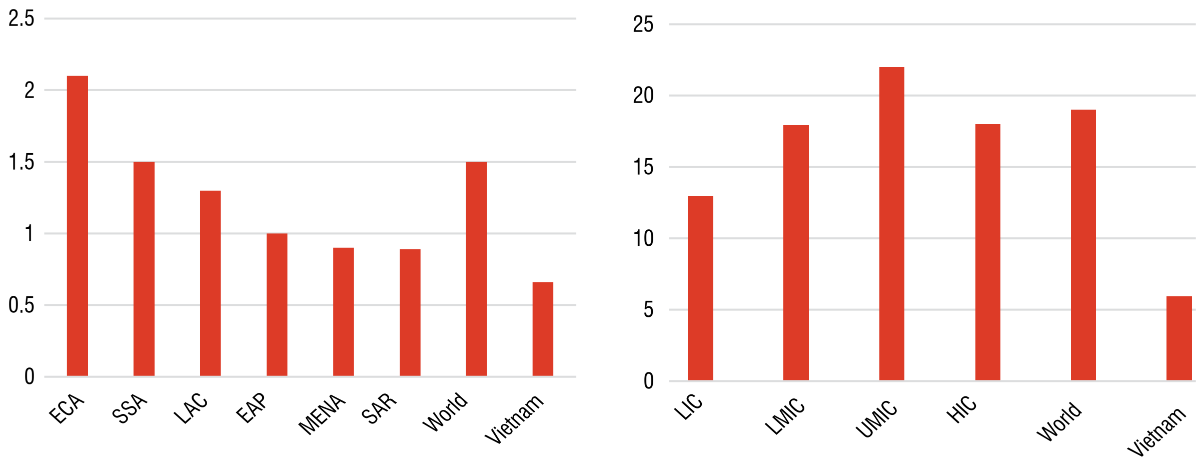
Furthermore, the SA system is poorly aligned with other anti-poverty efforts. Several poverty-reduction programs exist in Vietnam that work in parallel to the SA system, including the National Target Poverty Reduction Program (NTPRP), Program 135, and the Sustainable Poverty Reduction Support Program (SDRSP). These programs are predominantly area-based, but also include some household-based social assistance. For instance, poor, ethnic minority households facing housing challenges are provided with a lump sum for housing, production land, and clean water assistance. Another subset of programs provides social assistance to poor and ethnic minority households through cash or in-kind support—such as the kerosene subsidy for poor households of ethnic minorities residing in areas without grid connection.

Despite the complexity of its SA system, Vietnam spends relatively little on its safety net, which consequentially provides benefits that are low relative to global benchmarks. While current budgetary practices and available household data make it challenging to create a consolidated picture of SA spending, the most recent estimate is that Vietnam spends around 0.66 percent of GDP on social assistance programs, excluding health insurance subsidies (Dutta and Sen, 2018) - a rate that is well below regional and global benchmarks (Figure 8). The low spending share reflects very low benefit levels, which are only around one third of the LMIC average as share of the income of the bottom quintile of the population. The many programs outlined above do not provide much protection for needy households because the system itself is under-funded, as well as because existing funding appears to be spread thinly (though current data systems do not allow to see what share of households receive multiple benefits from the social assistance system).

Benefit levels even for the households that receive them are also very low in absolute terms and in global comparative terms, at only around 5 percent of household average monthly consumption expenditure for the poorest quintile, which is less than a half the level of the low-income country average globally, and around a fourth of the level of the lower middle-income country average (19-20%), the more relevant benchmark for Vietnam. As there is no indexation, the SA benefit shrinks both in real and relative times over time. For example, the basic salary level increased between 2015 and 2019 from VND1,150,000 to VND1,490,000 while SA benefit remained unchanged at VND270,000.

Figure 9. Global Social Assistance Spending and Benefit Levels

(a) Vietnam spends a low share of GDP on SA... *(b) ...and has low SA benefit adequacy*



Source: WB ASPIRE 2018; Dutta and Sen (2018). Excludes health waivers.

A notable element of the broader social welfare system which is currently very under-developed in Vietnam is its aged and long-term care (ALTC) system. Formal ALTC systems remain nascent across the developing EAP, but Vietnam, like other rapidly aging countries, will need to find an appropriate and sustainable role for the state in an area that has traditionally been the domain of families, communities and the health system (World Bank, 2016). Rapid ageing and social change have exposed the limitations of traditional informal modes of long-term care for elderly people in parts of EAP, including Vietnam. Demand is significant for different forms of ALTC ranging from low-level social support to support in daily living self-care activities (with which almost half of people aged 70 and over in Vietnam report having difficulties) (HelpAge International 2014). People's expectations about the role that the state should play in supporting their care needs in old age are rising in Vietnam. Such a system would also supply two important benefits. First, increasing the availability of quality social care reduces expenditures on medical care. This happens as people substitute more expensive medical care with less expensive social care, as injury rates drop, and as hospital stays and in-patient and out-patient admissions decline. Second, quality social care can increase household earnings as caregivers of elderly or disabled household members are free to instead enter the labor market or increase their participation in paid employment. Proactive ALTC policies will be important and will require careful thought concerning how these new systems should interact with informal care systems and formal health and welfare systems.

Finally, new linkages with labor market programs need to be created to encourage SA recipients to decrease their reliance on SA benefits over time. This lack of linkage between the SA and ALMP systems is symptomatic of the very limited policy and program coherence in the Vietnamese SP system. In well-designed and integrated SP systems, SA beneficiaries who are capable of work are obliged to actively search for a job if they are to continue receiving benefits. This is not currently the case in Vietnam, meaning that individuals can receive benefits without searching for alternative sources of income through employment. While it is important not to make such work or job search requirements overly burdensome, they are useful in maximizing the efforts that SA recipients put into finding work, which itself will be a large factor of their moving more sustainably out of poverty. The inefficacy of existing employment services for providing such job search assistance at scale to SA beneficiaries means that the fact that work requirements are not yet part of Vietnamese SA policies is not a major issue. Nonetheless, this will need to change over time (see following section). Ultimately, the more systematic use of job search requirements and the referral of SA beneficiaries to ALMPs will entail greater coherence across the SP system.

Labor market pillar

As Vietnam moves toward Industrial Revolution 4.0 (IR4.0), the Vietnamese government is putting new emphasis on the role of employment services and training development programs in its social protection system. Employment policies are one of the four pillars of the Social Protection Strategy for Vietnam, 2011-20. Nonetheless, for the time being, Vietnam offers few labor market programs beyond unemployment insurance and a network of employment service centers which offer limited services and do not perform an effective job brokerage and matching function.

The existing system of labor regulation and protection primarily serves formal sector contracted workers, protecting them with the labor code while they are employed, and supplying them with unemployment insurance and priority access to employment services when they are unemployed. However, the majority of the Vietnamese labor force is informal, and both the strict labor code and the focus on formal workers in labor market programs serve to undermine formalization efforts and limit healthy job turnover. While some elements of labor regulation are not strictly within the usual definition of a social protection system, they strongly influence the context of and demands on the SP system, and specific parts such as UI and ALMP are usually considered within the core SP system. These policies and programs will have to undergo significant reform if the SP system is to contribute effectively to efforts to transition Vietnamese workers and employers towards a 21st century labor market.

The Vietnamese labor code is quite strict by international standards and seems better designed to protect jobs rather than workers (Kuddo, 2017). Its rigidities undermine attempts to promote greater workforce formalization (which would in turn increase social insurance coverage) and private sector dynamism. Less than a quarter of the labor force holds a labor contract and is thus subject to the Labor Code, indicating that most workers have little legal protection in the workplace.

The efforts to reform the 2012 Labor Code, together with an expansion of the social insurance and social protection systems, are an opportunity to enhance labor market dynamism and productivity while protecting workers from inevitable disruptions. Four specific areas deserve particular attention. First, the wage premiums for overtime remain exceptionally high, at 150-200 percent of wages on weekdays and 200-300 percent on weekends and holidays. Second, Vietnam's severance payment scheme is one of the more generous in the world.[5] Third, as discussed above, Vietnam's retirement age remains low, despite the country's aging. Finally, the standards for setting the minimum wage currently are defined to allow the minimum wage to rise faster than productivity in recent years, in order to offset the historically low minimum wage, making it an unsustainable approach over the long term.

5 Workers are entitled to a job-loss allowance of a month's wage per year worked if they lose their job due to structural or technological change or other economic reasons, or to a severance allowance of half a month's wage per year worked if either their employer or they terminate their contract.

Vietnam's unemployment insurance (UI) system is one of the more developed elements of the country's employment program and is the main protection for formal sector workers in the event of job loss. Unemployment insurance is funded through a contribution of 1 percent of earnings from each of the employee, employer, and the state (in case the UI fund is in deficit). The system is designed to cover livelihood expenses[6] and to link unemployed workers to training and job search resources—although up-take with the vocational training programs has been low. Nevertheless, since UI is linked to formal employment, its coverage rate is quite low. Only around 25 percent of employed workers in Vietnam were insured in 2018, and only 10 percent of those who were unemployed received UI benefits. The government has set an ambitious goal of reaching 50 percent coverage by 2020, although this will be very challenging given the prevalence of informal employment (Betcherman and Moroz, forthcoming), and this was subsequently revised to 35 percent in 2018 under the Resolution no. 28.

The UI program is administered by Employment Service Centers (ESCs), who receive unemployment applications, process payment claims, and offer counseling and training during regularly required visits from beneficiaries. Although there is a lot of regional diversity in ESC activities, the delegation of these administrative responsibilities to ESCs has resulted in their activities being centered more around serving UI beneficiaries than around their actual mandate of helping *all* job seekers find quality employment (Mazza, forthcoming). In most of the 98 ESCs nationally, staff time is heavily allocated to administering the unemployment insurance, while the job counseling and vocational training to assist re-employment of unemployment insurance beneficiaries is far too limited to be effective. In essence, the staff functions remain largely clerical rather than customer service oriented. Despite their mandate to serve all job seekers, ESCs primarily serve unemployment insurance beneficiaries, who are usually low-skilled, formal (manufacturing) sector employees. As a result, most job-seekers perceive ESCs as places that distribute UI benefits, rather than places that can assist the general population in job search. This lowers demand from the population for ECS services.

