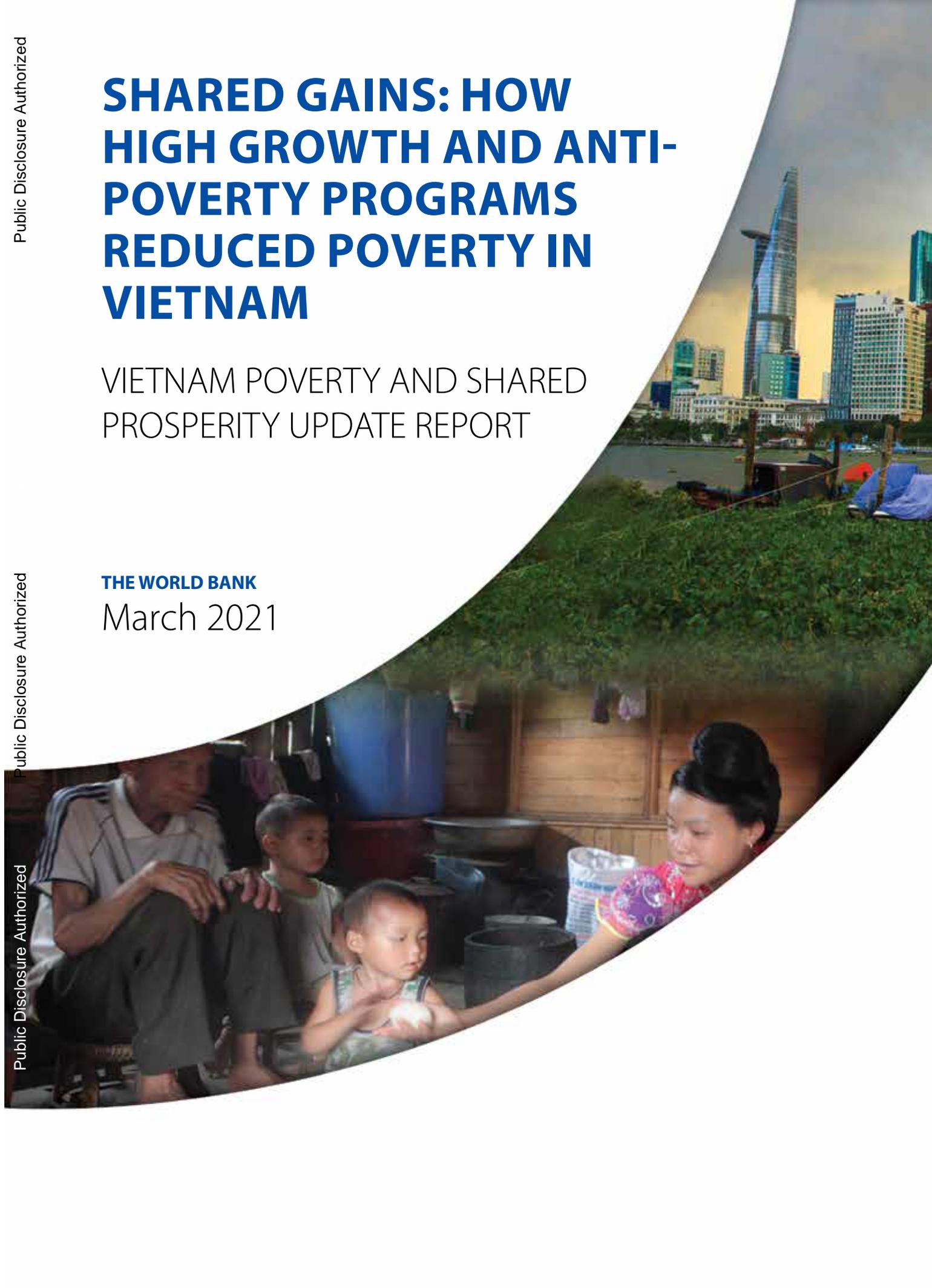


# SHARED GAINS: HOW HIGH GROWTH AND ANTI-POVERTY PROGRAMS REDUCED POVERTY IN VIETNAM

VIETNAM POVERTY AND SHARED PROSPERITY UPDATE REPORT

**THE WORLD BANK**  
March 2021



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# **Shared Gains: How high growth and anti-poverty programs reduced poverty in Vietnam**

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# ACKNOWLEDGEMENTS

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## Currency Equivalents

Exchange Rate Effective as of March 30, 2020

Currency Unit = VND (Vietnamese Dong)

VND 23,273.3 = US \$1.00

Fiscal Year = January to December

## ACRONYMS AND ABBREVIATIONS

CECODES	Centre for Community Support and Development Studies
PAPI	Provincial Governance and Public Administration Performance Index
ECD	Early Childhood Development
PPP	Purchasing Power Parity
FDI	Foreign Direct Investment
RTA	Real Time Analytics
GDP	Gross Domestic Product
NTP-SPR	National Target Programs for Sustainable Poverty Reduction
GSO	General Statistics Office
UNDP	United Nations Development Program
IPSARD	Institute for Policy and Strategy for Agriculture and Rural Development
USD	United States of America Dollar
NTP	National Target Program
VFF-CRT	Centre for Research and Training of the Vietnam Fatherland Front
NTP-NRD	National Target Programs for New Rural Development
VHLSS	Vietnam Household Living Standards Survey
P135	National Target Program for Sustainable Poverty Reduction - Program 135
VND	Vietnamese Dong

# EXECUTIVE SUMMARY

**Vietnamese households have escaped poverty and are joining middle class ranks in large numbers, demonstrating that recent welfare gains have been sustainable.** Poverty declined by an additional 3 percentage points since 2016 to 7 percent, according to estimates from the Vietnam Household Living Standards Survey (VHLSS) 2018. During this period, more than 7 million people joined the ranks of the global middle class too, bringing the overall share of the middle class in Vietnam to 20 percent. Economic security, defined as having enough income to meet basic needs, absorb temporary shocks and remain with extra income to spend on non-necessities, has increased more broadly. As of 2018, four in five Vietnamese could be considered economically secure.

**Ethnic minorities made further progress.** Their incidence of poverty declined by 7.5 percentage points during 2016-18, meaning that poverty among ethnic minorities has now declined by more than 20 percentage points since 2014. The gains among ethnic minorities drove the national reduction in poverty in recent years. But because ethnic minorities started with high levels of poverty, their incidence of poverty, at 37 percent in 2018, remains substantially higher than the ethnic majority whose poverty rate is around one percent. Extreme poverty is now even more concentrated among ethnic minorities. They now make up 86 percent of the remaining poor people in Vietnam.

**High growth improved living standards of the poor and fostered upward economic mobility.** Per capita consumption growth during 2016-18 averaged 9 percent per year compared to 5.5 percent during 2010-14. Estimates from tracking the same households over time show that growth rates in per capita consumption were relatively higher among initially poor households. However, absolute differences between the less-welloff and the better-off increased as high growth for the poor still translated into less Vietnamese Dong than generated by lower growth of very high incomes among the rich. In a rapidly expanding economy, the higher growth rates among the poor implies increased gains to poorer households. Therefore, recent

poverty reduction has been largely driven by high growth.

**Rapid economic structural transformation expanded wage income opportunities, which became the major driver of poverty reduction and economic security.** The Vietnamese economy generated 2 million wage jobs since 2016 and 9 million since 2010, including in rural areas. There are now nearly as many workers in rural non-agriculture sectors as in the agriculture sector. Wage incomes rose, offsetting declining remittances. The acceleration of poverty reduction among ethnic minorities coincided with the increased contribution of wage incomes which accounted for about 55 percent of poverty reduction among ethnic minorities during 2016-18. Agriculture also contributed to poverty reduction but only among ethnic minorities. Its contribution at the national level was muted because growth in the sector was significantly lower than other sectors. The employment contribution of agriculture value-added sectors in Vietnam also underperforms that observed in countries at similar income levels.

**The National Target Programs (NTPs) helped to improve socio-economic conditions in rural areas.** While causal impacts of the NTPs are difficult to assess, descriptive statistics show a significant improvement in access to services, especially roads, which increased by more than 20 percentage points since 2010. Significant investments were also made in irrigation. However, gaps in remote areas remain, especially in human development investments. Poor communes still faced resource constraints under the financing mechanism of the current generation of NTPs. This resulted in lower investments on average in the poorest communes than in better-off communes and the concentration of investments towards hard infrastructure.

**The analysis presented in this report has three major implications for the poverty reduction and shared prosperity agenda in Vietnam, namely:**

- The poverty discourse will shift towards a more middle-class agenda focusing more on economic vulnerability, the quality of life and service delivery
- Inequality will gain greater prominence in public debate

- The role of area based anti-poverty interventions becomes even more important for addressing last mile poverty challenges

**First, with a rapidly expanding consumer class, the poverty discourse for most people now relates to meeting middle class aspirations.** These aspirations are defined by the desire to have enough income to improve the quality of life and have better services, especially related to housing. Vietnamese spend incremental incomes mostly to secure improved housing that is less crowded and equipped with better water and sanitation services, and acquire durable assets to increase comfort of life, which most of them lack. Only 24 percent of the economically secure class lives in permanent houses with a private bathroom and piped water for example, while 20 percent and 34 percent respectively, have a bathwater heater or an air conditioner in their homes. Aspirations to meet these living conditions define the debate around improving living standards. They explain why poverty continues to be identified as the top concern in citizen perceptions surveys, despite extreme poverty having declined significantly. Although middle class households have a negligible likelihood of falling into poverty, a third fail to hold onto their middleclass status over a two-year period. This heightens concerns over economic vulnerability. The COVID-19 crisis exposes this vulnerability showing how increased non-agricultural wage dependency increases household exposure to economic shocks without adequate safety nets in place.

**Secondly, the absolute gap between the less and better off still increased.** The difference in per capita consumption between the poorest and richest 10 percent has increased from VND 26 million to VND 58 million (or VND 38 million, inflation adjusted) between 2010 and 2018 though the relative gap remained similar. Absolute differences in living standards are more visible as the better off now afford to spend on conspicuous items. This translates into visible differences in assets and housing conditions, feeding into perceptions of increased inequality. Access to opportunities are unequal too. Tertiary enrolment and graduation rates among youth is three times higher among the middle class than the poor and economically vulnerable, yet tertiary education is the key avenue to better jobs.

**Addressing these first two issues requires government to focus on the following areas:**

- Improving quality of service delivery, especially access to better housing conditions
- Strengthening social safety nets consistent with Vietnam's changing labor market structure to better protect even non-poor households, especially those without social insurance, in the event of economic shocks
- Ensuring fair access to better tertiary education and job opportunities for the less well-off in securing their sustained income growth. Fairer access would be achieved by (i) improving access to and quality of upper secondary schooling in poorer communes to improve transition to tertiary education and (ii) increasing tertiary education institutional differentiation (developing alternative modes of tertiary education such as e-learning and non-university training) and strengthening student financial aid.

**Finally, effective area based anti-poverty programs become more important to tackle last mile poverty challenges given the increased concentration of poverty among geographically disadvantaged populations.** The remaining poor in Vietnam are ethnic minorities who mostly reside in mountainous areas. The sparse populations and long distance to urban hubs reduces their integration into the rest of the economy, accounting for 58 percent of the gap in access to wage jobs by ethnic minorities. Lower education – particularly tertiary education attainment – contributes further to poor access to wage jobs. The National Assembly resolution 88 to have an NTP for Ethnic Minorities and Mountainous areas is therefore timely to address the specific challenges preventing the full participation of ethnic minorities in the most dynamic parts of the economy.

**To be effective, the envisaged NTP for Ethnic Minorities and Mountainous areas should address three weaknesses of the current NTPs.**

- **Ensuring that the NTP for Ethnic Minorities and Mountainous areas provides incremental resources to lagging areas especially to more deprived communes** – the intensity of investments in the current NTPs was the same across poor and non-poor communes. The poorest communes did not receive incremental resources in areas with overlapping NTP programs, they faced trade-off across many needs and

failed to close the gap in access to services relative to better off communes. *To address this, the new NTP should (i) ensure additionality instead of substitution of resources to disadvantaged communes and (ii) link allocation of resources to extent of deprivation across communes.*

- **Ensuring prioritization of investments to improve quality of human development service delivery** – investments under the current NTPs were heavily focused on infrastructure (79 percent of the budget) and less on livelihoods, health and education. Thus, while connectivity infrastructure improved, commune leaders still identify poor quality of school facilities and inadequate equipment in health centers as key challenges, while access to upper secondary schools in P135 communes has not improved over time. *To address this, the future NTP must provide*

*earmarked resources for (i) livelihoods interventions, especially promoting value chain participation and (ii) human development investments, especially those promoting progression to tertiary education and facilitating the school to work transition. It could also provide unconditional commune block grants giving communes greater control over investments.*

- **Strengthening monitoring and evaluation, including outputs and expenditure reporting at the commune level** – *commune level information on achievement of criteria and expenditures is not readily available at the central level which hampers both monitoring and improving targeting of investments. This should be improved under the next NTPs by leveraging digital data collection to create a centralized database of investments, outputs and outcomes to promote evidence-based decision making.*

# INTRODUCTION

**Vietnam has continued to notch high economic growth post the global financial crisis.** Annual per capita GDP growth rate averaged 6.2 percent between 2010 and 2018, translating into a cumulative expansion of 62 percent in the size of the economy. Economic growth has been higher since the survey for reporting household living standards – the Vietnam Household Living Standards, was done in 2016, with growth peaking at 7.1% in 2018. Vietnam is continuing its march towards prosperity.

**Previous analysis shows that growth has been pro-poor.**

The analysis reported in previous poverty update reports showed that growth was accompanied by significant net job creation and fast growth in household incomes contributing to significant poverty reduction. Gains were also observed among ethnic minorities who experienced a 13-percentage point decline in poverty between 2014 and 2016. In that period, more than 3 million people joined the ranks of the global middle class. Given the poor initial conditions of ethnic minorities, however, the broad-based gains in living standards meant the remaining poor are increasingly ethnic minorities. Therefore, the poverty reduction and shared prosperity agenda are increasingly separate.

**This report presents updated trends in poverty and shared prosperity based on the latest Vietnam Household and Living Standards Survey (VHLSS) round in 2018.** The report defines monetary poverty according to the General Statistics Office -World Bank (GSO-WB) poverty line, amounting to monthly consumption of VND 969 167 per person i.e. equivalent to 2011 PPP \$3.34 per person per day<sup>1</sup>. Other monetary benchmarks are also reported, along with complimentary non-monetary dimensions of poverty. The Government of Vietnam uses the multi-dimensional approach adopted in 2015.

This approach includes an income component estimated using the proxy means test and deprivation in five basic services<sup>2</sup>. Comparable estimates are only available starting in 2016.

**The report also includes a special topic focusing on the role of government anti-poverty interventions in reducing poverty in Vietnam.**

Previous update reports investigated changes in household livelihoods and incomes to explain drivers of poverty reduction. This report looks in more depth at government's area based anti-poverty programs – specifically the ambitious National Target Programs (NTPs) implemented since 2010 – in improving socio-economic conditions in Vietnam. The government has invested a significant amount of resources in these programs, with an expected state budget envelope of more than VND 560 trillion (approximately USD 25 billion and annual equivalent of 4.7 percent of the budget) excluding credit, community and private sector financing, with the goal of increasing household incomes and reducing poverty. Their contribution to household living standards warrants special attention like the analysis devoted to the role of economic growth and labor market conditions in reducing poverty in previous poverty update reports.

**Thus, the report is organized into two main sections.**

The first section reviews Vietnam's progress in reducing poverty and promoting shared prosperity. It describes updated poverty and shared prosperity trends, the nature of economic mobility, the drivers of poverty reduction and the profile of the remaining poor. The second section reviews the relevance and effectiveness of targeted anti-poverty programs in Vietnam. This analysis seeks to answer questions on who/which areas benefited the most from these investments, quantify the level and type of investments at the commune level and whether

<sup>1</sup> This poverty line was determined in 2010 and has only been updated for changes in the cost of living since then.

<sup>2</sup> A household is defined as poor if it either falls below a fixed per capita income threshold (VND 700 000 in rural areas and VND 1 000 000 in urban areas) or falls within a given range of per capita income (VND 700 000 – 1 000 000 in rural areas and VND 1 000 000 – 1 300 000 in urban areas) and deprived of at least 3 indicators measuring deprivation of access to basic social services namely, access to medical services; health insurance; education level of adults; school attendance; housing quality; average housing area per capita; residential water sources; hygienic latrines and toilets; telecom services; and assets to serve information access

they contributed to closing the gaps in socio-economic conditions in rural communes. These findings are then used to identify potential enhancements to the design of

the National Target Programs to improve the relevance and effectiveness of future anti-poverty programs.

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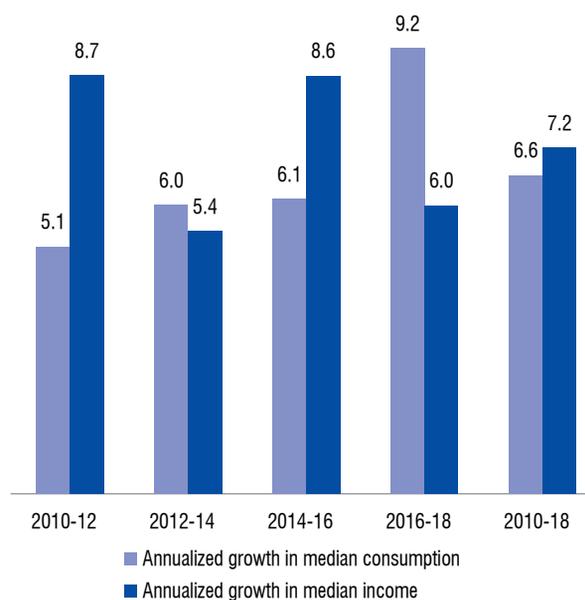


## POVERTY AND SHARED PROSPERITY TRENDS

### Living standards in Vietnam are improving across the board

High economic growth in Vietnam continues to be broad based and widely shared by the Vietnamese people. The VHLSS 2018 data show that per capita expenditure and incomes respectively, grew at a fast pace of 9 and 6 percent per year for a typical (median) Vietnamese household between 2016 and 2018 (Figure 1). In total, living standards for the average person in Vietnam have improved by more than 67 percent since 2010. This puts Vietnam among the top countries in terms of improving household living standards globally this decade (Figure 2).

