AUSTRALIA-WORLD BANK GROUP STRATEGIC PARTNERSHIP IN VIETNAM

Vietnam 2035: From Strategy to Action

THE LABOR MARKET AND THE COVID-19 OUTBREAK IN VIETNAM: IMPACTS AND LESSONS LEARNED FOR SOCIAL PROTECTION
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Foreword

This note is based primarily on analysis of data from the Vietnam Labor Force Survey supplemented by administrative data from the unemployment insurance system and the World Bank’s COVID-19 response High-Frequency Phone Surveys of Households and Business Pulse Surveys. Annual Labor Force Survey microdata was available to the team up to 2018 with the exception of 2016, while quarterly data was available from 2018 to 2020. Data for 2016 was taken from official General Statistics Office reports where possible.

This report is a product of the Second Australia—World Bank Group Strategic Partnership (ABP2) in Vietnam. The team would like to express its gratitude to the Australian Embassy’s team of the Second Australia—World Bank Group Strategic Partnership in Vietnam for financing part of this work. The note was written by a team consisting of Harry Moroz, Nga Thi Nguyen, JJ Naddeo, Lan Chu (Institute of Labor Science and Social Affairs), and Sandor Karacsony. The note was prepared under the guidance of Yasser El-Gammal (practice manager for Social Protection and Jobs, East Asia and Pacific Region) and Carolyn Turk (country director for Vietnam). We are grateful to Quang Hong Doan, Anh Thi Quynh Le, Dorsati Madani, Jacques Morisset, Lieu Ngoxuan, Ngan Hong Nguyen, Van Cam Nguyen, Hoa Thi Thanh Nguyen, Hoang The Nguyen, Shawn W. Tan, Hardwick Tchale, Trang Thu Tran, and Judy Yang for their helpful inputs, comments, and assistance. The team is grateful for the excellent advice provided by two peer reviewers Aylin Isik-Dikmelik and Wendy Cunningham.
Executive Summary

This note summarizes the impacts of the COVID-19 outbreak on Vietnam’s labor market in 2020 and evaluates the social protection response to identify lessons learned for future crises. Vietnam’s labor market was shaken by the outbreak in 2020. But an effective containment strategy and a resilient economy mitigated the impact on Vietnam’s labor market, allowing for recovery in the second half of 2020. Vietnam deployed social protection measures to mitigate the impacts on households and firms from disruptions to the labor market that included a package of income support and wage subsidies for households and firms. Fairly strict targeting and eligibility requirements and implementation challenges meant that policy measures were not as effective as hoped. The policy response likely overlooked some impacted groups, and policy makers would likely have struggled to scale up the response in case of a deeper or longer crisis. By revealing these challenges, the COVID-19 policy response has made clear the urgency of reforms to strengthen Vietnam’s social protection system for both normal and crisis times.

The labor market impacts of the COVID-19 outbreak

The COVID-19 outbreak disrupted Vietnam’s labor market substantially in 2020, but the impacts largely dissipated by the end of the year. Overall, the labor market was around 1.6 million jobs smaller in 2020 than it would have been without the pandemic. Jobs declined most significantly in the second quarter of 2020 consistent with the imposition of widespread transmission control measures and the halting of international travel at that time. Employment growth stalled in manufacturing and services, which had offset a long-term decline in agricultural employment. The tourism sector was hit hard, particularly in Da Nang and other tourism-dependent locations. But employment growth returned in the third quarter and continued through the end of the year, consistent with transmission control measures disrupting, but not permanently destroying, jobs.

Increased inactivity and reduced working hours were the main channels of labor market impact during the height of the crisis in the second quarter. The overall decline in jobs resulted in a decline in labor force participation, which was steeper for women than for men in the first half of the year. Female labor force participation remained more depressed than male labor force participation at the end of the year. While unemployment remained low in 2020, the outbreak opened a gender gap in unemployment with female unemployment nearly twice as high as male unemployment at the end of the year. Working hours declined in the second quarter, particularly for low- and medium-skilled workers, as did monthly income, but these effects dissipated by the fourth quarter. Impacts on job quality were more persistent. When job growth returned in the fourth quarter, most was in more precarious (off-farm) self-employment rather than in wage work.

Lessons learned for improving social protection responses to future crises

Vietnam responded to the economic disruptions caused by the COVID-19 outbreak with a package of social protection measures. These included social assistance targeted to existing and new beneficiaries, including informal workers; suspension of social insurance contributions for firms impacted by the COVID-19 outbreak; and wage subsidies. The coverage of the social protection response was limited by challenges expanding assistance to new beneficiaries, particularly informal workers. This translated into low overall expenditures. Though benefits were generous for those who received them
compared to other countries in the region, the transfers provided fairly insubstantial income replacement for displaced workers.

**Vietnam’s COVID-19 response provides several lessons for responding more effectively to future crises.** Responses to future crises should be biased in favor of more ambitious action, including by providing more generous assistance with wider coverage early in a crisis and tapering to more targeted assistance once impacts are better understood. The crisis also demonstrated the importance for a quick and effective shock response of an integrated social protection system with common targeting, registration, and payment mechanisms that leverage digital technology. Finally, the crisis highlighted the absence of links between the prevention and protection components of the social protection system and its promotional aspects, particularly active labor market programs. Learning these lessons can help Vietnam build back better from the COVID-19 outbreak by creating a social protection system that more effectively and efficiently provides benefits and services to protect and promote the entire population during both normal and crisis times.

**Lesson learned #1: Bias social protection responses to future crises in favor of more ambitious action, and start preparing now**

- Keep targeting criteria, eligibility conditions, and application procedures simple to ensure that assistance can be delivered quickly, efficiently, and as intended.
- Favor more generous assistance with wider coverage early in a crisis, tapering to more targeted support as impacts are better understood and recovery begins.
- Leverage the unemployment insurance system by easing eligibility criteria, simplifying application procedures, and adjusting benefit levels and duration.
- Expand the use of automatic stabilizers by allowing wage subsidies financed by the unemployment insurance fund to be triggered in the case of economic downturns.

**Lesson learned #2: Develop a more robust and integrated social protection system**

- Develop an integrated social registry with a robust identification system as the foundation of a social protection platform that enables easier, faster, and more consistent identification, verification, and targeting.
- Deploy digital tools to make registration for social protection schemes more convenient and delivery of social assistance payments faster and more secure.
- To improve the shock responsiveness of the social protection system in the long term, decouple social protection from employment status, improve institutional coordination, and provide additional financial support to the social protection system likely through more reliance on general revenues.

**Lesson learned #3: Incorporate promotional measures into social protection responses to future crises**

- Strengthen and coordinate different types of active labor market programs (ALMPS), particularly training and employment services, and link them to social assistance and other social protection responses to promote access to good jobs as recovery begins.
- To strengthen training in the long term, develop a training system that is demand-driven. A strengthened labor market information system, a more comprehensive and up-to-date qualification and accreditation system, closer industry linkages, reduced dependence on state financing, and a lifelong approach to learning are essential for realizing this vision.
• In the short term, strengthen training through the development of key performance indicators to track and evaluate training performance and of e-learning delivery modes to make training more accessible and faster to deploy.

• To strengthen employment services in the long term, develop public employment services that are results-oriented. This requires developing a national results-based performance management framework and investing in technology like automated job matching.

• In the short term, strengthen employment services by deploying a centralized labor market observatory and digital tools to expand the reach of employment services.
Introduction

The COVID-19 outbreak has had a significant impact on jobs globally. Transmission control measures implemented throughout the world to stop the spread of the disease and behavioral responses to the outbreak have disrupted workplaces, changed consumer behavior, and unsettled supply chains. These factors have led firms throughout the world to lay off workers both temporarily and permanently. The International Labour Organization (ILO) estimates that in 2020 8.8 percent of working hours were lost compared to 2019, destruction that is four times greater than during the global economic crisis (ILO 2021).

Vietnam’s labor market was shaken by the outbreak. Nationwide transmission control measures had a significant impact on the labor market in the first half of 2020, and subsequent targeted measures have caused additional disruptions. While research on the drivers of the labor market impacts of the pandemic is still at a nascent stage, there is evidence from the United States that government transmission control measures have been responsible for a significant portion of employment disruption (Gupta et al. 2020). In Vietnam, this is evident from Google Mobility reports, which show a strong contraction in movements to places of work when nationwide restrictions were put in place in April 2020 (Figure 1). Movements to places of work again contracted when restrictions were targeted to an outbreak in Da Nang in August 2020, though the impact was less severe. Despite the relaxation of most broad-based measures in the second half of 2020, restrictions on international travel remained in place throughout the year and were compounded by restrictions imposed by other countries and a general reluctance to travel, which have affected employment in services, particularly in Vietnam’s tourism industry.

Figure 1: Movement to places of work and the stringency of government COVID-19 policies

Indexes of mobility and policy stringency

Source: Google Mobility Reports and Oxford COVID-19 Government Response Tracker.

Note: The mobility baseline falls during the Tet Holiday during which there is increased mobility in Vietnam, meaning that falls in mobility are likely even larger compared to “normal” travel behavior.
But several factors mitigated the impact of COVID-19 on Vietnam’s labor market, allowing for recovery in the second half of 2020. First, COVID-19 has been well contained in Vietnam relative to most countries globally with just 1,465 cases and 36 deaths in 2020. Without a large-scale outbreak, economic activity has not suffered as much in Vietnam as in other parts of the world. Vietnam is one of only four countries in the developing East Asia region that the World Bank projects grew in 2020 (World Bank 2021). Second, the government has taken a targeted approach to controlling the COVID-19 outbreak. Vietnam adopted nationwide restrictions on activity in the first weeks of April 2020. After this initial response, the government’s approach shifted to locking down targeted locations rather than broad geographic areas wherever possible (Khánh et al. 2020). This likely limited the labor market fallout from restrictions. Indeed, evidence from the United States finds that transmission control measures have immediate, but not lasting, effects on employment (Hershbein and Holzer 2021). Third, Vietnam’s exports were resilient in 2020, meaning an important channel for negative impacts has so far not materialized.

Vietnam deployed social protection measures to mitigate the labor market impacts of the outbreak. The social protection response included income support for existing and new social assistance beneficiaries, including informal workers and small and household businesses. Assistance was also provided to protect jobs including suspension of social insurance contributions, wage subsidies for workers on unpaid leave, and interest-free loans for firms to pay wages.

These policy measures were fairly limited in scope and faced implementation challenges. As will be discussed in the second part of the report, response measures were generally provided for just three months though short-lived impacts were not inevitable and some impacts persisted. Policy makers also faced challenges with implementation, including identifying beneficiaries, while potential beneficiaries faced challenges accessing benefits due to cumbersome application procedures. In sum, though the most severe labor market impacts of the COVID-19 outbreak subsided in the second half of 2020, the policy response may have failed to protect some impacted groups and policy makers would likely have struggled to scale up the response in case of a deeper or longer crisis.

This report summarizes the impacts of the COVID-19 outbreak on Vietnam’s labor market in 2020 and evaluates the social protection response to identify lessons learned to improve the response to future crises. The note begins with an assessment of the labor market impacts of the outbreak, focusing on identifying the main channels of impact and the most affected groups. The note then describes and evaluates the success of social protection responses to these labor market impacts. The note concludes with lessons learned to inform future responses to economic shocks in Vietnam.
The COVID-19 outbreak disrupted Vietnam’s labor market substantially in 2020, but the impacts largely dissipated by the end of the year. Overall, the labor market was around 1.6 million jobs smaller in 2020 than it would have been without the pandemic. Jobs declined most significantly in the second quarter of 2020 consistent with the imposition of widespread transmission control measures and the halting of international travel. Growth stalled in manufacturing and services, which had offset a long-term decline in agricultural employment. The tourism sector was hit hard, particularly in Da Nang and other tourism-dependent locations. But employment growth returned in the third quarter and continued through the end of the year, consistent with transmission control measures disrupting, but not permanently destroying, jobs.