6 Recipients are eligible for 60 percent of their monthly wage from the previous 6 months, in addition to allowances for vocational training, health insurance coverage, and a reemployment bonus. Those contributing to the insurance for 12-36 months receive benefits for 3 months, with one extra month added for every extra year of coverage.

SP DELIVERY SYSTEM INTEGRATION

Beyond weaknesses in the three policy pillars of the system, the SP system as a whole suffers from fragmentation as each pillar seeks to reach beneficiaries independently of the others. This is especially noticeable with the system's delivery network, whose performance lags behind that of other middle-income countries. This network must be able to distribute both financial benefits (such as social assistance or social insurance benefits) and services (such as employment services and vocational training). Currently, each pillar has its own processes for delivering benefits, even though there is not much of a difference in the mechanics of how the benefits from the various SP programs could be distributed. For example, the process for delivering social insurance cash benefits is not so different from doing so for social assistance benefits, even though distinct delivery networks currently exist for these two programs (Anand Raman. 2019). Service delivery, meanwhile, is slightly more complex and underdeveloped, and is an area that will require more attention in the future. Front-end service delivery processes, along with programs' information management, will need reform to increase their efficiency and improve client orientation. This fragmentation is exacerbated by how manual delivery systems remain, relying on weak digital systems specific to given ministries or programs. This leads to the system being cumbersome and inconvenient to clients who need to receive services and inefficient for the ministries overseeing these processes.

- **A range of all-of-government and agency-specific initiatives have been implemented to reform delivery systems.** For example, under decisions 714/QD-TTg of 2015 and 708/QD-TTg of 2018, the Government plans to link six national priority databases, including the social security database and potentially the MOLISA SA and poverty database, to improve the sharing of citizen and enterprise data across agencies. Furthermore, in 2017, the Government approved the creation of a national database of social security programs to improve the delivery of social security services to citizens, streamline administrative procedures, enhance effectiveness and efficiency, and reform service delivery by promoting on-line services. The Government has also been making a concerted effort to increase the digitization of government systems and to strengthen e-government services (e.g. Resolution 64/2007/ND-CP on government agencies' ICT use, and the 2011-2015 National Program on applying ICT to government activities). These initiatives have met with some success. In 2016, Vietnam achieved an improved level on the UN E-Government Development Index, ranking 89th out of 193 countries (up ten places from 2014) (UNESCAP 2016). However, a major challenge remains the lack of inter-operable platforms that could be used to harmonize digital platforms across ministries and programs.

- **However, the underlying systems are not yet in place to make these reforms effective at achieving their goals and reforms are slower for SP service delivering system as compared to others**. For example, since 2014, the government has promoted outsourcing IT services as a way of speeding up the use of ICT in state agencies and diversify funding sources for system modernization. However, government agencies have little experience in outsourcing tasks, and the national market for contractors who could supply these services is dominated by a small number of (often state-owned) players. There is lack of guidelines from central agencies on deploying this initiative. Lack of capacity to implement outsourcing public services has resulted in not only slowness but also dependency of government agencies on service providers in developing and managing contractual arrangements. In addition, there is no clear regulation or legal framework for data sharing and privacy.

- **International experience has shown that technology and Industrial Revolution 4.0 will have disruptive impacts on SP delivery systems.** The lack of a centralized government vision and of coordination across list agencies will limit Vietnam's ability to adapt to and take advantage of these the benefits that these new forces will bring.

Part

A vision for Vietnam's social protection system in 2030

03

Looking to 2030, the Vietnamese SP system will have to undertake significant reforms in order to meet changing demands. Vietnam's challenge is to create a cohesive system out of its three SP policy pillars that addresses the risks faced by all the people in a middle-class society—moving beyond the existing fragmented system that only serves the richest and poorest members of society. The system will need to address this large "missing middle" challenge if it is to provide the more comprehensive risk protection for all to which the Vietnamese authorities aspire. This reform process will involve significant trade-offs, as different parts of the system compete for resources, capacity, and political support. However, reform will increasingly be demanded from the public as the scope of the challenges facing the country become more widely recognized.

This section discusses the desirable SP system of the future for Vietnam, and the reforms necessary to achieve this vision. The first part outlines broad "directions of travel," outlining what an improved SP system in 2030 could look like, and how this differs from what exists today. The next part looks at the SP system and its three pillars to discuss the reforms that will be needed.

OVERALL DIRECTIONS

The role of the Vietnamese SP system will change by 2030 as it expands and becomes a more integral part of economic as well as social policy. The future system will increasingly need to be one that actively contributes to Vietnam's economic development by stimulating national savings to support inclusive growth and respond to an ageing population, promoting a more efficient labor market, and managing national- and household-level risks. Serving a changing country in a changing world, the enhanced focus will be one of supporting the country, households, and individuals during states of transition, be it from unemployment to employment; from states of poverty and vulnerability to ones of more stability and wealth; from youth to old-age; during a move from one job (or one sector) to another; during a move from one part of the country to another; during periods of sickness or injury, or in the aftermath of weather-related shocks. In doing so, this system will be meeting the changing needs of a middle-income population, with its expectations that the state and SP system provide universal and adequate protection in old age, support in finding jobs or better jobs, and deeper financial support in the event of shocks. Rather than a system designed simply to reduce rates of extreme poverty, Vietnam's future SP system will be one that contributes to national wealth accumulation, responds to new social dynamics and needs for improved risk management, and actively redistributes these gains to shape and support a middle-income society.

To achieve this, the SP system will need to place a greater emphasis on its "prevention" and "promotion" functions than it does presently, while continuing its core protection function for the poor and vulnerable. On one hand, its "prevention" programs, such as social insurance and ex ante disaster risk management, will manage shocks and periods of transition, and help smooth consumption for a much higher share of the population than currently. On the other, its "promotion" interventions will strengthen Vietnam's socio-economic foundation and promote sustained movement out of poverty for households. For example, long-run human capital acquisition will be promoted through early nutrition or schooling, while active labor interventions, such as employment services and targeted training and skills development programs, will help strengthen a labor force competitive in global markets. These programs will furthermore help redistribute wealth across Vietnamese society, reducing inequality.

An important element of this system is that it will be a universal one, accessible to all of the Vietnamese population. The SP system as a whole will be available to all irrespective of their employment in formal or informal jobs. Furthermore, the system will provide a range of support and care to all, including people with disabilities, victims of gender-based violence, the elderly, youth, etc., thus expanding inclusion in Vietnamese society. This does not mean that every element of the SP system would be available to all people at all times. Some elements, such as preventive programs, could and should be to all those who choose to participate in the system. Others, in particular targeted social assistance, would be available to all who are in need due to poverty, or unemployment or specific vulnerabilities (e.g., disability or very old age). It is important to think about such "progressive universalism" as applying to the SP system *as a whole* rather than that all benefits should be universally available at all times.

This expanded and more complex SP system will need a unified strategic vision and strong institutional coordination mechanisms that provide coordination across SP programs and policies. Across the three SP system pillars, the different agencies involved in the system will need to coordinate policy and delivery system reforms, which will require working beyond traditional policy and program implementation silos. In particular, coordination between social assistance and labor market policies will have to be strengthened, with the former increasingly moving from a system providing welfare handouts to one that promotes individuals' graduation away from social assistance programs.

This system will also need to be more flexible, especially in the face of climate change and potential future economic shocks. Beyond being well managed and coordinated, it will need to be capable of adapting to new forms of shocks that will require flexible policies and delivery system to scale up and down quickly in the wake of disasters.

Of course, this new SP system will require greater financial resources and improved financial management. In aggregate, it is estimated that the *incremental* spending requirements on the SP system will be somewhere between 2.5 and 4.5 percent of GDP by the 2030s, with the precise figure largely determined by the extent of pension reform and the breadth of coverage of non-traditional pension schemes. Some of that spending expansion would be financed for the next decade or more by drawing down reserves of the pension fund, though that financing source would be exhausted during the 2030s without deeper reforms and/or more rapid coverage expansion. This incremental financing need for the SP system compares to total general government revenues of around 23 percent of GDP in 2018 (IMF). Even though reform within the pension system might slow the rate of spending growth, Vietnam – as in all other ageing countries of the world - will inevitably have to increase its SP financing in response to demographics, as more resources are needed to pay for pensions and age-related care services. Furthermore, the expanded role of the SP system will call for enhanced spending on ALMPs, potentially on the safety net, and on supplementing households' efforts at risk management with budgetary subsidies to incentivize participation in contributory schemes for informal workers.

As coverage for the poor and "missing middle" expands, the existing boundaries between social assistance and social insurance will likely blur, and an increasing share of these financial resources will need to come from general

revenues rather than social contributions. While SP spending will have to be reoriented and increased over time, this will have to be done cautiously with an eye to macroeconomic and fiscal sustainability and will require enhanced efforts on the revenue side to increase tax and contribution collection and compliance.

Finally, SP service delivery will aim to become more dynamic and more client-oriented, especially as more non-government service providers become integrated into the system under government oversight. To date, the tendency has been for the state to seek to "do it all" in terms of setting SP policies, financing, delivery, performance management, etc. However, it has so far only had to do so for a minority of the population—broadly in the top third and bottom quintile of the income distribution. As the SP system's coverage expands, for-profit and not-for-profit organizations will likely step in in such areas as the provision of employment and care services. There will also be more contracting out of elements of the delivery system, such as payments and IT systems development maintenance, which will require new forms of oversight from the public sector. The entry of these non-government entities, however, will increase the responsibilities of the state in regulating their entry, coordinating their activities, monitoring the quality of their provided services, compensating their performance, etc. The state will therefore need new capabilities in outsourcing public services, regulating and managing public-private contractual partnerships, achieving a client-oriented mindset, and expanding tech-enabled services.