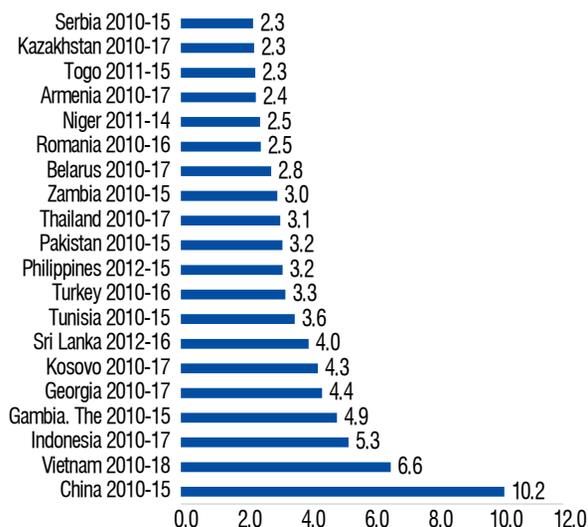
**Figure 1. Per capita growth in median consumption and incomes (%), 2010-18**



Source: Authors' calculations from VHLSS 2010-18 and WB staff compilations from various surveys

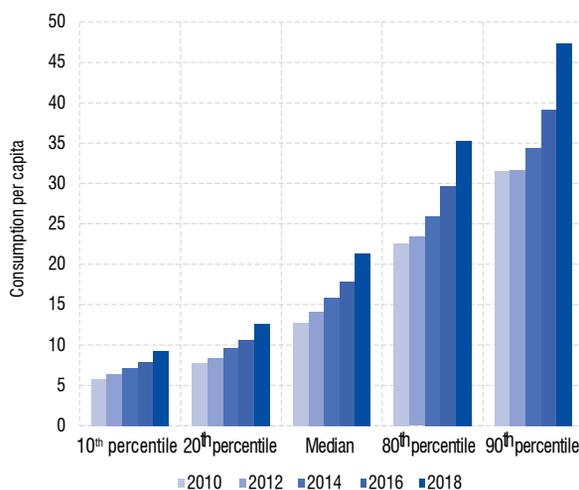
**Households at all income levels have seen sustained and robust gains in welfare.** There was a clear increase in per capita consumption levels among both the poorest and richest groups since 2010, especially in the more recent 2016-18 period (Figure 3). The 10th percentile of household spending increased from VND 5.7 million per person in 2010 to VND 9.1 million in 2018, the median from VND 12.7 million to VND 21.3 million, while the

**Figure 2. Global comparison of median consumption growth (%), 2010-18**



Source: Authors' calculations from VHLSS 2010-18 and WB staff compilations from various surveys

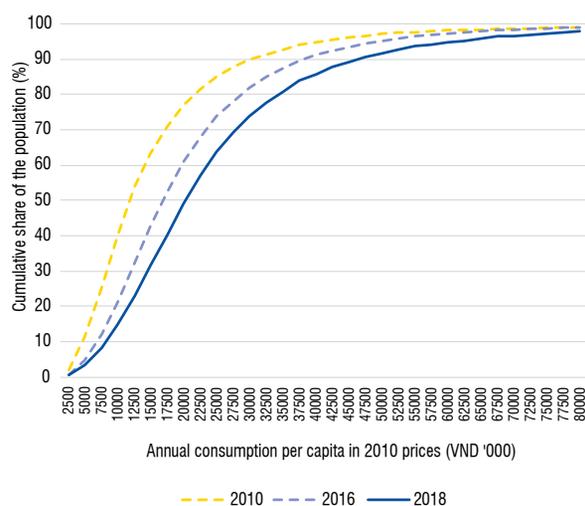
**Figure 3. Trends in real per capita consumption (VND Millions in 2010 prices) by percentiles, 2010-18**



Source: Authors' calculations from VHLSS 2010-18.

90th percentile increased from VND 31.5 million to VND 47.3 million. This translates to real increases of between 50 and 67 percent, with large increases observed during 2016-18. The across the board welfare improvement is demonstrated in a rightward shift in the distribution of consumption per capita over time (Figure 4), showing that in 2018, Vietnamese at all levels of welfare consumed more than in previous years.

**Figure 4. Poverty dominance curves, 2010-18**



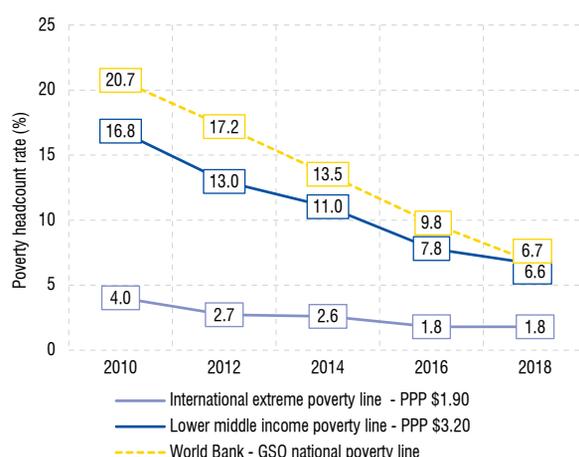
Source: Authors' calculations based on the VHLSS 2010-18.

**The overall trends in the changes in living standards in recent years and since the turn of the decade point to three phenomena.** These phenomena are that (i) absolute poverty has continued to decline, (ii) absolute economic mobility has been high, resulting in a fast-growing middle class and (iii) with high growth among the well-off, absolute gaps in standards could be increasing, despite the significant gains being made by the poor. These are discussed in detail below.

### Poverty declined, especially among ethnic minorities and mountainous areas

**Absolute poverty has declined further by all measures** (Figure 5). The poverty headcount rate measured using the GSO-World Bank national poverty line fell by 3 percentage points more since 2016, to 7 percent in 2018. A similar decline is observed in poverty rates based on the international poverty line for lower middleincome countries (2011 PPP \$3.2 per person per day). Both measures suggest that by 2018, the level of poverty in Vietnam had declined to just over a third of its level at the beginning of the decade. Up to 11.4 million people are estimated to have escaped poverty since 2010, about 2.6 million of them during 2016-18.

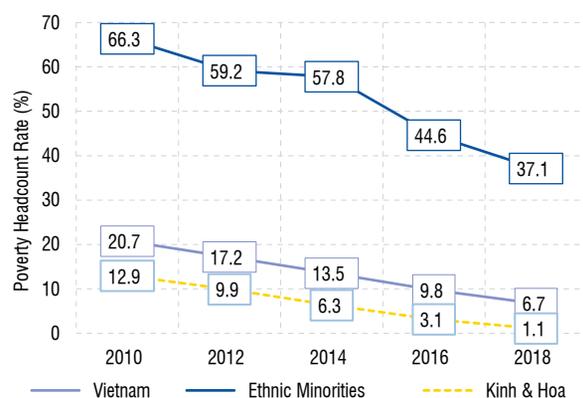
**Figure 5. Poverty rates based on national and international poverty lines, 2010-18**



**Poverty of the extreme form is all but eliminated, down to 1.8 percent in 2018.** The remaining poor are also faring better as evidenced by the steady decline in measures of how far consumption of the poor is below the poverty line (see Annex 1, Figure 46). The rightward shift in the consumption distribution explained above suggests that fewer people in 2018 would fall below any selected poverty line. This leaves no doubt that Vietnam's remarkable success in reducing poverty continues.

**Ethnic minorities made further progress on poverty reduction but still need to catch up.** A further 7.5 percentage points decline in poverty during 2016-18 shows that ethnic minorities are experiencing sustained improvements in living standards (Figure 6). There has been a sharp turn for the better for them since 2014 partly because most ethnic minorities were close to the poverty line by then (Annex, Figure 47). Their incidence of poverty declined by 21 percentage points in the four years to 2018, compared to 9 percentage points decline between 2010-14. However, given their initial high levels of poverty, 37 percent of ethnic minorities were still poor in 2018 compared to just 1 percent of the Kinh and Hoa. Poverty has become more of an ethnic minorities issue as they now make up 86 percent of the remaining poor, yet they are only 15 percent of the population in Vietnam.

**Figure 6. Poverty rates by ethnic groups, 2010-18**



Source: Authors' calculations based on the VHLSS 2010-18.

**Figure 7. Poverty rates by rural-urban classification, 2010-18**



Source: Authors' calculations based on the VHLSS 2010-18.

**Poverty rates declined in both rural and urban areas.**

The poverty rate declined by 4 percentage points in rural areas (Figure 7). It was already low in urban areas in general but declined by at least one percentage point in secondary towns and cities. Poverty in the core of the five major cities like Hanoi and Ho Chi Minh City is now very low, but that could signify that a different standard needs to be applied for assessing poverty in major cities. About 95 percent of the remaining poor population in Vietnam lives in rural areas.

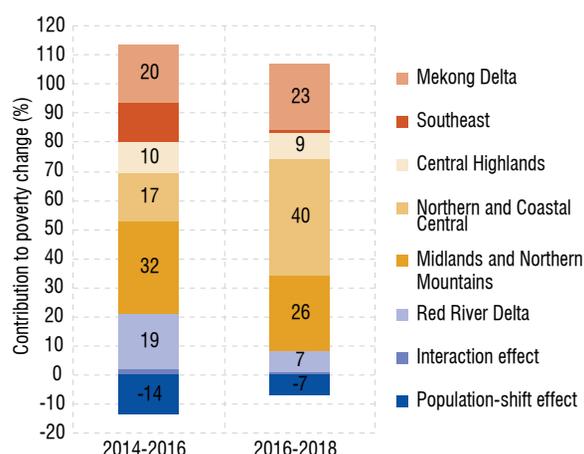
**Lagging areas made further progress in reducing poverty.**

The incidence of poverty in the traditionally poor Midlands and Northern Mountains and Central Highland regions declined by 5.7 and 4.3 percentage points, respectively (Table 1). Significant gains were observed in both the Mekong Delta and the Northern and Central Coastal regions too. Poverty rates in the former (at 2 percent) are now comparable to the prosperous Red River and South East regions. Poor people in Vietnam are now concentrated in three regions. The Midlands and Mountainous region with almost half of the country's poor population, the Northern and Central Coastal and Central Highlands each making up another fifth of the poor population, together account for 90 percent of the poor.

**Table 1: Poverty trends by region, 2010-18**

	Poverty Headcount Rate (%)					Distribution of the Poor (%)				
	2010	2012	2014	2016	2018	2010	2012	2014	2016	2018
Vietnam	20.7	17.2	13.5	9.8	6.7	100	100	100	100	100
Red River Delta	11.9	7.5	5.2	2.2	1.2	13.7	9.9	9.0	5.2	5.2
Midlands & Northern Mountains	44.9	41.9	37.3	28.0	22.3	28.6	33.4	35.6	40.2	40.2
Northern & Coastal Central	23.7	18.2	14.7	11.8	6.3	25.9	23.7	23.3	26.7	26.7
Central Highlands	32.8	29.7	30.4	24.1	19.8	9.5	10.0	13.7	16.2	16.2
Southeast	7.0	5.0	3.7	0.6	0.4	5.2	4.7	4.6	1.0	1.0
Mekong Delta	18.7	16.2	9.8	5.9	2.0	17.1	18.4	13.7	10.8	10.8

**Figure 8. Regional decomposition of poverty changes in Vietnam, 2014-18**



Source: Authors' calculations from VHLSS 2014-18.

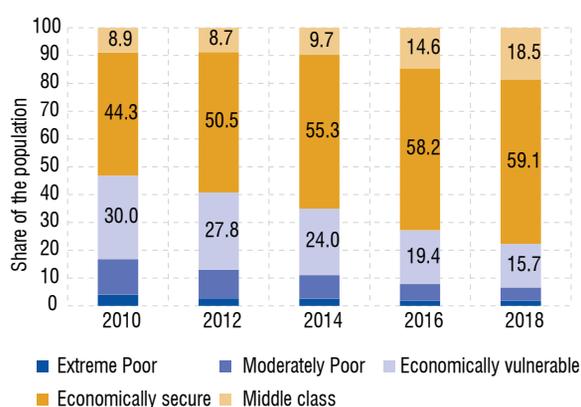
**Falling poverty within regions rather than movements of people between them drove national poverty reduction in recent years** (Figure 8). Estimates suggest the overall decline in poverty during 2016-18 owed to improvements in living standards within regions as opposed to migration of people from poor to better off regions<sup>3</sup>. It was the declining poverty in the Northern and Central Coastal, Midlands and Mountains and Mekong Delta regions that contributed much of the reduction in poverty. Because of its recent gains, the Northern and Central Coastal region's poverty rate is now around the national average. The Midlands and Mountainous region made a disproportionate contribution to poverty reduction (26 percent) relative to its population size (15 percent), though less than in 2014-16 when it accounted for a third of the overall decline in poverty. Meanwhile, the Central Highlands region contributed less to overall poverty reduction than during 2014-16. It remains the second poorest region in the country after the Midlands and Northern Mountain region.

**The middle class, and consumer class more broadly, is expanding fast.**

**High consumption growth of between 50 and 68 percent across all income levels points to high economic mobility.** This report assesses this by tracking changes in households' economic class across five economic groups

based on their daily consumption per capita levels in 2011 PPP terms. The thresholds for the bottom three classes – extreme poor, moderately poor and economically vulnerable – correspond to international poverty lines for extreme poverty (\$1.9), lower middle-income countries (\$3.2) and upper middle-income countries (\$5.5). By implication, the top two classes – the economically secure (\$5.5-\$15) and middle class (above \$15) – would be non-poor in an upper middle-income country. This group of people have more than enough to meet their basic needs, absorb income shocks and spend on non-necessity goods. They are referred to as a consumer class.

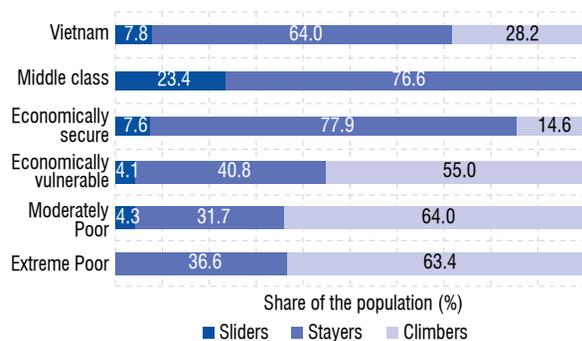
**Figure 9. Population by economic class (%), 2010-18**



**Based on this classification, 7 million more people attained middle class status during 2016-18.** The share of the middle-class population rose to 19 percent in 2018 compared to less than 9 percent in 2010. The consumer class at large now makes up 78 percent of the population compared to 53 and 73 percent in 2010 and 2016, respectively (Figure 9). Correspondingly, the share of households classified as economically insecure has halved since 2010 with an accelerated decline during 2016-18. Many in Vietnam's society are becoming more economically secure at a rapid rate – a good indicator of high economic mobility.

<sup>3</sup> Decomposing changes in the national poverty rates to account for changes in poverty within regions and the effect of migration between regions (Ravallion and Huppi, 1991).

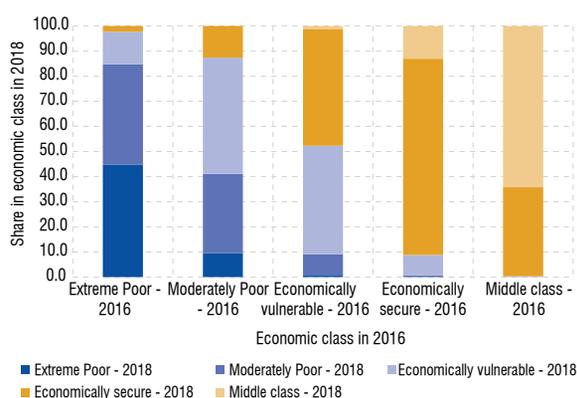
**Figure 10. Economic mobility, 2016-18**



Source: Authors' calculations based on the VHLSS 2010-18.

**Economic mobility has been mostly upwards** (Figure 10). Observing the same households over time - which the VHLSS permits for half of its sample over a two-year period - shows that 34 percent of the population changed economic classes during 2016-18 with 21.4 percent moving to an upper economic class. Upward mobility was especially high among the poor and vulnerable populations whose progress to an upper class ranged from 48 to 59 percent during 2016-18. This suggests that welfare gains among the poor tend to be sustained. Similar trends during 2014-16 (Annex, Figure 48) points to continuous economic progression in society consistent with the robust consumption growth observed over the past decade.

**Figure 11. Shifts between economic classes, 2016-18**



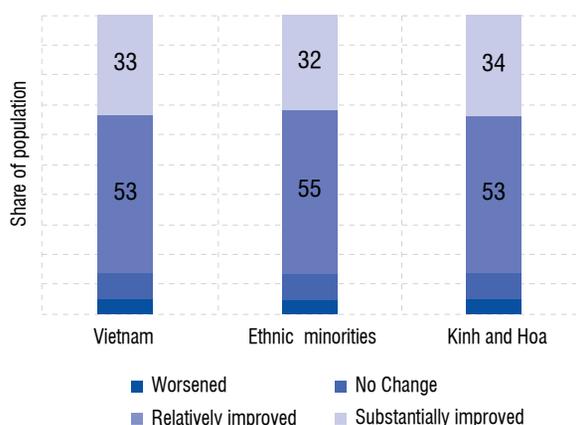
Source: Authors' calculations based on the VHLSS 2016-18.

Among the close to 10 percent who slid, most were at the top. Maintaining middle-income status has been a challenge for many. Just over a third of the middle-class population slid to a lower economic class during 2016-18, but nearly all formerly middle class slid just one step down to the economically secure class. None became

poor (Figure 11). This is similar for the economically secure. Less than 1 percent of them fell back into poverty, demonstrating that the consumer class can absorb shocks and avoid falling back into poverty.

**The likelihood of the non-poor falling into poverty has substantially diminished.** Less than 2 percent of non-poor people fell into poverty between 2016-18, which is half the likelihood of such an outcome during 2010-12. However, this still translates to many people - close to 1.3 million - given the large size of the population. Therefore, managing the risk of people falling back into poverty cannot be neglected.

**Figure 12. Self-assessment of changes in living standards in past five years (%), 2018**



Source: Authors' calculations from VHLSS 2018.

**The gains in living standards are captured in subjective assessment of changes in living conditions too.** An overwhelming majority (86 percent) of respondents to the VHLSS 2018 round perceived an improvement in their family's living conditions compared to 2014 (Figure 12). A third of the respondents perceived substantial improvements in their family's living conditions, while 53 percent reported relative improvements. A similar pattern is observed among both ethnic minorities and the Kinh and Hoa, which is consistent with the quantitative assessment of changes in welfare over the past years.

### Risks on the horizon could append the progress in poverty reduction

**At the time of writing this report, Vietnam is facing imminent risks to events that could stall or derail its progress on poverty reduction.** The most immediate is the COVID-19 pandemic which is causing significant disruption.

The situation is currently fast evolving to accurately assess the full impact on poverty yet. However, analysis point to economic vulnerability due to labor income losses and supply and demand imbalances causing unfavorable price changes, even though temporarily. Only 21 percent of workers in Vietnam are employed in wage jobs with contracts and social insurance. Most workers are therefore informal (in wage jobs without a contract, are self-employed/ small household business owners or are farmers) hence highly vulnerable to temporary income shocks (Box 1).

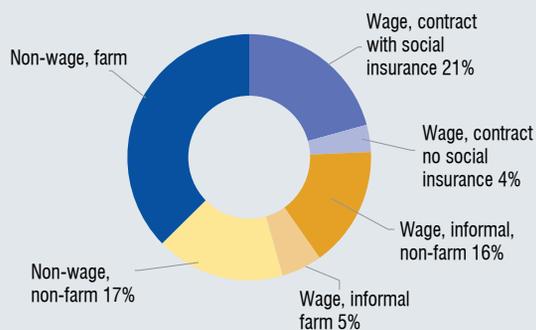
**Climate change is a second source of risk.** The Government forecasts that 60-75 percent of some provinces in the Mekong delta region will be inundated by 2050. The combination of land subsidence and sealevel rise will disrupt livelihoods from saline intrusion and higher levels flooding, if appropriate mitigation measures and investments are not put in place. The impacts could extend beyond the Mekong delta region given its role as the national food basket.

**Box 1: The COVID-19 pandemic could have significant toll on household welfare**

**The World Health Organization declared the COVID-19 outbreak a pandemic, with reported cases in more than 190 countries.** The total number of cases is rising by the tens of thousands across the world every day. Many countries, including Vietnam, have imposed containment measures such as lock downs, restrictions on gatherings or mandatory closures of certain businesses along with travel restrictions. These are causing significant disruptions along the supply chain, goods markets and a slowdown in demand globally. Despite the Vietnam government’s best efforts to cope with the virus’ human and economic toll, the global economic uncertainty and continued national concerns are likely to cloud its economic outlook for 2020.

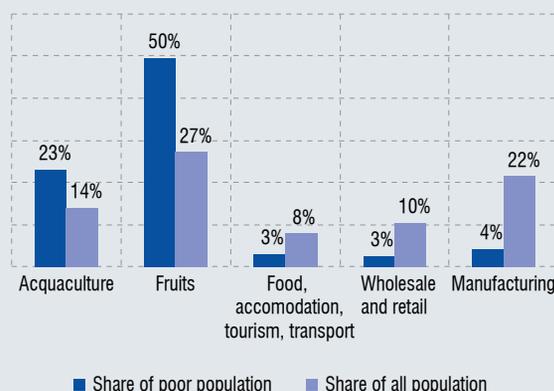
**The economic toll on Vietnam is already visible.** First quarter year on year GDP growth of 3.8 percent was the lowest ever in the past decade. Global value chain disruptions have led to declining orders and production in the manufacturing sector. Vietnam’s Manufacturing Purchasing Managers’ Index (PMI) fell below the 50.0 in February 2020. Orders fell for the first time since 2015. In the transport sector, many airlines halted and cancelled flights. A survey by the Tourism Advisory Council, estimates a more than 50 percent reduction in domestic and international tourism customers in January and February compared to a year before. Business owners in activities with restricted gatherings – hotels, restaurants, and entertainment – are at risk. The agriculture sector has been affected by uncertain global demand and logistic controls, especially for the perishable products and inputs production.