Increased inactivity and reduced working hours were the main channels of labor market impact during the height of the crisis in the second quarter. The overall decline in jobs resulted in a decline in labor force participation, which was steeper for women than for men in the first half of the year. Female labor force participation remained more depressed than male labor force participation at the end of the year. While unemployment remained low in 2020, the outbreak opened a gender gap in unemployment with female unemployment now nearly twice as high as male unemployment. Working hours declined in the second quarter, particularly for low- and medium-skilled workers, as did monthly income, but these effects had dissipated by the fourth quarter. Impacts on job quality were more persistent. When job growth returned in the fourth quarter, most of the growth was in more precarious (off-farm) self-employment rather than in wage work.
The COVID-19 outbreak has the potential to impact the labor market through several channels. In the face of supply and demand shocks created by the outbreak, firms and workers can make several adjustments (Figure 2). First, they can alter the quantity of labor overall, that is the total number of hours worked, by reducing the number of jobs or by reducing the number of hours worked within jobs (including to zero hours in the case of furloughs). A reduction in the number of jobs implies an increase in either unemployment, when jobless individuals search for work in earnest, or inactivity, when jobless individuals sever most ties to the labor market. Second, the price of labor can be altered through adjustments to wages. Finally, the impact of shocks on the labor market can also be observed in job quality, including job characteristics like informality, access to social insurance and other benefits, access to contracts, and adherence to labor regulations. This section discusses each of the channels of labor market impacts during the COVID-19 outbreak drawing primarily on evidence from the Labor Force Survey (Box 1).

**Figure 2: The channels of a shock’s labor market impacts**

![Diagram showing the channels of a shock's labor market impacts](image)

Source: Authors.

**Box 1: Using Vietnam’s Labor Force Survey to evaluate the impact of the COVID-19 outbreak**

Two factors are important to consider when using the Labor Force Survey to evaluate the impact of the COVID-19 outbreak on Vietnam’s labor market. First, the outbreak led to a switch in survey collection from in-person to telephone interviews in the second quarter of 2020, which could have introduced bias into the survey. While such a switch can lead to a reduction in response rates that affects the sample size, the sample size in the Labor Force Survey remained constant in the second quarter of 2020 (and in subsequent quarters). Still, bias could be present if the switch to telephone interviews affected the representativeness of the sample. Bias could arise due to differences in access to landlines or mobile phones or in availability to take phone calls, which could then be correlated with labor market characteristics (ILO 2020b). Given that the main impacts of the COVID-19 outbreak are expected to have occurred in 2020, it is not possible to disentangle the change in the method of data collection from the impact of the outbreak. Impacts should be considered with this potential bias in mind. Second, the 2019 Population and Housing Census led to a reweighting of the total population, employment, and labor force in the Labor Force Survey. The report uses the reweighted data.

Source: Authors.
Impacts on total hours worked

The COVID-19 outbreak’s main channel of impact on labor markets in East Asia has been working hours. The International Labour Organization (ILO) estimates that working hours were 8.8 percent lower in the fourth quarter of 2020 than the year earlier (ILO 2021). Most of this reduction occurred in the second quarter of the year when transmission control measures were strictest. Asia experienced the second-least reduction in total working hours globally at 7.9 percent, significantly lower than the 13.7 percent reduction in Latin America and the 9.2 percent reduction in Europe and Central Asia. Unlike previous crises that caused increases in unemployment, most of the loss in working hours in Asia was composed of people working fewer hours and people shifting to inactivity (that is, leaving the labor market) as they lacked the ability to search for jobs because of restrictions or were discouraged from looking by economic conditions.

Relative to regional comparators, in 2020 Vietnam experienced about average declines in employment and labor force participation, and smaller increases in unemployment. Data on the change in employment, labor force participation, and unemployment rates between 2019 and 2020 provides suggestive evidence of the relative impact of the COVID-19 outbreak on labor markets in Vietnam and other countries in East Asia, though the annual nature of the data averages out the downturn and subsequent recoveries that many countries experienced during the year. Vietnam’s employment-to-population ratio (that is, its employment rate), an indicator of how many jobs are in the economy, fell 1.9 percentage points from 2019 to 2020 (Figure 3 Panel A). This decline was about average for developing countries in the region with a larger impact than the 0.9 percentage point decline in Thailand, where significant employment retention measures were deployed, but significantly smaller than the decline of 3.6 percentage points in the Philippines. Vietnam’s labor force participation rate declined 1.7 percentage points between 2019 and 2020, again about average, significantly lower than the 3.0 percentage point decline in the Philippines but larger than the losses in Malaysia (0.5 percentage points) and in Thailand (0.7 percentage points) (Figure 3 Panel B). Vietnam’s unemployment rate barely increased, rising just 0.2 percentage points, much lower than Malaysia’s 1.2 percentage point increase and the Philippines’s 1.1 percentage point increase (Figure 3 Panel C). This suggests that consistent with the rest of Asia, the main impacts on Vietnam relative to other countries were on movements into inactivity rather than unemployment. Cross-country data on hours worked is not available.
The jobs channel: jobs and movements into inactivity and unemployment

The pandemic halted job growth in Vietnam in 2020, and the labor market was around 1.6 million jobs smaller than it would have been without the pandemic. The pandemic brought to an end the positive job growth that Vietnam has experienced for the last several years (Figure 4). If Vietnam had maintained its pre-pandemic growth path, the economy was on track to increase the number of jobs by about 1 percent or 400,000 jobs in 2020. However, the economic shock associated with the pandemic reduced economic growth, and instead employment shrank by 2.3 percent or 1.2 million jobs. This means that the labor market lost 1.6 million jobs relative to what employment would have been in the absence of the COVID-19 outbreak.
Jobs declined most significantly in the second quarter of 2020 but recovered throughout the rest of the year. The actual number of jobs in Vietnam declined most sharply in the second quarter of 2020 (Figure 5). Employment growth returned in the third quarter, consistent with transmission control measures disrupting, but not permanently destroying, jobs. Jobs were again added in the fourth quarter, though at a slower rate than in the third quarter. Even with the recovery, however, Vietnam had 940,000 fewer jobs at the end of 2020 than a year earlier, suggesting that some impacts persisted.

The partial jobs recovery seen in the third quarter is consistent with findings on firm behavior during the outbreak. The first and second rounds of the World Bank’s Business Pulse Survey showed that only about half of firms were open in April 2020 (Tan and Tran 2020). This rose to 81 percent by June and to 94 percent in September/October at the end of the third quarter and the beginning of the fourth quarter (Tan and Tran 2020b).

The COVID-19 outbreak halted the growth in manufacturing and services that has offset declines in agricultural employment as structural transformation has proceeded. Employment in agriculture has fallen significantly in Vietnam from 69 percent of total employment in the early 1990s to 40 percent prior to the pandemic in 2019 as people moved out of agricultural jobs and into employment in industry and services, including in rural areas (World Bank 2020b; World Bank 2020c). Prior to the outbreak, this loss of jobs was counterbalanced by strong growth in manufacturing and services (Figure 6).1 During the outbreak in 2020, however, manufacturing employment barely grew and employment in services shrunk, providing evidence of the significant impact of transmission control measures and interruptions.

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1 We follow the General Statistics Office’s division of sectors into Agriculture; Industry and Construction, which we label as Manufacturing for ease of reference; and Services.
in travel, particularly on service sector jobs. If Vietnam had maintained its pre-pandemic growth path, employment in the manufacturing sector was on track to grow by 6.9 percent between 2019 and 2020. The services sector was on track to grow 2.4 percent. Instead, employment in manufacturing increased just 0.7 percent and employment in services shrank 0.9 percent. Overall, this resulted in employment in manufacturing that was 6 percent lower than it would have been in the absence of the COVID-19 outbreak and employment in services that was 3 percent lower. Thus, while the agriculture sector shrank—and shrank more than it would have in the absence of the outbreak—the job creation in manufacturing and services that had offset this shrinkage in previous years did not occur.

**Figure 6:** Employment growth by sector with and without the COVID-19 outbreak, 2015–20

**YoY % change**

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>-15%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>2017</td>
<td>-10%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2018</td>
<td>-5%</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>2019</td>
<td>0%</td>
<td>-10%</td>
<td>-10%</td>
</tr>
<tr>
<td>2020</td>
<td>-10%</td>
<td>-10%</td>
<td>-10%</td>
</tr>
<tr>
<td>2020 Actual</td>
<td>-10%</td>
<td>-10%</td>
<td>-10%</td>
</tr>
<tr>
<td>No COVID-19</td>
<td>-10%</td>
<td>-10%</td>
<td>-10%</td>
</tr>
</tbody>
</table>

**Source:** Vietnam Labor Force Survey.

**Figure 7:** Change in employment by industry, Q1 2020–Q4 2020

**YoY % change**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020Q1</td>
<td>-10%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>2020Q2</td>
<td>-10%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2020Q3</td>
<td>-10%</td>
<td>-5%</td>
<td>-5%</td>
</tr>
<tr>
<td>2020Q4</td>
<td>-10%</td>
<td>-10%</td>
<td>-10%</td>
</tr>
</tbody>
</table>

**Source:** Vietnam Labor Force Survey.

Job losses were widespread across sectors in the second quarter of 2020, but recovery was also widespread in the second half of the year. All three sectors—Agriculture, Manufacturing, and Services—declined fairly sharply in the second quarter of 2020 (Figure 7). Agriculture shed the most jobs at around 1.66 million between the second quarter of 2019 and the second quarter of 2020, but as noted above these job losses are consistent with trends predating the COVID-19 outbreak. Manufacturing lost an additional 325,000 jobs. Looking at more detailed sectors, job losses also topped 100,000 in Accommodation and Food Services, Education and Training, and Wholesale and Retail. These five sectors accounted for about 90 percent of the job losses in this period. Many sectors experienced substantial contractions in percentage terms using their employment levels a year earlier as a benchmark, though their small size in terms of employment share means that their overall impact was less significant (Figure 8). These include Information and Communications; Human Health and Social Work; Administrative and Support Services; and Arts, Entertainment, and Recreation. Employment growth returned in the third quarter with 9 of 16 sectors recovering to within 2 percentage points of their pre-COVID-19 strength by the fourth quarter.
The negative employment impacts in the second quarter are consistent with the imposition of transmission control measures and the halting of international travel. Several sectors that experienced strong contractions were hit hard by transmission control measures and travel restrictions. These include Arts, Entertainment, and Recreation and Administrative and Support Services, which comprises travel agencies and tour operators. Human Health and Social Work also experienced a substantial decline. While there is no direct evidence from Vietnam, people may have postponed non-emergency doctor’s visits due to the outbreak, as has happened in other countries, leading to a fall in demand in the sector.\(^2\) Several sectors, though, such as Education and Training and Information and Communications,\(^3\) have a high probability of being able to be done from home.\(^4\) The impacts on these sectors likely reflect the challenges of working from home in Vietnam even in sectors that have high potential for telework.

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\(^2\) In the United States, for example, one survey found that more than 40 percent of adults had delayed or avoided medical care because of concerns about COVID-19 (Czeisler et al. 2020).

\(^3\) The finding of substantial impacts in Information and Communications is corroborated by a recent firm survey finding that 96 percent of surveyed enterprises in the sector experienced negative impacts from the outbreak, the second highest percentage among all industries (VCCI and World Bank 2021).