Transformative technology will play a critical role in the creation of a more coherent and effective SP system—though, once again, strong harmonization and inter-operability in the technology used across SP system will be critical. Vietnam has only just begun to realize the potential benefits of technology in its SP system, and there is enormous upside potential to use technology to transform most elements of the business processes and delivery of SP programs. Just as technology is a driver in the transformation of the Vietnamese economy, innovations in the realm of mobile and digital payments, biometrics, cloud computing, and big data and AI-driven data analytics could drastically increase the system's efficacy in SP service delivery (Box 1). Even though Vietnam faces a challenge in expanding SP program coverage to all segments of the population, technology has the potential to allow the country to take leaps, rather than incremental steps, in more efficiently expanding and improving coverage across the population, overcoming the existing challenges of informality and persistent concentrations of poverty. However, SP delivery systems will have to be inter-operable between the various SP programs, as well as with the rest of the government's platforms. The SP system will increasingly rely on all-of-government platforms, including a new national ID system, integrated revenue collection with tax and other agencies, common G2P payment platforms, and more integrated front-end citizen services. The wider e-government agenda in Vietnam to date remains largely uncoordinated, though efforts such as the planned inter-operability of key national databases are policy steps in the right direction.

Box 1. Mobile Money: Financial Technology with Profound Implications for Social Protection

Mobile money is growing in popularity and importance, especially in low and lower-middle income countries. According to the latest *State of the Industry Report on Mobile Money* published by the GSM Association (GSMA), by 2018 690 million mobile money accounts had been registered worldwide, an increase of 25 percent from 2016. Importantly, the most rapid growth in mobile money and digital commerce is taking place in Africa and Asia (Pasti 2019). In Asia, China leads the way in moving away from cash as the primary means of engaging in market transitions, and this shift also appears imminent in South Asia's larger economies. In Vietnam, mobile money has not been in operation so far, though government is planning to pilot mobile money for value of under VND 10 million per month through three telecom companies – Viettel, MobiPhone, and VinaPhone, and VinaPhone and Viettel are ready to provide services as they already have Financial Intermediary Licenses. Mobile money service providers will have to be capable of dealing with money laundering, illegal payment, terrorist support, etc. and protecting client benefits.

These technologies make more economic activity (production and consumption) observable to formal entities, thereby expanding the ways in which SP systems can serve people currently employed in informal sectors. For one, methods of financing social insurance programs can be overhauled. When governments cannot track informal economic activity, it makes sense to finance traditional insurance program using an earmarked, statutory levy on payroll. However, the new visibility of economic activity allows for alternate means of serving informal sectors at lower transaction costs. Second, Government to Person (G2P) cash transfers to the poor can now be made digitally. This reduces the costs of delivering benefits to SP program beneficiaries—especially as digital identification technologies lower the transaction costs of these payments, generating savings that can help finance the broader SP system. Furthermore, digital G2P payments helps extend financial inclusion to people living in or close to poverty, who historically operate outside the formal financial system. By creating an incentive for people to open formal bank accounts, these payments can also advance other social protection agendas, including increased savings rates. For example, in Aadhaar, India, the efforts of financial service providers to reduce their "Know Your Customer" (KYC) costs using digital authentication technology led to more people holding bank accounts.

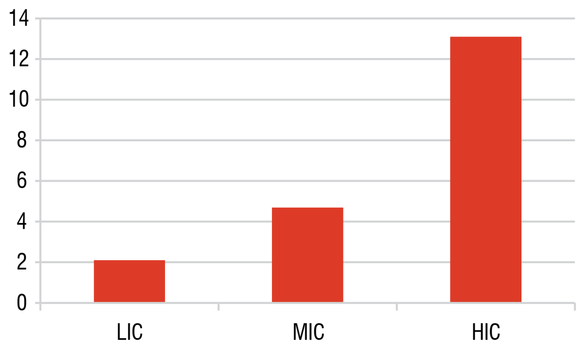
ACHIEVING THE VISION

The future Vietnamese SP system should use a whole-of-government approach to coordinate programs and agencies to efficiently distribute benefits and services across the population. Notably, this system needs to be able to finance an expanded range of programs and to distribute two forms of deliverables: money (such as pensions, SA benefits, UI) and services (such as social care, ALMP services). Just as the various programs and pillars must be re-designed to strengthen each other at the policy level, so the financing and delivery systems for each of the programs should complement each other, consolidating when possible and minimizing the use of duplicate or parallel networks or information systems. This section looks at the steps that should be taken to reform the SP financing and delivery systems, as a holistic entity, to achieve its 2030 vision.

(1) Develop a strategy for financing a larger and more complex SP system. It is unlikely that the full package of reforms outlined in the vision for 2030 would be affordable in the absence of significantly improved revenues performance, as the bulk of incremental SP spending would come from general revenues.

- **As noted above, a more effective and inclusive SP system will require more spending on social protection programs over time, a need exacerbated in Vietnam by rapid ageing.** Globally, two trends have emerged over time in social protection spending. First, SP spending as a share of GDP tends to increase as countries progress from low to middle to high income status (IMF, various years and DFAT 2013). This is largely driven by increased spending on pension and social insurance programs. However, in Vietnam's case, given its below average spending on social assistance and employment-related benefits and services, it would be expected that incremental SP spending would be needed for these pillars of the system also. The second trend is that countries at all income levels are spending somewhat more on social protection over time as a share of total government spending as well as share of GDP, and the relative increases are higher across LICs and MICs (IMF, 2014).

Figure 10: SP spending rises as a share of GDP as country income levels rise (total SP spending as % of GDP, weighted by population)



Source: DFAT 2013.

- **If the Vietnamese authorities are going to achieve their coverage expansion targets for pensions, it will almost certainly be necessary to provide more significant financial incentives for informal sector workers to participate in the pension system on a voluntary basis**. Experience from a growing number of developing countries shows that it is very difficult to make progress on bringing informal workers into formal SI schemes without public subsidies to incentivize participation. In Vietnam, this approach has already been used to good effect in the case of health insurance premiums, which are covered in whole (for the poor) or part (for the near-poor) from budgetary funds. While there is a voluntary subsidized pension program, the subsidy is too small to incentivize voluntary participation from the informal sector, and there are currently only around 545,000 people in the scheme. Given that the pension fund is projected to move into cash flow deficit in the early 2030s, the capacity to fund similar matching incentives for informal workers from contribution revenue is shrinking, and it is likely that incremental budgetary resources would be needed.
- **Given that general revenues would need to account for the bulk of incremental SP spending needs, reform of how the SP system is financed will also require improved revenue mobilization by the country's tax system.** A progressive income tax system is the ultimate administrative asset for financing and sustaining effective risk-sharing policies, though implementing such a tax system will remain a formidable challenge for Vietnam for the foreseeable future. Instead, the more intensive use of a value added tax is likely to be a more realistic approach for Vietnam in the foreseeable future. A more effective value added tax could be complemented by the improved collection of more progressive and currently under-exploited revenue sources (e.g., property taxes) and through novel revenue instruments (e.g. carbon taxes; improved taxation of the digital economy) [7].
- **Reforms of the SP system and the tax system will have to be undertaken in tandem to account for how the net incidence of general revenues impacts household welfare.** Recent global experience demonstrates that VAT and other consumption taxes can generate high revenues, but that they can also have regressive effects in the absence or insufficiency of compensating transfers for poorer households. The impact of various revenue instruments thus should be considered as part of a comprehensive assessment of the net-effect on households of the public transfer and tax system (Lustig, 2018). Table 6 provides a framework for thinking about different revenue sources along these and other dimensions.

7 World Bank, 2015, Exploring a Low-Carbon Development Path for Vietnam.

Table 6. Revenue Instruments Assessed by Various Criteria

Revenue source	Revenue potential	Growth Friendliness	Redistributive Potential	Administrative Costs	Compliance Costs
Personal Income Tax	Variable	Low	High	High	Medium/High
Corporate Income Tax	Medium	Low	Low	Medium/High	High
General Consumption Taxes	High	Medium	Low, if no offsets	Medium	Medium
Excise Taxes	Low/Medium	Medium	Low	Low	Low
Property Taxes	Low/Medium	High	Medium/High	High	Medium
Social Security Contributions	Medium	Low	Low	Low	Low
"Green" taxes	Low	Medium/High	Low/Medium	High	Medium
User Fees	Medium	Medium/High	Low	Medium	Low/Medium
Royalties	Medium/High	Low	Low	Medium	Medium

Source: Ter-Minassian, 2018.

The financial considerations of the whole SP system will have to be considered when reforming its three pillars. Existing fiscal constraints imply that SP coverage expansion will have to be gradual, requiring prioritization and sequencing as additional resources become available. However, additional finances should be generated as reforms of the various parts of the system leads to program consolidation, a more efficient delivery network, and spending re-allocation across the system. Throughout the reform process, policymakers will have to carefully consider the trade-offs between expanding coverage and ensuring adequate benefit level delivery. For instance, the same budget envelope could be used to rapidly expand coverage if benefit levels are kept low, though pushing benefits down too much would mean that the program risks having negligible impact on poverty and living standards.

(2) Client interfaces should be integrated across the SP system. At present, program beneficiaries must engage with each SP program individually. As the SP system integrates, so should the means through which beneficiaries enroll in, participate in, and receive benefits from SP programs. To start, policymakers should:

- **Develop a robust national identification (ID) system built on both foundational and functional ID platforms.** A robust ID system is a crucial input for any integrated SP system, enabling the authentication of beneficiaries' identity when providing services online,[8] and facilitating the sharing of information about beneficiaries (e.g. income, benefit levels) across SP programs. These systems also have indirect benefits from creating a reliable means of identity authentication that can also be used during interactions between third parties (e.g., health providers or banks). This ID system should be built using two platforms:

  (a) **a foundational ID platform** that provides individuals with a universal form of identification using a set of unique attributes, such as biometrics, to confirm that a person is who they say they are and thus establishes legal proof of identity. Within a single registry this platform would validate the identity of registered individuals and remove duplicate registrations. It would also support identity confirmation when payments are made, although these authentication services can

8 For example, by using an ID card, card reader, and PIN, or else with a mobile app and one-time password.

be decentralized. Across the SP system, a foundational ID platform would serve as the primary key enabling data exchange across such administrative systems as the tax, civil registry, health insurance, or education systems—reducing the amount of information that beneficiaries must provide to access program benefits, coordinating SP programs and integrating their case management, and improving "last mile" service delivery monitoring. Such data sharing mechanisms however, require clear protocols and a legal framework that protects personal data and privacy enabled by the appropriate technology.