**Figure 13. Structure of Vietnam’s labor market, 2018**



Source: Authors’ calculations from VHLSS, 2018

**Figure 14. Population dependent on affected economic activity (%), 2018**



**The impact on poverty could be substantial given the scope of affected economic activities and limited coping mechanisms for some vulnerable people.** More than 27 percent of the population earn incomes from aquaculture, fruits and vegetables (Figure 14) – perishable products most affected by traffic and border controls. While declining produce prices due to these disruptions depress farmers’ incomes, input prices are likely to increase. Some vulnerable sectors such as food & accommodation, tourism and transportation have low poverty rates, but high informality of employment in these sectors implies that many vulnerable workers are not covered by unemployment insurance. They face a high risk of potential income loss due to temporary suspension of activity or lay-offs driven by depressed demand. The government stimulus package comprising interest rates reduction, tax breaks or deferred payments of taxes, land-use fees and social insurance premiums, as well as support to supply chains and the unemployed, is more geared towards the formal sector. However, casual informal wage workers, make up a fifth of the labor force and the self-employed another 17% (Figure 13). In addition to employment loss, or temporary work/business suspension, such workers face an additional risk of forgoing income to days not worked due to illness.

## Quality of life improved, but many have not yet met their aspirational needs

**Increases in monetary welfare of the order seen in Vietnam raises some questions about people's aspirations for a minimum living standard.** With many people neither extremely nor moderately poor, hunger ceases to be a classifier of living standards, replaced by the desire for comfort in life instead. The main question is whether the rising incomes have been enough for most people to live a more comfortable, high-quality life, including on non-monetary dimensions like health and education. For an answer, we look at households living conditions in terms of the quality of housing and comfort assets such as air-conditioning that are acquired when people have enough incomes to afford more than just basic commodities, as well as access to services and human capital accumulation.

**Improved quality of housing is a clear marker of achieving a better quality of life that most households in Vietnam aspire for.** Having adequate living space, in permanent housing with improved sanitary conditions marks a clear distinction between the middle class and to some extent the economically secure class on one hand and the poor and economically vulnerable on the other hand (Table 2). Among the middle class, 78 percent live in housing with space of at least 20m<sup>2</sup> per person and 62 percent live in permanent as opposed to semi-permanent housing. Half of them do not share a bathroom with another household. In contrast, less than 21 percent of economically vulnerable households live in permanent housing, about a fifth live in housing with less than 20m<sup>2</sup> per person, and just 7 percent do not share a bathroom. The middle-class households also have access to improved water supply and waste water disposal facilities than the poor and economically vulnerable. This picture suggests that less crowded permanent housing with improved water and sanitary conditions are a primary aspiration for improved standards of living.

**Table 2: Housing conditions and comfort asset ownership by economic group, 2018**

Economic Class	Extremely Poor	Moderately Poor	Economically Vulnerable	Economically Secure	Middle Class	Vietnam
Living area (m <sup>2</sup> )	52	58	65	87	115	88
Living area/person	11	13	17	26	43	28
Below 10m <sup>2</sup> /person	58.9	41.1	25.5	10.3	3.5	12.8
At least 20m <sup>2</sup> /person	6.7	9.2	23.7	52.8	77.8	51.9
Permanent housing	3.8	10.9	20.6	37.5	61.9	39.0
With private bathroom	0.9	2.2	7.2	25.1	54.8	27.8
Temporary housing	31.4	19.2	11.4	4.3	0.6	5.4
Piped water or borehole	2.9	15.1	41.9	67.6	85.2	65.0
Septic/Semi-Septic Tank	4.8	16.9	46.6	80.3	94.9	75.3
Has motor bike	66.5	74.0	79.0	88.8	91.7	87.2
Has a computer	0.0	0.2	2.4	19.1	45.9	21.6
Has microwave	0.0	0.0	0.2	6.1	32.5	10.7
Has air conditioners	0.0	0.6	2.7	21.4	61.1	26.3
Has a washing machine	0.0	1.2	11.4	46.3	78.7	46.1
Has a water heater	0.0	1.3	11.9	34.7	56.6	34.5

Source: Authors' calculations based on the 2018 VHLSS.

**Convenience and comfort assets are another marker of improved quality of life.** The middle class are more likely to have washing machines (79 percent), air conditioners (61 percent) in addition to electric fans and bath water heaters (56 percent), than the poor and economically vulnerable. At most 12 percent of the economically vulnerable have a water heater or washing machine, and less than 3 percent have air conditioners (though most have electric fans). More of the middle class also have computers, motor bikes and cars, compared to the poor and economically vulnerable some of whom do not have personal means of transportation.

**The ownership of convenience or comfort assets and housing quality have mostly improved underscoring the progress on living conditions.** The share of households

with access to comfort assets such as washing machines, water heaters and air conditioners has more than doubled during 2012-18. The average living area per person has increased to 28m<sup>2</sup> per person in 2018, reflected in the drop in the share of people living in crowded housing (i.e. less 10m<sup>2</sup> / person) and an increase in the share of people living in housing with at least 20 m<sup>2</sup> (Table 3). More people in 2018 were living in permanent housing, had piped water or borehole water supply and better waste water disposal facilities in both urban and rural areas. However, housing conditions have not changed much for the poor and vulnerable populations, suggesting that people who escape poverty do not immediately have access to better housing conditions.

**Table 3: Changes in housing quality and comfort asset ownership, 2012-18\***

	Vietnam		Rural		Urban		Poor & Vulnerable		Consumer Class	
	2012	2018	2012	2018	2012	2018	2012	2018	2012	2018
Living area	75	88	71	85	83	95	58	63	84	94
Living area per person	22	28	21	27	25	31	15	16	26	31
<10m <sup>2</sup> / person	19	13	19	12	20	13	33	31	11	8
>20m <sup>2</sup> / person	38	52	35	50	44	55	18	20	50	60
permanent housing	31	39	24	31	47	54	14	18	41	44
Permanent housing -private bathroom	19	28	10	17	40	48	3	6	28	33
temporary housing	9	5	11	7	3	2	17	14	3	3
pipd or borehole water	55	65	42	53	85	89	37	34	66	72
Septic or Semi-Septic Tank	56	75	43	67	86	92	27	38	73	84
Has motor bike	81	87	77	86	89	90	69	77	87	90
Has a computer	18	22	9	13	38	39	2	2	28	26
Has a microwave	6	11	1	4	16	24	0	0	9	13
Has air conditioners	9	26	3	15	23	48	0	2	14	32
Has a washing machine	23	46	12	34	49	71	3	9	35	55
Has a bath water heater	17	35	10	27	36	50	2	9	27	41

Source: Authors' calculations based on the VHLSS 2012-18.

Notes: \*Question on type of housing used to directly identify permanent housing was introduced in 2012.

**Despite the observed improvements, many still have unmet quality of life needs.** Less than half of the population lived in permanent housing and more than 70 percent shared bathrooms with another family in 2018. Housing conditions are poorer in the Mekong Delta where the majority live in semi-permanent housing with just 11

percent residing in permanent housing (Annex, Table 15). Other than among the middle class, most people cannot afford convenience or comfort assets such as washing machines yet. Striving to have enough means to fulfill these needs, especially housing conditions, will shape the poverty discourse among the population.

**Access to improved water and sanitation services is a lagging issue, particularly in poorer regions.** More than a third of the population and close to half in rural areas, do not have piped or borehole water supply. Including protected wells, close to a quarter of the population still did not have access to clean water in 2018. This is a contrast to supply of electricity with a 98 percent coverage for example. Access to improved water sources is much lower among the poor (32 percent), ethnic minorities (47 percent), the Mekong Delta (66 percent) and Midlands and Northern Mountains (63 percent) regions (Annex, Table 16). These populations also have lower access to improved sanitation, particularly ethnic minorities (only 61 percent have access). Significant improvements in access have been made since 2010, but a large gap in access remains.

**Another important dimension of quality of life is access to education and health services, and this too has seen some improvements** (Table 4). With 75 percent of three to five-year-old children enrolled in 2018, access to early childhood development (ECD) has risen significantly. There is parity among boys and girls and between ethnic minorities and the Kinh & Hoa too. Net enrollment in upper secondary school and the share of 19 – 24 years old either enrolled or have completed college rose by more than 10 percentage points during 2010-18, with females leading in tertiary education. Health financial protection has also improved, with 89 percent of the population covered by health insurance. The poor are also covered by a subsidized government health insurance program.

**Table 4: Trends in nonmonetary welfare indicators (%), 2010-18**

	ECD		Net upper secondary enrollment		College enrollment/completion		Health insurance		Subsidized health insurance	
	2010	2018	2010	2018	2010	2018	2010	2018	2010	2018
Male	53.6	74.6	33.3	43.1	47.7	56.5	59.5	87.6	28.3	38.8
Female	52.9	74.4	34.1	45.4	56.0	70.0	59.6	89.5	27.0	36.7
Ethnic Minorities	44.6	76.4	20.8	31.9	26.2	35.5	84.2	94.7	74.5	84.8
Kinh & Hoa	55.2	74.1	36.2	47.1	56.8	70.3	55.3	87.4	19.6	28.7
Non Poor	59.2	74.5	36.8	46.1	59.0	67.1	56.4	88.1	19.0	33.8
Poor	38.7	74.6	21.4	22.8	18.7	17.5	71.6	94.9	60.5	91.0
Poor or vulnerable	44.3	70.3	28.3	31.3	30.4	29.3	60.5	90.3	41.7	70.9
Economically secure	63.2	74.9	37.4	47.0	62.8	67.3	56.4	86.9	15.9	30.7
Middle class	72.9	84.5	47.2	51.1	89.8	86.6	70.4	91.9	12.0	18.8
Rural	49.0	72.8	31.3	43.6	44.8	56.2	57.9	88.7	32.4	46.1
Urban	63.8	79.0	40.9	45.8	69.3	77.7	63.5	88.3	16.2	20.8
Red River Delta	68.2	83.1	39.7	52.5	72.8	82.8	59.1	87.6	19.4	27.3
Midlands and Northern Mountains	60.8	85.9	30.8	41.2	43.3	47.0	77.2	94.6	55.3	65.9
Northern and Coastal Central	54.5	79.5	34.3	45.0	55.3	69.7	61.2	91.7	29.4	43.9
Central Highlands	38.7	55.5	28.0	40.8	41.2	56.1	65.8	85.8	42.5	46.2
Southeast	54.7	64.9	34.3	38.9	51.4	64.9	56.2	85.1	15.8	18.2
Mekong Delta	33.0	52.4	28.6	42.3	29.9	47.7	46.6	84.9	21.4	33.1
<b>mean</b>	<b>53.3</b>	<b>74.5</b>	<b>33.7</b>	<b>44.2</b>	<b>51.9</b>	<b>63.2</b>	<b>59.6</b>	<b>88.6</b>	<b>27.6</b>	<b>37.7</b>

Source: Authors' calculations from VHLSS 2010, 2018.

**A key challenge in education is the difference in the quality and access to upper secondary education and above between the well off and the poor or near poor.**

Whereas 87 percent of 19 – 24 years old people from the middle class were either enrolled or had completed a college qualification in 2018, only 29 percent from the poor or economically vulnerable families were. A Young Lives Study survey of schools in 5 provinces (Be Tre, DaNang, Hung Yen, Lao Cai and Phu Yen) showed that learning gains in both math and English were higher for the Kinh than non-Kinh and in urban areas than in rural areas (Padmini et.al, 2017).

**Private spending patterns show demand for better quality education.** Better-off households pour more resources in securing better education outcomes for their

children right from an early age, resulting in large spending differences between the poor and non-poor (Table 5). Middle class households spend 5 times more on nursery and kindergarten per pupil than poor or economically vulnerable households and more than twice as much as economically secure households, because they can afford higher quality private run nursery schools. At upper secondary level, spending on study support, especially coaching, is a differentiator despite most students being enrolled in public schools. Middle class households spend seven times as much per pupil on study support for upper secondary pupils than the poor, and nearly three times as much as the economically secure. This is a clear indication that seeking better quality services pre-occupies Vietnamese households, especially the middle class.

**Table 5: Private education spending by economic status and expense type (VND' 000), 2018**

		Tuition and fees	Coaching and study materials	Student enrichment	Uniforms	Total Spending
ECD	Poor or economically vulnerable	530	88	680	39	1.338
	Economically secure	1.770	230	494	93	2.587
	Middle class	5.493	411	537	164	6.604
Primary	Poor or economically vulnerable	233	490	990	142	1.855
	Economically secure	480	1.208	366	269	2.323
	Middle class	1.684	3.484	472	396	6.036
Lower secondary	Poor or economically vulnerable	427	743	1.319	174	2.663
	Economically secure	878	2.125	394	316	3.713
	Middle class	1.995	5.485	599	463	8.542
Upper secondary	Poor or economically vulnerable	656	1.151	1.619	247	3.673
	Economically secure	1.359	2.840	952	395	5.546
	Middle class	3.684	7.862	1.165	586	13.297
Tertiary education	Poor or economically vulnerable	3.073	1.430	3.692	300	8.495
	Economically secure	10.073	1.657	6.044	264	18.038
	Middle class	20.005	2.406	7.857	302	30.570

Source: Authors' calculations from VHLSS 2018

**Differences in private spending of this nature potentially reduce intergenerational mobility.** First, returns to primary and secondary education have been declining especially in the private sector in Vietnam (Demombynes and Testaverde, 2018; Patrinos, Thang and Thanh, 2018), leading to a potential self-reinforcing trap of low human capital accumulation among the poor as their children fail to progress beyond lower secondary education schooling. Second, the higher spending on study support by the better-off also reinforces inequality to the extent that such spending is an influential determinant for improving secondary completion exam pass rates, ensuring progression to tertiary education.

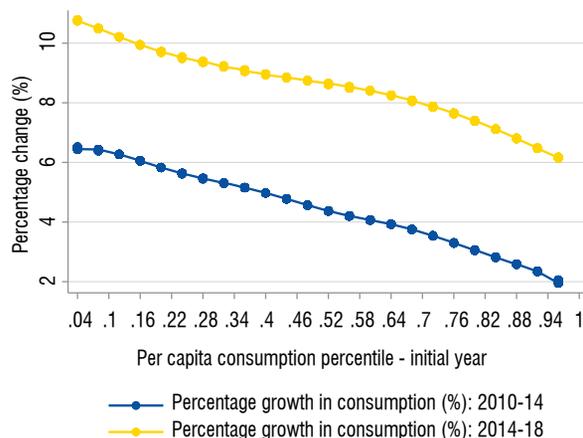
### Growth has been pro-poor but absolute welfare gaps are increasing

**Panel data analysis suggests that growth in more recent years has delivered greater gains to less well-off households.** Analyzing consumption growth for the same households over time portrays a more accurate picture of mobility and the distributional pattern of growth (Bourguignon, 2011 and Jenkins and van Kerm, 2016)<sup>4</sup>. The result can be summarized in a nonanonymous growth incidence curve, a graph plotting consumption changes against households' welfare initial rankings. The graph can be either presented in terms of proportionate changes (Figure 15) or absolute changes (Figure 16) in consumption by initial welfare ranks. The non-anonymous growth incidence curves point to two conclusions namely that (i) growth was high and propoor but (ii) absolute inequality may be rising.

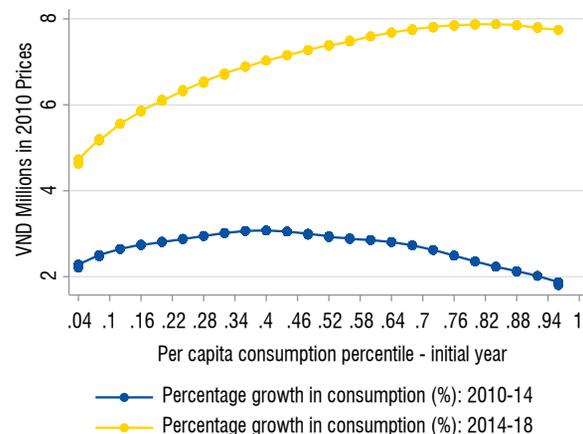
**Consumption growth in recent years has not only been higher than before, but also relatively more for lowly ranked households.** Growth rates in consumption were much higher among households at the bottom of the welfare ranking in both the 2010-14 and 2014-18 periods. However, growth was higher in 2014-18 irrespective of initial welfare ranking (Figure 15). The absolute change in consumption over 2014-18 was significantly higher across all welfare levels. Thus, the 2014-18 period

delivered higher gains to the poor, explaining the fast reduction in poverty. A growthinequality decomposition shows that high growth was the primary driver of poverty reduction in recent years (Annex, Figure 49).

**Figure 15. Per capita consumption growth rates by initial welfare ranking (%), 2010-18**



**Figure 16. Absolute change in per capita consumption by initial welfare ranking (VND, Million), 2010-18**



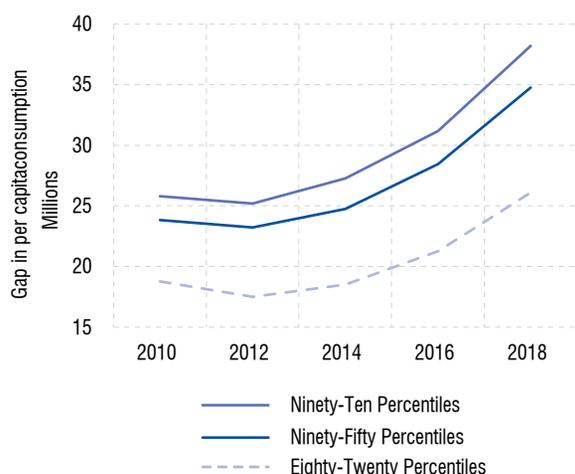
Source: Authors' calculations based on the VHLSS 2010-18  
Notes: Growth in predicted consumption is used to correct for potential measurement errors.

**Absolute increases in consumption were still greater for higher welfare ranking households (Figure 16).** Consumption growth rates for households in the top half of the distribution during 2014-18 ranged between 6 and 8.5 percent per year. Because initial consumption was very high among the well-off, the observed growth rates were high enough to translate into more Vietnamese Dongs for the better-off than the absolute increases among the poor. Absolute gaps in welfare therefore increased. The difference in per capita consumption of VND 25 million

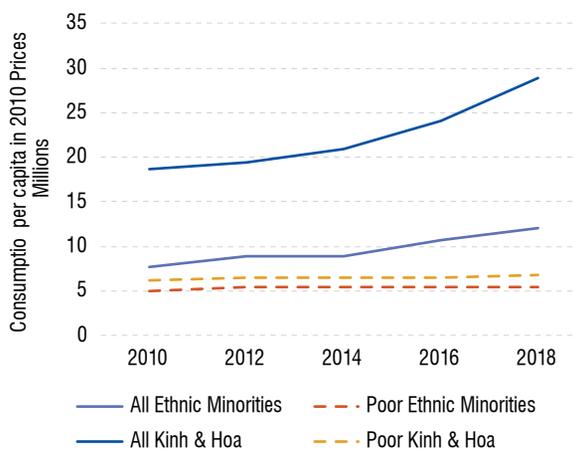
<sup>4</sup> Non-anonymous growth incidence curves (GICs) are an advantage over the anonymous-GICs which are affected by reranking of households across two time periods. However, measurement errors, if classical in nature, can overestimate mobility in panel data (Glewwe, 2012) since a negative slope characterizing propoor growth reflects a reversion to the mean. Adjustments for measurement errors are thus required when computing the nonanonymous GICs.

between the poorest and richest 10 percent in 2010, grew into a VND 38 million difference in 2018 after adjusting for inflation (Figure 17), even though the relative ratio of consumption for the two groups remained almost the same. In other words, the poor have made great gains, but not by enough to catch up yet.