\(^4\) Based on a methodology proposed in Dingel and Neiman (2020) for evaluating which jobs can be done at home, 89 percent of jobs in Education and Training and 68 percent in Information and Communications have the potential to be done at home. However, this methodology does not take into account the availability and use of information and communications technology at home.
Lack of employment growth in female-dominated sectors is likely contributing to continued weakness in female employment. Female employment contracted more significantly than male employment during the height of the pandemic. Female employment contracted 5.9 percent between the second quarter of 2019 and the second quarter of 2020, compared to the 3.7 percent contraction in male employment (Figure 5). At the end of 2020, the contraction in female employment remained more severe than that for men. Female employment was 2.2 percent smaller in the fourth quarter of 2020 than a year earlier versus 1.3 percent smaller for men. However, the recovery of female employment in the top five sectors employing the most women was stronger than that in the top five sectors employing the most men (Figure 9). The exception is employment in the agricultural sector, which declined substantially more for women than for men. This suggests that the lack of employment growth in other sectors, particularly manufacturing employment, was a driver of reduced employment among women. Indeed, as the agricultural sector has contracted over the last several years, the manufacturing sector has been a significant source of jobs for women, accounting for 45 percent of job creation between 2015 and 2018. The pandemic halted job growth in manufacturing with employment growth 10 percentage points lower than it would have been without the pandemic (Figure 6). This shut off an important source of jobs for women in 2020 as agricultural employment continued to fall.

Figure 9: Employment in Q4 as a percentage of pre-pandemic levels by the top five sectors of employment by gender, 2020

<table>
<thead>
<tr>
<th>Sector</th>
<th>Male %</th>
<th>Female %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishery</td>
<td>90</td>
<td>85</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>Construction</td>
<td>100</td>
<td>95</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>Transportation &amp; Storage</td>
<td>100</td>
<td>95</td>
</tr>
</tbody>
</table>


The COVID-19 outbreak also halted growth in wage employment. Employment in agriculture, non-farm self-employment, and wage jobs all declined at the height of the pandemic in the second quarter (Figure 10).5 Non-farm self-employment actually grew strongly on a year-over-year basis by the end of 2020, adding nearly 150,000 jobs for a growth rate of 1.3 percent. Wage jobs returned to just above pre-pandemic levels by the end of the year, adding around 32,000 jobs for a growth rate of just 0.1 percent. This reverses a trend away from both farming and non-farm self-employment and towards wage jobs (Demombynes and Testaverde 2018).

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5 We follow Demombynes and Testaverde (2018) in dividing the labor market in Vietnam into agriculture, non-agricultural self-employment, and wage work. Wage work can be further divided into work with and without a contract.
Low-skilled workers experienced a significant contraction in employment. Employment contracted most strongly in the second quarter of 2020 for the low-skilled workers who make up a third of Vietnam’s employment. High-skilled workers also experienced a sharp drop, while medium-skilled workers performed better (Figure 11). By the end of 2020, the employment of low- and high-skilled workers remained below the previous year while the employment of medium-skilled workers was higher.

Skill level is defined according to the International Standard Classification of Occupations. High-skilled employment is defined as Managers; Professionals; and Technicians & associate professionals. Medium-skilled workers are defined as Clerical support workers; Service & sales workers; Skilled agricultural workers; Craft & related trades worker; and Plant operators. Low-skilled workers are defined as Elementary occupations.
The overall decline in jobs resulted in part in a decline in labor force participation rates that remained below pre-pandemic levels at the end of 2020. Vietnam’s labor force participation rate has been fairly steady in recent years at around 77 percent. The rate fell sharply in the second quarter of 2020 to 72 percent (Figure 12). There was a sharp recovery in the third quarter. However, this recovery slowed in the final quarter of the year, leaving the overall labor force participation rate 2.3 percentage points lower than a year earlier. This translates into a loss of 860,000 workers from the labor force. During the most significant impacts of the outbreak in the second and third quarters of 2020, the main activities of people outside of the labor force shifted away from studying or training and towards household work or retirement. While representing a small share of activities overall, job search also became more common as an activity for people outside of the labor force. By the end of 2020, these trends remained in place, though they had moderated significantly.

Figure 12: Change in labor force participation rate overall and by gender, 2020

YoY percentage point change


Figure 13: Change in labor force participation rate by age, 2020

YoY percentage point change


The decline in labor force participation rates in the first half of 2020 was similar in urban and rural areas. This similar decline likely reflects the diversity of economic activities in rural areas where about half of jobs are on-farm and so less vulnerable to transmission control measures and other COVID-19-related impacts (Demombynes and Testaverde 2018; World Bank 2020c). Still, rural areas recovered more quickly, leaving the participation rate more depressed in urban areas at the end of the year.

The labor force participation rate declined more steeply for women than for men in the first half of the year and remains more depressed. Female labor force participation has been declining slightly in recent years and the outbreak seems to have exacerbated this trend. The decline in labor force participation in the second quarter of 2020 was larger for women than for men: female participation dropped 4.7 percentage points between the second quarter of 2019 and the second quarter of 2020 compared to a drop of 3.5 percentage points among men (Figure 12). Both female and male participation experienced a V-shaped recovery in the third quarter. However, the sharper decline for women in the second quarter

Note that the question asking for a respondent’s “main activity” is separate from the set of questions used to define a respondent’s labor force status.
and the stalled recovery for both men and women in the fourth quarter meant that at the end of 2020 female labor force participation remained 2.8 percentage points below the level a year earlier, while male participation was 1.6 percentage points lower.

**The decline in female labor force participation in the first half of 2020 was likely related to increased childcare burdens.** School closures in the first half of 2020 resulted in families taking on additional childcare burdens, most of which were absorbed by women who already provided a disproportionate amount of childcare prior to the pandemic. Round 1 of the World Bank’s High-Frequency Phone Survey of Households, conducted in June and July of 2020, found that mothers were more likely than fathers to stop working or reduce their hours during school closures. Indeed, 81 percent of households with an adult that stopped or reduced their work because of school closures reported that the mother did so versus 41 percent reporting that the father did so (Yang, Panagoulias, and Demarchi 2020). The survey also found that mothers and sisters were far more likely to assist with schoolwork at home than fathers and brothers. Female labor force participation began to recover in the third quarter of 2020, consistent with additional childcare burdens being alleviated as schools reopened.

**The effects of the outbreak seem to have reinforced preexisting trends towards labor force exit by older people.** Labor force participation rates were fairly stable among prime age workers between the ages of 25 and 44 before the COVID-19 outbreak. However, labor force participation has been declining among workers older than 45, particularly among those older than 55. The COVID-19 outbreak has reinforced these trends with the participation rates of prime age workers recovering to levels prior to the pandemic by the fourth quarter of 2020 while the labor force participation rates of older workers remain significantly depressed (Figure 13). This is particularly true for older women, whose labor force participation rate declined more than that of men. Compared to the year before, at the end of 2020 more of the older workers outside of the labor force reported that their main activity was farming or fishing for profit, working for profit, or looking for a job (the 45 to 54 age group); farming or fishing or working (the 55 to 64 age group); and farming or fishing, household work, or retirement (the 65-plus age group). This suggests that, though out of the labor force by the official definition, these older individuals continued to do activities to generate income. These trends are fairly similar across urban and rural areas, though declines in participation were more severe for the oldest in rural areas and for the less old (that is, ages 45 to 54) in urban areas.

**Younger workers with less education have experienced larger drops in labor force participation.** While the labor force participation of the youngest workers between the ages of 15 and 24 varies substantially from year to year, at the end of 2020 this group’s labor force participation rate was 6 percentage points lower than a year earlier, the largest decline of any age group (Figure 13). As is typical, about two-thirds of this group reported that their main activity was household work followed by disability or illness and studying or training. In the fourth quarter of 2020, however, there was an increase in the share reporting studying or training and reporting looking for a job. The decline was experienced by those with primary and secondary education only, while those with no education and with higher levels of education had higher participation rates than a year earlier. The overall decline among younger workers was larger in urban areas.

**Unemployment increased in the second quarter of 2020 but remains low.** Unemployment is low in Vietnam hovering around 2.0 percent since 2015, and so typically is a less useful measure of labor market health. Still, the unemployment rate increased as a result of the COVID-19 outbreak, rising from 2.0 percent in the fourth quarter of 2019 to 2.5 percent in the second quarter of 2020 before declining.
to 2.2 percent at the end of the year (Figure 14). The rise in unemployment was almost entirely an urban phenomenon with unemployment barely increasing in rural areas even at the height of the crisis while unemployment rose to 4.3 percent in urban areas in the second quarter of 2020. The unemployment rate in urban areas ended the year at 3.4 percent. Still, this represented an increase of only 87,350 people over the fourth quarter of 2019. Changes in unemployment rates by age were modest.

Figure 14: Unemployment rate overall and by gender, 2019 and 2020

%  

![Graph showing unemployment rates for 2019Q1 to 2020Q4 for Overall, Male, and Female]


Though the female unemployment rate remains low overall, the COVID-19 outbreak opened a gender gap in unemployment with female unemployment now nearly twice as high as male unemployment. The female unemployment rate continued to rise until the third quarter while the male unemployment rate began falling in the third quarter (Figure 14). As a result, there is a gap of 1.3 percentage points between male and female unemployment that did not exist prior to the outbreak. Notably, on an annual basis male unemployment is lower than it was during the height of the crisis in the second quarter of 2020 while female unemployment is higher.

The hours worked channel: changes in hours worked within jobs

Working hours declined sharply in the second quarter of 2020, particularly for low- and medium-skilled workers, but returned to pre-pandemic levels by the end of the year. The first round of the World Bank's Business Pulse Survey shows that most firms sought to retain employees by granting leave or reducing hours (49 percent) rather than reducing wages (20 percent) or firing workers (15 percent) (Tan and Tran 2020; 2020b). Consistent with this, hours worked in non-farm self-employment and in wage jobs declined during the height of the pandemic in the second quarter of 2020, as they did for low- and medium-skilled workers and less so for high-skilled workers (Figure 15 and Figure 16). In both cases, hours worked have now fully recovered to pre-pandemic levels. This is in line with a reduction in the share
of firms reporting reducing hours or granting leave in the second round of the Business Pulse Survey in September/October to 20 percent (Tan and Tran 2020; 2020b). Changes in hours worked have been similar by gender and age with larger declines at the height of the pandemic for younger groups that recovered by the end of the year.

**Figure 15:** Average hours worked per week in Q2 and Q4 as a percentage of pre-pandemic levels, 2020

<table>
<thead>
<tr>
<th>% of pre-pandemic hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Non-agricultural Self-Employment</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Wage</td>
</tr>
</tbody>
</table>

Note: Agriculture is omitted because of an anomalous decline in hours worked in Q4 2019.

**Figure 16:** Average hours worked per week in Q2 and Q4 as a percentage of pre-pandemic levels by skill, 2020

<table>
<thead>
<tr>
<th>% of pre-pandemic hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Medium</td>
</tr>
<tr>
<td>High</td>
</tr>
</tbody>
</table>

Note: Agriculture is omitted because of an anomalous decline in hours worked in Q4 2019.

