

The Path to Vietnam's Welfare System Sustainability: Current State and Challenges

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Abstract

This research paper examines the Vietnamese welfare system, concentrating on its distinctive characteristics shaped by cultural influences, demographic demands, and the country's developmental trajectory. The four elements of Vietnam's social protection system are employment and guaranteed minimum income, social insurance, social assistance, and basic social amenities. The importance of cultural practices, such as street vending, in combating poverty and providing affordable food options cannot be overstated. However, the welfare system's sustainability confronts obstacles, such as low pension coverage, financial viability, an early retirement age, and limited participant benefits. The report suggests increasing pension coverage, enhancing financial viability, re-evaluating the retirement age, enhancing benefits, and bolstering social welfare programs. The purpose of these recommendations is to resolve obstacles and improve the sustainability of Vietnam's welfare system.

Keywords: Government; Economic and Social Welfare; Vietnam; Well-being; Welfare

JEL classification: I31, I38

1. Introduction and Methodology

The welfare system is an important component in the fight against poverty, the improvement of social conditions, and the general Welfare of a country's population as a whole. Vietnam has made progress in recent years toward developing and expanding its welfare system in order to meet the demands of its growing population. However, as a result of the country's continued development and the emergence of new socioeconomic issues, the viability of its welfare system may come under increased examination.

This research paper aims to describe and examine the current state of Vietnam's welfare system and identify the key challenges it faces in achieving long-term sustainability. The research paper also suggests possible recommendations for practical use.

In addition to conducting a literature review, the research paper employed text synthesis and description as supplementary methods. The literature review entailed examining and analyzing existing scholarly works, such as articles, books, and relevant sources, in order to obtain a thorough understanding of the research topic. Text synthesis was used as a methodology to generate new insights or perspectives by combining and reinterpreting information from multiple sources. The description played a crucial role in the research

methodology by providing detailed and evocative accounts or explanations of the subject of the research.

2. Social Welfare System and Social Protection

Koutronas (2017) defines social protection as a safeguard established by a society for its citizens; these safeguards consist of various public initiatives designed to ease economic and social hardships. Moreover, Docquier and Paddison (2003) did research on a related topic, and their analysis indicates that:

- Social security reduces the long-term growth rate and measurement of inequality;
- And growth can only be stimulated by a scheme that has to be entirely funded and partially based on earnings history.

McKinnon (2009) highlights that numerous social security administrations have demonstrated an ability of adaptation to evolving and new challenges on a global scale via their programs and policies. That means that social security systems can be defined as systems that are evolving and are able to adapt to new challenges and threats.

Vrba (2023) also adds that the effectiveness and efficiency of virtual organizations may be greatly increased via the use of modern technology like online communication platforms and cloud-based applications, which is also applicable to not-for-profit organizations in the field of social protection and welfare programs.

Social Welfare is also defined as the well-being of society, especially in the segments that are underprivileged or disadvantaged due to poverty, poor living conditions, poor education, or similar; however, the term can also be defined as social services that are provided to citizens and people by respective governments ("Social welfare definition in American English | Collins English Dictionary," 2023).

To make and conclusion, therefore, social Welfare is:

- Services provided by the government to people (Citizens and non-Citizens),
- Measurements to reduce inequality in society (e.g., accessible education for all people),
- Programs and initiatives that ease economic and social hardships of both citizens and non-citizens,
- The system that is evolving and constantly adapting to new challenges and threats.

The sustainability of the social welfare system has become a prominent concern in the modern era as we observe a continuous rise in expenditures associated with welfare programs.

Social welfare systems generally consist of two main components, which are economic components and social components, as presented by authors Slukhai and Borshchenko (2019). These components are further divided and/or influenced by, e.g., market reforms, human capital, economics, and gross domestic product (Slukhai and Borshchenko, 2019).

2.1 Service and its meaning in Welfare System

Social Service is a service that is provided by the provider to the recipient. It can be, for instance, a community-based counseling center that provides mental health support to individuals and families in areas with a high percentage of underprivileged citizens. Social services and the welfare system are closely interconnected since the welfare system consists of policies, programs, and initiatives that aim to promote the well-being and social security of individuals and families, e.g., via social services.

