

Vietnamese Academy of Social Sciences

**Vietnam Poverty Update Report 2006:
Poverty and Poverty Reduction
in Vietnam 1993-2004**

Hanoi, December 2006

ACRONYMS AND ABBREVIATIONS

CAF	Centre for Analysis and Forecasting
CEM	Committee for Ethnic Minorities
CIEM	Central Institute for Economic Management
DFID	Department for International Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistics Office
HEPR	Hunger Eradication and Poverty Reduction
HCMC	Ho Chi Minh City
ILSSA	Institute for Labour Studies and Social Affairs
ISPARD Development	Institute for Strategy and Policies on Agricultural and Rural Development
MARD	Ministry of Agriculture and Rural Development
MDG	Millennium Development Goal
MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
ODA	Official Development Assistance
PPA	Participatory Poverty Assessment
SBV	State Bank of Vietnam
SEDP	Socio-Economic Development Plan
SOE	State-Owned Enterprises
SRV	Socialist Republic of Vietnam
UNDP	United Nations Development Program
VASS	Vietnamese Academy of Social Sciences
VDG	Vietnam Development Goal
VHLSS	Vietnam Household Living Standards Survey
VIE	Vietnam Institute of Economics
VLSS	Vietnam Living Standards Survey
WTO	World Trade Organization

Foreword

Similar to previous reports such as “Attacking Poverty” and “Poverty” published by the World Bank in Vietnam in 1999 and 2003 respectively, the Vietnam Poverty Update Report 2006 aims to provide an updated picture of the poverty situation in Vietnam since the early 1990s. Trends in poverty reduction along with appropriate policy implications are assessed using household survey datasets and other sources of information, including the results of the various studies available to date. In contrast to the above mentioned reports, the preparation and consultation progress for this report was coordinated by Vietnamese research institutions led by the Vietnamese Academy of Social Sciences, with technical assistance from the World Bank in Vietnam.

This report was prepared by an inter-agency team led by Nguyen Thang (Centre for Analysis and Forecasting – CAF, Vietnamese Academy of Social Sciences – VASS) and comprised of Le Thuc Duc (CAF), Nguyen Lan Huong (Institute of Labour Science and Social Affairs – ILSSA of the Ministry of Labour, Invalids and Social Affairs – MOLISA) and Pham Lan Huong (Central Institute of Economic Management – CIEM of the Ministry of Planning and Investment). They were assisted by a team of researchers including Le Dang Trung, Vu Hoang Dat, Nguyen Cao Duc, Nguyen Thu Phuong, Nguyen Thuy Chung (CAF), Phung Duc Tung (General Statistical Office – GSO). The latter was in charge of producing, on the basis of the latest household survey VHLSS 2004, the majority of tables presented in this report.

The preparation of the report was guided by an Inter-Agency Advisory Committee led by Professor Do Hoai Nam (President of VASS) and comprised of Dr. Cao Viet Sinh (Vice-Minister, Ministry of Planning and Investment – MPI), Dr. Nguyen Hai Huu (Director, the Social Protection Department, MOLISA), Dr. Nguyen Van Thuat, (Director, the Policy Department, Committee for Ethnic Minorities – CEM), Mr. Nguyen Phong (Director, the Social and Environment Department, GSO), Dr. Dang Kim Son (Director, Institute for Strategy and Policies on Agricultural and Rural Development ISPARD, Ministry of Agriculture and Rural Development, MARD), Dr. Tran Dinh Thien (Vice-Director, Vietnam Institute of Economics VIE, VASS).

The first draft of the report was presented in three regional consultative workshops held in Danang, Hochiminh City and Hanoi on 15, 23 and 29 June 2006 respectively. The drafting team benefited hugely from comments by workshop participants who come from various policy making bodies and research institutions at the central and local levels.

During the process of report preparation, the drafting team received substantive technical support from Martin Rama, Carrie Turk and Rob Swinkels from the PREM team of the World Bank in Vietnam, and Henrik Hansen (University of Copenhagen). Financial support by the World Bank-DFID PAPAP programme is duly acknowledged. The team benefited greatly from discussion and comments received in two validation workshops - one with Vietnamese stakeholders in December 2005 and another – with the donor community in January 2006. Support by Nguyen Thanh Ha, Nguyen Thu Hang, Cao Thi Thuy, Hoang Thanh Tu, Chu Thi Hanh (VASS) and Le Minh Phuong (the World Bank in Vietnam) is also acknowledged.

Despite all the efforts exerted during the preparation process to ensure a high quality of analysis and appropriate policy recommendations, the report may not be free of errors. These are solely the responsibility of the drafting team.

Hanoi, January 2007

Prof. Do Hoai Nam,
President of the Vietnamese Academy of Social Sciences

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Summary

- Data of the four household surveys VLSS 1993, VLSS 1998, VHLSS 2002 and VHLSS 2004 reveal that Viet Nam has achieved remarkable success in poverty reduction during the period of 1993-2004. The poverty rate (as measured by per capita consumption) has come down from 58.1% in 1993 to only 19.5% in 2004, a drop of almost 39 percentage points over the eleven years. The poverty rate in 2004 is one third of 1993 levels, which is exceptional if it is benchmarked against a major UN's Millennium Development Goal of halving extreme poverty over a longer period from 1990 to 2015.
- The poverty gap indicates that those who are still in poverty are becoming less poor. In 1993, consumption of the average poor person was equal to 68% of the poverty line. By 2004, consumption of the average poor person had climbed to 76%.
- Social indicators such as net enrollment rates at all levels, health insurance coverage, access to electricity, clean water, sanitation, and possession of numerous durable goods have also shown significant improvements in people's well-being.
- After more than a decade of undergoing market-oriented reforms, relative inequality as measured by the commonly used Gini index for per capita expenditures has shown a modest increase, from 0.33 in 1993 to 0.37 in 2004. This is comparable to other countries at a similar level of development
- However, these aggregate numbers have masked significant variation in progress in poverty reduction across different segments of the society. There are considerable differences in poverty in its multiple dimensions between rural and urban population with poverty becoming largely a rural phenomenon. There are also considerable disparities in regional poverty and poverty reduction. The northern mountains, the north central coast and the central highlands all have high poverty incidence over 30%. These rates of poverty are substantially higher than other regions and these three regions together are home to nearly 57% of total poor population. The gap in per capita expenditures between the best-performing region and the poorest region has widened during the 1993-2004 period.
- Of the greatest concern is relatively limited progress among ethnic minorities, who do not seem to adequately participate in and benefit from the growth process. Between 1993 and 2004, the poverty rate for ethnic minorities reduced from 86% to 61%. Over the same period the poverty rate for the Kinh-Hoa group fell from 54% to 14%. The slower rate of poverty reduction by ethnic minorities relative to the Kinh-Hoa group is consistent across all the regions and locations where both the minority and majority people live. The data also indicate that in 2004, the average poor person from an ethnic

minority, with per capita expenditures equal to only 67% of the poverty line, is poorer than the average poor person from the Kinh-Hoa group, whose consumption would be 80% of the poverty line. The under-performance of the ethnic minorities against the Kinh-Hoa group is also significant with regards to social indicators. In particular, in 2004, only 4% of ethnic minority people have access to sanitation and 19% to clean water, as opposed to respective figures of 36% and 63% for the Kinh-Hoa group.