**Hours worked declined across most sectors but recovered to pre-pandemic levels by the end of 2020.** Hours worked contracted sharply in the second quarter in several services sectors including Other Services, Administrative and Support Services; Arts, Entertainment, and Recreation; and Accommodation and Food Services (Figure 17). By the end of the fourth quarter, average hours worked were close to pre-pandemic levels in most sectors. One exception is Administrative and Support Services, which includes tourism-linked businesses like travel agencies and tour operators, where employment was up sharply in the fourth quarter but hours worked remained depressed. **Box 2** looks at the impact of the COVID-19 outbreak on the tourism sector in detail.
Figure 17: **Average hours worked per week in Q2 and Q4 by sector, 2020**

% of pre-pandemic average hours worked

Note: Sectors representing less than 0.5 percent of employment are excluded. Agriculture is omitted because of a large decline in hours worked in the fourth quarter of 2019.

### Box 2: The impact of the COVID-19 outbreak on Vietnam's tourism sector

**Vietnam's tourism sector employs a substantial number of workers.** The tourism sector had about 3.4 million jobs in 2019, or 6.3 percent of total employment. Three-quarters of these jobs were in restaurants and mobile food service activities (47 percent), beverage serving activities (21 percent), and real estate activities with own or leased property (8 percent). Notably, there is no strict delineation between jobs that mostly or exclusively serve tourists and those that may have significant links with local (non-tourist) consumers, which makes disentangling the impact of the COVID-19 outbreak on tourism jobs challenging. Most tourism jobs are self-employed or wage jobs without contracts, together representing 82 percent of employment in the sector. Domestic firms employ another 13 percent while the share of employment in foreign firms is less than 1 percent.

**The tourism sector was hit hard by the outbreak.** After strong growth in recent years, the tourism industry suffered significantly from the COVID-19 outbreak as international tourist visits plunged (Quang et al. 2020). Domestic tourism provided some buffer, but also declined substantially particularly in early 2020 when domestic travel restrictions were imposed. Employment in tourism was significantly affected as a result. The sector lost nearly 230,000 jobs in the second quarter of 2020 compared to the second quarter of 2019, or 6.6 percent of employment (Figure 18). Most of this job loss was among self-employed workers and wage workers for domestic firms. Isolating the impacts of the COVID-19 outbreak from pre-existing trends, Dang and Nguyen (2020) find strong negative impacts on income in the tourism sector.

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8 The tourism sector is defined according to World Tourism Organization and ILO standards (WTO and ILO 2014).
The recovery in the tourism sector has shifted jobs out of firms and into self-employment and jobs without contracts. By the fourth quarter of 2020 the number of jobs in the tourism sector had returned to pre-pandemic levels, and average hours worked were no longer different between the manufacturing and tourism sectors. However, the jobs that returned were predominantly self-employed or no contract jobs: employment by domestic and foreign firms was 31,000 and 15,000 jobs smaller at the end of 2020 than pre-pandemic levels while self-employment and jobs without contracts had increased substantially. This provides some evidence that workers in tourism industries shifted to focus either on domestic tourists or other domestic consumers. Indeed, employment in industries classified as tourism sectors but not necessarily dependent on (international) tourists like restaurants remained quite resilient throughout the pandemic while employment in more tourism-specific industries like travel agencies and tour operators remained depressed—employment was at 91 percent of pre-pandemic levels in travel agencies in both the second and fourth quarters of 2020.

Several tourism-reliant provinces experienced significant employment losses during 2020. The quarterly data of the Labor Force Survey is not representative at the province level so only annual data can be used reliably to look at the geography of impacts on the tourism sector. Of the 10 provinces with the most employment in tourism, six lost jobs in 2020. Employment shrank the most in absolute numbers in Da Nang which is a popular destination for international tourists, who have been shut out of Vietnam since early 2020, and also experienced an outbreak in July and August 2020 that led domestic tourists to be evacuated from the city in large numbers (Figure 19). This job loss in Da Nang is particularly significant as tourism represented nearly 20 percent of employment in 2019 prior to the pandemic. Employment in Da Nang’s tourism sector shed nearly 24,000 jobs between 2019 and 2020, shrinking 21 percent. While not representative, quarterly data show that employment in tourism in the city continued to decline throughout all of 2020 in stark contrast to the recovery experienced in most of the economy in the second half of 2020. Dong Nai, Tien Giang, Dong Thap, Kanh Hoa, and An Giang all lost more than 10,000 jobs between 2019 and 2020. Tourism workers in several provinces also experienced pronounced declines in hours worked between 2019 and 2020 (Figure 20). Again, Da Nang led the way with hours worked declining 21 percent from an average of 45 hours a week in 2019 to 35 hours a week in 2020. Declines in hours worked were also substantial in Tien Giang, Tra Vinh, and Quang Nam.
Summarizing the impacts on total hours worked

Increased inactivity and reduced working hours were the main channels of labor market impact during the height of the crisis. The impacts of the crisis on total hours worked can be decomposed into loss of jobs and reductions in hours worked within jobs. These two channels can be further decomposed into movements into inactivity and unemployment in the first case and into partial reductions in hours worked and total reductions in hours worked (that is, people who are employed but not working) in the second case. Figure 21 shows this decomposition for the first three quarters of 2020. The decomposition is not possible for the fourth quarter because of an anomalous decline in hours worked in the agriculture sector. Total hours worked declined significantly in the second quarter compared to pre-pandemic levels. This reduction was primarily a result of loss of jobs, specifically movements into inactivity which accounted for 55 percent of the decline in hours worked, and reductions in hours worked within jobs, which accounted for 41 percent of the decline (28 percent partial reductions and 14 percent total reductions). The increase in inactivity is distinct from the impact of the global economic crisis on labor markets in Vietnam, which primarily affected hours worked, likely a result of the unique lockdown measures during the COVID-19 crisis (Box 3). The contribution of movements into unemployment was small, as it was in most of the world. By the third quarter, hours worked within jobs were actually increasing while inactivity continued to weigh on total hours.

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9 See Appendix 1 for an explanation of the methodology used for the decomposition.
Figure 21: Decomposition of change in working hours, 2020

YoY change in millions of hours


Box 3: The impact of the global economic crisis in Vietnam

During the global economic crisis, a reduction in hours worked was the main channel for labor market impacts in Vietnam. Vietnam fared well during the global economic crisis relative to other countries globally, experiencing a slowdown in growth but avoiding recession (Cling et al. 2010; Robalino, Newhouse, and Rother 2014). The main impact on the labor market was a reduction in hours worked and a corresponding increase in underemployment (Chi et al. 2010). There was also an increase in second jobs and a slight increase in the activity rates of younger and older workers. However, several other indicators of labor market health were unaffected or improved. The unemployment rate was unchanged, the share of wage workers increased, the share of informal workers decreased, earnings increased, and there was no significant return migration to rural areas and agriculture.

Sources: Chi et al. (2010); Cling et al. (2010); Robalino, Newhouse, and Rother (2014).

Impacts on wages

The COVID-19 outbreak had a significant negative impact on income and wages in the second quarter of 2020, though this impact was largely undone by the end of the year. In the second quarter of 2020, median monthly incomes fell 8 percent and 11 percent on a quarter-on-quarter basis for women and men, respectively (Figure 22). Dang and Nguyen (2020) confirm these findings by controlling for seasonal effects that can impact quarterly changes in income. The authors find that the outbreak caused monthly income to fall by 11 percent in the second and third quarters. No differences by gender are apparent. This is consistent with the findings of the first round of the High-Frequency Phone Survey of Households, which found that income reductions were widespread with 70 percent of respondents reporting a reduction in household income in June/July 2020 (Yang, Panagoulias, and Demarchi 2020). Job loss was nearly always the most important cause. Income growth returned on a quarter-on-quarter basis in the third quarter before turning slightly negative in the fourth quarter. As a result of these changes, median monthly income ended 2020 slightly higher than a year earlier. Hourly wages also declined on a quarterly basis in the second quarter, suggesting that employers had some ability to reduce wages (Figure 23). Indeed, 20 percent of firms surveyed in the Business Pulse Survey reported reducing wages in the second quarter in June (Tan and Tran 2020b). After this initial decline, hourly wages stabilized and ended the year about equal to a year earlier.
Both average monthly income and average hourly wages actually increased on a year-on-year basis during the height of the crisis in the second quarter. This likely reflects two phenomena. First, both hourly wages and monthly income spiked between the fourth quarter of 2019 and the first quarter of 2020, meaning that wages began 2020 at a high base (relative to the previous year). Second, job loss in the second quarter disproportionately affected low-skilled, lower-paid workers, whose share of employment dropped by 0.5 percentage points on a year-on-year basis versus a decline of 0.2 percentage points for high-skilled workers and an increase of 0.8 percentage points for mid-skilled workers. This shifted the distribution of employment towards more skilled, more highly paid workers.

**Impacts on job quality**

The COVID-19 outbreak worsened job quality throughout 2020. The COVID-19 outbreak reversed a positive trend towards employment formalization. Using the government’s preferred measure of formality, formal employment declined between the fourth quarter of 2019 and the fourth quarter of 2020 while informal employment increased slightly (GSO 2021). This reversed strong growth in formal employment between 2016 and 2019. Dang and Nguyen (2020) also find evidence of declines in job quality as a result of the pandemic. The authors find that the outbreak decreased the probability of having employment with a labor contract by 1.1 percentage points and 1.4 percentage points in the second and third quarters of 2020, respectively, and the probability of having access to social insurance by 0.9 percentage points and 1.3 percentage points in the second and third quarters of 2020, respectively (Figure 24). Data from the fourth quarter of the Labor Force Survey suggest that the trend towards no-

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10 The General Statistics Office defines informal employment to include those working in the non-agricultural, forestry, and fishery sectors and workers in the registered agriculture, forestry, and fishery sectors belonging to the following groups: (i) unpaid family workers; (ii) establishment owners and self-employed in the informal sector; (iii) salaried employees without a labor contract or with a term contract who are not entitled to compulsory social insurance by the employer; and (iv) cooperative members who do not pay compulsory social insurance (GSO 2021).
contract work weakened but persisted in the fourth quarter as did the slowdown in expansion of social insurance coverage. As described above, when job growth returned in the fourth quarter of 2020, most of this growth was in more precarious (off-farm) self-employment rather than in wage work. Finally, underemployment\(^\text{11}\) spiked in the second quarter of 2020 for both women and men, though it fell back to pre-pandemic levels in the fourth quarter (Figure 25).

Figure 24: Impact of the COVID-19 outbreak on indicators of job quality, Q2 and Q3 2020

*Percentage point change*

![Graph showing percentage point change in job quality indicators for Q2 and Q3 2020.]

Source: Dang and Nguyen (2020).

Figure 25: Underemployment rate, Q1 2019–Q4 2020

*%*

![Graph showing underemployment rate from Q1 2019 to Q4 2020.]


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11 Underemployment is defined as working fewer than 35 hours per week and being willing and ready to work additional hours.
Vietnam responded to the labor market disruptions caused by the COVID-19 outbreak with a package of social protection measures. These included social assistance targeted to existing and new beneficiaries, including informal workers; suspension of social insurance contributions for firms impacted by the COVID-19 outbreak; and wage subsidies. The coverage of the social protection response was limited by challenges expanding assistance to new beneficiaries, particularly informal workers. This translated into low overall expenditures. Though benefits were generous for those who received them compared to other countries in the region, transfers provided fairly insubstantial income replacement for displaced workers.

Vietnam’s COVID-19 response provides several lessons for responding more effectively to future crises. Responses to future crisis should be biased in favor of more ambitious action, including by providing more generous assistance with wider coverage early in a crisis and tapering to more targeted assistance once impacts are better understood. The crisis also demonstrated the importance for a quick and effective shock response of an integrated social protection system with common targeting, registration, and payment mechanisms that leverage transformative technology. Finally, the crisis highlighted the absence of links between the prevention and protection components of the social protection system and its promotional aspects, particularly active labor market programs. Learning these lessons can help Vietnam build back better from the COVID-19 outbreak by creating a social protection system that is more capable of responding to crises and that more effectively and efficiently provides benefits and services to protect and promote the entire population.