In social Welfare, there are basically three types of units which are:

- Issuer – the one who seeks Social Service for recipients, mostly governments which seek social services for their citizens from providers (e.g., the government seeking Social Service which would improve the quality of life of terminally ill patients),
- Provider – provider of the Social Service, company or individual who provides the social Service to recipients (e.g., Hospices, or an NGO which aims at providing education for underprivileged pupils),
- Recipient – the one who receives the Social Service (e.g., terminally ill patient in Hospice, or underprivileged pupils who receive additional free education).

The following figure shows the relationship between the three units in Social Service. It is important to note that issuer and provided may be (and in most cases is) identical institutions.

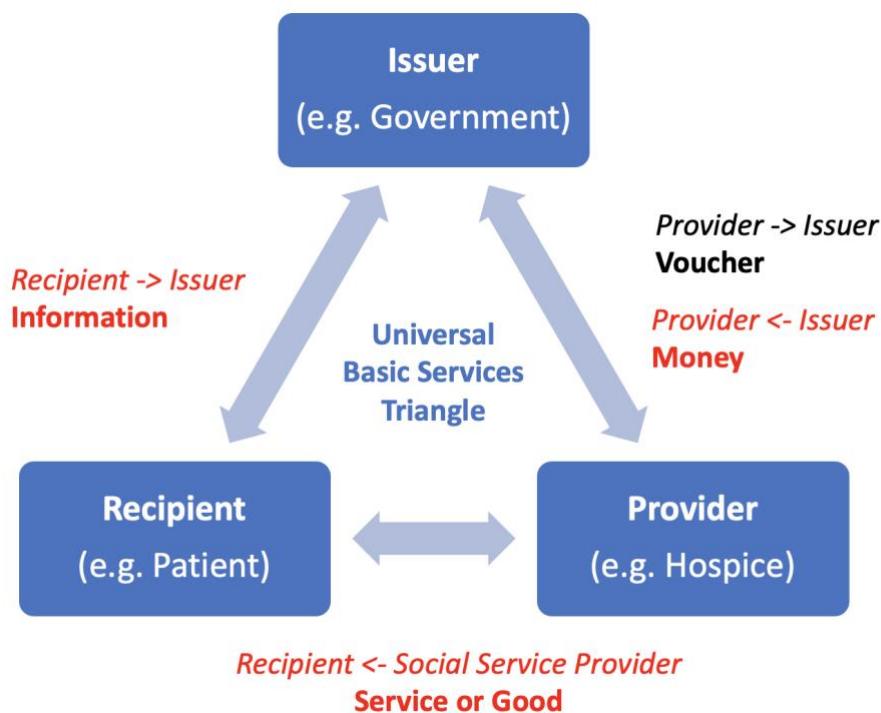


Figure 1: Universal Service Triangle – relationship between issuer, provider, and recipient of social Service within welfare systems.

Source: author, based on Bohnenberger (2020).

3. Current Welfare System in Vietnam

In this chapter, the author presents an up-to-date overview of the welfare system in Vietnam and its various components. It is worth noting that each welfare system in the World is likely to be unique and shaped by cultural factors, the needs of the population, specific challenges faced by the country, and its development trajectory. Consequently, it is natural that the welfare system in Vietnam, for example, may prioritize different aspects compared to the welfare system in Germany.

Vietnam's social protection system is comprised of four pillars. The first pillar emphasizes the government's efforts to provide citizens with employment and a guaranteed minimum monthly income; this pillar also aims to reduce poverty, and it focuses primarily on employment creation and other measures to alleviate poverty, as empathized by Nguyễn et al. (2013). This pillar belongs, e.g., job creation includes low-interest loans for the impoverished, support for vocational education, job search assistance, and various employment programs; and the primary objective of the first pillar is to combat poverty by promoting employment and facilitating access to vocational education for those who may not otherwise be able to afford it Nguyễn et al. (2013).

Social insurance is the focus of the second pillar of social security in Vietnam; there are three categories of social insurance: social insurance (voluntary and mandatory), unemployment insurance, and supplementary pension insurance, as presented by Nguyễn et al. (2013). The third pillar consists of social assistance aimed primarily at the most vulnerable members of society; regular social assistance comprises financial support; the third pillar of social security addresses social assistance in the event of unforeseen occurrences, such as natural disasters, as noted by Nguyễn et al. (2013).

