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Abbreviations

CCFSC	The Central Committee for Flood and Storm Control
CEMMA	Committee for Ethnic Minority and Mountainous Areas
CIE	Centre for International Economics
CRES	Natural Resources and Environmental Studies
DFID	Department for International Development, UK
DPC	Disaster Preparedness Centers
GDLA	General Department for Land Administration
GSO	General Statistics Office
HEPR	Hunger Eradication and Poverty Reduction
IEC	Information, Education and Communication
IDG	International Development Goals
IFRC	International Federation of Red Cross and Red Crescent Societies
IRRI	International Rice Research Institute
MMR	Maternal Mortality Rate
MOF	Ministry of Finance
MOLISA	Ministry of Labor, Invalids and Social Affairs
MRDP	Vietnam-Sweden Mountain Rural Development Program
MPDF	Mekong Project Development Facility
NEA	National Environmental Agency
NCFAW	National Committee for the Advancement of Women
PCF	People's Credit Fund
PPA	Participatory Poverty Assessment
ROSCA	Rotating Savings and Credit Associations
RTCCD	Research Training Center for Community Development
SIDA	Swedish International Development Agency
SOE	State-Owned Enterprise
TFR	Total Fertility Rate
VBARD	Vietnam Bank for Agriculture and Rural Development
VBP	Vietnam Bank for the Poor
VLSS	Vietnam Living Standard Survey
VNCIDNDR	Vietnam National Committee for the International Decade for Natural Disaster Reduction.
VNRC	Vietnam Red Cross

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PREFACE

This report has been produced by the Poverty Working Group – a coalition of government agencies, donors and NGOs working towards the eradication of poverty in Vietnam. It is the intention of the Poverty Working Group that this report should present the critical issues in attacking poverty and so generate policy debate on the way forward over the coming years. The report, therefore, does not conclude with policy prescriptions but raises questions which the Group hopes will be discussed widely, between all parties involved in the economic and social development of Vietnam. The Poverty Working Group has been concerned to make this report as participative as possible, both in terms of the information used as background material and in terms of the process followed.

The report which follows draws heavily and importantly on the lives of poor households in Vietnam. Part of the basis for the information presented comes from the two nationally representative Vietnam Living Standards Survey carried out by the General Statistics Office (GSO) in 1993 and in 1998. These surveys have been funded by UNDP and SIDA (Sweden), with technical assistance provided by the World Bank. The solid information provided from this source is also augmented by in-depth participatory poverty assessments (PPAs) which draw in a further 1000 households. The Vietnam-Sweden Mountain Rural Development Program (MRDP) has a long history of operation in the northern uplands and is currently working with ethnic minority and Kinh households in five mountainous provinces in the northern uplands. The Lao Cai PPA presents the concerns and priorities of poor people from this region. Action Aid Vietnam has been working in Ha Tinh since 1994 and their PPA provides insights from this poorly-endowed, drought-prone area. Oxfam GB has been working in the ethnically-mixed Mekong Delta since 1994 and has been able to bring perspectives of the poor from a region which is generally thought to have less intense problems of poverty. The PPA in Ho Chi Minh City covers the lives of the urban poor which includes poor migrants without permanent registration in Ho Chi Minh City. Save the Children Fund (UK), who has worked with vulnerable groups in HCMC since 1992, carried out this research. In each of the research sites, local authorities have been actively involved and hundreds of people and many different agencies, governmental and non-governmental, from village-level to Ministry-level, have participated in workshops to disseminate and discuss the findings. In every case, District and Provincial authorities have agreed that these studies reflect the realities of poor people's lives.

Far from representing the views of a handful of authors, this report is a product of numerous interviews, discussions and meetings. DIFD (UK) has provided valuable assistance in supporting this participative process. The draft has been distributed in Vietnamese and English, circulated widely and the main points debated vigorously. This report represents a serious effort to build some consensus from these debates. The next important phase of this work will involve taking the issues raised here forward and developing and implementing a comprehensive poverty reduction strategy for Vietnam.

Acknowledgements

The Vietnam Development Report 2000 on “**Attacking Poverty**” was prepared by a joint Government-donor-NGO working group, with contributions from several other people. Throughout the process, the group worked very closely with Dr. Nguyen Van Tien, Deputy General Director of the General Statistics Office (GSO) and his team, and Dr. Nguyen Hai Huu, Director of the Social Protection Department, MOLISA, and Director of the Secretariat to Vietnam’s Hunger Eradication and Poverty Reduction (HEPR) Program, and his team and we are grateful to them for their support. We are also very grateful to the People’s Committees and other officials of Lao Cai Province, Ha Tinh Province, Ho Chi Minh City, and Tra Vinh Province for their interest and cooperation in carrying out the four Participatory Poverty Assessments in those places. And we would also like to thank Mr. Andrew Steer (Director, Vietnam Program, World Bank), Mr. Homi Kharas (Director, Poverty Reduction and Economic Management, East Asia and Pacific Region, World Bank), Mr. Ravi Kanbur (Director, World Development Report 2000/2001), and Mr. Mike Walton (Director, Poverty Reduction Board, World Bank) for providing ideas and inspiration during the preparation of this Report.

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EXECUTIVE SUMMARY

OVERVIEW

1. Vietnam has made considerable progress in reducing poverty during 1993-98 and yet, poverty remains widespread and deep and much remains to be done in the next five to ten years. Chapters 1 and 2 highlight the multi-dimensional nature of poverty in Vietnam, extending from low levels of incomes and consumption, to poor health and lack of education, and to other “non-material” dimensions of well-being, including gender gaps, insecurity, powerlessness and social exclusion. Chapters 3, 4, and 5 lay out three broad imperatives in the fight against poverty:

- First, **opportunities** for employment and productivity growth must be created, so that incomes rise and the poor are able to grow out of poverty;
- Second, measures must be put in place to ensure that growth and access to services is **fair and equitable**, so that all citizens benefit from the fruits of development;
- Third, special care must be taken to reduce the **vulnerability** of the poor to unforeseen events (sickness, poor harvests, loss of breadwinner, etc.).

2. Combined, these three elements define development policy. Every country should be able to articulate a clear strategy for each of these three elements as it seeks to improve the wellbeing of its citizens. Chapters 3-5 describe how the Government of Vietnam is seeking to clarify its own strategy in each of these areas.

3. These three imperatives also need to guide sectoral and economic policymaking. In allocating public resources among competing uses, and in establishing laws, regulations and incentives, it is the impact on human wellbeing (and especially that of the poor) that needs to drive decisions. For each sectoral and economic program, therefore, it is important to be able to explain how the design of the program contributes to creating opportunity, ensuring equity, and reducing vulnerability. Chapter 6 makes an attempt to point in the direction towards how such an exercise might be undertaken, and recommends that this be undertaken (with the assistance of the national and international development community) as part of the Government’s medium-term planning exercise.

TRENDS AND PATTERNS IN POVERTY REDUCTION (CHAPTER 1)

Box 1: At a glance

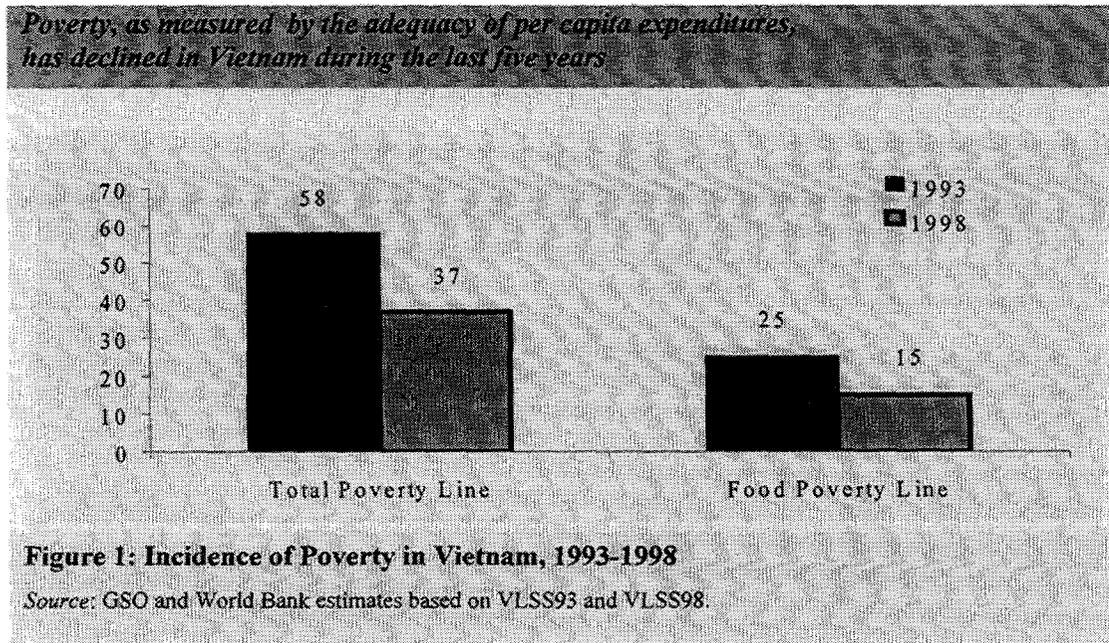
Poverty Reduction in Vietnam

- Poverty, however measured, has declined in Vietnam during the last five years. This is represented quantitatively by rising per capita expenditures and improving social indicators and is also reflected by the perceptions of poor households that overall wellbeing has improved over the last five years.
- Poverty remains a largely rural phenomenon, with 45% of the rural population living below the poverty line.
- Although the incidence of poverty in urban areas is less than 10%, pockets of severe poverty persist in urban areas. Poor migrant groups may not be fully captured in the statistics. Urban poverty appears to be a particularly complex phenomenon.
- The gains in poverty reduction have been widespread. Poverty has declined in all seven regions of Vietnam, though the rate of decline and incidence of poverty varies greatly across regions
- The Northern Uplands, Central Highlands and North Central Coast are the three poorest regions. Poverty gap measures further suggest that poverty is deeper in the upland regions. The South East region, which include Ho Chi Minh City, is the wealthiest region by a considerable margin.
- Three regions account for almost 70% of Vietnam's poverty: Northern Uplands (28%); Mekong Delta (21%); and the North Central Coast (18%).
- The most dramatic reduction in poverty has occurred in the Red River Delta. The Mekong Delta, conversely, shows the smallest improvement.
- The dramatic gains in poverty reduction in Vietnam during the last five years remain quite fragile. Poverty estimates are very sensitive to the exact positioning of the poverty line and the incidence of poverty might best be described as lying somewhere in the range between 30-45%.

Poverty, however measured, has declined in Vietnam during 1993-98

4. It is estimated that in the mid-1980's, seven out of every ten Vietnamese were living in poverty. A little more than a decade later – a decade of rapid economic growth – the incidence of poverty has halved. There have been very striking reductions in the incidence of poverty in Vietnam during 1993-98. This is reflected in rising per capita expenditure and in widespread reports of improvements in broad wellbeing. The proportion of people with per capita expenditures under the total poverty line has dropped dramatically from 58 percent in 1993 to 37 percent in 1998 (Figure 1). The number of people below a “food poverty line”, which is lower, has also declined from 25 percent to 15 percent, indicating that even the very poorest segments

of the population have experienced improvements in their living standards during 1993-98. While poverty incidence is still quite high in Vietnam, these declines in poverty and food poverty over a period of only five years are very impressive. In recent years, almost no other country has recorded such a sharp decline in poverty in such a short period of time (the possible exceptions being China and Indonesia in the 1980s).



5. This report tracks trends in poverty, broadly defined, from 1993 to 1998, drawing heavily and importantly on the lives of poor households in Vietnam. The trends presented are extracted from two main sources. Quantitative data comes from the two Vietnam Living Standards Surveys (VLSS) carried out by the General Statistics Office (GSO) in 1992/93 and again in 1997/98. This quantitative information is augmented by in-depth participatory poverty assessments (PPAs) in four provinces of Vietnam—Lao Cai (by Vietnam-Sweden Mountain Rural Development Program), Ha Tinh (by Action Aid Vietnam), Ho Chi Minh City (by Save the Children, UK) and Tra Vinh (by Oxfam, GB).

The gains in poverty reduction have been broad and widespread

6. The big gains for poverty reduction have come from growth of per capita expenditures, which have increased on average by 41 percent during 1993-98. The achievements, however, are not limited to rising per capita expenditures. All indicators of human development, infrastructure access, and ownership of consumer durables confirm the story of a rise in living standards between 1993 and 1998:

- Primary school enrollment rates were already high for both girls and boys, but have improved further—they have increased from 87% to 91% for girls and from 86% to 92% for boys;
- Lower secondary enrollment rates have doubled for both girls and boys, and are now at 61 for girls and 62 for boys. The number of children enrolled in lower

secondary school dipped to a low of 2.7 million in 1990, but this has now climbed to 5 million;

- Upper secondary enrollment rates have increased dramatically for both girls and boys—they have gone up from 6% to 27% for girls and from 8% to 30% for boys. 1.6 million children were enrolled in upper secondary school in 1998, reversing the downturn in enrollments seen in the late 1980's and early 1990's (World Bank, 1995);
- Malnutrition amongst boys and girls below the age of 5 years remains high, but has declined from about half the population to a third;
- Access to infrastructure—such as public health centers, clean water, and electricity—have all increased;
- Ownership of consumer durables—such as radios, television, and bicycles—have also all gone up. In 1998, 47% of households own a radio, 58% own a television, and 76% own a bicycle.

7. Research also suggests that there have been benefits in less tangible dimensions of poverty. Households report a greater sense of control over their livelihoods, reduced stress, fewer domestic and community disputes and express optimism that life will continue to get easier in the future.

8. These improvements in the material and non-material aspects of well-being are not limited to a few. The gains have been widespread—all regions and all groups have benefited, albeit at different rates. Both the incidence and depth of poverty has declined in rural and urban areas and in all seven geographic regions of Vietnam. However, while the Report conveys the message that poverty has declined during 1993-98, it also conveys another message—that poverty still remains very high and that almost 40 percent of the population lived below the poverty line in 1998.

But the gains in poverty reduction remain fragile

9. A note of caution, however, is needed in interpreting the gains in poverty reduction (Figure 2). Poverty measurement is not an exact science. In the case of Vietnam, poverty estimates are very sensitive to the exact positioning of the poverty line because much of the population lives in households with per capita expenditures that are close to the poverty line. Sensitivity analysis (in this case, adjusting the poverty line upwards and downwards by 10%) suggests that rather than thinking of the incidence of poverty as one simple number, the incidence of poverty might best be described as lying somewhere in the range between 30-45%. The diagram shows, secondly, that the dramatic gains in poverty reduction in Vietnam during the last five years remain quite fragile. Because many individuals were positioned close to the poverty line in 1993, modest improvements have been sufficient to pull them over the poverty line so that they are now bunched *just above* the poverty. It follows, therefore, that a relatively small deterioration in living standards would be sufficient to push them below the poverty line again.

Poverty estimates are very sensitive to the exact positioning of the poverty line

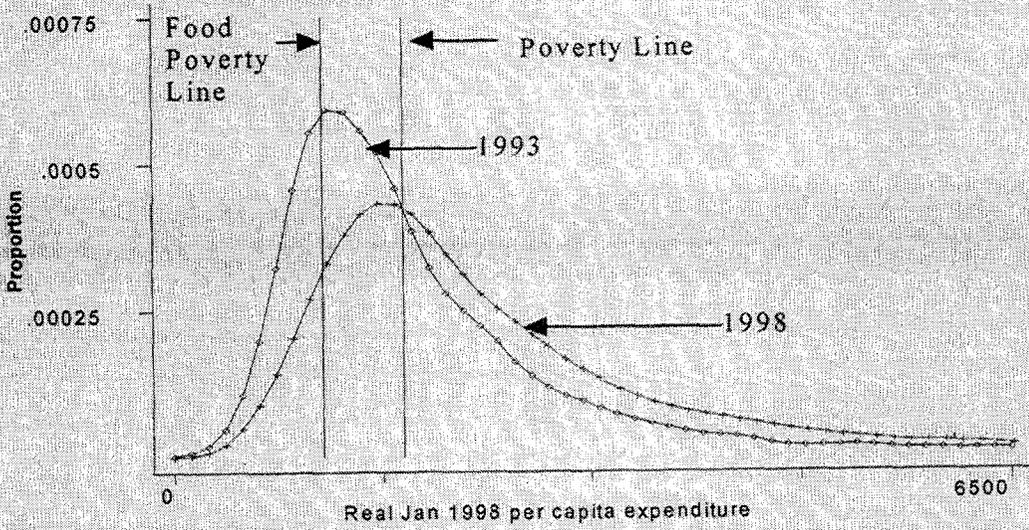


Figure 2: Distribution of Per Capita Expenditures, VLSS93 and VLSS98

KEY CHARACTERISTICS OF POOR HOUSEHOLDS (CHAPTER 2)

Box 2: At a glance:

Key Characteristics of Poor Households

- The poor are predominantly farmers with low levels of educational attainment and limited access to information and functional skills. In 1998, nearly four-fifth of the poor worked mainly in agriculture.
- Poor households have small landholdings and landlessness is becoming more widespread, especially in the Mekong Delta. Households who are unable to make a living from the land find few opportunities for stable income generation off the farm. There is an urgent need for reforms which will stimulate greater off-farm employment.
- Households with many children or few laborers are disproportionately poor and are particularly vulnerable to high and variable health and education costs. Newly-formed households go through an initial phase of poverty, aggravated by limited access to land. Poor households are also frequently caught in a debt trap.
- Poor households are vulnerable to seasonal hardship and household-specific and community-wide shocks. Poor households may be socially and physically isolated.
- Poverty among ethnic minority groups has declined, but not as rapidly as for the majority population. Ethnic minorities face many specific disadvantages which should be addressed through an Ethnic Minority Development Program.
- Migrants to urban areas who are poor and who have not secured permanent registration face difficulties in accessing public services and may also be socially marginalized. Further work is needed in identifying the best way to help these groups.
- Children are over-represented in the poor population. Poor children are less able to attend school and are trapped in a cycle of inherited poverty and feel particularly insecure.

The incidence of poverty is higher in certain regions, and certain groups remain vulnerable

10. Poverty in Vietnam is largely a rural phenomenon and about 90 percent of the poor live in rural areas. The incidence of poverty is higher in rural areas (45 percent) than in urban ones (10-15 percent depending upon what estimate of unregistered migrants in poverty is used) and so is the depth of poverty. Among the regions, poverty is clearly higher and deeper in the uplands regions of the Northern Mountains and the Central Highlands. Vietnam needs to develop a strategy for promoting growth and reducing poverty in these upland regions.

11. The main characteristics of the poor in Vietnam—that they are farmers, they have relatively low levels of educational attainment, they have a relatively large number of children, they have less access to material resources such as land, and less access to social and physical infrastructure—are common characteristics of the poor in many developing countries. In addition, in Vietnam, the PPAs highlighted three groups of particularly vulnerable households which warrant attention: ethnic minority groups, unregistered migrants in urban areas, and children.

12. Despite active Government support and investment, certain ethnic minority groups face many specific disadvantages, which are underscored by physical and cultural isolation. These disadvantages are reflected in the slow rate of decline of material poverty for ethnic minority

groups, which indicates that, certainly in economic terms, ethnic minority groups are now lagging some way behind the majority population. Although accounting for only 14% of the population, ethnic minority groups accounted for 29% of the poor in 1998. They live in the upland regions of Vietnam which, as discussed above, are the poorest regions in Vietnam. Developing and implementing a comprehensive strategy for reducing poverty amongst ethnic minority groups that deals with, among other things, issues of access to improved income-earning opportunities, to physical infrastructure, and to basic social services, is critically needed to prevent these groups from falling further behind.

13. Urban poverty was found in the research to be a particularly harsh and complex phenomenon. While it is not limited to migrants--indeed most of the migrants to urban areas fare well and add to the prosperity of urban areas--the plight of a particular group of poor migrants was highlighted by the PPAs. These are migrants to urban areas who have not secured permanent registration. The PPAs found that this group of the urban poor face difficulties in accessing public services and may also be socially marginalized. These migrants are probably not fully captured in the poverty statistics, with the result that urban poverty estimates may be underestimated by as much as five percentage points, so that urban poverty could be in the range of 10-15 percent. Migration is only likely to increase in the future as urbanization occurs and indeed, for some, it might be the only way out of poverty. The Government needs to develop a policy on migration so that migrants can also have access to government services and are not trapped into poverty in the future.

14. Children form a higher proportion of the poor than their share of the population as a whole. The research suggests that children are particularly vulnerable in poverty situations: poor children are less able to attend school and are trapped in a cycle of inherited poverty. Child labor is commonly used to help keep poor households afloat and is often relied upon during times of hardship. The Government needs to revisit its policy of financing basic social services, such as basic education and health so that the burden on the poor of financing such services for their children is reduced. Greater efforts also need to be made to reduce malnutrition among children. In the context of the upcoming Public Expenditure Review, the Government can design a pattern of public spending that is more pro-poor and more child friendly. This need not necessarily require more public expenditures--it may just be an issue of targeting existing expenditures better on the poor.

CREATING OPPORTUNITY (CHAPTER 3)

The gains in poverty reduction have been largely due to rapid growth and agricultural diversification

15. Labor is commonly regarded as the poor's most abundant asset. In order to raise the living standards of the able-bodied poor, it is essential to provide them with the opportunities for productive and remunerative employment. Chapter 3 examines the contribution that growing employment and income generating opportunities have made to raising living standards in Vietnam. Since 80 percent of the poor are farmers, what happens to agriculture still dominates the effects on the lives of the poor.

16. Improvements in rural living standards during 1993-98 have been driven predominantly by a diversification of on-farm activities. To date, this diversification has been most dramatic within the agricultural sector, where average household incomes have grown by 60 percent in the five years to 1998. The Vietnamese rural non-farm sector has grown much more slowly than the agricultural sector, but incomes from non-farm self employment have still grown at 30 percent during these five years. Further liberalization of the production and trade of farm inputs and agricultural products, removal of the constraints (both actual and perceived) to the development of rural non-farm enterprises, and a reform of rural banking are essential if the dynamism of the rural sector is to continue.

17. In urban areas, living standards have risen faster than in rural areas, but the opportunities provided by economic growth have been less evenly distributed. The industrial state sector has grown rapidly, but created relatively few jobs as it remains dominated by capital-intensive industries. A dynamic private light manufacturing sector had been emerging rapidly prior to the onset of the East Asian crisis, with wage employment in the sector growing, albeit from a tiny base, by 50 percent per annum in the five years after 1993.

18. Looking to the future, the rural sector will continue to dominate employment in Vietnam over the short to medium term. Therefore, employment and income growth in agriculture, off-farm enterprises, and services in rural areas will continue to be critical for rapid poverty reduction in the future. However, gains in poverty reduction may not be as easy as they have been in the last five years. Landlessness appears to be a growing problem for some and scarcity of land is already appearing as a major issue for others. With some of the easy gains from the transition to a market economy now exhausted, Vietnam must focus on improving both the productivity of its existing cropland and providing opportunities for rural workers to diversify into other sectors (such as livestock and non-farm enterprises). Greater attention also needs to be paid to agricultural research and extension in upland and ethnic minority areas.

19. While the impact on poverty reduction of the nascent light industrial sector in urban areas has to date been limited (because of the small size of this sector), it is growing very rapidly and has the potential to play an increasingly important role in the future. This sector represents a significant opportunity for employment creation in the coming years. Vietnam's untapped export potential could represent around 25% of its current GDP and up to 1.6 million more jobs could be created in labor-intensive export manufacturing over the next three to five years. Getting both the infrastructure and policy environment right for Vietnam to capitalize on this untapped comparative advantage is another major challenge facing policy makers.

ENSURING EQUITY (CHAPTER 4)

The decline in poverty has been accompanied by a modest increase in inequality, largely due to the widening of rural-urban gaps

20. The promotion of "growth with equity" is a principle which is fundamental to the development path that Vietnam has chosen to follow. The reforms and the rapid growth which they have generated have led to very significant economic and social gains for nearly all groups in all regions. But growth has been more rapid and gains have been more substantial in some areas of the country than in other parts. Although Vietnam still remains a relatively equitable

society by international standards, the 1993-1998 period did record a modest increase in inequality with the Gini Coefficient rising from 0.33 to 0.35.

21. The force behind this growth in inequality comes largely from widening rural-urban gaps. During 1993-98, while rural incomes grew by 30 percent, urban incomes grew by twice as much (61 percent). This has led to the ratio of urban to rural expenditures increasing from 1.8 to 2.2. What is noteworthy, however, is that this period, which followed some very significant policy changes in Vietnam—including distribution of land use back to farming households and liberalization of input and product markets—has seen no increase in inequality *within* rural areas. In fact, inequality *within* rural areas has actually declined somewhat during this period. While concern has been raised that the policy reforms initiated in agriculture would lead to rising inequalities, there is no evidence to indicate that this is the case.

22. There has also been some increase in inequality between the seven regions of Vietnam. Regions have grown at different rates: the fastest growing region has been the South East, which has been dominated by the fortunes of Ho Chi Minh City, and has grown by a spectacular 78 percent during 1993-98. In contrast, the slowest growing region has been the neighboring region of the Mekong Delta, which grew by only 18 percent during the same period. However, the Mekong Delta was starting with a relatively higher base level of expenditures, and despite this poor performance during the last five years, its levels of expenditures are still higher than those of several other regions. The poorest region was and remains the Northern Mountains region and the richest region was and remains the Southeast. Since expenditures in the Northern Mountains Region grew by only 31 percent as compared with a 78 percent expenditure increase in the Southeast, the gap between the poorest and the richest region of Vietnam has widened. The ratio of expenditures in the Southeast to those in the Northern Mountains has gone up from 1.9 to 2.6.

23. This decomposition of inequality is important for policy reasons. The Government of Vietnam has expressed concern about the widening rural-urban gap and has reoriented its development strategy to really focus on rural development. These findings reinforce the significance of rural development in a strategy for continued equitable growth in Vietnam. The findings also further underline the importance of effective targeting of resources towards regions experiencing slower growth and higher incidences of poverty. Improved poverty mapping combined with better skills at the local level for the diagnosis of problems and the identification of solutions will be necessary to counteract the imbalance between the regions. The targeted program to assist the 1715 Poorest Communes shows the Government's commitment to assisting areas with special difficulties.

Gender equality remains an issue-while gains have been made in some areas, further actions are required in other, less visible areas

24. Chapter 4 also examines inequality at the household level. Gender analyses show inequality in the distribution of power within the household and highlights many problems which are specific to women. These problems include limited decision-making power within the household, extremely heavy workburdens, domestic violence, health problems, limited representation in institutions, limited access to education for some ethnic minority women, and unequal access to productive assets, such as land and credit. These problems will need to be addressed in the context of the preparation of the next National Action Plan for the Advancement

of Women in Vietnam for the period 2000-2005 that is currently underway. What will be required is strong leadership at the top levels to change attitudes about existing gender roles and relations.

Increased participation of the poor in policymaking would help make public policies and programs more pro-poor

25. Chapter 4 also examines how issues of governance and equity are linked. The Report highlights the importance of information and social connections and networks in the access to resources. The poor are less likely to be informed about Government policies and programs and this prevents them from benefiting fully from them. They are also less likely to be able to feed their concerns, ideas and priorities into the design of such programs. The research suggests the importance of improving this two-way flow of information so as to maximize the impact of government policies and programs on poverty reduction.

The Government's Grassroots Democracy Decree is an exciting initiative for improving governance at local levels

26. The Report finds that although there are mechanisms in place to feed information on Government's policies, plans and decisions down to the village level, or back up to higher levels from the village level, they do not always function well. In many cases, the processes which are in place are not allowing the poor households, or the quieter members within households, to communicate their concerns and priorities back up through the system. In the announcement of Decree 29 on Grassroots Democracy, the Government has recognized the importance of involving households fully in decisions which affect their lives and of making local governments more transparent and accountable. This is an exciting initiative which has the potential for mainstreaming the participation of poor and disadvantaged people in decision-making processes and of improving governance in Vietnam.

REDUCING VULNERABILITY (CHAPTER 5)

The poor remain extremely vulnerable to a variety of shocks

27. Poor households' livelihoods are extremely vulnerable to both household-specific and community-wide shocks. The fragility of the economic base of rural households means that these shocks are thoroughly destabilizing and can take many years before recovery is consolidated. Many households above the poverty line are not *much* over the poverty line and downward fluctuations in income or sudden demands for expenditure can easily lead to a slide into poverty.

28. Health shocks, which entail the loss of labor resources and significant costs for curative care and associated expenditure, are very commonly mentioned as a reason for a household's slide into poverty. Reducing the direct and indirect costs of curative health care for poor households could constitute an important safety net. The costs of treating illnesses is relatively a much greater burden for the poor. A single curative visit to a public hospital can cost a person in the poorest quintile the equivalent of 22 percent of his/her annual nonfood expenditure. Alleviating the impact of user charges on the poor requires much more than simply exempting the social categories of the disabled, victims of war, orphans and the indigent from payment of user fees. The evidence indicates that these exemptions are not offered adequately enough by

public health facilities to the poor. Greater efforts will need to be made to provide adequate health care for the poor.

29. The risk of failure associated with on-farm investments can deter households from expanding their economic base in such a way as would improve their resilience to shocks. A narrow income base intensifies the problem, making a household less able to manage risks and so more likely to encounter difficulties. Agricultural extension and veterinary services, which could help reduce the risk of on-farm investments, do not currently reach the poor systematically. This is particularly the case in the upland areas which suffer particular problems of accessibility. Some also argue that options for sustainable upland agriculture have been under-researched, with greater emphasis and resources in agricultural research directed towards paddy farming systems.

Public safety nets and Government poverty programs are small and weakly targeted

30. Formal safety nets have low coverage and are only weakly targeted. As a result, households have to draw largely on their own resources to deal with crises and they fall back on a number of community or household level strategies to cope with the crises. The choice of strategy may determine to a large extent the speed and sustainability of a household's recovery from a shock. The expansion of facilities for cash savings could offer poor households an important mechanism for managing seasonal hardship and unexpected shocks. The formal financial sector is underdeveloped in this regard and providing mechanisms for savings to the poor remains an important priority.

31. The Government's National Target Program for Hunger Eradication and Poverty Reduction (HEPR), established in 1998 under Decree 133, provides a framework to address some of the most pressing needs of poor households. The framework incorporates many ongoing Government services and programs which are of benefit to the poor. The main focus to date, however, has been on the provision of subsidized credit and, more recently, health cost exemptions and school fee exemptions. A number of factors seem to constrain the access of the very poor to these benefits. And many of these programs have not been evaluated and their impact on poverty reduction is not clearly understood. Improved coverage and targeting of the HEPR program, and broadening it from providing credit alone, will be needed. Better coordination of the many different agencies and ministries that are responsible for poverty reduction policies and for the many different poverty reduction programs is also needed. And efforts need to be stepped up to improve the short-term monitoring of poverty so that faster action can be taken to reach the poor during times of hardship.

MOVING TOWARDS A COMPREHENSIVE POVERTY REDUCTION STRATEGY (CHAPTER 6)

32. Chapter 6 presents a framework for bringing these elements to the heart of development planning for the coming years. The time is right for the Government of Vietnam to put poverty reduction at the center of its policies and programs for the next decade and longer. The Government has just embarked upon a planning exercise from now until the end of the year 2000 to formulate the next Five Year plan for the years 2001-2005. Furthermore, in preparation for the Ninth Party Congress to be held in the year 2001, the Authorities will be reviewing the long-term prospects of the country. A new 10 year Socio-Economic Development strategy for Vietnam to

the year 2010 will be prepared, and this will be embedded within a longer-term vision up to the year 2020. These plans for Vietnam could become instruments for putting Vietnam on a path of development that is equitable and sustainable and one which continues to give it the kind of success in poverty reduction that it has seen in the last five years.

Five broad sectoral areas will require attention from policymakers

33. Chapter 6 groups the areas requiring attention from policy-makers into five broad categories:

- Human and social development;
- Physical infrastructure;
- Economic management;
- Regional (rural and urban) development;
- Good governance.

34. The Government has clearly recognized that continued poverty reduction will require firm actions in each of these broad areas, and in the many sub-components of them. But a balanced attack across all fronts does not imply that everything can be done at once. What is needed to prioritize actions is an identification of the bottlenecks—the hard to solve problems that are impediments to success—and to begin by attacking these first. And to ensure that the priorities that emerge reflect the concerns of the poor, they need to be engaged through a participatory planning process.

35. How can Vietnamese policymakers come up with the right package of policies and programs that will combine what is essential in the five broad areas to maximize the impact on poverty reduction? These are not easy choices and there is no one correct way of making these decisions. One approach would be set some overall targets for poverty reduction and to design a program of action that is necessary to achieve these targets. As part of its Five Year Planning process, Vietnam sets economic, social and environmental goals for itself. As part of the preparation of the next Five Year Plan, a detailed evaluation is undertaken of the successes and failures of the previous Plan and revised targets are set for the coming period. These targets are then monitored closely during the period of implementation of the Five Year Plan.

The level and pattern of growth in the future will determine the pace of poverty reduction

36. If, for example, Vietnam was to adopt one of the International Development Goals—that of reducing poverty by half by the year 2015—could it attain this goal? Whether or not Vietnam can replicate its past success at poverty reduction during the next 15 years will depend critically on two factors:

- The *level of growth* it can attain during the next 15 years; and
- The *pattern of growth* (equitable or inequitable) it can attain during the next 15 years.

37. The importance of economic growth for raising the living standards of the poor in Vietnam cannot be overestimated. But both the level of growth and its pattern (or how the benefits of growth have been distributed) matter for poverty reduction. We can decompose the poverty reduction in Vietnam into two components: one for economic growth and one for distributional changes. The results for Vietnam show that poverty has declined substantially in Vietnam due to the high growth of the 1993-98 period, and despite the rise in inequality that occurred during this period. If inequality had not increased, Vietnam would have been able to reduce poverty by another 8 percentage points: i.e., poverty could have come down from 58 percent to around 30 percent instead of 37 percent. Vietnam's pattern of growth and poverty reduction during 1993-98 is different from the patterns observed in Malaysia (1973-89), Indonesia (1978-84) and the Philippines (1991-94), where the growth and redistributive effects reinforced each other and led to an even stronger impact on poverty reduction.

38. Two factors underlie Vietnam's success in reducing poverty during 1993-98: the high growth rate of this period; and the high impact of this growth on poverty. As a result, despite the rise in inequality, Vietnam was able to get a big bang for its growth in terms of poverty reduction. But both these factors are now under threat. During the crisis years of 1998 and 1999, Vietnam's growth rate has already fallen by half (to around 4 percent). And in the future, the past relationship between the level of growth and the impact on poverty might not hold, as Vietnam might not be able to replicate the land-based, agricultural diversification success story of the last five year period, which is now reaching its constraints. Hence, the sources of growth are likely to be different in the next five years as compared with the last five. Greater reliance will need to be placed on two other areas of growth in the future: rural off-farm employment and urban employment. But for both these, accelerated and urgent reforms are necessary on a broad range of structural issues.

Economic reforms will be essential for growth and poverty reduction

39. Continued progress in poverty reduction will, of course, require sound economic management. This involves the promotion of increased domestic savings and foreign capital inflows. It will also require that these savings are channeled towards investments that will maximize employment growth and poverty reduction. The Government has recognized that a number of special issues will need to be addressed if growth is to be restored and greater opportunities provided for Vietnam's citizens to obtain productive jobs. Some of the key issues that the Government will need to consider are:

(i) How to improve the climate for enterprise so that more jobs can be created?

(ii) How to provide better financial services and to have a healthy banking system?

(iii) How to address and mitigate the social costs of policy change?

40. There is currently too little recognition as to why the reform measures are essential for restoring growth and reducing poverty. But there is a strong link between the nature and pace of reforms, the level and pattern of growth, and the poverty reduction that has been achieved during the 1993-98 period. As discussed earlier, in the five years prior to the East Asia crisis, Vietnam was able to achieve growth rates of around 8 percent per annum. These high growth rates, and the resulting gains in poverty reduction, were driven by the doi moi reforms undertaken during

the late 1980s/early 1990s. Key elements of the reform program included sound macroeconomic management, combined with dramatic reforms in the agricultural sector. They also included the first steps towards integration into the international economy, towards making the state-enterprise sector more viable, and towards having a sustainable banking and financial system.

41. A new phase of reforms is now needed to restore the momentum of growth and to improve the quality of development. These economic reforms are necessary not just for creating opportunities for higher employment and income growth, but also to address issues of equity and vulnerability. The access of the poor to financial services—both credit and savings—is constrained under the present financial system. If credit constraints prevent the poor from availing some of the new opportunities that are being created, future growth in Vietnam is likely to be less pro-poor and less equitable. Similarly, lack of access to financial savings instruments exacerbates the vulnerability of the poor and makes them less able to cope with shocks. It can also trap them in a vicious circle of poverty if they resort to selling off other assets like land or livestock to cope with the shocks.

Vietnam's development partners can assist in designing and implementing a comprehensive poverty reduction strategy

42. This report has been produced by a Poverty Working Group with representatives from eight Government agencies and mass organizations, three international NGOs (working in partnership with local government officials, local NGOs and research organizations), one government-donor project, and four multilateral and bilateral donors. It has also involved provincial authorities in four provinces—Lao Cai, Ha Tinh, Tra Vinh and Ho Chi Minh City. It is an example of what an effective partnership can accomplish. The process of producing this report has led to a shared perspective among the members of the working group on the nature and causes of poverty in Vietnam. For example, by working together, there has been a better understanding—and a shared concern—between the authorities, the international agencies, and the NGOs on complex and sensitive issues such as ethnic minorities, unregistered urban migrants, and gender relations. By working together, GSO and the World Bank have been able to adopt a common methodology for measuring poverty and now have a common poverty line and a common set of poverty estimates that they can both use to track changes in poverty and help design anti-poverty policies.

43. While the process of working on this Report has led to a shared perspective on the nature of poverty-related problems and their causes, there has yet to emerge a shared view on the strategy needed to move forward. While commonalities exist in many areas, in some areas there are significant differences in opinion between the Government of Vietnam and its development partners. For example, one area where they differ is the appropriate role of the Government versus households themselves in financing basic social services. The Government believes that self-reliance is important and that co-financing of these services is essential to reduce dependency. It chooses to assist the poor primarily through subsidized credit. The donors and NGOs believe that a better way to assist the poor would be to channel state subsidies through basic social services and to allow credit to be provided at market rates to ensure an efficient use of scarce resources.

44. This report raises a numbers of other, more specific, questions and issues which will also demand more research and discussion before consensus can be reached on solutions. Important topics which have been raised but left unresolved in the process of producing this poverty assessment include:

- How can agricultural productivity be raised? What role does rice policy have to play in Vietnam's future growth and poverty reduction strategy? What can be done to promote the further diversification of agriculture?
- How can the off-farm rural sector be stimulated to provide the employment and income-generating opportunities which the rural population will increasingly need?
- What is needed to make urban planning more pro-poor and growing cities more "livable"? What changes are needed to allow migrants to contribute more to the prosperity of cities and how can their basic needs be better protected?
- What is the role of targeting versus broad-based growth in a poverty reduction strategy for Vietnam? What is the right balance between the two in terms of resource allocation/policy emphasis?
- What can be done to help the upland regions – and their ethnic minority population – catch up with the rest of the country so that the poverty-reducing effects of growth are spread more evenly?
- How can basic social services be made more affordable to the poor? Can the severe financial burden of ill-health be lifted? Can existing social safety-net expenditures be more effectively targeted towards the poor?
- What is the Government's role in addressing equity issues at an intra-household level? How can these issues be tackled most effectively? Who else can play a role in addressing these issues?
- What help does the Government need to implement the Grassroots Democracy Decree so that local decision-making processes can be made more participatory and transparent and local authorities can be made more accountable?
- What institutional arrangements might improve the Government's capacity to develop and monitor policies for poverty alleviation? What is needed to improve coordination across Ministries and agencies involved in anti-poverty programming? How could short-term poverty monitoring be improved?
- What has been the impact of some of the major components of the HEPR Program which have been operating for some years? How can their impact on poverty reduction be enhanced?

45. More progress will need to be made during the coming year in these and other areas—through joint work in many areas such as public expenditure reviews, banking reform, and through further research. The task now is to arrive at a common approach to these issues and to a common poverty reduction strategy for Vietnam during the next year as the next Five Year plan is finalized by the end of the year 2000.

PART I

ANALYSIS OF POVERTY

The first part of this report explores new information on poverty provided by the 1998 Vietnam Living Standards Survey and by four Participatory Poverty Assessments. Chapter One examines trends in per capita expenditures and in social indicators and also presents trends in wellbeing as perceived and articulated by poor households. Chapter Two discusses the characteristics of poor households: who is still poor in Vietnam today?

CHAPTER 1

TRENDS AND PATTERNS OF POVERTY REDUCTION

AT A GLANCE:
POVERTY REDUCTION IN VIETNAM

- Poverty, however measured, has declined in Vietnam between 1993 and 1998. This is represented quantitatively by rising per capita expenditures and improving social indicators and is also reflected by the perceptions of poor households that overall wellbeing has improved over recent years. Rapid, economic growth lies at the heart of these achievements.
- Poverty remains a largely rural phenomenon, with 90 percent of the poor living in rural areas, and with 45 percent of the rural population living below the poverty line.
- Although the incidence of poverty in urban areas is less than 10 percent, pockets of severe poverty persist in urban areas. Poor migrant groups may not be fully captured in the statistics. Urban poverty appears to be a particularly complex phenomenon.
- The gains in poverty reduction have been widespread. Poverty has declined in all seven regions of Vietnam, though the rate of decline and incidence of poverty varies greatly across regions
- The Northern Uplands, Central Highlands and North Central Coast are the three poorest regions. Poverty gap measures further suggest that poverty is deeper in the upland regions. The South East region, which include Ho Chi Minh City, is the wealthiest region by a considerable margin.
- Three regions account for almost 70 percent of Vietnam's poverty: Northern Uplands (28 percent); Mekong Delta (21 percent); and the North Central Coast (18 percent).
- The most dramatic reduction in poverty has occurred in the Red River Delta. The Mekong Delta, conversely, shows the smallest improvement.
- The dramatic gains in poverty reduction in Vietnam between 1993 and 1998 remain quite fragile. Poverty estimates are very sensitive to the exact positioning of the poverty line and the incidence of poverty might best be described as lying somewhere in the range between 30-45 percent.

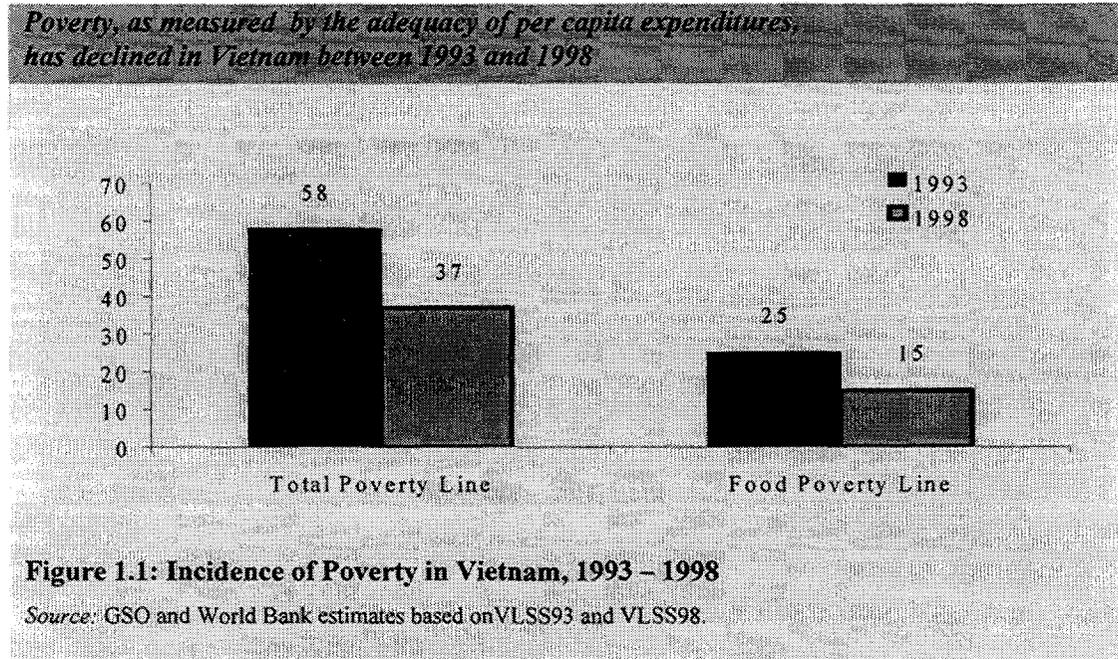
“Most people in Tra Vinh Province are better off than they were ten years ago. They have higher incomes, more savings, better nutrition and health, more government services and more of their children are attending school (and staying there longer). Even when remarking upon their personal problems, most respondents strongly confirmed these trends.... In addition, most people in Tra Vinh expect life to continue to get better”. Tra Vinh PPA, Oxfam GB (1999).

1. TRENDS IN POVERTY

1.1 Poverty has declined sharply in Vietnam between 1993 and 1998

1. There have been very striking reductions in the incidence of poverty in Vietnam over the last few years. This is reflected in rising per capita expenditure and in widespread reports of improvements in broad wellbeing. The proportion of people with per capita expenditures under the total poverty line has dropped dramatically from 58

percent in 1992/93 to 37 percent in 1997/98 (Figure 1.1)¹. The number of people below a “food poverty line”, which is lower, has also declined from 25 percent to 15 percent, indicating that even the very poorest segments of the population have experienced improvements in their living standards between 1993 and 1998.² While poverty incidence is still quite high in Vietnam, these declines in poverty and food poverty over a period of only five years are very impressive. In recent years, almost no other country has recorded such a sharp decline in poverty in such a short period of time (the possible exceptions being China and Indonesia in the 1980s).



2. These quantitative indicators of poverty have been based on data collected by the Government Statistical Office (GSO) in two household surveys carried out in 1993 and 1998 (Box 1.1).

¹ Data collection for the first Livings Standards Survey took place in 1992/93 between October 1992 and September 1993. For the second survey, data collection took place in 1997/98 between December 1997 and December 1998. For the purposes of this report, these surveys will be referred to as VLSS93 and VLSS98 and the survey years 1992/93 and 1997/98 will be referred to as 1993 and 1998.

² Indicators of the depth and severity of poverty also indicate an improvement in welfare. The Poverty Gap index, which measures the depth of poverty, has declined from 19% to 10% between 1993 and 1998. The Squared Poverty Gap, which measures the severity of poverty, has also declined over this period—from 8% to 4%. Calculation of the poverty gap measures is described in Annex 1.

The 1993 and 1998 Vietnam Living Standard Surveys provide a very rich source of data for poverty analysis

Box 1.1: The Vietnam Living Standard Surveys

Vietnam has an extremely rich household data set for the analysis of poverty and microeconomic issues in the form of the 1993 and 1998 Living Standards Surveys. These surveys were implemented by the General Statistical Office with funding from SIDA (Sweden) and UNDP, and technical assistance from the World Bank. These nationally representative sample surveys provide data on a wide range of topics, including: expenditures and incomes; education; health, fertility and nutrition; employment; migration; housing; agricultural activities; small household businesses, credit and savings. In addition to the household questionnaires, the surveys also included commune questionnaires (for rural areas only), price questionnaires and, for 1998, modules on school and health facilities. Some 4,800 households were included in the first VLSS and about 6000 households were covered in the most recent survey. Approximately, 4300 households were included in both the first and second survey, providing a large panel of households useful for analyzing how living standards have changed over time. DFID (UK) has provided assistance with the analysis of the 1998 VLSS.

3. The poverty rate figures presented in Figure 1.1 have been calculated using an internationally accepted methodology for defining poverty. They measure the number of people (the “headcount index”) below some poverty line that has been calculated on the basis of per capita expenditure. The two poverty lines used—the overall poverty line and the food poverty line—are presented in Table 1.1.

Expenditure needed to consume basic food and non-food necessities in Vietnam

Table 1.1: Poverty Line in Vietnam 1993 and 1998

	Annual Per Capita Expenditures	
	1993 (January 1993 '000 Dong)	1998 (January 1998 '000 Dong)
Food Poverty	750	1,287 (\$92)
Overall Poverty	1,160	1,790 (\$128)

Note: Expenditures include home-produced commodities.

Source: GSO and World Bank estimates based on VLSS93 and VLSS98

4. The poverty lines presented in Table 1.1 have been agreed by the GSO and World Bank as representing an appropriate threshold dividing poor households and non-poor households³. Households on the lower poverty line – the *food poverty line* – have per capita expenditures which allows them to consume 2100 calories per day, but with no allowance for essential non-food expenditures. Thus any non-food expenditure made by households on or below this poverty line is at the expense of an adequate nutritional intake. The poverty line that we refer to most frequently has an allowance for essential non-food consumption such as clothing and housing. Households on or above the *poverty line* therefore have per capita expenditures which are sufficient to cover

³ Full details on the poverty lines are given in Annex 2.

nutritional needs and basic non-food needs. This total poverty line has gone up from VND 1.2 million (\$83) in 1993 to VND 1.8 million (\$128) in 1998. The poverty lines have been calculated to take account of regional price differences and monthly price changes over the survey period.

1.2 Social indicators have improved between 1993 and 1998

5. These improvements in living standards as measured by household expenditures are strongly supported by other sources of information and data. Social indicators show improved access to health and education services. Qualitative information from the PPAs reinforce these findings by identifying a number non-economic improvements in the lives of poor households in recent years, such as the sense of control that households feel they have over their livelihoods. However poverty is defined and measured, the available information demonstrates improvements in living standards.