- Though the rise in relative inequality as measured by the Gini coefficient is modest, the absolute income/expenditure gap between the richest and the poorest, as proxied by the gap between top and bottom expenditure quintiles (or deciles), has been growing considerably. The latter causes serious concerns to many people, given their intolerance to any kinds of significant and growing inequality.
- Understanding factors explaining past achievements in poverty reduction can provide good guidance for future policy interventions. The high rate and pro-poor pattern of growth have played a critical role in the recent success.
- In turn, the rapid and pro-poor growth is explained by a series of far reaching market reforms undertaken in the 1990s and the early 2000s. This has resulted in improvements in the geographic and occupational mobility of labour enabling people to take advantage of better income generating opportunities. The relatively pro-poor pattern of public investments and budget transfers including national poverty targeting programmes (i.e. Programme 135 and Programme 143) has led to improved access of the poor to education, health care, infrastructure.
- However, there are also reasons to believe that the “poverty story” in years to come may not be the same as the recent past. In particular, the current distribution of incomes and expenditures is such that poverty reducing effect of growth looks set to decline, implying that a higher growth rate is required to achieve a percentage point drop in poverty.
- The relatively large number of non-poor people whose consumption is just above the poverty line level implies that protecting vulnerable people from falling back into poverty is becoming increasingly important for the reduction in overall poverty, particularly in light of various shocks they face now and in the future.
- The persistently high poverty incidence and depth among ethnic minority groups and in some lagging regions is also a big challenge for Vietnam in the years to come. In addition, new forms of poverty will emerge, with the urbanisation process as one of the causes.
- In light of these challenges, sustaining fast poverty reduction over the short to medium term will require a combination of policy measures including an acceleration of market oriented reforms, particularly an emphasis on the development of private sector to achieve higher efficiency. This would permit more rapid growth within the resource

constraints, as growth continues to be a main driver of poverty reduction. Of equal importance, innovative measures should be sought to enhance the participation of the poor in the growth process to raise the poverty reducing effect of economic growth.

- Furthermore, revamping and strengthening social protection mechanisms, introducing universal systems that can better protect the poor and the vulnerable from adverse shocks in light of intensified international integration, should be given a high priority
- In addition to the current area-based schemes in support of ethnic minority people, a number of additional measures are needed. These include more unified control over forest land under the district and commune authorities and improved transparency and equity in the allocation of forest land and product usage rights. There is also a need for other innovative measures and interventions that better address needs of the most disadvantaged ethnic minority groups and better take into account their specific habits, customs and culture.
- While the reduction in ethnic disparities would also reduce regional differences, given the high concentration of ethnic minorities in lagging regions, there should also be measures to help lagging non-ethnic minority regions. Investments in infrastructure development for communes with special difficulties in coastal and island areas proposed in the Draft National Targeting Programme on Poverty Reduction 2006-2010 is therefore warranted. Other types of interventions would include the facilitation of the movement into wage employment in these regions.

Introduction

After a difficult modern history, Viet Nam greatly needs economic growth. However, the high rate of economic growth is not in itself the objective of development policy, but just a means, however important, to achieve national development objectives. Vietnamese policy makers place high priority on fast, growth-based poverty reduction and inclusive development. Over last twenty years of Doi Moi, impressive achievements have been recorded in growth and poverty reduction at the aggregate level. However, there remain concerns about the possibility of growing disparities in well-being across various groups of population.

For many of Vietnamese, poverty has been part of their lives until very recently. Although the poor have tried really hard to escape poverty, this remains a dream for millions of households, especially in rural areas. This reality makes poverty reduction thoroughly meaningful for Viet Nam. The task of poverty reduction is as socially and as politically important today as it has been since independence. Together with poverty reduction, reducing inequality is also a very important aspect of development. Recognising this, the Government of Vietnam aims at both achieving fast poverty reduction and maintaining an equitable society in Viet Nam over the course of Doi Moi.

Poverty is a multidimensional concept that may be interpreted differently, complicating both the definitions and measurement of poverty. In this study, we work with the World Bank's definition of poverty. This is "the inability to attain a minimal standard of living" and distinguishes from inequality, which "refers to the relative living standards across the whole society" (World Bank 1990). The whole population can be divided into poor and non-poor by the poverty line. To generate poverty rates comparable across all the four household surveys the VLSS 1993 and 1998, and the VHLSS 2002 and 2004, international consumption-based food and general poverty lines are used. The food poverty line is the value of a typical Vietnamese food basket that is needed to meet minimum food requirements which, by international standards, should generate 2100 calories per adult per day. In 2004 this value was equal to VND 159,788 per capita per month. The general poverty line is derived by adding a non-food component to the food poverty line and was equivalent to VND 173,101 per capita per month. Adjustments are made for differences in regional and rural and urban prices. The poverty lines are adjusted over time to reflect price changes of the goods in the basket. More technical details about how these thresholds are calculated are given in World Bank 2000. A

reservation with this approach is that the food basket may become outdated if consumption patterns change substantially over time.

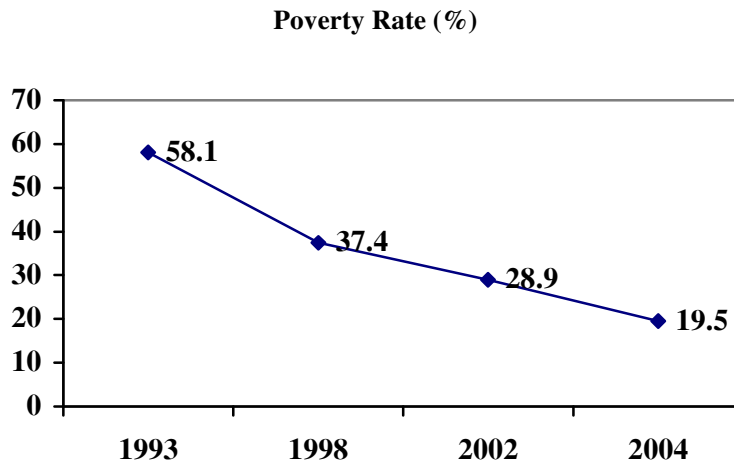
Although poverty is multifaceted, the lack of data prevents us from covering all of its dimensions including the quality of environment, the degree of participation in decision making and social inclusion. In this report, every effort will be made to analyse the multiple dimensions of poverty, including consumption and a few non-income indicators that can be calculated from data of the household surveys VLSS 1993, VLSS 1998, VHLSS 2002 and, most intensively, of VHLSS 2004. Expenditure may not exactly be what the households own, but international experience suggests that it reflects perceptions of long-run income, including social benefits, which is becoming increasingly important and therefore is deemed by many economists as the best measure of household wellbeing available. More importantly, in the case of Vietnam, it is possible to compute reliable poverty rates comparable across the four household surveys.