The final and fourth pillar of social security in Vietnam comprises fundamental social amenities for the population; these services include support for education, healthcare (health insurance), and housing; in addition to the previously specified support, the fourth pillar of social security includes for instance also provision of water (safe drinkable water) and information to the population. An overview of the welfare system in Vietnam is shown in the following figure.

Previous research indicates that the expenses of Vietnam's welfare system have been on the rise; for example, the average expenditure of the welfare system per citizen increased from 236,450 VND in 2011 to 344,048 VND in 2018 (Vrba and Huynh, 2023).

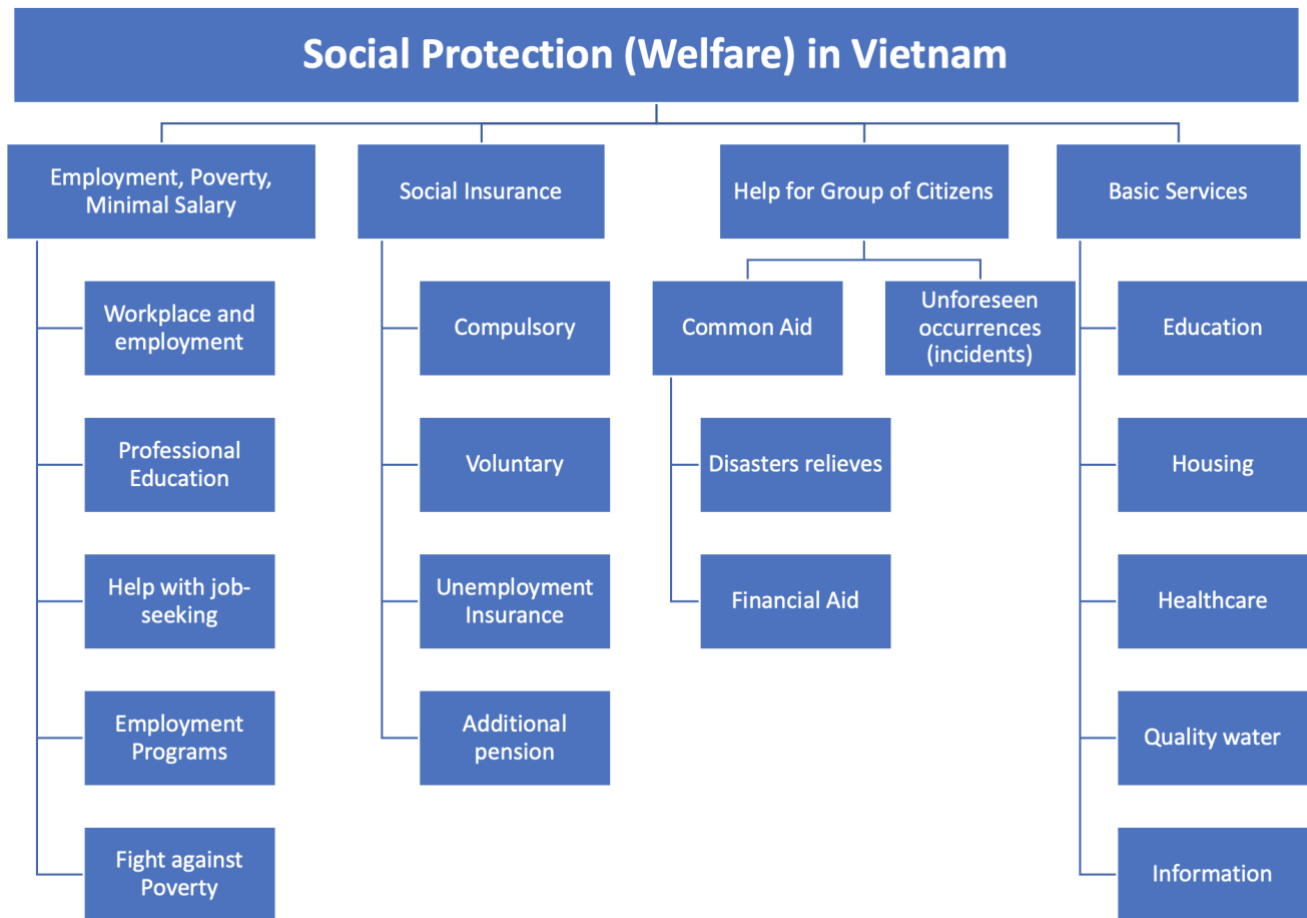


Figure 2: Welfare system in Vietnam and its four pillars.