**Figure 17. Per capita consumption percentile absolute gaps (VND' millions), 2010-18**



**Figure 18. Trends in annual consumption per capita (2010 prices) by ethnicity, 2010-18**



Source: Authors' calculations based on the VHLSS 2010-18

**Table 6: Trends in inequality, 2010-2018**

YEAR	Gini Coefficient			Absolute Gini <sup>a</sup>		
	Vietnam	Urban	Rural	Vietnam	Urban	Rural
2010	39.3	38.6	33.2	100.0	100.0	100.0
2012	35.6	34.4	31.7	121.5	111.0	136.2
2014	34.8	33.1	31.0	143.1	128.1	155.6
2016	35.3	32.9	31.8	170.7	150.6	192.6
2018	35.7	32.9	32.6	209.5	180.1	235.6

Source: Authors' calculations from VHLSS 2010-2018 Notes: Absolute Gini is indexed to 2010 base value for each location for clarity of presentation of trends across locations

**Absolute inequality in Vietnam has therefore increased and defines the agenda on inequality.** Relative measures of inequality for the full sample of the VHLSS show little changes in inequality nationally. A property of classic inequality indicators such as the Gini coefficient is that they are insensitive to scale, so they reflect only changes in relative shares of incomes between groups, not the absolute difference. An alternative, that reflects changes in absolute inequality is the Absolute Gini. This shows a dramatic increase in inequality over the years, suggesting that absolute inequality has doubled since 2010 in both rural and urban areas (Table 6).

**A common critique is that household surveys perform poorly at measuring inequality.** Surveys like the VHLSS do not usually capture top incomes because the super-rich are rarely sampled due to their extremely small numbers, while response rates of those sampled are low. This is a major weakness when income is concentrated at the very top. It requires going beyond survey data to understand inequality. Future reports will revisit this subject for more in-depth analysis.

## SUMMARY

In summary, there has been a robust improvement in living standards captured in alternative measures of living standards, but gaps to meet aspirational living standards exist. Measures of absolute poverty, economic mobility and subjective well-being, all consistently point to improvements in living standards for most of the population. These gains have been so high that Vietnam's middle-class population has more than doubled since 2010 and absolute poverty more than halved. There

are two caveats to this positive story however. First is that absolute gaps in living standards are still widening. Secondly, the quality of services, though improving, does not yet meet the aspirational needs of the population. A considerable share of the population is lacking in desirable housing conditions - especially less crowded housing with good sanitary conditions. Education service provision is another concern, where richer households devote substantial private expenditures to secure better outcomes for their children.

## STRUCTURAL TRANSFORMATION DRIVES POVERTY REDUCTION

Economic structural transformation drove household income growth

The rapid economic structural transformation that accompanied Vietnam's high growth drove poverty reduction and upward economic mobility. During 2010-18, the economy grew by close to 62 percent due to rapid expansion of non-agriculture sectors (Figure 19). Value-added in services and industry and construction sectors grew by close to 75 percent, nearly three times as much as the growth in agriculture value-added in this period. Agriculture's share in value-added declined by 5 percentage points to about 16 percent in 2018, at the gain of industry and construction sectors whose shares rose the most.

Figure 19. Contribution to value added by sector (VND Billions in 2010 prices)

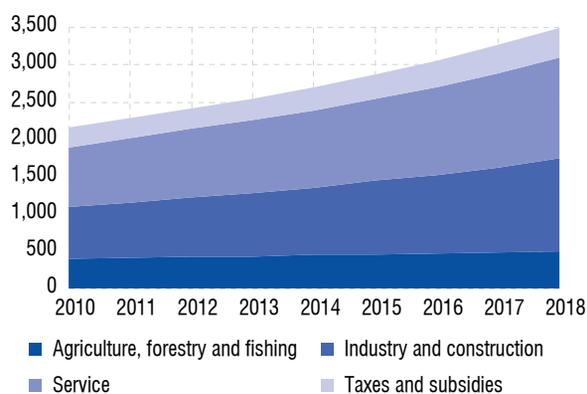
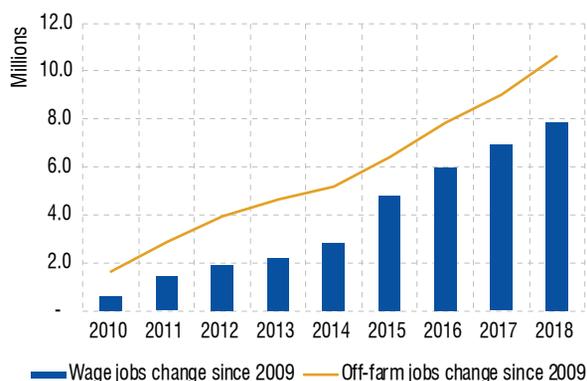


Figure 20. Trends in non-agricultural employment (Billions), 2010-18



Source: GSO online database (<https://www.gso.gov.vn/default.aspx?tabid=714>)

**Growth was labor intensive and created better economic opportunities for households.** This was manifested in two aspects. First, more non-agricultural jobs were created while agriculture employment declined. Second, job growth was concentrated in the wage sector. Overall, the economy added nearly 11 million non-agricultural jobs in this decade, about 8 million of them being wage jobs (Figure 20). Non-farm job creation accelerated from 2014 onwards and 85 percent of the new jobs since then were wage jobs. Many of the new non-agriculture jobs were created in rural areas<sup>5</sup>, significantly transforming the rural economic structure. Labor shifted from the agriculture sector which shed 16 percent of its workers since 2014. About 4 million workers left unpaid agriculture work in that time (Table 7).

**Better jobs were created in export-oriented manufacturing sectors and domestic non-retail sectors.** Electronics and textile, garment and footwear sectors which account for 62 percent of Vietnam's exports, added over one million jobs - all of them wage jobs (Table 7). One in five wage jobs were created in these two sectors where employment is highly formalized. The construction added more than a million jobs, but just a tenth of workers in the sector have a contract. Also highly informal, the wholesale and retail sector contributed 14 percent of new jobs, accounting for a third of additional non-wage jobs but a tenth of wage jobs. About 20 percent of new wage jobs were added in non-commerce sectors with a high degree of formalization instead.

<sup>5</sup> The rural-urban interface in Vietnam makes the distinction between employment in rural and urban areas fuzzy. Residents of peripheral communes to cities commute to work in the cities but are classified as rural by residency.

**Table 7: Monthly wage growth and net primary job creation by sector, 2014 - 18**

Sector	Net jobs ('000s)		Overall change	Share of new non-farm jobs	Median nominal wages (VND '000)		Real wage growth
	Wage	Non-wage			2014	2018	
Agriculture	292	(4,310)	-16%		2,700	3,500	20%
Electronics	445	2	133%	8%	4,600	6,000	21%
Textile and garments	557	(5)	28%	10%	4,000	5,000	16%
Construction	1,048	41	34%	20%	3,600	5,000	29%
Other industries	1,139	(37)	21%	20%	4,000	5,500	28%
ICT, Finance, Real Estate	137	45	22%	3%	6,000	7,800	21%
Hotels and catering	182	269	20%	8%	3,300	4,200	18%
Logistics	219	19	16%	4%	5,000	6,500	21%
Health and education	344	19	15%	7%	5,000	6,000	11%
Wholesale and retail	504	266	12%	14%	4,000	5,000	16%
Public admin and security	(13)	(4)	-1%	0%	4,450	5,500	15%
Other services	204	160	20%	7%	4,200	5,500	21%

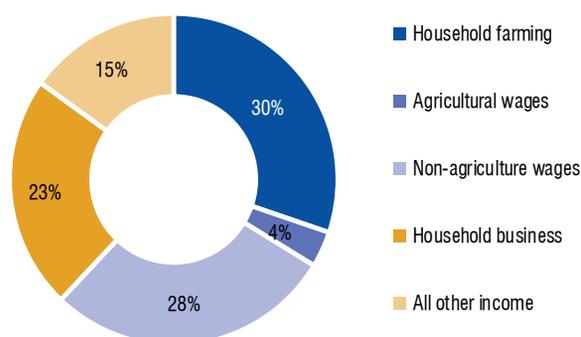
**Real wages increased too, by more than 25 percent since 2014.** This is a culmination of two factors. First, median wages rose across all sectors (Table 7). Aside the public dominated sectors – wages in most sectors rose by between 16 and 29 percent during 2014-18. Even agriculture, the lowest paying sector, saw a 20 percent increase in median wages. Secondly, wage growth was higher in sectors which most labor shifted into. Construction and other industries saw wage growth of more than 28 percent and they accounted for two fifth of all new jobs. Median wages also rose by more than 20 percent in the electronics sector where employment more than doubled. This pattern of wage growth favored low and semi-skilled workers whose median wages increased by more than 28 percent, compared to 15 percent wage growth among university educated workers.

### Wage income growth drove poverty reduction and increased economic security

**The combination of high job creation in nonagricultural sectors and rising real wages increased incomes and transformed households' livelihood sources.** Wages and household businesses became the major income sources

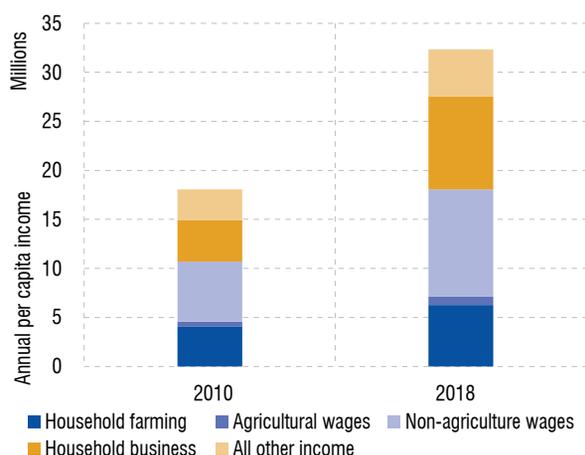
of households even in rural areas where agriculture's contribution to incomes has further diminished (Figure 21). Agriculture income now makes up 34 percent of rural incomes compared to 48 percent in 2010. Wage incomes increased by 78 percent and household business income more than doubled. Their growth was primarily responsible for the 79 percent increase in household income nationally (Figure 22).

**Figure 21. Composition of rural incomes by source (%), 2018**



Source: Authors' calculations from VHLSS, 2018.

**Figure 22. Changes in annual per capita income by source ('Millions), 2010-18**



Source: Authors' calculations from VHLSS 2010, 2018.

**Income-poverty decompositions<sup>6</sup> provide clear evidence of the contribution of economic structural transformation to poverty reduction and growth of the middle class.** The decomposition results shown in Table 8 present estimated contributions of disaggregated components of labor and non-labor income to poverty reduction, attainment of economic security and middle-class expansion. Labor income is disaggregated into the contribution of the household demographic composition (using the share of adults as a proxy for the availability of labor), the proportion of employed adults in the household, average incomes per adults from non-agriculture wages, agriculture and household businesses. Non-labor income is separated into remittances, social transfers and other income. The results indicate that both poverty reduction and growth of the consumer class were primarily driven by rising labor incomes from wages and household businesses.

**Table 8: Income decomposition of changes in rates of poverty and economic security, 2010-18<sup>6</sup>**

Income component	Poverty <sup>a</sup>		Economic security <sup>b</sup>		Middle class	
	2016-18	2010-18	2016-18	2010-18	2016-18	2010-18
Propensity to consume	-1.0	-0.8	-2.8	-3.0	-3.1	-0.6
Share of employed adults	0.2	-1.2	-0.4	-3.0	0.2	0.0
Agricultural wages	-0.2	0.2	-0.1	-0.2	0.0	0.2
<b>Non-agriculture wages</b>	<b>-3.5</b>	<b>-11.7</b>	<b>-5.4</b>	<b>-16.7</b>	<b>-3.2</b>	<b>-8.1</b>
Household business	-0.1	-1.0	-0.8	-4.0	-1.1	-3.1
Crop income	0.1	0.9	-0.3	-0.6	0.1	0.0
Other agriculture income	0.7	-0.3	0.4	-1.0	0.4	-0.1
Remittances	2.5	2.1	3.1	2.0	2.0	1.4
Transfers	-0.2	-0.6	-0.5	-1.0	-0.6	-0.6
Other income	-1.3	-1.7	-1.7	-2.1	-0.8	-0.8
<b>Total change<sup>d</sup></b>	<b>-2.9</b>	<b>-13.7</b>	<b>-8.3</b>	<b>-29.0</b>	<b>-5.7</b>	<b>-11.0</b>

Source: Authors' calculations from VHLSS 2010, 2016, 2018. Notes: (a) Based on GSO-World Bank poverty line; (b) Based on 2011 PPP \$5.5 daily per capita; (c) Based on 2011 \$PPP 15.0 daily per capita; (d) Numerical differences in the overall change arise from exclusion of observations with any missing income information.

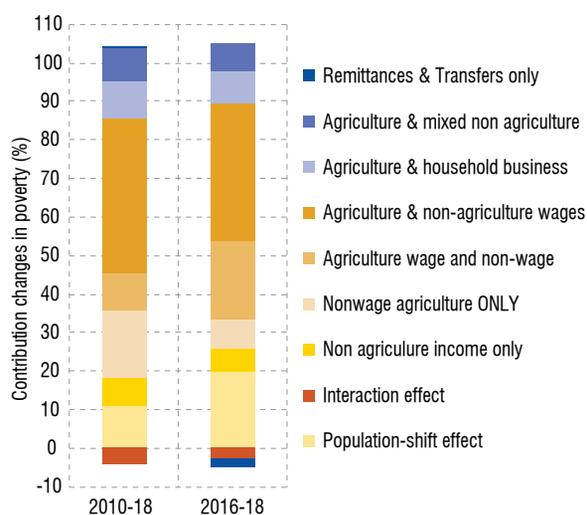
6 This follows Barros et al. (2006)'s approach adapted by Azevedo et al. (2013) for countries using consumption as a measure of welfare. The starting point is that household income is the sum of individual incomes. Consumption per capita ( $C_h$ ) is linked to household income per capita by a consumption identity in expression 1, where ( $n$ ) is household size, ( $y_i$ ) is the individual income of household member ( $i$ ), ( $n_a$ ) is the number of adult household members, ( $\frac{1}{n_a} \sum_{i \in A}^n y_i^L$ ) is average labor income per adult, ( $\frac{1}{n_a} \sum_{i \in A}^n y_i^{NL}$ ) is average non-labor income per adult and ( $\theta_h$ ) is the consumption to income ratio (capturing both the average propensity to consume and measurement error).

$$C_h = \theta_h \left[ \frac{n_a}{n} \left[ \left( \frac{1}{n_a} \sum_{i \in A}^n y_i^L \right) + \left( \frac{1}{n_a} \sum_{i \in A}^n y_i^{NL} \right) \right] \right] \dots \dots \dots (1)$$

**Rising wage incomes made the largest contribution to both poverty reduction and attaining economic security.**

Non-agriculture wage income growth accounted for nearly 12 percentage points of the decline in poverty reduction during 2010-18 period - equivalent to 85 percent of the observed decline in poverty. In the 2016-18 period, the drop-in poverty is explained by rising wages (3.5 percentage points) and other incomes (1.3 percentage points), which offset negative effects of declining per capita incomes from remittances and agriculture as more labor shifted into wage employment. Non-agriculture wages also accounted for an equivalent of 65 and 56 percent of the increase in people attaining economic security and middle-income status respectively, in the 2016-18 period. Household business incomes were more notable for expanding the middle class, contributing nearly a fifth of the increase in the middle class but less than a tenth of reduction in poverty or attainment of economic security.

**Figure 23. Decomposition of poverty changes by major income source, 2010-18**



**Livelihood transitions from agriculture dependence significantly contributed to the recent reduction in poverty.**

Sectoral decompositions of changes in poverty<sup>7</sup> with households grouped by their livelihood sources

indicate that at least 20 percent of the reduction in poverty during 2016-18 owed to households diversifying their livelihoods portfolios, mostly to add non-agriculture wages. This is captured as the population shift effect on poverty reduction in the decomposition of poverty changes presented in Figure 23. Declining poverty among purely agriculture households contributed to 27 percent of the overall poverty reduction during 2016-18. Households with some form of non-agriculture incomes - mostly wages - accounted for half of the reduction in poverty. A similar picture is observed for changes in poverty since 2010.

**Though still the most important driver for poverty reduction, the contribution of rising wages is lower in rural areas and among ethnic minorities.**

Close to three quarters and more than half of the reduction in poverty in rural areas and among ethnic minorities can be attributed to rising wages during 2010-18 (Table 9). This is less than wages' contribution to overall poverty reduction, but still shows that wages are by far the most dominant factor. Favorable demographics and incomes from non-crop agriculture (livestock and aquaculture), contributed to the reduction in poverty in rural areas and ethnic minorities by slightly more than their contribution to the overall reduction in poverty in the country.

**The relative contribution of wages to poverty reduction and economic security in rural areas and among ethnic minorities has increased over time.**

As non-agriculture wage employment grew and agriculture employment declined in rural areas, wages became the primary source of income for an increasing number of rural households (Figure 24). This rise in wage income more than made up for the reduction in average crop incomes per adult, hence driving the overall decline in both poverty reduction (Table 9) and economic security (Annex Table 15) in 2016-18. In earlier years, favorable demographics, non-crop agriculture, remittances and transfers, contributed considerably more to poverty reduction in rural areas.

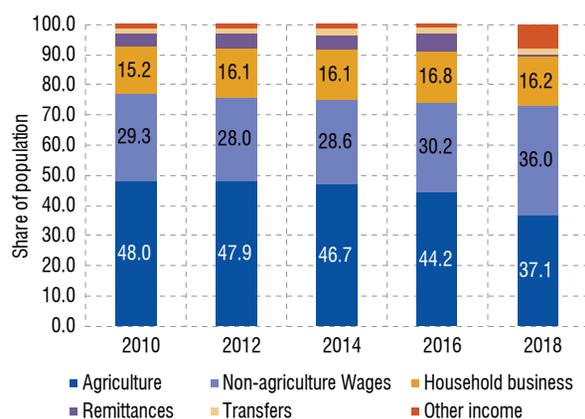
7 Ravallion and Huppi, 1991.

**Table 9: Income decomposition of changes in poverty rates<sup>a</sup> in rural areas and among ethnic minorities, 2010-18**

	Rural Areas			Ethnic Minorities		
	2010-14	2014-18	2016-18	2010-14	2014-18	2016-18
Propensity to consume	1.7	-2.9	-0.9	-0.2	-4.0	-0.9
Share of employed adults	-2.5	0.4	0.3	-3.7	-0.8	-1.2
Agricultural wages	0.6	-0.3	-0.3	0.1	-2.1	-1.0
Non-agriculture wages	-6.2	-6.9	-4.1	-5.9	-9.7	-4.6
Household business	-0.4	-0.4	-0.1	-0.4	-0.9	0.0
Crop income	0.3	0.4	-0.2	1.2	-0.7	-0.7
Other agriculture income	-0.7	0.0	0.4	0.1	-1.9	-0.5
Remittances	-0.6	2.5	2.8	0.3	1.2	2.2
Transfers	-0.4	-0.1	0.0	0.0	-0.3	0.3
Other income	-0.2	-1.7	-1.7	-0.2	-1.4	-1.1
Total change <sup>b</sup>	-8.4	-8.8	-3.9	-8.6	-20.7	-7.6

Source: Authors' calculations from VHLSS 2010, 2014, 2016, 2018. Notes: (a) Based on GSO-World Bank poverty line; (b) Numerical differences in the overall change arise from exclusion of observations with any missing income information.

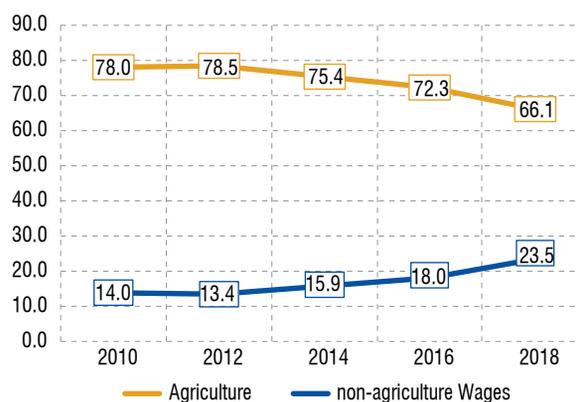
**Figure 24. Major source of household income in rural areas, 2010-18**



Source: Authors' calculations from VHLSS 2010 - 18.