1. Poverty and Inequality in the 1993-2004 period: Key Achievements and Issues

1.1. Poverty Reduction and Inequality at the National Level: What the Aggregate Numbers Show?

Figure 1 shows Viet Nam's remarkable success in poverty reduction during the period of 1993-2004, as revealed by data of the four household surveys. The poverty rate based on per capita consumption has come down from 58.1% in 1993 to only 19.5% in 2004, showing a drop by almost 39 percentage points over the eleven years. The poverty rate in 2004 is only one third of that in 1993, an exceptional achievement when benchmarked against a major UN's Millennium Development Goal of halving extreme poverty over a longer period from 1990 to 2015. Most recently, Vietnam has halved poverty over a much shorter six-year period from 1998 to 2004, from a lower base rate of 37.4%. In absolute terms, some twenty four million people were lifted out of poverty over the eleven years 1993-2004, with approximately half of them escaping from poverty during the 1993-1998 five-year sub-period, and another half during 1998-2004 six-year sub-period.

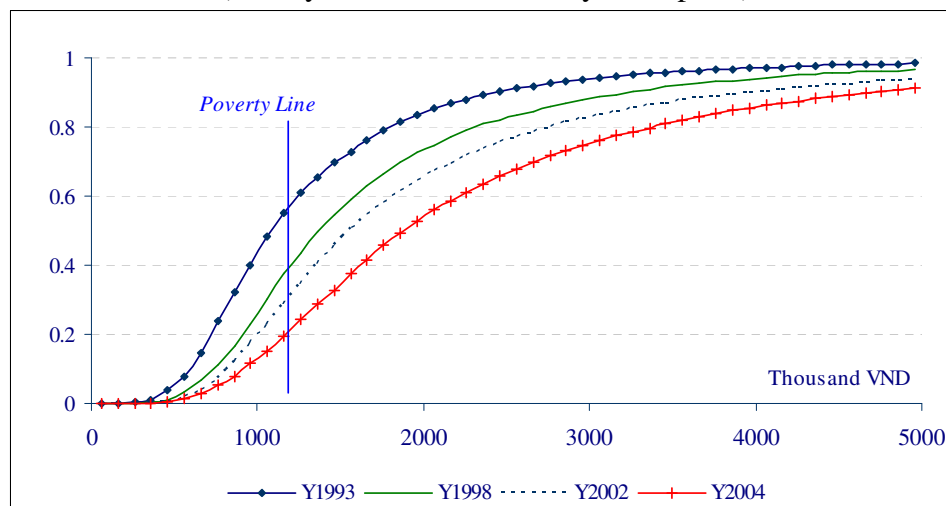
Figure 1. Poverty Reduction in Vietnam during the 1993-2004 Period



Source: GSO

Figure 2 shows that the reduction in poverty over the period 1993-2004 as captured by the four household surveys is robust. Whatever poverty line used (i.e. regardless of the position of the poverty line in the Figure), the proportion of the population living below that line (if one reads Figure 2 vertically) declined from one survey to the next. The living conditions of all percentiles of households showed steady improvements. This is shown by reading Figure 2 horizontally, where the distribution curve of a survey always lies to the right of distribution curves of previous surveys.

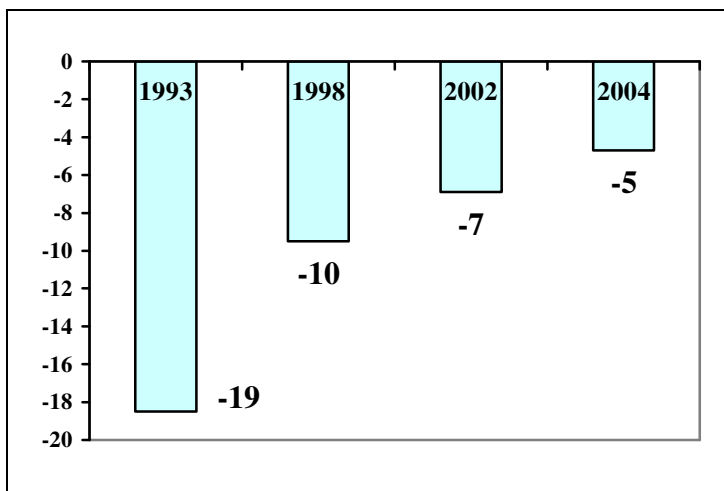
Figure 2: Cumulative Distribution by Per Capita Expenditures
(Money values are in January 1993 price)



Source: GSO

Poverty reduction is also evident, if the poverty gap as a measure of poverty depth is considered (Figure 3)¹. The poverty gap measure shows in particular that the depth of poverty in urban areas is negligible. Together, Figure 1 and Figure 3 show that not only did the proportion of poor people decrease, but did also their consumption shortfall relative to the poverty line. In other words, during the eleven-year period 1993-2004, a substantial proportion of poor people escaped from poverty, and for those who are still in poverty, their consumption shortfall was substantially reduced.

Figure 3. Poverty Gap Index (%)



Source: GSO

1.2. Do Non-Income Indicators Tell a Similar Story?

Together with improvements in material living standards as measured by household expenditures, non-income indicators that reflect social aspects of people's well-being have also shown significant improvements over the period 1993-2004 (Table 1). With regards to education, net enrollment rates have increased for all levels. Most notably, the enrollment rate for upper secondary school has gone up dramatically, from 7.2% in 1993 to 63% in 2004 or almost nine times. The rate for lower secondary school has also shown significant improvements, increasing by a multiple of three over this 11-year period.

¹ Poverty gap shows the shortfall of the poor's expenditure from the poverty line expressed as an average of all people in the population. Division of poverty gap by poverty rate, which is termed as the income gap, therefore reflects the average distance between the expenditures of the poor and the poverty line.