6. All indicators in Table 1.2 on human development, infrastructure access, and ownership of consumer durables confirm the story of a rise in living standards between 1993 and 1998.

- Primary school enrollment rates were already high for both girls and boys, but have improved further—they have increased from 87 percent to 91 percent for girls and from 86 percent to 92 percent for boys;
- Lower secondary enrollment rates have doubled for both girls and boys, and are now at 61 for girls and 62 for boys. The number of children enrolled in lower secondary school dipped to a low of 2.7 million in 1990, but this has now climbed to 5 million;
- Upper secondary enrollment rates have increased dramatically for both girls and boys—they have gone up from 6 to 27 percent for girls and from 8 to 30 percent for boys. 1.6 million children were enrolled in upper secondary school in 1998, reversing the downturn in enrollments seen in the late 1980's and early 1990's (World Bank, 1995);
- Malnutrition amongst boys and girls below the age of 5 years remains high in relation to other child health indicators, but has declined dramatically from about half the population to a third;
- Adult nutritional status has improved slightly, but 28 percent of adults remain either moderately or severely malnourished. Nutritional status is improving more rapidly for men than for women;
- Access to infrastructure—such as public health centers, clean water, and electricity—have all increased;
- Ownership of consumer durables—such as radios, television, and bicycles—have also all gone up. In 1998, 47 percent of households own a radio, 58 percent own a television, and 76 percent own a bicycle.

<i>Social indicators have improved between 1993 and 1998</i>		
Table 1.2: Social Indicators, 1993 – 1998		
Indicator	1993	1998
Human Development		
--Education		
Primary enrollment rate (net)		
Female	87.1	90.7
Male	86.3	92.1
Lower secondary enrollment rate (net)*		
Female	29.0	62.1
Male	31.2	61.3
Upper secondary enrollment rate (net)*		
Female	6.1	27.4
Male	8.4	30.0
--Child Nutrition		
Incidence of Stunting Among Children 0-59 Months	51	34
Female	51	33
Male	50	35
-- Adult Nutrition		
Incidence of moderate and severe malnutrition in adults (Body mass index less than 18.5)	32	28
Female (non pregnant)	32	30
Male	32	25
Access to infrastructure		
% of rural population with public health center within the commune	93	97
% of rural population with access to clean water**	17	29
% of urban population with access to clean water**	60	75
% of population using electricity as a main source of lighting	48	77
Ownership rates of Consumer Durables		
% households owing a radio	40	47
% households owing a television	25	58
% households owing a bicycle	67	76

Footnote: * The rapid increase in secondary enrollment rates reverses a decline in enrollments in the 1987-1992 period.

** Clean water is defined to include piped water, deep wells with pumps and rainwater.

Source: World Bank estimates based on VLSS93 and VLSS98.

1.3 The poor feel that their living standards have improved in recent years

7. The four PPAs used wellbeing rankings and other participative techniques to engage poor communities in discussions and analysis of what constitutes poverty and wellbeing (Box 1.2). Some of the dominant criteria defining poor or vulnerable households which emerge repeatedly from the wellbeing rankings are shown in Table 1.3 below.

The four PPAs for Vietnam have greatly enhanced our understanding of the many dimensions of poverty in Vietnam

Box 1.2: The Four Participatory Poverty Assessments for Vietnam

Research sites for the four PPAs were chosen to represent the diversity of geographic, physical and social circumstances which poor households face. More than 1000 households were involved with this research. The PPA sites are described below.

Lao Cai Province: Implemented by the *Vietnam-Sweden Mountain Rural Development Program*, this study investigates the situation of poor households in six villages of two quite different Districts. The study area has a high proportion of ethnic minority groups – the villages covered have a population of more than 12 ethnic groups, including the majority Kinh. The topography and farming systems vary greatly from village to village, but include both upland and paddy agriculture. Some villages are very remote.

Ha Tinh Province: *ActionAid Vietnam*, in collaboration with local Government partners and a local NGO (RTCCD), covered 13 villages of six Districts in this drought-prone and typhoon-prone area of the north-central region. The population here is ethnically homogeneous and largely dependent on farming very poor quality land.

Tra Vinh Province: *Oxfam GB* compared four villages in a relatively wealthy District and four villages in the poorest District in this PPA. The study included villages which were populated mainly by Khmer households and villages which were predominantly Kinh. The Mekong Delta is not one of the poorest regions in the country, but it grew relatively slowly in the period 1992-1997. Landless households form a particularly poor and vulnerable group in this region and appear to be growing in number.

Ho Chi Minh City: This PPA, carried out by *Save the Children Fund (UK)*, shows that although Ho Chi Minh City is the largest urban area in the wealthiest region of Vietnam, there are still pockets of severe poverty. Poor households in Ho Chi Minh City are usually dependent on variable income from the informal sector and are very vulnerable to fluctuations in the demand for unskilled labor and informal sector services. Communities of poor migrants who lack permanent household registration are especially disadvantaged.

Resources to carry out the PPAs were provided by the implementing agencies, DFID (UK) and the World Bank.

8. The very striking drop in poverty levels indicated by the traditional poverty headcount measure is strongly reinforced by the PPA findings. In all *rural* sites, there is confirmation that wellbeing, which includes non-economic dimensions of poverty, has improved for most households over recent years (Box 1.3). The Ha Tinh PPA reminds us, however, how low the base was in the past: “*I am terrified when I consider how bad our situation was 10 years ago*” says one interviewee. Economic improvements were part of the story that poor, rural households told and generally these were related to the return to household-based production systems and the opportunity to engage in new, primarily agricultural, activities and expand their farm bases profitably. These issues are explored further in Chapter 3.

The poor feel that their living standards have improved in recent years

Box 1.3: Poverty in Ha Tinh

While overall poverty has been greatly reduced over the past 10 years, most people in Ha Tinh Province say they are still poor. Yet declines in poverty have been quite large, especially for households categorized in the lowest category—extremely poor or hungry. Overwhelmingly, the percentage of households falling into this category has declined from about two-thirds of the village to less than half. Meanwhile, the number of ‘better off’ households has risen from almost nothing to 10 percent.

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

9. As well as increasing incomes, this broadening of the farm base was seen to improve the resilience of poor households to shocks and crises and improve livelihood security. In the PPAs, the poor use a variety of economic and non-economic indicators of well-being to describe their situation (Table 1.3). Thus, many households commented during the PPAs that they now felt they had more control over their lives. Other non-economic improvements over recent years which households noted included:

- Greater domestic harmony as the economic stress diminishes
- Better community cohesion and a reduction in community disputes
- Improvements in infrastructure, especially irrigation and schools
- Greater physical mobility was important to households in one of the study sites and recent years had seen an increase in the volume of out-migration from this poor, rural area.

Poverty is described as a complex, multi-dimensional phenomenon by the poor

Table 1.3: Indicators of Poverty as described by Poor Households

<p>Endowment of natural, financial and material capital</p>	<p>Respondents in all PPA sites described poor households as those households who are chronically hungry. Their economic asset endowments are so constrained that they are unable to cover very basic consumption needs. In rural areas, their limited resource base means that their household economies are not diversified and they are very vulnerable to poor harvests. In the urban site, their limited resource base means they have few options for generating a stable cash income and are generally dependent on the informal service sector to earn a variable income. Indebtedness (and the high levels of economic and psychological stress this entails) is seen as a signal of poverty. Small houses with a temporary roof is very frequently quoted as a defining feature of poverty in the PPAs.</p>
<p>Endowment of human capital</p>	<p>Household composition and structure – closely linked to phases of the household life-cycle - are often used for identifying poor households. Having many small children, which creates an unfavorable dependency ratio, is an indicator in all study sites. Similarly, households lacking laborers, through the death, illness or departure of an adult member are perceived as being particularly poor. Small, elderly households are identified as poor because of their diminished labor base and vulnerability to ill health. Households with adults of low levels of educational attainment and, in ethnic minority areas, limited abilities in Vietnamese language are described as having low levels of wellbeing. In all study sites, non-attendance of school-age children at school is a sign of poverty.</p>
<p>Vulnerability to crises and shocks</p>	<p>The lowest well-being categories in the PPAs include households with members who are suffering from illness, with members who have recently died and with members who are drug addicts or alcoholics. They also include households who have suffered livestock loss or death or failure of an investment. All these imply either expenditure outlay or income shortfalls which pose enormous problems for resource-poor households.</p>
<p>Cultural and physical isolation</p>	<p>The PPAs conducted in areas with high ethnic minority populations suggest a strong ethnic dimension to poverty, with some groups suffering more than others. Physically remote households are seen as being poorer and, in Ho Chi Minh City, households living on land scheduled for clearance or located off the main alleys are considered poor.</p>
<p>Low levels of social capital or being socially excluded</p>	<p>Poor migrant households without permanent residential permits are described as a poor group because of the formal exclusion they face from certain services. Recent arrivals in Ho Chi Minh City, Tra Vinh and Lao Cai study sites commonly have fewer assets, worse land and limited social networks and informal safety nets. Households are sometimes placed in lower categories on account of their limited social connections, which both diminishes their capacity to cope with crises and limits their opportunities for getting ahead.</p>

Note: Phrases in bold type used as criteria in well-being rankings for separating poor households from the better-off.

10. The PPA findings suggest that households who have enjoyed the most rapid gains in well-being over the last few years are likely to have started from a favorable position in terms of overall household wellbeing. Their circumstances mean that they are well-placed to take advantage of new opportunities which all households see emerging, but not all households can profit from. In particular, these households are likely to:

- be at a stage in the household life cycle which allows them to invest labor in new activities or in intensification of existing activities
- have access to information about markets and new techniques
- in rural areas, have land and financial endowments which allow them to cover consumption needs without resorting to selling assets or taking loans
- have access to garden land and space for sideline occupations
- have access to reserves or formal sector credit to invest in new activities. In all rural study sites, there was a clear consensus that access to the latter is generally skewed in favor of the wealthy
- in urban areas, have permanent registration and a source of regular income
- in all sites, be healthy

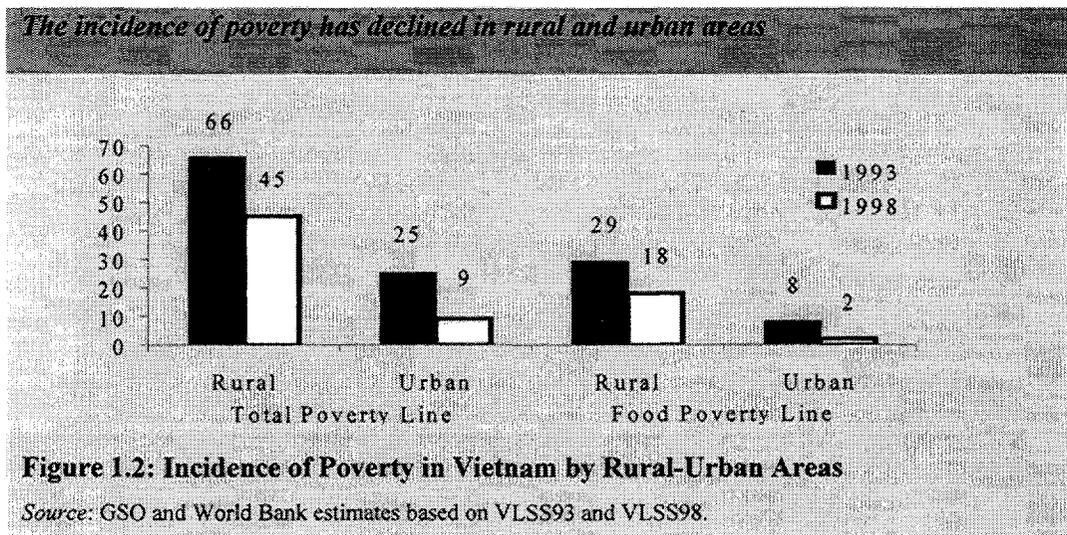
11. The implication is that households facing constraints in these areas are less likely to take advantage of new opportunities. An interviewee in Ha Tinh reflected that *"there are more opportunities than before, but poor people are able to take advantage of them less."*

2. PATTERNS OF POVERTY REDUCTION

12. One key issue is the extent to which this reduction in poverty was shared among all members of society. This section looks at the differences in the incidence of poverty across urban and rural sites and across regions. These differences in urban and rural performance have translated into a moderate increase in inequality, as discussed in Chapter 4.

2.1 Rural and urban poverty have declined between 1993 and 1998, though the urban poverty story is particularly complex

13. Between 1993 and 1998, poverty has declined in both rural and urban areas (Figure 1.2). The percentage of population living below the total poverty line has declined from 66 to 45 percent in rural areas and from 25 percent to 9 percent in urban ones. If we look at the percentage of the population living below the lower "food poverty line", we find also find a decline in both rural areas (from 29 percent to 18 percent) and in urban ones (from 8 to 2 percent).



14. Declines in poverty levels in rural and urban areas have been matched with improvements in access to education and in access to infrastructure. Between 1993-1998, net primary school enrollment rates in rural areas have gone up from 85 to 91 percent. For urban areas, the net primary school enrollment rate has remained more or less unchanged at a very high level (96 percent). There has also been improved access to clean water supplies and sanitation facilities in both urban and rural areas. The rural population is less dependent now on river or lake water and more people take drinking water from drilled wells. In urban areas, more than half the population have access to piped water. Over 90 percent of the urban poor and nearly 60 percent of the rural poor have access to electric lighting

15. Despite impressive declines in poverty in rural areas in the past five years almost one fifth of the rural population is still food poor and nearly one half is still poor. Even after adjustments are made for the possible undercounting of the urban poor (see Box 1.4), over 90 percent of the poor are resident in rural areas. The poverty gap index also indicates that poverty is much deeper in rural than in urban areas – the poor in rural areas are further below the poverty line than in urban areas (Figure 1.3). However, in both rural and urban areas the depth of poverty has declined during the 1993-98 period.

The depth of poverty has declined in both rural and urban areas

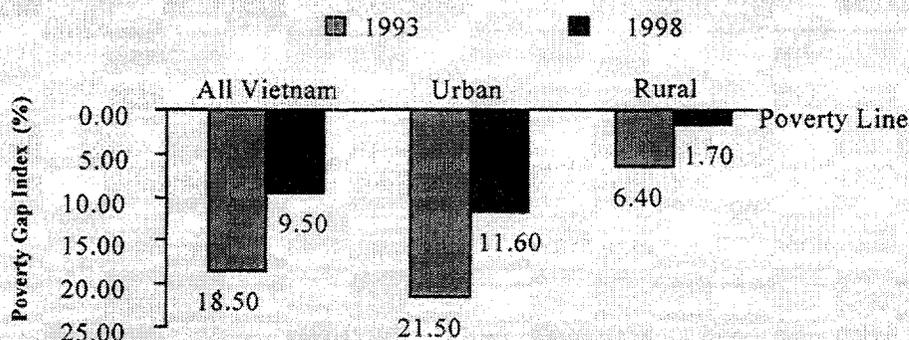


Figure 1.3: Poverty Gap Index by Rural – Urban Areas

Source: GSO and World Bank estimates based on VLSS93 and VLSS98.

16. These figures suggest that future efforts at poverty reduction still need to focus on rural areas, because this is where the poor continue to reside in Vietnam. However, as Box 1.4 indicates, the VLSS98 data might not be fully capturing the status of the poor, new migrants into urban areas, and might therefore be underestimating urban poverty in Vietnam. Recent studies suggest that migrants, on average, are better educated and better off than the resident population (UNDP, 1998). The Ho Chi Minh City PPA, however, reveals a group of poor, unregistered migrants who appear to be struggling.

Unregistered migrants may not be captured in official urban poverty estimates

Box 1.4: How much did VLSS98 Underestimate Urban Poverty?

There is an important caveat to the VLSS finding that only 9 percent of urban households in 1998 were poor. This is because the VLSS98 sampling frame probably excluded migrants who do not have a right to permanent residency in those areas. Such migrants are among the poorest members of urban areas and since the survey might not include them, poverty in urban areas may be underestimated.

Adjusting the VLSS poverty headcount to include unregistered urban migrants is not a precise exercise and the following numbers are intended to be indicative rather than definite. If we use data from existing literature (UNDP, 1998; Institute for Economic Research of HCMC, 1996) and assume that the population of unregistered urban migrants is somewhere in the range of 1.5 million to 2.5 million and that between 10 percent and 50 percent of them are poor, this would increase the incidence of urban poverty in 1998 to between 10 percent and 15 percent.

17. It is interesting that the Ho Chi Minh City PPA with its analysis focussing on broader well-being paints a more ambiguous picture of trends in poverty than those emerging from the quantitative work. This PPA covered six wards in three Districts and several of these sites had a high proportion of households who did not have permanent registration in Ho Chi Minh City. These households appear to be disadvantaged in many respects, but particularly in their access to Government services directed towards the poor. For example, these families do not qualify for subsidized loans provided under the Government's targeted Hunger Eradication and Poverty Reduction (HEPR) program (see Chapter 5 for details). Nor can they apply for exemptions from health costs and

school fees as the permanently resident poor community can. These and other poor households in Ho Chi Minh City were asked to look back over recent years and consider how their wellbeing had changed over this period. Most of the very poor and poor urban households surveyed felt that conditions had either become worse or had remained unchanged in the recent years. Only amongst the better off urban households did more than half feel that conditions had improved.

18. The suggestion from the Ho Chi Minh City PPA is that urban poverty is a more complex and, in some senses, more brutal phenomenon than rural poverty. The analysis of urban poverty presented in the Ho Chi Minh City describes poor households living with very high levels of vulnerability: insecurity of housing and land tenure, livelihood insecurity and physical insecurity because of the threat of ill health and violence within the household. This PPA illustrates the psychological stresses of poverty, with indebted households fearful of moneylenders and poor households describing how the wealthier households look down on them causing them to lose self-esteem. Even young children articulate a sense of inferiority: *“the poor children are looked down upon by others and have few friends. Children of rich families have many friends.”*

2.2 Targeting resources for poverty alleviation demands consideration of the incidence of poverty, the depth of poverty and the size of the poor population.

19. **Poverty has declined in all 7 Regions of Vietnam, but at different rates** -- while the incidence of poverty fell by 34 percentage points in the Red River Delta (from 63 to 29 percent), it fell by only 10 percentage points in the Mekong Delta (from 47 to 37 percent) (Figure 1.4). The proportion of the population living under the poverty line now varies from 8 percent in the South East to 59 percent in the Northern Uplands, though as discussed above, the poverty rate for the South East region, which includes HCMC, might be underestimated due to the undercounting of unregistered migrants.

20. The three regions with the highest poverty rates in 1993 were Northern Uplands, North Central and the Central Highlands. These three regions still show the highest incidence of poverty, with poverty rates of 59 percent (Northern Uplands), 52 percent (Central Highlands) and 48 percent (North Central Coast). Of these, the North Central Coast has seen the greatest reduction in poverty and the Northern Uplands the least. The persistence of high levels of poverty in the Northern Upland and Central Highland regions is symptomatic of the many constraints which these regions face in participating in the growth process. These include a difficult physical environment which limits agricultural development and which hinders access to infrastructure.

The incidence of poverty has declined in all regions but at different rates

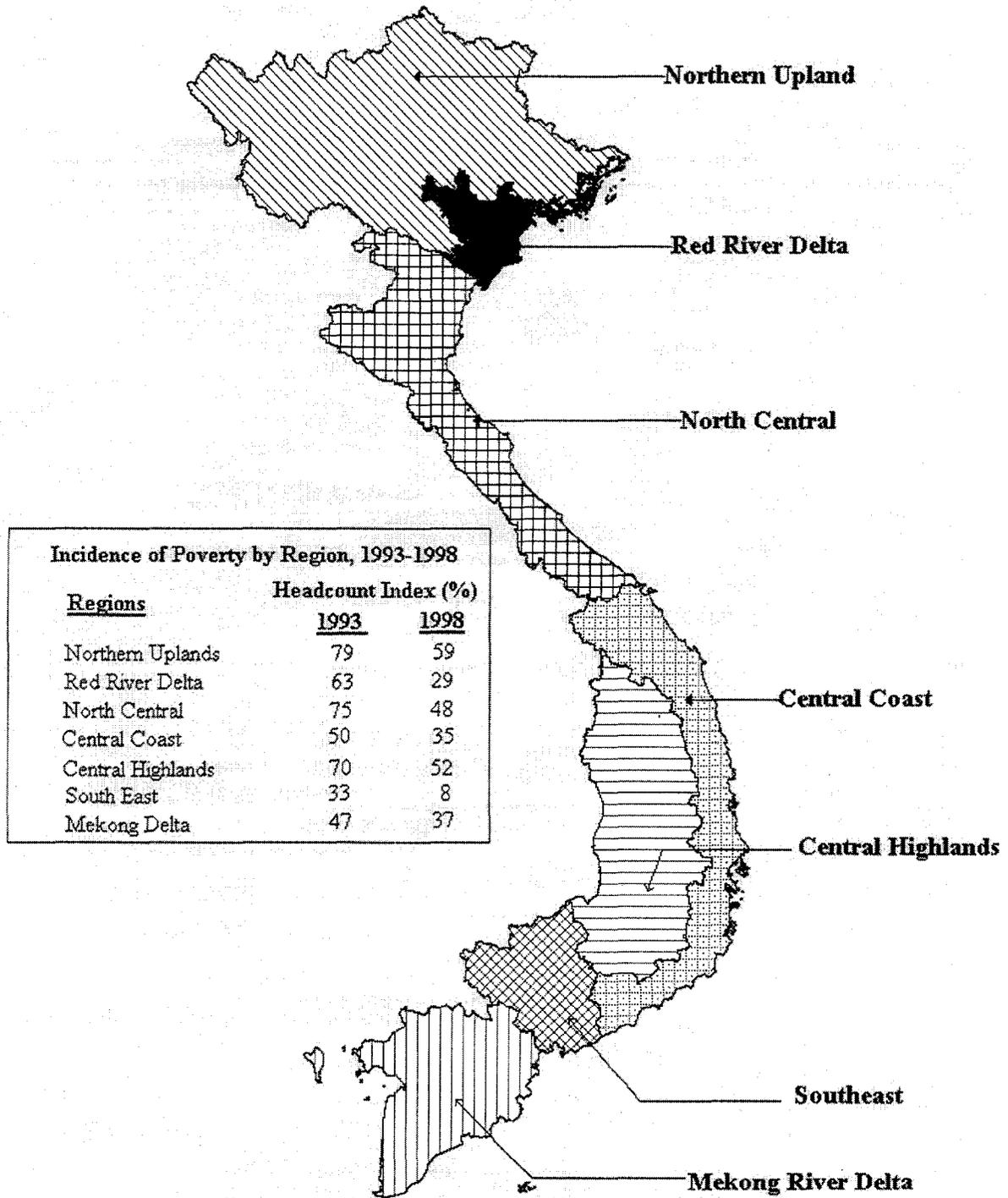


Figure 1.4 : Incidence of Poverty by Regions, 1993 and 1998

Source: GSO and World Bank estimates based on VLSS93 and VLSS98.

21. The PPA conducted in Lao Cai Province in the Northern Uplands suggests that while households in the midland areas might be able to benefit from new marketing opportunities, many households living in the highland areas were simply too remote and often too deprived in terms of land and financial capital endowments to take advantage of the opportunities. Critically, they also lack information on markets and on new techniques. The population of the Northern Uplands region and Central Highland region has a high proportion of ethnic minorities and these ethnic minority groups are generally poorer than the Kinh majority. While a lot of research has been done on poverty issues in the Northern Uplands, relatively little is still known about the nature of poverty in the Central Highlands.

22. Poverty is deeper in the Northern and Central Upland regions of Vietnam – The poverty index measures suggest that poor households in the upland regions of Vietnam are further below the poverty line than is true for the nation's poor as a whole. The depth of poverty has also been reduced in recent years for all regions (Table 1.4).

Poverty is deeper in the Northern and Central Upland regions of Vietnam

Table 1.4: Depth of Poverty by Region, 1993 and 1998

Region	Poverty Gap Index (measuring the depth of poverty)	
	1993	1998
Northern Uplands	26.8	16.8
Red River Delta	18.8	5.7
North Central	24.7	11.8
Central Coast	16.8	10.6
Central Highlands	26.3	19.1
South East	9.2	1.3
Mekong Delta	13.8	8.1
All Vietnam	18.5	9.5

Source: World Bank estimates based on VLSS93 and VLSS98.

23. The Northern Uplands, the Mekong Delta and the North Central Coast account for 70 percent of Vietnam's poor -- For purposes of resource allocation, it is helpful to look at the contribution different regions make to the overall poverty headcount in Vietnam. This is interesting because while certain regions have a high incidence (and depth) of poverty, they represent a very small segment of the nation's poor. The Central Highlands region is the most extreme example of this: although 52 percent of its population is poor, these poor households account for only 5 percent of all poor households in Vietnam. Table 1.5 shows the distribution of the nation's poor population across the 7 regions in Vietnam. The Table shows that almost 70 percent of Vietnam's poverty is accounted for by three regions: Northern Uplands (28 percent); Mekong Delta (21 percent); and the North Central Coast (18 percent).

The Northern Uplands, the Mekong Delta and the North Central Coast account for percent of Vietnam's poor

Table 1.5: Regional Concentration of Poverty in Vietnam, 1993 and 1998

Region	Contribution to Total Poverty		Share of Population (percent)	Population (millions)
	1993	1998	1998	1998
Northern Uplands	21	28	18	13.5
Red River Delta	23	15	20	14.9
North Central	16	18	14	10.5
Central Coast	10	10	11	8.1
Central Highlands	4	5	4	2.8
South East	7	3	13	9.7
Mekong Delta	18	21	21	16.3
All Vietnam	100.0	100.0	100.0	75.8

Source: World Bank estimates based on VLSS93 and VLSS98.

2.3 The dramatic gains in poverty reduction in Vietnam during the last 5 years remain quite fragile

24. The evidence presented in this chapter—from the household expenditures, from other quantitative indicators of welfare, and from the situation described by the poor themselves—all convey the same message: that between 1993 and 1998, no matter how you define and measure it, there has been a dramatic decline in poverty. They also convey another message: that poverty still remains very high in Vietnam and that almost 40 percent of the population lives below the poverty line.

25. While the overall trend is clear, the exact percentage of those that have grown out of poverty and those that remain in poverty need to be used with caution. It should be noted that the quantitative estimates of poverty presented in this chapter and used in the rest of this report are extremely sensitive to the poverty line used. If the poverty line is raised by 10 percent, the proportion of the population under the poverty line rises to 45 percent. If it is lowered by 10 percent, that proportion falls to 29 percent. The great sensitivity of poverty incidence to where you draw the poverty line is because a large proportion of the Vietnam's population were bunched close to the poverty line in both 1993 and 1998 (see Figure 1 in Executive Summary and Figure 5.1 in Chapter 5). **Thus, instead of saying that the poverty rate in Vietnam is 37 percent, a better depiction would be to say that it lies in the range of 30-45 percent.**

CHAPTER 2

CHARACTERISTICS OF POOR HOUSEHOLDS

AT A GLANCE:

KEY CHARACTERISTICS OF POOR HOUSEHOLDS

- The poor are predominantly farmers with low levels of educational attainment and limited access to information and functional skills. In 1998, nearly four-fifth of the poor worked mainly in agriculture.
- Poor households have small landholdings and landlessness is becoming more widespread, especially in the Mekong Delta. Households who are unable to make a living from the land find few opportunities for stable income generation off the farm. There is an urgent need for reforms which will stimulate greater off-farm employment.
- Households with many children or few laborers are disproportionately poor and are particularly vulnerable to high and variable health and education costs. Newly-formed households go through an initial phase of poverty, aggravated by limited access to land. Poor households are also frequently caught in a debt trap.
- Poor households are vulnerable to seasonal hardship and household-specific and community-wide shocks. Poor households may be socially and physically isolated.
- Poverty among ethnic minority groups has declined, but not as rapidly as for the majority population. Ethnic minorities face many specific disadvantages which should be addressed through an Ethnic Minority Development Program.
- Migrants to urban areas who are poor and who have not secured permanent registration face difficulties in accessing public services and may also be socially marginalized. Further work is needed in identifying the best way to help these groups.
- Children are over-represented in the poor population. Poor children are less able to attend school and are trapped in a cycle of inherited poverty and feel particularly insecure.

This chapter examines some of the characteristics of poor households as described in the PPAs and the VLSS. Such poverty profiles are frequently used in identifying and targeting the poor.

1. OCCUPATION, EMPLOYMENT STATUS AND EDUCATION

1.1 The poor are predominantly farmers

1. There has been a gradual change in the 1993-98 period in the shares of the population engaged in different occupations. There has been very slight decreases in the proportion of households with heads engaged in agriculture, manufacturing, and construction and small increases in proportions engaged in white-collar occupations or sales services. Falling poverty in Vietnam has been associated with falling poverty rates within each occupational category rather than shifts in occupational patterns.

2. In keeping with the finding that poverty is still very much a rural phenomenon, calculations of poverty rates across occupations and types of employers suggest that those below the poverty line are likely to live in a household whose head is a farmer (Table 2.1). In 1998, almost 80 percent of the poor worked in agriculture.

The poor are predominantly farmers

Table 2.1: Principal occupation of the Poor, 1998

Characteristic	Poverty Incidence(%)	Share of Total Poverty (%)	Share of Population (%)
Primary Occupation			
Agriculture	48	79	61
Manufacturing	26	9	13
Sales Services	13	3	9
White collar	10	2	7
Other	6	0	1
Retired	26	4	6
Other not working	30	3	4
Total	37	100	100

Source: VLSS98, GSO (1999).

3. Access to some form of stable income from employment or from social service transfers was seen as a very important indicator of wellbeing in the PPA studies (Box 2.1). In certain study sites, Ha Tinh and Ho Chi Minh city in particular, being salaried or “having a good job” or being in receipt of a pension were criteria which lifted households into higher wellbeing categories. Often the amounts earned in these jobs were not great: their main value was in their stability and security. Households in the Tra Vinh and Ha Tinh study sites perceived a qualitative difference between having a regular job, which places households in a higher category and selling labor on a daily basis, which does not. While day labor brings in cash at certain times of the year in these rural areas (perhaps VND25,000-30,000 a day for a man and VND15-20,000 a day for a woman for three or four months of the year) it does not seem to bring a sense of security. In both Ha Tinh and Tra Vinh, demand for day laborers is simply not dependable enough throughout the year to make a sufficient contribution to household livelihood security. In Ho Chi Minh City, most of the poor households interviewed had main laborers active in the informal sector and were dependent on very irregular incomes.

The poor are characterized by low and irregular incomes

Box 2.1: Dependence on Low and Irregular Incomes in Ho Chi Minh City

Thuy is 30 years old, and lives in a little house in district 8 with her husband and three children aged 12, 10 and 7. She sells noodle soup on the street, but cannot operate in one place as she used to because of the recent government regulations. She earns around 15,000 dong a day. Her husband drives a cyclo which he rents for 3,000 dong a day. His income is low and irregular, particularly now that cyclos are becoming less and less popular. Sometimes, when her business capital runs low, Thuy borrows money from a moneylender.

The way Thuy has found of keeping the family afloat in times of difficulty is to sell her blood. She started doing this 10 years ago, when her own mother was very ill, and money was needed for her treatment. Since that time, she has sold blood very often, about twice a month on average. On each occasion she earns 140,000 dong.

Source: Ho Chi Minh City PPA, Save the Children, UK (1999).

1.2 The poor have relatively low levels of educational attainment and lack functional skills and information

4. Poverty rates decline with higher levels of education and those with a lower secondary education or below make up almost 90 percent of the poor. The highest incidence of poverty (57 percent) is for those who have not even completed primary education. By contrast, there is hardly any poverty (4 percent) amongst those with a university education (Table 2.2).

The poor have relatively low levels of educational attainment

Table 2.2: : Educational Attainment of the Poor, 1998

Characteristic	Poverty Incidence (%)	Share of Total Poverty (%)	Share of Population (%)
Maximum Education			
None	57	12	8
Primary	42	39	35
Lower Secondary	38	37	36
Upper Secondary	25	8	12
Vocational	19	3	6
University	4	0	3
Total	37	100	100

Source: VLSS98, GSO (1999).

5. The PPAs find that poor households view education as being an important key to climbing out of poverty but suggest that wider issues of skill acquisition, general and functional knowledge, and access to information are critical. Households were often placed in higher wellbeing categories if the adults were educated and/or if the children were attending school. In Ho Chi Minh City, households commented that it was necessary to be educated beyond lower secondary level in order to stand a chance of securing stable employment. In rural areas, households tied the importance of education to being aware of new opportunities and of understanding new techniques (Box 2.2). As well as literacy skills, poor rural households see numeracy, language and technical skills as important. Contact with extension staff, inter-action with people from outside the community and access to information and the mass media emerged as important priority areas for poor households (see Chapter 4 for details).

Education improves access to information and is a key way of climbing out of poverty

Box 2.2 :Reading their Way Out of Poverty in Ha Tinh

Kinh's household 10 years ago was categorised as a hungry household but is now considered well-off by his community. They started off in a small house at the edge of the village left to them by their parents when they first began to live as a separate household. This house now has a tile roof. They have developed their income and assets step by step. First they raised chickens, ducks, and pigs. Kinh says "farmers need to know how to chose breeds". He learned this by reading books and participating in agricultural extension programs.

He also grows oranges and from this he has earned an annual income of VND 1.5 million (USD 107) for 4 successive years. His orange trees were stricken with blue fungus and yellow leaf disease so he switched to growing litchi planted with low-growing crops (peanut) providing him with high output (the peanuts are harvested every 4 months). He twice obtained loans to invest in tree cultivation and livestock, and he always repaid on time. Besides this, he also keeps 3 bee apiaries which provide him with an income of VND 1 million (20 bottles of honey). In the future, he is going to apply the VAC (garden-fishponds-livestock) model because he thinks it is a stable and correct way to do business.

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

2. DEMOGRAPHIC CHARACTERISTICS

6. There were many issues relating to household composition and size which had a bearing on household wellbeing which were raised consistently across the four PPA sites and identified in the quantitative analysis. In particular, the information suggests that:

- 1) Households with many children were often ranked as poorer;
- 2) Households who had recently separated from their extended families and had established new households were often ranked poorer. This group might often overlap with group (1);
- 3) Households who had lost adult laborers through death or desertion were often considered poorer. These were often women-headed households.

2.1 Poorer households have a larger number of children

7. Households with young children are described as poor by other households. Not only do they have fewer laborers in relation to the number of mouths to feed, but they also have education expenses to meet and are more likely to incur destabilizing health expenditures (Box 2.3). The VLSS data confirm that the number of children is highest in households in the poorest quintile and drops as per capita expenditure rises (Table 2.3). However, this table figures may overestimate the impact of family size on poverty because it assumes that the consumption needs of every household member are the same (i.e., it does not account for the differing consumption needs of children and teenagers or take into account possible economies of scale in household consumption).

Poorer households usually have more children ...

Table 2.3: Mean Number of Children Under 15 Years Old per Household

	Expenditure Quintile				
	I (Poorest)	II	III	IV	V (Richest)
All Vietnam	2.8	2.2	1.7	1.4	1.2
Rural	2.8	2.2	1.8	1.4	1.3
Urban	2.7	2.9	1.6	1.3	1.1

Source: World Bank estimates based on VLSS98.

8. While part of the poverty problem for these households is an issue of the household life-cycle, it is worth noting the vulnerability of these households to increases in education and health expenditures. VLSS98 data suggest that a household in the lowest quintile with one child in primary school and two children in lower secondary school will be spending 7.3 percent of total household expenditure on education costs (which has increased from 6.5 percent in 1993). These education expenditures would amount to 23 percent of non-food (or “discretionary”) expenditure. The PPA studies suggest that withdrawal of children from school is a common response by poor households to times of hardship or crisis. This cannot be surprising. Three-quarters of this quintile is unable to afford 2100 calories per day and any expenditure on non-food items is at the expense of nutritional intake. Chapter 5 on Vulnerability will discuss the impact of unexpected health costs on poor households.

Poor households are burdened by the expenses associated with a large number of children

Box 2.3: Eight Children – Poverty in Lao Cai

There are currently 10 members in the household including Mr Sai's wife, 6 sons and the wife and a baby of one of the sons. One daughter has got married and gone away to live. Another son is presently in prison in Lao Cai after stealing some silver. The eldest children had no schooling, but some of the younger ones have been attending Level 1 primary school. The family lives in a small temporary house made of earth with no wooden pole to support the roof. They have very limited property - one cooking pot, a knife, 3 simple beds made by putting many thin pieces of wood together, a screened larder, a ladder, and a stone mortar to grind maize. They do not have a stove, table or chairs. According to the chairman of the commune, this is the poorest household in the village.

Some years ago when the children were very young there were a lot more difficulties. Now they are grown up a bit more they can work to help the parents. The children have to leave school early because they need to help the parent's work when the family borrows maize. Unlike some other households, they do not borrow cattle from neighbors. But one of the boys is hired out for 3 years to look after pasturing buffalo for a neighbor in the village. His food is provided by the other family, and his family was paid with a pig worth VND150,000 that the family took in advance.

Source: Lao Cai PPA, MRDP (1999).

2.2 Newly-formed households go through an initial phase of poverty, aggravated by a lack of land

9. Newly-formed households are often regarded as poor by their neighbors. Like households with many young children, the poverty problem here is partly a function of the household life-cycle, a problem which diminishes over time as the new household starts to generate small surpluses, acquires new assets and develops more profitable and stable livelihood systems.

10. The PPAs noted, however, that these households are becoming more constrained in their attempts to set their household economies on a stable growth path because they are receiving smaller and poorer quality landholdings. Agricultural land has now been largely allocated under the 1993 Land Law. In many communes, and this is the case in all the rural PPA study sites, new households are very dependent on their extended families in accessing agricultural land. The extent to which productivity gains will allow a stable living to be generated out of smaller and poorer quality landholdings is a matter for debate. What is clear, however, is that there are very few non-agricultural alternatives for households whose landholdings are now so small that they cannot cover basic consumption needs. Growth in wage income has been very low in rural areas over the last 5 years and in no PPA study site did households feel that day-laboring provided a stable alternative source of income in the face of falling landholdings.

2.3 Households who have lost an adult are particularly vulnerable

11. Households who have lost adult laborers through death, desertion or separation are often placed in the lowest wealth-ranking categories by their communities. Often they are women-headed households and Box 2.4 below tells a story which is very typical across the case studies. The VLSS data also show that women living alone are substantially poorer than men living alone.

"Poverty accompanies my family. Those who have a man in their house suffer less." PPA Interview, Ha Tinh PPA, Action Aid Vietnam (1999).

Single-adult households, especially female-headed ones, are particularly vulnerable

Box 2.4: Widowhood and Poverty in Tra Vinh

Ms. Ngoc is a 37 year old widow whose husband died in 1997 when she was 3 months pregnant. Unable to work while pregnant, and struggling to raise 2 other young children, she quickly fell into debt and had to mortgage their land for about 3 million VND to buy food. Life improved a little after she went to work in Ho Chi Minh City to work as a domestic servant in 1998, but she is still 2 million VND in debt. Ngoc currently goes out to work from 6.30am to 5pm and lists her main difficulties as having the money to buy back her land, and then loneliness. Her older daughter is now in grade 6 at school, while the younger daughter is still too young to attend school. When her husband died, amongst the village institutions Ngoc cites as having been most useful to her were her neighbors, the Women's Union and then the health care service. Ngoc says that other households with more assets borrowed HEPR funds, but she has been refused. When she has approached private moneylenders they also have denied her a loan claiming that she has no loan security because she has no land and no husband. Her dream now is to save enough capital to raise pigs and ducks, while her daughter's dream is freedom from debt for her mother.

Source: Tra Vinh PPA, Oxfam GB (1999).

3. ACCESS TO RESOURCES

3.1 Landlessness is increasing and poor households have less land

12. The PPA research suggests that poor households see the quantity and quality of landholdings as a critical determinant of wellbeing. Poor, rural households are often defined by other households as those who had landholdings which were either so small or of such poor quality that it cannot support their consumption needs (Box 2.5). This was especially true of newly formed households. In the Lao Cai and Tra Vinh Study sites, it is also true of households who have migrated or have been moving around in search of land. In the Lao Cai PPA study site, poor households might have sufficient land, but the land might be so far away that farming requires more labor resources than the household has available. The composition of landholdings in the Lao Cai study site varies from village to village, but poorer households are likely to have a greater proportion of upland rather than paddy land, more steeply sloping land and more distant plots.

Poor households are characterized by a lack of material possessions

Box 2.5: Resource-Poor Household in Ha Tinh

Mr. Khai aged 29, is married with two children and lives in Ha Tinh Province. His house is made of bamboo and located on a hill with a 30 degree slope. His garden has mainly cassava and some lemon trees. There is little furniture in the house (2 beds, a table and some chairs, with a total value of about VND100,000 – approximately US\$7). The family cultivates 2.5 sao (about 2500m²) of rice and harvest 80 kgs of rice from one sao. The family cooks a meal once a day consisting primarily of rice and salt. The parents eat only the rice left over after the meals, usually only one or two bowls. If there is nothing left, they eat sweet potatoes. The children usually go to the forest to gather firewood and earn an average of VND5,000 (US\$0.30) per day.

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

13. In the Tra Vinh PPA study site, landlessness and near-landlessness were strongly associated with poverty. These households are described in the Tra Vinh PPA as being particularly vulnerable (Chapter 5). VLSS data confirms that landlessness is rising, but the trends vary across the regions. In Vietnam in 1998, 10 percent of rural households were classified as landless. Landlessness is more prevalent in the South: more than one fifth of rural households in the Mekong Delta and 29 percent of rural households in the South East region were without agricultural land in 1998 (Table 2.4).

Landlessness has increased in all regions except the Central Highlands and Central Coast

Table 2.4 : Percentage of rural households without allocated or swidden land

Regions	1993	1998	Average Farm Size (m ²) in 1998
Northern Uplands	2.0	3.7	8890
Red River Delta	3.2	4.5	6491
North Central	3.8	7.7	5001
Central Coast	10.7	5.1	5180
Central Highlands	3.9	2.6	13746
South East	21.3	28.7	13712
Mekong Delta	16.9	21.3	10650
All Vietnam	8.2	10.1	8148

Source: World Bank estimates based on VLSS93 and VLSS98.

Note: The above estimates are for households with no annual or perennial cropland, water surface, forest, swidden or other land. Land that is borrow or rented-in is excluded.

14. A strong commitment by Government to distribute land use rights equitably amongst the farmers of Vietnam has resulted in a pattern of land distribution which is remarkably equitable by international standards. Although the differences in landholdings are small by international standards, the differences which exist show a

link with poverty (Table 2.5). Legally, land in Vietnam is not owned by households, but land use-rights are allocated to them on a long-term basis (usually for a 20 to 50 period depending on the type of land). Household holdings of annual and perennial crop land rise with per capita expenditure quintiles, with holdings of annual crop land in the wealthiest quintile being nearly 1.4 times the area of holdings in the lowest quintile. The differences in holdings of perennial land are even more striking: household holdings of perennial land are six times larger in the richest quintile than in the poorest quintile.

Landholdings of poor households are smaller

Table 2.5: Landholdings (m²) for all households with agricultural land by quintile

	Expenditure Quintile				
	I (poorest)	II	III	IV	V (richest)
Area of landholdings					
All land	6437	6953	7138	6928	9856
of which:					
Annual crop land	3600	3928	4625	4414	5081
Perennial crop land	613	845	1016	1485	3527

Note: Landholding include land-rented out but excludes land rented-in.

Source: GSO and World Bank estimates based on VLSS98.

3.2 Poor households are often caught in a vicious debt trap

15. The PPA studies suggest that many poor households are often in debt, often as a result of borrowing money to cover emergency expenditure, such as health costs, or as a result of borrowing money to invest in a venture which has failed.

“our debt keeps us up at night – owing money is an awful feeling. It makes me feel so terrible when they [the lenders] come to my house to demand their money and I cannot pay it – I feel very ashamed that they are looking down on me”. (Tra Vinh PPA, Oxfam GB)

16. In two sites in particular, Tra Vinh and Ho Chi Minh City, households often report being caught in a debt cycle which is difficult to break. This level of debt exerts deep economic and psychological stress on households who were interviewed. The example in Box 2.6 below is illustrative of the situation reported by many households. This emerges as a repetitive theme in interviews with poor households and, in particular, in discussions about why poor households have suffered deteriorations in wellbeing.

Poor households are often caught in a vicious debt trap

Box 2.6: The Dilemma of Poor Farmers in Tra Vinh - The Debt Spiral

A landless family of six living in Tra Vinh Province has 4 laborers and 2 younger children still in school. The father falls ill and is hospitalized, leaving only 3 wage earners contributing to the family income. The hospital costs are VND500,000 (US\$35), which the family must borrow at a private moneylender rate of 10 percent. Because the family is landless, the only way to earn income is through wage labor. The most typical form of wage labor in the area is making leaf panels and digging ponds for shrimp farming for a few months (men only), which nets an average of about VND 25,000 between the three laborers per day (VND 750,000 /month).

Minimum food costs (rice and basic staples) for a family of this size is VND17,000 /day (VND 510,000 /month). Other household expenses including cigarettes, alcohol, medicines, etc. average about VND3,000 /day and school costs average VND3,000 /day over the year for the 2 children in school, which includes money for breakfast, school contributions, clothes, books and incidentals (total VND180,000 /month). Bare minimum family expenditures therefore comes to VND690,000/month. But they must also pay VND50,000 /month interest on the loan they took to pay for the father's medical expenses. Thus the absolute minimum expenditure per month for this family is VND740,000 –if there are any other minor illnesses, mishaps in the family, or a failed shrimp season, they will have a cash shortage and will then either have to borrow rice on credit, sell labor in advance, or take out an additional loan from an informal lender. Their dilemma is obvious—they will never be able to repay the loan principal VND500,000, condemning them to a spiral of debt from which they cannot escape.

Source: Tra Vinh PPA, Oxfam GB (1999).

4. VULNERABILITY AND ISOLATION

4.1 The poor, especially children, feel extremely vulnerable

17. Vulnerability to seasonal hardship, to household-specific shocks and to community-wide crises emerges as an important dimension of poverty. Poor households who typically have constrained endowments of either capital or land (or both) and who can barely cover essential food and non-food expenditure are acutely vulnerable to any sudden development which either demand expenditure or reduce income. Illness of a household member is very often mentioned as an extremely destabilizing shock which can take many, many years for a household to recover from. Data from the VLSS suggests that households in the poorest quintile allocate 30 percent of non-food expenditure to health expenses. A failure of a crop or an investment can also cause severe economic stress for a household.

18. Insecurity is not just an economic matter. Lack of information about urban development and site clearance plans mean that many poor households are uncertain about how long they are able to live in their current residences. Physical security is threatened by low-hanging electricity cables which cause fires. The intensifying problem of drug addiction is of concern to households in Ho Chi Minh City, partly because it brings with it a rise in other crime. Poor, urban children in particular seem to be living with a sense of insecurity, as illustrated in Box 2.7 below.

The poor, especially children, feel extremely vulnerable**Box 2.7: Children's Perceptions of Threats to Security in Ho Chi Minh City**

<i>Housing:</i>	House being "cleared"; house collapsing or flooding; neighborhood fires destroying houses; eviction from rental property because parents have defaulted on the rent; low-hanging electricity cables causing accidents
<i>Education:</i>	Being pulled out from school because parents cannot afford costs; school is closed down; teachers beating and humiliating children
<i>Domestic:</i>	Father drinking and beating mother; shouting and quarrelling in the household
<i>Social:</i>	Neighborhood fights; drug addiction
<i>Self-esteem:</i>	Being considered inferior by wealthier households; being beaten by richer children
<i>Economic:</i>	Unstable income; being hungry; having bad clothes
<i>Health:</i>	Concern about mothers' health and inability to afford good health care for parents

Source: Ho Chi Minh City PPA, Save the Children Fund UK (1999).

4.2 Poor households feel a sense of social isolation

19. Analysis of how poor households respond to crises and cope with times of hardship suggest that informal networks of support are extremely important to poor households. In the remote, highland villages, levels of social capital were found to be high and characterized by reciprocal arrangements for support. Since these villages are more homogeneous in socioeconomic terms, there are strong incentives for households to offer help when they are able to do so, because they may well need similar support in the future. This might go some way to offset some of the disadvantages of living in a remote area. In other, midland and lowland PPA study sites, emergency assistance might still be available, but it is more likely to be monetized and it is likely to be more expensive. In midland and lowland villages, social connections are seen as a determinant of household well-being. Better-connected households, those close to the local leadership, are likely to be in a good position to access Government support programs and services.

20. Certain groups of poor households expressed a sense of social isolation from the wider world and from the institutions which represent and serve them. Some aspects of marginalization are bound up with ethnicity: linguistic and cultural differences compounded with real problems of physical accessibility mean that certain ethnic minority people have limited interaction with the outside world and little exposure to new ideas and information. An urban parallel of this is some of the migrant squatter communities in Ho Chi Minh city. There are gender dimensions to marginalization, too. Women's workloads are heavier than men's and give them little opportunity for socializing, informal learning or attendance at village meetings. This intensifies a bias in Vietnam which often casts men in the role of household representative at village meetings and social occasions. Poor households also express a sense of alienation from decisions which involve them.

4.3 Poor households are physically remote and marginalized

21. Data from the commune questionnaire of the VLSS98 indicates that most individuals live in accessible villages. Only 4 percent of individuals live in villages

which are either far from a road (at least 5 kilometers) or have an unreliable road (unpassable for 3 months a year or more) and have no compensating water access. The poor, however, are more than twice as likely to fall in this 4 percent than are the non-poor.