(b) **Functional ID platforms** that are used for specific programs—unlike the foundational platforms that underpin the SP system as a whole. Even with the foundational platform, certain programs might need to create functional IDs in addition to using foundational IDs, such as when programs serve household units but need to identify the individuals attached to each household unit served.

- **Standardize targeting methods for identifying and enrolling beneficiaries in targeted programs.** A range of targeting methods and thresholds are currently used across SP programs. While some are effective, targeting errors (over-inclusion as well as improper exclusion) remain significant, and it is inefficient for both clients and administrators to be administering multiple targeting processes. The creation of robust identification systems and data management registries that are inter-operable across SP programs (see below) will greatly facilitate the more unified targeting of program beneficiaries. This would also enable the system in which people apply for benefits to be more "on demand" and dynamic.
- **Expand outreach efforts to enable two-way communication to all members of the Vietnamese population, especially ethnic minorities and people living in remote areas.** Program beneficiaries must be able to receive information, while program administrators and service providers must be able to listen and respond to their changing needs. Digital technology will be especially important for filling existing coverage gaps. Notably, such information as guidance on rights and responsibilities, program enrollment requirements (including required supporting documents, and procedures, etc.), or local service availability can all by placed online, including in ethnic minority languages. Furthermore, digital initiatives can enable special outreach initiatives for target groups (such as youth or women) that work with local organizations to identify potential beneficiaries. Effective communication is needed to ensure all stakeholders are knowledgeable about their roles and responsibilities, and to ensure the system's transparency and accountability.
- **Consolidate front-end service delivery points across programs, prioritizing the use of one-stop shop digital service windows.** It is increasingly difficult to justify having multiple front-end points of contact across the SP system since increased coordination across programs would make it possible to achieve the same degree of proximity to clients while using significantly fewer resources. Web-based services, and especially digital service windows (or one-stop shops), will be especially important for facilitating people's interaction with the SP system. Such systems make it easier, for example, for people to apply for benefits or services, receive notifications and updates about their benefit levels or program status, or submit feedback about their experience in a program. Chatbots are another simple technological tool useful for helping people undertake simple tasks, such as scheduling appointments or asking questions.

(3) Build a national data sharing platform to allow for interoperable data management systems within and across SP agencies and programs. Globally, there is growing emphasis on using "social registries"—harmonized SP information systems that serve multiple programs—as the foundation of integrated SP delivery network.[9]

Enabling more efficient data management and exchange across agencies helps minimize the burden of data collection, verification, and updating. In Vietnam, an interoperable social registry could eventually replace the periodic poverty census as a means of identifying and targeting program beneficiaries, since household welfare could be assessed through a real-time cross-check of government databases on household income and assets.[10] Such harmonized data systems have been built following a variety of physical and virtual trajectories, and so Vietnam is in a position to learn about the challenges to and possible outcomes of integration and interoperability from other MICs. Important take-aways from other countries' registry formation are that it is best to:

- **Ensure that the appropriate legal framework is in place to protect personal data and that the relevant regulatory body can implement it.** This would imply, for example, that any data sharing be subject to strict, formal protocols based on the consent of individuals. This would entail strengthening the existing legal framework in Vietnam.
- **Increase the use of 'privacy by design' technologies so as to minimize risks of misuse of personal data.**
- **Take a 'whole of government' approach** in designing a detailed database integration strategy that advances the 'once-only' principle of information systems, wherein participants only need to supply key information to authorities once. This is the planned approach of the GoV initiative to link the major national databases (including the VSS database and various existing databases within MOLISA), but to date progress on building some of the other national databases and on linking databases as they come online has been modest;
- **Stagger the integration process**, starting with a few key programs and then scaling up to fuller and wider interoperability of information systems over time;
- **Invest in the quality of data sharing systems**, since weaknesses in one program will spread across an integrated network;
- **Continue expanding authentication and data services** (including e-signatures) to strengthen the role of national ID a platform for service delivery and digital economy in Vietnam.

It should also be noted that while creation of a national database of social security programs, and streamlining administrative procedures can enhance effectiveness and efficiency, technology is only an enabler in this endeavor. It is important for Vietnam to learn from different platform architecture models (Brazil, Turkey, Mexico, Chile, Indonesia, etc.), to inform their own choice of adoption of the most appropriate platform architecture model.

(4) Modernize and integrate SP payment systems into common platforms for government-to-person (G2P) payments. Vietnam has implemented digital payments across various government programs and should expand this trend to SP programs, where it currently lags regional and global comparators in the share of SP payments being made digitally (Anand Raman, 2019). Beyond making the delivery of program benefits more efficient, digital G2P payments can advance financial inclusion objectives by increasing the use of bank and other transaction accounts (Box 1). Such a system would need to:

Streamline the payment process, cutting out unnecessary intermediaries. To this end, the State Treasury could consider allowing payments from its Treasury Single Accounts to reach the accounts of beneficiaries directly. This has already been implemented for salary payment and could be expanded to SP benefit payments.

9 See World Bank (2018) and DFAT (2017) for review of global experience with social registries in SP programs and beyond.

10 Reforms have been made to the 2015 Poverty Census, yet the process of classifying households using a combination of proxy means test (PMT) and multidimensional poverty index (MPI) remains complex in a way that has the potential to undermine transparency and accountability.

This is feasible in the near future, including for SP payment, given the recent development of payment infrastructure in Vietnam. There are also instructive examples from the region of accelerated transitions to widespread digital payment for SP benefits, e.g., Indonesia, which moved from a minority of payments for social assistance being made digitally to around 96 percent digital payment within 1-2 years.

- **Apply digital payment to ensure that the correct amount is efficiently distributed to the right people at the right time.** Periodic social assistance, social insurance benefits, and payments for other programs managed by MOLISA, should be delivered directly to beneficiary accounts through banks or other payment service providers within easy reach of beneficiaries who should be able to freely choose their provider.
- **Supply e-payment delivery alternatives to traditional bank accounts given the limited banking infrastructure in some rural and remote parts of the country.** A legal framework should be put in place to support development of bank agents and correspondents to serve this purpose. Experience from other countries show that commercial banks could provide payment services at no or very low fee in exchange for having guaranteed access to SP beneficiaries, who could be potential clients for their services. Vietnamese financial institutions and mobile network operators have the financial, technological, and network capacity to deliver digital payment services, and now simply need legal permission to engage in these activities. In the short term, a pilot program could be created that allows certain private financial institutions to participate in the delivery of digital payments for a limited number of SP programs.

(5) Build the capacity of the SP system's human resources. As the SP system and its delivery network get more complex and technology-driven, the skills required from those managing and implementing them will also need to increase. Thus, reforms are needed to:

- **Strengthen the case management system to facilitate the coordination of SP benefits and services.** At present, no explicit mechanism exists at the local level to connect social assistance beneficiaries to health, education and poverty reduction services. However, social workers could be trained to identify people's needs and link them to the proper programs, while case and personnel management are further integrated across programs. Furthermore, innovative tools exist to facilitate this process, such as a system of managing, triaging, and monitoring client flows in the front office, as well as an integrated case management system that supports screening, intake, enrollment, eligibility, case and benefits management, and case dispensation. Furthermore, global experience indicates that programs combining cash transfers with case management can lead to significant improvements in development outcomes.

Box 2. Pilot of E-payment for SA benefits for Ethnic Minorities in Cao Bang, 2019

While 80% public sector employee salaries and 21% of pensions are paid directly into individual bank accounts, 100% of Social Assistance payments are still made manually in cash. The payment is made at some fixed time (a particular day in month), at a fixed place, and in full. This has been cited as challenges for both beneficiaries and fund administrators as it is not flexible, costly in time and travel, not very transparent and reliable, and it take a month for reconciliation between fund administrators and payment providers.

There are in all approximately over 7 million citizens who receive some form of government payment in Vietnam today. Following international experience, Vietnam is seeking to move to electronic payments to take advantages of its transparency, reliability, cost-effectiveness, and flexibility for both beneficiaries and fund administrators.

Key challenges facing Vietnam in moving to electronic payments include: i) Low bank branch penetration at 3.4 bank branches per 100,000 people, owing to which traditional bank branch based benefit delivery is infeasible in rural areas; ii) Lack of standardized identification proof in order to open accounts; iii) Expensive account opening and maintenance fees levied by banks; v) unavailability of a wide network of cash-in / cash-out points that can allow people to open some form of electronic money account, and deposit or withdraw cash conveniently, not too far from their homes. As a result, a large percentage of clients who are rural or remote, do not have a bank account. And for those who have bank accounts, there is no payment points close to their home to withdraw money from their accounts.

Currently, Vietnam Social security (VSS) allocates 0.78% of the total pension payments towards payment costs. Social assistance scheme is allocating between 350.000 VND to 500.000 VND per commune for payment fees (except in case of large size commune). This is to cover payment expensive by VNPost or commune payment agents.

An e-payment pilot is proposed for SA program in two districts (Quang Uyen and Thach An) in Cao Bang, which aims to reduce transaction costs for beneficiaries and increase system's accountability and transparency, while not to increase current payment cost to the (government) fund administrators. Under this pilot, SA beneficiaries will be able to open individual accounts in which they will: 1) receive their SA benefits transferred directly into their accounts; 2) could check the balance via their mobile phones, 3) could pay for goods/ services (at participating vendors) via their mobile phones; and 4) could withdraw cash (in full or partial) from their accounts at payment points on more regular basis (8 hours per day, 3-7 days per week).

Two payment providers participated in the pilot: Viettel in Quang Uyen and VNPost in Thach An district. The payment pilot is planned for 6-month period from July to December 2019. After the 6 months of pilot, 100% of SA beneficiaries in Quang Uyen have an individual account, of which 70% had cashed-out and 30% wanted to save money in their accounts. In Thach An, 50% of beneficiaries had bank accounts, and 50% had VNPost payment card (as they did not have adequate documents to open bank accounts). The Seabank and VNPost are finding solutions to open bank accounts to more beneficiaries. Initial findings show that beneficiaries seem to be exciting about having an individual account and they could keep their money there and can withdraw money in more flexible ways. In Quang Uyen, both district Treasury and DiVLISA staff and managers are highly appreciate the fact that reconciliation could be done immediately after benefits are directly transferred to individual accounts instead of waiting to the end of the month to do so as doing manually in the past.