Primary school enrollment rates were already high in 1993, but continued to rise further to reach 94.6% in 2004. However, these data cannot reveal the quality of education, which is one of the most frequent topics in the public debate, including in the sessions of the National Assembly. These, together with other aggregate numbers cannot reveal substantial variation in enrollment rates, and quality across different segments of the population. This will be discussed in more details in relevant sections that follow. With regards to health care services, the percentage of households who have health insurance or free health care cards increased sharply in recent years: while only 16% of people were covered by health insurance in 1998, this coverage rate rose to 38% in 2004, an increase by two and half times.

Access to infrastructure – electricity, clean water and sanitation – has improved dramatically. In 1993, only 48% of population used electricity as a main source of lighting. This percentage almost doubled to reach 94% in 2004. The percentage of population with access to clean water increased by more than three times during the same period, rising from 26% in 1993 to 88% in 2004. A similar improvement was shown for access to sanitation: the percentage of population with access to hygienic latrines rose from 10% in 1993 to 32% in 2004.

Data on the possession of durable goods such as radios, televisions, bicycles and motorbikes have further confirmed considerable improvements in their well-being. Indeed, households shifted away from radio towards television as a more modern means of accessing information. While the percentage of households owning a radio decreased from 40% in 1993 to 19% in 2004, the comparable figure reflecting possession of a television set rose substantially, from 22% in 1993 to 78% in 2004, or more than three and a half times. Similar increase is also observed for possession of a motorbike, which has apparently “downgraded” from the status of a luxury good under possession of every tenth household in 1993 to a “normal good” being owned by 45% households in 2004. While in 1998, only 7% of households had a telephone, six years later – in 2004 - every fifth household had a telephone, indicating substantially improved access to this very important means of communication in Vietnam.

Table 1. Social Indicators 1993-2004

Non-Income Indicators	1993	1998	2002	2004
Education				
Primary Enrollment Rate (Net)	87	91	90	95
Lower Secondary Enrollment Rate (Net)	30	62	72	90
Upper Secondary Enrollment Rate (Net)	7	29	42	63
Health				
Health insurance and free health care card	n/a	16	n/a	38
Access to Infrastructure				
% of rural population with public health within the centre	93	97	99	100
% of population with access to clean water	26	41	49	59
% of population have access to hygienic latrines	10	17	25	32
% of population using electricity as a main source of lighting	49	78	87	93
Ownership Rates of Consumer Durables				
% households owning a radio	40	47	26	19
% households owning a TV	22	56	68	78
% households owning a bicycle	65	73	69	70
% households owning a telephone	n/a	7	13	21
% households owning a motorbike	11	20	40	45

1.3. Inequality: Is Inequality on the Rise?

Together with poverty reduction, inequality has been receiving growing attention in Vietnam. This reflects the strong commitment to a socialist orientation while shifting from central planning towards a market economy. At the international level, accumulating evidence suggests that growth in the developing world over the last two decades has been slower than for the previous twenty years, and notably, it has been accompanied by increasing inequality. This section will use data of the household surveys VLSSs and VHLSSs to discuss some key questions on inequality in Vietnam: Is inequality really on the rise? Is inequality in Vietnam high when compared to other countries?

There are different ways to measure inequality. The Gini index is one of the most commonly used measure of *relative* inequality. In Vietnam, the Gini for per capita expenditures rose from 0.34 in 1993 to 0.35 in 1998 and 0.37 in 2004, showing a modest increase over a relatively long period. Across the many countries in the world, the

consumption-based Gini coefficient ranges from 0.19 to 0.74. However, it is more reasonable to compare Vietnam with countries at a similar level of development. The latter can be measured by GDP per capita calculated on the basis of Purchasing Power Parity (PPP). For this purpose, Table 2 is constructed on the basis of data from the World Development Indicators 2006, with comparators countries being defined as having PPP-based GDP per capita within $\pm 30\%$ of that of Vietnam, that is between \$2,000 and \$3,600. Only countries that have data on the consumption-based Gini index for 1999 or more recently are included in the list of comparators. This list consists of ten countries with a similar level of development defined in this way. With these data caveats and slightly ad hoc selection in mind, it is observed that in terms of relative inequality, Vietnam is comparable to countries with similar level of PPP-based per capita income². After more than a decade of reforming the economy from central planning into a market economy, the society of Vietnam today is quite equal in *relative* terms. This can be seen as another success.

Table 2 Inequality in Selected Countries

		Gini Index	GDP - per capita in USD in 2005 (PPP) – estimated
	(1)	(2)	(3)
Bangladesh	2000	0.32	2,100
Cameroon	2001	0.45	2,400
Georgia	2003	0.40	3,300
India	1999–2000	0.33	3,300
Indonesia	2002	0.34	3,600
Kyrgyz Republic	2003	0.30	2,100
Mauritania	2000	0.39	2,200
Nicaragua	2001	0.43	2,900
Pakistan	2002	0.31	2,400
Vietnam	2002 and 2004	0.37	2,800

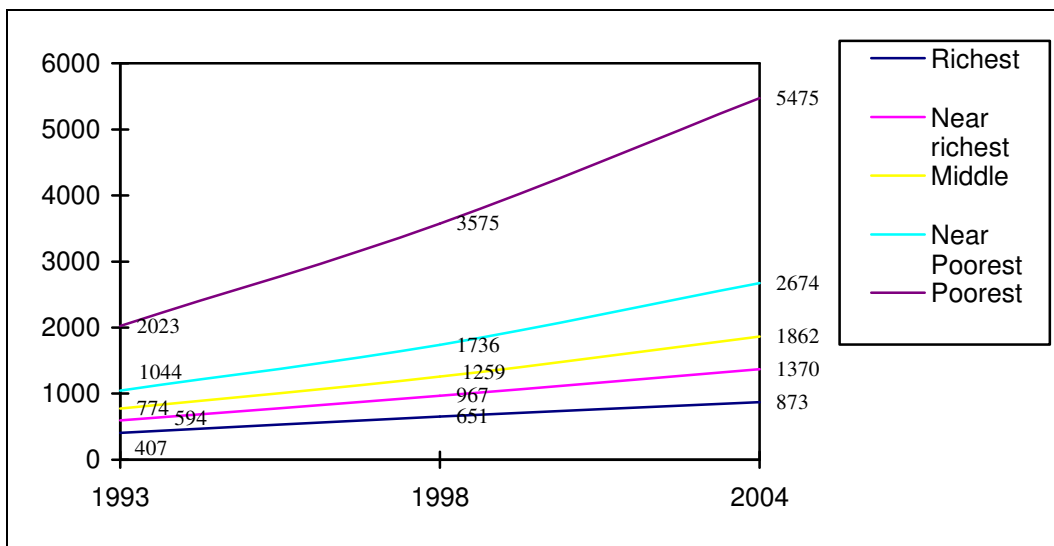
Sources: Columns (1) and (2) are from World Development Indicators 2006; column (3) from <https://www.cia.gov/cia/publications/factbook/rankorder/2004rank.html>.