22. Although villages seem generally well-served by the road and waterway network, access to transport services is more problematic. Over 12 percent of individuals live in villages which have no access to motorized transport (either public transport or privately hired vehicles). There is a strong inverse relationship between living standards and access to transport services: individuals without access to transport services are nearly five times more likely to be found in the poorest quintile than in the richest quintile (Table 2.4). The people who live in villages without access to motorized transport are more than one and a half times more likely to be poor than those living in villages with such access. One policy implication of these findings is that it may be more important to concentrate on providing transport *services* rather than *infrastructure* to poor areas.

Poor households are physically remote and marginalized

Table 2.6: Individuals without access to motorized transport, by expenditure quintile, 1998

	Expenditure Quintile					Total
	I (poorest)	II	III	IV	V (richest)	
Individuals lacking access to public or privately hired motorized transport (%)	37.5	21.3	19.1	14.5	7.5	100

Source: World Bank estimates based on VLSS98.

5. ESPECIALLY POOR AND VULNERABLE GROUPS

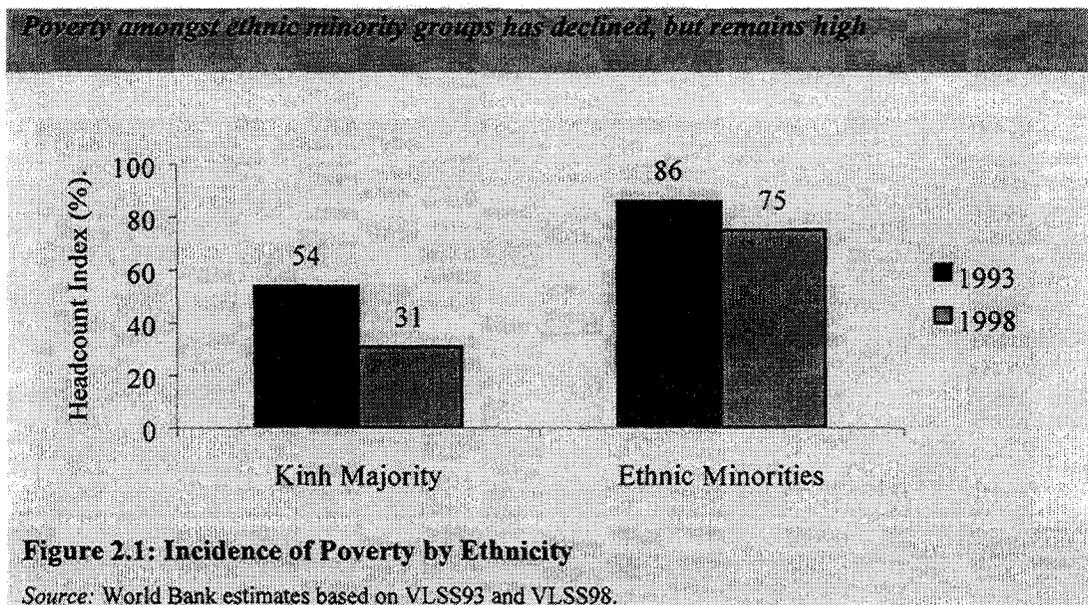
23. Certain groups stand out, either in the VLSS data or in the PPAs, as being particularly poor and marginalized. These groups often have lower per capita expenditures, but they also suffer from a number of non-quantifiable deprivations. In addition to the groups discussed below, the PPAs suggest a number of ways in which women might be vulnerable, even within a non-poor household. Many of these problems relate to a problem of inequity within the households and are discussed in more detail in Chapter 4.

5.1 Poverty amongst ethnic minority groups has declined, but remains high

“From now to the year 2000, active and steady measures should be taken to achieve the three main targets of eradicating hunger, alleviating poverty and stabilising and improving the living conditions and the health of people of ethnic minorities as well as of inhabitants in mountain and border areas; to wipe out illiteracy, raise the people’s intellectual standards, respect and promote the fine cultural identity of ethnic groups; to build up clean and strong political

foundations and Party officials and members among ethnic groups in all regions and at all levels.” Development Orientations in Key Fields, VIIIth National Party Congress Documents.

24. In Vietnam, lowland ethnic Vietnamese, known as Kinh, are the dominant ethnic group and make up about 85 percent of the population. There are another 53 ethnic groups in Vietnam who constitute the category “ethnic minorities”. Most of these (except the Chinese, who are largely urban-based) are located in upland areas.⁴ Ethnic minorities in Vietnam are significantly poorer than the Kinh majority (Figure 2.1). Between 1993 and 1998, the poverty incidence among for ethnic minorities has come down from 86 to 75 percent, but it still remains very high. In comparison, the poverty rate for the Kinh majority has fallen from 54 to 31 percent over this period. Thus the situation of the ethnic minorities is improving, but at a slower rate than of the Kinh, and they are beginning to lag behind. In 1993, ethnic minority groups constituted 13 percent of the overall population, but 20 percent of the poor. Their share in the total population has risen slightly to 14 percent, but they now account for 29 percent of all poor people in Vietnam.



25. There are many factors associated with the persistent high levels of poverty amongst ethnic minority groups. Since ethnic minorities now represent over one quarter of the nation’s poor households, these factors deserve further consideration. The PPA in Lao Cai Province suggests four key problem areas for poor households – generally ethnic minority groups – in Lao Cai Province. These problems areas are summarized as:

- **Difficulties in land use, food production and income diversification,** which are associated with issues of access to land, the poor quality of land,

⁴ In this report, for analytical purposes, we divide the population into 2 groups: Kinh and Chinese, and other ethnic minorities. The Chinese have been aggregated with the Kinh because their living standards are closer to those of the Kinh majority than to those of the other ethnic minorities, who are generally poorer.

access to water, access to appropriate credit, and access to information on improved techniques and access to markets.

- **Particular problems of ethnic minority women**, including very heavy workloads, limited decision-making power within the households (particularly on reproductive decisions), high levels of domestic violence and low access to education and knowledge.
- **Poor health** (resulting from lack of clean water, unsanitary conditions, malnutrition and lack of basic supplies, such as mosquito nets and warm clothes) **and difficulties in covering treatment costs**, which for remote households include substantial indirect costs of transport and accommodation for accompanying relatives when treatment has to take place outside the commune.
- **Limited education and knowledge**, which includes limited Vietnamese language skills and literacy skills, limited exposure to new functional and technical skills and lack of access to the mass media and low levels of interaction with outsiders. Education and linguistic constraints are seen to limit the degree to which ethnic minority people are represented in local authorities and reduce their confidence to access public services.

26. Problems of remoteness, inadequate infrastructure and physical and social isolation are common themes running through and aggravating the above problems. Ethnic minority groups covered in the Tra Vinh PPA echoed these findings, particularly the alienating effect of being unable to speak the national language fluently. The Khmer people included in the study also explicitly raised a fifth problem area, which refers to negative stereotypes of ethnic minority people held by some ethnic Vietnamese people. This goes against official policy, which emphasizes the need to respect cultural differences.

27. There have been widespread campaigns to bring ethnic minority children into the education system. Although still lagging behind the majority population, net enrolments in primary school for ethnic minority children has increased from 64 percent to 82 percent in the five years between the two surveys (Table 2.5). There has also been a five-fold increase in the proportion of ethnic minority children in lower secondary school: while only 7 percent of them continued on to lower secondary school in 1993, five years later, nearly 37 percent of them are enrolled in lower secondary school. Two recent reports emphasize the important quality issues connected with the provision of education services for ethnic minority children (SCF UK, 1999 and Turk, 1999). These include problems of poor quality teaching, limitations in the curriculum and teaching in non-native language.

School enrollment rates for ethnic minorities have increased, narrowing the gap with the Kinh majority

Table 2.7: Trends in (net) School Enrollment Rates, by Ethnicity

Percent of target age groups at each level				
	1993		1998	
	Kinh majority	Ethnic minorities	Kinh majority	Ethnic minorities
Primary	90.6	63.8	93.3	82.2
Lower Secondary	33.6	6.6	66.2	36.5
Upper Secondary	7.9	2.1	31.9	8.1
Post Secondary	3.2	0.8	10.5	1.4

Source: World Bank estimates based on VLSS93 and VLSS98.

28. Given the number of households surveyed in the VLSS, it is not advisable to break down the ethnic minority sample into the smaller groups because sample sizes become too small to be representative. However, the PPA study in Lao Cai and other studies suggests that there are considerable differences between the various ethnic minority groups and between male and female literacy rates. The study found a strong correlation between remoteness and literacy rates: indeed there were no literate women in the two most remote villages studied. In all villages, literacy skills in the poorest households lagged way behind literacy skills in the households placed in the higher well-being categories. These differences are reproduced in the degree to which ethnic groups are represented in commune and district level authorities. Whilst the Kinh, Tay and Nung groups are generally well-represented in local authorities relative to their share in the population, the Hmong and the Dao groups are less well-represented. Ethnic minority women are greatly under-represented in the Commune People's Committee.

29. The persistent poverty of ethnic minority groups is not a result of Government neglect. There has been a ministerial-level agency with a mandate to address ethnic minority affairs since 1959. Currently the State Committee for Ethnic Minorities and Mountainous Areas Affairs (CEMMA) has specific responsibility for:

- Studying and summarising issues on ethnic minorities and proposing and developing policies on ethnic minorities and mountainous areas;
- Working with ministries, sectors and mass organisations in the development of specialised policies for ethnic minorities and mountainous areas;
- Monitoring the implementation of policies on ethnic minorities; and
- Implementing specific projects for ethnic minority development.

30. Many initiatives by line ministries have been established to address the special problems of ethnic minorities within particular sectors – there are Government-initiated

interventions for ethnic minority education, for providing health care to ethnic minorities and for the development of upland agriculture. The Center for Natural Resources and Environmental Studies (CRES) has carried out some very interesting work on the latter issue. Prime Minister's decision number 135/1998/QĐ-TTg ("1715 Poor Communes Program"), which outlines specific measures for addressing the problems of particularly poor communes and those communes in remote and mountainous areas, illustrates the importance which Government attributes to poverty alleviation for ethnic minorities. Government officials suggest that the poverty figures indicate the need for more concerted action, such as an ethnic minority development program. This is an important area for further work in the near future.

31. Studies and statistics suggest, however, that problems of delivering services to ethnic minorities and of service quality persist in the health and education sectors. Many further argue that the challenges of upland development have not been adequately addressed by the programs implemented so far and that ethnic minority livelihood systems are increasingly undermined by environmental degradation and population pressure (both natural and due to in-migration). Many international donors and NGOs have supported programs which target ethnic minorities, with a strong emphasis on natural resources management, primary health care activities, the provision or upgrading of infrastructure and, increasingly, education initiatives.

32. There has been less program emphasis so far on interventions which might help to improve ethnic minority voice and influence in policy and program formulation at national and local levels. Many ethnic minority groups are still underrepresented in the local administration where some of the larger minority groups and the Kinh majority may dominate. Many organizations working in ethnic minority areas also stress the importance of acknowledging the value of indigenous knowledge and traditions in developing local-level solutions to poverty. The "Grassroots Democracy Decree" (see Chapter 4) provides an opportunity for improving ethnic minority participation in decision-making.

5.2 Urban migrants without permanent registration lack access to public services and face social exclusion

33. Recent media reports suggest that there were possibly 800,000 migrant workers living in Ho Chi Minh City in early 1998. The PPA in Ho Chi Minh City raised deep concerns about households who have migrated to Ho Chi Minh City in search of livelihoods but do not have permanent permission to reside in Ho Chi Minh City. This group (those without permanent residency) cannot be separated in the VLSS and, indeed, it is not clear the extent to which they have been enumerated at all, either in the VLSS or in the recent Census.

34. The Ho Chi Minh City PPA concentrated on poor groups and so does not capture the effects of temporary registration status on better off groups. A recent study suggested it might not be a serious problem for the bulk of migrants who are generally wealthier than the resident population (UNDP, 1998). The Ho Chi Minh City PPA, however, suggests that having temporary registration does indeed pose problems for poor migrant households. Migrants report difficulties in accessing health and education services, in applying for jobs and in securing help under the Government's Hunger Eradication and Poverty Reduction Program (HEPR) without permanent registration.

These poor households suffer significant disadvantages because of their residential status.

35. The descriptions of the migrant population in Ho Chi Minh City suggests that they face some levels of social exclusion: one site report commented on the derogatory names which were used by permanent residents for migrants from different parts of the country. Interviewees from the migrant community describe themselves as “*visitors – eating and living in another’s place*”. One site report describes an area known as the “tribal hamlet”. This is populated by households with not even temporary registration although they have been resident in Ho Chi Minh City for up to 10 years. It is called the tribal hamlet because it is so infamous for poverty, muggings and drug abuse that no outsider will allow their sons or daughters to marry anyone from the hamlet. Young people from within the hamlet are forced to marry from within their “tribe”. Communities of migrants living on the river (“floating migrants”) are also said to have very little contact with the legally resident population.

36. The issue of whether migrants should continue to be disadvantaged on the basis of their registration status has raised some debate. Government authorities fear an uncontrollable surge of migrants into urban areas if registration requirements are relaxed. Other members of the Poverty Working Group feel that the flow of migrants to rural areas will be guided more by any imbalance in opportunities between rural and urban areas. This is an area for future discussion and research. Even without resolving this fundamental issue, the findings so far suggest that there are a number of simple ways in which the livelihoods of poor urban households might be made more secure (Box 2.8).

Two important principles which should guide urban development interventions

Box 2.8: Guarding the interests of the Urban Poor

At a recent workshop in Ho Chi Minh City organised by SCF (UK) to discuss the HCMC PPA, a senior city official highlighted two important principles which should guide urban development interventions:

Poor people need to be consulted and involved in the decision-making; and

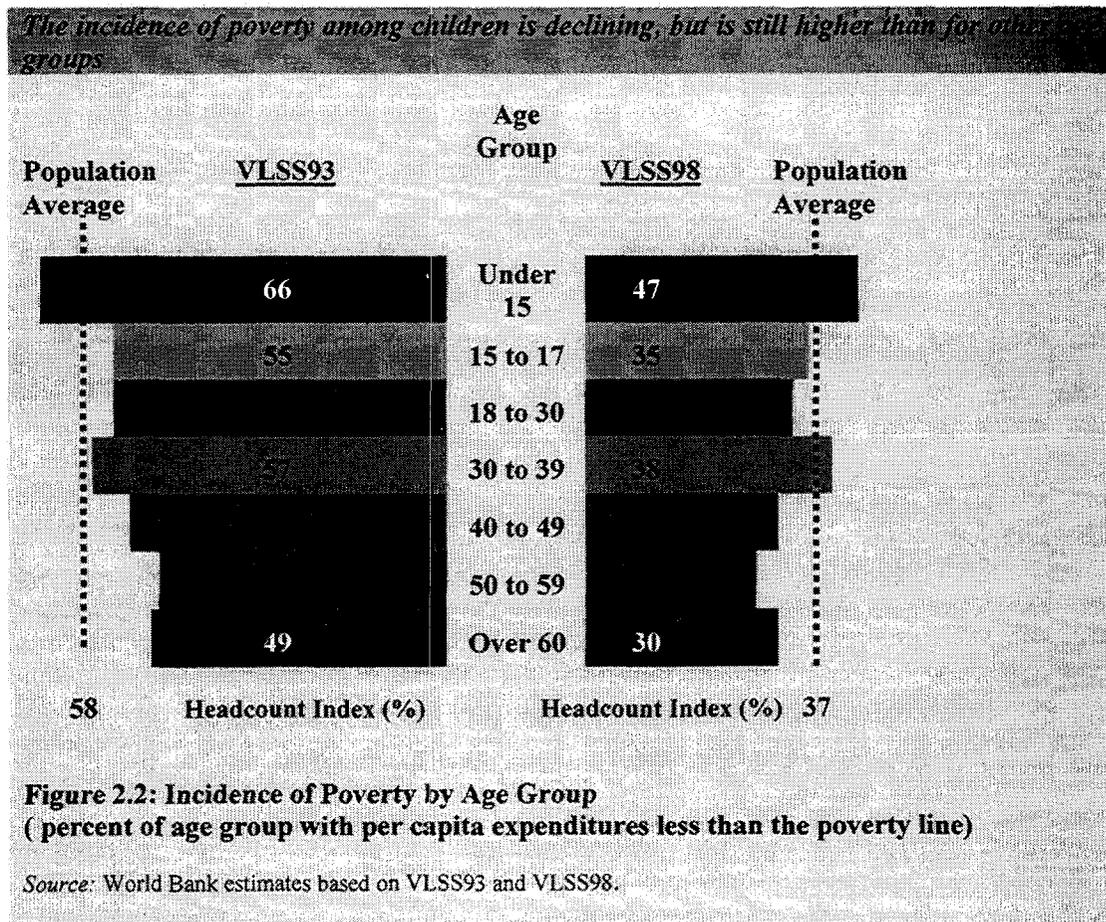
Urban development interventions should improve poor people’s livelihoods or, at the very least, not make them worse off.

According to these principles, it was suggested that recent restrictions on roadside trading (Decree 36) and the decision to close certain roads to cyclos could be adjusted to minimize the costs to poor people’s livelihoods. Specific proposals for improving the livelihood of the urban poor, especially the migrants, included:

- Extending the outreach of HEPR activities to target poor households regardless of residential status;
- Relaxing requirements for children to have birth certificates in order to attend school, or providing birth certificates to those children who do not have them;
- Rethinking current approach to urban development, prioritizing slum upgrading over slum clearance;
- Involving poor households fully in the decisions which affect their livelihoods.

5.3 The incidence of poverty among children is declining, but is still higher than for other age groups

37. The incidence of poverty among children under 15 years old has declined from 66 percent in 1993 to 47 percent in 1998. Though declining, this still means that the incidence of poverty among children is higher than for other age groups and higher than the average for the population as a whole (Figure 2.2). In 1998, children under 15 made up 32 percent of the population, but 41 percent of the poor and 45 percent of the food-poor⁵. This reflects the tendency for larger households to be poorer in per capita expenditure terms as well as the association between poverty and high child dependency ratios. The PPAs noted a number of ways in which children are particularly vulnerable in poverty situations.



38. The VLSS shows improvements in Vietnam's already good record of encouraging children from all socio-economic groups to enroll in school. The PPAs find, however, that the costs of education are burdensome for poor households and mean that poorer children are still dropping out, either temporarily or permanently, before attaining education levels which might help them to get a stable livelihood in the future. In times of hardship in all locations, children from poor households were at risk of being

⁵ When children are defined as the age-group under 18, the incidence of poverty among children declines to 64% in 1993 and 45% in 1998.

withdrawn from school. Lack of food forces many children to work in order to meet basic household food needs. Children contribute directly with labor in the field or, in times of extreme shortage, they collect wild roots and yams. Children, especially girls, often stay at home or follow their mothers to the field and watch younger siblings in order to free their parents' time for work. A teacher in a highland village covered in the Lao Cai PPA says he often hears the following reply when encouraging children to attend classes: *"teacher, do you have rice to give me so that I can go to school?"* Households have to meet their food needs before they can consider their children's schooling (Box 2.9). Similarly, the Ho Chi Minh City PPA report notes that *"the single main reason why children drop out of regular school is poverty"*.

Poor children are unable to attend school and get trapped in a cycle of inherited poverty

Box 2.9: Barriers to Schooling in Lao Cai Province

Last year, in 1998, the people in one highland village sent 19 children (18 boys and 1 girl) to the Level 2 primary boarding school in a Commune 20km away. However, 18 of them were withdrawn from school after a short time because the families did not have enough food to support them. Some said they felt embarrassed because they did not even have rice, instead they brought un-husked corn.

Source: Lao Cai PPA, MRDP (1999).

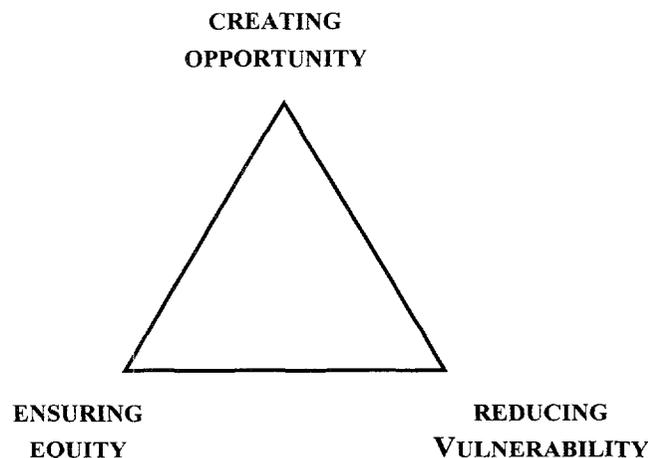
39. Two recent reports by Save The Children, UK (1997,1998) highlight the critical role which child labor, both inside and outside the home, plays in supporting the livelihoods of the poor. The PPAs also suggest that during times of hardship children may be used as a strategy to either reduce expenditure by being sent away to live with another family or to raise income through child labor. Selling babies for adoption was also mentioned. The PPAs also exposed some of the emotional and psychological stress that being poor and being part of a poor community implies for children. Interviews with children revealed considerable exposure to violence, high levels of anxiety about the insecurity of their housing, worries about their family's physical health, fatigue from working, a keen sense of deprivation and resentment and low levels of self esteem.

PART II

A FRAMEWORK

FOR ATTACKING POVERTY

The remainder of this report is structured on the premise that sustained poverty reduction over the coming years must focus on three critical areas: creating opportunity, ensuring equity and reducing vulnerability. Part II will first provide an analysis of the underlying causes of the levels and trends in poverty as described in Part I. It will contain three chapters, each dealing with one aspect of this three-pronged framework. Part III will provide suggestions for how to attack poverty along these three fronts.



CHAPTER 3

CREATING OPPORTUNITY

AT A GLANCE:

KEY FINDINGS

- The *doi moi* policies initiated in the late 1980's have led to rapid growth in GDP. Between 1992 and 1998, agricultural GDP grew by 4.5 percent, industrial GDP by 13.0 percent and GDP in the services sector by 8.3 percent. The opportunities for employment and income generation that such rapid growth has created explain much of Vietnam's achievements in poverty reduction.
- While employment on the farm has grown very little, agricultural incomes have risen dramatically by 61 percent. This increase is largely attributable to agricultural liberalization and diversification of on-farm activities.
- Household non-farm employment has grown by more than 5 percent per annum, and has been particularly significant in rural areas. Incomes from non-farm enterprises have risen by 30 percent during 1993-98.
- Wage employment is the main form of employment for about 20 percent of Vietnam's workforce since 1993. Wage employment has grown by 3.5 percent per annum, with 1.6 million new wage jobs created during 1993-98, mostly in industry and services.
- During 1993-98, the main source of poverty reduction has been from agricultural diversification. But agriculture may not be able to grow as fast in the future. In the future, off-farm employment and urban employment growth will need to play a relatively more important role in poverty reduction.
- Stimulating rural off-farm employment and urban employment growth remains a major challenge for Vietnam. It will require a host of reforms, including establishing a level playing field with the state sector, removing constraints to accessing capital, establishing a reliable legal framework, and provision of supporting infrastructure.

1. In recent years, Vietnam has been one of the 10 fastest growing economies in the world. Its average annual growth rate between 1992 and 1998 was a spectacular 8.4 percent. This high growth rate underlies the dramatic reduction in poverty described in Part I. This chapter examines the level and pattern of growth and looks at how this is linked to employment opportunities and the poverty reduction described in Part I.

2. Section 1 first looks at Vietnam's reform program and the changes that it has brought about in the economy. These reforms have had a critical impact on the level and pattern of growth and employment during the last five years, which are examined in Section 2. The next two sections examine the changes taking place in rural and urban areas, respectively. Section 3 examines sources of income growth in rural areas, focusing especially on the agricultural sector. Since this sector employs two-thirds of the Vietnamese workforce and almost 80 percent of Vietnam's poor, what happens to agricultural incomes is critical for an understanding of the factors underlying poverty reduction. Section 4 examines changes in urban employment, focussing especially on the industrial sector which has a huge potential role to play in job creation and poverty reduction in the next five years.

1. VIETNAM'S REFORM PROGRAM

3. Since Vietnam introduced its economic renovation policies (*doi moi*) in the late 1980s, the country has grown quickly. During the last decade, the Government of Vietnam has focused its attention on macroeconomic and selected structural policy reforms to accelerate the transition to a market-oriented system. Before adopting major reforms in 1986, the state controlled all land and natural resources and virtually all productive activities. It allocated equipment and raw materials for production and organized agriculture under a collective system. It managed the distribution of agricultural products and consumer goods for personal consumption. The state also created monopolies in critical industries and in foreign trade. Prices were set by the state planning agency at subsidized levels much lower than those of the "free" or "black" market, thereby creating a two-tiered price system. Jobs were guaranteed for everyone willing to work, but severe restrictions were placed on the size, number of employees, and the capitalization of non-state enterprises.

4. This centralized system of management led to severe economic and social problems during the 1970s and 1980s. In response, the Sixth Congress of the Vietnam Communist Party in 1986 adopted the policy of restructuring (*doi moi*) in order to move towards a market economy. The major reforms implemented in the early years of the reform program are highlighted in Box 3.1.

Vietnam's early reforms have had a strong impact on poverty reduction

Box 3.1: The Early Years of Vietnam's *Doi Moi* Program

Agricultural sector reform—Vietnam's program of *doi moi* began in the agricultural sector. Collectives were dismantled in 1988 and land was distributed amongst farming households. In 1993, a new Land Law clarified that peasants had the right to use the land distributed to them for 20 years and that this right could be renewed. Peasants could sell or mortgage the right to use their lands.

Price Reform—Just as important as the reform of property rights was the reform of prices introduced in 1989. Controlled prices for most goods and services were abolished.

Reform of the Macroeconomy—Strong measures to deal with serious macroeconomic problems were introduced in 1989. Production and consumption subsidies were eliminated from the budget. At the same time, interest rates on loans to state firms were raised above the level of inflation. The state bank made a serious effort to control the growth of credit during the first half of 1989. By 1991, credit was no longer used to finance the budget.

Increased Integration with the International Economy—As part of the *doi moi* process, Vietnam opened itself to international markets. This included the unification of its multiple exchange rates in 1989. The official exchange rate was devalued from 900 dong per dollar to 5,000 dong per dollar, the rate prevailing in the black market. Structural reforms in foreign trade and investment complemented other policies, though in these areas, Vietnam has taken a more gradual approach to liberalization and many barriers remain.

Financial sector reform—Vietnam stabilized its economy by reducing its fiscal deficit and growth of credit to manageable levels. The country still lacks, however, an institutional underpinning that will ensure sustained good management of the financial sector.

State enterprise reform—In the early 1990s, the budget constraint for the state-owned sector was hardened. Fiscal subsidies were reduced and then eliminated and loans for state enterprises were controlled more carefully and priced appropriately. This hardening of the budget constraint led to a major restructuring of the sector. Between 1988 and 1992, about 800,000 workers—one third of the state-enterprise labor force—left the sector, and the number of firms declined from 12,000 to 7,000.

Source: Litvack and Rondinelli (1999).

5. These reforms have unleashed the potential of the Vietnamese people and the Vietnamese economy. There has been rapid growth during the 1990s, and this has created enormous opportunities for people to improve their lives and livelihoods. Rural incomes have grown and become more diversified and all indicators of the labor market discussed in the next section point to a gradual improvement of the situation. Better paying jobs have been created for people in rural and urban areas and for males and females. There has been a gradual tightening up of the labor market and both underemployment and unemployment have come down.

2. PATTERNS OF GROWTH AND EMPLOYMENT

2.1 Vietnam's economy has grown rapidly during 1992-98

6. Between 1992 and 1998, the average annual GDP growth rate in Vietnam was a spectacular 8.4 percent (Table 3.1). All sectors showed large gains in value-added, albeit at different rates: agricultural GDP grew by a healthy 4.5 percent, industrial GDP grew by a substantial 13 percent, and GDP in the services sector recorded a growth rate of 8.3 percent. During roughly the same period (1993-1998), overall employment grew by about 1.8 percent per annum. Again, the employment growth rates differed by sector: employment in agriculture grew by only 0.4 percent per annum; in industry it grew by 4 percent per annum; and in services it grew by almost 6 percent per annum. The services sector has contributed the most to employment creation: of all new employment created during this five year period, about 56 percent was in the services sector; 27 percent was in the industrial sector; and only the remaining 17 percent was in the agricultural sector.

During 1992-98, Vietnam has been one of the 10 fastest growing economies of the world

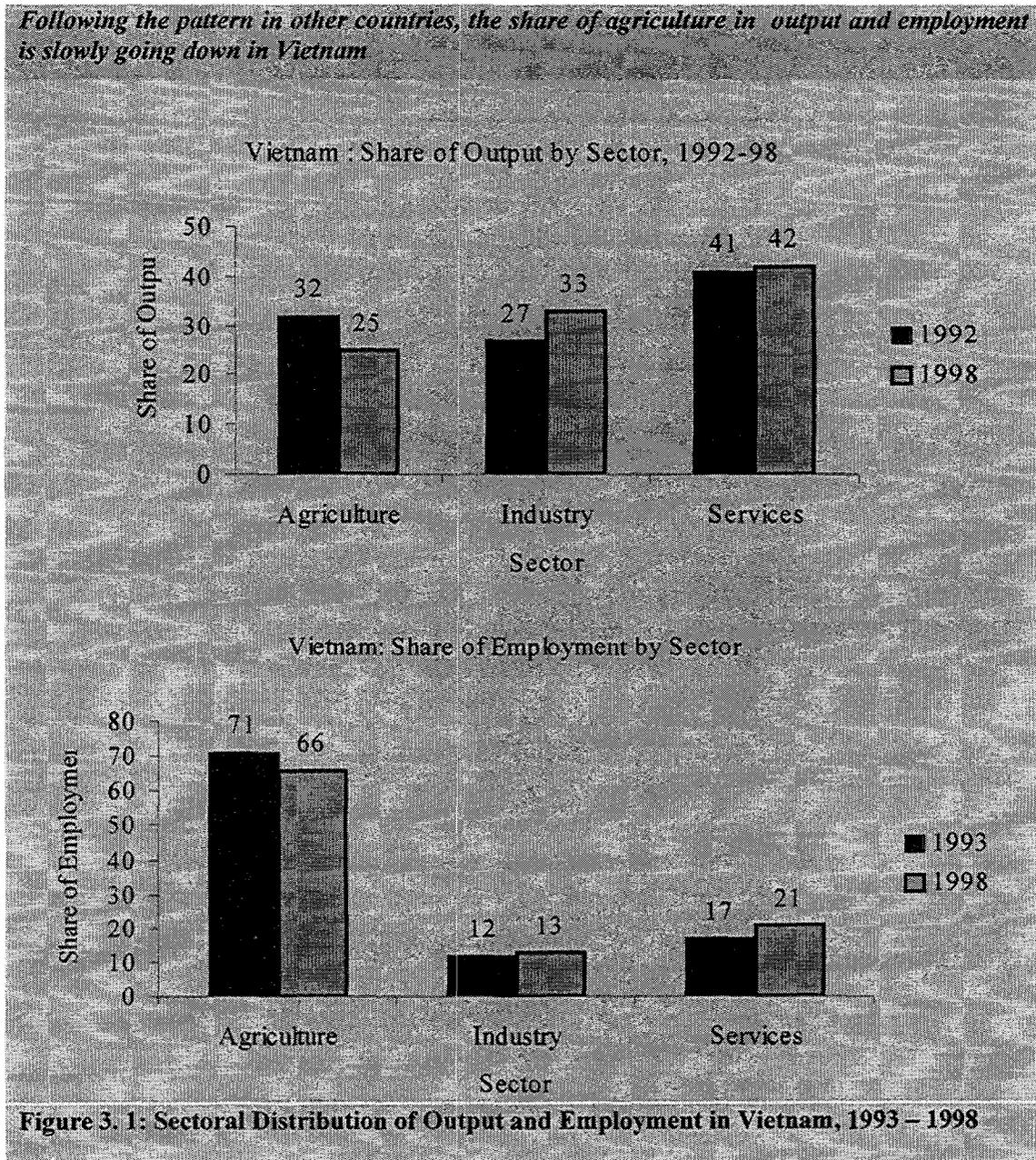
Table 3.1: Growth Rates of Output and Employment in Vietnam, 1992-1998

	Agriculture	Industry	Services	All Sectors
GDP				
Average annual real growth rate 1992-98	4.5	13.0	8.3	8.4
Employment				
Average annual real growth rate 1993-1998	0.4	4.0	5.7	1.8
Distribution of incremental employment 1993-1998	16.7	27.0	56.3	100.0

Source: GSO (1998) for GDP. World Bank estimates based on VLSS93 and VLSS98 for employment data.

7. What was the nature of these jobs created during the last five years? A growing economy like Vietnam provides new employment opportunities for its workers that compete with existing ones. Workers gradually move out of agriculture into industry and services where they can earn more. This pattern has been observed in many East Asian economies, including Malaysia, Korea and Indonesia (Agrawal, 1996). It is also emerging in Vietnam (Figure 3.1). During the last five years, there has been a change in the structure of the economy: the share of agriculture in GDP

fell by over 6 percentage points (from just below a third to about a quarter of total GDP); the share of industry expanded by about 6 percentage point, growing from 27 to 33 percent; and the share of services remained more or less constant at just over 40 percent. This has been accompanied by a change in the structure of employment in Vietnam: the share of agriculture in total employment has declined by 5 percentage points from 71 to 66 percent. Correspondingly, the share of industry in employment has gone up from 12 to 13 percent and the share of services has gone up from 17 to 21 percent.



8. It should be noted that the services sector in Vietnam, as in many developing countries, is a highly diverse sector. Those employed in it range from petty traders and artisans in the

informal sector to managers of luxury hotels and wealthy entrepreneurs in the formal sector. Even within the informal services sector, there is a great diversity as illustrated in Box 3.2 below.

The informal services sector is a highly diverse one

Box 3.2: Diverse Fortunes in the services sector in Ho Chi Minh City

Ngoc is 45 years old and migrated to Ho Chi Minh City over 20 years ago from Da Nang. At first she worked in an office, but for the last 15 years she has worked as a tailor and dress-maker. As a girl she learned her tailoring skills from her mother, and now teaches the trade to apprentices. Many of them are migrants so Ngoc and her husband rebuilt and extended their house to provide a place for them to stay. Ngoc likes her apprentices, many of whom come from Da Nang and are referred to her by relatives and friends, to have completed secondary school. Some of her former apprentices have established their own businesses, while others have stayed on to work in her thriving tailoring shop. She now has seven assistants, who each earn between 500,00 and 1 million dong per month, working in her tailoring shop. Ngoc herself has an income of more than 10 million dong (\$715) per month and can afford to send her two grown-up children to college.

Quyen is 30 years old. She lives in a poor district in Ho Chi Minh City and earns her living by selling noodle soup. Her husband works as a *cyclo* (rickshaw) driver, but makes very little money most days. Quyen cooks very well but she has no permanent premises. So she has to carry the two large baskets containing her stove, cooking equipment, and ingredients to different street corners to sell her noodles. She cannot stay in one place for long. Everywhere there is someone who chases her out. This makes her lose regular customers and affects her daily income. Quyen says, "Each day I can earn about 15,000 dong (\$1.10) but if I had a permanent place to sit and sell my noodles I could earn much more each day".

Source: HCMC PPA, Save the Children UK (1999).

2.2 Non-farm and wage employment has grown rapidly during 1993-98

9. In Vietnam, as in most developing countries, the usual labor market indicators of employment growth and unemployment rates are not very useful as indicators of labor market changes. Since most people are engaged in some form of activity and open unemployment is rare (except in urban areas), total employment usually grows at roughly the same annual rate as the working age population. This is also true in Vietnam where the rate of employment growth during 1993-98 (1.8 percent per annum) has been approximately equal to the population growth rate (1.7 percent). What is more indicative of changes in the demand for labor is a change in wage employment and the degree of underemployment. We examine both these indicators below.

10. For the members of the workforce employed within the household, there has been a rapid growth in employment in non-farm activities (Table 3.2). These include business enterprises or professions organized and managed by the household, such as retailing, food processing, fisheries, or other activities. Employment in these activities has grown by over 5 percent per annum in Vietnam. The growth rate has been considerably higher in rural areas (7 percent) than in urban ones (4 percent). This issue of diversification of rural incomes is an extremely important one and will be discussed in more detail in Section 3 below.

Non-farm self-employment and wage employment has grown rapidly in the 1990s 1993-98

Table 3.2: Employment Growth Rates by Type of Main Employment, 1993-1998

	Type of Main Employment			
	Household Farm Employment	Household Non-Farm Employment	Wage Employment	Total Employment
All Vietnam	0.4	5.4	3.5	1.8
By Rural-Urban				
--Rural	0.8	6.7	3.3	1.7
--Urban	-8.7	3.9	3.7	2.0
By Gender				
--Male	-0.3	8.3	4.6	2.1
--Female	0.9	3.2	2.0	1.5

Source: World Bank estimates based on VLSS93 and VLSS98.

11. In Vietnam, wage employment is the main form of employment for about 20 percent of all workers (Table 3.3). It has grown by 3.5 percent per annum during the period 1993-1988. This translates into 1.6 million new wage jobs created in Vietnam during the last five years. Of this, about 1 million (or about 60 percent) were in the services sector and the remaining 600,000 (or about 40 percent) were in the industrial sector.

12. **The formal sector**—which we define simply as wage jobs in urban areas—remains small in Vietnam. Though it has grown at 3.7 percent per annum, it continues to provide less than 10 percent of all employment in Vietnam. Of total wage employment, about 40 percent is in the public sector and the remaining 60 percent is in the private sector. Formal sector jobs are usually the best jobs in the economy in terms of earnings and other benefits. While these rates of growth of wage employment and formal sector employment are very promising, they are only half of what Indonesia was able to achieve during the first half of the 1990s, after it embarked on a program of reform similar to Vietnam's *doi moi* process. As discussed below, there is ample scope for Vietnam to double the growth rates of well-paying jobs as a result of faster reforms.

Wage employment accounts for less than a fifth of total employment in Vietnam

Table 3.3: Level and Composition of Wage Employment, 1993- 1998

	Percentage share	Percentage Share
	1993	1998
Share of Wage Employment in Total Employment	17.8	19.4
Share of Formal Sector Employment in Total Employment	8.1	8.9
By Public/Private	100.0	100.0
Public Sector	39.5	40.5
Private Sector	60.5	59.5

Source: World Bank estimates based on VLSS93 and VLSS98.

13. If we look at the sectoral composition of wage employment, we find that wage employment has declined in agriculture by almost 5 percent per annum; it has grown in industry by almost 5 percent per annum; and in services by 7 percent per annum (Table 3.4). The services sector accounts for 43 percent of all wage jobs and it has been the fastest growing creator of well-paying jobs during 1993-98.

The services sector is the main provider—and the fastest growing provider—of wage employment in Vietnam

Table 3.4: The Sectoral Composition of Wage Employment, 1993-1998

	Share of Wage Employment	Share of Wage Employment	Annual Rate of Growth of Wage Employment
	1993	1998	
All Vietnam	17.8	19.4	3.5
--Of which:			
Agriculture	27	18	-4.7
Industry	38	39	4.6
Services	35	43	7.0
Total	100	100	3.5

Source: World Bank estimates based on VLSS93 and VLSS98.

2.3 Underemployment has declined in Vietnam during 1993-98

14. In Vietnam, as in other developing countries, there is under-utilization of human resources—people who want to work cannot find as much work as they would like. In poor rural areas, this usually takes the form of seasonal and chronic underemployment. Over the course of

development, and reflecting the structural transformation of the economy, underemployment gives way to more open unemployment. This transition is partly due to rising incomes and urbanization. As countries grow and household incomes rise, individuals can begin to afford periods without work while waiting for a job.

15. Underemployment is defined simply as working less than 40 hours per week, and “severe underemployment”, is defined as working less than 15 hours per week. Both severe underemployment and underemployment have decreased somewhat during the last five years, and this has happened in both rural and urban areas (Table 3.5). In 1993, about 66 percent of those employed worked less than 40 hours per week, and this has declined to 57 percent in 1998. In rural areas, where underemployment was a bigger problem, the proportion of the workforce working less than 40 hours per week has declined from 71 to 61 percent, and in urban areas it has declined from 47 to 40 percent. Underemployment was and remains largely a rural and agricultural phenomenon: the median hours worked per week in rural areas are 35 while in urban areas they are 44. In agriculture, the median hours worked per week are only 33, while in all other sectors, they are over 40. While trends in working hours are positive, and indicate an increase in income-earning opportunities for the workforce, there is clearly potential for providing more opportunities for utilizing more fully the labor of the rural poor.

<i>Underemployment has declined in Vietnam during 1993-98</i>						
Table 3.5: Hours of Work by Rural/Urban, 1993 and 1998						
Hours Worked per week	Proportion of People Employed (percent)					
	1993			1998		
	Rural	Urban	Total	Rural	Urban	Total
1-15	14	12	13	12	10	12
16-39	57	35	53	49	30	45
40-50	17	22	18	18	27	20
51-60	8	16	10	11	16	12
61+	4	14	6	9	17	10
Total	100	100	100	100	100	100

Source: World Bank estimates based on VLSS93 and VLSS98.

16. Some people in Vietnam are working extremely long hours and this proportion has increased during the last five years (Table 3.5). The proportion of people working more than 50 hours per week has gone up from 16 percent of the workforce to 22 percent. The bulk of this increase has been in rural areas. Those bearing a very severe workburden (more than 60 hours per week) have also increased from 6 percent to 10 percent of the workforce. The increase has been faster in rural areas, and as a result, workers in rural areas make up 70 percent of this category in 1998, instead of 55 percent. Thus, a reduction in underemployment and an increase in hours worked can explain part of the growth in incomes and expenditures of the last five years. There is clearly still some potential for further gains from reducing underemployment in rural areas.

2.4 Unemployment declined in Vietnam during the mid 1980s

17. The rate of open unemployment also declined in Vietnam between 1993 and 1998.⁶ Unemployment is still a relatively minor phenomenon, with only 2.2 percent of the workforce unemployed in 1998, down from 3.7 percent in 1993 (Table 3.6). As discussed earlier, widespread open unemployment in developing countries is usually low and is usually an urban phenomenon, because lack of work in rural areas manifests itself as underemployment rather than open unemployment. Thus, as in Vietnam, the urban unemployment rate is always considerably higher than the rural one. Both the urban and rural unemployment rates have declined between 1993 and 1998: the urban unemployment rate declined from 7.7 percent to 5.4 percent, and the rural rate declined from 2.6 percent to 1.4 percent (Table 3.6). The urban unemployment rate declined for both men and women and is currently higher for men (6.2 percent) than for women (4.5 percent). At least half of the unemployment problem in Vietnam is a transitional one, as students leave their schools and universities and enter the workforce. The remaining half (of the 879,000 unemployed in 1998) are older and these could be unemployed due to the structural and cyclical changes that the Vietnamese economy is going (Bales, 1999).

Unemployment is mostly an urban phenomenon

Table 3.6: Unemployment Rates in Vietnam by Rural/Urban and Sex, 1993-1998

	1993	1998
All Vietnam	3.7	2.2
By Rural/Urban		
Rural	2.6	1.4
Urban	7.7	5.4
Urban unemployment by sex		
Male	9.0	6.2
Female	6.4	4.5

Source: World Bank estimates, based on VLSS93 and VLSS98.

18. More recently, the impact of the East Asian crisis has led to a rise in unemployment in Vietnam that is not fully reflected in the VLSS98 data. The Ministry of Labor, Invalids and Social Insurance (MOLISA) has conducted a labor force survey in July of each year since 1996. This survey shows that urban unemployment increased from 6.0 percent in mid-1997, to 6.9 percent in mid-1998, and then to 7.4 percent in mid-1999.

⁶ We define unemployment as anyone who has not worked in the past 7 days, but who is seeking work, or has not sought work because she is waiting for a new job, think there is no work available, or don't know how to search for work.

3. GROWTH AND DIVERSIFICATION IN RURAL AREAS

19. As discussed above, the share of agriculture in output and employment is declining. For those living in rural areas, however, agriculture continues to be their main form of employment, though many rural households combine several different forms of activities and derive incomes from several different sources. Below, we examine how household incomes from these different sources have changed during 1993-98. The results shows that the living standards of rural households have improved dramatically during this period, primarily due to rising agricultural incomes and diversification of agricultural incomes on the farm, but importantly, also through a diversification of off-farm activities.

3.1 Sources of Rural Incomes

20. In rural areas, the most dramatic increases in household incomes have come from within the agricultural sector itself, with agricultural incomes growing by 61 percent between 1993 and 1998 (Table 3.7). Income from non-farm enterprises grew by a solid 31 percent, while wages and other incomes have remained virtually static. As a result, the share of household income derived from agriculture has gone up from 37 percent to 47 percent; that from household non-farm enterprises has remained more or less the same at about 19 percent; while that of wages and other sources of incomes has declined from 44 percent to 34 percent.

Agricultural incomes have grown faster than other sources of incomes in rural areas during 1993-98

Table 3.7: Sources of Household Incomes in Rural Vietnam, 1993-1998

Source of Income	Average Household Income (constant 1998 '000 VND)		Growth over 5 years (%)	Share of Household Income	
	1993	1998		1993	1998
Agriculture	2,867	4,606	60.6	37.2	46.8
Non-farm enterprises	1,443	1,884	30.5	18.7	19.2
Wage income	1,687	1,685	-0.1	21.9	17.1
Other income	1,710	1,663	-2.8	22.2	16.9
Total	7,707	9,838	27.6	100.0	100

Source: World Bank estimates based on VLSS93 and VLSS98.

Notes

1. Agriculture includes income from crops, livestock and aquaculture but excludes capture fisheries.
2. Other incomes include rental incomes, pensions, scholarships, remittances, gifts, income from home processing, interest on savings, and lottery winnings.
3. 1993 incomes inflated using poverty line deflator.
4. To remove the effect of outliers, the top percentile of each income source have been excluded. For agriculture, where some livestock costs are problematic, the bottom percentile is also excluded in calculation of. Average household income.

21. Assessment of the extent to which the rapid growth in crop incomes has been due to different crops is problematic, as the VLSS data do not allow agricultural inputs or land taxes to be divided between crops. However, gross revenue figures for different categories of agricultural activities can be calculated (Table 3.8). These show that there has been tremendous diversification away from rice during 1993-98. The real revenues from rice cultivation have increased by about 21 percent over this period compared to 53 percent for livestock and aquaculture; 55 percent for other food crops; 66 percent for industrial crops (such as soyabeans, cotton, and sugar); 127 percent for perennial crops (such as coffee, tea and rubber); and 112 percent for fruit trees. These figures confirm the important impact that Decree 10 (which defined farm households as autonomous economic units) and the 1993 Land Law have had on patterns of agricultural production. They also confirm the importance of crop diversification in increasing rural living standards that have been raised in many of the PPAs (see Box 3.3).

Agricultural diversification has played an important role in poverty reduction during 1993-98

Table 3.8: Growth in Agricultural Revenues, 1993-1998

Source of Revenue	Average Revenue per Household (constant 1998 '000 VND)		Growth over 5 years (%)	Share of Agricultural Revenue	
	1993	1998		1993	1998
Rice	2,629	3,185	21.2	50.9	43.6
Livestock and Aquaculture	1,480	2,269	52.3	28.7	31.1
Other Food Crops	465	721	55.0	9.0	9.9
Industrial Crops	222	368	65.6	4.3	5.0
Perennial Crops	133	301	127.1	2.6	4.1
Fruit Trees	194	411	112.3	3.8	5.6
Agro-forestry	41	41	0.6	0.8	0.6
Total	5,164	7,296	41.3	100.0	100.0

Source: World Bank estimates based on VLSS93 and VLSS98.

Notes:

1. Rice includes both ordinary, glutinous and speciality rice. Revenues for glutinous and speciality rice may be underestimated in 1992/93 due to VLSS93's survey design.
2. Livestock includes livestock by-products. Aquaculture excludes capture fisheries.
3. Other food crops include maize, root crops, legumes and vegetables.
4. Industrial crops include soyabeans, peanuts, sugar, tobacco, cotton, jute and sesame.
5. Perennial crops include coffee, tea, rubber, coconut, cashew and mulberry.
6. 1992/93 revenues are adjusted to Jan 1998 terms using poverty lines deflator.
7. To better demonstrate trends, outliers above the 99th percentile have been excluded.

Agricultural diversification has played an important role in poverty reduction during 1993-98

Box 3.3: Paddy cultivation is supplemented by income from aquaculture, livestock and orchards in Ha Tinh

Mr and Mrs Xoan got married in 1992 and now have two children. For a year after their wedding they lived with his parents but they began to live as a separate household in late 1993. At first they lived a difficult life. They were allocated just two *sao* (about 1,000 m²) of paddy land, and made money by going to the forest to cut wood and pick bamboo shoots, from which they earned VND 15,000 to 30,000/day on average. They also planted about one *sao* of *Bu* orange trees. In 1994, their first child got diphtheria and had to be treated in the district hospital for almost three months. Mr and Mrs Xoan had to borrow money to pay the hospital bills. Then they started a fish pond and started to raise deer. The fish pond has earned them about VND 0.5 million per year but income from deer raising is very variable since their velvet (outer hide) can become damaged and sometime dead calves are born. In 1997, they earned VND 0.6 million from selling the velvet, but in other years have made very little money from their deer. Although deer raising is not a high income activity, it provides manure for their orange trees. Mrs Xoan thinks "deer manure is better than Urea nitrate" fertiliser. During the 1999 Tet holiday, she and her husband harvested their first orange crop from which they earned more than VND 5 million.