- **Prepare a well-trained cadre of professionals to staff and manage the SP service and benefit delivery network.** The future SP system will be more complex, spanning a wider variety of benefit- and service-delivery programs. More social workers and professionals trained in social benefit and service delivery will be needed to manage this delivery network. In richer countries, social work and social care services have proven to be major sources of jobs creation, suggesting that demand will only grow for workers trained in these areas. Vietnam has already proposed measures to strengthen the legal framework for and tertiary education of social workers, yet the implementation of these must be accelerated. Furthermore, new models of training will be needed to meet emerging demand for new or adjusted skills across the delivery network, especially for case management.

(6) Increase government capacity for oversight and evaluation as more diverse actors take on a larger role in SP benefit and service delivery.

The state will no longer have the capacity to be the sole actor across all aspects of the SP system and will need to strengthen its capacity to act as the overseer of the system as a whole. MOLISA and VSS, for example, will have to take on greater responsibility for contract management as private actors become more involved in providing such services as long term care. More specifically, there will be need to:

- **Strengthen program performance monitoring using an evaluative framework that assesses how programs can be leveraged to promote inclusion and strengthen coordination.** This framework should include (a) an overview of the results chain for SP delivery systems; (b) the identification of performance indicators for delivery systems (both broad and program specific); and (c) a review of the types of monitoring and evaluation tools commonly used with delivery systems. To design this framework, clear performance parameters and expectations will need to be defined since SP targets are more limited in definition than those used in other sectors. Furthermore, performance management must account for the diverse client base, and avoid standardizing measures or targets in a way that would create perverse incentives that encourage poor service delivery or neglect harder to service populations.
- **Strengthen the culture of program evaluation to assess where the country is getting the best value for money and social impacts as well as the progress and impact of processes consolidating of front-end services, reskilling human resources, and deepening public-private partnerships.** A first step in this regard is improving household level data. While Vietnam has a well-developed statistical and household survey system, the surprising absence of panel data on SP programs means that rigorous assessment of SP (and other) program impacts is restricted. Existing cross-section data should also be made more freely available to researchers to encourage deeper analysis of SP program impacts and cost-effectiveness.

REFORMING THE THREE SOCIAL PROTECTION PILLARS

Though certain reforms must be made for the SP system as a whole, steps must also be taken to improve each of the three pillars of the system and address their unique challenges and weaknesses. This section looks at each of the three pillars of the SP system, discussing their individual 2030 vision goals and the reforms that will be needed to ensure that the pillars effectively support broader systemic reforms.

Vision for social insurance (pensions)

There is no ideal pension system for every country situation, as different pension systems develop under different historical, cultural, political, institutional and developmental circumstances. The critical test of a pension system is how efficiently it delivers adequate retirement income to a broad segment of the population in a financially sustainable manner, while accounting for labor market conditions, investment returns and costs, and systemic sustainability. The challenge of pension reform is to balance the three (sometimes competing) objectives of coverage, adequacy, and sustainability. The SI pillar of the SP system of 2030 should have increased the fiscal sustainability of the existing VSS pension program while ensuring adequacy of financial protection and developing programs to expand coverage to a broader share of the population—notably workers from the informal sector. The proposed system should have four parts: a reformed VSS contributory pension for formal sector workers; an innovative scheme for informal sector workers which draws on budgetary subsidies; a social pension providing an income floor to those without sufficient formal pension benefits; and an expanding private pension system for those who can afford to save more. While each reform is important, sequencing will be important. The GoV has listed key reform areas in their Action Plan for Resolution no. 28 and coverage expansion is very high on the agenda. However, simply expanding coverage of the current formal system before making its design financially sustainable may delay deficits in the medium term but will only make them larger in the long run if the underlying system is not designed to achieve financial balance. Thus, the four elements (and associated sequence) of a future proposed pension system are discussed in more detail below:

(1) Reform the formal-sector contributory system (VSS) to make it financially sustainable. This must be completed before the VSS can safely expand its coverage so as to avoid dramatically increasing long-run deficits. The GoV is planning to undertake another round of pension reform to build on the progress made in 2014. Attaining financial balance of the pension system can be achieved by:

- **Gradually increasing the official retirement ages and closing the retirement age gender gap**. **Most** Vietnamese workers are more than capable to work past age 60, especially as life expectancy and healthy life expectancy are rising. For rural people, they already often work well into their 60s and even 70s. With a rapidly ageing workforce the SP system should be encouraging people to continue contributing to the economy, rather than retire early. Steadily raising (by 4-6 months per year) and equalizing the retirement age also makes sense to increase equity between formal and informal workers, as well as between working men and women. Global experience suggests that increases in the retirement age should be gradual yet should implemented as soon as possible.
- **Reducing the financial incentives for early retirement.** Recent reforms introduce procedures that make it harder for participants to be qualify for early retirement, but there has been no change in financial incentives. The conditions for receiving these early retirement pensions need to be carefully reviewed, and the benefits for those who retire early should be reduced by at least 6 percent per year to reflect the longer period of time for which payments will be made (rather than the current 2 percent).
- **Reforming the accrual, indexation and valorization rules.** To overcome the challenge of high average accrual rates despite low absolute pension values, recent measures expanding the base for contributions beyond participants' basic salary (to include allowances, bonuses and other compensation) are a welcome step. In addition, annual accrual rates should be further reduced to levels more comparable with regional neighbors even as the absolute level of benefits is either held constant or increased. Similarly, benefits for both public and private sector workers should be equalized on a more accelerated basis than allowed for in the 2014 reforms. Rules for indexation and valorization of past wages should also be more predictable. The vast majority of OECD countries have shifted to automatic price indexation because it is simple to administer, relatively affordable, and protects the purchasing power of pensions after retirement.

(2) Reform the existing matching contributory scheme to design a more subsidized and dedicated pension scheme for informal workers, with an aim to increasing the coverage of the social insurance system. Global experience suggests that it is very difficult to mandate that informal workers participate in the regular formal sector social insurance scheme. Global progress over recent decades in bringing informal workers into fully contributory schemes has been very modest for the most part. While it is difficult to predict with precision, the maximum pension coverage rate that Vietnam could expected if they attempt to do expand coverage without subsidizing informal worker contributions would be around 35-40 percent of the workforce by the mid-2030s, a period in which the share of elderly population will increase sharply. In contrast to the current purely contributory VSS system, a more effective system for informal workers would use a matched contributory scheme. A successful system would:

- **Create mechanisms for informal workers to conveniently interact with the system during enrollment, contribution collection, and**

pension delivery. Systems tailored to informal workers are fundamentally different from those designed for the formal sector, and the points at which they interact with the system have to be easily accessible and ubiquitous across the country. Digital technology will play an important role in enabling facilitated, paperless enrollment, among other functions. Other countries that have created new informal sector pension programs have either created new mechanisms for workers to interact with (India), or added these points of contact to existing networks, such as in retail outlets (Mexico). It may also be useful to build on recent international experience with respect to nudging coverage expansion. Specifically, auto-enrollment has shown to be effective in some cases. Moreover, electronic reminders can be useful. Nudging and soft influence can also happen through "aggregators" such as associations of workers. For example, in Kenya the pension regulator identified a need expressed by mini-bus drivers for smoothing incomes and established a structured and regulated savings scheme to address their needs. Similar efforts have been tried with aggregators in the Philippines. In principle, this approach could be considered in Vietnam. However, global experience also suggests that schemes without significant financial incentives has generally not resulted in significant coverage expansion.

- **Provide stronger financial incentives for workers to make contributions towards their pension**. Above all, it is imperative that channels to collect contributions innovate beyond the employer-mediated collection methods used in the VSS system. Instead, a system targeting informal workers should combine a number of financial incentives, including matching workers' contributions using state budgetary resources (a so-called matching defined contribution approach).[11] Contribution rules should also be simplified to acknowledge and accommodate irregular incomes (e.g., several countries with MDC schemes require only flat contributions annually to avoid having to measure incomes of informal workers and to accommodate the seasonality of their incomes). Finally, the various components of this system can be designed to include behavioral "nudges" that encourage worker participation and contribution.

- **Rely where possible on common platforms to identify participants and manage their accounts.** This system would need to be able to track individuals throughout their lives. Furthermore, investments should be made at scale to deliver the costs and efficiency to informal sector workers that is usually only available for the better off.

(3) Expand the social pension to provide an income floor for those without contributory pensions, especially from the informal sector. Even if expansion of the purely contributory and matched contributory schemes is successful, there will still be a large stock (and probably future flow) of elderly who will not accumulate an adequate contributory pension prior to retirement (especially the lowest earners who cannot set aside funds even with higher matches). To provide this group some old age financial protection, it would be advisable to lower the age threshold for the social pension from the current 80 years old to closer to 70. Defining the fiscally affordable level of social pension requires modeling future demographics and different age thresholds and benefit levels. It will also help to consider the

11 See Holzmann et al (2014) and Holzmann et al (2020) for global reviews of matching defined contribution (MDC) pension schemes.

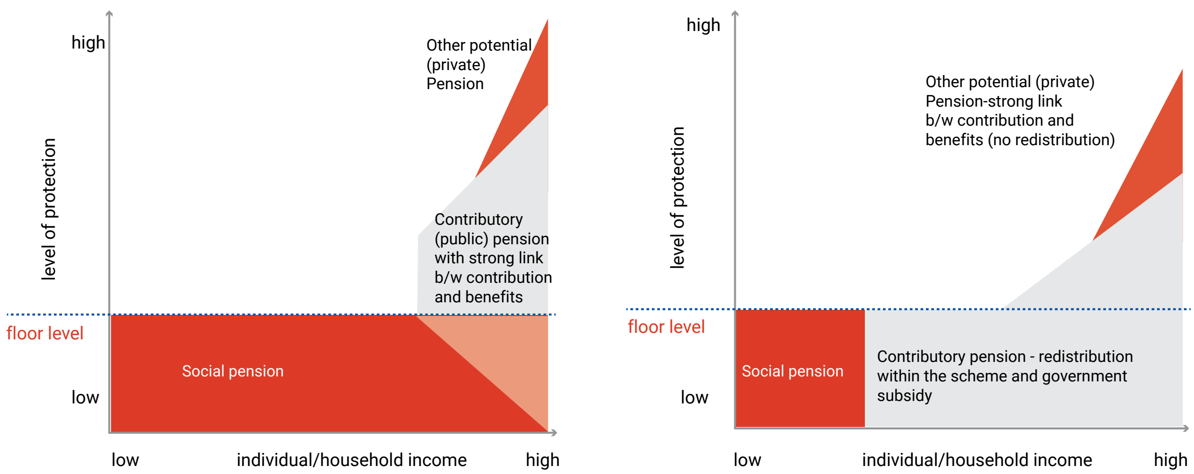
cost-effectiveness and distributional effects of matching contributions, and how / to what extent scarce fiscal resources might be better targeted towards poor and vulnerable elderly. If the social pension is not targeted beyond pension testing, one option is tiered benefits depending on age (increasing benefit at certain ages, which happens in India and Thailand for example). This could be universal (probably excluding those receiving a formal sector pension, as Thailand does with its social pension), or potentially widely targeted.