² Vietnam's consumption-based Gini index is 0.37 in 2002 and 2004, which is slightly higher than mean and median values - both at 0.36 - for these 10 countries. Maximum and minimum values of the Gini index for these countries are 0.45 and 0.30 respectively

However, there is a different picture as far as *absolute* inequality is concerned. The absolute gap between the haves and the have-nots being represented by the richest 20% and the poorest 20% has been widening consistently and considerably (Figure 4). In 1993, per capita expenditures of the richest households were five times that of the poorest households (VND 2 million against VND 0.4 million or *absolute* difference of VND 1.6 million in January 1993 prices), this ratio rose to 6.3 in 2004 (VND 5.5 million vs. VND 0.9 million or *absolute* difference of VND 4.6 million in January 1993 prices). Accordingly, the share in the society's total expenditures of the richest group rose from 41.8% in 1993 to 44.7% in 2004, while that of the poorest group decreased from 8.4% to 7.1% during the same period.

In short, in Vietnam during the 1993-2004 period, a minimal increase in relative inequality has been accompanied by a growing absolute gap. For many ordinary people, it is not the relative, but the absolute gaps that appear to catch their attention and generate serious public concern about trade-offs between equity and growth. The relatively fast growing income/expenditure absolute gap between the richest and the poorest is unacceptable to many, given the government's strong commitment to ensuring an equitable society.

Figure 4. The Absolute Gap between the Richest and the Poorest Has Been Substantially Widening (per capita consumption, VND thousand, in January 1993 prices)



Source: Constructed based on VLSS 1993, VLSS 1998, VHLSS 2002 and VHLSS 2004

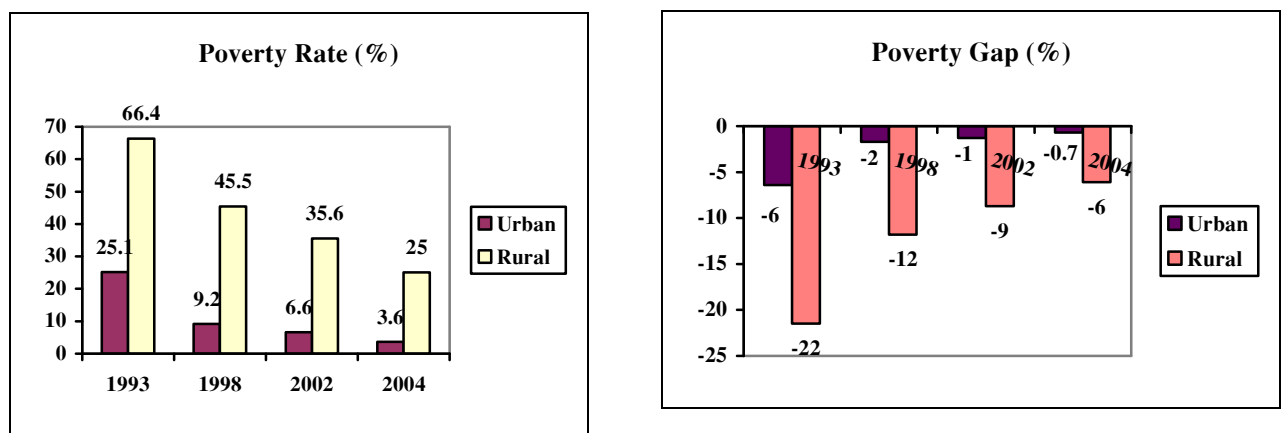
2. Poverty and Inequality at Disaggregate Levels: What the Aggregate Numbers Hide?

At the national level, poverty has declined rapidly over the 1993-2004. However, this does not mean that all segments of the society enjoy the same success. Further analysis reveals that the aggregate numbers hide significant variations in progress in poverty reduction across population groups. From a policy perspective, this indicates the need to identify and prioritise appropriate interventions to help more disadvantaged groups to catch up with the rest.

2.1. Rural-Urban Disparities in Poverty and Inequality

Despite substantial improvements in rural living standards, rural residents still overwhelmingly dominate the poor population in Vietnam. The gap between the urban and rural poverty rates has been substantial and persistent throughout the four surveys, although rural poverty has been falling at a faster pace since 1998 (left panel of Figure 5). The rural poverty rate in 2004 is 25% (down from a much higher rate of 66% in 1993), implying that fifteen million out of slightly over sixty million rural dwellers still live in poverty. This is in sharp contrast to the 2004 urban poverty rate of 3.6%, down from the 1993 rate of 25%. It should be however noted that poverty is possibly under-estimated in urban areas. Some migrants, many of whom may be poor, work in the informal sector with low and unstable incomes, or disadvantaged in terms of access to services, may be missing from the sampling frame used for the household surveys.

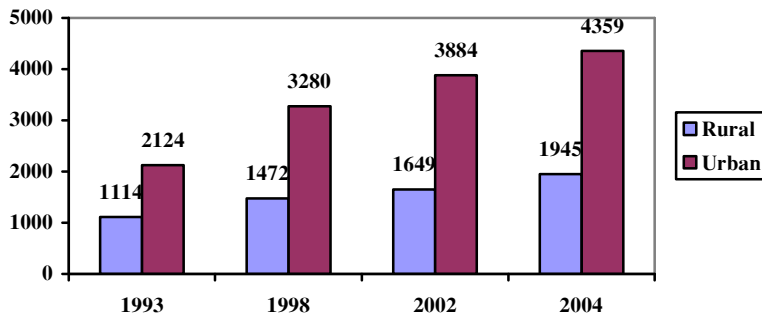
Figure 5. Rural and Urban Poverty (1993-2004)



Source: GSO

There is also a significant difference in the poverty gap between rural and urban areas (right panel of Figure 5). The shortfall of consumption from the poverty line has been consistently larger for the rural poor than the urban poor, equal to 24% and 19% in 2004 respectively. The gap in per capita expenditures between urban and rural households has also widened quite considerably during the 1993-2004 period (Figure 6). The ratio of urban to rural expenditures increased from 1.91 in 1993 to 2.23 in 1998 and further to 2.24 in 2004. It should however be noted that the pace at which the gap is widening appears to have slowed down since 1998.