**The increased contribution of wages accelerated poverty reduction among ethnic minorities.** Ethnic minorities' access to wage jobs beyond the agriculture sector have increased. About 14 percent of ethnic minorities obtained most of their income from nonagriculture wages in 2010. But by 2018, nearly 24 percent obtained most of their income from nonagriculture wages (Figure 25). This is mirrored in the contribution of wages to poverty reduction among ethnic minorities. Non-agriculture

**Figure 25. Major source of household income among ethnic minorities, 2010-18**



wage incomes reduced poverty among ethnic minorities by 6 percentage points during 2010-14 and by 10 percentage points during 2014-18. Agriculture wages which did not make a dent to poverty reduction during 2010-14, contributed by a further 2 percentage points to the reduction in poverty during 2014-18 as real wages in the sector rose. Faster reduction in poverty among ethnic minorities thus owed to the increased contribution of wage incomes.

## Agriculture contributed to reducing poverty only among ethnic minorities

### **While wages income growth has taken center stage, agriculture still contributed to reducing poverty and increasing economic security among ethnic minorities.**

Farm incomes' contribution was equivalent to 12 percent of the decline in poverty among ethnic minorities during 2016-18. Its relative contribution to poverty reduction during 2014-16 was similar, but with non-crop incomes driving the poverty decline. However, among the Kinh and Hoa and the country as a whole, farms incomes did not contribute to poverty reduction in the more recent period.

### **Agriculture value-added growth has slowed, diminishing its contribution to overall poverty reduction.**

Annual growth in agriculture value-added averaged 3 percent over the 2010-18 period. In comparison, services and industry sectors respectively, grew by 6.9 and 7.6 percent per year, with the manufacturing sector growing at close to 11 percent per year. Furthermore, employment growth in agro-processing industries has not been commensurate with the country's overall economic growth. In fact, employment in food and beverages processing subsectors has declined in recent years, by about 10 percent in total during 2014-18. The sub-sector underperforms the employment contribution seen in other countries with similar levels of income (World Bank, 2018). This is an area where Vietnam can improve to create better jobs linked to the agriculture sector.

## Remittances' contribution to poverty reduction waned

Remittances declined in 2018, reversing their previous contributions to poverty reduction. Remittances

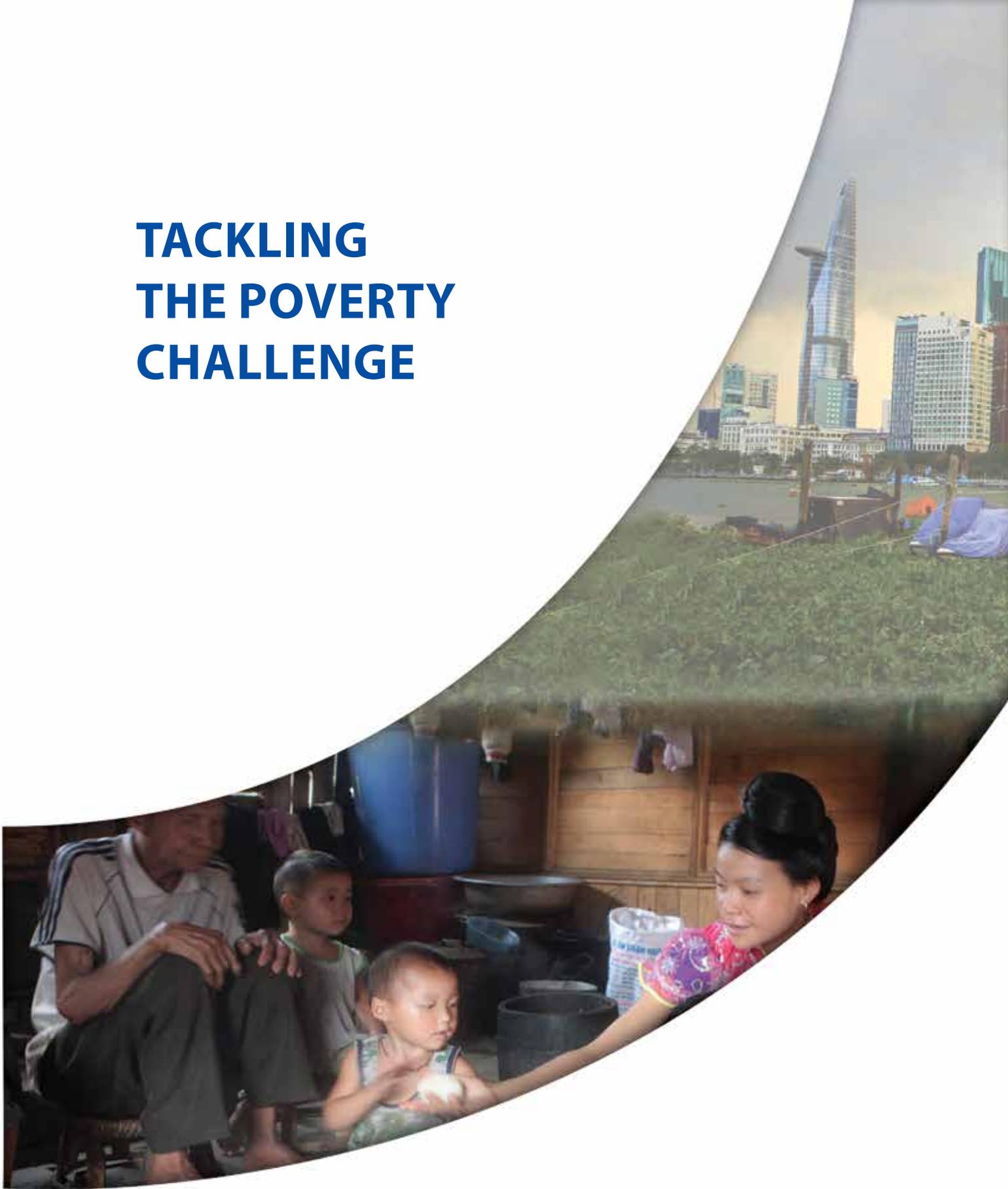
contributed to 16 percent of the reduction in poverty during 2014-16, but their decline could have increased poverty by 2.5 percentage points, partially offsetting the gains from increased wage incomes. A speculative reason for this change is that rising wage incomes in rural areas or in the periphery of urban areas resulted in more people working closer to their communes and commuting from home. The rising rural incomes may also have reduced the necessity for migrants to remit their earnings to support families and relatives.

## SUMMARY

### **In sum, Vietnam's growth model has transformed for the better not just the economic structure but household livelihoods sources.**

Non-agriculture jobs and wage incomes significantly increased, driving overall household income growth. Rising wage incomes were therefore the primary driver of poverty reduction and overall economic mobility in Vietnam. The rural economy also transformed, with labor shifting from agriculture to non-agriculture activities mostly within rural areas. Agriculture's share in rural incomes declined to around a third, diminishing the sector's contribution to poverty reduction. Only among ethnic minorities, did agriculture contribute to poverty reduction as a result of a shift towards commercial crops as well as livestock and aquaculture production. While the decline of agriculture's contribution is expected given the fast economic transformation, agro-processing which should have provided more jobs linked to the agriculture sector has underperformed when benchmarked against countries at similar levels of development.

# TACKLING THE POVERTY CHALLENGE

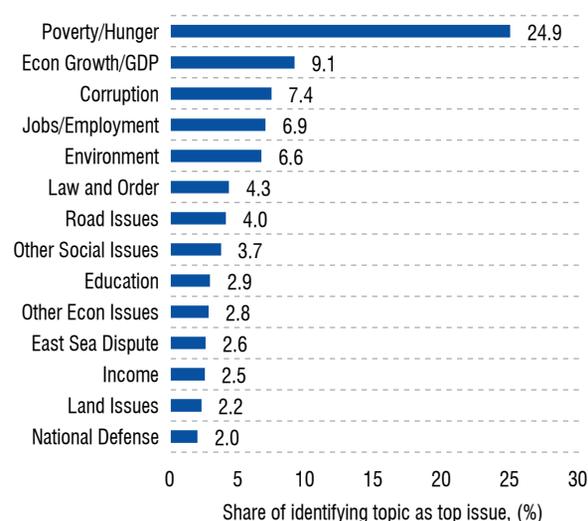


## CASE FOR TARGETING THE POOR

### Poverty is still a top concern in public perceptions

Having made tremendous progress, some could be tempted to question whether poverty is a primary concern in Vietnam anymore. With poverty down to less than 7 percent nationally and around 1 percent among the ethnic majority who make up 85 percent of the population, most Vietnamese are clearly not poor anymore. The rapid growth of the emerging consumer class might also suggest that citizens' concerns would be shifting to other matters.

**Figure 26. Most important issue facing the country from citizens' perspective, 2018**



Source: The Viet Nam Provincial Governance and Public Administration Performance Index (PAPI) Survey 2018 - CECODES, VFF-CRT, RTA & UNDP (2019)

But surveys show that concern about poverty remains the top issue among the population. The UNDP's PAPI survey asks people an open-ended question about what they think is the most important issue the government must tackle. In the 2018 round of the survey, poverty was cited as the top issue of concern, with 25 percent of respondents citing it, with economic growth coming second being cited as the top priority by 9 percent of the population (Figure 26). Poverty has been the top issue of concern in previous surveys too.

The concern over poverty is both about economic security and equity. The 2017 PAPI probed why poverty was the main concern and found that many people worried

about falling back into poverty, but even more felt that poverty is an overall drag on the economy and reduces national prestige. While lower earning people more likely cited poverty as the top issue, more than 20 percent of individuals earning up-to VND 100 million per month also identified poverty as their top concern, highlighting apprehensions over economic security. There is strong evidence of egalitarian considerations too. Support for paying more tax for provincial wealth transfers to poorer provinces is very high on average – more than 80 percent. It is highest among better off people, exceeding 95 percent among the highest individual income group for example (CECODES, VFF-CRT, RTA & UNDP, 2019).

### The poor and ethnic minorities in general, are not yet fully participating in the vibrant parts of the economy

**Figure 27. Growth elasticity of poverty, 2010-2018**



Source: Authors' calculations from VHLSS 2010 - 18.

Another question is whether just sustaining high growth will be enough to tackle remaining poverty. Indeed, the growth elasticity of poverty in Vietnam of -1.1 over 2010-18 implies that a percentage increase in GDP resulted in a proportionate decline in poverty (Figure 27). This was higher after 2014, when a percentage increase in GDP delivered a two percent decline in poverty. In this later period, GDP growth also delivered more than proportionate gains to poverty reduction for ethnic minorities unlike in the past. The last chapter showed that high poverty reduction among ethnic minorities – who now make up 86 percent of the poor – has coincided with fast growth in wage income among ethnic minorities due to the rapid economic structure transformation.

**Table 10: Households economic participation by ethnicity and poverty status, 2018**

	Vietnam	Kinh & Hoa	Ethnic Minorities	Poor	Non-poor
Agriculture	0.65	0.59	0.93	0.94	0.63
Agriculture only	0.20	0.16	0.40	0.53	0.18
Household farming only	0.15	0.13	0.25	0.33	0.13
Agricultural wages	0.12	0.10	0.23	0.29	0.11
Non-agricultural wages	0.57	0.59	0.50	0.36	0.59
Household business	0.32	0.34	0.19	0.14	0.33
Remittances	0.16	0.16	0.16	0.17	0.16

Source: Authors' calculations from VHLSS 2018.

**But the poor and ethnic minorities in general, are not yet fully participating in the vibrant parts of the economy.**

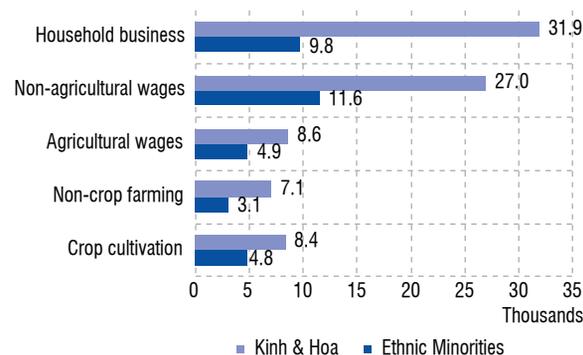
The growth elasticity of poverty is much lower among ethnic minorities, which is half of the national average for the 2016-18 period. Hidden in the aggregate analysis of growing wage incomes is that the poor and ethnic minorities in general are mostly participating in the less productive, less vibrant, parts of the economy. The poor, with 53 percent of them solely earning their income from agriculture, are three times more likely to be exclusively agricultural than the non-poor (Table 10). About 40 percent of ethnic minorities households do not participate in the non-agriculture sector, compared to around 16 percent for the Kinh and Hoa. A lower growth elasticity of poverty for ethnic minorities is thus partly explained by their limited participation in the nonagriculture sectors which are growing twice faster than the agriculture sector.

**Additionally, the poor and ethnic minorities earn less for their labor for the same economic activities.**

They tend to engage in the lower paying occupations across all types of activities, so their average earnings are usually lower than the majority Kinh & Hoa irrespective of the activity type. For example, the per capita wage income for ethnic minorities engaged in non-agricultural wage earnings in 2018 is less than half of the Kinh & Hoa. Similar differences are also observed in agriculture (Figure 28) especially between the poor and non-poor, which has been attributed to suboptimal land use choices due to high land fragmentation, land restrictions and infrastructure biased towards rice (World Bank, 2019a).

**Interventions targeting the poor and lagging areas are needed to overcome economic challenges rooted in geographical disadvantages**

**Figure 28. Average annual income by source and ethnicity (VND 'Millions), 2018**



Source: Authors' calculations from VHLSS 2018. Notes: For each income source, the comparison is restricted to households reporting such type of income

**Poverty in Vietnam has become a regional and ethnic minorities issue requiring targeted interventions to tackle last mile challenges.**

The Midlands and Northern Mountains and Central Highlands regions account for 20 percent of the population but nearly 69 percent of the poor and almost a similar share of ethnic minorities (Table 11). Ethnic minorities make up more than half of the population in the Midlands and Northern Mountains and a third of the populations in the Central highlands. However, ethnic minorities are poorer than the Kinh and Hoa across all regions, irrespective of whether they are a dominant group in that region (e.g. in the Midlands and Northern Mountains) or not. Tackling poverty in Vietnam thus requires addressing challenges regionally and those specific to ethnic minorities subpopulations.

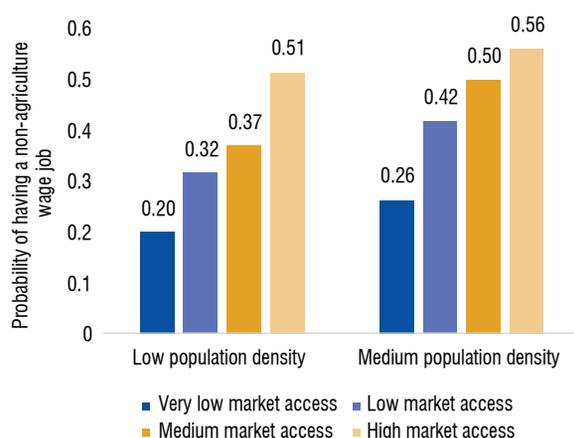
**Table 11: Ethnic minorities regional population and poverty contribution, 2018**

	Between Regions			Within regions	
	Share of population	Share of Ethnic Minorities	Share of poor	Share of Ethnic Minorities	Ethnic Minorities' share of poor
Red River Delta	23.3	1.9	4.3	1.3	28.6
Midlands and Northern	14.6	52.7	48.5	56.3	97.8
Northern and Coastal	22.7	20.9	21.3	14.4	83.1
Central Highlands	6.8	14.7	20.0	33.9	92.7
Southeast	15.7	2.3	1.0	2.2	52.4
Mekong Delta	17.0	7.5	5.0	6.9	20.4

Source: Authors' calculations from VHLSS 2018.

**Constraints rooted in poor geography largely account for the limited economic integration of the poor, hence their lack of access to off-farm opportunities.** Vietnam's lagging regions have small and sparsely populated communes and are further off from large urban centers. The population density in northern mountains provinces is 8 times lower than in Red River Delta and 32 times lower than HCMC, while a typical commune is about 273km from the closest major city. This makes these areas less attractive or unviable to firms.

**Figure 29. Non-agriculture wage job prospects in high mountain communes by population density and market accessibility**



Source: World Bank, 2019b.

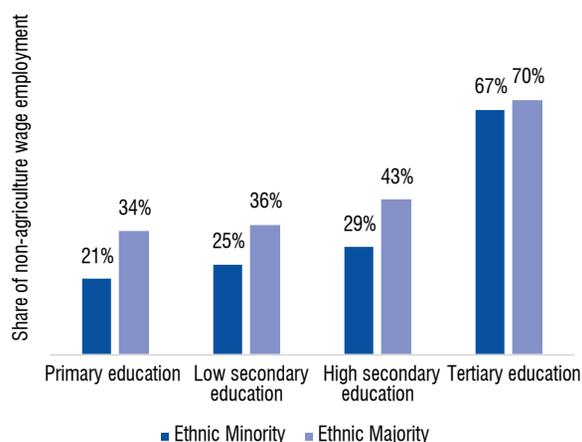
**Evidence suggests these geographical disadvantages explain most of the non-farm participation gap in disadvantaged communities (World Bank, 2019a).** Among people sharing similar qualifications and other

characteristics in mountainous areas for example, wage job prospects are 75 percent better in areas with a highest concentration of people than communes with the least concentration of people. Among low population density communes themselves, those with medium levels of market access offer nearly twice better job prospects than communes with very low market access (Figure 29). Overall, low population density and poor connectivity to major economic centers is estimated to contribute 58 percent of the gap in access to non-agriculture wage jobs by ethnic minorities, and 77 percent for mountainous communes (World Bank, 2019a,b)<sup>8</sup>.

**Low education attainment is a key factor which ethnic minorities in particular are lacking.** Just 15 percent of working age ethnic minorities have upper secondary education or more, yet wage job prospects are significantly smaller for people who don't proceed beyond lower secondary education. In mountainous areas, a male ethnic minority with secondary education has only a 25 percent chance of being in nonagricultural wage employment compared to 67 percent when they have tertiary education (Figure 30). The lack of education is estimated to contribute to another 13 percent of the gap in access to non-agriculture wage jobs by ethnic minorities. The lower progression to post-secondary education among ethnic minorities is in large part explained by poor quality of schooling and unaffordability at tertiary education, which policy can address (World Bank, 2019c).

<sup>8</sup> Estimated using a statistical decomposition (Oaxaca & Blinder 1986 method), to identify the contribution of differences in observed characteristics such as education and location between ethnic minorities and the Kinh to the overall differences in participation in non-farm wage employment.

**Figure 30. Comparison of non-agriculture wage prospects by ethnicity among young workers (% , 25 -35 age group)**

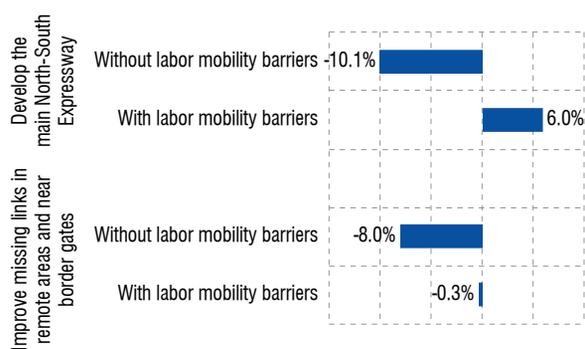


Source: World Bank, 2019b.

**Further evidence suggests the playing field is not level for ethnic minorities.** The same analysis of the gap in access to non-agriculture wage jobs suggest a considerable portion of the difference in access to jobs (30 percent) cannot be traced to differences in characteristics or circumstances of ethnic minorities. Other analysis show that ethnic minorities face a 13 percent wage penalty (Demombynes and Testaverde, 2018). At lower levels of education, ethnic minorities' wage job prospects are also lower and improve less, compared to the Kinh. In mountainous areas, a male ethnic minority with secondary education has only a 25 percent chance of being in a non-agricultural wage job compared to 36 percent for a similarly educated Kinh for example. Only when they attain tertiary education are job prospects equalized for young ethnic minorities (Figure 30).