**Overview of the social protection response**

Vietnam responded to the labor market disruptions created by the COVID-19 outbreak with a package of social protection measures. As the seriousness of the COVID-19 outbreak became apparent in the first half of 2020, policy makers designed a series of responses to mitigate the impacts of the crisis. These responses ranged from income support for individuals to assistance for firms to maintain employment.
Social assistance

The government introduced an income support package in response to the nationwide lockdown in March 2020. The package was intended to provide cash transfers to the most vulnerable impacted workers and households. The resolution targeted seven groups, six for social assistance payments and a seventh for wage subsidies that will be discussed below (Table 1). Three groups comprise existing social assistance beneficiaries whose transfer came in the form of a top-up. These are: 1) the poor and near poor on the list of poor and near-poor households as of year-end 2019; 2) merit people (that is, people with meritorious service to Vietnam); and 3) other social assistance beneficiaries. The remaining groups were new beneficiaries. These were: 4) workers not eligible for unemployment insurance (UI) whose contract was terminated who either have no income or income below the near-poverty line (formal workers ineligible for UI); 5) workers without a contract who lost their job (informal workers); and 6) household businesses with annual revenues below VND100 million (US$4,300) who had to suspend operations as of April 1 due to the pandemic.

Table 1: Target groups for social assistance payments under the government’s COVID-19 income support package

<table>
<thead>
<tr>
<th>Target group</th>
<th>Eligibility</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor and near poor</td>
<td>Poor and near-poor households included on the list of poor and near-poor households as of December 31, 2019</td>
<td>VND 250,000 per person per month for 3 months</td>
</tr>
<tr>
<td>Merit people</td>
<td>People with meritorious service to the nation receiving a monthly preferential allowance as of April 30, 2020</td>
<td>VND 0.5 million per person per month for 3 months</td>
</tr>
<tr>
<td>Other social assistance beneficiaries</td>
<td>Social assistance beneficiaries currently entitled to a monthly social allowance as of April 30, 2020</td>
<td>VND 0.5 million per person per month for 3 months</td>
</tr>
<tr>
<td>Formal workers ineligible for UI</td>
<td>Workers not eligible for unemployment insurance whose contract was terminated beginning April 1, 2020 to June 15, 2020. Workers either have no income or income below the near-poverty line</td>
<td>VND 1 million per person per month up to 3 months</td>
</tr>
<tr>
<td>Informal workers</td>
<td>Workers without a contract who lose their job and have income below the poverty line and are working in certain occupations*</td>
<td>VND 1 million per person per month up to 3 months</td>
</tr>
<tr>
<td>Household businesses</td>
<td>Businesses with 2020 annual revenues reported to tax agencies below VND100 million who had to suspend operations as of April 1 due to the pandemic</td>
<td>VND 1 million per month per household up to 3 months</td>
</tr>
</tbody>
</table>

* These are street vendors; garbage and scrap collection; carrying and transporting goods; driving motorbikes of two wheels for passenger and pedicab vehicles; retail sale of mobile lottery tickets; and self-employed or household catering, accommodation, tourism, healthcare, beauty, sports, and entertainment businesses.

Source: Resolution 42 and Decision 15.

12 We label all of these payments as social assistance though the government does not consider payments to the poor and near-poor and to merit people to be social assistance.
The amount of support varied by target group. Support was provided for three months (April, May, and June 2020). The monthly top ups for poor and near-poor households, merit people, and other social assistance beneficiaries were VND250,000 (US$10.75), VND500,000 (US$21.50), and VND500,000 (US$21.50), respectively. Payments to formal workers ineligible for UI and to informal workers were VND1 million (US$43.00) and VND1 million (US$43.00), respectively. Household businesses were provided VND1 million (US$43.00) per month.

Social insurance

Suspension of social insurance contributions was the first policy measure introduced in response to the COVID-19 outbreak. On March 17, 2020, Vietnam Social Security suspended contributions to retirement and survivorship funds for firms and their employees that faced difficulties due to COVID-19. The suspension was applicable to firms in passenger transport, tourism, accommodations, restaurants, and other sectors experiencing difficulties due to the pandemic. Firms facing hardship were defined as those in which either: 1) at least 50 percent of employees covered by social insurance were temporarily suspended; or 2) losses due to the COVID-19 outbreak were greater than 50 percent of total assets. Eligible firms and workers were allowed to suspend their social insurance contributions through June 2020, with an extension then provided through December 2020. Employers and employees are liable for the missed payments but do not have to pay interest on them.

Trade union fee contributions were also suspended. On March 18, 2020 the Vietnam General Confederation of Labor (VGCL) suspended payment of trade union fees for firms facing difficulties from the COVID-19 outbreak. VGCL allowed the delay of payments during the first six months of 2020 through June 30. The delay applied only to firms in which at least 50 percent of employees covered by social insurance were temporarily suspended.

Labor market policies

Unemployment insurance acted as an automatic stabilizer for workers who lost their jobs. No changes were made to the unemployment insurance system during the COVID-19 outbreak, but the system remained in place to support workers who lost their jobs. Existing unemployment insurance regulations entitle unemployed workers to benefits if they have paid social insurance contributions for 12 months out of the last 24 months (12 months of the last 36 months for seasonal workers). Benefits are provided for at least 3 months with each additional year of contributions adding another month to the duration of benefits. Payments are 60 percent of wages. Receipt of unemployment insurance benefits also entitles workers to vocational training and job search support via Employment Service Centers.

Vietnam also provided wage subsidies and interest-free loans to protect employment. The government provided wage subsidies to workers eligible for unemployment insurance whose contract was suspended or who were taking leave without pay for one month or more beginning April 1, 2020 and ending June 30, 2020. The benefit level was VND1.8 million dong (US$77.40) per month for up to 3 months. Firms were also eligible for interest-free loans to pay an employee’s wages if the firm paid at least half of the worker’s salary between April and June 2020. The maximum loan amount was 50 percent of the regional minimum salary for each employee during the pay period.

Performance of the social protection response

The social protection response faced implementation challenges that limited its reach. The package as initially envisioned was quite ambitious, particularly its objective to provide assistance to informal workers. However, the package was ultimately fairly modest in scope in terms of coverage, expenditures, and adequacy.

Coverage

The coverage of the social assistance response, particularly of informal workers, was significantly lower than the estimated number of eligible beneficiaries. About 13 million beneficiaries received income support under the social assistance component of the response (Table 2). This is about two-thirds of the 20 million that are estimated to have been eligible for support. Income support reached most (89 percent) of the existing beneficiaries who already appeared on social assistance registries that are managed and updated regularly by local authorities. In contrast, the support package failed to reach new beneficiaries, particularly those who did not appear on any existing registry. Out of the 5 million informal workers who do not contribute to social insurance and so were not registered and who were likely affected by the crisis only 948,000 or 19 percent ultimately received benefits. Only 30,000 household businesses received support out of an estimated 760,000 that were eligible. The Rapid Response Surveys provide evidence supporting the package’s limited coverage. About 13 percent of respondents to the second round of the survey in July and August reported applying as new beneficiaries and only 2.3 percent of households reported receiving any assistance (World Bank 2020). The likelihood of receipt was about equal across income levels.
Table 2: Beneficiaries and expenditures under the government’s COVID-19 support package

<table>
<thead>
<tr>
<th>Target group</th>
<th>Beneficiaries (#)</th>
<th>Expenditures (VND million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Eligible*</td>
<td>Actual</td>
</tr>
<tr>
<td><strong>Social assistance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor and near poor</td>
<td>9,200,000</td>
<td>7,953,060</td>
</tr>
<tr>
<td>Merit people</td>
<td>1,135,000</td>
<td>1,031,519</td>
</tr>
<tr>
<td>SA beneficiaries</td>
<td>3,000,000</td>
<td>2,885,938</td>
</tr>
<tr>
<td><strong>Subtotal of existing beneficiaries</strong></td>
<td>13,335,000</td>
<td>11,870,517</td>
</tr>
<tr>
<td>Formal workers ineligible for UI</td>
<td>1,000,000</td>
<td>117,007</td>
</tr>
<tr>
<td>Informal workers</td>
<td>5,000,000</td>
<td>947,723</td>
</tr>
<tr>
<td>Household businesses</td>
<td>760,000</td>
<td>30,271</td>
</tr>
<tr>
<td><strong>Subtotal of new beneficiaries</strong></td>
<td>6,760,000</td>
<td>1,095,001</td>
</tr>
<tr>
<td>Social assistance total</td>
<td>20,095,000</td>
<td>12,965,518</td>
</tr>
<tr>
<td><strong>Social insurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suspended SI contributions</td>
<td>NA</td>
<td>97,626</td>
</tr>
<tr>
<td>Suspended trade union fee</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Social insurance total</td>
<td>NA</td>
<td>97,626</td>
</tr>
<tr>
<td><strong>Labor market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>NA</td>
<td>325,000</td>
</tr>
<tr>
<td>Wage subsidies</td>
<td>1,000,000</td>
<td>54,028</td>
</tr>
<tr>
<td>Interest-free loans</td>
<td>3,000,000</td>
<td>6,458</td>
</tr>
<tr>
<td>Labor market total</td>
<td>4,000,000</td>
<td>385,486</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>24,095,000</td>
<td>13,448,630</td>
</tr>
</tbody>
</table>

Note: NA indicates not available. Unemployment insurance beneficiaries is the average new claims in the second, third, and fourth quarters.

**Vietnam’s expansion of social assistance coverage in response to the COVID-19 outbreak was smaller than that in other countries in the region.** Approximately 1 percent of the population in Vietnam was added to the existing pool of social assistance beneficiaries during the COVID-19 outbreak. This is smaller than all other countries in the region that added new beneficiaries. Indonesia and the Philippines, for example, added around 50 percent of their populations as beneficiaries. The total beneficiaries receiving social assistance during the outbreak was around 12 percent of the population in Vietnam, the second lowest in the region with only China reaching a smaller share (Figure 26 Panel A).
Coverage of the social insurance and labor market measures was similarly limited. By December 2020, only 755 employers were permitted to temporarily stop contributing to the retirement and survivorship fund for 97,626 employees. No coverage information is available on the suspension of trade union fee contributions. Without a system in place to target firms and workers eligible for wage subsidies, only a very limited number of firms and workers benefited (5 percent of eligible workers) (Table 2). The second round of the Business Pulse Survey in September/October 2020 found that just 17 percent of firms reported accessing wage subsidies (Tan, Tran, and Hebous 2020). According to the Social Policy Bank, as of December 20, 2020 47 branches of the Social Policy Bank had disbursed interest-free loans for 158 employers to pay the salary of 6,458 employees. An estimated 3,000,000 people were eligible.

In contrast, unemployment insurance beneficiaries increased significantly in 2020. New unemployment insurance claims totaled nearly 400,000 in the second quarter of 2020, the highest number of claims since at least 2015 (Figure 27). New claims typically peak in the second quarter of the year and tend to remain elevated in the third quarter. However, the jump in unemployment claims in the second quarter was much larger than usual. Unemployment claims increased 135 percent between the first and second quarter of 2020 versus just over 100 percent between these quarters in 2019. On a year-over-year basis, claims increased by 39 percent in the second quarter and 34 percent in the third quarter, significantly outpacing the rise in claims related to the unemployment insurance system’s slowly expanding coverage. New claims declined on a quarter-on-quarter basis in the third and fourth quarters as the labor market recovered.
Despite the expansion in coverage during the outbreak, the assistance that the unemployment insurance system could provide was limited by the high rate of informality. Unemployment insurance is only available to formal workers who pay social insurance contributions. Because of the high rate of informality in Vietnam, only around one-quarter of the employed population was covered by the unemployment insurance system in 2018.