(4) Expand voluntary private pensions for those able to save for old age above and beyond the VSS contributory schemes. Since replacement rates on the VSS scheme will need to be reduced to achieve fiscal balance, workers will need to be encouraged and incentivized to save additional funds for their own retirement. To make the current private pension pillar successful a robust supervisory model is needed ahead of the launch of the first pension plans. There are some good safeguards in the existing system such as the use of custodians. But it is essential that there is strong supervision by the Ministry of Finance also.

The design of the voluntary savings instrument has an important impact on the incentive for informal workers to contribute. The experience with micro pensions in East and West Africa for example suggests that social insurance savings accounts need to have a substantial portion which can be accessed prior to retirement in the event of hardship or life-threatening needs such as medical care or natural disasters. If this could be designed in the way that such accounts could be seen more as "Social Protection Savings Accounts" rather than contributions to annuities at retirement age, this may be more attractive for some workers.

Policymakers will have to decide how to strike a balance between these four pillars of the pension system, as trade-offs will exist in how spending will be allocated between them. A particularly important decision will concern how best to use the social pension and informal sector contributory pension to support informal sector workers. There is no one "correct" way to build this system, and two alternatives are presented in Figure 11.

Figure 11. Alternative approaches to wider financial protection coverage for the elderly



Source: Giang (2014), based on Knox-Vydmanov (2012) and Galian (2014).

(5) Improve government capacity to manage pension fund investments. VSS should be given the flexibility, over time, to invest in a wider range of assets in Vietnam, adding corporate bonds, high-quality equity investments, and overseas assets to its portfolio to ensure that returns on assets can best meet liabilities. As the national pension fund portfolio diversifies, it will be necessary to have an investment governance framework that emphasizes risk management, controlling costs, matching assets and liabilities, and maximizing long-term returns, and that is grounded in an agreed risk-return profile, and well-defined operational policies and procedures on fund management and oversight. It will be important to ensure adequate investment expertise and member representation in governance arrangement, and that a clear distinction be made between the task of setting overall investment strategies and rules and of managing day-to-day investments.

In the context of e-government and e-transactions development in Vietnam, compliance monitoring and electronic verification of wages could also be enhanced to discourage under-reporting of wages. And improvements can be achieved by linking social insurance and corporate income tax databases to establish a risk-based approach to compliance.

Vision for social assistance

The SA Pillar of the future SP system should be a streamlined and well-coordinated collection of programs that achieves its core protection functions for the poor and vulnerable also leveraging human capital development and supporting economic growth. Rather than an ad hoc collection of programs each designed to address a specific set of social needs, the new system should follow a more coherent approach to cash transfers and service delivery that supplements the programs and policy initiatives of other segments of the SP system and government. As noted, it is likely that Vietnam over time will need to spend more than its current low allocation on social assistance, though some of the funding for the incremental spending may come from reallocation of current spending on consumer subsidies and other poorly targeted welfare programs.

(1) Consolidate existing social assistance policies and programs into a smaller number of better designed flagship household poverty-reduction programs:

- **Smaller SA programs should be combined within a core set of flagship programs whose benefit levels are adequate and delivery mechanisms are harmonized and rationalized.** These programs should be designed as poverty-targeted household transfers. In such programs, the common base transfer(s) to all poor households could be supplemented with additional support according to individual sources of vulnerability, such as the presence of infants, young children, the elderly, or persons with a disability in a household. Note that this household transfer does not preclude support through other programs, such as social pensions, but should aim to minimize their proliferation. Striking this balance is politically and administratively challenging, but several countries have succeeded in achieving this outcome having started with fragmented social assistance systems not dissimilar to Vietnam currently, including Romania, Georgia, Mexico, Brazil and China.
- **These flagship programs will require greater coordination between the ministries that provide SA benefits and services, as well as with the wider anti-poverty and SP system.** The spatial concentration of poverty suggests that programs targeting poor areas remain important, but that they should be synced with household-based social assistance programs so that they together provide a coherent package of support that addresses multiple vulnerabilities. Harmonized information and delivery systems would help make possible the inter-agency coordination that this systemic overhaul would require (see below).

- **Existing program functions should be unbundled to ensure that current institutional mandates are appropriate.** For instance, the provision of regular social assistance support should continue to rest with MOLISA, along with responsibilities to promote demand for and access to these services. However, MOET and MOH, among others, could share the responsibility for supplying social services, while MOF should be responsible for developing and managing payment systems.

(2) Harmonize approach for eligibility determination and benefit levels across programs. This harmonization would build on the program consolidation process and would facilitate the expansion of SA program coverage in the medium to long term. This process would include:

- **Clarifying the objectives of program eligibility thresholds, and applying these thresholds consistently, efficiently, and fairly across programs.** At present, a lot of variation exists in how eligibility and benefit levels are determined. This will require Vietnam to decide on the objectives of each of their programs. For example, as countries reach higher income levels, they transition from a SA focus on supplying basic subsistence towards one on providing for basic needs or even enabling a relatively "decent living" standard. The difficulty here is that, once a SA system moves beyond a focus on supplying absolute needs, there is no definitive answer on what the appropriate threshold is for program eligibility. Thus, after Vietnam has decided on the objectives of its programs, it can determine its own objective criteria setting thresholds for program participation that align with those objectives.
- **Adjust benefit levels across programs to provide adequate financial support and adjust using a standard rule.** It is important that benefit levels balance the need to adequately protect the poorest participants while remaining fair to all beneficiaries. Vietnam's SA system has no formal process for adjusting social assistance benefit levels to maintain their real value. This results in effective protection levels being uncertain and varying across different groups and programs over time. This is a relatively simple problem to address and can be accomplished by adjusting social assistance benefits payments according to an index, such as consumer price inflation, and applying this indexation rule consistently across programs over time. Another method would be to calculate the benefit as percentage of average household monthly consumption expenditure for the poorest quintile and adjust accordingly each year based on the VHLSS. Alternatively, SA benefit level could be calculated as percentage of basic salary which is already indexed annually based on CPI. And as government has strong commitment toward ensuring average living standards for everyone by 2030, the target for SA benefit could be set for example as 10 percent of average household monthly consumption expenditure for the poorest quintile (equivalent of VND550,000 in 2020), or 30 percent of basic salary by 2030 (equivalent of VND480,000 in 2020) to be modest.

<u>Undertaking the reforms above will be challenging and would benefit from a phased approach.</u> In the initial stages, fiscal constraints and the need to build the case for an enhanced SA system would likely mean that achieving better programs and outcomes within existing resources would be the feasible approach, while the medium to long term would assume increased resources for SA as a share of government spending and GDP to bring Vietnam to a level of SP spending which is more aligned with spending in other middle income countries (see below under integrated discussion of SI and SA). More specifically:

- ***<u>Phase 1</u>: Consolidate existing policies/programs assuming a steady budget as share of total government spending***. The guiding principles for consolidation in this phase would be: (i) consolidate *across* policy/programs into a smaller number of policies/programs; (ii) aim for streamlining *within* each policy/program by simplifying eligible criteria and developing rule-based and data informed criteria and indexed benefit levels to protect their real value rather than discretionary criteria and fixed nominal benefit levels. The rules should be as simple as feasible and minimize administrative cost to process eligibility. For example, if ethnicity is a criterion, there should not be further conditions on the specific location. There should also be a reduction in the existing number of beneficiary sub-categories (as for example in Decree 136 article 5 and 6) and associated benefit levels which makes the system hard to understand for clients and complex to administer.

- **Based on this policy consolidation, business processes could also be reduced and simplified.** This would require first to consolidate *information* so that eligibility could be determined and/or reconfirmed based on an interoperable information system (that various program databases are linked and shared information). It would then require consolidating *processes across* policy/programs to avoid overlapping and increase policies/programs' performance and transparency. As a result of iii), shared and interoperable information system will allow various policies/programs to explore relevant information for their policy/program delivery and management. As such, many business processes could be streamlined and/or cut, such as beneficiary identification, verification, payment, monitoring and reporting, etc.
- ***<u>Phase 2</u>: Beyond the "core" agenda for reform of existing SA programs, over time Vietnam could design the flagship social assistance programs so that they contribute more explicitly to wider socio-economic objectives beyond short run poverty alleviation.*** While the poverty alleviation objective of SA remains important, in a middle-income country where absolute poverty will cease to be widespread, social assistance can aim to leverage other productive outcomes. This includes potentially supporting human capital investment through conditional cash transfers, promoting productive welfare approaches so that more SA beneficiaries eventually exit the system and move sustainably out of poverty, and building household resilience to shocks. SA programs can play an important role beyond poverty reduction, but this thinking needs to be built into how these programs are designed. **Specifically:**
- **SA programs should promote human capital outcomes.** Investing early in the nutrition and early development of young children, for example, can have significant long-term benefits for them, while also benefiting the broader economy which will reap the cumulative rewards of a more skilled, healthier, and more productive labor force. Vietnam does not generally use SA programs in this way, but other countries in the region (the Philippines, Indonesia, Lao PDR, Tonga, and Myanmar) have begun using conditional cash transfers (CCTs) to leverage human capital outcomes along a range of dimensions.[12] Global experience indicates that significant improvements in health services use, school enrolment rates, and in some case maternal and child nutrition can be achieved through a combination of: (a) a stimulus to demand (through cash transfers); (b) an increased supply of quality health and nutrition services; and (c) community-level information interventions that promote appropriate behavioral change (Bastagli et al, 2016). A system that successfully promotes human capital also needs strong case management to provide tailored support, both through cash transfers and social care services, to individual households. The conditional element of such transfers can be "hard" (beneficiaries are taken off the program for failure to comply with conditions) or "softer" (whereby either there are multiple opportunities for households to re-establish compliance or there is not a strict requirement to comply but use of information, social norms and peer influence to incentivize compliance). Whether