Mr and Mrs Xoan have now paid off their loans, sold their wooden house, and started to build a new brick house. Since they make the bricks by themselves and Mr Xoan has collected the timber they need from the forest, they only have to buy the cement. Step by step, and starting with very little capital, they have earned a small fortune by their hard work and careful planning.

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

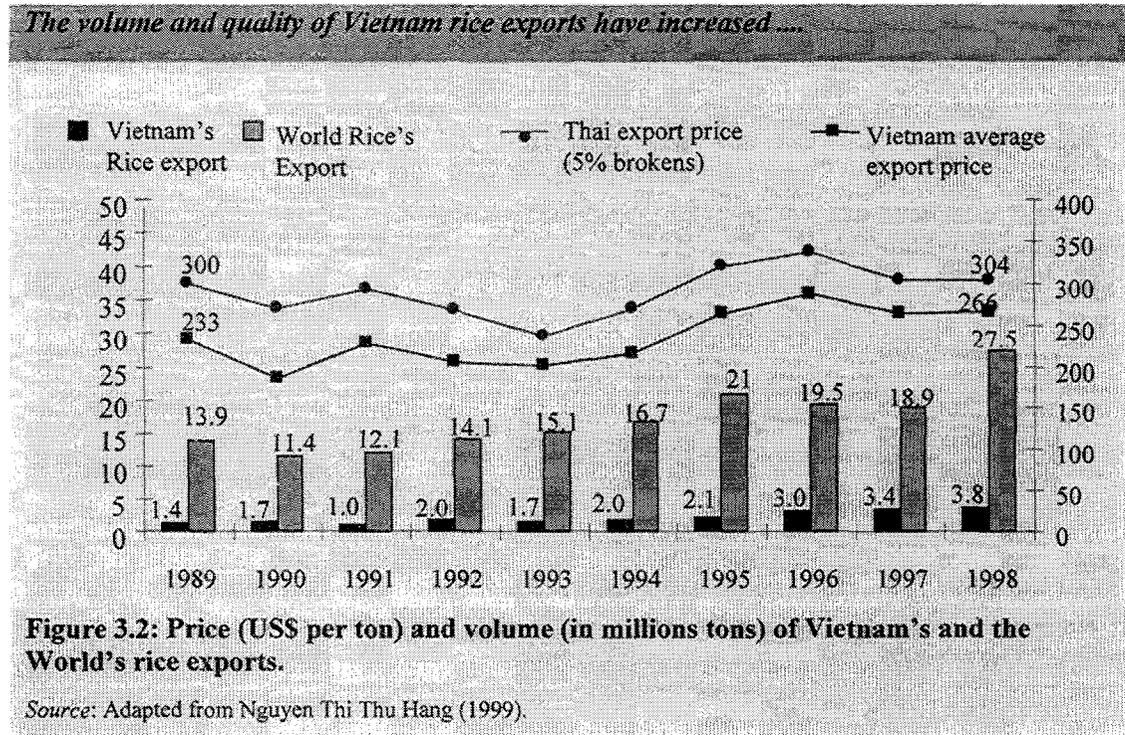
22. The dramatic increases in household incomes from livestock and aquaculture (although from a very low base in 1992/93) is also remarkable. Although aquaculture is a marginal and risk-prone activity in many areas, livestock ownership has increased dramatically. Especially fast increases in the ownership of pigs (22 percent) and poultry (25 percent) have been experienced over the last five years (GSO, 1998). The number of sheep and goats has also increased remarkably (46 percent), albeit from a tiny base (353,000 animals) in 1993. Vietnam has even started to export processed meat to neighboring countries. As the demand for meat products is strongly correlated with rising per capita incomes, the demand for livestock products is likely to increase substantially (from both domestic and overseas markets) in the near future. If Vietnam's livestock sector is to fulfill this demand, greater attention needs to be given to improving livestock nutrition, health and management by improving the quantity and quality of feed materials, the availability of appropriate breeding stock, veterinary and marketing services (Nguyen, 1998).

3.2 Can Rapid Agricultural Growth be Sustained in the Future?

23. The question that then naturally arises is to what extent can this growth in agricultural incomes be expected to continue into the future. Put differently, to what extent have the dramatic gains that agricultural producers have benefited from over the last five-years be attributed to "one-shot" adjustments associated the move to a market economy?

24. Over the last fifteen years, Vietnam has transformed itself from a marginal food importer to one of the world's largest exporters of rice. Since its started to export rice in 1989, both the

volume and quality of rice exports have grown exponentially reaching 3.6 million tons in 1997 and 3.8 million tons in 1998 (Figure 3.2). The quality of Vietnam's rice exports has also increased substantially over this period with the share of exports of medium and high quality (less than 20 percent broken grows) rising from 7 percent in 1989 to 64 percent in 1998 (Nguyen Thi Thu Hang, 1999). The share of high-quality rice (less than 10 percent broken) increased from less than 2 percent to 53 percent over this period. This has allowed the dollar price received for Vietnam rice exports to increase by 14.2 percent compared to 1.3 percent for high quality Thai exports. In 1999 rice exports are projected to reach 4.3 to 4.4 million tons, which would confirm Vietnam's position as the second largest rice export (after Thailand) in the world.⁷



25. Vietnam's exports of other agricultural products have also grown during the 1990s. Export volumes for coffee and rubber more than doubled between 1992 and 1997. Over the same period, exports of spices (such as anise, cinnamon and pepper) and some other crops (such as cashew nuts and tea) have also grown rapidly. Indeed, Vietnam is now the largest exporter of (*robusta*) coffee outside Latin America and supplies about one-fifth of the world market for anise and pepper. There is potential to develop these and other niche export markets (for example, cut flowers, bonsai plants, kumquats and *japonica* rice in Japan and South Korea) further. However, to maximize export revenues greater attention needs to be paid to product quality and marketing, in addition to ensuring that small niche markets are not over-supplied.

⁷ Note that because of the volatile nature of the international rice market in which exports from certain large countries, such as China and India, can double or halve from one year to the next, Vietnam's position in world export markets can be expected to vary from year to year.

26. Vietnam has also started to export livestock products, although the majority of demand comes from within the country. In all of these markets, Vietnam is well-placed (both because of cost-advantages and its efforts to improve quality of its export commodities) to continue exporting substantial volumes. However, the greater the share that Vietnam comes to occupy in world export market, the more vulnerable it will be to changes in world market conditions, most especially in the thinly traded rice market. Improved export performance is therefore likely to be associated with increased exposure to commodity price shocks. Since they typically lack the “insurance” mechanism or assets to protect themselves against such shocks, Vietnam’s small export crop producers are likely to be especially vulnerable to such shocks.

27. Since rice accounts for about 55 percent of all crop revenues, it is also important to examine the extent to which the rise in rice production and exports has been the result of increasing productivity on existing paddy land, and to what extent the result of area expansion. According to the GSO statistical yearbooks, the area sown to paddy has increased by 12 percent between 1993 and 1998 while paddy yields have increased by almost 14 percent over the same period (from 3.4 tons/hectare to 3.9 tons/hectare) suggesting that yield and area effects have both made important contributions.⁸ However, nominal rice prices have increased by some 68 percent over the same period suggesting that it is price rather than area or yield effects that account for the vast majority of the rise in rice revenues. Almost half of this increase is due to realignment of the exchange rate, a fifth due to increases in international rice prices and the remainder due to improved marketing efficiency and quality (Nguyen, Fetzer and Haughton, forthcoming).

28. Given the shortage of land (especially of paddy land) in Vietnam, the question of how much scope there is to increase rice yields is of considerable importance to agricultural growth in the future. The question of how close is rice production in Vietnam to the yield frontier is a controversial one. In 1994, paddy yields in Vietnam were, on average, comparable to those in neighboring countries (Table 3.9). Since then the GSO reports that Vietnam’s paddy yields have increased to 3.9 tons per hectare. However, Vietnam’s yields are still below those in Indonesia and China⁹. Vietnam’s paddy yields also lag those in industrialized countries, such as the USA and Australia, which use capital intensive production methods. Comparisons with these countries are complicated by the fact that they produce several types of rice. Nonetheless, with some 29 percent of annual crop land still not irrigated (GSO, 1999), and only about three-quarters of its paddy land planted to high – yielding varieties (IRRI, 1993), there is still scope for Vietnam to increase the productivity of its paddy land.

⁸ Note that the estimate of paddy yields at 3.9 tons/hectare is very close to the estimate of 3.8 tons/hectare from the VLSS98.

⁹ It should be noted that China’s high rice yields are, in part, due to heavy subsidies on fertilizer and other inputs.

There is scope for Vietnam to increase its paddy yields

Table 3.9: International Paddy Yields (tons/ha)

Country	Yield
Australia	8.3*
Bangladesh	3.7
China	5.9*
India	2.4+
Indonesia	4.3
Laos	2.6
Pakistan	2.5+
Philippines	3.0
Thailand	2.2
USA	6.7*
Vietnam	3.4

Source: International Rice Research Institute.

Notes: All figures relate to paddy yields in 1994.

* Yields for Australia, China, India and the USA include both *japonica* and *indica* varieties. Yields for India and Pakistan include *basmati* and ordinary *indica*.

3.3 Policies to Stimulate Rural Development

29. The issue now is how will Vietnam's agricultural growth and rural development take its next major step forward? Since many of the easier gains from the agricultural reforms of *doi moi* have now been exploited, future progress requires new ways to raise farm productivity. Outside the Central Highlands, most good agricultural land has been allocated and new farm households and rural settlers must make do with the lower quality land. In the Red River delta, farms are already small and highly fragmented and without further crop diversification and growth in off-farm employment, chronic underemployment will rise. In the Mekong delta, landlessness is becoming a problem as consolidation of farms occurs. In other locations, particularly in upland areas, common property resources are being over-exploited, putting their sustainability at risk. Broadly, however, income gains must come from increased agricultural productivity as the farm sector progressively sheds workers into a growing rural non-farm sector. While movement in this direction will create opportunities, it also poses risks. Farm households must cope with the risks of increasing commercialization, including the production risks associated with crop and livestock pests and disease, and the marketing risks associated with market imperfections, lack of reliable information and volatile prices. As Chapter 5 argues, the rural poor are especially vulnerable to such risk because they usually lack the assets or access to credit that provide protection from such community-wide shocks.

30. To ensure that agricultural development contributes fully to rural income growth and poverty reduction in the future, a number of key actions are needed. First, reforms to liberalize

further the agricultural sector should be continued and deepened. *Doi moi* has brought significant gains to rural producers, and Government should continue to liberalize any remaining restrictions on production and trade of agricultural commodities. Restrictions on the use of land, access to high quality seeds and adequate fertilizer, and the rice export quota system and highly variable export taxes all prevent Vietnam's farmers from making the most of their opportunities. The influence of agricultural SOEs over input, output and export marketing should be reduced and farmers permitted fully to determine the shape of their own enterprises.

31. . Second, Vietnam's land law needs to be fully implemented. The 1993 Land Law gave land users the ability to transfer, exchange, lease, inherit and mortgage land. But the mechanisms to administer land transactions at the provincial level are still not in place. In addition, a major effort is needed to address the special problems of land use rights in the uplands to ensure that occupants retain and utilize their property with security.

32. . Third, rural finance needs to be overhauled as a key part of overall banking reform. Although there is an extensive network of formal credit providers (see Box 3.4), the PPAs and other studies show that most rural households rely on informal credit sources. The poorest rural households and most upland people have no access to formal credit and rely on loan from relatives, friends and traders/moneylenders. Use of rural credit will only grow when the distortions in the credit market, such as caps on lending rates, are removed and the delivery system begins to service rural clients more directly. In particular, the formal rural finance system lacks the mechanisms to serve very small borrowers and the resources to serve remote areas.

Sound financial services have an important role to play in creating opportunities in the rural sector

Box 3.4: Vietnam's Rural Banking System

Recent estimates (Johnson, 1998) suggest that less than half of all rural households are served by the formal sector. For those rural households who use the formal financial system, there are just three main institutions: the Vietnam Bank for Agriculture and Rural Development (VBARD), the Vietnam Bank for the Poor (VBP), and the People's Credit Funds (PCFs). The VBARD has over 2600 branches throughout the country and is the only bank in 20 of Vietnam's 61 provinces (World Bank, 1998). However, its network is strongly correlated with communications networks and proximity to district centers. The VBP established in 1996 operates within the infrastructure of VBARD, and has a specific mandate to lend to poor households. People's Credit Fund (PCFs), some of them sponsored by NGOs, are also an important source of small-scale credit. However, both VBARD and PCFs are also more likely to focus first on wealthier customers who can offer collateral for loans. Thus poor households can often only borrow from the VBP.

Important issues to be addressed by the financial sector include:

Policy Environment: In Vietnam, the government is both a regulator of the banking sector (via the central bank) as well as an active participant (via the state-owned commercial banks that dominate the industry). The failure to clearly separate these roles has produced a policy environment that is inconsistent with sustainable financial intermediation.

Institutional issues and access: The main formal financial institution which should provide services to the poorer sections of Vietnam, the VBP, suffers from a number of well-documented structural problems. The PPA exercises reveal that the poorest households do not generally use even subsidized VBP credit. This may partly be due to self-exclusion (because of fears of indebtedness), but also reflects the restricted outreach and limited range of products offered by formal institutions. For the poor who do gain access to VBP loans, there is a choice of a single product: a three year subsidized production loan. However, the needs of rural households are far more complex than this.

Recognition of the limits of financial services: The provision of subsidized loans is one of the main elements of the government's HEPR strategy but the appropriateness of subsidized credit is questioned by many donors and NGOs. Loans in themselves, whether subsidized or not, are only a means to an end. If there are no sound investments to be made, or the borrowers are already heavily indebted, it is unlikely that credit provision will be an effective means of increasing household incomes.

33. Fourth, investments need to be made in rural infrastructure. The Government has made this a priority and donors should support it actively, targeting their resources at Vietnam's poorest communes in order to improve basic access, provide clean drinking water and sanitation, adequate school classrooms and health centers, and electrification.

34. Fifthly, farmers and fisher-folk require support from an agricultural research and extension system that is focused, client-oriented and better resourced, and that includes a role for the private sector. Crop, livestock and aquaculture enterprises can be made more productive with access to new technologies and better and more timely advice. Agricultural research and extension also needs to pay greater attention to the distinct problems of the mountainous and ethnic minority areas, by developing technologies suited to upland conditions and promoting them in ways that ethnic minorities can understand.

35. Finally, the increasingly urgent issue of water resource management needs to be addressed. Vietnam has abundant water but its seasonal and geographic concentration (75 percent of mean annual total flow in 3-4 months and 75 percent of mean annual discharge in two rivers, the Red river and the Mekong river) require a sophisticated system for allocating water

and substantial investment in inter-seasonal storage, flood control, and bulk water distribution facilities. An important first step in reform has been the 1999 passage of the Law on Water, which sets out the principles for water use and the responsibilities of the stakeholders. The Law is generally consistent with international best-practices for holistic water resources management. The next, more difficult, step is to develop the decrees, procedures, and guidelines to put these principles into operation. This will require extensive consultation and adaptation to local circumstances and evolving devolution of local water management, infrastructure operation and maintenance, and financial responsibility. It will also require substantial building of institutional capacity at all levels, from village to highest levels of government, plus substantial investment in river basin planning and modeling.

36. The policy and institutional changes listed above are necessary for stimulating agricultural growth and diversification in rural areas. But, in the future, more emphasis will need to be placed on the growth of non-farm incomes in rural areas. These incomes have grown by 31 percent during 1993-98. While this is more than respectable by the standards of most countries in the region, they have lagged behind the growth of other sources of incomes in Vietnam, such as crop and livestock incomes. The VLSS data show that non-farm enterprises remain dominated by retailing and food processing, which accounted for 34 percent and 12 percent of all rural non-farm enterprises in 1998.¹⁰ Since the majority (85 percent) of rural non-farm enterprises employ just one or two workers, most (92 percent) of their workers are family members, and more than three quarters of their workers also engage in agricultural or wage employment, their capacity to generate employment is still quite limited.

37. Comparisons are frequently drawn between Vietnam's and China's approach to the non-farm rural sector (Perkins 1998; World Bank, 1998). To date, Vietnam has yet to achieve the dramatic growth in rural non-farm enterprises that were associated with the development of township and village enterprises (TVEs) in China. Indeed, in the five years between the two VLSS surveys, the percentage of rural households with at least one non-farm enterprise has remained stagnant at around 40 percent. In contrast, in urban areas, this proportion has risen from 48 to 62 percent. However, differences in firm registration practices mean that many larger non-farm enterprises, which would in China be classified as TVEs (and therefore private sector), are considered to be state-owned enterprises in Vietnam (O'Connor, 1998).

38. There is enormous potential for non-farm enterprises to play a more prominent role in generating employment and incomes during the next five years of Vietnam's development. Many observers would point to administrative constraints (both real and perceived) and shortage of capital as the critical constraints to the development of the non-farm rural sector. Since this sector is likely to be the sector that absorbs much of the surplus labor in agriculture, the lack of unexploited potential in the non-farm sector should be an area of focus of policy makers. If Vietnam's increasing labor force is not to swell the ranks of the rural underemployed and lead to greater distress migration to the cities, greater attention to the development of the non-farm rural

¹⁰ Other important rural non-farm enterprises in 1997/98 include, fisheries (9%), wood, rattan and bamboo products (8%), textiles (6%) and transportation (4%). Some 63% of all non-farm enterprises enumerated in VLSS2 were located in rural areas.

sector is essential. Indeed, the further development of this sector presents one of the most significant challenges to Vietnam's development and poverty reduction strategy.

4. PROMISING TRENDS IN THE URBAN INDUSTRIAL SECTOR

39. Between 1992 and 1998, the industrial sector grew by 13 percent per annum and increased its share of GDP from an estimated 27 percent to 33 percent (GSO, 1999). However, Vietnam's strong manufacturing growth and export record has, at least to date, not had a major impact on industrial employment, which grew by less than 4 percent per annum between 1992 and 1997. This represents less than 30 percent of the rate of industrial growth. In stark contrast, during the 1970s and 1980s, Asian countries which had a more labor-intensive pattern of growth--such as Korea, Singapore and Taiwan--were able to raise industrial employment at annual rates close to 80 percent of their industrial growth. The same is true for Indonesia in the early 1990s.

4.1 The Private Sector in Vietnam is Small but Labor-Intensive

40. One explanation for Vietnam's slow growth of industrial employment lies in the capital intensive nature of much of its industrial sector, which is still dominated by state-owned enterprises specializing in minerals, petrochemicals, and metals. These enterprises, which draw capital and other resources away from the private sector, are sheltered from foreign competition by tariffs and a trade control system which favors import substituting activities and production of non-traded goods over exporting activities (CIE, 1998)¹¹. In addition, State enterprises are still heavily protected against domestic competition from private enterprises. The capital-intensive and enclave nature of such industries tends to minimize both employment creation and spillovers into the rest of the economy.

41. During the period 1995-98, the industrial state sector has been growing at more than 10 percent per annum and still accounts for almost half of industry's value-added (Table 3.10). In terms of employment, however, the state enterprise sector's contribution is much less impressive. In 1997, it provided jobs for less than one fourth of industrial workers. This contrasts with the small but much more labor-intensive Vietnamese non-state sector, which accounted for only 22 percent of output but employed more than 64 percent of workers in 1998. This suggests that the lack of industrial employment growth in Vietnam is to an overwhelming extent due to the small size of the private sector. In 1998, there were only 457 private registered manufacturers with more than 100 full-time workers (MPDF, 1999).

¹¹ Vietnam's highest tariffs are imposed on consumer and finished goods with intermediate and capital import attracting lower tariffs. This results in effective rates of protection of over 100% for heavy industrial items such as ferrous metals, plastics and paper products (CIE, 1998).

The private sector in Vietnam is small but labor-intensive

Table 3.10: Growth and Employment in the Industrial Sector in Vietnam

	Industrial growth (%) (1995-98)	Share in industry (%) (1998)	Share in industrial employment (%) (1998)
State Sector	10.2	46.2	24.2
Foreign Investment	22.7	31.8	11.5
Domestic Non -State Sector	9.2	22.0	64.3
--Of which:			
-Private and Mixed	21.6	7.9	25.2
-Collective	8.7	0.6	1.3
-Households	4.0	13.5	37.8

Source: Column 1 and 2 are from GSO (1999); column 3 based on VLSS98.

4.2 The foreign-investment sector has brought in foreign exchange and new technology to Vietnam, but has failed to generate much employment so far

42. The surge of foreign direct investment into Vietnam in the mid- to late 1990s has yet to alter this situation to any significant degree. In 1998 foreign investment accounted for almost one third of industrial production but only for 12 percent of employment (Table 3.10). VLSS data also shows that while wage employment grew by 50 percent per annum in the five years after 1993, it did so starting from a very small base so that the total number of wage jobs in foreign enterprises went up from 39,000 in 1993 to 477,000 in 1998. By 1998, foreign enterprises still accounted for only 6 percent of wage jobs, and just over 1 percent of total employment in Vietnam.

43. Although the share of foreign capital flowing into light industry has increased in recent years, by the end of 1998 this sector had received only 12 percent of the total *stock* of foreign investment (Table 3.11). Most foreign investment is either in oil-related production, heavy industry, or real estate.

Most foreign investment in Vietnam has been attracted into heavy industry, oil and gas, and the real estate sectors

Table 3.11: Foreign Direct Investment Stock by Sector, 1998

Sector	FDI Stock as of mid-1998
Total Disbursed Capital (million \$)	10,139
Share of FDI by Sector	
Heavy Industry	24.1
Oil & Gas	22.2
Real Estate	17.8
Light Industry	12.4
Services, and Transport & Communications	10.3
Others	13.1
Total	100.0

Source: IMF (1999).

44. This structure of foreign investment in large part reflects Vietnam's high barriers to heavy industrial imports, which not only protect state enterprises but also attract foreign investors into import-substituting and capital-intensive activities (often in joint ventures with SOEs). It has been estimated that more than 70 percent of foreign investment occurs in sectors with effective rates of protection above 50 percent (CIE, 1998). This is generally inefficient. It creates local monopolies and raises the price of products relative to those that would have prevailed under free imports. Thus, although foreign investment has boosted local production and contributed to foreign exchange inflows, thus far, it has done little to create employment and alleviate poverty.

4.3 The Asian Crisis and Export-Oriented Growth

45. To what extent can the East Asian crisis be blamed for the failure of industrial employment to grow over the last two years? This, and indeed the overall impact of the East Asian crisis on the Vietnamese economy, is a contentious issue. Between 1992 and 1997, real export earnings had increased by an impressive growth rate of 19 percent per year and the share of trade in GDP had reached 86 percent. This is a high level by international standards. A large part of this growth was due to light manufacturing exports (principally footwear, garments and textiles), which expanded—albeit from a tiny base—at 45 percent per annum and rose from 14 percent to 37 percent of total exports (Table 3.12). This performance was largely supported by foreign investment, which accounted for more than 20 percent of light industrial exports in 1998.

Vietnam's light manufacturing exports had started to expand dramatically before the East Asian crisis hit

Table 3.12: Pattern of Exports, 1992-97

Export Category	Average Annual Real Growth Rate (%) (1992-1997)	Share in Total Exports, 1992	Share in Total Exports, 1997
Total Exports	18.8	100.0	100.0
Agriculture	11.1	49.5	35.3
Heavy Industry and Minerals	12.3	37.0	28.0
Light Industry	45.1	13.5	36.7
--of which:			
--Textiles and garments		na	16.4
--Footwear		na	10.6

Source: World Bank estimates based on data from GSO and Customs Department.

46. The Asian crisis has interrupted this expansion. Foreign direct investment disbursements to Vietnam fell from a staggering \$2.0 billion in 1997 (or about 10 percent of GDP) to less than \$800 million in 1998, with an estimated decline of \$612 million in light industry. They have fallen further to about \$600-\$700 million in 1999. In addition, real manufacturing export earnings grew by less than one percent in 1998 (though this trend has reversed itself in 1999 and light manufacturing exports seem to be picking up again). Had exports earnings continued to grow at their pre-crisis rates, Vietnam might have exported at least \$1.2 billion or more of light manufacturing exports in 1998. Given the labor content of Vietnamese exports, this represents the loss of up to 300,000 manufacturing jobs that have not been created because of the East Asian crisis (Belser, 1999).

4.4 Looking Towards the Future

47. Will future growth be more labor-intensive? Vietnam clearly has a lot of untapped comparative advantage in labor-intensive exports (Table 3.13). Even before the Asian crisis, Vietnam's share of labor-intensive exports was low compared to other countries in East and South-East Asia. While the share of manufacturing in total exports is only 37 percent in Vietnam, in East Asian countries, on average this share is 83 percent. Furthermore, this share was high in East Asia even a decade ago (72 percent), when some of these countries were only just embarking on this export-led growth path.

48. Vietnam's human capital and also its availability of labor relative to land is very high relative to other countries in East Asia (Table 3.13). In terms of its resource endowments, Vietnam undoubtedly satisfies the preconditions to replicate the manufacturing export and employment success of other East Asian nations.

Vietnam still has huge untapped comparative advantage in manufacturing exports**Table 3.13: Share of Manufacturing in Total Exports and Resource Endowments in East Asia**

Country	Share of Manufactures In Total Export Revenues		Average Years Of Education (1990)	Square km of Land Per 100 workers (1990)
	1990	Latest year		
Vietnam	n.a	36.7	6.3	0.75
China	72.9	86.7	5.9	1.14
Hong Kong	95.8	95.6	9.2	0.02
Indonesia	35.7	55.4	4.6	1.60
Korea	92.8	88.1	9.9	0.31
Malaysia	54.8	78.5	6.0	3.00
Philippines	67.5	87.6	6.9	0.80
Singapore	72.6	86.9	5.9	0.03
Taiwan, China	92.7	94.3	8.0	0.24
Thailand	60.5	73.3	5.6	1.36
Average (excluding Vietnam)	71.7	82.9	6.9	0.94

* All "latest year" data is from 1997 except Singapore (1998) and Taiwan (1996.)

Source: Export data is from COMTRADE for all countries except Vietnam for which data is from GSO (1998); education data from Barro and Lee (1996) and GSO (1998) for Vietnam. Land data is from World Bank (World Development Report, various issues).

49. To what extent is Vietnam's comparative advantage in manufacturing exports untapped and what is the cost in terms of forgone manufacturing jobs? Estimates indicate that Vietnam's untapped export potential could represent roughly 25 percent of its GDP and that up to 1.6 million jobs could be created in light manufacturing in the near future through labor-intensive exports (see Annex 3). With pre-crisis export growth rates, these jobs could be created in the next 3 to 5 years. But the ability of Vietnam to quickly realize this untapped comparative advantage and to sustain a labor-intensive pattern of growth in the medium term critically depends on Government policies towards trade and investment by the private sector.

50. International experience shows that export-oriented industrialization is impossible without the emergence of a dynamic private sector. Vietnam is not different. The ability to create employment through exports depends on the emergence of a stronger private sector, which exports on average three quarters of its production (MPDF, 1999). This sharply contrasts with state-owned enterprises, where it is estimated that no more than 12 percent of output is exported (MOF, 1999). Most useful would be a clear commitment by the Government to establish a "level playing field" between the private and the state sector, especially with regard to access to credit,

information and markets. Other specific actions which could foster stronger growth of the private sector include:

- Strengthening and liberalizing the financial sector: success in labor-intensive growth depends on the financial sector's ability to mobilize savings and allocate credit efficiently. Allowing market-determined interest rates would encourage both savings and loans to the private sector.
- Changes to land policies: Vietnam's current land policies starve the private sector of resources. Land leasing is expensive and procedures are lengthy.
- Establishment of a reliable legal framework: Rights must be more clearly defined and contracts must be enforceable. Barriers to competition and enterprise creation should also be removed.
- Provision of supporting infrastructure: Public investment should focus on providing infrastructure that is complementary to private sector activities. Particular attention should be given to rural areas and export-oriented manufacturing.

51. To summarize, despite the massive inflows of foreign capital between 1992 and 1997, Vietnam's industrial sector remains a relatively small and capital-intensive one with distinctive enclave characteristics. Prior to the onset of the East Asian crisis, there were promising signs of the emergence of a more labor-intensive, light industrial sector. Ensuring that this sector gets "back on track" and the opportunities for more equitably distributed industrial growth are achieved, presents a major challenge for poverty reduction in Vietnam in the future. As agricultural growth and diversification reaches its limits in the future, greater reliance will need to be placed on non-agricultural jobs—both in rural and urban areas—for creating opportunities and for reducing poverty.

CHAPTER 4

ENSURING EQUITY

AT A GLANCE:

EQUITY ISSUES IN VIETNAM

- There has been a small increase in inequality in Vietnam over the 1993-98 period, but inequality is still moderate by international standards.
- Most of this increase in inequality at the national level can be attributed to an increase in inequality between rural and urban areas. Urban growth has outpaced rural growth in all regions, with the exception of the Red River Delta.
- Inequality within rural areas has not increased; thus, despite concerns, there is no evidence that rural reforms have been associated with rising inequality.
- There has also been some increase in inequality between the regions.
- Gender analyses show inequality in the distribution of power within the household and highlights many problems which are specific to women. These problems include limited decision-making power within the household, extremely heavy workburdens, domestic violence, health problems, limited representation in institutions, limited access to education for some ethnic minority women, and unequal access to productive assets, such as land and credit.
- Poor households express a sense of alienation from decision-making processes and feel ill-informed about Government policies and programs. Often it is the better-off households who know more about Government services and how to access them.
- Although there is a mechanism to feed information down to the village level, this does not always function well. In many cases, the processes which are in place are not allowing the poor households, or the quieter members within households, to communicate their concerns and priorities back up through the system.
- The "Grassroots Democracy Decree" (Decree No 29) is an exciting initiative which provides an opportunity to improve the transparency of local government and to provide households with more information about local government activities and finances. This is still in the very early stages of implementation.

"Economic growth must be associated with social progress and equity in each stage as well as throughout the process of development. Social equity must be reflected in both the traditional distribution of the means of production and distribution of production output, as well as in the provision of conditions for all to have a chance to develop and utilize well their capabilities."

(VIIIth National Party Congress Documents, 1996).

1. The Vietnamese society places great emphasis on social equity. Even though the gains from the launch of the *doi moi* reforms in 1986 are evident in the form of rapid economic growth and poverty reduction, the Government has been very concerned about rising inequality during the transition to a market economy. While it recognizes that the wellbeing of the majority of the population has improved in the last decade, concerns have arisen over rising inequalities between the rich and poor, between rural and urban areas, between the various regions, and between different segments of the population. The Government strives to closely associate economic growth with social progress and to “*step by step achieving social equity and moving toward enabling everybody and every household to become better off.*”

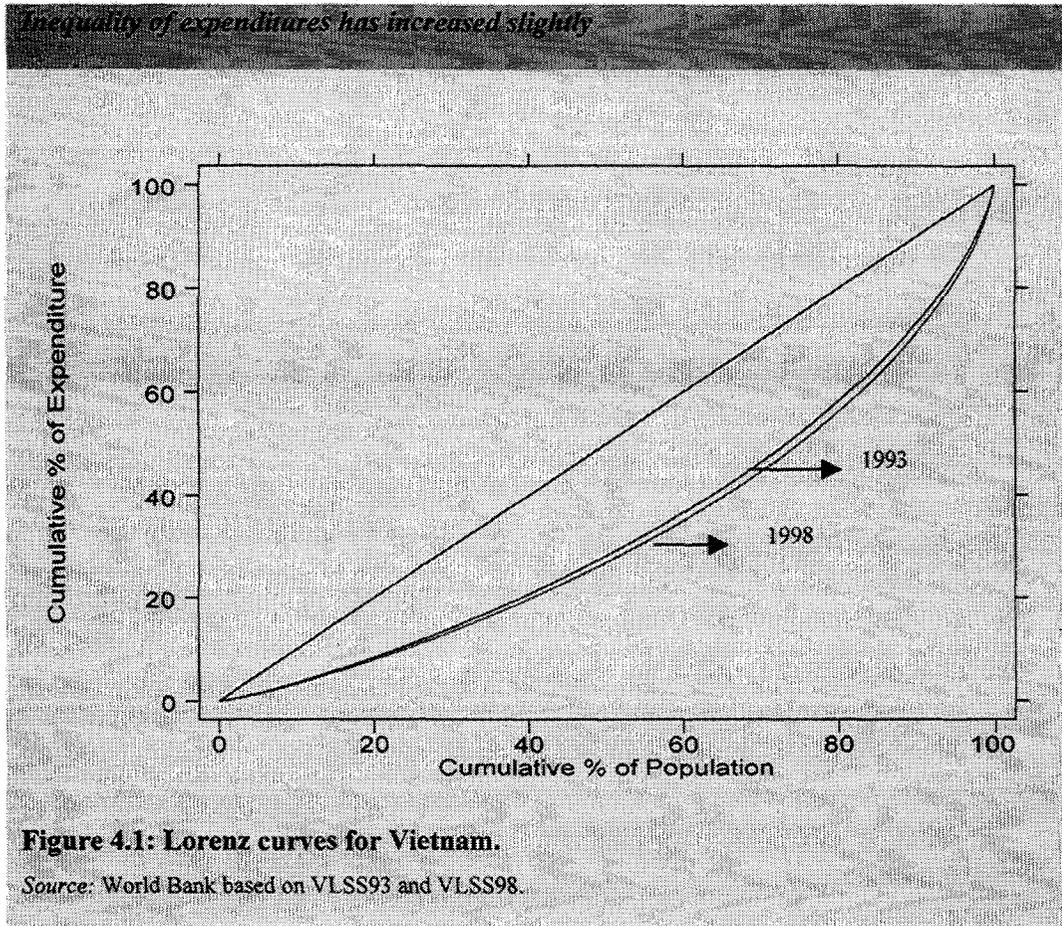
2. This chapter has three sections. The first will present the trends in inequality in Vietnam in the 1993-98 period and examine some of the factors that underlie these trends. It will look at the overall level of inequality in expenditures and focus on its regional dimensions. The second will focus on a major challenge facing Vietnam—that of attaining gender equity. And the third section will highlight some important issues that the poor have raised in the PPAs, relating the quality of governance—participation, transparency, accountability, and predictability—to issues of equity.

1. TRENDS IN INEQUALITY

1.1 Inequality of expenditures has increased slightly

3. The pattern of expenditure growth has resulted in an increase in inequality in Vietnam between 1993 and 1998. The Gini coefficient¹² for per capita expenditures has increased from 0.33 to 0.35. The Lorenz curve has shifted out slightly over the between 1993 and 1998, depicting a small rise in inequality (Figure 4.1).

¹² The Gini coefficient is a standard measure of inequality that varies between 0 (absolute equality) and 1 (maximum inequality). Graphically, it is represented by the ratio of the area between the 45 degree line (which represents equality) and the Lorenz curve and the total area below the 45 degree line (Figure 4.1).



4. Other measures of inequality also show that expenditures have become a little more unequal between 1993 and 1998. For example, the ratio of the richest to the poorest quintiles' expenditures rose from 4.9 in 1993 to 5.5 in 1998.

5. The PPAs also confirm that the poor feel that inequality has risen and that they care not only about their absolute levels of welfare, but also about their relative positions in society:

“Economic conditions are improved if we compare our lives with how they were in the past. But after thinking about it a little more, we find that we are still going down because while we have come up one step, the rest of society has gone up ten steps.”

Ha Tinh PPA, Action Aid Vietnam (1999).

6. It needs to be kept in mind, however, that while there has been some increase in inequality, by international standards, Vietnam remains a moderately equal society: its levels of inequality are comparable to those in some South Asian countries but are lower than those in some other East Asian countries (Table 4.1).

Vietnam has levels of inequality comparable to those in South Asia but lower than those in East Asia.

Table 4. 1: Some International Comparisons of Inequality

Country	Survey Year	Expenditure Gini
Bangladesh	1995/96	0.34
India	1996	0.33
Indonesia	1996	0.37
Pakistan	1996/97	0.31
Peru	1997	0.35
Thailand	1998	0.41
Vietnam	1998	0.35

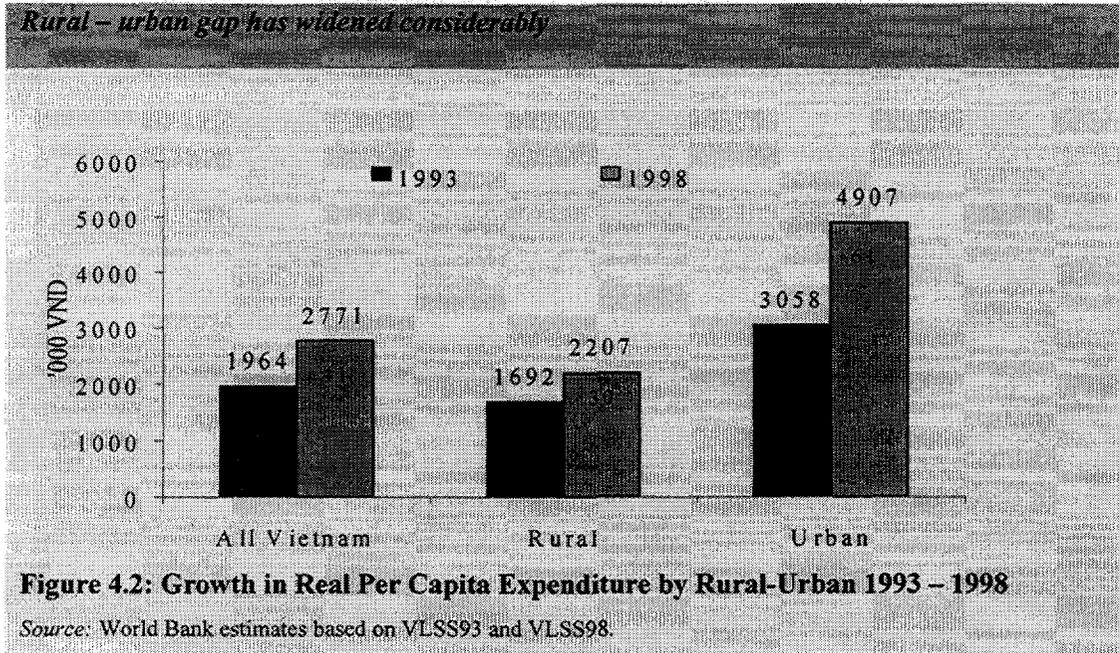
Source: World Bank.

7. Underlying this widening gap between the poor and the better off is a widening of the gap between rural and urban areas, as well as a complex regional pattern of growth. This is examined below.

1.2 Reforms have been associated with almost no changes in inequality within rural areas, but a growing gap between urban and rural areas

8. The Government has been concerned for some time now about the unbalanced pattern of growth and the widening of the rural-urban gap as a consequence. This gap has indeed widened considerably between 1993 and 1998 (Figure 4.2)¹³. This is because, during this period, while per capita expenditures in rural areas increased by 30 percent (or 5.4 percent per annum), in urban areas they grew twice as fast (61 percent or 9.9 percent per annum). This has led to the ratio of urban to rural expenditures increasing from 1.8 to 2.2. It has also affected the overall distribution of expenditures. The bottom three quintiles are largely made up of the rural population, while the top quintile predominantly consists of urban dwellers. Since the poor are largely rural and the better off are largely urban, if the rural/urban gap widens, it will lead to a widening of the gap between the poor and the better off.

¹³ Note that in Figure 4.2, the numbers in the bars for 1998 represent the percentage increase in real per capita expenditures between 1993-98.



9. To look at this issue further, we use the Theil L index of inequality, which is an index that can be decomposed into a *within group* component and a *between group* component and can therefore be used to understand better the underlying causes of the level and trends in inequality. The level of inequality is less in rural areas than in urban ones (Table 4.2). It also shows that between 1993 and 1998, inequality within rural areas has decreased slightly, while within urban areas, it has increased somewhat. If we look further at overall inequality in Vietnam, the Theil Index also shows an increase. Decomposing this increase in inequality, we find that 96 percent of the increase in inequality in Vietnam during this period can be attributed to an increase in inequality *between* rural and urban areas, and only 4 percent was due to an increase in inequality *within* rural or urban areas. The net *within group* effect is very small because the inequality within rural and urban areas is moving in opposite directions and more-or-less cancels each other out.

10. The Government of Vietnam has reoriented its development strategy to really focus on rural development. This is exactly the right thing to do. Policy changes and investments that support rural development will be critical for narrowing the rural- urban gap in the future.

The increase in inequality in Vietnam is almost entirely due to the widening gap between rural and urban areas, rather than due to inequality rising within either rural or urban areas.

Table 4.2: Decomposition of Inequality by Rural-Urban, 1993—1998

THEIL L INDEX OF INEQUALITY	1993	1998	Absolute change between 1998 and 1993
--Rural	0.128	0.126	-0.002
--Urban	0.187	0.197	+0.010
Decomposition of Inequality			
Total Inequality in Vietnam	0.177 (100%)	0.201 (100%)	+0.024 (100%)
--of which			
Inequality between rural-urban areas	0.037 (21%)	0.060 (30%)	+0.023 (96%)
Inequality within rural-urban areas	0.140 (79%)	0.141 (70%)	+0.001 (4%)

Source: World Bank estimates based on VLSS93 and VLSS98.

1.3 Inequality between regions has grown more than inequality within regions

11. The Government has also increasingly become concerned about the inequality between the seven different geographical regions of Vietnam, and about lagging regions. While all regions have benefited from this growth, the pattern of growth across regions has been quite uneven (Figure 4.3)¹⁴. The fastest and the slowest growing regions are both in the South. The fastest growing region has been the South East, which has been dominated by the fortunes of HCMC and has grown by a spectacular 78 percent in the 1993-98 period, while the slowest growing region has been the neighboring region of the Mekong Delta (18 percent). However, the Mekong Delta was starting with a relatively higher base level of expenditures, and despite this poor performance between 1993 and 1998, its levels of expenditures are still higher than those of several other regions. The poorest region was and remains the Northern Mountains region and the richest region was and remains the Southeast. Since expenditures in the Northern Mountains Region grew by only 31 percent as compared with a 78 percent expenditure increase in the Southeast, the gap between the poorest and the richest region of Vietnam has widened. The ratio of expenditures in the Southeast to those in the Northern Mountains has gone up from 1.9 to 2.6.

¹⁴ Note that in Figure 4.3, the numbers in the bars for 1998 represent the percentage increase in real per capita expenditures between 1993-98

The pattern of growth across regions has been uneven...

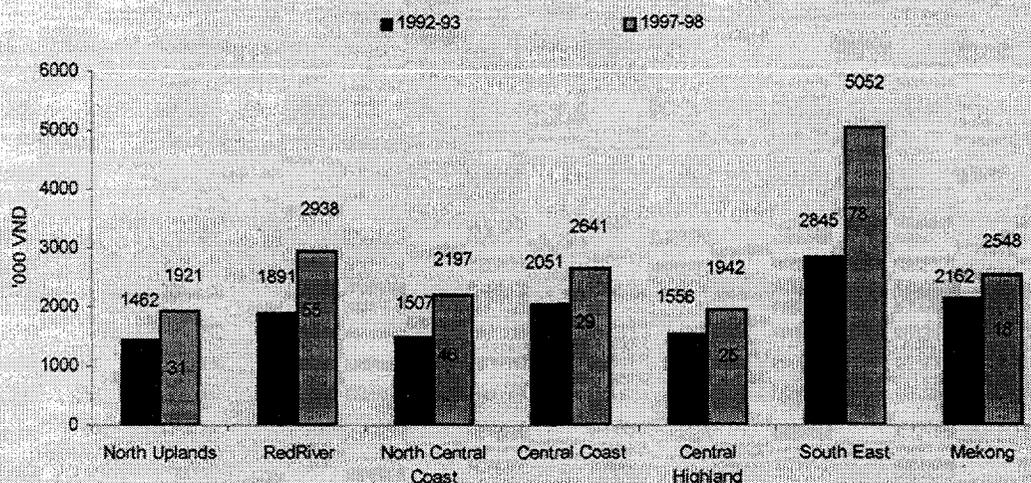


Figure 4.3: Growth in Real Per Capita Expenditure by Region, 1993 - 1998

Source: World Bank estimates based on VLSS93 and VLSS98.

12. Table 4.3 shows that of the total increase in inequality in Vietnam between 1993 and 1998, 83 percent can be attributed to the increase in inequality between regions, and the remaining 17 percent is due to increasing inequality within regions. Thus, the evidence seems to indicate that it is the widening rural-urban gap and the differences in growth between regions that are the major causes of the increase in inequality in Vietnam.

... and this has led to a small widening of the gap between regions

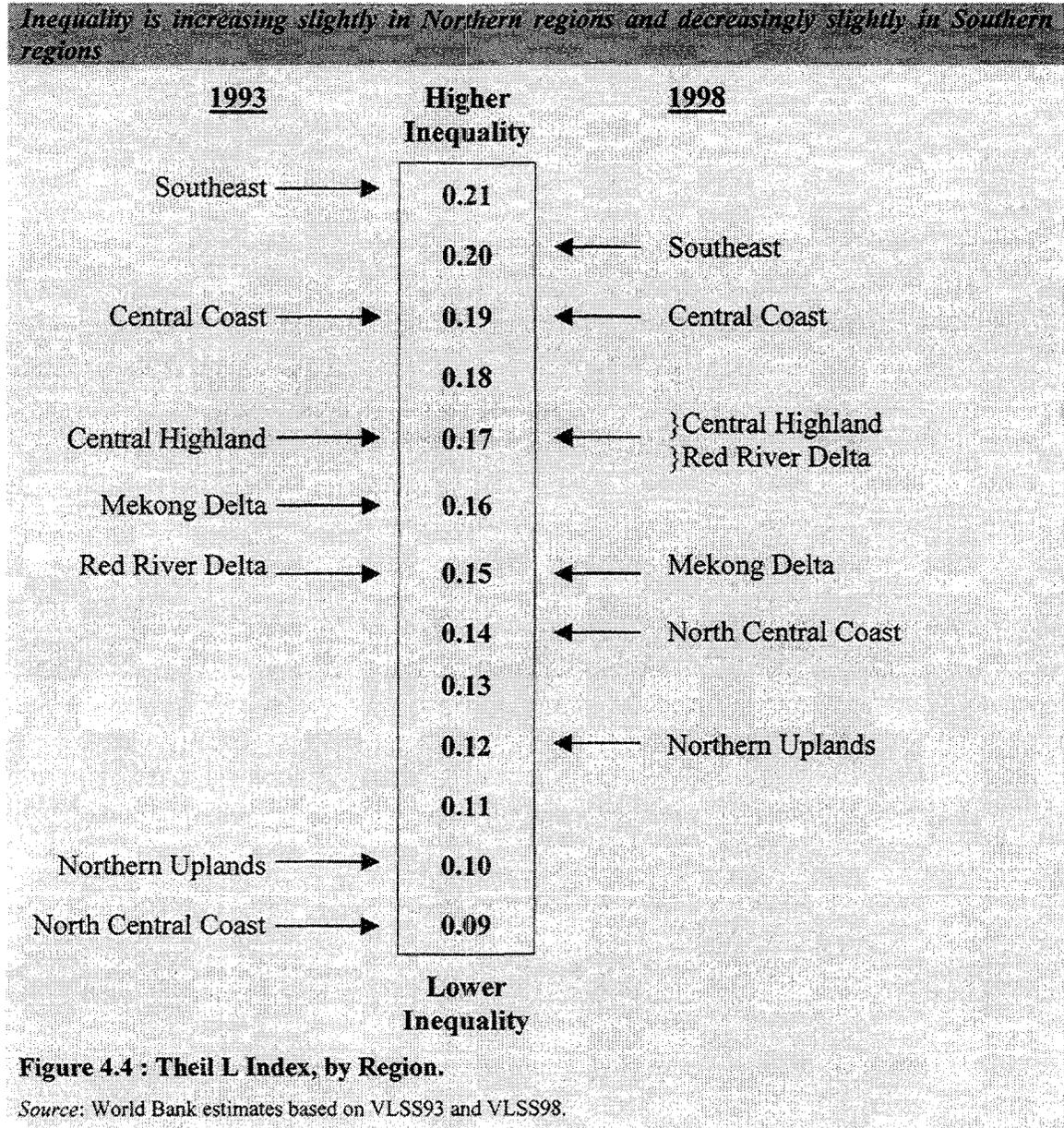
Table 4.3: Decomposition of Inequality by Regions, (Theil L Index of Inequality 1993—1998)

	1993	1998	Absolute change between 1998 and 1993
Total Inequality in Vietnam	0.177	0.201	+0.024
--of which	(100%)	(100%)	(100%)
Inequality between regions	0.026 (15%)	0.046 (23%)	+0.020 (83%)
Inequality within regions	0.151 (85%)	0.155 (77%)	+0.004 (17%)

Source: World Bank estimates based on VLSS93 and VLSS98

13. Figure 4.4 sheds more light on the issue of regional inequality. It shows, very interestingly, that the three regions that had the lowest inequality in 1993—Northern Uplands,

Red River Delta, and North Central Coast—have experienced a slight increase in inequality in the 1993-98 period, while the opposite is true for the other four southern regions.



14. Chapter 5 examines the need for better geographic targeting in development initiatives. Improved poverty mapping combined with better skills at the local level for diagnosis of problems will be necessary to counteract the imbalance between regions. The 1715 Poor Communes program, which targets poor communes is an example of the kind of initiative which might prevent poor areas from lagging further behind. However, this program targets only the poor in remote and mountainous communes. Additional efforts will be needed to identify and target the poor in other areas.