Figure 6. Real Per Capita Expenditure by Rural-Urban 1993-2004 (VND thousand, in January 1993 prices)



Source: Constructed based on VLSS 1993, VLSS 1998, VHLSS 2002 and VHLSS 2004

Social indicators for rural areas consistently lag behind those for the urban population (Appendix 2) with the exception of possession of bicycles, an indicator which has been changing in favour of rural people, probably indicating a substitution effect towards motorbikes for wealthier urban populations. On a positive note, most of the gaps have narrowed quite considerably over recent years, indicating the success of public policy and expenditures in targeting rural areas better. Specifically, in 1993, 39% of the rural population used electricity as a main source of lighting, against 88% of the urban population. By 2004, these figures were 92% and 99% respectively. Similarly, in 1993 18% of the rural population had access to clean water in 1993, compared with 59% of the urban population. By 2004 these access rates had risen to 50% and 82% respectively. Only 6% of the rural population possessed a motorbike in 1993, against 29% of the urban population. By 2004 this had increased rapidly to 36% in rural areas and 69% in urban areas. With regards to access to health insurance, in 1998, only 12% of rural population and 28% of urban population were covered. By 2004, the respective figures had risen to 35% and 45%. However, large absolute gaps in certain indicators persist. For example, access to sanitation remains a matter of serious concern in rural areas. In 1993, 2% of the

rural population had access to hygienic sanitation against 45% in urban areas. There has since been a dramatic improvement in access to sanitation in urban areas, where 76% of the population now has hygienic sanitation. But access in rural areas remains low. In 2004 only 16% of the rural population had hygienic sanitation. Access to modern telecommunications is also improving much more quickly in urban areas than in rural areas. In 1998, 2% of the rural population and 24% of the urban population had a telephone. By 2004, telephone ownership in rural areas had climbed slightly to 10%, but had risen much more dramatically in urban areas to 53%. These figures might priority areas for government's future interventions³.

With regards to inequality, Table 3 shows that Gini index is consistently higher in urban areas than in rural ones. However, the Gini index has increased modestly in rural areas, but slightly decreased in urban areas, so that rural inequality is moving closer to the level of urban inequality. A part of explanation for the former may be found through the migration channel: rural-to-urban migration has increased substantially since Vietnam embarked on the course of economic reforms, and Nguyen Thu Phuong *et al.* (2006) found that while it has a strong positive impact on household expenditures, it also increases the Gini coefficient of per capita household expenditures in *origin* areas compared to the no-migration case. Analysis of the Theil L inequality index, which has an attractive property of being able to be decomposed into a within group component and a between group component, provides further insights into sources of the rise in overall inequality. In the 1993-1998 sub-period, 96 percent of the increase in inequality in Vietnam could 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. However during the 1998-2004 sub-period only 39 percent of the increase in inequality in Vietnam could be attributed to an increase in inequality between rural and urban areas, while 61 percent was due to an increase in inequality within rural or urban areas. And the figures for the whole 1993-2004 period attributes 61% of the increase in inequality to between-region inequality and 39% of the increase to increases in inequality within either rural or urban areas (see Appendix 4 for more details). In short, during the 1993-2004 period, the rise in overall inequality has been mainly driven by the increase in inequality between rural and urban areas, although latter has been losing its relative importance in overall inequality change towards present time.

Table 3. Gini Index for Per Capita Expenditures

³ Urban-rural gaps in favour of the former may well be overstated, given the above mentioned missing of migrants, who tend to have limited access to basic social services from the sampling frame.

	1993	1998	2002	2004
Vietnam	0.34	0.35	0.37	0.37
Urban	0.35	0.34	0.35	0.33
Rural	0.28	0.27	0.28	0.30

In short, the rural-urban gap has been consistently growing, be it measured by expenditures or social indicators. This indicates an area for policy interventions.

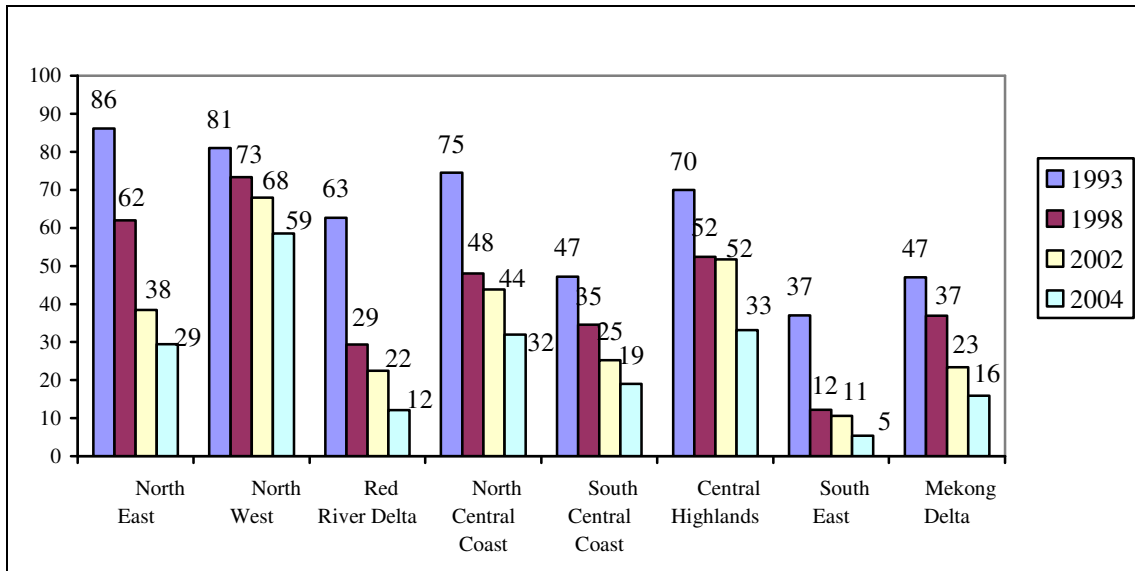
2.2. Regional Disparities in Poverty and Inequality

The eight regions in Vietnam may be classified by poverty status into three groups: poor, middle and well-off. Figure 7 shows the poverty rate has been consistently high in the first group, including the North West, the Central Highlands, and the North Central Coast. In the Red River Delta and the South East, on the other hand, the poverty incidence is now quite low. Between these poor and better off groups lies a middle group of regions that includes the North East, the South Central Coast and the Mekong River Delta.

The rate of poverty reduction has varied considerably across regions during the 1993-2004 period. The best performer was the North East, where the incidence of poverty fell from 86% in 1993 to 29%, a reduction of 57 percentage points over 11 years. Notably, the incidence of poverty was halved over the 6-year period 1998-2004 in this region.

There was similarly rapid poverty reduction in the Red River Delta region, where the incidence of poverty fell by 51 percentage points during the same period. The poverty incidence of the region in 2004 was less than one fifth of that in 1993, a really remarkable achievement. Most of the reduction in poverty in the Red River Delta took place during the 1990s, while the recent progress has been more moderate.