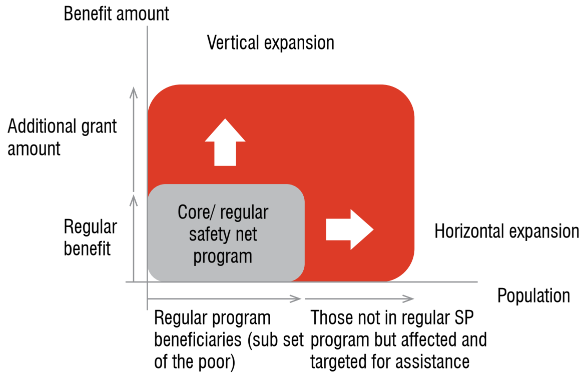
12 See Bastagli et al (2016) for a review of global impacts of CCTs on health, education and nutrition outcomes.

hard or soft conditioning, it is important to complement the cash benefit with targeted social and behavioral change interventions for beneficiaries to influence the behavior of households and increase the take-up of the targeted services.

- **SA programs should promote productive welfare by encouraging recipients who are able to graduate from the welfare system.** Social welfare beneficiaries should be thoroughly profiled upon entry to programs, program exit policies and graduation strategies should be elaborated, and deeper and more systematic coordination developed with agencies outside the social welfare sector (including NTP livelihood initiatives) that will provide support to individuals to help them sustainably exit the welfare system.

(3) The SA system can build household resilience to shocks by implementing an adaptive social protection (ASP) program design. ASP uses two interrelated approaches: (1) building the resilience of households that are most vulnerable to shocks; and (2) increasing the responsiveness of social protection programs so that they can adapt to and meet changed needs on the ground after shocks have materialized. This latter approach requires that SA programs be designed to be more flexible and scalable so that they more quickly adjust to address post-shock needs while extending coverage to a greater share of affected households. In other words, these programs can both "scale out," providing temporary services to affected households that normally are not SP beneficiaries (i.e. horizontal expansion), and "scale up," temporarily increasing benefit levels to existing SP beneficiaries during times of acute need (i.e. vertical expansion) (Figure 12). To be fully effective, SA programs would need to be more fully integrated with disaster relief programs. The ongoing pilot in Can Tho provides lessons for how to promote close alignment of disaster response and social assistance programs.

Figure 12. An adaptive SA System could respond to shocks using both vertical and horizontal scaling on a temporary basis



(4) Strengthen the aged and long-term care (ALTC) system. This system is of particular importance to Vietnam as it addresses the need to care for the growing number of elderly members of the population without requiring working age household members to drop out of the labor force to become caregivers. International experience shows that a social care service market will not emerge in the absence of government interventions, but that the benefits of such a market make government interventions and financial support worthwhile. Specific steps to develop the ALTC systems would include:

- **Develop an actionable strategy to diversify the types of available care services providers.** First, this will require increasing private sector participation in the delivery of social care services. These private actors should be encouraged to provide home-based, community-based, and institutional care options to households of all income levels. Second, the social care workforce will need pathways towards formalization to facilitate oversight that ensures that the system can provide consistent levels of quality services. This formalization should include frontline caregivers as much as healthcare professionals and social workers. Finally, sustainable financing mechanisms should be designed to make care services, and especially aged care services, affordable for those who need it.

- **Strengthen the government regulatory and oversight capacity to guarantee that both public and private service providers supply a high and consistent quality of social care.** MOLISA and related agencies will be responsible for setting and enforcing clear "rules of the game" on such issues as service quality and mechanisms for coordinating with medical/health service providers. Licensing, accreditation and oversight standards will need to evolve, and performance monitoring will need to prioritize service quality and client outcomes rather than the quantitative indicators of performance currently used. Fundamentally, this transition requires that the government go from being a direct supplier of social care services, albeit for a small fraction of the population, to be a purchaser and regulator of services provided increasingly in the private sector. China's reforms in this regard provide many insights for Vietnam (World Bank, 2019 which summarizes Chinese reforms in aged care).
- **Strengthen coordination between the social care system and other relevant government entities.** First, the social care system will need to be well coordinated with the health care system. Furthermore, cooperation with MOF will also be crucial on such issues as ensuring that the taxation of and creation of tax incentives for non-profit and for-profit social care service providers. Finally, local governments, NGOs, and volunteers will also need to strengthen their cooperation and coordination.

Bringing social insurance and social assistance together into an integrated SP system:

In moving towards a future SP system for Vietnam, it is important to think holistically across social assistance and social insurance and how general revenue and contributory financing come together to provide a basic minimum package for all citizens for different risks. Vietnam already has the precedent in the case of health insurance subsidies for the poor and near-poor that shows how the traditional line between social assistance (non-contributory) and social insurance (contributory) is blurring. This same policy logic can inform the architecture and financing of the future system of social protection subsidies, whether of the traditional type as social assistance transfers, or as matching subsidies to incentivize participation of informal sector workers in contributory pension schemes. Figure 13 below lays out how this might look and is guided by a few key principles:

- A guaranteed social minimum package of transfers should be funded from general revenues and include both a reformed (and streamlined) set of social assistance benefits *and* the budget-financed subsidies which would be required to ensure that all citizens get basic coverage for the core risks of old age and health. For health insurance, this is already happening for a significant share of the population through HI premium subsidies for the poor and near-poor. The guaranteed minimum would also include financing of an elderly social pension for elderly people without an adequate contributory pension from a lower age than currently (e.g., from 70 years old, or perhaps slightly younger).
- There should be a consistent and standard way to define the level of guaranteed social minimum package of transfers to be applied across all kinds of transfers such as SA benefits, survival benefit, social pension, as well as the government subsidies under matching contribution for SI voluntary participation. As mentioned above, a guaranteed social minimum package of transfers could be calculated as percentage of average household monthly consumption expenditure for the poorest quintile or as percentage of basic salary. Some principles should be established to ensure equality and encouraging contributory SI participation. In particular, the design of the social pension, in terms of both eligibility and level should not discourage participation in the contributory or subsidized contributory scheme. During

a transition period as the contributory scheme matures, participants may receive a combination of contributory and non-contributory pensions until the latter is no longer necessary to reach a certain minimum guarantee.

- The mandated and contributory part of the pension system should be financed in a financial sustainability manner which removes internal cross-subsidies and avoids distortions such as incentives to retire early. It would provide financial protection above the minimum level and provide income smoothing over the life cycle for individuals who contribute to the mandated system. For the foreseeable future, this would be a reformed DB pension system with various parameters reformed to make the system financially sustainable.
- Beyond these two core elements of the SP system, behavioral "nudges" could eb developed which could encourage people with higher means to undertake supplemental savings, e.g. through default opt-in arrangements. This would require, however, improvements in the regulatory and supervisory environment.[13]

Vision of active labor market programs

Labor programs are made more challenging in Vietnam by the high level of informality, which has implications for both passive and active labor programs. Informal workers do not contribute to or receive benefits from unemployment insurance or severance programs as they are currently designed. Most ALMPs, including employment services, wage subsidies, and training programs, have traditionally been designed to benefit formal-sector workers and to lead to formal-sector wage jobs. Thus, one challenge is to adapt these types of programs when most employment opportunities are in the informal sector, either in informal wage employment or self-employment.

To effectively support job seekers, Vietnam will need to integrate and improve the performance of its unemployment insurance, job search, and training systems, while integrating the working poor. Active labor market services are core elements of an effective and coherent SP system and should be an important area for focus in the face of changing nature of work as a result of IR 4.0. The ALMP Pillar of the future SP System should go beyond simply providing income support to formal workers during times of unemployment, as it currently does, and instead focus on helping all workers, formal and informal, prepare for (through skills training), identify, and get higher quality jobs.

(1) Expand the focus of ALMPs beyond the unemployment insurance (UI) system to include job search and vocational and education training (VET) systems. The existing ALMP system is overly focused on the provision and administration of UI that it is failing to adequately fulfil its re-employment functions. Though the UI system is successful at allocating resources for a small subset of workers (in the formal sector), UI funds not allocated to monthly benefit payments can be used more efficiently if used serve a broader population, including job seekers that did not pay into the UI system. Most notably, these funds could be used to enhance the job-seeking services of ESCs and to support re-training via the VET system.

13 See World Bank (2019).

(2) Strengthen job search services by enabling ESCs to fully realize their mandate of providing job search support to the full labor force, including non-UI beneficiaries from the informal sector. ESCs currently prioritize UI administration and benefit delivery and must be encouraged and given the resources to place a greater emphasis on providing job search and matching services. And such job search and matching services would need increasingly to be more customized to the needs of specific sub-groups of jobseekers, including women, ethnic minorities, youth and people with disabilities. This would require:

- **Designing a national performance-based budgeting and administration framework.** Such a system would measure the success based on achieving desired job placement outcomes rather than the completion of administrative tasks. This would require greater leadership from the Employment Bureau in defining the mission and roles of ESCs, allocating financing, and monitoring performance across all ESCs.
- **Enhancing ESC staff performance.** This would require revising the organigram and the terms of reference of ESC staff to emphasize their job counseling function. Furthermore, ESC staff should receive intensive and continuous training on job counseling techniques, labor market trends, and means of undertaking outreach to employers.
- **Developing an inter-operable network of job banks across ESCs, along with a national labor market information system.** Job banks and a labor market information system would provide information on job vacancies, general labor market trends, training opportunities, careers options, etc. and could be accessed and used by job counselors, students, parents, and job-seekers. The Employment Bureau should be empowered to acquire the hardware, software, and statistical staff to work with the ESCs and the local labor markets to develop this network of information. In this process, Vietnam can benefit from the lessons of global and regional experience with employment services. ICT is already transforming labor market intermediation virtually everywhere, with digital platforms that can cater to a wide range of jobseekers and employers. Online data are also useful for timely analysis of labor demand trends, skills being sought by employers, etc. Providing real-time labor market information can improve programming in many ways.
- **There should an increased emphasis on helping specific groups with relatively unfavorable labor market experience improve their access to employment.** These include the following: profiling beneficiaries; recognizing the multidimensionality of skills (soft, enterprise, vocational) in training; linking interventions to markets; linking to complementary services (e.g., health, education, transportation) to address the multiple barriers to employment that many vulnerable people face; and systematic performance monitoring and evaluation (DFAT 2017).