15. In six out of the seven regions of Vietnam, urban expenditures have grown at significantly faster rates than rural expenditures. The widest gap between urban and rural expenditure growth is in the North Central Coast, where the rate of urban expenditure growth (86 percent) is a staggering 49 percentage points higher than the rate of rural expenditure growth (37 percent) (Table 4.4). The Red River Delta is the exception—this is the only region in Vietnam where the rate of growth of rural expenditures (51 percent) has surpassed the rate of growth of urban expenditures (47 percent).

Urban areas have grown considerably faster than rural ones in all regions except the Red River Delta

Table 4.4: Rural-Urban Growth in Real Per Capita Expenditures by Region, 1993-1998

Region	Growth in Urban Expenditures (Percent)	Growth in Rural Expenditures (Percent)	Difference in Urban-Rural Growth Rate of Expenditures
All Vietnam	60.5	30.4	30.1
Northern Uplands	65.8	26.9	38.9
Red River Delta	47.2	51.4	-4.2
North Central Coast	86.4	37.2	49.2
Central Coast	39.1	25.5	13.6
Central Highlands	Na	24.8	Na
Southeast	78.1	59.1	19.0
Mekong Delta	35.7	10.6	25.1

Source: World Bank estimates based on VLSS93 and VLSS98..

16. Note that for ease of analysis, in this Report, we have used the dichotomy between rural and urban areas. While this might be helpful for some purposes, it needs to be recognized that this is rather a simplistic divide. In reality, there is no social or economic dividing line between rural and urban areas as many linkages bind together the fortunes of people residing in these areas (Figure 4.5). Hence, strategies for addressing poverty alleviation need to recognise the synergies between rural and urban development. For example, urban demand for food and agricultural products raises the prices of these products, which in turn raises rural incomes. Chapter 3 has demonstrated the importance of rising agricultural prices and incomes in poverty reduction in the 1993-98 period. Conversely, stagnation in agriculture and limited income-generating opportunities in the rural sector can push people to cities in search of a living. If the cities cannot absorb the extra labor, then urban poverty deepens. More work will need to be done in the future to understand better the role of these rural-urban linkages in reducing poverty in Vietnam.

Sustained poverty reduction relies on better understanding of urban and rural linkages

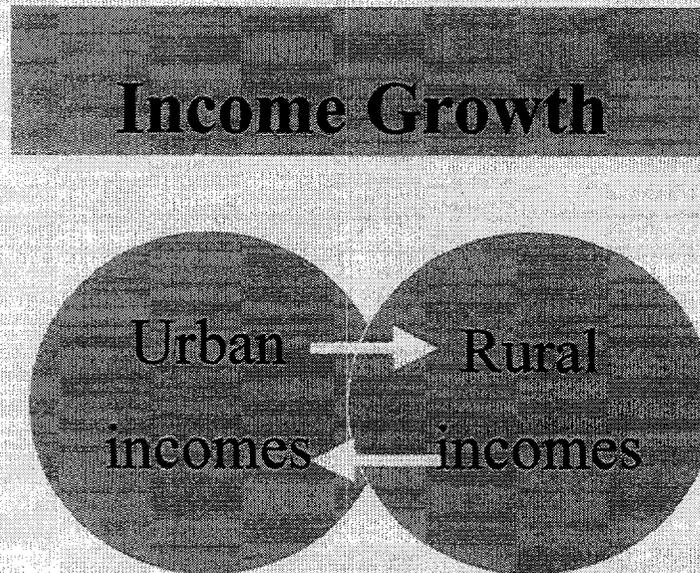


Figure 4.5: Linkages Between Income Growth in Urban and Rural Areas

2. GENDER EQUALITY

“We must respect women. One of the aims of the revolution is to ensure equality of rights for women. Society cannot be totally free so long as the women are not freed. Women must fight for their right to be equal with men. Men must respect them.”

President Ho Chi Minh.

17. National and international institutions are increasingly paying attention to the **challenge of inclusion**—how to have a pattern of growth and development that benefits all members of its society, not just the lucky few. We have seen in Chapter 2 how certain groups in Vietnam—especially ethnic minorities and some of the migrants to urban areas—are not sharing fully in the benefits of growth. This section will examine another challenge facing Vietnam—that of attaining gender equality.

18. At the 4th United Nations World Conference on Women (held in Beijing in September 1995), representatives of member countries—including Vietnam—adopted the Beijing Platform of Action to promote the advancement and empowerment of women around the world. All Governments were called upon to design and implement a national plan of action in conformity with the Beijing Platform for Action. Following the Beijing Conference, the Government of Vietnam promptly authorized the National Committee for the Advancement of Women (NCAFW) in Vietnam to formulate a National Plan of Action for the Advancement of Women in

Vietnam by the Year 2000. This Plan has an overall objective of improving the material and spiritual life of women and 11 specific recommendations of how to bring that about (Box 4.1).

19. Some of the objectives of the National Plan of Action (Box 4.1) have been fulfilled better than others. Chapter 1 showed that girls in Vietnam have had equal access to all levels of education and continue to do so (Table 1.2). The level of equality in net enrollment rates across all levels of education for boys and girls is indeed striking. Nutrition indicators presented in Table 1.2 also do not suggest a wide disparity between the care of male and female children.

Vietnam has adopted a national plan of action for the advancement of women with the objective of improving the material and spiritual life of Vietnamese women.

Box 4.1: National Plan of Action for the Advancement of Women in Vietnam

(1) **Overall Objective:** to improve the material and spiritual life of women; enhance and bring into full play their qualification, capacity and role; ensure the performance by women of their functions and their full and equal participation in all sorts of activities, especially in political, economic, cultural and social fields, in the cause of industrialization and modernization of a country towards the goal of "wealthy people, a powerful country, a just and civilized society"

(2) **Specific Objectives:**

(i) Create job opportunities, increase income, contribute to poverty alleviation and hunger eradication, and improve the quality of life for women;

(ii) Create equal opportunities for women in education, training and in improving their educational levels;

(iii) Improve the health care for and protection of women and children;

(iv) Enhance the role and position of women in leadership mechanisms and decision-making;

(v) Protect and promote women's rights and facilitate women's participation in social activities;

(vi) Enhance the role of the family;

(vii) Develop the role of women in the management of the environment and natural resources, contributing to sustainable development and to the improvement of the living environment;

(viii) Intensify communication activities to enhance the awareness of equal rights among men and women;

(ix) Contribute to the preserving and strengthening of peace;

(x) Enhance the capacity of the national machinery for the advancement of Vietnamese women;

(xi) Protect girl-children and facilitate their development in all fields.

Source: National Committee for the Advancement of Women, Government of Vietnam (1997).

2.1 Vietnam has achieved considerable gender equality in many areas

20. Vietnam performs well on many indicators of gender equality. If we look at education indicators—such as average years of schooling and adult literacy rates—that take into account past differences in schooling rather than just examining present enrollment patterns, then some differences emerge between the rates for males and females (Table 4.5). On average, females have only 5.6 years of education, while males have 6.8 years. The adult literacy rate for females (79 percent) is also about 11 percentage points lower than for males (90 percent). The health indicators in Table 4.5 do not show any signs of discrimination against female infants—on the contrary, both the infant mortality and the child mortality rates are lower for girls than for boys.

This pattern is consistent with that of other countries. However, the widening gap between the nutritional status of adult men and women is an area of concern and needs to be examined more closely (Table 1.2).

Vietnam has achieved considerable gender equality in some areas . . .

Table 4.5: Indicators of Welfare disaggregated by sex, 1998

	Female	Male	Total
Education Indicators			
Average Years of Schooling (6+)	5.6	6.8	6.2
Adult Literacy Rate (15+) (%)	78.8	89.6	83.5
Health			
Children who have received any Vaccination (%)	90.7	90.1	90.4
Infant Mortality Rate	19.2	35.6	--
Under 5 Mortality Rate	29.2	42.1	--
Labor Force			
Proportion of total employment	51.7	48.3	100.0
<i>--of which</i>			
Self-employed farm	54.4	45.6	100.0
Self-employed non-farm	55.2	44.8	100.0
Wage employment	39.8	60.2	100.0
<i>--of which</i>			
Agriculture	39.6	60.4	100.0
Manufacturing	37.1	62.9	100.0
Services	42.6	57.4	100.0
<i>--of which Government and social services</i>	49.5	50.5	100.0

Source: All data are from the 1998 VLSS, except the mortality rates which are from the 1997 Demographic and Health Survey.

21. Gender differences emerge when examining the labor force characteristics of males and females—while women make up more than half of total employment (52 percent), they make up only 40 percent of wage employment. The main sectors that offer wage employment to women are agriculture, light industry (especially textiles and garments), and Government and social services. The National Plan of Action specifically addresses the issues of job and training opportunities for women. Here, the public sector plays an important equalizing role—almost half of Government jobs go to women. It is in the heavy industries sector—mining, utilities, construction, and transport and communications—that women are underrepresented.

22. Expenditures and incomes cannot be calculated for females and males separately using the VLSS as, in common with household surveys in all other countries, they collected

information on these variables at the household level. The quantitative data from both surveys show that people living in female-headed households are usually materially better-off than male-headed households. In 1998, the mean per capita expenditures of female-headed households were 11 percent to 28 percent higher than those of male-headed households depending on the definition of sex of headship used (see Annex 4 for details). The incidence and depth of poverty (as measured by the headcount and poverty-gap indices) among members of female-headed households is also lower than for male-headed ones. However, if one examines household rather than per capita expenditures, then female-headed households do have lower mean household expenditures than male-headed ones. This is because, on average, female-headed households have fewer members. In addition, one sub-group of female-headed households, elderly women living on their own, are much poorer (and also more common) than elderly men living alone.

23. The PPAs and other qualitative data present a very different story of female-headed households. These households are commonly ranked in the very poorest categories by their communities and neighbors who emphasize some of the non-material disadvantages they face, such as their vulnerability and loneliness.

2.2 Further efforts are required in other, less visible, areas

24. While these quantitative indicators of access to education, health and employment are extremely important, these traditional indicators miss the more important gender issues. Most of these issues relate to *intra-household* inequality and they relate to inequality in the distribution of *power* rather than *incomes* within households. It is therefore, difficult to measure them quantitatively. Several issues of this nature have, however, been highlighted by the participatory studies (Box 4.2). Below we examine each of these issues briefly.

But further efforts are required in other, less visible, areas.

Box 4.2: Gender-Based Problems Identified in the PPAs

Problems identified in the four PPAs in Lao Cai, Ha Tinh, Tra Vinh, and Ho Chi Minh City include:

(1) Within households, women have less power than men

unequal decision-making power in the household;

disproportionately heavy workloads for women;

domestic violence;

women as a tool in coping with hardships.

(2) Women may be getting disenfranchised of their land use rights

gender-biased land titling.

(3) Women have unequal and inadequate access to certain basic social services

women's health issues;

lack of access to education for ethnic minority women.

(4) Women have less influence in the public domain

unequal access to and voice in institutions.

Source: PPA Synthesis Report, World Bank (1999a).

2.3 Within households, women have less power than men

(i) Unequal Decision-Making Power in the Household--There are interesting contradictions in the discussions on financial management in the households. While men often talk about women being the money managers (for example, in Ha Tinh) and suggest that important decisions are shared, this does not mean that the household is managed in accordance with women's priorities (or even shared priorities). Women in both Tra Vinh and Lao Cai commented on the amount of scarce household resources which are spent on alcohol and tobacco, both items used only by men. It seems that even if women are the nominal money managers, they do not actually have the power within the household to curtail this expenditure.

25. In Tra Vinh, almost all households reported that men spent a significant portion of household income on tobacco and alcohol, despite women's disapproval. One man said that he meets with his friends to drink about 20 times per month, each time spending around VND30,000 (or about VND600,000/US\$43 per month). One woman said "*whenever they make money, men in the neighborhood pool their money together for alcohol and food – if they have money they order a dog, if not, a duck....women do not dare to eat, they save their money in case someone in the family gets sick.*" In Lao Cai, a Hmong woman exclaimed: "*Men can spend money freely on drinking and cards, and yet we women don't dare even spend an extra bit on a piece of candy at the market.*"

26. An important area in which women report having little control is reproductive decisions. In Ha Tinh, the preference for a male child puts considerable pressure on women to keep having children until a boy is delivered: *"If you cannot produce a son, your husband will marry another girl and you'll be spurned by the people in your village."* In Lao Cai, women reported having to have more children even though the family could not afford it because the husband wanted more children. The PPA study team also listened to women whose husbands had beaten them when they found out that their wives had been fitted with IUD's and forced their wives to remove the IUD's. Women in Tra Vinh also reported a lack of control over reproductive decisions. There is increasing recognition of the need to involve men in reproductive health programs in order to achieve a better balance. UNFPA and the Population Council are both piloting projects on men's responsibilities in reproductive health.

27. Discussions about changes over time in Ha Tinh suggest that while women's authority within the household might have improved a little over recent years, men's authority remains dominant (Table 4.6). This is especially the case for all decisions to do with social affairs, which remain in the domain of men.

While women's authority within the household might have improved a little over recent years, men's authority remains dominant

Table 4.6: Changes in Women's Responsibility and Authority in Ha Tinh

	Average Scores (2 women's groups, 3 men's groups) Score of 10=most dominant in this role			
	Past		Present	
	Men	Women	Men	Women
Responsibility for family/housework	4.3	10	5	10
Responsibility in social affairs	10	4.2	10	5.5
Right to decide within family	10	5.3	9.7	6.5
Right to decide in social affairs	10	4	10	5

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

(ii) Disproportionately Heavy Workloads for Women—Several participatory studies have shown that women in rural Vietnam are typically working about 16-18 hours a day which is, on average, about 6-8 hours more than men per day. This is because, in addition to working outside the home, the burden of housework falls almost entirely on their shoulders.

"Men discriminate against us and there remains a biased view that women's work is minor. Men don't do anything to help women because of ideas about the differences between what husbands and wives should do."

Ha Tinh PPA, Actionaid (1999).

28. VLSS98 data show that 25 percent of women in the workforce (and 21 percent of men) are working more than 50 hours per week in income-generating activities alone (Table 4.7). And women make up a greater proportion of those with heavy workloads (working 51-60 hours per week) and very heavy workloads (working more than 61 hours per week). While they make up 52 percent of the workforce in Vietnam, women make up 54 percent and 57 percent of these two work categories. This—combined with the fact that they bear almost the entire burden of household work in Vietnam—leaves them exhausted with no time for anything except work.

<i>Women are working longer hours than men, even in income-generating activities</i>						
Table 4.7: Hours of Work by Gender, 1993-1998						
Hours Worked per week	Proportion of People Employed (percent)					
	1993			1998		
	Male	Female	Total	Male	Female	Total
1-15	12	15	13	12	12	12
16-39	52	54	53	46	45	45
40-50	20	16	18	22	19	20
51-60	10	9	10	12	13	12
61+	5	7	6	9	12	10
Total	100	100	100	100	100	100

Source: World Bank estimates based on VLSS93 and VLSS98

29. Discussions both in Ha Tinh and in Lao Cai suggest that men are beginning to contribute a little more to the burden of housework. It is clear from a study of their daily schedules, however, that this burden still falls overwhelmingly on the women's shoulders. Where this combines with long hours of agricultural or day labor, the total work burden which women endure is significant. The daily timetable for women in Lao Cai is illustrative of the work load of women in rural Vietnam (Box 4.3).

'Why am I still so poor when I work so hard?'

Box 4.3: Daily Timetable for a Woman in Lao Cai

4:00	Wake up; cook breakfast for family; prepare meal for pigs and chickens; collect water; feed pigs, chickens and horses
	Have breakfast and feed the family
6:30	
7:00	Walk to fields (often 3-10km away)
	Work in field
8:00-12:00 pm	
	Have lunch and rest in the fields
12:00-12:30	
	Continue working in the fields
12:30-5:00	
	Walk back home; collect fuel wood on way; or process hemp by hand
6:00-7:00	
	Cook dinner for family and animals; feed all, wash clothes and children
7:00-8:00	
	Grind corn and pound rice by hand for next day
8:00-9:00	
	Embroider clothes
9:00-10:00	
	Go to bed.
10:30-11:00pm	

Source: Lao Cai PPA, MRDP (1999).

30. There are several repercussions from this long working day. The first is that the women are quite clearly physically overworked, especially since in the upland areas there is a very good chance that they will also either be pregnant or breastfeeding whilst carrying out all these tasks. Women report a number of health problems which result from this overwork. The second consequence is that women have no time for social activities and, by extension, for learning in an informal environment from the experiences of others. Thirdly, women have no chance to participate in evening literacy classes, if available and relevant. Fourthly, women are unable to participate in village meetings and decision-making fora.

31. Experience across the world shows that the willingness of men to increase their contribution to household and childcare tasks clearly lags behind the increase of women's economic contributions to the family. Investing in small scale, appropriate household technologies that reduce women's workload, and in rural water and energy projects can be effective in cutting the domestic workburden. Reinstatement of childcare facilities outside the household, which were cut back because of withdrawal of subsidies after the introduction of reforms, could assist with tasks routinely performed by women or girls. Over time, public education campaigns regarding the shared household responsibilities of men and women, preferably with the use of high level men as positive examples, may lead to attitude changes among men.

(iii) **Domestic Violence**—Recent studies confirm that Vietnam has a relatively good legal framework on this issue: stipulations against domestic violence have been affirmed in the Constitution, and in laws and social policies, especially in the Law on Marriage and the Family, and the Criminal Code. Despite this, domestic violence seems to be widespread. The evidence on

whether it is rising or falling, however, remains mixed. (Le Thi Quy, 1999; Population Council, 1998; and the World Bank, 1999b).

32. There was strong evidence of significant levels of wife-beating in all PPA sites except Ha Tinh, where respondents suggested that husbands were now treating wives better because livelihoods had improved and the stress of economic hardship had lessened. In Ho Chi Minh City, it is the children who talk most about wife-beating when they discuss dimensions of poverty. Seeing their fathers beat their mothers causes immense distress for the children. The women themselves complain less about the beatings and the researchers in the Ho Chi Minh City study explained that this is because the women believe it is “normal” for husbands to beat up their wives.

33. In one highland village in the Lao Cai study, a women’s focus group estimated that 70 percent of husbands subjected their wives to regular physical violence. In another, lowland village, they estimated that 40 percent of wives were regularly beaten. The section on domestic violence in the Lao Cai study concludes ominously *“that these wife beatings occurred in both a remote, minority village as well as a midland, economically integrated village indicates that domestic violence against women cuts across economic and ethnic lines, and may be more widespread than is realized.”* Other studies also report that domestic violence—while exacerbated by the stress of poverty—is not caused by poverty alone. It is a practice that seems to cut across economic and social classes (Box 4.4).

Domestic violence cuts across economic and social classes

Box 4.4: Domestic Violence in a Highly Educated Family in Thanh Hoa.

Cao Van Oanh was a skilled medical doctor of a hospital in Thanh Hoa province. His wife was Cao Thi Xinh who was a secondary school teacher. Both of them were intellectuals. Outwardly, they appeared to be a very happy couple. No one could imagine that such a good medical doctor as Oanh could beat his wife very brutally. She was seen many times in the neighborhood with her face covered to hide the black and blue marks. One of the neighbors told the court that he had seen the pitiful wife kneeling at a bed leg while her husband put a glittering knife on her neck. Oanh and his father had killed his wife using tricks from his medical knowledge. As a result, Oanh was sentenced to 12 years of imprisonment.

Source: Le Thi Quy (1999).

34. Domestic violence appears to be the outcome of a complex set of factors ranging from socio-economic conditions to people’s awareness, from the cultural and domestic conditions to morality and value orientation. Societal attitudes play an important role in the practice of domestic violence (Box 4.5). The mass media and mass organizations--such as the Women’s Union, the Farmer’s Union, and the Youth Union--have an important role to play in influencing and changing people’s attitudes towards domestic violence and making it less acceptable in society.

Societal attitudes play an important role in the practice of domestic violence

Box 4.5: Attitudes Towards Domestic Violence in Vietnam.

International research shows that domestic violence is a world-wide phenomenon affecting an estimated 20 to 50 percent of all women. One of the most important factors affecting its prevalence is a society's attitude towards domestic violence. Although in Vietnam violence is considered as socially unacceptable, both women and men quite often view it as women's fault. In such cases, it is felt that the man was justified in hitting his wife.

"People think that this [domestic conflict] is unavoidable in family life, just like our ancestors before have said that 'even bowls and spoons in the shelf sometime are shaken away from the right place, let alone the husband-and wife relations.'" They think that this is normal. Only in cases when the wife gets injured because of a beating or when she is beaten repeatedly do people ask the local authorities to help. If they are only shouting and yelling they do not need help." Female, Women's Union Leader.

"There are many times we [women] are at fault. Therefore our husbands beat us. It is alright because we were wrong." Married woman, aged 26.

Source: World Bank (1999b).

35. Researchers in Vietnam find it difficult to identify clearly and precisely the main causes of domestic violence, but they have identified some factors that seem to play an important role. These include: economic causes such as hunger and poverty and stress in earning one's living; low education and "vestiges of feudalism" whereby people think more highly of men; cultural and social habits such as drinking, gambling, adultery and jealousy; and mental illness of the perpetrators (Le Thi Quy, 1999).

36. The PPAs report a very strong link between alcohol consumption and domestic violence, as illustrated by this passage from the Tra Vinh PPA. Campaigns which highlight the problems of excessive drinking might have a favorable impact on domestic harmony.

Another woman complained that these drinking bouts can result in physical abuse when husbands come home drunk. *"There are 2 men who live near me who beat their wives"*, said an interviewee who confirmed comments a number of women had made about spates of drinking/ partying by groups of men. Another woman confided, *"Lots of women in this neighborhood are beaten by their husbands. Lucky for me my brother lives nearby, so if my husband starts coming after me I run to my brother's house."*

37. An effective advocacy program is needed to heighten awareness of policy-makers at all levels and create a favorable institutional environment for combating domestic violence. As part of this, high level policy-makers speaking out repeatedly against domestic violence may take away part of the current 'sensitivity' of the topic, which hinders public discussion and data gathering on the extent of the problem. Such advocacy activities would need to be coupled with public awareness raising to have widespread impact. Training of reconciliation groups (currently in charge of mediating in domestic violence cases at the household level), social workers, health workers, police, and justice staff in gender-sensitive handling of domestic violence cases is much needed. Finally, counseling services need to be expanded beyond the major cities, and temporary shelters for battered women and their children need to be piloted. The Women's Union, with

funding of UNIFEM, is starting a project combining public awareness raising, training and IEC material development.

(iv) Women as a Tool in Coping with Hardships--There were several examples of women being "used" as a coping strategy during times of hardship. In Lao Cai, the research team found that households might respond to a lack of labor by marrying off their eldest son. This then brings a daughter-in-law into the family who will then have to labor for her new household. One family had done this in order to keep their son in school: they could not afford to lose his labor and so found him a wife who could labor for him while he completed school. In Ho Chi Minh City, there were several cases of women being sold to foreigners for US\$1000-3000, which would then pull their families out of poverty. There were also cases of men making their wives pregnant so that the babies could be sold for adoption.

2.4 Women may be getting disenfranchised of their land use rights

38. A recent survey of gender issues in land tenure in Lao Cai Province (Nguyen Nhat Tuyen, 1999) examined land tenure amongst four ethnic groups: Kinh (majority), H'mong, Tay and Dao. Discussions and interviews with households from these four groups indicate a strong tradition for land to be inherited by sons despite the female right to inheritance being protected under the 1993 Land Law. Female access to land is described by the respondents in this study in terms of her relationship with men. At marriage, a couple often live with the husband's family and the couple's access to land is determined by the landholdings of the extended family. Should the marriage dissolve, women's access to land becomes more tenuous. The study in Lao Cai found that where women had left their husbands, in no case did they receive any land as compensation (Box 4.6). In one case where the husband had initiated a divorce, the courts had become involved and allocated some small plots of hill land to the wife, but she was unable to farm the land because it was in her ex-husband's commune where she no longer had a home.

Women maybe getting disenfranchised of their land use rights

Box 4.6: Divorced woman of Phu La Minority from Lao Cai Province.

Phan is a healthy 28-year old, who married a man in the same commune. Their marriage is registered with the People's Committee. The couple have recently divorced after 7 years of marriage. She now lives in a kitchen room attached to the house of her parents and brother, who is married and has two children. After the divorce, Phan was awarded 200kg of maize and a small pig by the courts. She has no land. Her brother, who is 23 and head of the house, says, *"I have a heavy responsibility to take care of my children and old parents. We do not have enough land to cultivate. She has to remarry if she wants to have land"*.

Source: Nguyen Nhat Tuyen (1999).

39. Widows were more likely to have formal access to land than divorcees, but they still encountered problems in proving their land use rights. Where there is an adult male in the household it is likely that the man's name will be on the Land Tenure Certificate rather than the woman's. Widows interviewed during the PPAs suggested that this caused great difficulties after their husbands' death, because the procedures for changing the name on the land title were highly complex and elusive. Without the correct name on the land title, it is problematic trying to secure a loan.

40. Revising the format of land certificates, making it possible to have the names of both wives and husbands registered as land holder, may go some way towards addressing this problem. Gender-sensitive training of local level staff of the General Department for Land Administration (GDLA) could be useful, especially in expediting land transfers for widows, divorced, or separated women. Also useful would be public information dissemination targeted towards women farmers about their legal entitlements under the Land Law.

2.5 Women have unequal and inadequate access to certain basic social services

(i) **Women's Health Issues**--Women reported health problems which were caused or exacerbated by their heavy work burdens, limited ante- and post-natal care and gynecological diseases. Their work burdens (see above) mean that in many instances women are working beyond their physical capacities, sleeping only 4-6 hours per night and having no time for relaxation. They reported suffering from back pains, headaches, arthritis and fatigue as a result of overwork. There was also an indirect health effect on the rest of the family because women were too busy to enforce proper hygiene on their children.

41. In Lao Cai and Ha Tinh, many women give birth at home without medical attendance. Ante-natal and post-natal services are nearly non-existent in many of the more remote villages. If the women are fortunate, they might be able to rest and be looked after by a relative, but this is by no means the norm in poorer households. In Lao Cai, they might have to go back out to the fields within a few days of delivery (Box 4.7). In poor households, they are unlikely to be able to afford the extra nutrients they require while pregnant and breastfeeding.

The heavy workburdens of women—and their lack of access to affordable health services—take a severe toll on their health

Box 4.7: Mrs. Ly Thi Lan, Lao Cai Province

When we arrived to interview Lan's household, we found that she had given birth three days previously to a third daughter. Lan and her husband came to Nam Tang first in 1992. Lan is generally responsible for the agricultural work, while her husband does off farm labor in other communes (7 or 8 days at a time). She gave birth at home, while her husband was away. The grandmother comes to help out with cooking etc., and has brought some rice. The household has one chicken, which lays an egg on most days so she can eat these. But she appeared to be very weak after the birth. She said she plans to rest for about 25 days, but if it rains she will go to work sooner because land would need to be planted.

Source: Lao Cai PPA, MRDP (1999).

42. Unsanitary living conditions and a dependence on IUDs and abortions as the main forms of contraception lead women to report a high incidence of gynecological problems. Family planning campaigns rarely try to engage men or encourage them to take responsibility for contraception.

(ii) **Lack of Access to Education for Ethnic Minority Women and Girls**--Ethnic minority women are disadvantaged relative to their menfolk in terms of access to education. This is very clear in the literacy figures presented in the Lao Cai PPA: in the two most remote villages that the PPA was done in, there were no adult women who were literate. Only in the less remote, predominantly Kinh villages were female literacy rates comparable to those of men (actually they were higher).

43. These very low literacy rates and language skills tend to reinforce the tendency for women from these communities to be marginalized and isolated. Without language skills and numeracy skills, they do not like to go to market, for fear of being cheated. Information is not widely available in a format which they can absorb and their exposure to new ideas is therefore limited.

44. There is need for more targeted programs to increase school enrollment and achievement for ethnic minority girl children as well as adult literacy for minority women. In order to account for socio-cultural barriers, girl-only classes and provision of better separate boarding school facilities for girl students could help. Revision of the curriculum to ensure relevance to the lives of ethnic minorities might result in higher perceived benefits by parents and the community alike. The provision of better and more widespread childcare, and pre-school facilities may alleviate the need for girl children to stay at home caring for younger siblings.

2.6 Women have less influence in the public domain

45. **Unequal Access to and Voice in Institutions**--Men usually attend village meetings on behalf of the households. In rural areas, women are poorly represented in the Government administration and there is no perceived need to seek women's views separately from their husbands'. This might be partly because the Women's Union is supposed to play the role of ensuring that women's interests are considered. However, the Women's Union does not have good outreach in some of the more remote parts of the uplands. It does not always have a representative constituency, since not all women can afford to be members. And even if the Women's Union is effective in representing women in a particular area, this does not necessarily replace the need for direct mechanisms which allow women to speak for themselves in decision-making arena.

46. The Government of Vietnam has set targets for increased representation of women at all levels of Government. Currently, women's representation in the National Assembly is at 26 percent, up from 19 percent in the previous legislative term, and higher than in many developed countries. However, although consistent and strong political commitment has elevated the status and recognition of women and their interests in governance structures, a significant gender gap remains at local levels of Government (Table 4.8). NCFAW is training women candidates for the November 1999 People's Council Elections at province, district and commune levels, in order to a) increase their chance of being elected, and b) enhance their awareness of gender issues in public policy making. NCFAW is hoping that women will take 25 percent of the seats in these elections.

High levels of female representation at the national level need to be replicated at local levels of government

Table 4.8: Women in Politics in Vietnam

Political Body	Percent of Women members, 1994-99
National Assembly	26.2
Provincial People's Council	20.4
District People's Council	18.1
Commune People's Council	14.4

Source: UN System (1999)..

47. In addition to addressing gender imbalances in governance structures, attention also needs to be paid to gender issues relating to governance processes. National development programs need to be made gender sensitive through better design and targeting of programs. These programs should also encourage the full participation of women in the planning and implementation of public programs and policies. This leads us into the next section on other aspects of governance and equity.

3. GOVERNANCE AND EQUITY

"People know, people discuss, people execute and people supervise."

President Ho Chi Minh.

48. Vietnam is a country in transition on many fronts. After experiencing years of internal strife and war, it has emerged as a country with a strong national identity, social and political stability, and a determination to catch up with the development of modern industrial economies. In this context, the Government recognizes that setting in place an effective governance structure is essential for a well functioning economy and for spreading the benefits of growth widely in society. It also recognizes the need for reorienting the all-encompassing Government of the planning era towards a concrete, more selective set of activities that support and complement individual involvement in economic decision-making at the grass-roots level.

3.1 Vietnam's Grassroots Democracy Decree is an exciting initiative

49. Towards this end, the introduction of the Government Decree No. 29 of May 1998 on the exercise of democracy in communes, popularly known as the "Grass-roots Democracy Decree" is an important move (Box 4.8). This Decree aims to legalize people's direct participation in local decision making, as well as to establish transparency and accountability as mechanisms at commune level and upwards for the supervision of public programs and locally financed projects. It thus aims to improve "governance" at the local levels.

Vietnam's Grassroots Democracy Decree is an important step in implementing the elements of good governance at the local level in Vietnam.

Box 4.8: Vietnam's Grassroots Democracy Decree

In May 1998, the Government of Vietnam introduced a decree on the exercise of democracy in communes. This Decree is centered around four core categories reflecting President Ho Chi Minh's ideas on participation: *"People Know, People Discuss, People Execute, and People Supervise."* It aims to "bring into full play the commune people's mastery and creativeness, mobilize the peasants' and peoples' great material and intellectual strengths for economic development, social and political stabilization, to enhance rural solidarity, improve the people's lives and knowledge, build clean and strong Party organizations, administration and mass organizations in communes, to prevent and overcome the problems of degradation, red tape and corruption, thus contributing to the cause of striving for a prosperous people, a strong country and an equitable and civilized society along the socialist orientation."

Source: Vietnam's Grassroots Democracy Decree (May, 1998).

50. "Governance" can be defined as the manner in which power is exercised in the management of a country's social and economic resources for development (ADB, 1999). Economic governance—sound development management—is at the core of sustainable development and the four pillars of governance—transparency, accountability, predictability and participation—are universally applicable (Box 4.9). But their application must be country-specific and solidly grounded on the economic, social, and administrative capacity of the country. The Grassroots Democracy Decree is an important step in implementing these elements of good governance at the local level in Vietnam. It will serve two very important needs: enhancing participation and improving transparency, accountability and predictability of local government actions.

The four pillars of good governance—transparency, accountability, predictability, and participation—are universally applicable

Box 4.9: The Four Pillars of Governance

Transparency entails the low-cost access to relevant information. Reliable and timely economic and financial information is a must for the public (normally through the filter of a capable media). It is essential not only that information be provided, but also that it be relevant and in understandable form.

Accountability is the capacity to call public officials to account for their actions. Effective accountability has two components: (i) answerability and (ii) consequences. Answerability is the requirement to respond periodically to questions concerning one's official actions. There is also a need for predictable and meaningful consequences, without which accountability is only a time-consuming formality. In addition, both internal (administrative) and external accountability are needed. Particularly with the dramatic improvements in information and communication technology, external accountability through feedback from service users and the citizenry can now be obtained at low cost and for a greater variety of government activities, and is an essential adjunct to improving efficiency and effectiveness of public service delivery.

Predictability results primarily from law and regulations that are clear, known in advance and uniformly and effectively enforced. Lack of predictability makes it hard for public officials to plan for the provision of services (and is an excellent alibi for nonperformance). Predictability of government economic actions is also needed as an indicator on which the private sector can rely to make its own production, marketing, and investment decisions. Most importantly, to be predictable, the application of economic regulations must be effective, fair, and uniform.

Participation is needed to obtain reliable information and to serve as a reality check and watchdog for government action. Among other things, participation by external entities is needed as a spur to government operational efficiency, and feedback by users of public services is necessary for monitoring access to and quality of the services.

Empirical evidence suggests that a strong civil society plays a critical role in advancing good governance. Improving formal rules and organizations without any change in informal customs and ways of doing business avails little; importing procedures and mechanisms without reference to the incentive and local capacity framework is likely to be fruitless; interacting only with central government or, indeed, only with government, is not conducive to good implementation of reforms. Above all, governance intervention should encourage the formation of social capital, i.e., the stock of trust and information exchange at the base of civil society.

Source: ADB (1999).

3.2 Better information will empower the poor to participate in decision-making

51. The PPAs found that in all sites, people were hungry for a two-way flow of information: from the government to them about the nature and timing of public policies and programs that affect their lives and from them to the government with a view to influencing some of these policies and programs. They felt that there was a strong connection between those that had access to these two-way flows of information and those that had access to other resources, such as credit, that they could use to improve their lives. PPA participants felt that access to these information channels were limited to a few "well-connected" participants and that a more equitable access would lead to a more equitable and inclusive pattern of development.

52. The PPAs found that the poor feel ill-informed about government policies and programs, including those that are supposed to be designed to benefit them. Box 4.10 below from Tra Vinh suggests a certain sense of powerlessness and resignation by a householder who is losing land to a project he has been told nothing about, even though the consequences for his own household are significant.

The poor feel powerless due to lack of information and consultation with respect to policies and programs that affect their lives

Box 4.10: Lack of Information, Consultation and Compensation: Tra Vinh

At one time this man owned 30 cong of land. A few years ago he lost 12 cong when a road was dug through the commune. Last year he lost another 13 cong due to the digging of the irrigation canal. This land was not lying idle – his family had dug ponds and invested in shrimp and crab that he was raising at the time. They lost everything.

He knows that nobody who lost land due to this project will be compensated, and does not want special treatment. However, he did feel that he should be compensated for his investments in digging the ponds and buying inputs for the crops. He was never invited to any meeting or discussion to be informed, and though he has submitted a claim to local officials, he has had no response beyond being told to wait. *“I know the government built the canal to help the citizens, but they should at least have taken into account the people who would lose their land.”*

53. Providing people with the information they need in an appropriate format is one of the most powerful ways of helping build up their human and social capital to cope with poverty. As discussed in Chapter 2, poor households in every PPA study site felt they were under-informed about targeted Government programs and services and that richer households were better informed. Where efforts are made to improve information flows (such as by the provision of radios) the impact can be large and positive (Box 4.11).

Providing people with the information they need is one of the most powerful ways of empowering them

Box 4.11: Improving Access to the Mass Media for Ethnic Minority Groups

Subsidized radios have been issued to people in many villages. The importance of radio as a source of knowledge was explicitly recognized by young people. Programming of public broadcasts over radio and on television in rural areas target the poor with basic information on family health, nutrition, family planning, and agricultural production techniques. In addition, these media channels link villagers in remote and rural areas with national developments, and hence an awareness of a world outside their village. Data from the social mapping reveals that all villages had households with battery powered radio and cassette players. Radio-cassette players were particularly popular among H'mong households because of broadcasts in the H'mong language, although these appeared to be erratic. The surprisingly high level of radio ownership suggests that radio broadcasts can be a potentially effective means of reaching the poor with information. However, at present, caution should be taken in using radios as an indicator of information penetration. Most radio broadcasts are in the national language, which few minorities in remote areas can understand. The way in which information is delivered is equally as important as access to information.

Source: Lao Cai PPA, MRDP (1999).

54. For rural dwellers, the village manager is the government official closest to them and this person has a key role in disseminating information to the households in his/her administrative area. As well as being a disseminator of information from the government to the people, the village manager also plays a role in channeling information from the people up to the higher levels of authority. The PPA discussions suggest that people feel that this upward communication is limited and that their views are not listened to or acted upon by government authorities. Although the mechanisms for broad-based participation in decision-making are in place, these mechanisms do not always work efficiently. There were many quotes in the PPA documents along the following lines:

"The policy is that the people know, the people discuss, the people do, but here people only implement the last part, which is the people do" (Ha Tinh)

and

"I am glad I was invited to a meeting today, but do we get to talk? Usually we do not get to talk, we just come and listen to them talk." (Tra Vinh)

55. There may be a number of reasons for this feeling of a lack of voice and representation:
- 1) The village manager is not good at, or may face very serious constraints in, canvassing opinions, or believes them to be irrelevant: *"they don't invite me to meetings, but they invite me to public works"*, said one poor villager in *Tra Vinh*;
 - 2) The village manager may be selective in gathering feedback, dismissing the views of the poorer households as ill-informed;
 - 3) All village managers in the rural sites were men. There was no evidence from any rural site that these men thought it necessary to consider women's perspectives separately from those of their male relatives;
 - 4) Certain households or people might not have the confidence to speak up;
 - 5) The village manager might be ignored by higher levels of the administration because they believe the views he is presenting are irrelevant *or* because the village manager does not speak their language, they are unable to understand him well;
 - 6) The village may be physically remote from the commune headquarters and the interaction between the village and commune may be limited.

56. These difficulties are compounded in areas, such as the Northern Mountains, where many ethnic groups live and where a significant proportion of the population is not literate in the national language. But even in ethnically homogeneous and highly literate areas such as *Ha Tinh*, this was an issue and poor men and women expressed their need for increased participation in affairs that affect them directly:

"Local people should be entitled to discuss important issues such as the amount of the loans they get, the building of infrastructure, and the division and use of land."

57. The Grassroots Democracy Decree is still at an early stage of implementation and presents a significant opportunity for strengthening this two-way dialogue between government authorities and local communities. A study done by SIDA in the four PPA provinces to look at the early implementation experience shows that local Steering Committees at province, district and commune levels have already been established to facilitate the implementation of this Decree (SIDA, 1999). It is worth noting, however, that the study found that the Steering Committees at all levels are overwhelmingly dominated by men and the majority Kinh people. The study also notes that "although Vietnamese women account for about 50 percent of the total population, no woman has been nominated to a post of the head of the Steering Committee".

58. The implementation of Decree 29 following this piloting phase will provide perhaps the most important and significant vehicle for mainstreaming participation of poor and disadvantaged people. A major information dissemination campaign in appropriate language and

form will be fundamental to its success. Focused participation of women, ethnic minority groups, and poorest people who are less likely to be heard will be essential. The successful implementation of the Decree will depend much on the willingness and ability of the institutions and authorities at commune level to change, which in turn will be dependent upon the ability of district and provincial authorities to listen to-- and offer flexibility to -- commune level institutions and authorities.

59. There is a growing trend of women and men, including the poor, at the community level to come together into common interest groups such as savings and credit groups, irrigation water users' association, parent-teacher associations or Integrated Pest Management (IPM) groups. Such groups and formations do not only mobilize local resources but also often provide focused and collective voices of people including those who would otherwise not be heard. More and more of such groups and formations will provide sustainable mechanisms for mainstreaming and institutionalizing participation and engendering equity. These groups need formal registrations, recognition and capacity strengthening not only so that they can generate and manage funds and resources but also for them to work in support of the grassroots democratic process promoted by the State. Moving ahead on the draft Law on Associations could provide a supportive legal environment for such groups to emerge and operate effectively.

3.3 Improving the transparency of local government finances

60. The Grassroots Democracy Decree will also help to deal with the important issues of transparency and accountability at local government levels. It requires that people be informed in a transparent way about local government revenues and expenditures. This is an important issue, given the highly decentralized management of a significant proportion of revenues and expenditures in Vietnam.

61. In Ha Tinh there were considerable complaints about the level of fees and contributions levied by the local authorities (Action Aid Vietnam, 1999). These contributions are on top of their nationally-mandated agriculture tax, and can take the households' overall burden of taxes and contributions up to about 25-40 percent of their total rice production (Table 4.9). Furthermore, many of these contributions are levied on a per capita basis and since poorer households are often bigger, they tend to have a regressive effect. Other studies also have similar findings (Oxfam UK and Ireland, 1996).

The combination of taxes, fees and contributions can be a significant burden on the poor

Table 4.9: Calculation of Taxes, Fees and Contributions for a poor household with 5 members in Ha Tinh

Taxes	kgs paddy
Agricultural tax; Commune and village tax and Residential tax	253
Commune contributions	kgs paddy
Commune budget	6
Security and defense	20
Natural disaster	3
Transport/irrigation	26
Welfare (tinh nghia)	4
School construction	35
Education promotion fund	35
Other construction fund	35
<i>Total</i>	<i>164</i>
Village contributions	
Transportation/irrigation	20
Village budget	13
Rat killing	10
<i>Total</i>	<i>43</i>
Total Taxes and Contributions (kgs paddy)	459
% of Total Paddy Production	39%

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

62. Households say that they have little information about what their money is spent on. Where they feel that they are shouldering a high tax burden and yet they see few services and limited local development in return, there are some allegations about corruption against local leaders. Mechanisms for appeal, if they exist, are ill-defined. People feel they have to pay the taxes without questioning: *"All decisions are top-down. For example, decisions on contributions, fees, taxes and the like... all the people could do is what they are required to do as informed by the Village Manager"*. There were reports of officials going to collect taxes with the local militia, who threaten to take the house door away if the household does not pay immediately. Households fear theft and dare not refuse.

63. It is interesting and notable that this was only an issue in one PPA site. Since ethnic minorities are subject to a preferential tax regime, it is unlikely that this issue would arise in the Northern Mountains Region. Neither did the households in Tra Vinh mention that the tax burden was particularly heavy. It may be, as suggested by another recent study, that this particular problem of poor households has a regional element to it and is limited to the lowlands of Northern Vietnam.

64. The VLSS data confirm that the level and incidence of taxes, fees, and contributions (TFCs) varies significantly between regions and provinces (Table 4.10). The level of TFCs per household are highest in the Red River Delta and lowest in the Northern Uplands. However, when expressed as a percentage of total household expenditure, the incidence of these 'voluntary contributions' is lowest in the Southeast Region. As far as individual provinces go, the highest TFC incidence is in Thanh Hoa (9.2 percent) and the lowest in Ho Chi Minh City and Tay Ninh (1.8 percent). While the average levels of these TFCs do not appear to be too large, these taxes and fees do appear to be a big burden on the poor, are inequitable (because they are often levied on a per capita basis), and appear to cause resentment amongst the payees since there is a lack of transparency and accountability in the way that they are collected and spent.

The level of the "voluntary contributions" vary a lot across regions

Table 4.10: Level and Incidence of Taxes, Fees and Contributions paid by Rural Households in 1998

Location	Taxes, Fee & Contributions (VND,000 per household)	TFC as % of Household Expenditure
All Vietnam	473	4.8
Regions:		
Northern Upland	329	3.8
Red River Delta	563	6.6
Northern Central	436	5.4
Central Coast	543	4.9
Central Highland	399	3.4
South East	453	2.6
Mekong Delta	518	4.3

Source: World Bank estimates based on VLSS98.

CHAPTER 5

REDUCING VULNERABILITY

AT A GLANCE:

REDUCING VULNERABILITY

- Poor households' livelihoods are extremely vulnerable to both household-specific and community-wide shocks. The fragility of the economic base of rural households means that these shocks are thoroughly destabilizing and can take many years before recovery is consolidated.
- Health shocks, which entail the loss of labor resources and significant costs for curative care and associated expenditure, are very commonly mentioned as a reason for a household's poverty. Reducing the direct and indirect costs of curative health care for poor households could constitute an important safety net.
- The risk of failure associated with on-farm investment can deter households from expanding their economic base in such a way as would improve their resilience to shocks. However, agricultural extension and veterinary services, which could help reduce the risk of on-farm investments, do not currently reach the poor systematically.
- Investments which lower risks of community-wide shocks could be an important means of expanding household economic activities and helping poor households out of poverty.
- Formal safety nets have low coverage and are only weakly targeted. As a result, households fall back on a number of community or household level strategies to cope with these crises. The choice of strategy may determine to a large extent the speed and sustainability of a household's recovery from a shock.
- Rural households have limited access to reliable facilities for saving cash which could be withdrawn in times of hardship or peak expenditure. This constrains the ability of poor households to cope with shocks.
- The Government's Hunger Eradication and Poverty Reduction (HEPR) program provides a framework to address some of the most pressing needs of poor households. This has focussed, to date, on the provision of subsidized credit and, more recently, health cost exemptions and school fee exemptions. A number of factors seem to constrain the access of the very poor to these benefits.

"When a man is standing permanently up to the neck in water, even a ripple is sufficient to drown him."

1. This well-known proverb from China resonates through rural Vietnam. Although rural in origin, the analogy is no less appropriate as a description of livelihood systems amongst the poor urban communities. Livelihoods in all four PPA sites are so fragile and finely-balanced that even minor shocks can destabilize households. While living standards are rising, poor rural and urban households still feel very vulnerable in times of crisis.

2. In this chapter we will look at how shocks and crises affect household wellbeing. Section 1 begins by exploring the concept of vulnerability and the link between poverty and vulnerability. Section 2 then examines the nature of the shocks that undermine the security of poor households. Section 3 examines the ways in which poor households cope with shocks and crises. It suggests that many households have a hierarchy of coping strategies which Government and donor agencies should take account of in designing policy interventions. Finally, Section 4

presents an overview of Government programs and safety nets which aim to improve the security of poor and hungry households.

1. VULNERABILITY AND POVERTY

3. Both quantitative and qualitative data indicate that the poverty status of households fluctuates over time. Data from the VLSS indicate that although many more households moved out of poverty than moved into it between 1993 and 1998, the direction of movement is not entirely one way¹⁵. There has been movement amongst all three categories shown in Table 5.1: the very poor (those below the food poverty line), the poor (those below the total poverty line) and the non-poor (those above the total poverty line). While two-thirds of households in the very poor category in 1998 had also belonged to this category in 1993, one-third had fallen into this category over the five years. Most households that fell into extreme poverty in 1998 were poor to start with, though a few of the non-poor in 1993 saw a dramatic reversal in their fortunes and fell into extreme poverty. Similarly, more than half of the households in the poor category in 1998 were not in this category in 1993. Some of those entering this category were the very poor who were getting better off and growing out of extreme poverty while others were entering this category because they were getting worse off and were going from being non-poor to poor. A large amount of mobility is also found when the movement of households between expenditure quintiles is examined (see Annex 5).

The poverty status of households fluctuates over time

Table 5.1: Poverty Transition Matrices for Vietnam, 1993 to 1998
(percent of panel households)

Poverty Status in 1993	Poverty Status in 1998			
	Very Poor	Poor	Non Poor	Total
Very poor	8.2	7.6	7.1	22.8
Poor	3.5	9.4	20.3	33.3
Non Poor	0.8	4.0	39.2	43.9
Total	12.4	21.0	66.6	100.0

Source: World Bank estimates based on VLSS93 and VLSS98.