Figure 7. Regional Poverty Rates 1993-2004



Source: GSO

The North Central Coast and the Central Highlands also did relatively well, with a reduction in the poverty headcount of 43 and 37 percentage points respectively, both ended up with similar poverty rates of 32% and 33% in 2004. However, like Red River Delta, most of the reduction in the North Central Coast took place in the 1990s and the recent progress is more moderate. Poverty reduction in the Central Highlands appears to have accelerated in recent years, perhaps a result of the upswing in coffee prices.

The South East, the South Central Coast and the Mekong River Delta all had similar percentage-point reductions in poverty. In the case of the South East, which started with a lower poverty headcount, much of the poverty reduction was achieved during the 1990s. By 2004 the poverty headcount was only 5 percent.

The pace of poverty reduction has been slowest in the North West. With a drop of only 22 percentage points over the 11-year period, this region remains the poorest part of the country, with a persistently high poverty incidence of 59%. All regions, except the North West, have achieved the Millennium Development Goal by halving (or more) extreme poverty over just 11 years.

These changes have resulted in spatial distribution of poverty in 2004 as presented in Table 4, which shows how the poor population is spread across the country. The North Central Coast is the largest pocket of poverty, followed by the North East, the Mekong River Delta and the Red River Delta. The Central Highlands, the North West and the

South Central Coast have similar shares of the poor population of slightly below 10%, while South East's poverty share is below 5% although this region is home to more than 15% of the total population.

A number of studies have used the panel datasets of VLSS 1993 – VLSS 1998 and VHLSS 2002 – VHLSS 2004 to study the poverty dynamics of rural households in Vietnam during two sub-periods 1993-1998 and 2002-2004. These suggest that geographical location has affected changes in household's poverty status in terms of poor households escaping poverty or non-poor households falling into poverty. In particular, analysis suggests that during these sub-periods, households who lived in the South East, the Red River Delta and the Mekong River Delta had more chance of escaping from poverty than those who had a number of similar characteristics (ethnicity, education, occupation, demography, access to infrastructures etc.), but lived in the North Central Coast, where market opportunities are more limited than in above mentioned regions. (Vu Hoang Dat *et al.* 2006)

Table 4. Regional Shares of Poverty in 2004

	Share of poverty	Unit: percent Share of population
Northern Mountains	26.1	14.4
North East	17.2	11.4
North West	8.9	3.0
Red River Delta	13.6	21.8
North Central Coast	21.1	12.9
South Central Coast	8.3	8.6
Central Highlands	9.6	5.7
South East	4.4	15.9
Mekong Delta River	17.0	20.9
Total	100.0	100.0

Source: GSO

Table 5 shows how the poverty gap changed over time. North West has the highest level of poverty gap and has shown slowest progress. Though still high, poverty gap in Central Highlands has been reduced quite substantially. The poverty gap has reduced quite rapidly in other regions, where poverty is becoming quite shallow. Red River Delta and South East in particular managed to reduce poverty gap by nine times, so that in 2004 most remaining poor people in these regions are relatively close to the poverty line.

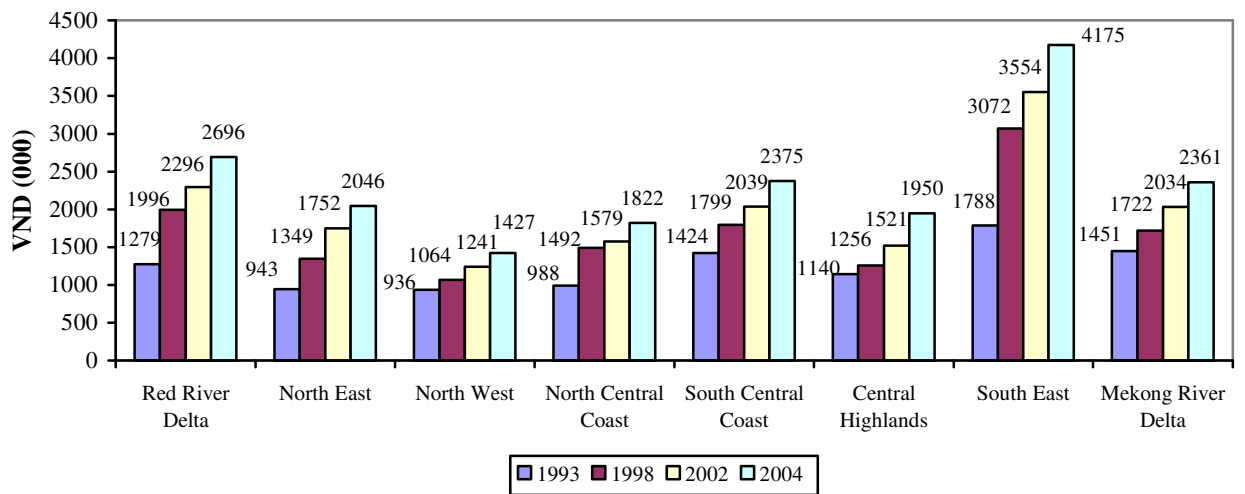
Table 5. Regional Poverty Gap 1993-2004

	Unit: percent			
	1993	1998	2002	2004
Whole country	18.5	9.5	6.9	4.7
Northern Mountains	29.0	18.5	12.3	9.5
North East	29.6	17.6	9.6	7.0
North West	26.2	22.1	24.1	19.1
Red River Delta	18.3	6.2	4.3	2.1
North Central Coast	24.7	11.8	10.6	8.1
South Central Coast	17.2	10.2	6.0	5.1
Central Highlands	26.3	19.1	16.7	10.6
South East	10.1	3.0	2.2	1.2
Mekong Delta	13.8	8.1	4.7	3.0

Source: GSO

In terms of inequality, although all regions have benefited from relatively high economic growth, the rates of the growth of real per capita expenditure vary substantially between regions. In the South East, the North East and the Red River Delta, per capita expenditures grew by as much as 133%, 117% and 111% respectively over the 1993-2004 period. Meanwhile, the rate of growth of per capital expenditures in the North West, the Mekong River Delta and the South Central Coast were much lower, at 52%, 63% and 67% respectively. As a consequence, the gap in per capita expenditures between the best performing regions and the most backward one has widened. While in 1993, per capita expenditures in the South East and the Red River Delta were respectively equal to 1.91 and 1.37 times of that in the North West, these ratios rose to 2.93 and 1.89 respectively in 2004 (Figure 8). Overall, Le Van Chon *et al.* 2006 finds that regional per capita expenditures have been diverging across regions between 1993 and 2004, although there is some convergence between 2002 and 2004.