**Other research has shown that poor social networks and barriers to labor mobility are key obstacles for ethnic minorities finding wage employment.** These barriers are higher for women who are more likely to withdraw from wage employment when they have young children (Dang, Hiraga and Nguyen, 2019). Social norms also seem to prevent ethnic minorities women from migrating without moving with their families (World Bank, 2019d). The lack of jobs within commuting distance thus hurts women's prospects more.

**Figure 31. Aggregate impacts of connectivity scenarios on spatial inequality**



Source: World Bank, 2019b

**Area based anti-poverty interventions can help mitigate the disadvantages of low economic density and low human capital in lagging areas.** Low density economies such as Vietnam's lagging remote and sparsely populated communes, depend on external demand from urban centers within the country or internationally for their growth. Their economies can grow by being integrated to the network economy and leveraging their absolute advantages in natural resources (e.g. forestry, suitable ecological environment for perennial crops), unique culture and niche products. This is facilitated by investment in both digital and physical last-mile connective infrastructure to expand access to markets, coupled with skills development to support a secondary economy. Estimates presented in Figure 29 and Figure 30 above already show that improving market access and attainment of tertiary education significantly improves job prospects in lagging areas.

**These interventions can also be complimentary to growth when supplemented with appropriate policies.** The required interventions – improving access to markets and human capital development - enhance the economic integration and participation of disadvantaged groups and hence complimentary to overall growth. When coupled with relaxed constraints on labor mobility for example, investments to complete the North-South corridor expressway – that also maximizes access to markets in lagging areas - would both increase national income and reduce spatial inequality more than improving missing links in remote areas and nearby border gates (Figure 31).

**Investments and policies to promote progression to tertiary education and develop skills in lagging areas will be supportive to the overall economic agenda to shift towards knowledge intensive segments of regional value chains.** Improving access to upper secondary schooling in lagging areas and promoting access to tertiary education by shifting financing from schools to students or income-contingent loans (ICL) which alleviates financial constraints for the poor, improves both the pipeline and inclusiveness in the tertiary education system while enhancing efficiency of spending (see World Bank, 2019c for more detailed discussion). Thus, interventions needed to support the poor in Vietnam, cannot only make growth inclusive, but more sustained as well.

## SUMMARY

**To summarize, poverty remains a key issue for policy to address in Vietnam, which is echoed in public sentiment.** Addressing this requires investing in areabased anti-poverty interventions to overcome key challenges imposed by geography constraining the economic integration of ethnic minorities and people living in lagging areas who are not yet fully engaged in the dynamic parts of Vietnam's economy. These areabased policies can also be supportive to growth when combined with the right complementary policies. Area based policies could thus be used not only to make growth more inclusive in Vietnam, but more sustainable as well.

## NATIONAL TARGET PROGRAMS AND POVERTY REDUCTION IN VIETNAM

The 10<sup>th</sup> Party Congress in 2006 reaffirmed that economic development must be accompanied by rural development, setting the stage for government ramping up area-based anti-poverty investments at the commune level. The government Resolution No. 26-NQ/TW (Resolution 26), implemented thereafter, sets a framework linking agriculture, farmers and rural areas while dictating that a new rural development program must be associated with development of an industrial economy. The resolution devised goals for attainment of new rural commune status by 2020, which has since underpinned government commune level investments in the country. This resolution is considered the seed of the National Target Programs and related policies (Nguyen and Bui, 2015). The national target programs anchored the government strategy to address development challenges in rural areas with an overall objective to increase incomes and reduce poverty. An uptick in commune level investments from 2000 onwards can be observed (Annex, Figure 52).

**Since 2010, the NTPs invested in communes to achieve a set of 19 criteria outlined in Decision 491/QĐ-TTg in 2009, for them to be granted new rural development status.** During 2011-15, these investments were made through 16 National Targeted Programs (NTPs) focused on specific sectors such as health, education, water, transport, agriculture and rural development. The NTP for New Rural Development (NTP-NRD) was the largest, investing over USD 9 billion through the state budget, increasing to USD 37 billion when other financing sources such as bank credits, private sector investments and commune contributions are included. Meanwhile the Program 135 (P135) continued to finance investments in extremely poor communes where ethnic minorities are concentrated. The government consolidated the 16 NTPs into two NTPs for the next implementation phase over the 2016-20 period. The two programs are the New Rural Development (NTP-NRD) and the Sustainable Poverty Reduction Program (NTP-SPR) with the P135 falling under the NTP-SPR.

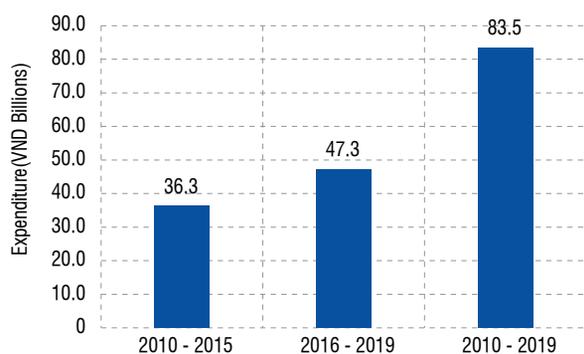
**This chapter assesses the extent to which the NTPs either reached or reduced constraints faced by the poor and identifies areas of improvement for the design of future NTPs currently being discussed.** A more ambitious goal of evaluating the impact of the NTP programs on welfare outcomes could not be achieved for technical reasons. The NTPs are nationwide and provided commune-level investments. Because they focused more on infrastructure investment in practice, few observations are recorded in surveys for specific household-level programs such as input handouts. A combination of these factors curtailed the feasibility of implementing statistically sound empirical estimation methodologies to isolate the impacts of the programs.

**The assessment in this chapter thus focuses on the incidence and pattern of spending of the NTPs and changes in commune level access to services the NTPs were programmed to improve.** The analysis is based on data from an expenditure survey implemented jointly with Institute of Policy and Strategy for Rural Development (IPSARD) from January to March 2020, to gather program spending data at commune level since such data is not readily available. This is supplemented with VHLSS commune level data on access to different types of infrastructure, social services, household level incidence of benefits, as well as a richer set of information about communes' characteristics and service availability.

**The NTP implementation period sustained high commune level investments, but a smaller share went to the poorest communes**

**The government invested nearly VND 560 trillion (approximately USD 25 billion) in commune level programs under the NTP since 2010.** A survey of NTP expenditures at commune level in 30 provinces across all regions of Vietnam, shows that commune level investments averaged of VND 85 billion (or USD 3.6 million at current exchange rates) over 2010-19 period (Figure 32 below). Data from the VHLSS 2010 to 2018 suggests that more than 18 thousand commune infrastructure investment projects were implemented in the first seven years under the NTPs since 2010, sustaining a higher level of investment activity than in the previous decade. All rural communes have benefited from these NTP investments.

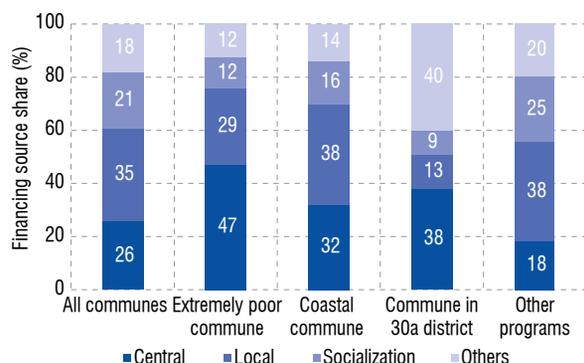
**Figure 32. Average investment spending per commune (VND, Billions), 2010-2019**



Source: World Bank and IPSARD Survey, 2020

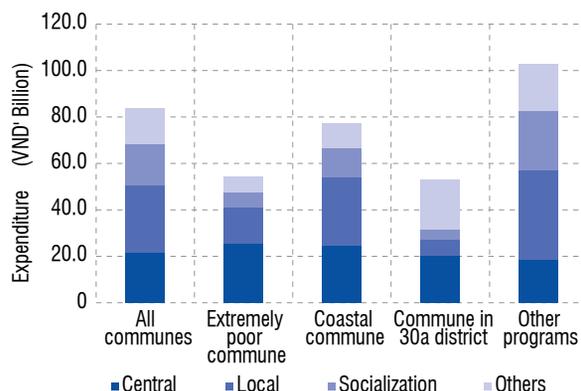
**The poorest communes were more reliant on direct central government transfers and had limited financing options.** The NTP financing was a mix of central government, provincial and commune-level funds, including credit and community-level contributions. On aggregate, the combination of state budget and local government financing made up close to 60 percent of commune-level investment financing. Communes classified by the government as extremely poor in 2010 are more reliant on state contribution, which made up close to half of the investment spending, with local revenues contributing another 29 percent (Figure 33). Overall, extremely poor communes drew less resources from private sector participation and community contributions than other types of communes.

**Figure 33. Contribution to NTP spending by commune type (%) , 2010-19**



Source: World Bank and IPSARD Survey, 2020

**Figure 34. Average investment spending per commune by financing source and commune type (VND, Billions), 2010-2019**



Source: World Bank and IPSARD Survey, 2020

**Insufficient additionality of state budget financing coupled with limited financing options contributed to lower average investment levels in poor communes.**

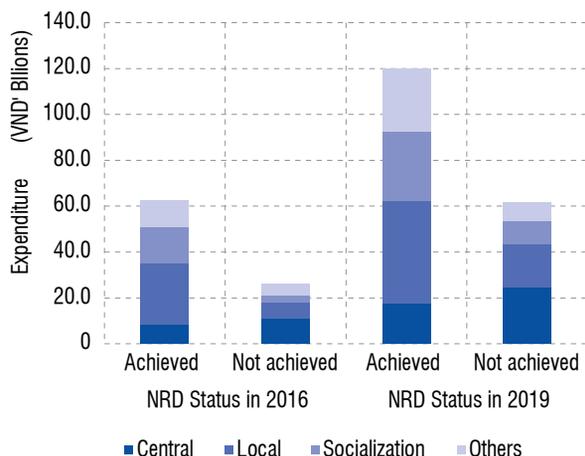
At VND 57 billion, the average investment amount in extremely poor communes was just slightly more than half the average spending in communes without a special designation (denoted under “other programs”) which in essence are non-poor communes. A key reason is that incremental central government financing to poor communes was not high enough to make up for their limitations in other financing sources of the NTPs. Extremely poor communes received 14 percent more in state budget investment than non-poor communes, but non-poor communes spent 80 percent more than extremely poor communes from their own generated revenues and four times as much from private sector and community participation (Figure 34). Thus, the poorest communes invested less because they mostly relied on central government financing without incremental resources.

**Resource limitations hindered achievement of the NRD status.**

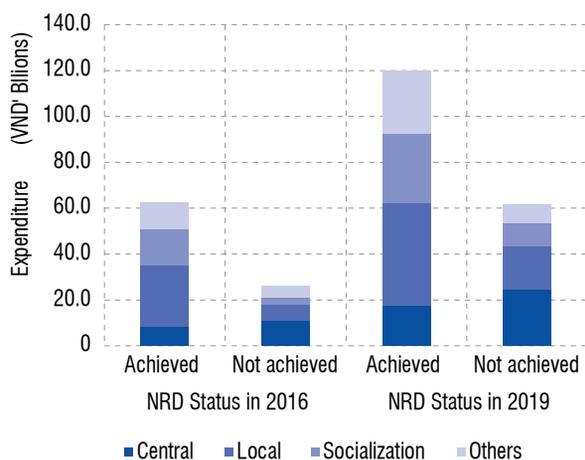
This is apparent from a comparison of the level and sources of financing of communes that achieved the NRD status and those that did not. Communes that had achieved NRD status by 2016, had an average investment of more than VND 60 billion during the first phase of the NTPs. This was more than twice the average amount spent by communes that had not achieved NRD status. At the end of 2019, communes achieving NRD status had on average spent VND 120 billion since 2010, compared

to VND 62 billion average spending in communes not achieving NRD status (Figure 35). Failure to achieve NRD status is thus mostly a financing gap issue.

**Figure 35. Average investment spending by achievement of NRD status (VND Billions), 2010-19**



**Figure 36. Average investment spending by commune type and NTP source (VND Billions), 2016-19**



Source: Authors calculations from World Bank and IPSARD Survey, 2020.

**The current funding model for the NTPs is inadequate for poor communes.** By design, only 25 percent of NTP-NRD financing is meant to come from the state direct budget, with the rest financed from local revenues, private sector credit and investment, community contributions and integrated investments. A key difference between

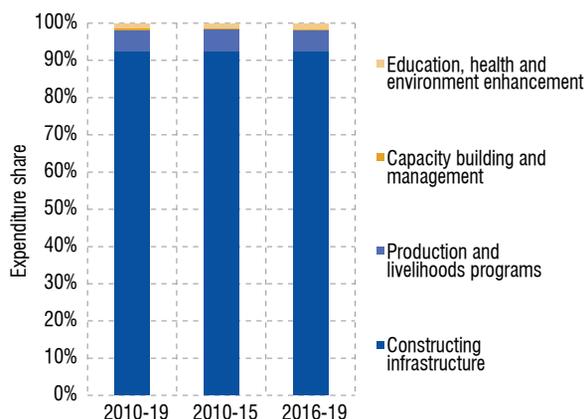
communes achieving NRD status and communes that did not, is that communes achieving NRD status mobilized 130 percent more local revenues and three times more from private sector and community participation (Figure 35). The NTPs provided increased state budget contributions for poor provinces, especially through the SPR, but that was inadequate. Communes failing to achieve NDR status were more reliant on the state budget, but they only received VND 7 billion more than NRD achieving communes which also received substantial state funds.

**The NTP-SPR did not provide enough additionality to poor communes.** The NTP NRD was the major funding sources for the NTPs across all communes (Figure 36). But the average amount invested per commune from NTP-NRD financing in non-poor communes was more than double that in extremely poor communes and four times as much compared to Program 30a communes (i.e. non P135 communes in poor districts). SPR investments in these poor communes were not high enough to make up for the funding difference. While investment differences may reflect the diversified range of NRD financing sources for non-poor communes, it also signals some substitution rather than additionality between the NRD and SPR. It also reflects a prioritization of non-poor communes in investment allocations.

### NTP investments were mostly in connectivity and agriculture production

**Much of the NTP spending was devoted to socioeconomic infrastructure investments** (Figure 37 below). On average, communes spent 90 percent of their investments on infrastructure construction projects during the NTP period. Livelihood and production support activities received 8 percent and noninfrastructure related spending to improve education, health and environment access and quality made up 2 percent of the expenditures. The intention to rebalance spending towards livelihood support during the 201620 implementation phase is unlikely to be realized. So far, the share of spending on production support and livelihood interventions during the first four years of this phase constituted less than 9 percent of overall spending.

**Figure 37. Composition of commune NTP spending by type of investments (%), 2010-19**



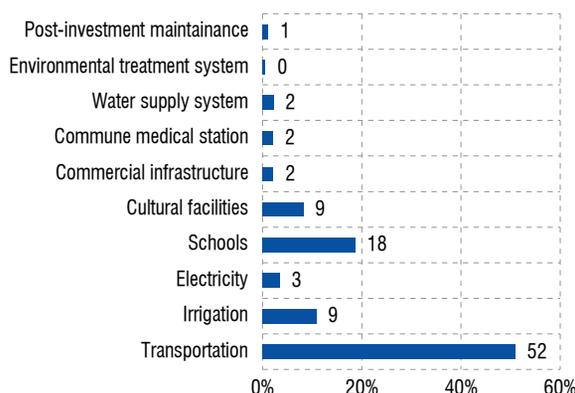
**Transport infrastructure was prioritized, while spending on other basic social services was lower** (Figure 38).

Transport infrastructure construction was the highest spending activity, accounting for 52 percent of the budget. School construction was the second highest spending activity (18 percent), followed by irrigation and cultural facilities which both accounted for 9 percent of infrastructure spending. Infrastructure maintenance and waste treatment systems spending was negligible. This expenditure data mirrors the composition of number of infrastructure projects reported in the VHLSS commune data. That data suggests a declining share of projects on schools relative to the pre-2010 period (see Annex, Figure 53), while the share of transport projects increased over the years.

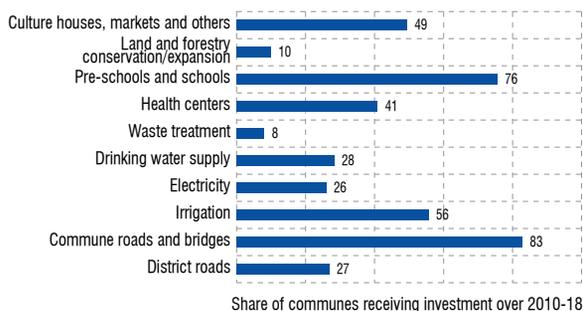
**The prioritization of connectivity infrastructure reflected relative need as well as the NTP incentives structure.**

From the onset of the NTPs phase in 2010, roads were more lacking than most other basic services besides drinking water. About 56 and 51 percent of communes and villages respectively, had an asphalt paved road. In contrast availability of other basic services, except drinking water and irrigation, was already high even among the poorest communes. Close to 96 percent of the P135 communes had access to electricity, 95 percent had a lower secondary school and 99 percent had a health center. It is logical that more communes received a road investment (83 percent) than electricity, health center (41 percent) or schools which were built in 76 percent of communes (Figure 39). One school or health center might serve a catchment area where several roads are needed, meaning more spending on roads than schools or health centers.

**Figure 38. Distribution of commune infrastructure spending by type, 2010-19**



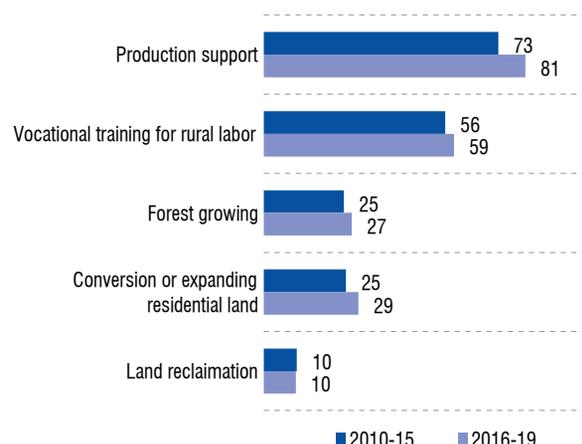
**Figure 39. Share of communes receiving different infrastructure investments during 2010-18, (%)**



Source: World Bank and IPSARD Survey, 2020

**However, low non-recurrent spending on human development areas reflects inappropriate emphasis on quantity over quality and misplaced focus.** Despite high availability, not all schools and health centers are necessarily in good physical conditions or meeting the required service standards. More than 45 percent and 63 percent of commune leaders cited poor physical facility condition and being poorly equipped, respectively, as the most critical challenges for lower secondary schools and health centers in their communes. The NTPs focused on basic education by design, but access to upper secondary education has become the key challenge. Only 19 percent of rural communes had an upper secondary school in 2010, and the average distance to one in poor communes is about 14km. The country has nearly four times as many lower secondary schools than upper secondary schools, so places in public upper secondary schools are rationed, contributing to high drop-outs at lower secondary education completion.