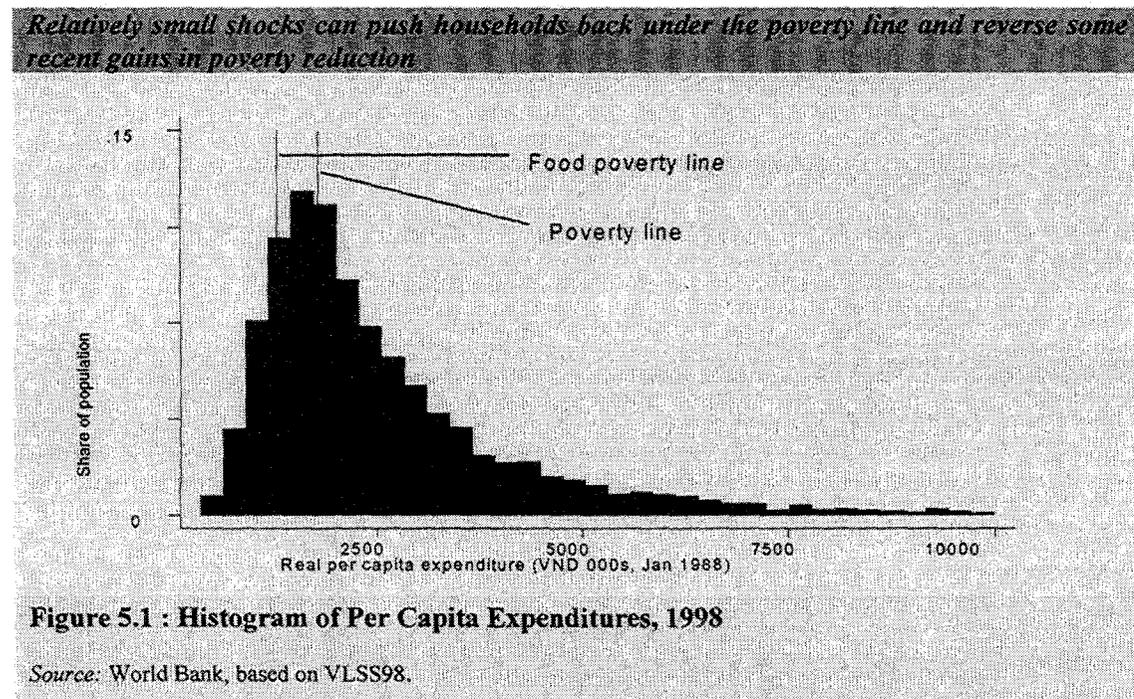
Note: Dark shaded cells indicate the percentage of panel households whose poverty status did not change between 1993 and 1998.

4. The PPAs clearly demonstrated the links between poverty, vulnerability to shocks and crises, and dependence on income sources which are highly variable. During wellbeing ranking exercises much of the explanation for a household's vulnerability lay in the composition of its income sources. Those households in rural areas with only a narrow range of on-farm activities

¹⁵ About 4300 of the same households were included in both VLSS93 and VLSS98, allowing a panel analysis of how individual households' living standards have changed over time. Note, however, that Table 5.1 may overstate transitions due to measurement errors in household expenditures.

were seen as being most vulnerable. Landless households in the Mekong Delta were described as particularly vulnerable because the demand for day labor was so seasonal and patchy. There was a strong association between physical isolation and vulnerability, partly because the inaccessibility to markets acts as a disincentive to diversifying livelihoods. In urban areas, those households who relied heavily on informal sector work such as portering or rickshaw-driving faced particular problems in dealing with any unexpected expenditure demands. By contrast, households receiving social service payments, even if they were very small, were ranked higher because of the security which these regular transfers offer. In urban areas, having a regular income was considered a very important determinant of wellbeing.

5. An important question of relevance to Vietnam is the sustainability of the recent reduction in poverty given the high-risk nature of household income sources and the prevalence of household level and community level shocks. The histogram in Figure 5.1 below shows a high proportion of the population is now clustered just around and above the poverty line. On the one-hand, this is good news since relatively small increases in mean per capita expenditure will continue to move large numbers of households over the poverty line. But on the other hand, since it would only take a small reduction in per capita expenditures for some of them to fall back below the poverty line again, a large number of people remain vulnerable to falling back into poverty due to either household-specific or community-wide shocks. The nature of these shocks is examined in the next section.



2. THE NATURE OF SHOCKS AFFECTING POOR HOUSEHOLDS

6. A variety of shocks can undermine the security of household's livelihoods. Although the distinction is not always clear-cut, it is useful to distinguish between shocks that are household-specific and shocks which are community-wide. When markets and community mechanisms

work well, household-specific shocks (such as illness or the loss of livestock) may not require outside intervention. In contrast, community-wide shocks (such as crop loss due to poor weather or natural disasters), since they affect everyone in the community to some degree, require interventions such as safety-nets and workfare.

2.1 Households and communities in Vietnam are vulnerable to a variety of shocks

7. The most commonly quoted shocks and crises found in the PPAs are presented in Table 5.2 below. These are ranked starting with the types of shocks that are most specific to the household and ending with those that are community-wide. Of all of these, household-specific shocks--such as illness or death of a main laborer and failure of an investment--appear to be particularly prevalent and destabilizing.

<i>Households and communities in Vietnam are vulnerable to a variety of shocks</i>		
Table 5.2: Most Frequently Cited Crises in the PPA Research Areas		
	Type of Crisis	Effect
HUMAN CRISIS	Illness	High indirect and direct treatment costs and loss of income through reduced labor
	Death of a laborer	High cost of funeral expenses and loss of income from labor loss
	Alcoholism, drug addiction and gambling	High expenditure, reduced income from lost labor
MATERIAL CRISIS	Theft	Loss of assets; reduced income
	Damage to housing (weather; fire)	High, unexpected expenditure
NON-CROP, ECONOMIC SHOCK	Failure of investment	Reduced income: inability to repay debts
	Unemployment	Reduced income
	Death of animals/animal epidemic	Reduced income; reduced assets and security
CROP FAILURE	Crop loss: Rats/mice or other pests	Reduced income
	Crop loss: landslide	Reduced income
	Crop loss: Weather (floods; droughts; typhoons; storms and high winds)	Reduced income

Source: PPA Synthesis Report, World Bank (1999).

8. The remainder of this section describes the causes and consequences of the main types of household-specific and community-wide shocks experienced in Vietnam.

2.2 Household-specific shocks can lead to severe crises for poor households

9. **The Dread of Illness** --A long term illness or death in the family is one of the most frequently-mentioned reasons why households find themselves in severe difficulties. This is especially the case when the household has to go beyond the commune health centre to the district or further afield in order to get treatment for a serious illness. The cost of treating illnesses is relatively much greater for the poor. A single curative visit to a public hospital costs a person in the poorest quintile the equivalent of 22 percent of his/her annual nonfood expenditure. (The corresponding figure for a person in the richest quintile is only 5 percent.) Even a visit to the commune health center, which is supposed to provide free services, costs the equivalent of 4 percent of annual nonfood expenditure for the poorest quintile and less than 1 percent for the richest quintile.

10. The VLSS98 data reveals that households in the lowest quintile allocate 30 percent of their non-food expenditure to health costs. On average, an individual belonging to the poorest consumption quintile faces an opportunity loss (in terms of wages foregone due to non-working days) of VND 286,000 or 25 percent of his/her annual per capita consumption expenditure due to poor health. The equivalent wage loss for an individual in the richest quintile is only 6.5 percent. The Ha Tinh PPA reports that 57 percent of households becoming worse off, did so due to illness. Newly formed households are especially vulnerable to this type of crisis when one of the laborers is suddenly and unexpectedly incapacitated or dies.

11. The case study in Box 5.1 below shows the kinds of responses which a household might have to make in the event of ill health. This example is from a remote highland village in Lao Cai, where there is some community support but where there is little opportunity to borrow money from banks or moneylenders. Where this family has sold assets and withdrawn children from school to pay for medical expenses, a family in a more accessible area might have reallocated resources differently. In lowland areas where access to larger loans from the informal sector is a possibility, this might be a first response. This then aggravates the problem as high interest payments, perhaps 10 percent in rural areas and up to 60 percent in Ho Chi Minh City, are added to the family's expenditure requirements in future years. While dealing with a labor loss (because the illness reduces available labor), the household then faces a need to generate higher incomes than previously in order to cover the debt. In Tra Vinh, the PPA teams found households selling land in order to raise cash to cover the costs of ill health. This has clear implications for future income-generating potential. If a household has to take out a loan as well as sell productive assets, then the prospects for repaying the loan can be bleak. Both the Tra Vinh and Ho Chi Minh City reports describe a debt spiral which commonly traps the poorest households.

A health shock can have a disastrous effect even on a relatively well-off family

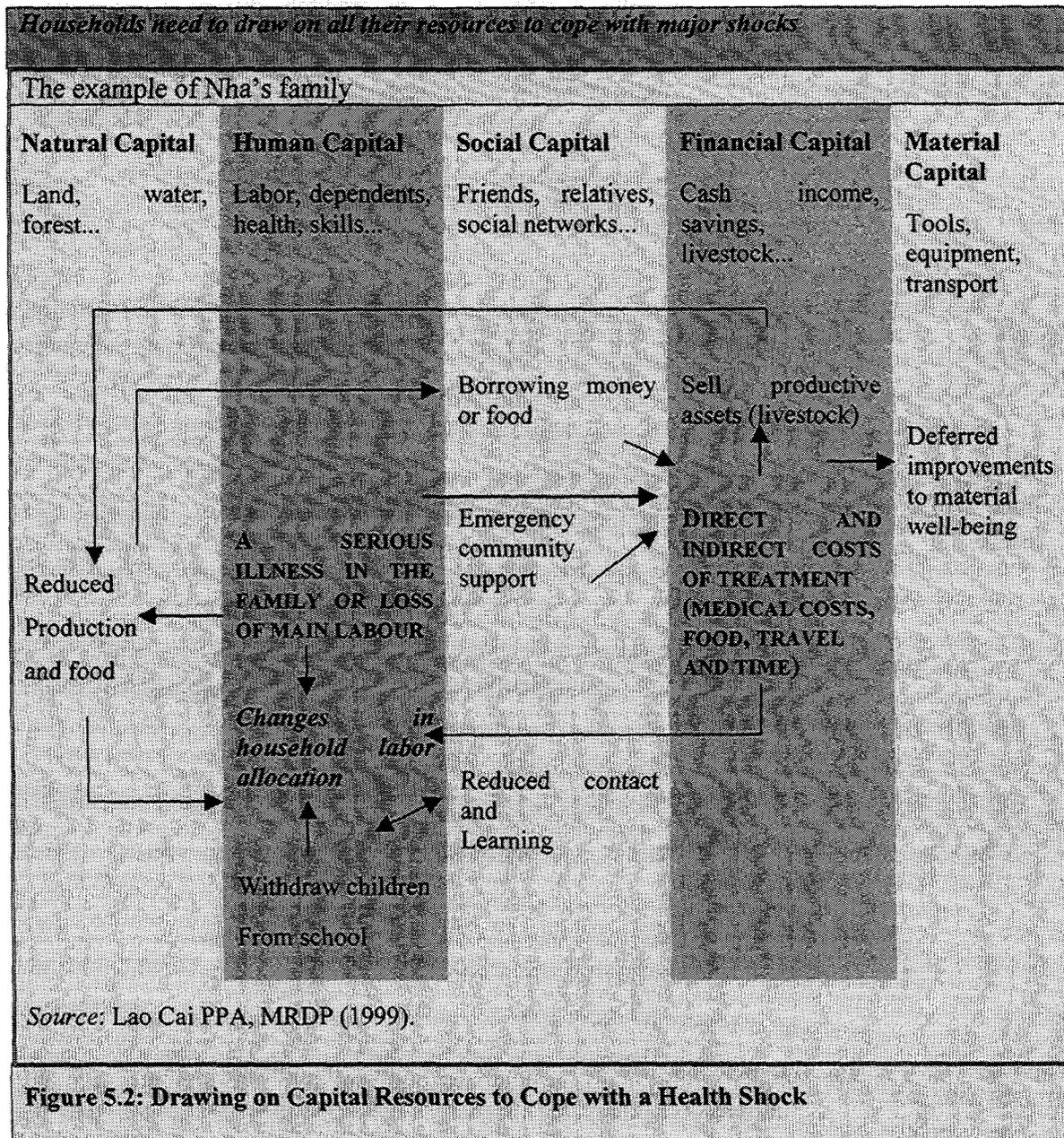
Box 5.1: The Costs of Ill Health in Lao Cai Province

Nha (26 years old), Lao Cai Province

Nha's family has 12 members. They used to be one of the richest families in the village but now they are one of the poorest. They have suffered two shocks in recent years. Firstly his father died 2 years ago. So there are now only 2 main laborers in the family – Nha and his mother who is 40 years old. Nha has two young children. Two years ago, his daughter Lu Seo Pao also had a serious illness and had to be operated on in the province hospital. His family had to sell 4 buffaloes, 1 horse and 2 pigs to cover the expenses of going to get treatment and the operation cost several million VND but still she is not cured. All the people in his community helped but no one was able to give more than 20,000 VND. Moreover, Nha's younger brother – Lu Seo Seng, who was studying in grade 6, had to leave school in order to help his family. Nha says that "If Lu Seo Pao was not ill, his family would still have many buffaloes, he could have a house for his younger brother and Seng could study further."

Source: Lao Cai PPA, MRDP (1999).

12. The situation of Nha's household in Box 5.1 can be illustrated by looking at the impact of the serious illness on the different types of capital that households are endowed with (Figure 5.2). This figure demonstrates the complex resource reallocations which a poor household must make in order to cover the labor loss and expenditure on treatment which are associated with a health crisis.



13. Figure 5.2 depicts a common pattern of knock-on effects to a serious illness. First the household must mobilize enough cash to cover the costs of obtaining medical treatment (including transport, food and medicines). It does this by selling assets, borrowing money or selling their labor. This in turns alters the allocation of household labor and crop and investment decisions. Thus the impact of a serious illness can have long-term, and sometimes irreversible, downward effect on household well-being. In Lao Cai, withdrawing children from school is a common response to such shocks which, of course, has longer term consequences for the individual and household opportunities. As noted above, this mainly happens when a household needs to cover the direct and indirect costs of treatment at the district level. To avoid the downward spiral that may follow, many poor households will not even consider taking this step

in the first place. Both the Lao Cai and Ho Chi Minh City PPA teams found people living with ill-health on a long term basis because the costs of seeking treatment were simply unaffordable. There are strong grounds for proposing measures which help poor households cope with health crises in a way which minimizes the long term impact on the household economy.

14. Alleviating the impact of user charges on the poor requires much more than simply exempting the usual social categories of disabled, victims of war, orphans and the indigent from payment of user fees. The evidence indicates that these exemptions are not offered adequately enough by public health facilities to the poor. Instead, what may be needed, especially in view of the voluntary health insurance system being promoted in the country, is to require districts to earmark funds for purchasing health cards and issuing them free of charge or at subsidized premia to the poor. This is already being done, but the local funds earmarked for free or subsidized health cards are still too inadequate.

15. It may not be necessary to target additional assistance to *all* areas. The poor living in richer areas generally pay less for health care and most do not find these expenditures unmanageable. Therefore, a policy that targets, say, the poorest 30-40 percent of communes would be more effective than one that tries to assist the poor in all communes in the country

16. There are many stories across the PPAs of the destabilizing impact of alcohol or drug abuse. First, there is the effect of redirecting expenditure away from other items in order to purchase the alcohol. Secondly, the more severe cases of alcohol abuse lead to a reduction in household labor, which then reduces household income. Drug abuse, which is most common in Ho Chi Minh City, is also associated with family members committing crimes, which leads to increased expenditure as families have to pay fines. As in many other countries, alcohol abuse is very often connected to domestic violence in the case studies and this has an impact on domestic harmony and wider well-being.

Failure of an Investment

“A poor harvest makes things unstable for three years. Recovery is only possible if all the crops are good.” Ha Tinh PPA.

17. While the narrowness of income sources may underpin a household’s vulnerability to shocks and crises, the risk of failure can deter a poor household from embarking on investments which would broaden the range of income and thus reduce vulnerability in the future. This is particularly true when it is necessary to take a loan in order to invest in new activities. If the investment fails, the household faces an income deficit which will have to be funded from other income sources (if available), taking another loan, or by selling assets. In addition, additional cash must be raised to fund interest payments and the repayment of the original loan (Box 5.2). The Ha Tinh PPA suggests that 14 percent of households experiencing a deterioration in well-being did so as a result of a failed investment.

The risk of failure can deter households from undertaking productive investments

Box 5.2: Failure of an Investment in Watermelon Production in Tra Vinh

Binh and Xay are 62 years old and have been living in their village for 3 years. They moved to this village from Tra Vinh town because their oldest son lives here. Because they do not own any suitable land, they have not invested much in shrimp raising, although they have contributed to the oldest son's shrimp ponds. Since moving to their village, they have planted three watermelon crops. They spent most of their savings on their first watermelon crop, which failed. A second watermelon crop failed due to poor weather last year and simultaneously the 5000 shrimps their son was raising died. For their 3rd watermelon season they went into debt for the first time in their lives, buying fertilizer on credit. On the day we visited, Xay was almost in tears because she had just realized the seeds they had planted this year were bad and that the watermelons, although ripe, were much smaller than she expected. This means there will be no profit from this third season: their investment of over VND1 million will only yield sales of between VND6-700,000 and she will be unable to repay the fertilizer supplier. Their daughter-in-law was 8 months' pregnant at the time of our visit and Xay said tearfully, "I don't know what we're going to do".

Source: Tra Vinh PPA, Oxfam GB (1999).

18. Many of the options available to a poor, rural household hoping to diversify the farm base reportedly carry a high risk of failure: livestock is vulnerable to disease and theft; crops are vulnerable to poor weather, insects and other pests; fishponds may fail because of disease; fruit trees and coffee bushes can be damaged by frost in the upland areas; and earning a profit from cultivation of most crops is highly dependent on market conditions.

19. For the poorest households, investment in risk-reducing measures may be at the expense of meeting very basic consumption needs and therefore not the highest immediate priority. While better-off households might vaccinate their livestock if vaccinations are available, poorer households might not be able to afford vaccinations and thus run a higher risk of livestock loss through disease. Mechanisms to reduce the risk of investing in activities could help poorer households to break out of a cycle of vulnerability and poverty. These could include better agricultural research and extension and a wider network of veterinary services. However, poorer households currently have less contact with extension officers and have less education than better-off households and so are more likely to lack information on appropriate measures for managing risk. Data from the VLSS98 show that only 9 percent of rural households in the poorest quintile live in communes with an agricultural extension agent, suggesting very restricted access to formal training in improved techniques.

2.3 Community-wide shocks and disasters are widely recorded

20. Two major kinds of economic shocks and crises were recorded in the rural study villages including:

- Loss of crops (and other material possessions) due to drought, flood, storms, wind damage, landslides and pest damage;
- Loss of livestock due to epidemics.

In addition, in urban areas:

- Fluctuations in the labor market added instability to people's lives in Ho Chi Minh City and a change in employment arrangements could leave a household extremely vulnerable.

21. **Loss of Crops**--Agricultural losses are often associated with unfavorable climatic conditions or events such as floods, droughts, storms, or typhoons that affect whole communities. The Vietnam National Committee for the International Decade for Natural Disaster Reduction (VNCIDNDR) assess the relative frequency of floods and typhoons as high and droughts as medium. On average, four to six typhoons strike the coastline of Vietnam each year, with the central and northern provinces most commonly affected. These shocks can inflict a lot of damage: in the period 1971 to 1994, more than 6 million tons of rice production was lost as a result of flood and typhoon damage in Vietnam (Benson, 1997). Box 5.3 below is illustrative of the kind of damage which typhoons can inflict. Typhoon Linda struck the Mekong Delta Provinces in November 1997, just before VLSS98 data was collected. It is possible that this partly explains the slower growth seen in this region (see Chapter 1).

Major and frequent floods and typhoons have devastating impacts on communities

Box 5.3: The Impact of the Recent Floods in Central Vietnam

Just as this report was being completed, storms and floods struck seven provinces in central Vietnam. A tropical storm, causing strong winds gusting up to 9 on the Beaufort scale and originating in the Philippines, hit central Vietnam on the morning of 20 October, 1999. It was followed by a week of heavy rains and severe flooding. The provinces of Binh Dinh, Quang Nam, and the former imperial capital of Hue were especially hard hit with water levels reported to the highest in a century. Total economic losses from these floods are currently estimated to be \$ 237 million, but are likely to rise.

At the time of going to press, the damage caused by these storms and floods was estimated to include:

- 622 persons killed and missing;
- 608,716 houses submerged, and 41,846 houses collapsed;
- 62,718 hectares of paddy and other crop land flooded or damaged;
- 3,679 schools damaged, and 570 schools collapsed;
- 563 fishing boats sunk or destroyed and 1,162 tons of fish and shrimp lost;
- Transport and communication links, electrical power lines, irrigation systems, hospitals and health centers are also reported to have been damaged.

Similar or even greater damage was inflicted by typhoons in 1986, 1989, 1992, and notably by Typhoons Andy and Cecil in 1986 and Typhoon Linda in 1997.

Source: UNDP Disasters Management Unit Website, 15 November, 1999.

22. The Central Committee for Flood and Storm Control (CCFSC) is an inter-ministerial committee which is represented in provincial and district People's Committees and which has responsibility for dyke construction and monitoring. Through the Disasters Management Unit, the CCFSC is also responsible for forecasting disasters and disseminating information. The national and provincial structures for disseminating information on impending disasters are in place and operate effectively. There are clear guidelines and procedures established which are followed in response to disasters and which sometimes work well.

23. The Vietnam Red Cross (VNRC), with the support of the International Federation of Red Cross and Red Crescent Societies (IFRC) also plays a role in preparing households for disasters although its function in providing post-disaster relief probably attracts a higher profile. The VNRC has offices in every Province and nearly every District. There is also a presence at the commune level, though this may be merged with other local authority functions and may not always be so visible. They have also established a network of more than 40 Disaster Preparedness Centres (DPCs) in 21 Provinces most commonly experiencing emergencies, with a view to improving community-level training and awareness in disaster-preparedness. Their activities still often focus closely on preparing for an imminent disaster rather than fostering more general preparedness.

24. There are less clear means of help available to households experiencing community-level livelihood shocks, such as an epidemic of livestock disease within a village. Where the local VNRC are particularly well-resourced and motivated, they may be able to respond (such as in a recent incident when fire swept through a small community of poor households in HCMC). However, this kind of crisis is generally on too small a scale to attract the attention of disaster-relief agencies or organizations concerned with disaster prevention. The expansion of disaster-preparedness activities to cover smaller-scale emergencies, such as awareness-raising campaigns about the dangers of fire, or the containment of an epidemic, or methods of limiting damage to crops from an attack of pests could be extremely valuable in providing greater livelihood security to poor households.

25. Failure of crops due to climatic conditions and pest infestations was a particular problem in Lao Cai and Ha Tinh. Pests, insects and rats, had caused a serious reduction in crop yields in Ha Tinh. Poorer farmers were unable to afford to take protective measures against such losses (Box 5.4).

"What keeps us awake at night is worrying about rats eating up our crops"

Box 5.4: Destruction by Pests

An's household had to leave their garden (about 300 m²) empty because rats had destroyed so much of it in the past. An's wife said that there was no income from potatoes or peanuts last year due to rats. They heard about rat prevention methods from Ha Tinh Provincial Television, but they did not have money to invest in them. Mrs An said that the "destruction by rats nowadays is more severe than air-raids by B52 bombers." [This area was heavily bombed during the war with the USA.]

Source: Ha Tinh PPA, Action Aid Vietnam (1999).

26. **Loss of Livestock**--The loss of livestock can have serious consequences on the household economy given the importance of these household assets and the pivotal role played by livestock in the farming systems of rural Vietnam. Livestock death and disease is considered to be one of the main factors contributing to poverty in nearly all the villages covered in the Lao Cai PPA and was also mentioned in Tra Vinh and Ha Tinh. A family in Ha Tinh reported that *"when your buffalo dies, it may take you as long as five years for the household to recover"* (Action Aid Vietnam, 1999). The Lao Cai PPA found that the provision of important technical advice and training falls into an institutional gap between the mandates of the agricultural extension station and the veterinary station. As a result, important technical aspects are omitted from training exercises. These include:

- Basic animal husbandry techniques, such as housing and sanitation
- Herbal and traditional remedies for treating animal diseases
- Improving existing feeding systems
- Information on quality control – how to tell a diseased animal at market

27. Limited information on sound husbandry practices and low uptake amongst poorer households of animal vaccination services mean that the whole animal population of a village is at risk if a diseased animal is bought at the market and introduced to the village. Box 5.5 below illustrates how lack of information and linguistic isolation threaten rural incomes from crop production and livestock raising in Lao Cai.

'When your buffalo dies, it may take your household as long as five years to recover'

Box 5.5: Diseased animals and bad seed: a double crisis for a village in Lao Cai

One of the study villages had two bad experiences recently. First, diseased livestock were bought at the market and then when the animals were taken back to village other animals become ill. Second, some households bought hybrid rice seed, but for some reason they were sold the harvested crop rather than the fertile seed. The seed was planted but it failed to germinate or grow properly so these households lost their paddy entire harvest. An underlying problem is not speaking the national language fluently. This can make it difficult to ask about the origin or quality of the animals or crop seed they are buying.

Source: Lao Cai PPA, MRDP (1999).

28. **Macroeconomic Shocks** -- Poor households in rural areas covered by the PPAs seem quite untouched by the slowdown in economic growth in the East Asia region. There has been very little foreign investment in the rural areas of Vietnam and poor households in the rural PPA sites are still unlikely to be earning much income off the farm. Nor did households mention that remittances from urban areas (where they existed) were falling.

29. The Ho Chi Minh City PPA did, however, indicate that some of the poorer urban households were suffering from economic stress as a result of the slowdown in national and regional growth. Respondents suggested that competition for unskilled work was becoming tougher and this was described as being a result of both recent cutbacks by local enterprises and of the larger pool of unskilled labor available to employers. In problem-ranking exercises, unemployment was identified as the most pressing problem by all poor and migrant groups.

3. COPING STRATEGIES

30. What is striking about the strategies which poor households adopt to cope with shocks and crises is the overwhelming importance of actions taken by the households themselves. The community may help to some extent, especially in the case of household-specific shocks, but since poor households often live in poor communities the level of assistance available from friends and relatives and informal networks is often quite limited. Similarly the formal safety nets which do exist seem to operate rather sporadically. Where these have been provided they are undoubtedly appreciated, but their place in the overall picture of responses to shocks is really

very limited (see Section 4 below). As far as coping with hardship is concerned, poor households have to look largely to their own resources.

31. For the poorer households, these resources rarely include cash savings. The provision of savings services is often the “forgotten half” of savings and credit interventions. This is true in Vietnam, where the formal financial institutions have not really extended deposit services in rural areas. Indicators of the gaps in financial intermediation include the widespread use of non-financial savings instruments, including livestock, gold, housing and reciprocal obligations. The latest significant innovation in this area is not from the banking sector at all, but from the Post Office, which has been using its branch network to accept deposits since 1999.

32. For all households, there is a higher demand for savings services than for loan services. Almost every household will have some savings need, such as managing seasonal changes in cash income, building up a financial cushion, saving for regular periodic cash payments (such as school fees) or saving for a large purchase or investment. In contrast, only some households will demand a loan at any given time. For poor households, the role of savings services in building up a financial cushion and thus reducing vulnerability is particularly important. Many of the case studies from the PPAs demonstrate how a single shock, such as illness, or the death of livestock could cause a rapid deterioration in the well-being of households. Clearly, any form of savings would be a valuable buffer against such shocks. Another specialized form of savings – insurance – would be even more useful if it were available (Box 5.6).

3.1 A Hierarchy of Coping Strategies?

33. In all four PPA sites, the first point of assistance for most poor households is the family, then friends, then the community, and finally commune or district programs. Most households would be able to get some kind of support from within their community. This might include access to small cash or food loans, access to common property, the ability to exchange labor for food, cash or land, and the ability to borrow labor (for example, for childcare so that the parents can leave the house to earn money). These various support mechanisms available within the communities studied in the PPAs included:

- Borrowing cash, food or labor in times of crisis or hardship
- Membership of savings clubs or ROSCAs (rotating savings and credit associations)
- Access to mutual or reciprocal assistance such as labor exchange for housebuilding; exchanging labor for food
- Community contributions to wedding and funeral expenses
- Community-organized handouts or food parcels for the very sick or elderly
- Seeking loans from money-lenders
- Access to common property, for example for livestock grazing or to forestry products for housebuilding or food supplements
- Moral support (for example, coming to help when a husband is beating up his wife)
- Sharing work or contracts.

Vietnam households need more savings products and services

Box 5.6: Reducing Vulnerability by Expanding Opportunities for Cash Savings

The demand for a variety of savings products and services emerged strongly from the PPA studies. For example, in the Lao Cai PPA, a variety of needs were expressed including:

- medical insurance – in cases of severe illnesses
- community savings schemes – to finance cultural events
- liquid savings accounts – for immediate cash needs
- fixed-term or time deposit accounts – for regular annual expenditure e.g. taxes, raw materials, school fees.

Currently, none of these savings services would be easily available in rural areas via the formal financial sector.

The issues

As with the rural finance sector in general, the control of interest rates has a major influence on the incentives for financial institutions to mobilize savings. Subsidized lending rates result in lower deposit rates, reducing the attractiveness of bank deposits relative to other alternative uses of surplus cash. International experience also shows that interest rates are only one of a number of factors affecting demand for savings services. Other factors include:

- Security: are the savings safe?
- Convenience: is it easy to deposit and withdraw savings?
- Liquidity: can savings be withdrawn as cash at short notice?
- Anonymity: will the savings balances of individual savers be public knowledge?

Most of the available formal sector services do not compare favorably with respect to these criteria.

Policy issues

For developing savings services, the first task is to establish a sound policy environment in which such services can be developed. The areas that need particular attention surround the areas of deposit protection. This refers to protection:

- Against inflation – returns must be at least equal to the rate of inflation;
- Against institutional collapse – institutions must be soundly managed and regulated; savers' rights and obligations must be clearly known; some system of deposit insurance must be in place.

When a sound policy framework is in place, then institutional and product development can take place. For successful savings mobilisation, the institutions have to be located within easy reach of where clients are living. Similarly, the institutions must offer a range of products that meet their needs.

3.2 From borrowing food to child labor...

34. An approximate ordering of the PPA households' coping strategies would start with borrowing money and food, followed by reducing expenditure, working as wage laborers, selling

assets, and end with desperate measures such as selling blood, women for marriage, and babies for adoption. Each of these strategies is described below.

35. **Borrowing Money and Food**--This is one of the most commonly mentioned strategies and is found in all the study areas. As a coping strategy against a temporary drop in well-being, this borrowing is very unlikely to be from a formal financial service provider: formal sector loans are not widely available to the poor and even when they are, the application process is too arduous to make money available quickly. Poor households borrow in a wide range of ways. The Lao Cai PPA list 11 forms of credit which a poor household might try to access. The Tra Vinh PPA lists 9 different ways of borrowing. These are illustrated in Table 5.3 below.

<i>Poor households cope with shocks by borrowing in a variety of ways</i>	
Table 5.3: Types of Borrowing by Poor Households, Tra Vinh and Lao Cai	
Tra Vinh	Lao Cai
Mortgage assets such as land	Borrowing cash from relatives to repay back loans
Borrow large amounts from relatives or helpful neighbors	Borrowing food from relatives or neighbors to pay back in kind
Borrow small amounts from relatives or helpful neighbors	Borrowing cash from relatives at no interest
Borrow large amounts from private money lenders	Borrowing cash from neighbors with interest (4%)
Borrow small amounts from private money lenders	Emergency borrowing from money lenders / neighbors (8%, 10%)
Join neighborhood <i>hui</i> (ROSCA)	Borrowing livestock for ploughing
	Borrowing manure for crop fields
	Seasonal borrowing of crop land from relatives or in other villages
Purchase shrimp fry and shrimp food on credit	Purchasing food and materials on credit from shopkeepers
Purchase rice on credit	Borrowing from Agriculture Bank
Borrow from preferential government lending programs (HEPR, WU, VBP, Ethnic minorities board)	Borrowing from HEPR / VBA for livestock

Source: PPA Synthesis Report, World Bank (1999).

36. Concerns were raised in the Ho Chi Minh City and Tra Vinh reports that some poor households were becoming caught in a debt trap. They take a loan to deal with an immediate crisis, but this loan adds substantially to the household expenditures because of the high interest rates. They are unable to raise the supplementary income needed to pay for the loan repayments and have to take another loan to honor the first. In Ho Chi Minh City, some moneylenders may use the threat of physical force to extract repayments from defaulting households. Commonly, defaulting householders are taken by moneylenders to hire-purchase shops where they can obtain

an item on credit, sell it and use the proceeds to pay off the moneylender. Of course, this then leaves a larger debt to be repaid at high interest rates. Taking loans in some instances was cited as a *reason* for poverty and some households were very reluctant to take loans in case they could not repay them. These more ruthless tactics by moneylenders are not reported in the rural areas. The pressure to repay there comes from the knowledge that if you default, you are unlikely to get another loan from anyone else.

37. There often seems to be a psychological cost to being in debt. Many households, especially in Ho Chi Minh City, commented on the anxiety and stress that being indebted brings. In Ha Tinh, one respondent commented that women would be sent out to get the local loans from friends and neighbors which are often used to cover consumption shortfalls because the men did not like to appear desperate. They were more inclined to apply for the formal loans, dealing with the larger sums of money and the outside institutions.

38. ***Reducing Consumption and Living with Ill-health***--Reducing the number of meals, reducing the size of meals and substituting inferior foodstuffs for preferred staples were all commonly mentioned responses to seasonal food shortages and other crises which meant that household resources were stretched. This generates speculation that overall health may be affected in the longer term and that the quality of labor might suffer. There was no obvious pattern to certain members of the family suffering particular nutritional deprivations: girls did not seem to be fed less than boys, nor women less than men. Additionally, households in both Lao Cai and Ho Chi Minh City were found to be living with ill-health on a long term basis in order to avoid consultation and treatment costs which would strain household resources.

39. ***Laboring*** --Diverting labor away from agricultural tasks to cash-earning tasks is a common response to decline in well-being in Lao Cai. A sudden need for cash in the upland areas, some of which are not highly monetized, requires some reallocation of household resources. If a household has surplus labor, then this can be used to earn money, usually doing agricultural tasks for wealthier households within the commune. Households who do not have surplus labor, and this seems to be most, will be laboring possibly at a cost of lower agricultural returns at harvest time. Where this labor reallocation leaves a gap in the farming systems, there is an added incentive to withdraw children from school so that they can help. Day laboring is the main source of cash for poor households in Tra Vinh who have sold their land. However, it appears that the demand for labor is seasonal and not at all robust. Day laboring is not so much a coping strategy as a survival strategy in Ho Chi Minh City, where there is no agricultural land to fall back on. Poor households are always in search of jobs which can provide regular income. Migrant households are less likely to find stable work because their lack of permanent registration in the City constitutes a real handicap when applying for jobs.

40. In areas where local labor markets are yet to generate sufficient demand for unskilled labor, some migration is evident. This is particularly true in Ha Tinh, where households commented that the freedom to migrate was one of the most beneficial changes over the last few years. The analysis of the impact of migration on the household was more mixed, however. Whether or not the net result was positive for the remaining household members depended largely on the relationship between the remittances sent back (sometimes zero), the reduced expenditure demands because of the reduction in mouths to feed and the additional workburden

(sometimes considerable) generated by the departure of a primary laborer. Some villages had quite high rates of either seasonal or permanent migration.

41. ***Withdrawing Children from School***--This was a common response to declines in well-being. Indeed, the Lao Cai report found that this was nearly always amongst the first responses to a crisis. There are many references in the PPAs to the cost of education and the burden this places on poor households. These costs include the direct costs of fees, books, pens and the various contributions to insurance and construction funds. They also include the cost of clothing and food. There are also opportunity costs in terms of the lost labor, though this varies according to the age of the child and across location. Where the perceived returns to education are low because having a few years of often low-quality primary education is thought unlikely to make a difference to future livelihoods, the very tangible costs of sending children to school may soon begin to outweigh the perceived benefits. This is particularly the case in times of crisis when resources are so stretched that basic consumption is threatened.

42. ***Selling Assets***--Households who have livestock or land will often have to sell them in times of crisis, though they may be quite reluctant to do so since these assets represent, often, a key source of cash income. The Lao Cai PPA suggests that households will, as a first response to needing cash, generally attempt to divert labor away from farming to cash-earning activities in preference to selling off livestock. In Tra Vinh, poorer households may sell off their land in times of crisis, with profound repercussions for future productive potential given the lack of day-laboring opportunities (Box 5.7). In Ho Chi Minh City, households in crisis are seen to sell their houses, if they have them. They then downgrade either to renting or buy a cheaper house. Significantly, households rarely mention the role of cash savings in helping them to cope with shocks. The facilities for cash savings are very limited in rural areas and households often store savings in the form of livestock.

Selling off land to cope with a shock can push a family into a "lose-lose" situation

Box 5.7: Landlessness in Tra Vinh

Poor landless people in Tra Vinh identify the mutually reinforcing problems of reliance on day laboring and lack of productive resources as two of their most serious problems. Given the low returns to day laboring, this results in an inability to save money or develop the skills necessary to break out of poverty.

Landlessness contributes to chronic indebtedness and extreme vulnerability. Many poor households told team members that being landless is a "lose-lose" game; the longer one is landless, the worse one's situation becomes. Therefore, the long-term landless have dropped further down the economic ladder. Poor landless people in both districts have difficulty accessing services, and have few opportunities to improve their lives. Landless laborers are likely to have less access to health and other services because they are away from their homes working during daylight hours when cadres visit. As many landless people travel for weeks or seasons at a time, they also miss other village-wide services, such as credit applications or extension training requiring several days involvement.

Source: Tra Vinh PPA, Oxfam (1999).

43. **Child Labor**--For some of the poorest households in both urban and rural areas, child labor provides extra sources of cash in times of hardship (by working for cash) or provides indirect support by substituting for adult labor when adult labor is displaced from its usual task (for example, taking on more work inside the house or on the farm in order to release adult labor to earn cash). In Ho Chi Minh City, the most common activities for children included:

- scavenging for food
- selling lottery tickets
- selling noodle soup or other food products on the street
- doing piecework at home or in small workshops (e.g. making toothpicks, plastic objects, fake paper money for worship and religious rites, packaging incense sticks and polishing copper incense burners)
- working as domestic servants (mainly girls)
- portering
- mason's assistants (mainly older boys).

44. In Lao Cai, children and young laborers from poor households are sometimes sent to live with other households for a period of 2-3 years (see Box 5.8). In the host household, the child performs accepted tasks for children, such as watching the buffalo, feeding the pigs and looking after younger children. In return, the child is fed and the child's parent may receive young livestock to raise as payment. This is seen as a mutually beneficial arrangement: one household receives needed labor while the poor household is able to minimize expenditures without depriving the child of food *and* receives payment in form of livestock. After a few years, the child returns to live with the parents again. Some child laboring was evident in Tra Vinh (sending children away to work as domestic workers) though the overriding problem in Tra Vinh appears to be lack of demand for labor which perhaps is limiting the extent to which child labor is used as a coping mechanism. In Ho Chi Minh City, households sometimes sent children away to live in the countryside with relatives.

Sometimes, under dire straits, even children have to be used as coping strategies

Box 5.8: Using Children to Cope with Hardships

Seng (44 years old). Lao Cai Province

Seng is a widow who has two daughters (aged 13 and 17). Her husband died 12 years ago in 1987. One day he went to his father's house to help him kill a pig which had a disease. After killing the pig, they had a party and drank a lot, then he came home to sleep. Five days later, Seng's husband didn't let her go to work because he knew he was going to die. After he died, she faced a lot of difficulties for many years. The children were still young, their house was damaged and they had neither buffalo, pigs nor chickens. The family still lacks food every year. In times of food shortage she has to work for other families for 2kg maize to eat. She has also sent the second child to work for a richer family in return for a small cow.

Source: Lao Cai PPA, MRDP (1999).

Coping strategies may undermine future livelihoods

45. The PPAs also demonstrated the links between poverty and vulnerability to external shocks, and confirmed that access to common property is an important coping strategy (such as making extra money by going to the forest to cut wood). Poor rural households often find themselves trapped in a vicious circle of having to over-exploit their natural environment for short-term benefit to the detriment of their own long-term sustenance.

46. Unsustainable use of natural resources and a continued decline in natural forest cover is causing significant government concern. Notable progress has been made with the establishment of the National Environmental Agency (NEA) and the passing of the Law on Environmental Protection, both in 1993. Particularly, the forestry sector has seen a concerted government effort at addressing the problems. The *Re-greening of the Barren Hills Program* (Decision 327) was adopted in September 1991 and followed-up in 1998 by the *Five Million Hectares Reforestation Program* (Decision 661, July 1998), which recognised the potential to develop, reforest and protect a natural resource system through sound and careful management involving local households. A government – donor partnership group was formed in early 1999 to help government develop principles, policies and procedures in support of its *Five Million Hectares Reforestation Program*, and to coordinate development assistance. Broad consensus has been reached on the outlines of a roadmap, with the objective of developing shared principles for forestry development; feasibility of co-financing, sector-program lending and specific investments.

4. PUBLIC SAFETY NETS AND TARGETED PROGRAMS

“Besides the government’s supportive efforts, the participation of the community brings into play the national tradition of “mutual affection and help” and “the richer helps the poorer” as the leading decisive factor of the HEPR success in recent years. In this process, the initiatives and creativeness of the localities are very important.”

(Mr. Le Kha Phieu, Secretary General, Communist Party of Vietnam, January 1999).

47. A strong and pervasive view in Government and in mass organizations in Vietnam is that the responsibility for poverty reduction must be shared across three key groups: Government, the community, and the poor people themselves. Problems cannot be solved by Government alone--it can act as the catalyst to mobilize resources at the local level, but the community and the poor must bear some of the responsibility. These perspectives have influenced the design and implementation of the Government’s public safety net programs.

48. Prior to 1998, there were a large number of poverty programs in Vietnam, both at the national and provincial levels (van de Walle, 1998). During 1998, many of these programs (except Social Security) were consolidated into one national poverty program—the Hunger Eradication and Poverty Reduction (HEPR) Program. The origins and evolution of this program are interesting and it is important to understand them before one can examine the strengths and weaknesses of the HEPR program.

4.1 The HEPR evolved from local initiatives into a national program¹⁶

49. Although for a long time there was no explicit official recognition of the widespread incidence of hunger and poverty in Vietnam, there were some government programs that were targeted towards the more difficult segments of the population. In the late 1980s, poverty reduction first emerged as a priority of Party and local officials in some districts faced with extreme poverty. At the Seventh Party Congress in 1991, it was pointed out that hunger and poverty were persistent problems in mountainous and remote regions and in areas of former revolutionary bases. The Congress also stressed that there was a lack of concern among government authorities in providing support services—such as commune infrastructure, health care and education—to the poor, especially to ethnic minorities living in the mountainous and remote communes.

50. In 1992, Ho Chi Minh City (HCMC), which was well ahead of other provinces and cities in the economic reform process, initiated the first HEPR effort at the provincial level. The public and local authorities had learnt that the reform efforts benefited different population groups and geographical areas differently. Those being left behind needed assistance to maintain some minimum living standards. The City's initiative was essentially focussed on hunger eradication through expanding public expenditure to improve access of the poorest people and communes to direct support. It quickly received wide support from the public. It became clear that, in addition to awareness and commitment of local authorities, bottom-up and self-help approaches were most critical for any HEPR activities to reach the poor.

51. In 1993, a number of other provinces joined the HEPR initiative. The first national poverty lines were also established in 1993 by MOLISA (Ministry of Labor, Invalids and Social Affairs) and subsequently revised in 1995. The Government also launched a number of nationwide HEPR-related initiatives such as the VBARD's (Vietnam Bank for Agriculture and Rural Development) non-collateral credit for the poor; Program 327 on "Regreening of barren hills, wasted land and sedentarization of nomadic ethnic minorities"; and Program 120 for "Employment Generation". The latter two programs piloted the Government's concept of addressing socio-economic priorities through targeted programs.

52. The Eight Party Congress in 1996 outlined the future national program for HEPR by defining its objectives and policy measures and the HEPR became an important national policy. It took the Government another two years to clarify the program's institutional arrangements. In July 1998, the Government formally established the National Target Program for HEPR (Program 133) for the period 1998-2000. Also in July 1998, it established the related program to support the 1715 poorest mountainous and remote communes (Program 135).

53. The HEPR framework embraces nine components and aims to eradicate hunger and reduce the incidence of poverty to 10 percent of the population by 2000. The local HEPR initiatives have been supported by a number of HEPR-related sectoral policies and interventions as presented in Box 5.9. The nine program components are: sedentarization, resettlement and

¹⁶ This section draws heavily on a UNDP-funded report by Nguyen The Dung (1999) "Capacity Assessment for Vietnam's National Target Program for Hunger Eradication and Poverty Reduction".

New Economic Zones (implemented by MARD); infrastructure development in poor communes and resettlement (CEMMA); promotion of agriculture and off-farm production (MARD); extension services for agriculture, forestry and fisheries (MARD) and income generation (MoLISA); training for HEPR staff (MoLISA and CEMMA); assistance to ethnic minorities facing extreme difficulties (CEMMA); credit and saving for the poor (SBV); education for the poor (MoET); and health for the poor (MoH).

54. A number of the components of the HEPR and other activities which target poverty have been running for some time. The national program 120 for Employment Generation, for example, has been implemented since 1992 and programs to resettle households to New Economic Zones and sedentarize ethnic minority groups have been in operation for many years. An evaluation of the impact on poverty of these programs could be useful in indicating ways forward.

The Government has initiated a number of HEPR – related policy interventions

Box 5.9: Policy Initiatives Targeted Towards Poverty Reduction

Land Allocation—The policy of allocation of agricultural and forestland to farmers is considered by the government as a long-term basis for hunger eradication, poverty reduction and equitable development in rural areas.

Provision of Credit to the Poor—This is widely used to support productive activities of poor households. There are numerous schemes which can be classified into two major groups: those which can be financially sustainable (such as the Vietnam Bank for Agriculture and Rural Development's and some Women Union schemes) and those that can not (such as the Vietnam Bank for the Poor's).

Building Rural Infrastructure—This is also an important policy of the Government. Irrigation, especially for rice production, rural roads, commune schools and health care centers, and rural clean water supply have been given particular attention.

Agricultural Services—A program on production-supporting services, such as agricultural, forestry and fishery extension, supply of material inputs, and transfer of technology, has been put in place since the early 1990s to meet farmers' demands for inputs for production.

Employment Promotion—Established in 1992, the National Program for Employment Generation largely functioned as a safety net, aiming to alleviate the negative impacts of the restructuring of the state-owned sector. It aims to directly promote employment opportunities through providing severance payments, subsidized credit, and training of new skills.

Sedentarization of Nomadic Ethnic People—The programs for sedentarization, resettlement, and development of New Economic Zones have been undertaken by MARD and local authorities with the objective of improving the living standards of the poor through mobilization of potential land resources for agricultural production.

Re-greening of Barren Hills—This program aimed to re-green barren land and to develop agriculture, forestry and fishery in the whole of the country. Its objectives were gradually narrowed in 1993-96 to develop the protected and specialized forests in the mountainous areas.

Education—Targeted activities include: ensuring that all communes have good primary schools by the year 2000; strengthening informal education for children who do not go to school, and for illiterate people; and improving vocational education to meet market requirements.

Health Care—This encompasses two kinds of activities: vertical programs (such as for malaria, goiter, vaccinations, mother's and children's healthcare); and local initiatives (such as granting of free-of-charge medical cards, setting up of facilities for free-of-charge services for the poor).

Social Security and Safety Net—There are 3 main funds: (i) Social Guarantee Fund for Veterans and War Invalids; (ii) Social Guarantee Fund for Regular Relief provides assistance to the disabled, orphans and the elderly; (iii) Contingency Fund for Pre-Harvest Starvation and Natural Disasters.

Prevention and Control over Drug Abuse—This was established in 1993 and primarily targets poor ethnic minority people in mountainous areas.

Source: HEPR Program Documents (1999).

4.2 The poor want greater access to HEPR services and activities

55. It is not clear what the impact of all these policies and programs has been on the poor. From the PPAs, it became clear that the Government services which concerned poor households most of all included:

- Health services
- Education Services

- Agricultural, aquacultural, and veterinary services
- Loans provided under the HEPR and by the VBARD

56. These services all receive program attention under the HEPR and the 1715 Poor Communes Program. In the PPAs, however, people voiced complaints regarding the accessibility of the poor to these services.

57. **Health Services** were perceived as being too expensive and of poor quality, even in the highland villages of Lao Cai where exemptions applied. Many households commented on their preference for private services, noting that the private practitioner would come to your house and would often provide treatment on credit. In some mountainous areas, the distance to commune health stations demanded a whole day traveling there and back, a high cost in terms of lost labor. Poor households were observed living with ill health on a long term basis in order to avoid the costs of treatment and consultation. The cost of health care was a particular problem to poor, elderly households.

58. **Education Services** were also seen to be neglecting some of the poorest groups. All PPAs noted that poverty or food insecurity was the single most important factor in causing children to drop out of school at low levels of attainment. In Ha Tinh householders complained that they were encountering problems covering their consumption needs as a result of paying school fees and costs, which rise as the pupil moves up the educational levels. The link between poverty and school dropouts is not limited to rural areas. Poor families in Ho Chi Minh City are also having difficulties covering the costs of primary education. This is particularly true for those without permanent registration, because they are not eligible for fee exemptions as the resident poor are. All PPAs commented that this association of poverty and lower educational attainment would reinforce a tendency for poverty to be inherited by the next generation. This logic could be extended to the other groups who are receiving little education: where certain ethnic minorities and women are already disadvantaged, this failure to deliver education services equally across all groups will tend to perpetuate their isolation and so their poverty.

59. **Agricultural, Aquacultural, and Veterinary Services** face difficulties in their outreach to more remote areas. Farmers felt deprived of an opportunity to develop their plots because they lack the skills and knowledge which could lead to important productivity increases. While this limited outreach is probably substantially due to resource constraints in the District Extension Stations, there were also concerns about the overall approach to agricultural extension. There were certain where poor households felt that they had been overlooked for inclusion in training and this was voiced particularly by women. There were also concerns about the directive, planned extension activities - although the Government has withdrawn from direct management in agriculture, agricultural promotion activities still seem to be far from demand-led.