**Expenditures**

Expenditures were limited relative to what would have been disbursed if all beneficiaries had been reached. Total expenditures on social assistance were VND12.7 trillion (US$546.1 million), which is just 42 percent of the VND30.4 trillion (US$1.3 billion) that would have been disbursed if all eligible beneficiaries had been reached (Table 2). Expenditures on relief for social insurance contributions were VND471.9 billion (US$20.3 million), which is 7 percent of the total that would have been disbursed if all eligible beneficiaries had been reached. No expenditure information is available on the suspension of trade union fee contributions. Expenditures on wage subsidies and on loans to pay workers were also very small relative to what would have been disbursed if all eligible beneficiaries had been reached.

Vietnam’s expenditures on social assistance and other COVID-19-related policies were smaller than other countries in the region. Total expenditures on social assistance during the outbreak were 0.85 percent of GDP, one of the lowest expenditures in the region (Figure 26 Panel B). Whereas Malaysia and Thailand exempted most or all firms from social insurance contributions, Vietnam exempted only those that laid off more than 50 percent of their workers. This limited the cost and impact of the measures: foregone contributions totaled 2.7 percent of GDP in Malaysia and 2.0 percent in Mongolia, but just 0.01 percent in Vietnam (World Bank 2021b).
Adequacy

Benefits were generous relative to other countries in the region but were modest as income replacement for displaced workers. Beneficiaries of COVID-19-related social assistance support in Vietnam received larger benefits than those in several other countries in the region. The benefit per beneficiary (normalized by GDP per capita) was higher in Vietnam than in all other countries in the region besides Mongolia and Thailand (Figure 26 Panel C). Still, social assistance payments to displaced workers and wage subsidies were modest relative to their income levels. The flat rate of VND1 million for displaced workers and of VND1.8 million for wage subsidies was just 17 percent and 30 percent, respectively, of the average monthly income in Vietnam in the second quarter of 2020. Unemployment benefits were more generous with an average monthly benefit of VND3 million per beneficiary. Wage subsidies and loans for payment of salaries were also modest relative to responses internationally. Wage subsidies were provided at a flat rate, regardless of salary, while loans covered only 50 percent of an employees’ wages. This contrasts with the experience in Organisation for Economic Cooperation and Development (OECD) countries where most, though not all, countries covered the full cost of hours not worked by idled workers (OECD 2020).

Lessons learned for future crises

Challenges with policy design and implementation undermined the ambitiousness of Vietnam’s social protection response to the COVID-19 outbreak. The modesty of the scope of Vietnam’s social protection response to the COVID-19 outbreak in part reflects the country’s ability to contain the outbreak and maintain growth during 2020. This meant that continuing to provide additional support throughout the year was less urgent than in other countries around the world. However, the modesty of the response also reflects challenges in design and implementation that left some groups less protected than they could have been and that could have led to more significant negative impacts had virus containment been less successful. By revealing these challenges the COVID-19 policy response has provided several lessons that can be learned for Vietnam to respond effectively to future crises.

Lesson learned #1: Bias social protection responses to future crises in favor of more ambitious action, and start preparing now

Vietnam’s COVID-19 social protection response may have underserved or overlooked some groups. Vietnam’s measures were short-lived with most lasting only three months between April and June 2020. This contrasts with other countries in the region where support was extended into 2021. While Vietnam’s measures covered the period with the most significant labor market impacts, some impacts persisted beyond the second quarter of 2020. For instance, Dang and Nguyen (2020) find that even in September 2020 the pandemic increased the probability of unemployment by 1.2 percentage points and reduced monthly income by 5.5 percent. The World Bank’s Rapid Household Survey shows that household income in January 2021 was still between 11 and 22 percent lower than in June 2020 (World Bank 2021c). Recovery was slower for lower-income households, women, and ethnic minorities. Indeed, the short duration of the benefits may have overlooked certain groups that continue to face challenges. As described in the analysis in Part I, these groups include workers in the tourism sector, particularly in tourism-dependent locations like Da Nang, and female workers, whose labor force participation declined during 2020. At the same time, benefits were targeted to some groups such as merit people who did not face significant impacts from the outbreak (VASS 2021).
Stringent eligibility conditions for firms to access assistance may have limited the impact of measures to preserve employment. In order to be eligible for reductions in social insurance, firms had to show evidence of a 50 percent staff reduction or a 50 percent reduction in revenue. Conditioning such support on a firm already reducing its workforce likely limited the impact that reductions in social insurance contributions could have on employee retention. Some firms reported that these conditions were too strict because such significant staff or revenue reductions would preclude recovery even with government support. The requirement for a 50 percent reduction in revenue is high relative to COVID-19 response schemes in other countries that offered more generous benefits. For instance, Greece targeted its job retention scheme that provided compensation of 60 percent of wages for hours not worked and 6 weeks of employer social security contributions to firms experiencing at least a 20 percent decline in revenue (OECD 2020). Similarly, Colombia provided a payroll subsidy of 50 percent of the minimum wage to workers in firms with a 20 percent decline in revenue. As noted above, the requirement for firms to pay 50 percent of an employee’s wage before being eligible for loans to pay salaries contrasts with the experience in OECD countries where most, though not all, countries covered the full cost of hours not worked by idled workers (OECD 2020).

This stringency is reflected in firm reports of challenges accessing assistance and in preliminary evidence showing that policy support did not promote employment. Lack of eligibility was the reason most commonly cited by firms for not benefitting from government support policies in the Business Pulse Survey (Tan and Tran 2020b). Difficulty applying was one of the top three most common responses across firm sizes and across sectors. Evidence from the survey also suggests that government assistance has not been effective in supporting employment: no correlation is apparent between receipt of government support and the likelihood of firms hiring or laying off workers (Tan and Tran 2020b).

Eligibility conditions for assistance for workers and household businesses were also strict and required documentation that was not straightforward to obtain or verify. Support for informal workers was targeted to those in specific jobs including street vendors; garbage and scrap collection; carrying and transporting goods; driving motorbikes of two wheels for passenger and pedicab vehicles; retail sale of mobile lottery tickets; and self-employed or household catering, accommodation, tourism, healthcare, beauty, sports, and entertainment businesses. The means of identifying and verifying the occupation of informal workers, who may work several different jobs and have no single place of work, was not clear. Household businesses had to obtain proof that their income was less than VND100 million in 2019 from the tax authorities if they did not have tax receipts, and employees had to obtain proof from their employers that they had lost their jobs, which made employees reliant on their employers to obtain assistance. Eligibility for social assistance payments was also based on residence rather than employment, meaning that migrant workers were unable to obtain assistance in their place of work and had to travel home, an expensive endeavor that was not possible during lockdown (World Bank 2021d).

Taking these challenges into account, during future economic crises more emphasis should be placed on providing support than on fine-tuned targeting. Responses to future crises can be improved by learning from these challenges. To this end, targeting criteria and eligibility conditions should be as simple as possible and designed to minimize errors of exclusion to help ensure that those in need of assistance are able to obtain it. Conditions that are difficult to verify should be avoided. This includes occupation for workers and revenues or profits for businesses. Broad conditions—for example, targeting all firms (and their workers) in an entire sector—are preferable. Communication campaigns can help increase knowledge about the assistance available (Gelb and Mukherjee 2020). Where conditions are needed, improvements in the digital infrastructure supporting social protection programs in Vietnam,
which will be discussed in the next lessons learned section, could allow communication of simple messages about eligibility with final determinations done by crosschecking databases “behind the scenes” rather than through manual checks as was done during the COVID-19 response. Migrant workers would ideally be able to apply for assistance in either their place of employment or in their origin, though this would again require improvements in the digital infrastructure supporting Vietnam’s social protection system to prevent double-dipping. Making sure the response is as fast as possible is important because the effectiveness of some measures declines over time. For example, employment subsidies work best when deployed quickly as short-term measures that help firms maintain employment during temporary interruptions (Carranza et al. 2020). While there are concerns that these subsidies could subsidize hiring that would have occurred anyway or could displace workers who are not subsidized, these concerns are less salient during the height of downturns when the primary objective is to keep people in employment rather than to maximize program efficiency (Betcherman and Moroz 2018).

This is also true for calibrating the amount and duration of support. As described above, transfers made under the income support package were fairly generous relative to regional comparators, but they were insufficient as income replacement. Additionally, impacts persisted beyond the period in which support was provided. To avoid this, future responses could create a phased approach to support as crisis impacts become better understood, favoring more generous benefits with wider coverage early on in a crisis and more targeted support as impacts are better understood and recovery begins.

Vietnam can scale up the unemployment insurance system during future crises. Though its overall coverage is low, the unemployment insurance system functioned well as an automatic stabilizer, expanding to meet the needs of the larger-than-usual number of workers who experienced unemployment due to the COVID-19 outbreak. Vietnam could scale up the unemployment insurance system in subsequent crises. This can be done by easing eligibility criteria (for example, number of weeks of contributions), simplifying application procedures (and bringing them online), and increasing benefit levels and duration. For example, the COVID-19 income support package created a new program targeted to formal workers not eligible for unemployment insurance. Instead of creating a new class of beneficiaries outside of the unemployment insurance system, eligibility rules could have been eased to allow these workers to apply for assistance directly via the unemployment insurance system’s existing infrastructure.

Vietnam can also introduce new automatic stabilizers in preparation for future crises. Some advanced economies like Germany have permanent systems in place that allow firms to apply for employment support schemes if the firm faces economic challenges outside of its control, as occurred in the case of the COVID-19 outbreak (Effenberger, Koelle, and Barker 2020). While Germany has many years of experience with this Kurzarbeit scheme and country-specific institutional factors help make the program successful, Vietnam could take a step in the direction of a crisis-responsive employment retention scheme by, for example, allowing a declaration of force majeure to be made that would enable firms to apply to the unemployment insurance fund for job retention support. This would create a dedicated source of funds for employment retention that could be activated in times of crisis. While a detailed analysis of the financial health of the unemployment insurance fund would be necessary, the fund is currently well financed with a balance of VND84 trillion (US$3.6 billion). Thailand has such a scheme, which was activated during the COVID-19 outbreak. Vietnam currently has a similar scheme that allows firms facing economic challenges to use unemployment insurance funds to train workers. However, the
requirements are strict and the application process is cumbersome, and as a result few firms access the program. A similar scheme for wage subsidies during economic crises would need to have simple eligibility requirements with easy-to-obtain and easy-to-submit documentation. Guidelines related to eligibility, application procedures, and subsidy amounts could be defined in advance, but would need to incorporate sufficient flexibility to allow support to be tailored to the type of crisis being confronted. There are several important considerations for designing effective employment subsidies that can inform these guidelines: subsidies must be sufficiently large that firms use them, they should be conditioned on worker retention and permit flexible working hours or no work, and they should be temporary while disruptions last (Carranza et al. 2020).

Lesson learned #2: Develop a more robust and integrated social protection system

Identifying beneficiaries for COVID-19 assistance was challenging. Identifying the poor and near poor, merit people, and other existing social assistance beneficiaries for COVID-19 assistance was fairly smooth because these groups regularly receive support from existing government programs. However, authorities faced significant challenges identifying informal workers for assistance. These workers do not appear on existing registries, and so authorities struggled to provide assistance to them. The application process itself was challenging. For instance, informal migrant workers were required to provide proof of residency in both their origin and destination, significantly increasing the cost of requesting assistance. This was an impossible requirement to fulfill while movement restrictions were in place. Other countries were more successful in identifying informal workers for assistance. For instance, Indonesia used self-registration via paper and online applications while Malaysia and Thailand used online applications (World Bank 2021b).