**Figure 40. Share of communes benefiting from production and livelihood support activities (%), 2010-19**



Source: Authors' calculations from VHLSS 2012 - 2018

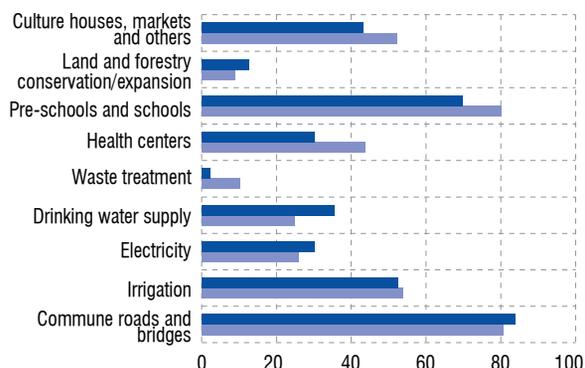
**Resources for production and livelihoods support activities were thinly spread resulting in limited access to these programs even by the poor.** About 73 percent of communes reported implementing production support activities during 2010-15 (Figure 40), but only 12 percent of households received inputs and machinery or preferential credits during 2011-15, basing on estimates from three rounds of VHLSS panel data. Program incidence was higher among the poor, at 22 percent for inputs and machinery and 34 percent for preferential access to credit (Table 12). Similarly, less than one percent of households – poor or non-poor, reported benefiting from vocational training. No change in pattern is observed under the 2016-20 NTP implementation phase.

**Earmarking of expenditures to livelihood and production support would be required to ensure adequate funding for these activities, which could also have significantly benefited women.** Given the smaller share of the budget spent on these activities (e.g. just one percent for vocational training on average), the low incidence of these programs at household level suggests resources were spread thinly as infrastructure construction was prioritized. Without earmarking and adequate monitoring mechanisms, these activities also meant to contribute to the NTP-SPR stated objective of promoting gender equity, have not been effectively implemented. Support for promoting employment and entrepreneurship for poor or vulnerable women along with support to members of poor and ethnic minority households to work overseas and

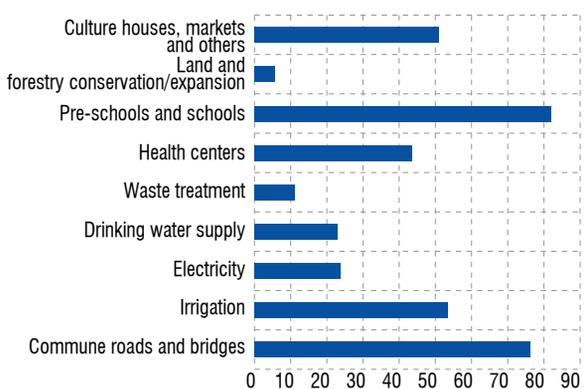
technical training to meet women's specific needs and vocational counselling upon returning home, have been underfunded. No strong incentive exists to spend more on these activities without indicators designed to measure the progress and outcomes of 'gender' interventions.

### Resource limitations imposed sharper tradeoffs in multi-deprived poor areas

**Figure 41. Share of communes receiving investments by type and depth of deprivation (%), 2010-18**



**Figure 42. Share of single-deprived communes receiving investments by type (%), 2010-18**



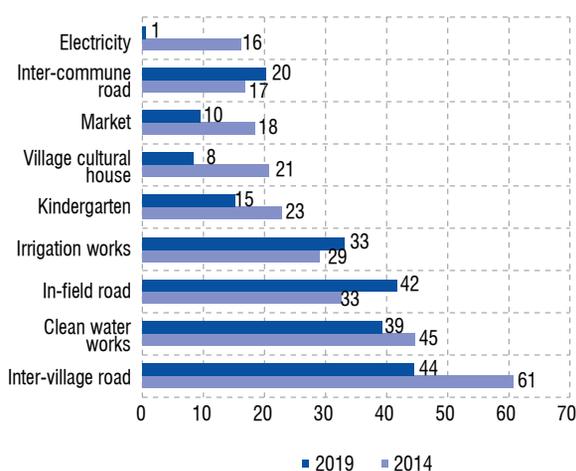
Source: Authors' calculations from VHLSS 2010 - 18.

**The preference for roads prevailed when communes faced multiple deprivations.** To compare investment choices by the depth of deprivation, an index counting the number of deprivations in 8 basic services – commune roads, lower secondary school, drinking water, irrigation, health centers and cultural centers - in 2010, is computed for each commune. As shown in Figure 41, the share of communes receiving a road investment, drinking water supply and electricity is higher in communes facing multiple deprivations. In contrast, the share of communes

receiving a school, health center or culture house, market or other investment is lower among communes facing multiple deprivations. Yet communes only deprived in one dimension were just as likely to have a school project as having a road project (Figure 42).

**Faced with a trade-off between many needs, the poorest communes favored roads and water above human development investments.** Evidence from the baseline and end line surveys of households and communities under the Central Highlands Poverty Reduction Project (CHPoV) supports this notion. As reported in the end line survey report (Mekong Development Research Institute, 2020), inter-village roads have been the top priority infrastructure investment for the poor (Figure 43). About 60 percent of poor households cited intra-commune (intervillage) roads as their top three priority in 2014, followed by clean water (45 percent). The reduction in households reporting inter-village road as an infrastructure priority to 45 percent in 2019 reflects that commune investments in transport infrastructure responded to the poor’s priorities. Poor households’ priorities are now shifting to irrigation and district roads. Clean water facilities remain the second most desired infrastructure however, echoing the lower spending in this area relative to roads.

**Figure 43. Infrastructure projects priority of poor households, 2014-19**



Source: CHPoV Project End Line Survey Report, (Mekong Development Research Institute, 2020)

## NTP investments improved access to services across all communes, but significant gaps remain in poor communes

**The significant investments under the NTPs improved access to services, especially connectivity** (Table 13). The number of communes and villages with an asphalt road increased by 20 and 27 percentage points, respectively. Access to piped water increased by 30 percentage points, though more than half of communes still did not have piped water supply as the main source of drinking water. The availability of culture houses increased significantly too.

**Poor communes also notched some considerable improvements in access to basic services, but significant gaps remain** (Table 13). Their connectivity infrastructure improved the most. The share of villages in P135 communes with an asphalt village road had almost doubled to 60 percent in 2018, while communes with an asphalt commune road increased by 21 percentage points to 63 percent. The share of poor communes where piped water is the major source of drinking water tripled, but to a lowly 22 percent. The number of poor communes with a small irrigation scheme also increased by 8 percentage points to 71 percent. Only in access to upper secondary schools at commune levels and kindergartens at village level, were there no improvements.

**Table 13: Changes in access to basic services during the NTP period, 2010-18**

	Vietnam			P135 Communes in 2010		
	2010	2018	Change	2010	2018	Change
Has asphalt road	56.2	76.3	20.1	41.6	62.5	20.9
Village has asphalt road	51.1	78.4	27.3	32.0	60.2	28.2
Bus service in village	43.5	47.6	4.1	34.4	33.9	-0.5
Commune has electricity	98.9	99.8	1.0	95.6	100.0	4.4
Commune has culture house	49.0	75.1	26.1	40.1	57.2	17.1
Commune has irrigation system	67.0	70.8	3.8	63.2	71.1	7.9
Commune has piped/public water	14.7	44.9	30.2	7.6	21.5	13.9
Has piped/borehole/protected	74.0	83.2	9.2	49.9	58.4	8.5
Has primary school	92.8	94.1	1.3	93.0	94.4	1.4
Has lower secondary school	94.4	95.2	0.8	95.4	95.6	0.2
Lower secondary has poor physical facilities	45.0	36.3	-8.7	53.3	52.4	-0.9
Has upper secondary school	18.7	19.8	1.1	13.9	12.4	-1.6
Commune has kindergarten	96.2	96.9	0.6	94.8	95.9	1.1
Village has kindergarten	52.7	48.3	-4.4	57.1	52.8	-4.3
Has health center	98.9	99.4	0.6	99.1	99.3	0.2
Health center ill-equipped	68.5	63.2	-5.3	68.4	69.6	1.2

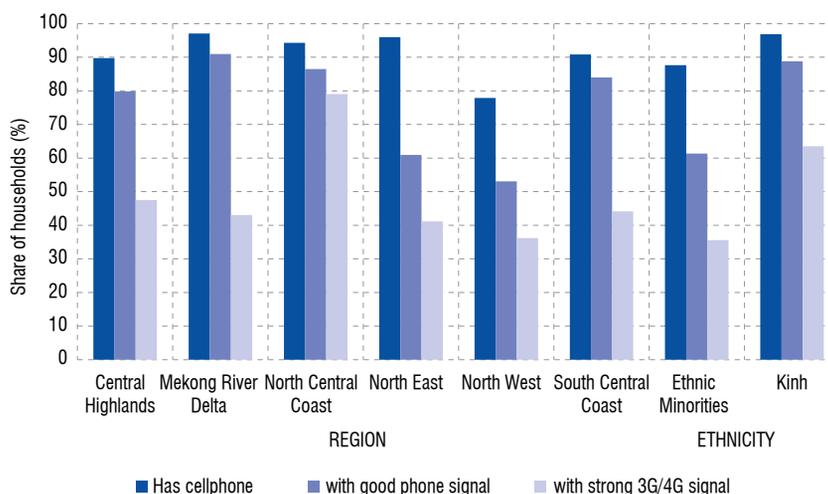
Source: Authors' calculations from VHLSS 2010, 2018

**However, quality gaps in health and education were not adequately addressed in poor communes.** Compared to 2010, fewer commune leaders complained about inadequate equipment in facilities in 2018 (5 percentage points less) or poor physical condition of schools (9 percentage points less) at a national level. No improvement is registered in poor communes on both issues (Table 13). Even with the improvements, inadequate equipment at health facilities is an issue of high concern for 63 percent of commune leaders nationally and 70 percent in poor communes. Improving the quality of health and education deserves more attention in poor communes over the next phase of the NTPs.

Access to good internet is another remaining challenge. The VHLSS does not directly ask households about access to internet, but this could be inferred from their

spending on internet including both mobile and broadband data. Estimates suggest that only 18 and 40 percent of households in P135 and non-P135 communes, respectively, spent on internet in 2018. However, this was a substantial increase compared to 2010 when only 1 percent of households in P135 communes registered internet spending (Annex, Table 19). A 2018 NTP household survey implemented in 26 relatively poor provinces across all regions included questions about access and quality of 3G or 4G signal, as well as broadband connections. Only 24 percent of surveyed households reported having a wired or wifi connection with an average distance of 4km to the nearest internet service point, while 48 percent reported having access to a strong 3G/4G signal. Access was lowest in northern mountain areas (North West and East in Figure 44) and among ethnic minorities.

**Figure 44. Quality of household access mobile phones and internet services (%), 2018**



Source: NTP Baseline Survey Report – (IPSARD, 2019).

**Commune planning process should be improved to increase the voice of the poor in selection and implementation of projects**

**While commune investments are mostly aligned with community needs, community engagement in proposing and supervising projects is limited.** A major weakness is that most households are not invited to participate in the

village planning meetings for investments according to results of the NTP household survey in 2018. Respectively, about 51 and 56 percent of poor and non-poor households were invited to village meetings to discuss challenges and demand for investment projects (Table 14). Between 18 and 30 percent of those invited end up not participating, further lowering household participation rate in commune planning.

**Table 14: Household’s participation in commune planning by poverty status (%), 2018**

	Poor			Non-Poor		
	Aware	Invited	Participated	Aware	Invited	Participated
Identify investment priorities	56.9	51.3	41.9	62.6	55.8	45.5
Propose investment plan/projects	40.4	34.7	26.0	53.5	45.5	35.6
Discuss implementation details	29.1	25.0	18.1	40.9	33.5	24.9
Discuss land recovery and compensation	28.2	23.8	17.1	40.4	31.8	22.5
Community project supervision	25.3	20.9	14.5	34.2	27.6	20.1

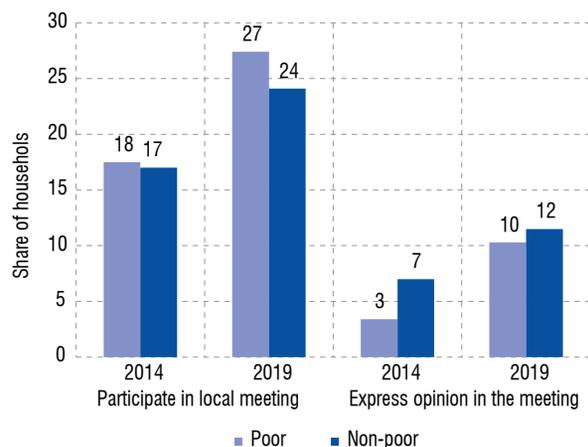
Source: NTP Baseline Survey Report (IPSARD, 2019)

**Community engagement gradually declines at every planning step beyond identifying community needs because fewer households get invited.** While 42 percent of poor households participated in village meetings to identify priority needs, only 26 percent participated in meetings to propose specific investment

projects and even fewer were engaged in discussions of implementation details. This is largely explained by fewer households being invited at subsequent commune investment planning stages (Table 14). While 51 percent of poor households were invited to meetings discussing investment needs, only 35 and 25 percent respectively,

were invited to meetings for proposing specific projects and discussing detailed implementation plans. Investment projects are thus developed based on community demand, but the implementation process is mostly decided by government.

**Figure 45. Household participation in local activities (%), 2014-19**



Source: CHPoV Project End Line Survey Report, (Mekong Development Research Institute, 2020)

**Limited voice of the poor in meetings further compounds the weakness in community engagement.** A similar share of poor and non-poor participates at the first stage of discussing challenges and investment priorities but a lower share of the poor and ethnic minorities are engaged at each subsequent stage of the commune planning process (Table 14 and Annex, Table 20). Furthermore, results from the CHPoV project baseline and end line surveys show that less than a third of people attending these public meetings would express their opinions and be heard (Figure 44). The non-poor households were more likely to articulate their needs than the poor, though the gap has been narrowing. Thus, not only are poor people less likely to be invited to discuss implementation of projects, those who get the chance are not able to express their views and be meaningfully engaged.

**Welfare impacts of NTP investments are harder to quantify in the absence of rigorous evaluation mechanisms**

**The overall goal of the NTPs was to increase household incomes and reduce poverty but the impacts have been hard to quantify.** Attributing gains in household incomes

and poverty reduction to the NTPs is challenging. The programs are implemented nationally, making it difficult to identify a counterfactual outcome i.e. approximating what the outcome would have been without the NTPs. Granular commune or project-level spending data is not readily available making implementation of non-randomized impact evaluation designs more challenging. The experience from conducting the expenditure survey at commune level showed that a combination of scanty recordkeeping and staff churn make collection of very detailed information a big challenge. This should be addressed in the next phase of the NTPs by strengthening communelevel data reporting and creating a centralized database, permitting high-frequency monitoring of progress and results at commune level.

**Despite these challenges, a recent study provides tentative evidence of positive welfare impacts of the NTPs.** Verwimp and Zhang, 2018 use household panel data to compare welfare of households in communes that achieved the new rural commune designation in 2016, to those partially meeting the criteria<sup>9</sup>. They find a positive impact of the attainment of new rural commune status on household income growth, with estimates ranging from 12 to 28 percent depending on the sample and estimation approach. However, their analysis focuses on attainment of new rural communes' status, rather than the incremental impact of expenditures or impact of specific types of investment on household welfare.

**Other studies have also established positive impacts of commune infrastructure investments under other programs.** Nguyen, et.al., 2017 for example, evaluated the impact of an Irish Aid infrastructure project which financed small infrastructure projects in 360 poor communes which are part of the P135 program<sup>10</sup>. They find that both rural roads and irrigation improved household welfare as measured by a household asset index, with high human capital households benefiting more from roads, and less educated households benefitting more from irrigation. People in villages where roads projects were implemented

<sup>9</sup> Verwimp and Zhang, 2018 uses ordinary least squares, difference in differences and propensity score matching estimation techniques on four biennial rounds of panel data from 2008 to 2016 from the Vietnam Access to Rural Resources Survey to estimate household income growth due to the NTPs

<sup>10</sup> Since the infrastructure projects under the Irish-Aid Infrastructure Project were not randomly assigned, Nguyen, Phung and Ta, 2017 uses difference-in-difference estimators to control for potential selection bias combination of project data

were less likely to work in agriculture and more likely to work in the industry sector and engage in wage work. Other evaluations of rural roads projects in Vietnam find a positive impact on development of local markets (e.g. Mu and van de Walle, 2011), farmers market participation, household income and consumption as well as women engaging in wage work (Perova et.al. forthcoming). Such findings point to the potential for area-based investments to improve both household welfare and economic integration in poor communes.

## SUMMARY

**Vietnam spent a significant amount of resources on commune level investments that improved access to social services, but not enough to close the gaps for the poor communes who are more dependent on state financing.** Poor communes faced resource constraints as incremental state budget spending was not enough

to close their financing gap, resulting in lower overall spending among the poorest communes. Infrastructure investments were prioritized while livelihood support and non-infrastructure investments in education, health and environment received less support. This investment prioritization was in line with the needs of the poor, though poor households are less engaged in planning stages beyond meetings to discuss investment needs. In the absence of earmarking, the little spending on livelihood interventions was spread thinly, resulting in a lower incidence of these programs at the household level. There is evidence that NTP investments improved access to services, but lack of detailed commune and project level data and lack of inbuilt evaluation designs in NTP implementation, hampers rigorous evaluation of the impact of the NTPs on household welfare. However, academic evaluations of related interventions in Vietnam point to positive impacts.

## POLICY IMPLICATIONS

**Recent data shows continued progress in poverty reduction and rapid growth of a middle class.** The poverty headcount rate has declined to 7 percent, while the share of the middle class rose to 20 percent in 2018. More encouragingly, sustained progress is being made among ethnic minorities, whose poverty rates declined by an additional 7.5 percentage points during 2016-18, bringing down the share of poor ethnic minorities to around 35 percent. Ethnic minorities welfare has improved significantly since 2014, underpinning the reduction in poverty in the country in recent years. These developments have several policy implications that we discuss below.

**Broadly framed, the primary policy issue concerns the thrust of public policy to improve living standards and meet aspirations of the population.** Three issues motivate this question, namely (i) high growth has been pro-poor and drove poverty reduction, yet absolute differences in living standards are widening, (ii) increased absolute economic mobility, and rapidly rising share of the middle class suggests that the poverty discourse will increasingly be dominated by a middle-class agenda and (iii) remaining poverty is spatially concentrated, which might be disconnected to the middle class agenda pre-occupying the majority of the population.

**Given the high average growth, the existing large disparities between the poor and rich, meant that absolute inequality still increased despite growth been pro-poor.** Consumption growth in the recent period, averaging 9 percent per year over 2016-18, was 3 percentage points higher than average growth during 2010-14. Growth among the poorest and bottom half of the population was also higher than observed during the first half of the decade. It was higher than consumption growth of the non-poor too. This was responsible for an accelerated pace in poverty reduction and significant upward economic mobility. But growth among the nonpoor was high enough to translate into larger absolute gains in welfare. Welfare gaps are therefore increasing, translating into visible differences in living standards such as in housing, that strengthen perceptions of growing inequalities.

**High growth led to high economic mobility, but services provision lagged, resulting in unmet aspirations that will dominate public poverty discourse.** Owing to rapid growth, four in five Vietnamese could be classified as economically secure. Yet poverty remains a top cited concern in citizens perceptions surveys. This is partly due to concerns over falling back into poverty or over equity. It also reflects a large unmet service needs for better quality living standards. Only a third of the economically secure class lives in a permanent housing with piped water and a private bathroom for example. Less than half of 19 – 23-year olds in this class are enrolled in tertiary education. This contrasts with the middle class, 54 percent of whom live in permanent housing with piped water and private bathrooms, have average space of 43m<sup>2</sup> per person, and 87 percent of 19-24-year olds are enrolled in tertiary education. The middle class have more assets to lead a more comfortable life like having a washing machine (78 percent) compared to the merely economically secure (45 percent). Attaining these middle-class living standards is the aspiration of this large economically secure class.

**At the same time, 35 percent of ethnic minorities are still living in poverty, concentrated in mountainous regions far from the center of economic activity.** This means reducing extreme poverty is more of an inclusion agenda to help ethnic minorities share more in the growth process. The higher poverty among ethnic minorities owes to their lower access to non-agriculture income generating opportunities which are limited by location disadvantages, low education attainment – especially tertiary education – and an uneven playing field in the labor market. Thus, even as the government grapples with meeting the aspirations of the middle class, there is a clear need to increase the economic integration of ethnic minorities and lagging regions in general.