60. **Formal Financial Services**, including those that are targeted to the poor, seem in rural sites to be bypassing the poorest groups. In Ha Tinh, the PPA suggested that, "*most of the poor, and perhaps all of the poorest people in the PPA communes currently have no access to loans through official sources*", leading poor residents in one poor commune to note, "*while the rich get loans, the poor get consideration for loans*". The main formal sector financial service providers in rural Vietnam are the VBARD and the VBP, but because the VBP is administered by the VBARD, many households do not see a difference between the two institutions. As

discussed above, the VBP (with the Women's Union, often) is the conduit for subsidized loan funds from the HEPR and other programs. Because these funds are subsidized, their supply is highly restricted and loans from this source are in high demand. Though not as cheap as VBP loans, VBARD loans are still very much cheaper than the informal sector and, as such, are sought after.

61. It is interesting to note that in Ho Chi Minh City, which is the birthplace of the HEPR program, the program is rated most highly by the poor. From the HCMC PPA it seems as if there is greater access to formal sector credit by poorer households. The PPA reports that, by and large, poor households are accessing the loans designed to reach them *with the important exception of the migrants who lack permanent registration*.

4.3 Social safety nets are poorly targeted and have low coverage

62. The PPAs indicate that though a large number of government initiatives and programs exist or are planned, their implementation and coverage relies primarily on local authorities and local resources, which are rarely sufficient. Thus, the programs are small, have weak coverage and are not necessarily reaching the poor. This is confirmed by data from the VLSS98. Table 5.4 presents data on what households report they received as income from government (and NGO) social programs during the last year, expressed on a per capita basis. The largest Government payouts (82 percent of the total in 1998) are from the social insurance fund, covering pension and disability benefits for civil servants and SOE employees. Social subsidies, which include payments to war veterans and the families of war martyrs, are much smaller in absolute amounts and make up only 16 percent of total welfare receipts.

*Social insurance payments to public employees dominate Vietnam's social welfare system ...***Table 5.4: Incidence of Social Welfare Income, 1998**

Quintile	Income Received from the following programs (VND per annum per capita)					Total Receipts as % of Household Income
	Social Insurance Fund	Social Subsidies	Poverty Alleviation Programs	NGO Assistance	Total Social Welfare Income	
Quintile 1 (Poorest)	15,961	11,282	1,472	1,152	29,868	2.7
Quintile 2	42,020	15,597	2,415	554	60,586	3.7
Quintile 3	77,120	24,500	1,053	313	102,986	4.8
Quintile 4	153,840	23,535	869	298	178,542	6.1
Quintile 5 (Richest)	207,654	21,776	659	443	230,532	3.8
Total	99,352 (82.4%)	19,339 (16.0%)	1,294 (1.1%)	552 (0.5%)	120,537 (100%)	4.4

Source: World Bank estimates based on VLSS98.

63. The VLSS also asked about transfers received under policies or programs supported by the Government's poverty alleviation efforts, as well as those received from domestic and international NGOs. The amounts involved here are negligible approximating to \$0.92 and \$0.40 per person per year, respectively.

64. Table 5.5 provides information on percentages of the population in each quintile whose household received social welfare transfers. Coverage of the poverty programs is small: only 2.2 percent of the population lives in households that have received a payment from any of the poverty programs. These figures may well underestimate the coverage of poverty programs if households do not know the source of assistance. Nevertheless, both the VLSS and the PPA data suggest very limited coverage of the welfare programs.

The coverage of public poverty programs is small

Table 5.5: Coverage of Social Welfare System, 1998

Quintile	Percent of Population Living in Households Who Received Social Welfare Payments from			
	Social Insurance Fund	Social Subsidies	Poverty Alleviation Income	NGO Income
Quintile 1 (Poorest)	3.5	9.2	6.7	0.7
Quintile 2	8.1	8.6	1.8	0.9
Quintile 3	10.6	11.7	1.4	0.3
Quintile 4	16.4	10.4	1.0	0.2
Quintile 5 (Richest)	17.5	7.9	0.3	0.1
Total	11.2	9.5	2.2	0.5
Rural	9.4	10.2	2.6	0.6
Urban	18.3	7.1	0.8	0.1

Source: World Bank estimates based on VLSS98.

4.4 Improving the targeting of scarce resources for poverty alleviation is a priority

65. The principles on which the current highly decentralized, community-based assistance and safety net system is built are threatened by the emerging market economy. In particular, increasing mobility, without which the market system cannot function properly, renders community level identification and targeting of the poor less effective and is likely to make the mobilization of community resources for helping the poor more difficult.

66. In order to improve targeting and better reach the poor, the government first needs to transform the institutional structures and processes that have guided transfer and safety net provision in the past. This includes the following:

- **Identification and monitoring:** National norms need to be determined for identifying the poor consistently across regions; survey and other instruments with which to consistently measure and monitor local needs and program performance need to be designed and implemented.
- **Program coordination:** Existing sub-programs need to be better integrated and coordinated and a set of well-defined and universal rules for implementation at the local level must be instituted.

- **Strengthen the safety net function:** Efforts are needed to build up a safety net system that serves an insurance function, both to help individuals deal with individual level risk and to enable households and communities deal with shocks that affect entire localities. The latter requires a centralized effort and a greater level of risk pooling nationally. The system needs to be flexible in that it is ready to kick in when it is needed.

Pro-poor targeting is often improved by following two principles:

67. **Target resources to poor areas:** Central poverty budgets and social and other programs should be targeted to poorer provinces and regions using poverty maps and information from better monitoring. The more disaggregated the poverty map information, the more community level targeting is feasible. Even though mobility is increasing, there remains ample scope for better geographic targeting in Vietnam.

68. **Use self-targeting wherever possible:** International experience shows that self-targeting—whereby conditions are built into program design such that only the poor choose to participate—is often the most cost effective targeting method for achieving impacts on poverty within areas, given the constraints faced in underdeveloped rural economies. Self-targeting often has low administration costs, preserves incentives to escape poverty, and is less subject to capture by local elites or corrupt administrators and officials.

69. Research and international experience shows that there are some quite widely used forms of self-targeting that can work well to fulfill both an insurance and transfer function when properly designed. Workfare schemes that provide socially useful work to those who need it are an example. The idea is to provide a public guarantee of work on community-initiated projects. The work must be available to anyone at any time (this helps it serve the insurance function), and at a low wage to make it self-targeting. Workfare should be complemented by a set of transfers in cash or food targeted to specific groups who either cannot work, or should not be taken out of other activities such as school. Food-for-education programs in poor areas have proven effective in helping keep poor kids in school. Targeting here can rely on community level information and indicators, such as not being able to work or illiteracy, that are easily identified, unlikely to be manipulated, and are highly correlated with poverty.

PART III

MOVING TOWARDS A COMPREHENSIVE POVERTY REDUCTION STRATEGY

The final part of this report lays out an approach that Vietnam could adopt to develop and implement a comprehensive poverty reduction strategy. The essence of the approach is to build on the understanding of poverty and its determinants that has been laid out in Parts I and II and to choose public actions that have the highest poverty impact in each sector. This needs to be complemented with outcome indicators which are set and monitored using participatory processes.

MOVING TOWARDS A COMPREHENSIVE POVERTY REDUCTION STRATEGY

1. Vietnam has made considerable progress in reducing poverty in the last five years and yet, poverty remains widespread and deep and much remains to be done in the next five- to ten years. Chapters 1 and 2 have highlighted the multi-dimensional nature of poverty in Vietnam, extending from low levels of incomes and consumption, to poor health and lack of education, and to other “non-material” dimensions of well-being, including gender gaps, insecurity, powerlessness and social exclusion. Chapters 3, 4, and 5 laid out three broad imperatives in the fight against poverty:

- 1) First, **opportunities** for employment and productivity growth must be created, so that incomes rise and the poor are able to grow out of poverty;
- 2) Second, measures must be put in place to ensure that growth and access to services is **fair and equitable**, so that all citizens benefit from the fruits of development;
- 3) Third, special care must be taken to reduce the **vulnerability** of the poor to unforeseen events (sickness, poor harvests, loss of income-earner, etc.).

2. Combined, these three elements define development policy. Every country should be able to articulate a clear strategy for each of these three elements as it seeks to improve the wellbeing of its citizens. Chapters 3-5 described how the Government of Vietnam is seeking to clarify its own strategy in each of these areas, and made suggestions for the future.

3. These three imperatives also need to guide sectoral and economic policymaking. In allocating public resources among competing uses, and in establishing laws, regulations and incentives, it is the impact on human wellbeing (and especially that of the poor) that needs to drive decisions. For each sectoral and economic program, therefore, it is important to be able to explain how the design of the program contributes to creating opportunity, ensuring equity, and reducing vulnerability. Figure 6.1 illustrates this general point for the key broad categories of development planning. It provides a road-map or a framework for translating the analysis presented in this report into sector strategies. In this sectoral framework, cross-sectoral themes such as gender and environment that have been raised earlier in the Report are not highlighted separately. Instead, it is assumed that these issues cut across all sectoral themes.

4. This chapter makes no attempt to present comprehensively how policies and programs in each of the sectors should be designed so as to maximize poverty reduction in Vietnam. It does point in the direction towards how such an exercise might be undertaken, and recommends that this be undertaken (with the assistance of the national and international development community) as part of the Government’s medium-term planning exercise. The chapter also discusses how international and national development goals can help clarify objectives and monitor progress. The chapter ends with a discussion of how Vietnam’s development partners can assist in the design and implementation of its poverty reduction strategy.

AREAS FOR ACTION

Each sectoral and economic program should be able to explain how the design of the program contributes to creating opportunity, ensuring equity and reducing vulnerability

Imperatives of a Poverty Reduction Strategy	Human and Social Development		Physical Infrastructure	Economic Management	Regional Development		Good Governance	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Human: - Education - Health - Nutrition - Population	Social: - Safety Nets - Knowledge - Culture	- Transport - Energy - Water	Enterprise Policy: - SOE reform - Private Sector - Banking & Finance	Macroeconomic Policy: - Fiscal Policy - Trade Policy	Rural Development including Remote & Mountainous Area Development	Urban Development	- Public Administration - Legal - Transparency - Participation - Anti-corruption
Create Opportunity								
Ensure Equity								
Reduce Vulnerability								

Figure 6.1: A Framework for Assessing the Prerequisites for Poverty Reduction and Equitable Growth

1. DESIGNING SECTORAL AND ECONOMIC POLICIES AND PROGRAMS

5. The time is right for the Government of Vietnam to put poverty reduction at the center of its policies and programs for the next decade and longer. The Government has just embarked upon a planning exercise from now until the end of the year 2000 to formulate the next Five Year plan for the years 2001-2005. Furthermore, in preparation for the Ninth Party Congress to be held in the year 2001, the Authorities will be reviewing the long-term prospects of the country. A new 10 year Socio-Economic Development strategy for Vietnam to the year 2010 will be prepared, and this will be embedded within a longer-term vision up to the year 2020. These plans for Vietnam could become instruments for putting Vietnam on a path of development that is equitable and sustainable and one which continues to give it the kind of success in poverty reduction that it has seen in the last five years.

6. There are many ways in which the different elements of policymaking can be categorized. Figure 6.1 groups the areas requiring attention from policy-makers into five broad categories:

1. Human and social development;
2. Physical infrastructure;
3. Economic management;
4. Regional (rural and urban) development;
5. Good governance.

7. The Government has clearly recognized that continued poverty reduction will require firm actions in each of these broad areas, and in the many sub-components of them. There is also growing evidence, both here in Vietnam and around the world that achievement of progress in any indicator of human wellbeing is likely to require actions in several sectors. Effectively raising literacy rates among poor ethnic minority communities, for example, requires actions not only in the field of education (teacher training, curriculum development, textbooks, schools etc), but also in infrastructure (access and electricity), public administration and information, and rural economic policy (to promote greater income earning opportunities). More broadly, even large investments in human development leading to a very healthy and highly educated society will not be able to fight poverty if economic management is poor and there is no growth and no income-generating opportunities that will ensure higher incomes. But a balanced attack across all fronts does not imply that everything can be done at once. What is needed to prioritize actions is an identification of the bottlenecks—the hard to solve problems that are impediments to success—and to begin by attacking these first. And to ensure that the priorities that emerge reflect the concerns of the poor, they need to be engaged through a participatory planning process.

8. Over the coming year, the Government of Vietnam will be preparing revised medium term strategies in each of these areas. In this chapter we briefly explore some of the issues and trade-offs that we would recommend be addressed in this process.

1.1 Human and Social Development

9. Investments in human and social development are critical for all three imperatives of a sound poverty reduction strategy—creating opportunity, ensuring equity, and reducing vulnerability. While coverage levels in Vietnam are often well above international norms, the quality of healthcare and education needs to be improved urgently, as does provision of services to the poor. Recent analyses of financial needs in health and education indicate that public expenditures remain low by international norms.¹⁷ The challenge will be to establish the capacity to absorb the needed resources productively so as to improve quality and access. Below, as an example, we focus on the education sector. Similar issues apply in the health sector that are discussed in detail in the forthcoming Health Sector Review (1999).

10. In the education sector, there are three major sets of issues—access, quality and relevance, and financing issues. During the preparation of the next Five Year Plan, policymakers in the education sector will need to grapple with three sets of issues:

(i) How to provide more equal access to education services? Despite high overall enrollments and relatively small differences between males and females, many disadvantaged areas and groups do not have equality of access to basic education. Of the children that are currently not in school, 50 percent are from ethnic minorities. In Lai Chau, a poor mountainous province, only 49 percent of adult women are literate. The differences between the richer and poorer groups with respect to primary education are not very large, but they become much more pronounced at higher levels of education. For example, at the primary school level, 82 percent of children in the poorest quintile compared with 96 percent of those in the richest quintile are enrolled in school (Table 6.1). The difference is much more pronounced even for lower secondary education, with only 34 percent of children in the poorest quintile but 91 percent of those in the richest enrolled in school. Obviously, ensuring equitable access to basic education for all will be necessary to ensure equitable access to opportunities and incomes in the future.

¹⁷ See the forthcoming Health Sector Review (1999), and the Vietnam: Education Financing Report (World Bank, 1997).

Differences between the rich and the poor in access to education rise with levels of education

Table 6.1: School Enrollment Rates by Expenditure Quintiles

Net Enrollment Rate	Quintile					Vietnam
	I (poorest)	II	III	IV	V (richest)	
Primary School	81.9	93.2	94.6	96.0	96.4	91.4
Lower Secondary	33.6	53.0	65.5	71.7	91.0	61.7
Upper Secondary	4.5	13.3	20.7	36.5	64.1	28.6
Post-Secondary	0.4	0.6	2.9	8.3	28.9	9.3

Source: World Bank estimates based on VLSS98.

(ii) How to improve the quality and relevance of education services? Quality and relevance is a growing concern that is perceived differently between rural and urban families. The poor, often from remote and traditional societies, see little in the curriculum or in the teaching methods that relates directly to their living concerns. For them, the medium of instruction in basic education is often alien, the hours of instruction are limited and sometimes conflict with the rural work cycle and other family obligations. For urban families, there is growing concern that standards are slipping and that the curriculum content and methods need revision.

11. Policymakers are aware that the present curriculum does little to lay the foundation for a learning-society in a market-based economy. Leadership, concerned that the wage advantage of Vietnamese labor is being eroded, have not yet taken the decisions needed to restore competitiveness through knowledge, skills and flexibility. They still favor static learning in predefined vocational fields over more flexible and dynamic learning applied to an evolving and changing economy. Improving the quality and relevance of education is a key to enabling Vietnam to improve the quality of its labor force and to attract investments that can provide jobs and income-earning opportunities for the workforce.

(ii) How to improve the low efficiency of expenditures in education and to reduce the burden on the poor of financing education services? Expenditures on education have low efficiency and effectiveness--overall repetition and drop out rates are high, reducing education achievement levels and increasing the cost of education for government and families. And an over-reliance on household financing of basic education places a disproportionate burden on low income families. Households currently bear 42 percent of the total expenditures on primary education, and almost 50 percent of the total expenditures on basic education (including lower secondary schooling). Exemptions from educational charges for the poor, or other targeted subsidies are too low to offset the inability of poor households to finance basic education costs. Research shows that school fee exemptions in Vietnam have little impact on the poor, primarily because they account for only a small proportion of parents' direct outlays to schools and other school-related expenditures (Nguyen Nguyet Nga, forthcoming) and because they also have limited coverage (Table 6.2). Furthermore, because poor households tend to live in poorer communities where less is spent on schools (both by parents and the state) their children attend lower quality schools.

Public expenditures need to be reviewed to see how to reduce the burden of financing basic social services on the poor. And HEPR policies can help by using more geographical targeting to channel education and poverty budgets to poor communities and paying for teachers and school buildings and supplies in those areas. Poor households identified by local authorities can also be given a food transfer in exchange for a child's continuing attendance in school like in traditional food-for-education programs. The same principles apply to health care.

The cost exemption program for basic education has limited coverage

Table 6.2: Coverage of Cost Exemption Program for Basic Education (Primary and Lower Secondary) 1998

Quintile	Percentage of School-Age Children (6-14 years) with Cost Exemption		
	Partial Exemption	Complete Exemption	Either
Quintile 1 (Poorest)	8.9	11.6	20.5
Quintile 2	10.7	6.5	17.2
Quintile 3	13.4	3.6	17.0
Quintile 4	9.9	3.6	13.6
Quintile 5 (Richest)	8.6	0.9	9.5
Total	10.4	5.8	16.2
Rural	6.8	2.3	9.1
Urban	11.0	6.4	17.5

Source: World Bank estimates based on VLSS98.

1.2 Physical Infrastructure

12. The key issue for policymakers is how to expand the quality and quantity of infrastructure, while making the right choices and trade-offs with respect to these investments, given the severe budget constraints they face.

13. **Infrastructure and Opportunity.** There is substantial evidence that the right investments in infrastructure in Vietnam have very high rates of economic returns. Well designed transport and energy projects, for example, can have returns of over 30 percent, as bottlenecks are removed, returns to farmers are increased, and competitiveness improved. Taking advantage of these high returns to promote economic growth and hence, employment opportunities, will require expanded investment, increased design and implementation capacity, and new forms of finance. Investments in physical infrastructure (transport, power, telecommunications, water) will need to be around \$4 billion per year for the country as a whole (around 15% of GDP) to restore growth to previous levels. But achieving this will require a pattern of finance that is different to the past. If these investments are not to crowd out even more essential investments in human and social programs, it will be necessary for at least half of this sum to come from private investment and SOE retained earnings.

14. **Infrastructure, Equity and Vulnerability.** Access to most kinds of infrastructure has improved markedly since 1993, at least in quantity. But analysis of the 1998 VLSS suggests that the inequalities in access between poor and non-poor, between regions, and between urban and rural sectors that were evident in 1993 still persist. The poor and those in rural areas and in more remote regions are much less well provisioned than others. Access to infrastructure facilities and services is crucial to improving the human resources of the poor, reducing their vulnerability, and enabling them to partake in, and contribute to, the opportunities for improved livelihoods created by a market economy.

15. For example, access to safe water supplies and better sanitation will improve the health status of the poor, which will reduce the costs engendered by ill health, such as lost earnings, and promote well-being more generally. Better transport and communication facilities in rural areas will help integrate poor households into the market economy and help develop agricultural as well as off-farm activities to the benefit of all. Ready access to energy sources and improved water management will also boost rural farm and non-farm development on which most of Viet Nam's poor directly rely.

16. Recognizing this, the Government has announced plans to extend the reach of infrastructure into poor and remote areas. Current plans to bring electricity to 100% of district capitals, 80% of commune centers and 60% of households may not be achieved by 2000 as hoped, but are appropriate goals, as are equivalent targets for rural access. These targeted programs are now being augmented by community-based infrastructure programs. The 1,715 Poor Communes Program, which will allow commune residents to decide on the allocation of funds for minor infrastructure works can play a very important role in helping to generate an upward spiral of rural welfare.

17. As the Government now seeks to deepen its commitment to provide infrastructure to the poor, a number of difficult questions will need to be addressed – and factored into the next five-year plan.

(i) How to allocate resources among and within provinces? In every country, governments struggle with the choice between allocating resources to where the financial returns will be the highest and where the social needs are the greatest. The trade-off between allocations between Vietnam's three "growth triangles", where high population densities and high growth potential suggest high returns, and the remote northern or central highlands illustrates this choice clearly. There are no easy answers to these choices. Rather they need to be informed with careful analytical work including an analysis of both financial and social returns. However, evidence from many countries suggests that when such analysis is done carefully, the conclusions are usually that resources should be allocated more towards poorer areas. Generally, infrastructure resource allocation across regions should be negatively related to provincial resources, and positively related to poverty rates and infrastructure needs. The distribution of funds should aim to compensate poorer provinces with greater needs rather than reinforce current regional disparities. Similarly, within provinces, projects should be carefully chosen so as to maximize impacts on the poor. Thus, projects should be selected where poverty is high and potential gains from the investments are high.

(ii) How to adapt the provision of infrastructure to the needs of the poor? There are two reasons why the design of investments for poor communities may need to differ from standard design. First, the poor are sometimes concentrated in low potential regions or remote areas where certain investments such as roads or irrigation infrastructure are not cost-effective or affordable. In such cases, an attempt should be made to introduce more cost-effective technology better suited to the poor's needs and/or ensure that alternative welfare-enhancing interventions are explored. For example, experience in many countries shows the welfare benefits of providing simple earth paths on which animal-driven carts can travel, or of resolving an access problem by bringing services (such as water access) closer to households rather than building them a road. In addition, many investments requiring cost recovery may not be affordable to the poor unless special programs are available to provide credit or the design is simpler. These concerns require a flexibility in the design of programs that is not always easy in nationwide centrally-managed programs.

(iii) How to ensure complementarities between policies and investments? In many cases the benefits from an infrastructure investment are enhanced through complementary policies. Research has shown that the benefits from irrigation are higher for households with higher levels of education. Similarly, education helps households take advantage of transport and communication infrastructure. Access to credit will also enhance a household's ability to benefit from better energy provision, and other physical infrastructure investments. It is usually the poor who are most lacking in these complementary inputs and thus, least well positioned to benefit from infrastructure projects. Provision of physical infrastructure alone is not enough. Integrated development—whereby intervention occurs on a number of complementary policy fronts—will maximize the poverty benefits from infrastructure spending.

1.3 Economic Management

18. Continued progress in poverty reduction will, of course, require sound economic management. This involves the promotion of increased domestic savings and foreign capital inflows. It will also require that these savings are channeled towards investments that will maximize employment growth and poverty reduction. The Government has recognized that a number of special issues will need to be addressed if growth is to be restored and greater opportunities provided for Vietnam's citizens to obtain productive jobs. Greater clarity on these issues will be needed as the government prepares its medium term plan.

19. **How to improve the climate for enterprise?** The ratio of investment to GDP, which has fallen to its lowest rate in a decade during the past two years' slowdown, urgently needs to be restored. But it needs to be the right kind of investment for Vietnam – investment that generates jobs and increases productivity in a sustainable manner, without requiring protection or subsidy. The recent Enterprise Law offers an important opportunity to create a level playing field for all enterprises – private, foreign and state-owned --in a more user-friendly regulatory environment. So too, the announcement by the government that it will address the problem of inefficiency of the SOE sector through a combination of divestiture, equitization, closure and restructuring. These measures are essential for ongoing poverty reduction because as long as the SOEs continue to enjoy regulatory advantages and absorb the current high proportion (60-70%) of banking system credit – without generating new productive employment – other, more productive investment will be crowded out. If productive employment is to grow, attitudes

toward the non-state sector will need to change, especially at the Provincial and District levels – which will be a major challenge for the Authorities.

20. **How to provide better financial services?** A healthy banking system is essential for poverty reduction for two reasons. First, without a trusted banking system, citizens will not be willing to place their savings so they can be channeled to the most productive uses. Second, without an independent and efficient banking system, resources will not be channeled to the most productive uses. The Government's stated plans to restructure the banking industry provides an excellent opportunity to transform the nation's banks into instruments of employment and opportunity creation. One difficult issue that will need to be addressed in the process is the extent to which targeted (or "policy") lending should be used to channel funds to special needs, especially those of the poor. To date, a large proportion of lending has been effectively "guided" to uses that are regarded as beneficial to Vietnam's development. Most countries have found that it is best to strictly limit such guided credit, and what little is provided should be provided for social purposes, and then at unsubsidized rates. As noted earlier in this report, the evidence is strong from other countries that the poor benefit most when they have access to unsubsidized credit. This paradoxical conclusion is due to the fact that with subsidies, the coverage of the credit programs are necessarily quite limited, and the non-poor tend to squeeze out the poor for such subsidized funds.

21. **How to address and mitigate the social costs of policy change?** While the Government has been clear in its long term direction--towards a non-protected SOE system and a more market-oriented economy--it has adopted a gradualist approach on grounds of social equity and potential social disruption. This is an area in which the imperatives of providing opportunity seems to clash with the imperative of ensuring equity and reducing vulnerability. This is an appropriate concern, and one that needs the careful design of a system of social protection, so that social costs are minimized. Important preparatory work has been undertaken in recent months in Vietnam that will enable such a system to be put in place fairly quickly. Donors need to be willing to finance such programs, which will have a high pay-off.

22. There is currently too little recognition as to why these measures are essential for restoring growth and reducing poverty. But there is a strong link between the nature and pace of reforms, the level and pattern of growth, and the poverty reduction that has been achieved during the 1993-98 period. As discussed earlier, in the five years prior to the East Asia crisis, Vietnam was able to achieve growth rates of around 8 percent per annum. These high growth rates, and the resulting gains in poverty reduction, were driven by the doi moi reforms undertaken during the late 1980s/early 1990s (as described in Box 3.1). Key elements of the reform program included sound macroeconomic management, combined with dramatic reforms in the agricultural sector. They also included the first steps towards integration into the international economy, towards making the state enterprise sector more viable, and towards having a sustainable banking and financial system.

23. A new phase of reforms is now needed to restore the momentum of growth and to improve the quality of development. These economic reforms are necessary not just for creating opportunities for higher employment and income growth, but also to address issues of equity and vulnerability. We have seen in earlier chapters how the access of the poor to financial services—both credit and savings—is constrained under the present financial system. If credit constraints

prevent the poor from availing some of the new opportunities that are being created, future growth in Vietnam is likely to be less pro-poor and less equitable. Similarly, lack of access to financial savings instruments exacerbates the vulnerability of the poor and makes them less able to cope with shocks. It can also trap them in a vicious circle of poverty if they resort to selling off other assets like land or livestock to cope with the shocks.

1.4 Regional Development

24. We have seen in earlier chapters that understanding the spatial dimensions of poverty is important and that the incidence and depth of poverty varies a great deal by regions and areas. In Vietnam, poverty is more prevalent and deeper in rural areas, especially in the more remote and mountainous areas. And the nature of poverty is also different in different areas. While the incidence of poverty is higher in rural areas, the rural poor appear to have more access to social capital and natural resources, and appear to suffer from a less brutal form of poverty than the urban poor. The remote and mountainous areas of Vietnam suffer from poorer natural endowments and from greater physical isolation than the midland and lowland areas. The ethnic minorities that tend to live in these areas also suffer from greater economic and social isolation than other people. In the coming years, promoting a pattern of growth that addresses the needs of both rural and urban dwellers will be necessary. Policymakers will need to ensure that the three engines of growth—agricultural growth and diversification, rural off-farm employment, and urban employment—that have led to poverty reduction during 1993-98, continue to do so in the coming years. Some questions that they will need to address are:

(i) How to support agricultural growth and diversification? The success of *doi moi* in the early- and mid-1990s in unleashing productivity and income growth in rural areas is widely acknowledged. The poverty reduction gains reflected in recent living standards surveys have been built on this. But the opportunity exists for a second round of reforms that will make appropriate agricultural inputs widely available, including high quality seeds, inorganic fertilizers, and market-priced credit. Furthermore, the opportunity for a market in lowland land-use rights now exists, if the institutional infrastructure to track transactions is put in place. Public expenditure priorities in the rural sector also need to be examined. Evidence indicates that there would be high returns to increased investments in basic public infrastructure in rural areas, especially transportation and irrigation. The Government will need to make some tough choices—these investments will only be possible if resources that are currently being channeled to other less productive uses, such as loss-making SOEs can be directed for more productive purposes.

(ii) How to promote off-farm employment growth? During 1993-98, off-farm diversification has been considerably slower than on-farm diversification. While there is still some scope for agricultural growth and diversification, in the next five to ten years, this source of growth will begin to reach its limits (as is already evident from the emerging constraints on access to land) and off-farm employment and income growth will need to play a much bigger role in poverty reduction. Policymakers will need to find ways to remove the attitudinal, administrative and financial obstacles that stand in the way of rural off-farm job growth. Vietnam has about two million private, household enterprises, engaged in labor-intensive manufacturing or processing. These will need to be encouraged to grow and multiply.

(iii) How to reduce poverty in remote and mountainous areas? Closing the most acute poverty gaps in rural areas demands a continuing and strong commitment to rural investment in disadvantaged areas. These areas include the uplands and Vietnam's coastal strips, notably in the Mekong Delta. Protecting the vulnerable from further erosion of their livelihoods will require substantial investments where the human needs are greatest, but where the economic returns are not necessarily the highest. The first demand is for basic access to infrastructure that connects people to commune and district centers. This forms part of the government's current rural development and poverty reduction strategy. But the scale of the problem is large and more resources will be needed in the future. The second demand is for services that are both appropriate to remote populations and highly cost-effective, especially for education, health, and agricultural extension. Greater investment and creativity are warranted in the design of sustainable services for remote areas.

25. The new 1,715 Poor Communes Program is a good start to attacking poverty in remote and mountainous areas, but much more than infrastructure alone will be required in these communes. An integrated area development approach—that combines investments in human and social development and physical infrastructure, with better agricultural and financial services, and better governance—will be needed. In this respect, Vietnam could learn from the approach adopted in China, which also has similar problems of concentrations of poor people living in mountainous areas. Recent experience in China suggests that an effective means of assisting the poor is through an integrated set of interventions in the form of multiyear projects. In most cases, the multisectoral rural development projects include an integrated program of investments in: (i) upland agricultural development to increase upland agricultural productivity; (ii) labor-intensive construction of rural roads, drinking water systems, small scale irrigation, and other rural infrastructure; (iii) provision of off-farm employment opportunities through a system of voluntary labor mobility for the upland poor; (iv) institution building and poverty monitoring; and (v) rural enterprise development. Improved access to basic education and health, and microcredit components, are included in some donor-supported projects (World Bank, 1999c). This is the approach that Vietnam is planning to adopt in the Northern Mountains region and which could also be adopted in other lagging areas, such as the Central Highlands.

(iv) How to generate more jobs in urban areas and still keep cities livable? During 1993-98, the urban industrial sector grew rapidly, but without contributing much to job creation. The sector is dominated by capital intensive industries which draw resources away from the light-manufacturing and services sectors, which can create more jobs. In the future, urban areas will need to play a more important role in poverty reduction in Vietnam by providing employment opportunities for migrants who come from rural areas in search of a better life and by providing a market for the goods and services being produced by rural dwellers. Without addressing the tremendous land, shelter and infrastructure needs of urban areas, however, these areas are likely to become a bottleneck to investment and growth in Vietnam. And environmental degradation is a serious problem in Vietnamese cities that will require much greater efforts to address. The impact on the poor—of bad water, polluted air, poor drainage—are a matter of concern and need to be addressed urgently. An even more daunting task is to address in a comprehensive way the pressures on environmental resources that will arise with continued urbanization along coastal zones, tourism areas, and delicate or sensitive environments (including cultural assets of the country). These concerns will need to be fully integrated into any strategic planning and investments for urban development.

26. The needs of urban areas are immense and resources are limited. To ensure that urban areas do not end up absorbing all available public resources, investments in urban development will need to be accompanied by major reforms in land use policies, in management and governance of urban areas, and in inter-governmental and local finances (World Bank, 1999d). Such reforms could attract private investments into urban infrastructure and free up limited public resources for rural and other poorer areas. In addition, efforts will need to be made to ensure that social development and physical infrastructure investments in urban areas benefit the urban poor more than they do now, for example, through slum-upgrading projects that provide better housing and other services to the urban poor. Decisions about urban planning will need to be communicated better to affected communities and populations so as to reduce the uncertainty and vulnerability about resettlement and relocation that the poor currently face. And these investments will need to be supported by a policy environment that ensures that decisions affecting the livelihoods of the urban poor are made with care and do not exacerbate the conflicts over resources that are already apparent between the rich and the poor in urban areas.

1.5 Good Governance

27. Both the VLSS and the PPAs have provided evidence of inequity and exclusion. The gaps between the rich and the poor, men and women, ethnic minority groups and the Kinh majority are large not only in terms of their income and expenditures, but also in terms of access to quantity and quality of information, services and institutions. The issue is not only that a large number of people are deprived, but that further real and substantial gains in poverty reduction are unlikely to happen without the benefit of the ideas, energy and actions of poor and disadvantaged women, men, girls and boys. Social harmony and stability, as well as sustainable economic growth, will be achieved only through real participation of all citizens, especially those with less of a “voice” now, such as women, ethnic minorities, children and poor people.

28. While the analysis in this Poverty Report has highlighted participation as a key element of good governance, the other elements—transparency, accountability and predictability of the legal and regulatory framework—are just as critical. The upcoming Five Year Plan provides an opportunity to grapple with some key issues relating to good governance. Policymakers will need to devise responses to the following key questions:

(i) How to ensure that the design of the Five Year Plan reflects the needs and priorities of the poor? The Five Year Plan is an important instrument that will provide the framework for guiding policy and investment choices in Vietnam for the next five years. It is important that this plan reflects the needs and priorities of the poor. This can be done by engaging various stakeholders through a participatory planning process. Stakeholders need to be involved both in the design and implementation of the Plan to ensure that it responds to the aspirations of poor people. The Grassroots Democracy Decree can play an important role in ensuring that the voices of the poor are fed upwards into the policy-making and planning process. And it can also play an important role in monitoring progress in the implementation of the Five Year Plan.

29. To have a pro-poor Five year Plan and to maximize its impact on poverty reduction, the urgent need now is to:

- mainstream promotion, achievement and institutionalization of participation of all citizens as a key element of a strategy for poverty reduction;

- build capacity not only of state institutions and officials as “suppliers” of participation, but also of poor people and communities, at the “demand” end of the equation to participate ;
- take innovative, practical and targeted actions to promote participation at all levels and institutions.

(ii) How to improve governance, especially at local levels? Improving the efficiency of public administration and the accountability and transparency of Government actions will be essential for improving the climate for business and for improving opportunity. It will also reduce the scope for corruption, discretion and bureaucratic interference and the sense of vulnerability and powerlessness that people feel when dealing with unpredictable and sudden changes in rules and regulations and policies and programs that affect their lives. The Government will need to accelerate steps to simplify administrative procedures and business registration, along with the reduction in controls and procedures in the trade and exchange systems. Another critical aspect of transparency is the provision of financial information. An important step has been the publication of the budget information at the start of 1999. The comprehensiveness of these data will need to be improved over time, including the publication of commune level budgets, as stipulated in the Grassroots Democracy Decree. This will lead to an improvement in the efficiency and equity of public taxation and expenditure policies.

30. How can Vietnamese policymakers come up with the right package of policies and programs that will combine what is essential in these five broad areas—human and social development, physical infrastructure, economic management, regional development, and good governance--to maximize the impact on poverty reduction? These are not easy choices and there is no one correct way of making these decisions. One approach would be set some overall targets for poverty reduction and to design a program of action that is necessary to achieve these targets. How one might go about setting such goals and monitoring progress is discussed in the next section.

2. SETTING GOALS AND MONITORING PROGRESS

2.1 The Five Year Planning Process in Vietnam

31. As part of its Five Year Planning process, Vietnam sets economic, social and environmental goals for itself. As an illustration, the goals that it set as part of the Five Year Plan for the period 1996-2000 as presented in Box 6.1. Some of these goals have been met, while others will need to be reviewed and revised. As part of the preparation of the next Five Year Plan for the period 2001-2005, a detailed evaluation will be undertaken of the successes and failures of the previous period and revised targets will be set for the coming period. These targets will then be monitored closely during the period of implementation of the Five Year Plan.

As part of its Five Year Planning process, Vietnam sets economic, social and environmental goals for itself

Box 6.1: Vietnam's Development Goals for the Period 1996-2000

ECONOMIC WELL-BEING:

- Achieve an average economic growth rate of 9-10% per annum so as to double GDP per capita between 1990 and 2000;
- Eradicate hunger;
- Reduce to below 10% the percentage of the population fed with less than 2,100 calories per day;
- Reduce by one-half the proportion of people living in extreme poverty from 20% to 10%.

SOCIAL DEVELOPMENT:

- Population, Health and Nutrition;
- Bring the population growth rate down to below 1.8%;
- Reduce the rate of malnutrition among the under-fives from 42% to 30%;
- Reduce the infant mortality rate of under-one to less than 30 per thousand and of under-five to less than 55 per thousand live births;
- Reduce the maternal mortality rate to under 50 per 100,000 births.

Education:

- Eradicate illiteracy for those aged between 15-35 years;
- Ensure universal primary education.

Labor Market:

- Provide employment for the 6.5-7 million new entrants into the labor force;
- Reduce urban unemployment rate to below 5% and increase employment in rural areas to over 75% of available labor time;
- Increase the ratio of trained labor from 10% to 22-25% of the workforce.

Gender Equity:

- Raise the educational and professional standards of women;
- Foster more women officials.

Infrastructure:

- Provide access to safe water for all urban residents and 80% of rural residents;
- Provide electricity to 100% of districts and 80% of communes;
- Improve access to knowledge infrastructure by ensuring that 80% of households are able to watch TV and 95% are able to listen to the radio.

ENVIRONMENTAL SUSTAINABILITY :

- Check environmental pollution.

Source: VIIIth National Congress Documents (1996).

32. During the preparation for the next Five Year Plan, what poverty reduction targets should Vietnam set for itself? One can start by examining the International Development Goals (IDGs) that the development community has rallied around and see if these might guide the choices of Vietnamese policymakers. In an effort to focus their efforts better on poverty eradication, members of the development community decided to select a limited number of indicators of success by which their efforts could be judged (OECD, 1996). They proposed a global development partnership through which a concerted effort would be made to achieve together the ambitious goals laid out in Box 6.2.

In an effort to focus their efforts better on poverty eradication, members of the development community decided to select a limited number of indicators of success by which their efforts could be judged

Box 6.2: International Development Goals

The development community has proposed a partnership that would aim to achieve the following goals:

Economic well-being:

- A reduction by one-half in the proportion of people living in extreme poverty by the year 2015.*

Social development:

- Universal primary education in all countries by 2015;
- Demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;
- A reduction by two-thirds in the mortality rate for infants and children under the age of 5 years and a reduction by three-fourths in maternal mortality, all by 2015;
- Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.

Environmental sustainability and regeneration:

- The current implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

Source: Shaping the 21st Century: The Contribution of Development Cooperation (OECD, 1996).

Note: The IDG defined extreme poverty in terms of the proportion of people with incomes of less than US\$1 per day (in 1985 Purchasing Power Parity terms).

2.2 Vietnam and the International Development Goals

33. Economic Wellbeing and Economic Growth--The first International Development Goal relates to economic wellbeing and the goal is to reduce by one-half the proportion living in extreme poverty by the year 2015. Whether or not Vietnam can replicate its past success during the next 15 years will depend critically on two factors:

The *level of growth* it can attain during the next 15 years; and

The *pattern of growth* (equitable or inequitable) it can attain during the next 15 years.

34. The importance of economic growth for raising the living standards of the poor in Vietnam cannot be overestimated. But both the level of growth and its pattern (or how the benefits of growth have been distributed) matter for poverty reduction. In fact, changes in poverty reduction can be decomposed into two components: one for economic growth and one for distributional changes (Datt and Ravallion, 1992). The results for this decomposition for six East Asian countries, including Vietnam, are presented in Table 6.3. The growth component is not only always positive (as one would expect from the growth record of these countries), but is

also generally much larger than the redistribution component, which is more often negative than positive. Consequently, the growth component is often larger than the actual measured decline in the head-count index.

35. The results for Vietnam show that poverty has declined substantially in Vietnam due to the high growth of the 1993-98 period, and despite the rise in inequality that occurred during this period. However, the sign of the redistribution component shows that the pattern of growth has counteracted rather than reinforced the poverty reducing impact of growth. Furthermore, the size of the redistribution component implies that even though poverty has come down very rapidly in Vietnam, it could have come down even faster if the underlying pattern of growth had been a more equitable one. Vietnam's pattern of growth and poverty reduction during 1993-98 is different from the patterns observed in Malaysia (1973-89), Indonesia (1978-84) and the Philippines (1991-94), where the growth and redistributive effects reinforced each other and led to an even stronger impact on poverty reduction.

Economic growth has been the key component in reducing poverty in East Asia

Table 6.3 Decomposition of Poverty Reduction in 6 East Asian Countries into Growth and Redistribution Components

Country	Period	Decline in head-count index (percentage points)	Growth component	Redistribution component	Residual
Malaysia	1973-89	19.1	16.4	3.9	-1.2
Thailand	1975-86	-1.9	6.1	-11.0	3.0
	1986-92	10.0	10.0	-1.5	1.5
Indonesia	1970-78	3.8	7.6	-2.7	-1.1
	1978-84	26.7	18.5	3.4	4.8
	1984-95	23.6	22.4	-3.1	4.3
China (rural)	1985-90	-2.1	2.4	-4.1	-0.4
	1990-93	2.2	5.9	-3.3	-0.4
Philippines	1985-88	5.0	5.2	-0.3	0.1
	1988-91	-1.2	2.9	-4.1	0.0
	1991-94	1.7	0.8	1.0	-0.1
Vietnam	1993-98	20.8	30.7	-7.6	-2.3

Note: Declines in poverty are presented as positive entries; negative numbers indicate increasing poverty.

Source: Ahuja, Bidani, Ferreira, and Walton (1997) for all countries except Vietnam; for Vietnam, World Bank estimates based on VLSS93 and VLSS98.

36. Two factors underlie Vietnam's success in reducing poverty during 1993-98: the high growth rate of this period; and the high impact of this growth on poverty. Despite the rise in inequality, Table 6.3 shows that Vietnam was able to get a big bang for its growth in terms of poverty reduction. But both these factors are now under threat. During the crisis years of 1998 and 1999, Vietnam's growth rate has already fallen by half (to around 4 percent). And in the future, the past relationship between the level of growth and the impact on poverty might not hold, as Vietnam might not be able to replicate the land-based, agricultural diversification success story of the last five year period, which is now reaching its constraints. Hence, the sources of growth are likely to be different in the next five years as compared with the last five.

Greater reliance will need to be placed on two other areas of growth in the future: rural off-farm employment and urban employment. But for both these, accelerated and urgent reforms are necessary on a broad range of structural issues.

37. **Social Development Targets**—Looking at the International Development Goals for social development, it is clear that many of these might not be the most pressing goals for Vietnam and that Vietnam needs to set its own goals that are grounded in its own reality. For example in education, the IDG of universal primary education by the year 2015 looks relatively easy for Vietnam, which has already achieved a primary school enrollment rate of 91 percent. But as discussed earlier, Vietnam has other problems in primary education—related to access, efficiency, quality and relevance—that need to be addressed systematically. Similarly, while the IDG of attaining gender equality and the empowerment of women is relevant for Vietnam, the instrument that is suggested for attaining this goal—the elimination of gender disparity in primary and secondary education by the year 2005—is not. Vietnam has already eliminated gender disparity in primary and secondary education and yet, as we saw in Chapter 4 earlier, it has a host of problems relating to gender equality that need to be addressed through a different strategy.

38. The IDG for health care are also not the most appropriate ones for Vietnam. While Vietnam has experienced impressive declines in infant mortality to the point where its infant mortality rate is lower than that of many countries that have significantly higher per capita incomes (such as Indonesia, see Table 6.4 below), its child malnutrition rates are unusually high in relation to other countries in the region. Further, child malnutrition rates have declined quite sluggishly over the last 15 years in comparison to infant mortality. A recent national survey of nutrition conducted by the National Institute of Nutrition and UNICEF indicates that 39 percent of children under the age of 5 years are severely undernourished in terms of weight-for-age (underweight) and 34 percent in terms of height for age (stunting). These data suggest that Vietnam has a major problem of high and chronic child malnutrition. The relatively low indicators on infant and child mortality compared with the relatively high indicators on malnutrition suggest that while many more children survive than before, their quality of life is less than satisfactory (Dollar, Glewwe, and Litvack, 1998).

39. The same inconsistency between achievements on the quantity and quality front holds with fertility and reproductive health care. Vietnam's total fertility rate (TFR) began to decline in the mid 1970s, and has declined sharply from 5.9 in 1970-74 to about 2.7 in 1992-96. This experience puts Vietnam at the forefront of countries that have experienced rapid fertility declines. The contraceptive prevalence rate, which is an indicator that measures the success of family planning programs, is extraordinarily high in Vietnam (75 percent) in comparison to most developing countries. And Vietnam's achievements in reducing maternal mortality are also significant: its maternal mortality ratio (at 160) is also relatively low compared with other countries (Table 6.4). But other indicators suggest that the quality of reproductive healthcare and access to appropriate family planning services remain major issues. The choice of contraceptive methods is limited and there is a predominance of IUDs in the method mix (about 69 percent of women using contraceptives have to rely on IUDs). There is also extensive use of induced abortions to terminate pregnancies, which can pose substantial risks to women and which can be seen as a measure of lack of accessibility to safe and affordable family planning services.

Vietnam is already performing better on some social indicators than other countries at higher or similar income levels

Table 6.4: International Comparison of Select Health Outcome Indicators

IDG Goal	Vietnam	India	Indonesia
GNP Per Capita (1998 Dollars)	\$330	\$430	\$680
Infant Mortality Rate (per 1000 live births)	45	71	47
Under Five Mortality Rate (per 1000 live births)	62	88	60
Maternal Mortality Rate (per 100,000 live births), 1990-97	160	440	390
Contraceptive Prevalence Rate (% of women aged 15-49), 1990-98	75	41	57

Source: All data are from the World Development Indicators, 1999, except the MMR for Vietnam which is from UNICEF, 1999.

2.3 How can Vietnam Set, Attain, and Monitor its own Goals?

40. As discussed earlier, new goals for Vietnam will be set by policymakers as part of the next Five Year planning process. Once these goals are set, public policies and programs will need to be designed to help attain these goals. And progress in attaining these goals will need to be measured on an annual basis. To design the particular strategies for achieving each target, first the determinants of the particular outcomes that are targeted will need to be understood so that the right strategy for achieving the targets can be developed. And some set of intermediate indicators will need to be developed to monitor progress in attaining these goals.

41. As an example of how this could be done, we start with Vietnam's objectives in the human development area as presented in Box 6.2, and assume that the targets for the Year 2005 are: universal primary education of equal quality for all; and 100 percent literacy for all 15-35 year olds, as before (Column 1 of Table 6.5). To determine the kinds of public actions needed, one first needs to understand the kinds of factors that influence the outcomes presented in Column 1. Column 2 gives examples of the kinds of factors that will determine these outcomes for the education and literacy goals. These factors can be drawn from the extensive literature that already exists on the topic of primary education in Vietnam. And Column 3 presents some public actions that can be taken to attain the goals presented in Column 1, based on the analysis presented in Column 2.

To design appropriate sector strategies to meet sectoral goals, one first needs to understand the underlying determinants of the outcomes

Table 6.5: Human Development Outcomes, Determinants and Levers for Public Action

<p>Education and Literacy:</p> <p>(1) Universal primary education of equal quality for all</p> <p>(2) 100 percent literacy for all 15-35 year olds</p>	<p>Household incomes;</p> <p>Parental education;</p> <p>Quality of teachers and schooling;</p> <p>Private costs of education;</p> <p>Levels of public spending on literacy programs and primary education;</p> <p>Early childhood development;</p> <p>Access to education in remote and mountainous areas;</p> <p>Issues of bilingual education and minority teachers for ethnic minority areas;</p> <p>Heavy workload of women;</p> <p>Quality of education in the non-formal education system;</p> <p>Relevance of primary school curriculum;</p> <p>Demand for children's labor by the household;</p> <p>Access to education for disabled children.</p>	<p>Targeted school subsidy programs and literacy programs;</p> <p>Teacher training;</p> <p>Appropriate governance and accountability of service providers;</p> <p>Quality monitoring in schools;</p> <p>Spending/cost recovery policies on primary education;</p> <p>Investments in early childhood development programs/nutrition programs;</p> <p>Infrastructure development;</p> <p>Appropriate language policies and outreach programs for ethnic minority education;</p> <p>Public investments in programs and services that reduce the workload of women;</p> <p>Policies to include migrant and unregistered children into mainstream primary education;</p> <p>Policies to include disabled children into mainstream primary education</p>
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42. **Monitoring Progress**--In addition to setting goals and identifying public policies and programs that are most likely to help attain those goals, what is also necessary is the monitoring of indicators to track progress. To complement final outcome indicators, policymakers will need intermediate indicators that can be readily monitored and used to reveal changes during the shorter time frames that are typically of interest to governments, electorates, and donors. For example, in the education sector, some intermediate indicators, such as those presented in Table 6.6, would be appropriate candidates for annual review by governments and their partners. In addition to sector-specific indicators, efforts will also need to be made to strengthen the system of monitoring overall poverty outcomes in the short- and medium-term (Annex 6).