Reviewing and verifying beneficiaries was time-consuming. Decision 15 mandated review and verification of beneficiaries within 5 working days, which included cross-checking different beneficiary lists to ensure that each beneficiary only received a single payment. This requirement was not possible to fulfill as the process of review and verification—and application for new beneficiaries—was manual. Additionally, the process involved many different actors including community leaders, local police, the local tax agency, and social organizations. As a result, documenting, reviewing, approving, and making a decision on the list of beneficiaries took more than 30 business days in some cases (VASS 2021).

Delivery of financial assistance was hindered by a lack of digital payment mechanisms to provide safe and fast payments. The delivery mechanism for the transfers made under the COVID-19 response relied heavily on cash payments via face-to-face exchanges. This impeded payments during the physical distancing and movement restriction periods. The delivery of cash through Vietnam Post (VNPost) was also more time-consuming than digital methods. Officials at the District State Treasury took two days to issue cash payment orders that could have been fulfilled instantly via online transactions. Postal delivery of transfers also created a greater risk of theft because VNPost officials needed to transport cash from the district level to the commune level. Further, beneficiaries could only use VNPost cash payment points to withdraw cash, while payments in other countries allowed withdrawals at point-of-sale terminals or for purchases. Other countries had more success innovating with delivery mechanisms in their COVID-19 response.
responses. Cambodia, for instance, partnered with the country’s largest mobile money operators to create a cash-out facility, while Malaysia, Mongolia, and Thailand made payments to transactional bank accounts (World Bank 2021b). Facing the challenge of making payments to different target groups, Indonesia paid a portion of its social assistance transfers in cash, another portion via a basic transaction account, and a final portion via newly opened transactional accounts that used innovative digital mechanisms to satisfy financial regulations.

**Vietnam can increase the shock responsiveness of its social protection system by improving several foundational elements.** Initial evaluation of the responsiveness of social protection systems to the COVID-19 outbreak highlights the importance of foundational elements—the availability of an identification system to facilitate registration and eligibility determination and to permit opening of bank accounts and of a social insurance registry or other registries linked to this identification system—for quick registration and payment of benefits (Palacios 2020). Where these systems existed, countries were able to expand social assistance responses fairly quickly to new beneficiaries including in the informal sector. As described above, challenges identifying, registering, and transferring payments to new beneficiaries were among the most significant in Vietnam’s response to the COVID-19 outbreak. Improving the ability of the social protection system to respond to future crises will require transitioning to digital registration of new beneficiaries with the ultimate goal of establishing a social registry based on a digital identification system and transitioning to digital transfers to facilitate faster, more secure payments. In the long run, the social protection system as a whole requires reforms to decouple employment status from social protection and to create a continuum of support from protection to promotion.

**To alleviate challenges delivering assistance, Vietnam will need to increase the inter-operability of its social protection programs.** Vietnam could explore the creation of an integrated social registry—that is, a harmonized social protection information system that supports outreach, intake, registration, and eligibility determination for multiple programs—as the foundation of an integrated social protection delivery network. Different databases (for example, social assistance, poverty, social insurance, health insurance, and tax) would be linked to enable more efficient data management and exchange across agencies as a first step to minimize the burden of data collection, verification, and updating. This would allow for easier and faster identification, verification, and targeting of beneficiaries in case of an emergency. In order to make such a social registry a reality, Vietnam will need to take a whole-of-government approach to design a detailed database integration strategy. The government has created an initiative to link the major national databases, including Vietnam Social Security and other databases within the Ministry of Labor, Invalids, and Social Affairs (MOLISA), but progress to date has been modest. The recent announcement by the Ministry of Public Security of a plan to issue 50 million national IDs could provide an opportunity to create links across databases by using the national ID as a unique identifier. This would require clear protocols and a legal framework to protect personal data and privacy but has the potential to streamline the information needed for program administration and to access program benefits (Nguyen et al. 2020).

**Interoperability would also allow for a harmonized approach to eligibility targeting and benefit determination and better shock responsiveness.** Currently, different methods and thresholds are used to target beneficiaries for different social protection programs (Nguyen et al. 2020). This creates confusion and can lead to targeting errors. Improving the interoperability of the social protection system through tools like a social registry and an ID system could allow for consistent targeting across programs because the same beneficiary data would inform each program. Benefit levels could also be harmonized based on

16  Decisions 714/QD-TTg of 2015 and 708/QD-TTg of 2018.
this common data. In the case of a shock, vulnerable individuals could be quickly identified by looking at existing beneficiaries in affected locations. Ensuring that the databases are populated with high quality data is fundamental to success.

**Even with a social registry, Vietnam will need to improve the process for registering individuals not currently enrolled in any social protection scheme.** As described above, the process of registering beneficiaries for the COVID-19 income support package was time consuming and cumbersome, resulting in lower coverage than was anticipated. While Vietnam no longer faces the urgent need to register beneficiaries to respond to an ongoing crisis, registration remains a priority to ensure that social protection coverage is available when another crisis arises. Vietnam can learn lessons from countries including Thailand that created digital mechanisms for registration during the COVID-19 outbreak (Lamanna and Sharpe 2021). In Thailand, potential beneficiaries of a COVID-19 relief payment were encouraged to self-register for the program via an online web portal. These applicants were then cross-checked against several social assistance databases using their national ID to verify that they were not eligible for assistance under existing programs. Vietnam could explore this type of online self-registration process to identify informal workers, and could make it available on an on-demand basis. This would be consistent with the government’s move towards self-registration for enrolment in poverty reduction programs and its emphasis on the digitization of government systems and services. International experience registering informal workers for social insurance schemes shows that financial incentives can complement convenient platforms for interacting with social protection programs to incentivize coverage expansions.

**Vietnam can also increase its use of digital payments to overcome challenges transferring assistance to beneficiaries.** Vietnam has implemented digital payments across various government programs and can expand this to social protection programs. Periodic social assistance and social insurance benefits and payments for other programs managed by MOLISA can 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. This could ensure that the correct amount of benefits is distributed quickly to the right people at the right time, minimizing time for manual transfers to be processed and delivered, reducing incorrect payments, and reducing costs for beneficiaries to obtain payments in person. Digital payments can also expand financial inclusion to those outside of the formal financial system. A common platform for government-to-person payments could be constructed to function across the social protection system. Initial experience delivering social assistance transfers through an e-payments pilot involving VNPost, commercial banks, and network operators in several provinces shows promising results and could be expanded to the overall social protection payment system (Nguyen et al. 2020). Constraints to expanding the use of digital payments include low digital literacy among some populations, low bank branch penetration, lack of standardized identification to open bank accounts, costly account opening and maintenance fees, and lack of cash-in and cash-out points.

**In the long term, responding effectively during times of crises will require Vietnam’s social protection system to evolve into a universal one that is accessible to all workers regardless of their employment status.** The linkage between employment and social protection in Vietnam excludes a large segment of the population from assistance, including during times of crisis like the COVID-19 outbreak. Decoupling employment from social protection could allow for the development of a social protection system in which social assistance would be available to those in need due to poverty or specific vulnerabilities while other aspects of social protection such as preventive programs like social insurance could be available to those choosing to participate without taking employment status into account (Nguyen et al. 2020).
Vietnam’s social protection system will also need to put more emphasis on institutional coordination and financial resources. Lack of institutional coordination contributed to Vietnam’s challenges implementing its social protection response to the COVID-19 outbreak. For instance, the social assistance response relied heavily on local authorities for implementation, which created myriad different rules as each province produced their own implementation guidelines for the province and district level. Lack of institutional coordination also inhibits efforts to promote sustained movements out of poverty, as separate agencies are responsible for social assistance programs and for promotional programs like skills training and employment services. An expanded and more integrated social protection system will also require greater financial resources. Financing was a challenge during the COVID-19 response as poorer provinces struggled to fund the 50 percent of assistance required to be financed from their own budgets. Expanding coverage, incorporating promotional elements into social assistance programs, and ensuring that responses to future crises are equitable will likely require an increasing reliance on general revenues rather than social contributions (Nguyen et al. 2020).

**Lesson learned #3: Incorporate promotional measures into social protection responses to future crises**

Vietnam did not deploy active labor market programs to help displaced workers find new jobs in response to the COVID-19 outbreak. Though the labor market recovered in the second half of 2020, Part I showed that several impacts persisted including a depressed female labor force participation rate, a gap in the male and female unemployment rate, and a decline in the quality of employment as informality and self-employment increased. Despite these developments, Vietnam’s response to the COVID-19 outbreak did not incorporate new active labor market programs (ALMPs) to reengage displaced workers in the labor market or help improve the job quality of those still employed. At the same time, data from Employment Service Centers shows that already meager participation in vocational training linked to the receipt of unemployment insurance benefits fell 40 percent as vocational training institutions suspended operations due to transmission control measures. Other countries in the region, in contrast, ramped up support to train displaced workers during unemployment and to help connect these workers with new jobs. For instance, Malaysia created subsidies for short courses in digital and other skills, increased the training cost that is claimable through the unemployment insurance system and added a daily training allowance, and provided training allowances for displaced workers not covered by the unemployment insurance system (Schmillen, Rahman, and Jasmin 2020).

ALMPs can help reduce labor market disruptions and maintain and improve the human capital of displaced workers during economic downturns. ALMPs can upskill and reskill workers through training and link jobseekers to job opportunities in growing sectors. During economic crises, scaling up these programs can help the unemployed or underemployed maintain and even grow their human capital and get back to work more quickly. ALMPs can also help expand self-employment opportunities and even improve the functioning of small businesses. Needs will differ depending on the nature of the crisis, but during the COVID-19 outbreak financial support provided to small businesses could have been complemented by training in and support for adopting e-commerce tools as they grew in popularity during the pandemic.

An integrated employment promotion approach that coordinates different types of ALMPs and links them to social assistance is emerging as an effective model, including in response to economic crises. The effectiveness of ALMPs can be enhanced when multiple program types are combined such as when training is linked to employment services (Betcherman and Moroz 2018). The formalization of links
between social assistance and employment promotion programs in productive inclusion approaches, such as comprehensive programs that offer financial assistance in addition to skills training, has also demonstrated substantial benefits, and increasingly shows potential to succeed at scale, though doing so is admittedly challenging (Andrews et al. 2021). Several countries have explored these approaches, including in response to economic crises. As noted above, in response to the COVID-19 outbreak, Malaysia is providing a daily training allowance to workers receiving training through the unemployment insurance system. Singapore’s Enhanced Hiring Incentive provides an employment subsidy to an employer for hiring a local worker who has graduated from a training program. In response to the 2008–2009 economic crisis, Thailand launched the Tongila Archeep program that provided a month of vocational training and a cash allowance for three months to encourage beneficiaries to start businesses or find jobs. Though not developed specifically in response to economic downturns, the Jovenes programs in Latin America provide a good model of a wraparound employment promotion program (Robalino, Newhouse, and Rother 2014). These programs combine employment assistance, on-the-job training, and training stipends. The programs are demand-driven and often targeted to poor young people. Training is provided by private, public, and NGO providers on a competitive basis. Evaluations of the Jovenes programs have shown positive impacts on the probability of getting a job and on job quality with higher rates of return for women and younger people (Ribe, Robalino, and Walker 2012). An emerging model demonstrating significant success in the United States is sector-focused training programs that provide training for high-demand sectors and occupational clusters, combine soft and technical skills training, incorporate job placement, and provide additional services to promote program completion (Katz et al. 2020). Evidence from randomized control trials has found lasting positive impacts on earnings, which seem to be driven by movement of participants into better jobs.