**The multifaceted gender inequality is both a challenge and an opportunity for sustained improvement of mobility.** While improvements in living standards and upward mobility have been promising, structural obstacles in the workplace and education system continue to keep women in a subordinate social and economic status relative to men. A recent focusgroup study reported that the government's current labor policies do not adequately account for women's needs of modern families. For example, they do not encourage flexible working times

or home-based work opportunities. In education, women also perceived that VET program instructors discourage young women studying in typically male occupations. Gender stereotyping within families further impose rigidities on young women's life path.

These issues point to three solution areas for the government to focus on in the poverty and shared prosperity agenda.

*Equalizing access to upper secondary and tertiary education, with strengthened career guidance to sustain economic mobility and equalize opportunities*

Sustaining high growth is critical to raising household incomes needed to both uplift the remaining poor out of poverty and for achieving the middle-class dream. This could require a shift into knowledge segments of the global value chains for example, making skills critical to the development path of the Vietnam. But this is also one source of inequalities in the country. Students from the top quintile make up 57 percent of tertiary education enrollment. The lower enrollment among the less well-off owes to a combination of income constraints to meet college expenses, variations in the quality of secondary education that negatively impacts lower secondary pass rates and limited supply of public upper secondary schools that ration places and limits school progression. Under-developed alternate mode of tertiary education such as e-learning/MOOCs which have the potential to benefit the masses and ineffective non-university sector and private sector in Vietnam compound this problem. There is also a need to strengthen career guidance for students and parents, challenge gender stereotypes and facilitate flexible forms of work, in order to equalize economic opportunities for women.

*Improving access to and quality of services, especially better housing, portable water supply and sewerage treatment*

**High fixed costs associated with housing and services improvement calls for public investment and collective planning at the community level.** Radical improvement in housing and related services such as sanitation and piped water requires a high level of investment. Housing and basic services improvements also involves spatial and zonal optimization that demands coordination across

sectors. Public sectors are in a more suitable position to initiate such investments given their longterm and inclusive perspectives in contrast to the private sectors. Private investments will follow to complement the public initiatives.

*Strengthening area based anti-poverty interventions to meet last mile poverty challenges*

**The concentration of poverty among geographically disadvantaged regions calls for strengthening of area based anti-poverty interventions to meet the last mile poverty challenges.** The National Assembly Resolution 88 to develop an NTP for socio-economic development of ethnic minorities and mountainous areas to complement existing NTPs is a step in the right direction. While our analysis suggests that past NTPs helped improve access to services and academic studies suggests some positive impacts on welfare, large gaps were also identified.

**Under previous NTPs, lagging communes did not necessarily receive more investments than the betteroff communes even in areas where the two NTPs overlapped.** Therefore, the lagging areas faced sharper trade-offs across many needs and could not catch up despite improvements. Resource allocation across communes within provinces also didn't factor the level of deprivation and lack of alternative financing sources among poor communes, resulting in a tighter budget constraint among the most deprived communes. Lastly, faced with trade-offs, communes invested more in building roads than developing human capital. Attempts to analyze spending and economic impacts at the commune level highlighted large data and monitoring gaps at the commune level too.

**The next phase of the NTPs should therefore be designed to address these past weaknesses.** This requires strengthening four areas namely (i) ensuring resource additionality to the lagging communes, (ii) ensuring allocation of resources based on deprivation at the commune level, so that more deprived communes receive more investments, (iii) earmarking resources across subsectors to ensure that adequate resources are devoted to improving quality of human development services and livelihood interventions and (iv) strengthening commune level monitoring by deploying online data collection and aggregation tools to construct a centralized NTP database.



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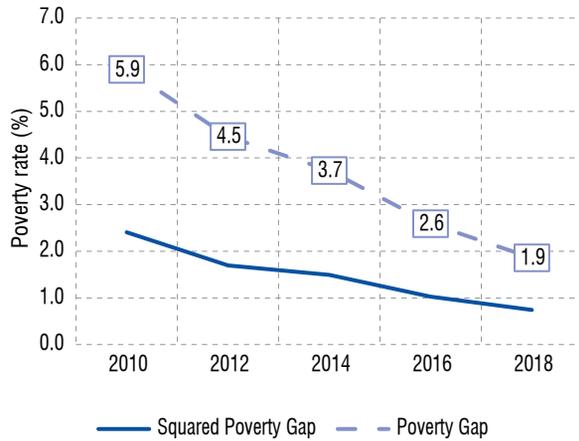
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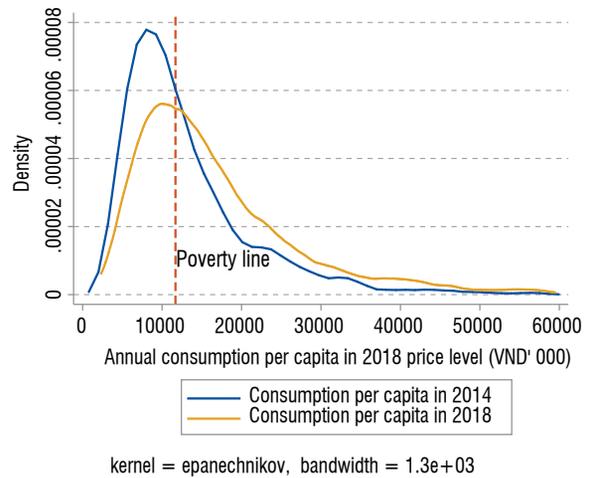
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# Annexes: Additional Tables and Figures

**Figure 46. Trends in poverty gap and poverty squared gap rates (%), 2010-18**

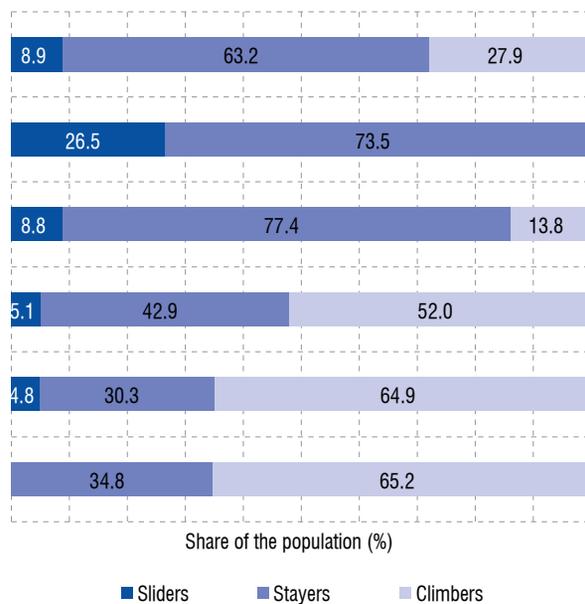


**Figure 47. Consumption distribution among ethnic minorities (VND '000, 2014-18)**

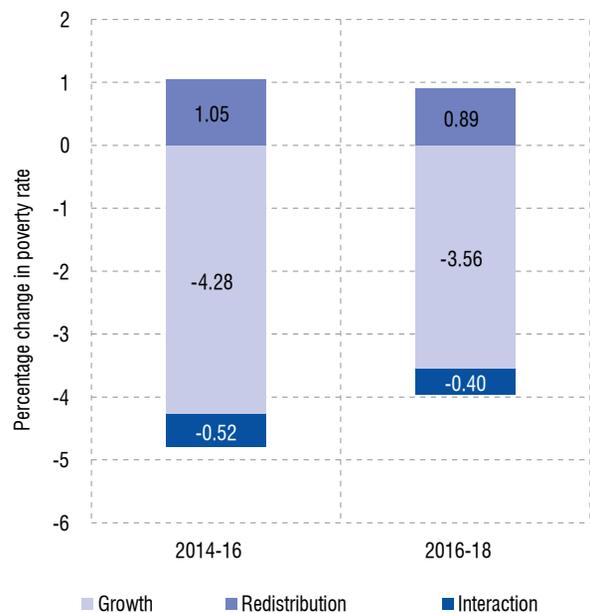


Source: Authors' calculations from VHLSS 2010 - 18.

**Figure 48. Trends in economic mobility, 2014-16**

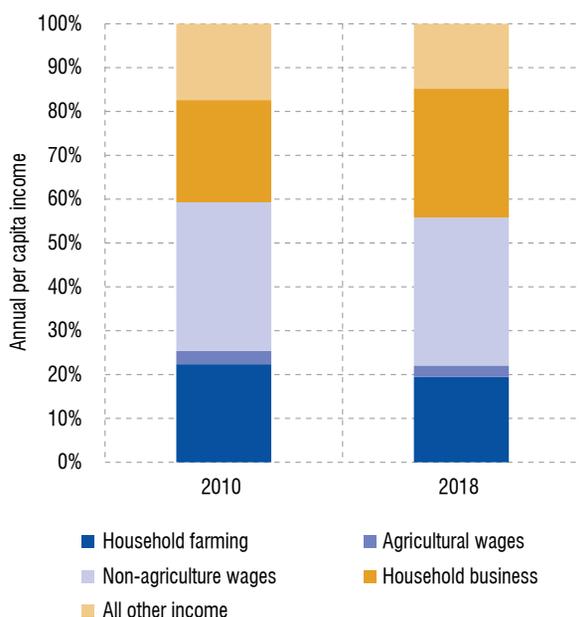


**Figure 49. The contributions of growth and redistribution to poverty changes, 2014-18**

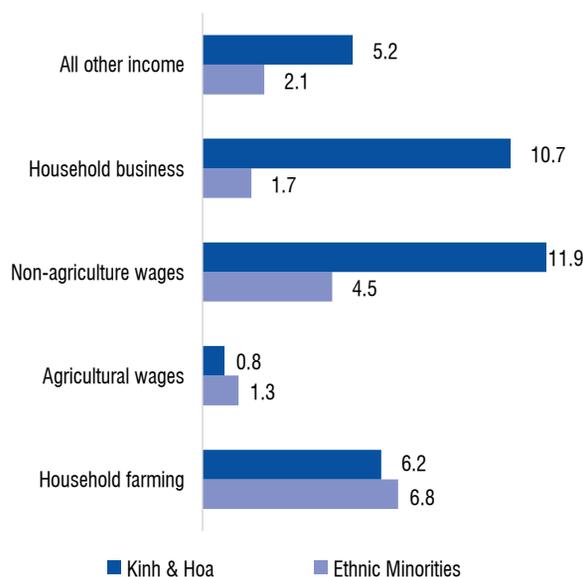


Source: Authors' calculations from VHLSS 2010 - 18.

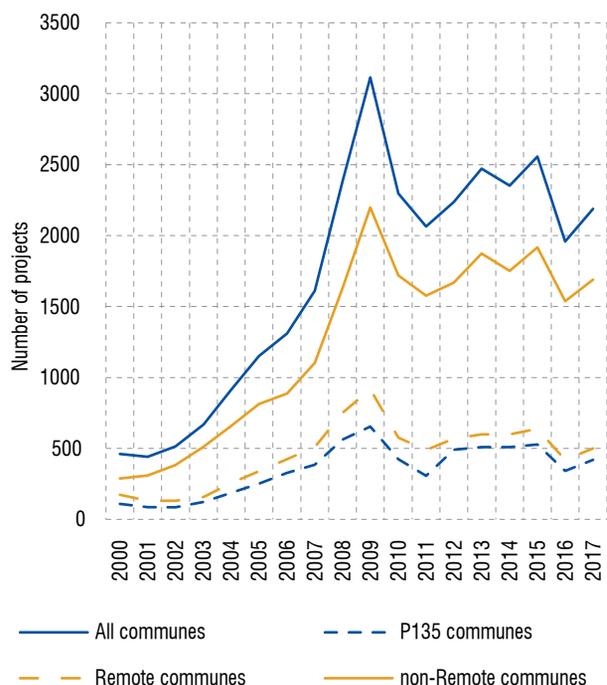
**Figure 50. Composition of incomes in rural areas, 2010-18**



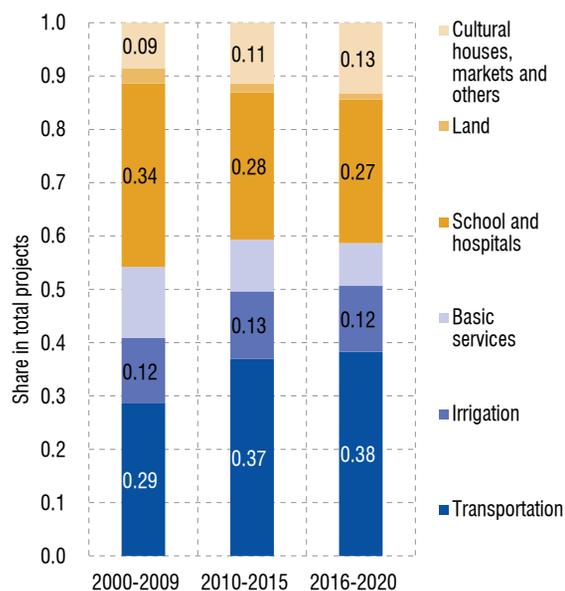
**Figure 51. Per capita annual income in rural areas by source of income, 2018 (VND ‘Millions)**



**Figure 52. Number of commune infrastructure investments, 2000-18**



**Figure 53. Distribution of infrastructure projects by type, 2005-2019**



Source: Authors' calculations from VHLSS 2010 - 18.

**Table 15: Housing conditions comfort asset ownership by region, 2018**

	Red River Delta	Midlands and Northern Mountains	Northern and Coastal Central	Central Highlands	Southeast	Mekong Delta	Rural	Urban
Living area (m <sup>2</sup> )	96	86	86	85	81	90	85	95
Living area / person (m <sup>2</sup> )	31	25	28	25	26	30	27	31
Below 10m <sup>2</sup> /person	10	13	12	21	17	8	12	13
At least 20m <sup>2</sup> /person	52	43	50	45	49	55	49	52
Permanent housing	74	38	31	18	39	11	31	54
With private toilet	53	23	21	14	36	5	17	48
Temporary housing	1	9	3	7	2	14	7	2
Piped water or borehole	69	38	57	37	87	66	51	85
Septic/Semi-Septic Tank	83	56	67	61	90	66	65	88
Has motor bike	83	90	87	90	95	82	86	90
Has a computer	25	13	19	20	34	15	13	39
Has air conditioners	49	15	16	3	38	16	15	48
Has a washing machine	62	33	35	43	67	29	34	71
Has a water heater	72	36	28	28	23	7	27	50
Living area (m <sup>2</sup> )	97	82	93	65	98	94	90	95

Source: Authors' calculations based on the VHLSS 2018.

**Table 16: Trends in additional nonmonetary welfare indicators, 2010-18**

	Piped Water		Improved Water		Improved toilet		Telephone	
	2010	2018	2010	2018	2010	2018	2010	2018
Male	22.4	40.2	69.6	77.5	68.7	86.0	79.3	95.5
Female	37.0	52.1	78.2	83.8	74.1	87.4	75.0	91.3
Ethnic Minorities	5.7	10.9	43.4	46.5	23.1	60.5	51.0	85.6
Kinh & Hoa	29.2	46.6	76.0	81.1	77.0	86.8	81.9	95.8
Not poor	30.4	43.7	76.4	78.8	78.1	85.2	84.1	95.8
Poor	6.7	5.5	50.9	31.8	33.5	46.2	49.0	69.5
Poor or vulnerable	10.3	15.6	59.5	54.9	49.3	62.1	64.1	84.2
Economically secure	31.3	41.2	78.6	79.9	83.0	86.4	87.5	96.3
Middle class	68.7	65.6	92.2	85.1	97.9	92.7	92.3	98.0
Rural	8.7	24.6	63.4	69.3	60.4	78.5	74.4	93.2
Urban	66.2	75.2	91.2	90.2	92.2	92.4	86.8	96.7
Red River Delta	27.6	54.2	61.4	73.2	87.4	88.0	81.1	94.4
Midlands and Northern Mountains	13.1	18.4	58.8	62.7	52.2	75.4	69.7	94.7
Northern and Coastal Central	21.1	32.7	79.5	79.7	72.1	79.8	75.3	91.9
Central Highlands	12.8	19.1	78.6	87.7	51.2	82.7	78.8	88.3

	Piped Water		Improved Water		Improved toilet		Telephone	
	2010	2018	2010	2018	2010	2018	2010	2018
Southeast	43.8	62.7	93.7	93.9	90.2	97.4	84.8	98.5
Mekong Delta	27.3	42.6	64.2	66.2	44.5	73.8	77.1	95.6
<b>mean</b>	<b>26.2</b>	<b>29.5</b>	<b>71.9</b>	<b>73.8</b>	<b>70.1</b>	<b>73.5</b>	<b>78.2</b>	<b>84.9</b>

Source: Authors' calculations from VHLSS 2010, 2012, 2014, 2016.

**Table 17: Trends in Theil index of inequality, 2010-18**

	Theil index				
	2010	2012	2014	2016	2018
<b>National</b>	<b>29.4</b>	<b>22.9</b>	<b>21.6</b>	<b>22.3</b>	<b>22.6</b>
Urban	27.8	21.4	19.7	19.5	18.7
Rural	20.0	17.4	16.5	17.7	19.1
<b>Region</b>					
Red River Delta	29.7	20.9	20.3	19.3	18.1
Midlands and Northern Mountains	23.9	23.4	25.0	23.9	30.7
Northern and Coastal Central	20.9	19.6	19.6	20.9	20.4
Central Highlands	23.0	25.2	26.3	27.3	35.5
Southeast	31.6	20.5	18.0	17.4	15.9
Mekong Delta	17.8	17.6	14.5	17.3	17.1

Source: Authors' calculations from VHLSS 2010-2018

**Table 18: Income decomposition of changes in economic security<sup>a</sup> rates in rural areas and among ethnic minorities, 2010-18**

	Rural Areas			Ethnic Minorities		
	2010-14	2014-18	2016-18	2010-14	2014-18	2016-18
Propensity to consume	1.8	-6.5	-2.7	3.9	-2.1	-2.3
Share of employed adults	-2.5	-1.0	-0.7	-1.2	-0.3	-0.4
Non-agriculture wages	-7.1	-10.8	-6.5	-6.4	-7.4	-3.3
Household business	-1.5	-1.9	-0.9	-1.3	-1.5	-0.2
Crop income	-0.5	-0.4	-0.6	-0.7	0.0	0.2
Other agriculture income	-1.3	-0.5	0.5	-0.3	-0.1	0.0
Remittances	-1.1	2.8	3.5	-0.4	2.1	2.4
Transfers	-0.3	-0.5	-0.4	0.0	-0.9	-0.6
Other income	-0.3	-2.1	-2.1	-0.2	-0.9	-0.6
<b>total changeb</b>	<b>-12.8</b>	<b>-20.9</b>	<b>-10.0</b>	<b>-6.6</b>	<b>-11.1</b>	<b>-4.8</b>

Source: Authors' calculations from VHLSS 2010, 2016, 2018.

Notes: (a) Based on 2011 PPP \$5.5 daily per capita; (b) Numerical differences in the overall change arise from exclusion of observations with any missing income information.

**Table 19: Share of households spending on internet (%), 2010-18**

	2010	2018
Non-poor	12.7	48.4
Poor	0.2	5.4
Ethnic minority	0.9	16.8
Ethnic majority	11.7	50.9
Non-P135 communes	3.4	40.7
P135 communes	1.0	18.0
Rural	2.9	35.3
Urban	27.4	66.1
Red river delta	15.1	52.9
Midlands and northern mountains	3.4	34.5
Northern and coastal central	7.0	39.9
Central highlands	5.5	38.6
Southeast	19.3	67.2
Mekong Delta	6.5	35.4

Source: Authors' calculations from VHLSS 2010, 2018.

**Table 20: Household's participation in commune planning by ethnicity, 2018**

	Ethnic Minorities			Kinh		
	Aware	Invited	Participated	Aware	Invited	Participated
Identify investment priorities	61.1	54.8	44.1	59.9	53.5	44.2
Propose investment plan/projects	43.0	37.3	28.4	53.8	45.4	35.3
Discuss implementation details	31.6	26.4	18.8	41.1	33.3	25.2
Discuss land recovery and compensation	29.4	25.3	18.3	41.8	32.0	22.5
Community project supervision	26.1	21.9	15.4	35.3	28.0	20.5

Source: NTP Baseline Survey Report (IPSARD, 2019)





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