Progress in attaining the desired targets will need to be monitored carefully

Table 6.6: Examples of Outcomes and Intermediate Indicators to Monitor Progress

Desired Outcome	INTERMEDIATE INDICATOR
Education and Literacy: (1) Universal primary education of equal quality for all (2) 100 percent literacy for all 15-35 year olds	Net primary school enrollment rate; Scoring of students in standard learning tests; Net primary school enrollment rate for ethnic minorities; Scoring of students in standard reading tests.

2.4 Partnerships for Development

43. This report has been produced by a Poverty Working Group with representatives from eight Government agencies and mass organizations, three international NGOs (working in partnership with local government officials, local NGOs and research organizations), one government-donor project, and four multilateral and bilateral donors. It has also involved provincial authorities in four provinces—Lao Cai, Ha Tinh, Tra Vinh and Ho Chi Minh City. It is an example of what an effective partnership can accomplish. The process of producing this report has led to a shared perspective among the members of the working group on the nature and causes of poverty in Vietnam. For example, by working together, there has been a better understanding—and a shared concern—between the authorities, the international agencies, and the NGOs on complex and sensitive issues such as ethnic minorities, unregistered urban migrants, and gender relations. By working together, GSO and the World Bank have been able to adopt a common methodology for measuring poverty and now have a common poverty line and a common set of poverty estimates that they can both use to track changes in poverty and help design anti-poverty policies. Donors have also benefited from this process—unlike the last time when the first VLSS was done in 1993 and several donors produced several different poverty assessments based on the same data source, this time the donors have pooled their resources to come up with a joint poverty assessment for Vietnam. The pooling of resources has enabled them to undertake much more extensive work than before and to base their analysis on both quantitative and qualitative sources of data. And having the NGOs in the Working Group has allowed the Group to benefit immensely from their knowledge of working at the grassroots level and through them, has brought to the Group much more directly the priorities and concerns of the poor themselves.

44. While the process of working on this Report has led to a shared perspective on the nature of poverty-related problems and their causes, there has yet to emerge a shared view on the strategy needed to move forward. While commonalities exist in many areas, in some areas there are significant differences in opinion between the Government of Vietnam and its development partners. For example, one area where they differ is the appropriate role of the Government versus households themselves in financing basic social services. The Government believes that self-reliance is important and that co-financing of these services is essential to reduce

dependency. It chooses to assist the poor primarily through subsidized credit. The donors and NGOs believe that a better way to assist the poor would be to channel state subsidies through basic social services and to allow credit to be provided at market rates to ensure an efficient use of scarce resources.

45. This report raises a numbers of other, more specific, questions and issues which will also demand more research and discussion before consensus can be reached on solutions. Important topics which have been raised but left unresolved in the process of producing this poverty assessment include:

- How can agricultural productivity be raised? What role does rice policy have to play in Vietnam's future growth and poverty reduction strategy? What can be done to promote the further diversification of agriculture?
- How can the off-farm rural sector be stimulated to provide the employment and income-generating opportunities which the rural population will increasingly need?
- What is needed to make urban planning more pro-poor and growing cities more "livable"? What changes are needed to allow migrants to contribute more to the prosperity of cities and how can their basic needs be better protected?
- What is the role of targeting versus broad-based growth in a poverty reduction strategy for Vietnam? What is the right balance between the two in terms of resource allocation/policy emphasis?
- What can be done to help the upland regions – and their ethnic minority population – catch up with the rest of the country so that the poverty-reducing effects of growth are spread more evenly?
- How can basic social services be made more affordable to the poor? Can the severe financial burden of ill-health be lifted? Can existing social safety-net expenditures be more effectively targeted towards the poor?
- What is the Government's role in addressing equity issues at an intra-household level? How can these issues be tackled most effectively? Who else can play a role in addressing these issues?
- What help does the Government need to implement the Grassroots Democracy Decree so that local decision-making processes can be made more participatory and transparent and local authorities can be made more accountable?
- What institutional arrangements might improve the Government's capacity to develop and monitor policies for poverty alleviation? What is needed to improve coordination across Ministries and agencies involved in anti-poverty programming? How could short-term poverty monitoring be improved?
- What has been the impact of some of the major components of the HEPR Program which have been operating for some years? How can their impact on poverty reduction be enhanced?

- More progress will need to be made during the coming year in these and other areas—through joint work in many areas such as public expenditure reviews, banking reform, and through further research. The task now is to arrive at a common approach to these issues and to a common poverty reduction strategy for Vietnam during the next year as the next Five Year plan is finalized by the end of the year 2000.

ANNEX 1

POVERTY AND INEQUALITY MEASURES

1. This annex provides a brief description the various quantitative measures of poverty and inequality that are used in this report. Unless otherwise stated, all the poverty and inequality measures presented are based on using per capita expenditures as the welfare measure.¹⁸

A. Poverty Measures

2. Once a poverty line has been set (see Annex 2), a number of summary statistics describing the incidence, depth and severity of poverty may be calculated. These include the headcount index (which measures the incidence of poverty), the poverty gap (which measures the depth of poverty) and the squared poverty gap (which measures the severity of poverty). Foster, Greer and Thorbecke (1984) show that these three poverty measures may all be calculated using the following formula:

$$P_{\alpha} = \frac{1}{N} \sum_{i=1}^M \left[\frac{(z - y_i)}{z} \right]^{\alpha}$$

where y_i is the welfare measure (here per capita expenditure) for person i , z is the poverty line, N is the number of people in the sample population, M is the number of poor people, and α can be interpreted as a measure of inequality aversion.¹⁹

3. When $\alpha=0$, the above equation reduces to M/N , the number of poor people in the population divided by the number of people in the sample population. This very commonly used measure of the incidence of poverty is called the headcount ratio or, when turned into a percentage, the headcount index. Although it is easy to interpret, the headcount index is not sensitive to how far below the poverty line poor people are.

4. When $\alpha=1$, the poverty gap index is produced, which shows the shortfall of the poor's expenditure from the poverty line expressed as an average of all people in the population.²⁰ The poverty gap, which is simply the sum of all the poverty gaps in the population, can be used as an indicator of the minimum cost of eliminating poverty using perfectly targeted transfers. The

¹⁸ While there are good reasons for using expenditures rather than incomes as the welfare measure, as discussed in Annex 4, the use of per capita expenditures is a little more controversial. This is because the use of per capita expenditures ignores differences in the age-sex composition of households and possible economies of scale in household consumption.

¹⁹ Note that because, unlike VLSS93, VLSS98 is not "self-weighting", sampling weights must be applied when applying calculating poverty and inequality measures using VLSS98.

²⁰ When the shortfall of the poor's expenditures from the poverty line is expressed as an average of only poor people's expenditures, a different poverty measure (the income gap index) is produced. Although some people find the income-gap easier to understand than the poverty-gap index, it has several undesirable properties, and is therefore not used in this report.

targeting of transfers, however, usually involve leakages and administration costs so that it is not unusual for the actual cost of eliminating poverty to be a multiple of the poverty gap.

5. When $\alpha=2$, the squared poverty gap index—which measures the severity (or intensity) of poverty and gives more weight to the poorest of the poor—is produced.

6. Unlike some other poverty measures, these three poverty measures have the useful property of being additively decomposable (i.e., the national poverty headcount will be equal to the weighted average of headcounts in rural and urban areas or different regions).

B. Inequality Measures

7. Three measure of inequality are used in the report: the ratio of the top to the bottom quintile's expenditures, the Gini coefficient, and the Theil L index. Like the poverty measure described above, unless otherwise stated, these have all been calculated using per capita expenditures are the welfare measure.

8. The ratio of top to bottom quintile's expenditures is a very commonly used summary measure of inequality in both industrialized and developing countries (a quintile is simply 20% of the population). The main drawback of this inequality measure is that it ignores the expenditures of the middle 60% of the population and also the distribution of expenditures within the richest and poorest quintiles.

9. The Gini coefficient is a measure of inequality which varies between 0 (when everyone has the same expenditure, or incomes) and 1 (when one person has everything!). The closer a Gini coefficient is to one, the more unequal is the distribution. For most developing countries, Gini coefficients for expenditures or incomes range between 0.3 and 0.6.

10. The Gini coefficient has a graphical interpretation in terms of the area under a Lorenz curve (see Figure 4.1), divided by the area under the diagonal line of equality. Thus, the further is the Lorenz curve from the line of equality, the higher is the Gini coefficient. Although it is a very commonly used measure of inequality, the Gini coefficient has a number of disadvantages. These include: (a) the Gini will not always increase when money is taken away from one person and given to someone who is richer,²¹ and, (b) the Gini cannot be decomposed for sub-groups (such as rural and urban areas, or the seven administrative regions of Vietnam) and then somehow "added up" to get the national Gini coefficient.

11. The Theil L index is a measure of inequality that is based on information/ probability theory. The Theil L index varies between 0 (absolute equality) and ∞ (absolute inequality), although it is unusual for it to exceed 1. Like the Gini coefficient, the higher is the Theil index the more unequal is the distribution of expenditures (or incomes). The Theil L index is calculated as follows:

²¹ This counter-intuitive result is known as "violating the principle of transfers". The Gini coefficient violates the principle of transfers whenever the Lorenz curves for two populations cross.

$L = \sum_{i=1}^N \ln \left(\frac{Y}{y_i N} \right)$ where, as before, y_i is the welfare measure for individual i , N is number of people in the population, and Y is the total of all individuals' welfare measures (i.e., total expenditure or income).

12. There are two advantages to the Theil L measure: (a) it gives more weight to those people toward the bottom of the income distribution; (b) unlike the Gini coefficient, it can be decomposed into "sub-groups" (to be precise, the national Theil L is the weighted average of the index for each sub-group where the weights are population shares). This last property is very useful, as it allows one to consider what is driving changes in inequality at the national level.

13. There is a related measure of inequality known as the Theil T index of inequality, which varies between zero and $\log(N)$. In this report, Theil's L index is used because it is more sensitive to inequality at the lower end of the distribution than the Theil T index.

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ANNEX 2**ESTIMATING THE POVERTY LINES**

1. This annex describes how the poverty lines used in this report were estimated. The methodology used to derive them was worked out by a joint General Statistical Office- World Bank team. It is similar to the methodology that was used by the World Bank in the 1995 Vietnam Poverty Assessment, which has been used by the World Bank in many other developing countries.

Choice of Welfare Measure

2. The first step in defining poverty is to choose an indicator of household welfare. In the quantitative work in this report, the most widely used indicator is household consumption expenditures per capita. The reason for this frequent use is that this variable summarizes many things that improve the quality of life, such as food consumption, payments for schooling, and purchases of medicines and medical services. In fact, the consumption measure used here also includes estimates of the annual "use value" of consumer durable goods and of owner-occupied housing.

3. An alternative to using consumption expenditure data would be to use income data. Yet there are two reasons to prefer the expenditure data. First, income only raises welfare when it is used for consumption purposes, as opposed to being saved or used to pay debts. This implies that household consumption expenditures are more closely related to household welfare than is household income. Second, income data tend to be inaccurate, especially in countries such as Vietnam where the vast majority of workers are self-employed. A final issue regarding the use of consumption expenditures per capita as a welfare indicator is whether allowances should be made for differences in household composition, such as accounting for the lower needs of children compared to adults. There is a long literature on this issue, which focuses on the estimation of "adult equivalence scales". Yet recent research on this topic has led to the general conclusion that there is no credible method of estimating such scales (see Deaton, 1997).

Calculation of Poverty Lines

4. Given this measure of household welfare, the rest of this annex describes how poverty lines were calculated for this report. The poverty lines used here are based on the 1993 Vietnam Living Standards Survey (VLSS93). The first step was to construct poverty lines for 1993 using the data from that survey. The 1993 poverty lines were then updated for 1998 using only data on price changes. Thus these poverty lines are "absolute" poverty lines. That is, they apply the same absolute standard (same "basket of goods") for both years.

5. The key feature of the poverty lines used in this report is that they refer to a basket of food items that is deemed to be necessary to ensure good nutritional status. This basket of food items takes into account the food consumption patterns of Vietnamese households, as calculated from the 1993 VLSS. For both years (1993 and 1998), two poverty lines are calculated. The first is the amount of money needed to purchase the 1993 basket of food items each day for one year. This is referred to as the "food poverty line". This poverty line is low because it does not allow for any purchases of non-food items. The second poverty line, referred to as the "general poverty

line,” allows for the purchase of non-food items. The remainder of this appendix explains in detail how these poverty lines were calculated.

Food Poverty Line for 1993

6. The starting point for constructing a food poverty line is the nutritional needs that are to be met by the food being consumed. Nutritionists in the World Health Organization (WHO) and other national and international agencies have long made recommendations on the nutritional intakes that are needed for a healthy life. The most basic indicator of nutritional intake is calories consumed. The WHO and other agencies have constructed minimal calorie requirements for different types of people. Individuals' caloric needs vary depending on their age, sex and the amount and intensity of physical activity they engage in. For the purpose of constructing a poverty line, however, it is useful to take an average requirement over the entire population. This has been done many times at the World Bank, and a common figure used is 2100 calories (Kcals) per person per day. Of course, some people need more and others need less, but this is a reasonable average amount, and this is the calorie requirement used in this report to construct poverty lines.

7. How much does it cost a Vietnamese household to purchase a basket of food items that provides 2100 calories per person per day? This can be calculated using the food expenditure data (sections 11A and 11B of the household questionnaire) from the 1993 VLSS. First, one obtains a food basket in terms of the physical quantities of food items that provide 2,100 calories per day, and then one uses price data to calculate the total cost of those items. The procedure used here was designed to choose a basket that reflects Vietnamese food consumption patterns. This is done because it is unrealistic to use a basket of goods derived from some other country or from some kind of mathematical programming exercise for estimating the minimum cost of food baskets. A poverty line derived in that manner would not be very relevant for Vietnam and also would not be politically acceptable to Vietnamese policymakers.

8. **Quantities in Food Basket:** Given the desire to construct a basket of goods that reflects Vietnamese consumption patterns, the following procedure was used. First, total (food + non-food) expenditures per capita were calculated for each of the 4800 households in the 1993 survey. Then, these households were divided into the poorest 20% of the population, the next poorest 20%, and so forth up to the wealthiest 20%, all in terms of real per capita total expenditures. For each of these “quintile” groups, total calories per person per day were calculated. The results are as follows:

Table A.2.1: Calorie Consumption per Day in 1993		
Quintile	Calories per Capita (Column 1)	Imputed Calories Per Capita (Column 2)
1	1568	1598
2	1829	1891
3	1969	2052
4	2065	2237
5	2041	2565

Source: GSO and World Bank estimates based on VLSS93.

A few comments are needed regarding these calorie numbers. For most food items, one knows how much was consumed in terms of physical quantities and how much calories are contained in a kilogram (or some other appropriate unit of measure) of the food item. When the calories consumed for these items are summed over all food items, one gets the numbers shown in the first column of Table A.2.1. Two sets of adjustments now need to be made to these data. The first set of adjustments are needed because these numbers exclude a few items for which caloric values could not be calculated and had to be imputed. First, calorie data could not be found for barley/millet (item 306). Second, for some categories the physical amount of the good was not collected because the consumption of those categories of food is quite irregular. This was the case for "other aquatic products" (item 320), "cakes, sugared fruit, candy" (item 338), "other beverages" (343), "food purchased away from home" (344), and "other" (345).²² For both cases, the approach taken was to assume that the amount of calories per Dong spent on these items was the same as the average calories per Dong spent on the items for which both expenditure and caloric value data were available. The figures in the second column of Table A.2.1 include such "imputed" calories from expenditures on the items for which caloric values could not be calculated.

9. After the imputations are done, the quintile in 1993 whose calorie consumption was closest to the 2100 calorie benchmark was Quintile 3, as seen in Table A2.1. Thus, the basket of food items consumed by the households in Quintile 3 was used to construct a basket that gives 2100 calories per person per day. But since the calorie consumption of Quintile 3 averaged 2052 calories rather than the target of 2100, a second adjustment was required, as follows: the quantities consumed were increased by a small amount to provide a basket that provides exactly 2100 calories. This was done by multiplying the average quantities consumed by households in the third quintile by $2100/1969$. The denominator used was 1969 instead of 2052 because there is no quantity information (or in the case of barley/millet, no calorie information) for the items for

²² For cakes, sugared fruit and candy (item 338) quantities were collected for consumption during Tet and other holidays but not for consumption during the rest of the year.

which values had to be imputed in step 1. That is, this food basket excludes the items for which caloric values could not be calculated (barley/millet, other aquatic products, etc.). This basket of food items is given in Table A.2, in terms of per capita consumption per year. The first column is actual quantities consumed, which provides 1969 calories, while the second column is inflated as described above to provide 2100 calories.

Table A.2.2. Vietnamese Basket of Food Items that Yields 2100 Calories per Day (in terms of kilograms consumed per year)		
Food Item	Quantity Consumed (Column 1)	Adjusted Quantity Consumed (Column 2)
Ordinary Rice	159	169.6
Glutinous Rice	5.5	5.9
Maize	2	2.1
Cassava	8.8	9.4
Potato, Sweet Potato	10.7	11.4
Bread, Wheat Flour	0.7	0.8
Wheat/Egg Noodles	0.6	0.7
Fresh Rice Noodles	2.3	2.5
Arrowroot Noodles	0.8	0.8
Pork	4.9	5.2
Beef	0.1	0.1
Chicken	2.1	2.3
Duck, Other Poultry	0.7	0.7
Other Meat	0.2	0.2
Processed Meat	0.04	0.04
Lard, Cooking Oil	1.4	1.5
Fresh Fish, Shrimp	10.3	11
Dried Fish, Shrimp	0.7	0.7
Eggs	0.4	0.4
Tofu	2.9	3.1
Peanuts, Sesame Seeds	0.9	0.9
Beans	0.9	1
Water Morning Glory	14.1	15
Kohlrabi	5.6	6
Cabbage	5.6	5.9
Tomatoes	3.2	3.4
Other Vegetables	14.2	15.2
Oranges	0.5	0.5
Bananas	6.2	6.6
Mangoes	0.5	0.6
Other Fruit	5.9	6.3
Fish Sauce	5.6	6
Salt	5.4	5.7
Monosodium Glutamate	0.7	0.8
Sugar, Molasses	2.4	2.5
Cakes, Candies	0.4	0.4
Milk and Milk Products	0.04	0.04
Alcohol	3.8	4.1
Coffee	0.1	0.1
Tea	2.4	2.5

Source: GSO and World Bank estimates based on VLSS93.

10. **Cost of Food Basket:** What is the cost of purchasing the basket of food items in the last column of Table A.2.2, which provides 2100 calories per day per person for one year? Obviously, one needs the prices for these goods. The VLSS93 data provide prices for almost all of them, but for some items prices are not available. More specifically, the VLSS93 price questionnaire does not have prices for bread (item 307), rice noodles (item 309), other meats (315), processed meat (316), cooking oil (317), dried fish (319), other vegetables (329), other fruit (333), cake and candy (338), coffee (341) and tea (342). Three of these items were deemed to be sufficiently important that “unit value” prices were obtained from the expenditures and quantity information in the household questionnaire. These items were cooking oil (item 317), kohlrabi (326) and tea (342).²³ (The exact method used for these three items is explained in the following paragraph). To account for the cost of the food items in Table A.2.2 for which no price data are available, the assumption is made that the additional cost of these items is proportionate to the spending on these items among the households in Quintile 3. More precisely, these items account for about 6.9% of household expenditures on all of the items in the food basket in Table A.2.2. Thus, the total cost of the items for which prices were available was multiplied by 1.069 to obtain the overall cost of obtaining the (adjusted) basket of goods in that table.

11. A few comments are needed regarding how prices in both years were obtained from the household questionnaire for the cost of cooking oil, kohlrabi and tea. For consistency, for both surveys (1993 and 1998) households were selected whose per capita consumption of calories per day was between 2000 and 2200. Then unit prices (amount spent divided by the quantity purchased) for these three items were calculated for these households in each survey. The median national prices were calculated for each year for each item using these households

12. Using this method, the cost of purchasing the (adjusted) basket of food items in Table A.2.2 was calculated. The prices used were first deflated to January 1993 prices (using regional price deflators provided by Vietnam’s General Statistical Office, as explained below in detail). Note that the price data obtained from the VLSS93 were market prices for each commune surveyed, and median prices were obtained for Vietnam as a whole, so this cost of a basket of goods is a nationwide average cost expressed in January 1993 prices. That cost is 749,723 Dong per person per year. This figure must be compared to household expenditure variables that have *already* been adjusted for regional price differences and already expressed in January 1993 Dong. In other words, they should not be compared to a household expenditure variable that has not yet been adjusted for regional price differences or that is not expressed in terms of January 1993 Dong. The method used in this report to adjust for regional price differences and to express household expenditures in terms of January 1993 prices is explained at the end of this annex.

General Poverty Line for 1993

13. This food poverty line can now be used to calculate the general (food plus nonfood) poverty line. The basic idea is to look at non-food expenditures for the third quintile in 1993, which amounted to 401,291 Dong per person per year (note that this figure includes both explicit expenditures and imputed use values of durable goods and imputed rent from owner-occupied

²³ In fact, the 1993 price questionnaire did have the price of kohlrabi, but this item was not included in the 1998 price questionnaire. For consistency, the prices for both years were obtained from the household questionnaire.

housing).²⁴ This 401,291 number is then adjusted because the households in Quintile 3 did not consume exactly 2100 calories. Instead, as discussed above, they consumed 2052 calories. This suggests that an adjustment of 2100/2052 (i.e. about 1.023) should be made to non-food items (just as a similar adjustment was made to food items). Inflating the non-food component by this ratio gives a number of 410,640. The overall poverty line is then 1,160,363.

14. Using these food and general poverty lines one obtains the following figures for the incidence (headcount measure) of poverty in Vietnam in 1993:

	<u>All Vietnam</u>	<u>Urban</u>	<u>Rural</u>
<i>Food Poverty</i>	24.9%	7.9%	29.1%
<i>Overall Poverty</i>	58.1%	25.1%	66.4%

Food and General Poverty Lines for 1998

15. The food and general poverty lines for 1998 were created in a way similar to the 1993 poverty lines. For the food poverty line, the cost of the (adjusted) food basket in 1993 was updated using prices from the 1998 survey. As with 1993, the process of getting 1998 prices for this basket of goods is complicated by the fact that the prices of 3 items (cooking oil, kohlrabi and tea) are obtained from the household questionnaire. The method used to get these three prices is exactly the same as that used for the 1993 survey, except that the households from which unit prices are calculated come from the 1998 survey (again using only those households who consumed between 2000 and 2200 calories per day). In addition, there were four items (beef, chicken, fish and pork) which were defined differently in the VLSS93 and VLSS98 questionnaires. For these four items, "quality-adjusted" unit values were calculated from the household questionnaire for those households consuming 2000 to 2200 calories per month. The price information from the 1998 price questionnaire is then merged with the unit prices for the above items to obtain the cost, in January 1998 prices, of purchasing the (adjusted) basket of food items shown in Table A.2.2. As in 1993, median prices were calculated for Vietnam as a whole, so the cost of the basket of goods is a nationwide average cost expressed in January 1998 prices. That cost is 1286,833 Dong per person per year.

16. As with the 1993 poverty lines, note that the figures in the previous paragraph must be compared to household expenditure variables that have already been adjusted for regional price differences and have already been expressed in terms of January 1998 prices. Thus, they should not be compared to a household expenditure variable that has not yet been adjusted for regional price differences or that is not expressed in terms of January 1998 Dong. The deflators used for regional price differences and changes in prices over time are discussed at the end of this annex.

²⁴ Note that this procedure for estimating the non-food component differs from that used in the previous poverty assessment for Vietnam (World Bank, 1995), which used the food-share regression method (Ravallion, 1994).

17. The method used to calculate the non-food component of the 1998 poverty lines is extremely simple. The 1993 non-food poverty line was inflated by a factor of 1.225, the rate of inflation for non-food items, as provided by Vietnam's General Statistical Office (GSO). This implies a non-food poverty line of 503,038 (=410,640x1.225). Thus the overall poverty line is 1,789,871.

18. Calculating the headcount index of poverty using these poverty lines gives the following incidence of poverty in 1998:

	<u>All Vietnam</u>	<u>Urban</u>	<u>Rural</u>
<i>Food Poverty</i>	15.0%	2.3%	18.3%
Overall Poverty	37.4%	9.0%	44.9%

Regional Deflators and Time Deflators

19. The poverty lines presented above are in terms of January 1993 and January 1998 prices, and these are also national averages. To apply them to the VLSS93 and VLSS98 data, total household expenditures must be "deflated" for each household so that its expenditures are expressed in January prices and have been adjusted for regional prices differences. Consider first getting expenditures in terms of January prices (either 1993 or 1998) for each survey. The approach taken is quite simple. For each household, nominal expenditures have been divided into expenditures on rice, expenditures on other food items, and expenditures on non-food items. GSO provided monthly price deflators for each of these three categories of expenditures. For each household, expressing current expenditures in terms of January 1993 (for VLSS93 households) or January 1998 (for VLSS98 households) prices was done by dividing nominal expenditures into these three categories, applying the appropriate category-specific GSO deflator and then adding the three adjusted expenditures. The deflators provided by the GSO are given in Table A2.3.

Table A2.3 Time Deflators for 1993 and 1998							
1993 VLSS				1998 VLSS			
	Rice	Other food	Non-food		Rice	Other food	Non-food
Oct. 92	0.8909	1.0018	0.9470	Dec.97	0.9853	0.9765	0.9922
Nov.92	0.9305	0.9754	0.9659	Jan.98	1.0000	1.0000	1.0000
Dec.92	0.9368	1.0001	0.9881	Feb.98	1.0375	1.0263	1.0087
Jan. 93	1.0000	1.0000	1.0000	Mar.98	1.0429	1.0113	0.9977
Feb.93	0.9933	1.0710	0.9940	Apr.98	1.1456	0.9971	1.0010
Mar.93	1.0730	1.0315	0.9860	May 98	1.2096	0.9983	1.0042
Apr.93	1.0572	1.0426	0.9791	Jun.98	1.1781	1.0123	1.0045
May.93	1.0398	1.0693	0.9889	Jul.98	1.1674	1.0048	1.0056
Jun.93	0.9884	1.0819	0.9820	Aug.98	1.2176	1.0021	1.0106
Jul.93	0.9780	1.0848	0.9771	Sept.98	1.2651	0.9962	1.0171
Aug.93	0.9884	1.0879	0.9781	Oct.98	1.2534	1.0069	1.0187
Sept. 93	0.9906	1.0794	0.9791	Nov.98	1.2508	1.0050	1.0243
Oct. 93	0.9771	1.0731	0.9781	Dec.98	1.2561	1.0234	1.0267

Source: GSO.

20. Now turn to the regional price deflators. For the seven regions of Vietnam regional deflators were calculated for urban and rural areas for both the VLSS93 and the VLSS98. For VLSS93 these were calculated using the price questionnaire for the 1993 survey. The weights used for these price indices were the expenditures shares for those food and non-food items for which prices were collected in the price questionnaire. The VLSS93 data were used because the GSO did not have regional data going back to 1992 and 1993. For VLSS98, the GSO calculated regional price deflators specifically for the purpose of preparing this report. The price indices for both surveys are shown in Table A2.4.

Table A2.4. Regional Price Indices for VLSS93 and VLSS98				
Region	1993 Urban	1993 Rural	1998 Urban	1998 Rural
Northern Uplands	1.1130	0.9681	0.9930	1.0178
Red River Delta	1.0724	0.9342	1.0560	0.9162
North Central	1.0189	0.9121	1.0250	0.9380
Central Coast	1.0661	0.9534	1.0530	0.9742
Central Highlands	-	1.0855	-	1.0602
Southeast	1.2230	1.0486	1.1341	0.9654
Mekong Delta	1.1074	0.9996	1.0133	1.0269

Source: GSO.

21. For both surveys the index is expressed relative to the national average prices. No price index was used for urban areas in the Central Highlands because in both surveys none of the households came from the urban areas of the Central Highlands.

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ANNEX 3

**VIETNAM'S UNTAPPED COMPARATIVE ADVANTAGE
IN MANUFACTURING EXPORTS**

1. Chapter 3 argued that Vietnam has considerable untapped comparative advantage in light (or labor-intensive) manufacturing exports. If Vietnam were to exploit its relative endowments of human and natural resources fully, manufacturing exports would represent approximately 63% of total exports instead of 37%, and up to 1.6 million jobs could be created in light manufacturing in the near future. This annex describes how these calculations were made using a the cross-country regression framework.

2. A recent cross-country study by Wood and Mayer (1998) shows that in open market economies, a high endowment of well educated workers relative to land is strongly correlated with a high share of manufacturing exports. Typically, the higher the availability of skilled labor relative to land, the higher the country's proportion of manufacturing relative to primary exports. This confirms the predictions of the traditional Heckscher-Ohlin theory of comparative advantage, according to which open market economies tend to export goods whose production requires an intensive use of a country's relatively abundant--and thus cheap--resources.

3. Using Wood and Mayer's (1998) econometric results can provide a rough idea of the extent to which Vietnam's manufacturing potential is under-exploited. Using a sample of 115 countries and data from 1990, they estimated the following cross-country log-linear regression:

$$\ln(\text{manufacturing/primary exports}) = -5.11 + 1.47 \ln(\text{skill/worker}) - 0.6 \ln(\text{land/worker})$$

(-14.1) (7.18) (-6.59) $R^2 = 0.56$

where each country's share of manufactures relative to primary exports is related to its "human capital" (skill/worker) and to its relative endowment of land and labor (land/worker). All variables are expressed in natural logarithms. The coefficients estimated by this regression allow any single country's "predicted" share of manufactures in total exports to be estimated, given its human and natural resources.

4. Applying these coefficients to Vietnam shows that the country's "predicted" share of manufactures in total exports is at around 63% instead of 37% in 1997 (Table A3.1). This implies that Vietnam's foregone revenue due to the under-utilization of its comparative advantage could be roughly equal to \$6.5 billion or about 25% of GDP. This calculation also indicates that, with a better allocation of its available resources, Vietnam could rapidly triple its manufacturing exports.

Table A3.1: Vietnam's Untapped Export Potential			
	<i>Actual</i>	<i>Predicted</i>	<i>Actual – Predicted</i>
-Share of manufactures in total exports	36.7%	63%	-26.3%
-Value of manufacturing exports (\$ million)	3,372	9,881	-6,509

Source: Belser (1999) based on Wood and Mayer (1998)

5. How would this translate into employment growth? Table A3.2 shows estimates of trade-weighted labor coefficients in exporting and import-substituting sectors. The exporting sector is more than twice as labor-intensive as the import-substituting sector, indicating that an expansion of trade according to Vietnam's comparative advantage can only be beneficial to labor demand. By using the "factor content" method, which involves calculating the amount of labor embodied in trade flows, it can be estimated that an extra \$6.5 billion of exports would directly create between 1.5 and 1.7 million jobs in export sectors, with a best estimate of 1.6 million. Of course, when exports expand, so do imports. The number of jobs lost in import-competing sectors must also be estimated. A large share of imports will result from increased demand for intermediates in export production or will be more technology and skill-intensive than domestic production; these imports will not directly displace any domestic production. However, some of the remaining imports are likely to compete directly with local industries. Taking these elements into consideration, Belser (1999) estimates that deeper international integration would lead to between 200,000 to 350,000 redundancies in Vietnam's import-substituting sectors. This still leaves a large net positive employment effect of 1.2 to 1.5 million jobs, suggesting that the potential to create manufacturing jobs in the near future is very large.

Table A3.2: Labor Coefficients for Exports and Import Substitutes	
Sector	Number of employees per \$1,000 worth of output
Export industries (SOEs)	0.259
Export industries (FDI)	0.232
Export industries (average)	0.245
Import-substituting industries	0.108

Source: Belser (1999)

6. How long might it take to create these jobs? This all depends on Vietnam's ability to recover from the East Asian crisis and to undertake reforms to reallocate resources to efficient sectors. At pre-crisis manufacturing export growth rates of 45% per year, Vietnam might have created these jobs in only 3 years. However, even at only half the pre-crisis rates, 5 years would be enough for Vietnam to triple its earnings from manufacturing exports and increase its share of

manufactures in total exports to 63%. This suggests that even at reduced export growth rates, Vietnam has a potential to generate rapid employment growth in the future.

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ANNEX 4

POVERTY AND FEMALE-HEADED HOUSEHOLDS

1. As is common with many household surveys in developing countries, the two VLSSs show that members of female-headed households are usually materially better-off than male-headed households. The mean per capita expenditures of members of female-headed households are higher than those of male-headed households, while their poverty measures are lower.²⁵ As this quantitative result does not accord with the findings of the PPAs (which identified female-headed households among the poorest group of households) or with the intuition of many gender experts in Vietnam, this annex examines this issue in further detail.

2. The VLSS identifies a household as female-headed if the person identified as the head of the household in the first section of the household questionnaire is female. In Vietnam, the use of this standard definition includes a large number of "female-headed" households in which there are resident husbands. This peculiarity stems from Vietnam's household registration system in which it takes some time for migrants to attain residency status and be included in an existing household's registration document (*ho khai*). For newly married couples who decide to live in the wife's rather than the husband's commune or ward, it is therefore quite common for the head of the household to be listed as the wife on the household registration documents. And since some rural communes and urban wards only update their records periodically, such households may continue to be regarded as female-headed for a number of years. A modified definition of the sex of headship can, however, be devised for the VLSS in which all households with female-heads but resident husbands are reclassified as male-headed.

Per Capita Expenditures

3. According to the standard definition of sex of headship, there are 1624 female-headed households in VLSS98. Mean per capita expenditures of female-headed households (using the standard definition) are some 28 percent higher than those of male-headed households (VND 3.3 million versus VND 2.6 million per person per year). If one reclassifies all households with female-heads but resident spouses as male-headed (some 550 households), this narrows the expenditure gap between members of female and male headed households to 11 percent, but those living in female headed households are still richer (VND 3.0 million for female-headed and VND 2.7 million for male-headed households, respectively).

4. If one looks at the headcount index of poverty using the standard definition of sex of headship, one finds the index (which relates to all the people living in those households, not the households themselves) is 28 percent for members of female-headed households and 40 percent for members of male-headed households. When one reclassifies the female-headed households with resident male spouses using the modified definition of headship described above, the gap again narrows without reversing (to 32 percent for members of female-headed and 38 percent for members of male-headed households). A similar picture emerges when one looks at the depth

²⁵ For VLSS98, similar results on female-headed households were found by the World Bank (Dollar, Glewwe & Litvack, 1998) and UNDP (Desai, 1995) researchers.

and severity of poverty using the poverty-gap and squared poverty-gap indices (see Table A4.1 below). Using both the standard and modified definition of headship, the poverty-gap is also lower for female than male-headed households. The same is true for the squared poverty gap.

Table A4.1: Poverty Measures (%) by Gender of Household Head, 1997/98				
	Standard Definition		Modified Definition	
	Female	Male	Female	Male
Headcount	28.2	39.9	32.4	38.1
Poverty Gap	6.9	10.3	8.0	9.8
Squared Poverty Gap	2.5	3.8	2.9	3.6

Source: World Bank estimates based on VLSS98.

Household Expenditures

5. If one examines household rather than per capita expenditures, one finds that female-headed households do have lower mean household expenditures than male headed ones. This is because female-headed households are, on average, smaller than male-headed ones (by 1.2 members using the standard and 1.6 members using the modified definition of headship). Using the standard definition of sex of headship, total household expenditure in VLSS98 was VND 12.8 million for female headed households and VND 13.1 million for male headed ones. Using the modified definition, this gap increases to VND 10.4 million for female and VND 13.6 million for male headed households. Possibly, it is this aspect of material poverty (together with broader definitions of well-being) that the PPAs findings on female-headed households are picking up.

Household Expenditures by Sex of Head and Household Size

6. It is also possible to compare household expenditure levels by sex of head and household size. This is done, using the modified definition of headship, in Table A4.2 which shows that female-headed households with one, three or four members are materially poorer than male-headed ones when the modified definition of headship is used.²⁶ However, once households size is above four members female-headed households are usually better off than male-headed ones.

²⁶ Using the standard definition of sex of headship, only female-headed households with one member are poorer than male headed ones.

Household Size	Male	Female
1	5.6	4.2
2	7.3	8.1
3	11.3	10.1
4	13.1	11.1
5	13.6	14.0
6	14.8	15.6
7	16.2	15.6
8+	18.3	23.9

Source: World Bank estimates based on VLSS98.

Adjusting for Household Composition and Economies of Scale in Household Consumption

7. Table A4.2 raises two issues concerning adjusting for the age-sex composition of households and adjusting for economies of scale in household consumption. First when analyzing household survey data one may want to adjust per capita expenditures to take account of the fact that infants require less expenditure (both in terms of food and non-food items) than children, who in turn require less expenditure than teenagers and adults. This is done using a series of weights called an equivalence scale.²⁷ Because of their different body sizes, metabolisms and the types of work they undertake, adult men and adult women may also require different food intakes and some, though by no means all, equivalence scales give lower weights to adult females than adult males. Unfortunately, the methods used to estimate such equivalence scales remain controversial and difficult to implement (Deaton, 1997). To date, no equivalence scale has been estimated for Vietnam. This remains an important and interesting question for future research. However, Table 2 suggests that an equivalence scale which attached fairly low weights for women, teenagers, and children would be needed to make mean equivalised (that is per adult equivalent unit) expenditures lower for female than male-headed households.

8. Second, large households may need to spend less to achieve a given standard of living than smaller households because of economies of scale in household consumption. A family of six probably does not, for example, need one-and-half times as many cooking stoves, latrines or other large non-food items as a family of four. However, as noted above, since female-headed households in the VLSS are smaller, on average, than male-headed ones, adjusting for household

²⁷ Purely as an example, consider the following equivalence scale for India: infants and children less than 5 years old (0.48); children between 5 and 9 years (0.56); children aged 10 to 14 years (0.6); teenagers and adults (1.0) (Deaton, 1997).

economies of scale in consumption would tend to reinforce the conclusion in Table A4.2 that small female-headed households are poorer than small male-headed households (and vice-versa for large households).

Special Groups of Female-Headed Households

9. While female-headed households in Vietnam are, on average, materially better off than their male-headed counterparts, it is possible that there are specific sub-groups of female headed households that are particularly poor and/or vulnerable. We examined two categories of these sub-groups: single parent households and elderly households. For some of these, the sample size becomes too small to draw meaningful conclusions. But in general, the result seems to hold that members of female-headed households have higher expenditures than members of male-headed households. But elderly women living on their own are both more common and have lower household expenditures than men living on their own.

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ANNEX 5

TRANSITION MATRIX FOR VIETNAM

1. A distinctive feature of the Vietnam Living Standard Surveys (VLSS) is that almost 90% of the households that were interviewed in 1993 were re-interviewed in 1998. This panel data component of the VLSS allows changes in the living standards of individual households to be tracked over time, which it is not possible to do with most household surveys in other countries.
2. Table A5.1 below is a transition matrix which identifies the expenditure quintiles the 4,304 panel households were placed in first in 1993 and then in 1998.²⁸ About 40 percent of households were in the same expenditure quintile in both years. These households are shown by the dark-shaded-cells along the diagonal of the transition matrix. The expenditure ranking of another 40 percent of households moved up or down by one-quintile between 1993 and 1998. These households are shown by the light-shaded cells in the transition matrix. The remaining 20 percent of households moved up or down by two or more expenditures quintiles, with approximately the same number of households (424) moving up as moving down (429). A small number of households (16) moved from the richest to the poorest quintile or vice-versa (8 households).

²⁸ A panel household is here defined as a household which was living in the same dwelling in the two surveys. Using this definition of a panel household, it is possible for household composition (including the headship of the household) to change between the survey years.

Table A5.1: Quintile Transition Matrix for Vietnam, 1993-1998 (Number of households)						
Expenditure Quintile, 1993	Expenditure Quintile, 1998					TOTAL
	1	2	3	4	5	
1	448	230	124	51	8	861
2	237	259	217	115	33	861
3	113	207	218	230	93	861
4	47	125	214	282	193	861
5	16	40	88	183	533	860
Total	861	861	861	861	860	4304

Notes: Quintile 1 is the poorest and quintile 5 is the richest. Quintiles are defined on the basis of unweighted per capita expenditures for the 4,304 panel households interviewed in both VLSS93 and VLSS98.

Source: World Bank estimates based on VLSS93 and VLSS98.

3. There are several points to note about this matrix. First, it may overstate the number of households whose quintile ranking changed between 1993 and 1998 because of “measurement error”. In particular, errors in the measurement of per capita expenditures (which, in turn, reflect inaccuracies in the ways that data on the quantities of different food and non-food items that households consume, and their corresponding market prices, were collected) may cause some households to be incorrectly classified in one year. Unless these errors are the same in both survey years, this can lead to “false transitions” between quintiles. Note, however, that this is not a particular problem with the VLSS surveys: measurement error is a feature of the data collected by all household surveys, and many other types of data too.

4. Second, households along the diagonal and whose quintile ranking is unchanged between the two years, will still have higher per capita expenditures in 1998 than in 1993. It is only their relative living standards (as proxied by expenditures) that are unchanged between the two-years. Indeed, because expenditures have risen so rapidly, it is possible that some of the households who have fallen a quintile have higher expenditures than they did five-years before. Third, although a one-to-one relationship cannot be made between poverty and the quintile ranking of households, the transition matrix does serve to underline that the poor and rich are not static groups and that living standards vary over time.

ANNEX 6**FUTURE MONITORING OF POVERTY AND LIVING STANDARDS**

1. The use of the 1993 and 1998 VLSS surveys to draw poverty lines and monitor progress in poverty reduction raises the question of how these tasks will be done in the future. VLSS93 and the VLSS98 were implemented five years apart with partial funding from SIDA (Sweden) and UNDP, and technical assistance from the World Bank. Despite the high regard for the comprehensiveness and quality of these surveys, there are no immediate plans to implement a third VLSS survey.
2. In order to monitor future progress in poverty reduction, Vietnam needs to collect household survey data on a much more regular basis, ideally every year. However, many other broader indicators of living standards (e.g., literacy, fertility, or access to safe water) change relatively slowly so it would not be necessary to collect information on all these topics on an annual basis. The implementation of a core household survey module every year together with additional modules on supplementary topics in some years has proved a cost-effective and efficient way to collect comprehensive information on poverty living standards in a number of other Asian countries (such as Bangladesh and Indonesia) and Vietnam could follow their example.
3. Since 1994, the GSO has been fielding an annual survey, known as the Multi-Purpose Household Survey (MPHS). This survey covers a narrow range of topics (including household expenditure and incomes, education, health, housing and other assets, and the ownership of durable goods) than the two VLSS surveys but had a much larger sample size (45,000 households in 1994 to 1997) designed to produce provincially representative statistics. However, the large size of the MPHS sample has led to delays in the processing, analysis and dissemination of the data that it collected. Concerns have also been expressed regarding its sampling-frame and the accuracy of some of the data it has generated. In response to these concerns, GSO has now decided to reduce the sample size of future MPHSs, starting with the one in the year 2000, to 25,000 households, and this should help them improve the quality of the data being collected and the timeliness of processing this data.
4. Future household survey data collection in Vietnam should aim to combine the strengths of the VLSS surveys with those of the MPHS to produce high quality data on poverty, preferably annually, and on other aspects of the living standards of Vietnamese households on a more regular (but perhaps less frequent) basis. Doing so will probably require further additional technical assistance from the World Bank and other donor agencies. Special attention needs to be paid to the trade-off between sampling and non-sampling errors, survey management, and the establishment of permanent and well-trained survey teams (Selzer, 1999). Greater decentralization, careful planning, training and re-training of central and provincial staff, and more accessible and timely dissemination of results have also been recommended (UNDP, 1999). The need for a clearer division of responsibilities for data collection between GSO and other line agencies and rationalization of the plethora of existing survey also requires urgent attention.

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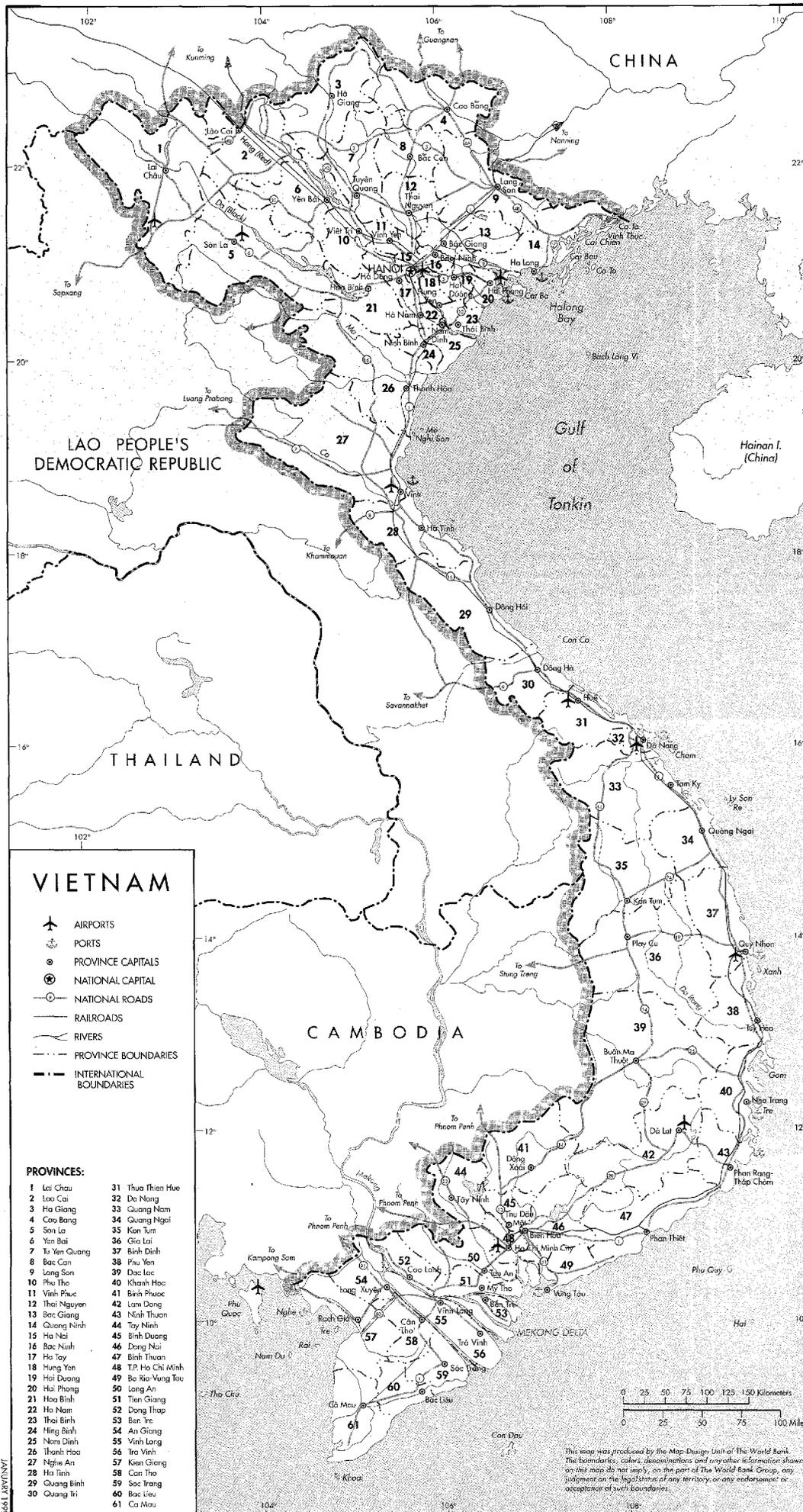
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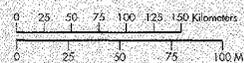
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VIETNAM

- AIRPORTS
- PORTS
- PROVINCE CAPITALS
- NATIONAL CAPITAL
- NATIONAL ROADS
- RAILROADS
- RIVERS
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

- PROVINCES:**
- | | |
|----------------|---------------------|
| 1 Lai Chau | 31 Thua Thien Hue |
| 2 Lao Cai | 32 Da Nang |
| 3 Ha Giang | 33 Quang Nam |
| 4 Cao Bang | 34 Quang Ngai |
| 5 Son La | 35 Kon Tum |
| 6 Yen Bai | 36 Gia Lai |
| 7 Tu Yen Quang | 37 Binh Dinh |
| 8 Bac Can | 38 Phu Yen |
| 9 Lang Son | 39 Dac Lac |
| 10 Phu Tho | 40 Khanh Hoa |
| 11 Vinh Phuc | 41 Binh Phuc |
| 12 Thai Nguyen | 42 Lam Dong |
| 13 Bac Giang | 43 Ninh Thuan |
| 14 Quang Ninh | 44 Tay Ninh |
| 15 Ha Nai | 45 Binh Duong |
| 16 Bac Ninh | 46 Dong Nai |
| 17 Ho Tay | 47 Binh Thuan |
| 18 Hung Yen | 48 T.P. Ho Chi Minh |
| 19 Hai Duong | 49 Ba Ria-Vung Tau |
| 20 Hai Phong | 50 Long An |
| 21 Hoa Binh | 51 Tien Giang |
| 22 Ho Nam | 52 Dong Thap |
| 23 Thai Binh | 53 Ban Tre |
| 24 Hing Binh | 54 An Giang |
| 25 Nam Dinh | 55 Vinh Long |
| 26 Thanh Hoa | 56 Tra Vinh |
| 27 Nghe An | 57 Kien Giang |
| 28 Ha Tinh | 58 Can Tho |
| 29 Quang Binh | 59 Soc Trang |
| 30 Quang Tri | 60 Bac Lieu |
| | 61 Ca Mau |



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