Vietnam’s ability to incorporate ALMPs into its social protection responses to future crises will require more institutional coordination and greater financial resources. Lack of institutional coordination inhibits efforts to promote sustained recovery from crises and sustained movements out of poverty, as separate agencies in MOLISA are responsible for social assistance programs (Social Protection Bureau) and for promotional programs like skills training and employment services (Employment Bureau and the Directorate of Vocational Education and Training). Such coordination is necessary to ensure that programs work together to address the multitude of constraints facing vulnerable people, a particularly challenging task when responding to economic crises. As described in the section on the second lesson learned above, additional financial resources will also be necessary to create a more integrated social protection system, which may require a shift to greater reliance on general revenues.

Deploying ALMPs as part of a coordinated social protection response to future crises will also require strengthening existing ALMPs, particularly training and employment services, because they are currently weak. MOLISA provides training to workers receiving unemployment benefits. However, this training is viewed as ineffective (Tuyet 2021). This is reflected in the small share of unemployment insurance beneficiaries taking advantage of vocational training, which averaged about 5 percent before the crisis in 2019 and 2 percent during the crisis in the second and third quarter of 2020. Courses in skills that are not in demand, poor facilities, and lack of partnerships with business are cited as reasons why the training is ineffective. Employment services are also weak. Employment Services Centers (ESCs) managed by MOLISA’s Department of Employment have little labor market information to inform job search guidance; focus mostly on administering the unemployment insurance system; and have limited training, resources, and outreach to employers (Mazza et al. 2019).
Improving training is essential to strengthening the role that ALMPs can play in future responses, and requires a long-term vision for success. Vietnam will need to make reforms in several key areas to improve the production of skills (Acosta et al. 2020; Moroz and Nguyen 2020). In terms of governance, public and private training institutions should be empowered with autonomy but be held accountable through key performance indicators and other monitoring and evaluation tools. Better labor market information, an improved qualification and accreditation system, and stronger industry linkages are necessary to create a commitment to quality. Dependence on state financing should be reduced with remaining financing eventually tied to outputs and outcomes and targeted to disadvantaged students, while training institutions are incentivized to undertake their own income-generating activities and tuition caps are relaxed. Government-enterprise partnerships should be nurtured through trust and identification of win-win strategies. Finally, training will need to be viewed as a lifelong pursuit with diverse pathways and recognition of different kinds of training, modular training options, and the potential for learner-based financing.

In the short term, several actions can be taken to transition Vietnam to a more demand-driven, results-oriented system that would be better prepared to assist displaced workers during economic downturns. The articulation of key performance indicators (KPIs) that monitor inputs to, outputs from, and outcomes of training institutions are an important first step. These KPIs would help track the performance of training institutions and, if published, could help potential students make decisions about which institutions to attend. As the system of KPIs matures, the indicators could even be linked to financing to tie delivery as closely to results as possible. Vietnam could also explore options for adopting e-learning approaches to deliver training. During the COVID-19 outbreak only a few of the 1,900 vocational training institutions in Vietnam were able to continue offering training courses online. These closures put a spotlight on the lack of e-learning options in Vietnam. E-learning has the potential to improve access to training for disadvantaged groups in rural and remote areas, and to improve quality while decreasing costs more generally. E-learning also has the potential to make vocational training more relevant to people’s work and to encourage individuals to become lifelong learners. E-learning can also make the training system more shock-resistant by allowing training courses to be quickly deployed when ALMPs need to be scaled up.

In the longer term, the employment services system will also need to shift towards a focus on results in order to complement other social protection responses to future crises. Developing a national results-based performance management framework would help focus employment services on delivery with results (Mazza et al. 2019). The efficiency and effectiveness of employment services could be improved by leveraging technology, including by deploying automated job matching. Services could be targeted to the low-skilled and other vulnerable workers who are often overlooked by private employment services. This will likely be particularly important in ethnic minority areas and in areas where climate change is creating significant disruption in people’s livelihoods, as in the Mekong Delta. The unemployment insurance fund represents a stable source for funding these improved employment services, though capacity for expanding the scope of services with existing resources needs to be investigated further.

Several actions can be taken in the short term to strengthen employment services. The creation of a centralized labor market observatory is an important step in linking workforce development services to labor market needs (Moroz, Nguyen, and Chu 2019). The observatory would be a hub for career and job planning and acquisition. The observatory could systematically collect, post, and generate information about existing and emerging jobs, skills, and upskilling opportunities, while also forecasting changing
skills and jobs needs. The increasing importance of digital skills in Vietnam, and growing international evidence that combinations of skills (for example, digital and soft skills) are important, will require a labor market information system that not only identifies skills that are in demand but informs jobseekers, students, and education and training institutions about these needs and how they are changing. Existing data could populate this observatory in the short term with additional sources added over time. Partnerships with private providers of job search services can be explored to exploit complementary interests in labor market data, as private sector providers tend to focus on more highly skilled workers and public providers on less skilled workers. Digital provision of employment services could help expand access to these services without significant investment in infrastructure and capacity. For instance, SMS text messages sent to jobseekers in Peru that informed them about job opportunities and provided job matching had a positive impact on employment (Dammert, Galdo, and Galdo 2015). In response to the COVID-19 outbreak China strengthened its employment assistance programs in part by expanding online recruitment, including online job fairs, and online employment counseling (Wang et al. 2020). This included development of a purpose-built app by the Ministry of Human Resources and Social Security.
References


Appendix 1: Employment projections in the absence of COVID-19

We utilize GDP data from 2015 to 2019 to estimate the elasticities between GDP and employment. Following Kapsos (2005), to obtain these estimates we run the following regression:

\[ \ln(E_t) = \epsilon \ln(GDP_t) + u_t \]

Where \( E_t \), \( GDP_t \), and \( u_t \) are the total labor (measured in total employment or total hours), GDP, and idiosyncratic error for year \( t \), respectively. The elasticity estimate, \( \epsilon \), represents the percent change in the labor outcome with a 1 percent increase in GDP.

\[ \epsilon = \frac{\text{%ΔE}}{\text{%ΔGDP}} \]

We also calculate sector-specific elasticities, which are estimated using the following equation:

\[ \ln(E_{it}) = \epsilon_i \ln(GDP_{it}) \cdot \theta_i + \epsilon_{\text{base}} \ln(GDP_{it}) + \theta_i + u_{it} \]

where the variables are all the same as previously described, except now we measure GDP and employment in the sector \( i \) and interact \( \ln(GDP) \) with indicators for each sector, leaving out a base sector. Table 3 shows the resulting elasticities.

We then use the 2020 GDP growth projections made in the October 2019 edition of the World Bank’s East Asia and Pacific Economic Update and multiply by \( \epsilon \) to obtain the projected change in employment (hours worked) (World Bank 2019). This leaves us with a counterfactual change in employment for 2020 in the absence of the COVID-19 outbreak. We compute these counterfactuals for overall employment, employment in three large sectors (Agriculture, Manufacturing, and Services), and 20 detailed sectors. GDP projections are not available at the detailed sector-level so we use a cubic interpolation to project 2020 GDP growth rates using our full sample (2011 to 2019) of GDP by subsector measurements. Table 3 shows the elasticities and GDP projections used.

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17 These correspond to the top-level ISIC categories. Data on GDP is not available for Activities of International Bodies.
Table 3: **Elasticities and GDP projections by sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Elasticity</th>
<th>GDP projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>0.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishery</td>
<td>-1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Industry and Construction</td>
<td>0.9%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Services</td>
<td>0.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishery</td>
<td>-1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>0.9%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Electricity, Gas, Steam, Air Conditioning</td>
<td>0.6%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Water Supply, Sewerage, Waste Management</td>
<td>0.9%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>0.9%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>0.3%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Transportation &amp; Storage</td>
<td>0.6%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Accommodation &amp; Food Services</td>
<td>0.4%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Information &amp; Communication</td>
<td>-0.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>0.7%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3.7%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Professional, Scientific, Technical</td>
<td>1.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Administrative &amp; Support</td>
<td>0.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Public Administration</td>
<td>-0.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Education &amp; training</td>
<td>0.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Human Health &amp; Social Work</td>
<td>0.4%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Arts, Entertainment, Recreation</td>
<td>-0.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Other Services</td>
<td>0.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Activities of Households</td>
<td>0.2%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Sources: General Statistics Office; World Bank (2019); Vietnam Labor Force Survey.
Appendix 2: Labor market impacts decompositions

The total decrease in employment (hours worked) can be decomposed into two major components: hours lost to job loss and reduction in hours worked by those maintaining employment. The former can be further decomposed into those who left the workforce completely (that is, transitions from employment to inactivity) and those who were laid off but still remained in the labor force (that is, transitions from employment into unemployment). The latter can also be further decomposed into two channels: hour reduction to non-zero and those employed but currently receiving zero hours (for example, furloughed workers). Adapting from ILO (2020), this decomposition takes the form of:

\[
\frac{-\Delta H^t}{\text{Loss of total hours}} = \left( \frac{-\Delta E^t \cdot \Delta h^{t-1}}{\Delta I^t + \Delta U^t} \cdot \frac{\Delta I^t}{\Delta I^t + \Delta U^t} - \frac{-\Delta E^t \cdot \Delta h^{t-1}}{\Delta I^t + \Delta U^t} \cdot \frac{\Delta U^t}{\Delta I^t + \Delta U^t} \right) - \Delta E^t \cdot \Delta h^{t-1} \cdot \left( \frac{\Delta ENAW^t}{E^t} - \frac{EAW^t}{EAW^t} \cdot \Delta h^t \right) \]

where the variables are defined as:

<table>
<thead>
<tr>
<th>Variable Definition</th>
<th>Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total hours worked at time t</td>
<td>( H^t )</td>
</tr>
<tr>
<td>Employed population in t</td>
<td>( E^t )</td>
</tr>
<tr>
<td>Average hours in t</td>
<td>( h^t )</td>
</tr>
<tr>
<td>Inactive population in t</td>
<td>( I^t )</td>
</tr>
<tr>
<td>Unemployed population in t</td>
<td>( U^t )</td>
</tr>
<tr>
<td>Employed but zero hours in t</td>
<td>( ENAW^t )</td>
</tr>
<tr>
<td>Employed but at work in t</td>
<td>( E^t-ENAW^t=EAW^t )</td>
</tr>
<tr>
<td>Average hours per employed worker (non-zero)</td>
<td>( \frac{H^t}{EAW^t} )</td>
</tr>
</tbody>
</table>

Note: Applying the operator to a variable at time \( t \) is equivalent to the change in the variable compared to the past value in \( t-1 \).

We define workers who are employed but not working as those reporting working zero hours in the past week.

As described in ILO (2020), two key assumptions must be made when interpreting the decomposition because the data used from the Labor Force Survey is a cross section of the population, not a panel. First, we assume that all of the change in our variables from 2018 to 2020 is directly linked to the COVID-19 crisis (and not some other change that happened over the same time period). Secondly, the loss of
hours attributed to job loss leading to unemployment, job loss leading to inactivity, and to people being employed but not working is assumed to be proportional to the change in the number of people affected. Another way to say this is that, on average, those who became unemployed or inactive or whose jobs were suspended due to the COVID-19 crisis would have been working the same number of hours before the crisis. These assumptions are why we chose to use 2018 as our comparison year, as hours worked in 2019 exhibited unusual trends.