(2) Reform the training sector to provide VET institutions with increased autonomy and capacity to prepared workers in ways that meet industry demand.

- **Implement a results-based financing system.** VET institutions should continue to by publicly financed, but funds should be allocated as a function of results, such as the number of graduates and employment rates upon graduation. Furthermore, special allocations should be made for vulnerable populations as well as a *limited* number of priority occupations determined by national patrimony or by growth industries.

- **Use autonomous governance to increase the quality and market responsiveness of the VET system**. Under a more autonomous system, higher-quality institutions attract public funding due to their higher results along with private funding in the form of tuition payments from an increased number of students. Meanwhile, poor quality institutions, unable to receive financing, will fail. This system would be more efficient better at identifying and adapting to shifts in labor market demand. MOLISA and other relevant agencies could contribute to this process by collecting and sharing information on VET institution quality so that students and job counselors can better assess their options when selecting their training courses. Notably, this system would require that VET institutions have full autonomy over decisions such decisions as staff, tuition, curriculum, course offerings, books and materials, other inputs, etc. State actors, meanwhile, would restrict their involvement to oversight, information collection, and financing.
- **Develop information, accountability, and financing systems to underpin reforms across the VET network**. First, an information system would capture data on outputs and outcomes and be comparable across VET institutions. This would be essential when increasing the use of results-based financing. Second, an accountability system would provide each actor in the system with clear performance indicators and the decision-making power to achieve them. Third, since tuition payments are set for cost-recovery of higher-quality services, a financing scheme will need to be developed so that students with limited incomes have access to the VET system. This scheme could include expanding scholarship programs in conjunction with developing a student loan system that aligns repayment terms with the human capital accumulation and employment.
- **Increase engagement with private enterprises**. MOLISA should establish an Office for Enterprise engagement, while supporting VET institutions to establish their own subsidiary offices. The role of these offices would be to systematically reach out to enterprises using mechanisms appropriate to the local context and each VET institutions' mission. This would help align the activities of the VET system with the labor market activities and demands of the private sector.
- **New approaches to promote training that focus on individual learners are also promising.** The prevalence of informality and the likelihood that most people will not be employed in large organizations for entire careers make new approaches to training and employment programming necessary. Learner-centered approaches tailor human capital development solutions to the needs of individual learners. Such programs tie program financing to individuals through instruments like individual learning accounts, individual tax incentives, or learner subsidies. Korea for example has individual training accounts (under the Learning Card Program), where participants cover 25-45 percent of training costs, with exemptions for vulnerable groups, and can opt for any authorized training course for up to a year of training.

Figure 13. Reform process to achieve 2030 vision

Social Insurance:	Social Assistance:	Labor Market Programs:
1. Reformed contributory pension scheme which is more financially sustainable with adequate benefits 2. Subsidized pension for informal workers with simplified design and higher matching 3. Expanded social pension to age 70 or lower 4. Gradually expanded private voluntary pillar 5. Strengthened public financial management, investment practices and governance of pension fund.	1. Program consolidation around a limited number of flagship initiatives 2. Strengthen SA programs to advance human capital, productive welfare, and disaster resilience outcomes 3. Build common platforms for SA delivery in targeting, payments, and front-end services • Strengthen the long-term care system, defining who is eligible for what services from public funding.	1. Expand ALMP focus beyond unemployment insurance to include job search and training for jobseekers 2. Strengthen job search and matching services 3. Build LMIS to inform training and job matching functions of PES and VET. 4. Increase VET provider autonomy and linkages to employers.

Systemic Delivery and Organizational Frameworks

Common national ID (ideally biometric) system to embed in and link all SP delivery systems

Business process streamlining and digitalization and full information system interoperability across SA, SI, ALMP and core government DBs in tax etc. as part of overall e-government reforms

Common G2P payment architecture, fully digitized and mobile

Integrated case management to manage HH transitions and access to care and employment services

• SI intake/registry further simplified • Contribution collection aligned with tax administration • Outreach + enforcement at firm level using technology and risk-based enforcement	✓ Consolidate client front end of SA/ALMP/other social programs ✓ Consolidate SA/ALMP program intake/registry ✓ Interoperable social registry to service all SA, ALMP, other social programs ✓ Outreach common at population/household level ✓ Common grievance mechanism across SA programs

Systemic Financing:

• Contributory financing for formal sector	• Contributory Mixed/MDC pension for informal sector • Incentives/Tax treatment	• Increased general revenue financing to support SA and matching subsidies for informal sector pensions

The following table lays out in broad terms the key building blocks of a future SP system for Vietnam, with the current situation and then how that element might look in 2030 in a more modernized and effective system. It is a snapshot of some of the key reform elements discussed in the sections above.

Table 7. Main pillars in current situtation and in the Vision for 2030

	Current situation	The Vision for 2030
Institutional	Absence of inter-agency coordination mechanism to promote coherence across the agencies and pillars of the SP system.	High-level coordination mechanism (likely under OOG) in place to ensure coordination of policies, programs, and delivery mechanisms across all pillars of SP system (social assistance; social insurance; ALMP).
	Limited presence of non-government/ private players in SP system delivery, and low capacity of public sector to contract with and regulate private partners.	Increased role for not-for-profit and profit private players in elements of delivery chain and system management, and provision of employment and social care services. Capacity developed for public sector to license, accredit, contract, monitor and regulate private partners in SP system.
	Different SP-related agencies (DOLISA, VSS, PES) have separate offices and client front ends and business processes	Front end client services are fully co-located or potentially integrated under a common SP/social service agency for great client convenience and efficiency of public administration.
Policies and Programs	Multiplicity of fragmented social assistance programs largely categorically determined with no flagship/backbone social assistance program on which others layer. Limited coverage of the working poor	A flagship/backbone targeted social assistance program which is needs-based and available to all types of households/individuals. Supplementary benefits/program use delivery platforms of flagship program.
	Significant coverage and spending on "national devotee" groups whose eligibility linked to war and other acts of national service	Continuation of national devotee programs but with substantial fall in beneficiary numbers and spending due to mortality of merit beneficiaries
	Non-contributory social pension widely available only for those 80 years and above, and very tightly targeted from 65-79 years	Modest social pensions (either pension tested, affluence-tested or means-tested) available over 65-70 years of age and eligibility age linked to rising life expectancy.
	Limited linkage and coherence between social assistance and large NTP area-based anti-poverty program	Social assistance programs designed with greater emphasis on productive inclusion" and sustained movement out of poverty, and gradual balancing of resources between SA and NTP programs, with enhanced emphasis on former
	Contributory pension scheme not financially sustainable and misaligned with labor market needs to incentivize longer working lives, especially for higher skilled workers.	Parametric reforms of DB pension scheme introduced in early 2020s (e.g. retirement age; accrual and indexation rates) have set the contributory system into financial balance with basic adequate benefits. At least 40 percent of workers participating in contributory scheme and matching defined contribution scheme with adequate general revenues funding covering a further 30 percent of the labor force.
	Around one quarter of active labor force contributing to pension/SI programs	
	Investment rule and governance of VSS	
	Private voluntary pensions minimal and regulatory capacity for oversight nascent	

	Current situation	The Vision for 2030
Delivery System	Fragmented identification and registration systems across SP and other social programs which do not reliably ensure uniqueness of individuals	A biometric national ID which is used across all SP and other public programs which ensures unique, deduplicated identification of individuals and is linked to financial transactions & benefit payments
	Five yearly poverty census as primary tool for identifying poor households using proxy means-test, with annual community updates and validation	On-demand/anytime system for assessment of the poverty status of household requesting it, with real time cross checks of public and banking databases to validate the self-declared welfare status of households. Assessment criteria could remain PMT-informed.
	Benefit payments done largely in cash at limited number of service provider delivery points and monopoly or duopoly public sector payment providers	Payments are fully digitized on mobile platforms with wider choice of public and private payment providers and beneficiaries able to access payments at any payment service point with automated data exchange and settlement between financial service providers.
	Data exchange and MIS partially linked between subnational and national levels within SA, SI, and ALMP systems	Full vertical integration within SA, SI and ALMP information systems, allowing real time data sharing around integrated business systems platforms.
	Data exchange across SP and other agencies offline and limited, with no system inter-operability and absence of common data standards and data dictionary	Full inter-operability of core GoV socio-economic databases, including national ID, VSS, MOLISA poor/vulnerable HH, tax and customs, etc. Interoperability would also facilitate real-time cross-checks of eligibility for SA and subsidized SI programs.
	Monitoring and reporting system is poorly done and real evaluation practice is lacking and/or weakly enforced	Standardized and well-designed monitoring and reporting system that is system-generated based on inter-operability and linkages between databases and MISs across government agencies and MOLISA programs
		Well-designed beneficiary feedback providing system is being an integrated and important part of the country M&E system

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This note outlines a long-term vision for the social protection (SP) system in Vietnam across three pillars: social insurance, social assistance and social care, and active labor market programs. The proposed vision could contribute to a more coherent, relevant, effective and efficient SP system in which the whole is more than the sum of its parts (and the parts are also reformed). It outlines the key elements of a future SP system more attuned to the needs of a middle/upper middle-income country that is navigating rapid structural reform and demographic transition, and transitioning from a focus on chronic absolute poverty to an increased emphasis on relative poverty, social exclusion and inequality. As Vietnam changes, so too its SP system will need to evolve and adapt to remain effective and relevant. This note is a contribution to the debate on the shape of such a future system.

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