Source: author, based on Nguyễn et al. (2013).

There are also economic components and aspects of Vietnamese culture that are significant for the Welfare System and combating poverty and low income. For instance, it is street-vendor selling, as mentioned by Huynh (2023). Huynh (2023) describes selling goods on the street as a crucial practice rooted in Vietnamese culture; this is because selling goods by vendors on the streets enables individuals with lower incomes to make a living. Huynh (2023) also mentions that street vendors give underprivileged individuals access to more reasonably-priced food options since eating at street vendor eateries in Vietnam is usually cheaper than eating in restaurants.

4. Sustainable Welfare System in Vietnam and its current challenges

As the functions of Social Protection Systems, in general, are Prevention, Promotion, and Protection, the main objectives of sustainable Welfare and Protection system in Vietnam shall be based on these three basic functions.

As The World Bank (2019) suggests, the basic socioeconomic macro trends that shape the welfare system in Vietnam are poverty decrease, a high level of informality in society, and

changing demographics; however, there are also negative aspects, that are lower labor productivity, and climate changes that affect Vietnam (e.g., natural disasters, changes in production).

To make welfare and protection systems sustainable, Vietnam still has to overcome certain challenges; the most notable challenges are the large percentage of the population that is not covered by any pensions scheme; the Financial sustainability of the system; Early retirement age, and low official retirement age (60 years for females and 62 years for males); and ability to provide more benefits for participating citizens (both voluntarily and compulsory) as the Report of The World Bank describes (The World Bank, 2019).

The official organ of the Communist Party of Vietnam describes additional challenges for the Welfare and Protection system of Vietnam to become sustainable, namely not extensive coverage of the social welfare system, limited resources for implementations, and not sustainable poverty reduction results from past years (Le, 2021).

The official organ also suggests that the focus of Vietnam's Social Welfare System in the upcoming years shall be placed, for instance, on improving social welfare system programs and mechanisms, diversifying human resources, modernizing the management system, and strengthening the accountability of policy-making and social Service providing agencies as mentioned by Le (2021).

5. Conclusion and Recommendations

This research paper presents an overview of the welfare system in Vietnam, emphasizing the distinctive features influenced by cultural influences, demographic demands, difficulties the nation faces, and its trajectory of progress. The four pillars of Vietnam's social protection system are employment and a minimum guaranteed income, social insurance, social assistance, and basic social amenities. Vietnamese cultural customs like street vending and economic factors contribute significantly to the nation's efforts to fight poverty and provide access to inexpensive food.

Vietnamese lawmakers cannot forget that the three basic functions of the welfare system are prevention, promotion, and protection, and these aspects shall be the basics for creating a sustainable welfare system in Vietnam.

The need to provide additional benefits to participating individuals, financial viability, too-low retirement ages, and the fact that a large segment of the population is not covered by pensions are current challenges that have to be overcome to make the system sustainable. There have been noted other issues and challenges, such as not sustainable results in reducing poverty and limited coverage, to name a few.

It is possible to address challenges and promote sustainability by following recommendations:

- Increase pension coverage: to address the large portion of the population lacking pension coverage by creating and putting into place plans to ensure that more people may take advantage of retirement benefits.

- Improve financial sustainability: take steps to make the welfare system more financially viable, such as looking at alternative funding options, allocating resources as efficiently as possible, and encouraging economic growth to bring in funds for social safety programs.
- Review the early retirement age and consider raising it due to changing demographics, a higher life expectancy, and the need for longer-term financial security.
- Increase benefits: to work toward offering citizens who take part in both voluntary and required social safety programs more extensive benefits, making sure to meet their needs.
- Strengthen social welfare programs: e.g., by diversifying human resources, upgrading the management structure, and strengthening the accountability of policy-making and service-providing organizations; social welfare programs can be made more effective and efficient.
- Concentrate on reducing poverty: to additionally dedicate resources and efforts to eradicating poverty by addressing its underlying causes.

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