Figure 8. Real Per Capita Expenditure by Region, 1993-2004 (VND thousand, in January 1993 prices)

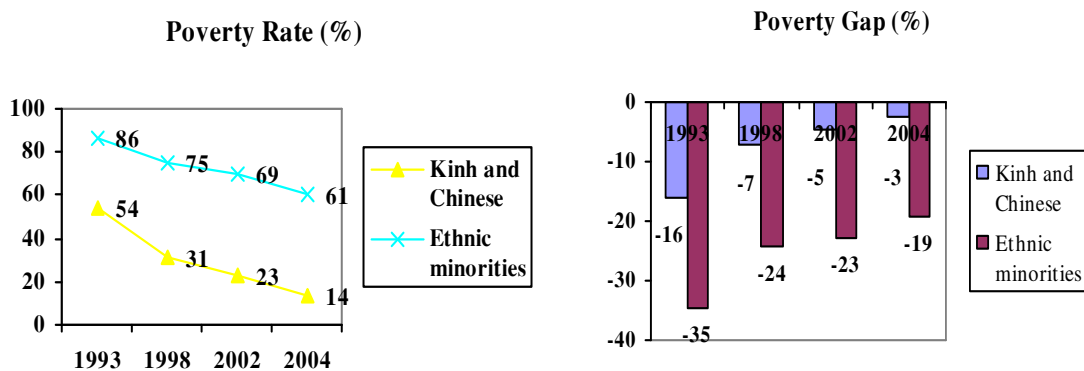


Source: Constructed based on VLSS 1993, VLSS 1998, VHLSS 2002 and VHLSS 2004

2.3. Ethnicity Disparities in Poverty and Inequality

It has become a major concern Viet Nam that ethnic minorities are participating less and benefiting inadequately from the growth process, which may jeopardise the sustainability of development. According to VHLSS04 data, there are slightly over ten million of non-Kinh, non-Chinese ethnic people in Viet Nam, accounting for 12.6% of total population, but 39.3% of poor population.

Figure 9. Poverty by Ethnic Groups 1993-2004



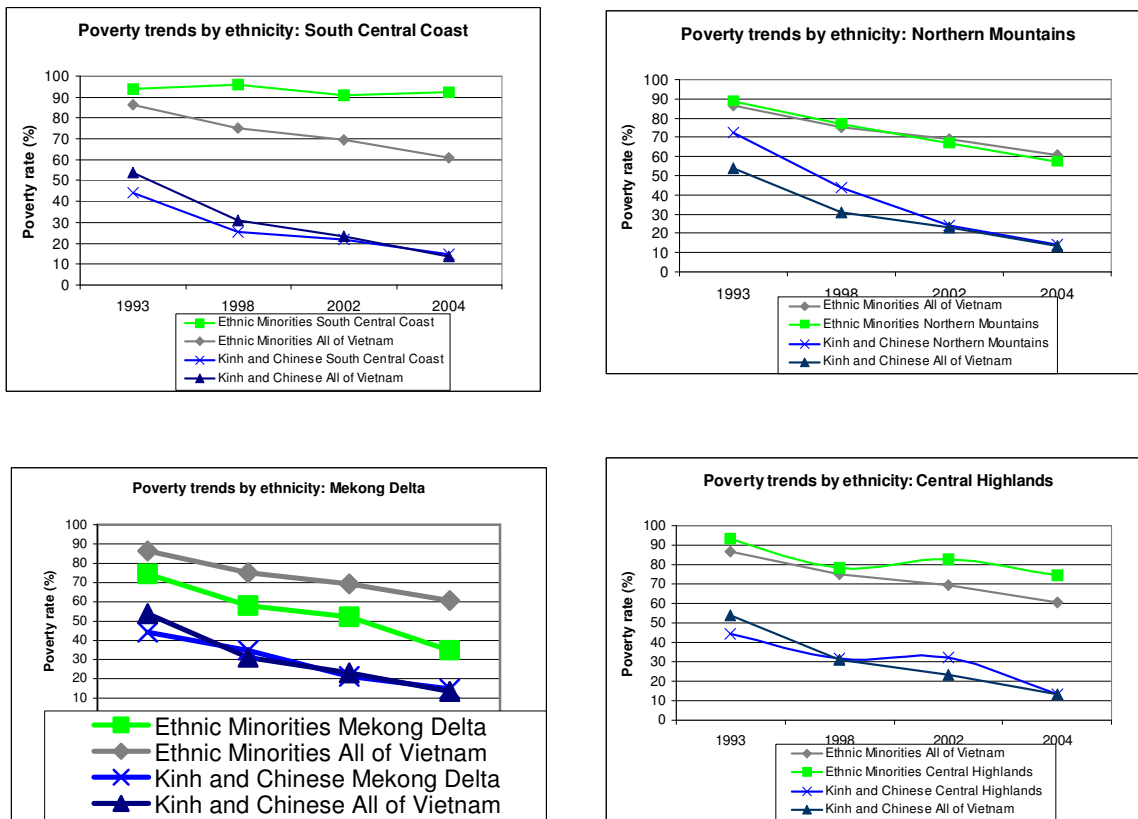
Source: GSO

The left panel of Figure 9 shows that although poverty reduction for ethnic minorities is evident, by 25 percentage points over the period 1993-2004, it has been much slower than

the pace for the Kinh-Hoa group. As a consequence, the absolute difference in poverty rate between the Kinh-Hoa and ethnic minorities has been increasing, from 32.5 percentage points in 1993 to 47.2 percentage points in 2004. In 2004, poverty rate for ethnic minorities was 61%, which is approximately 4.5 times poverty rate for the Kinh and Hoa. Ethnicity has consistently influenced a household's likelihood of escaping poverty during the period that can be analysed with panel data: a household from the Kinh-Hoa group was more likely to escape from poverty than an otherwise similar household from ethnic minorities (Vu Hoang Dat *et al.* 2006).

The under-performance in terms of poverty reduction by ethnic minorities as compared to the Kinh-Hoa group (Figure 10) is consistent across all the regions where the former live. Hoang Thanh Huong *et al.* 2006 finds that even if the minorities are living together with the majority in the same small areas, namely communes, they still find it difficult to catch up with the Kinh-Hoa group. It also finds that the minorities living in communes that have the minorities only are in a disadvantaged position, and have stagnant living standards which lie behind their counterparts living in mixed communes. These may raise an interesting question: given the high concentration of ethnic minority people in regions that are lagging behind, how much of the lack of regional convergences (poorer regions growing more slowly than richer ones) as observed in numerous studies (Nguyen Thi Tue Anh and Klump 2004) can be explained by ethnicity disparities and how much is due to purely geographical factors. Policy interventions may be very different, depending on whether the former or the latter dominate the observed growing regional disparities.

Figure 10. Poverty Trends by Ethnicity across Regions



In absolute terms, there are now as many as 6.2 million ethnic minority people who are poor, while there are 9.5 million Kinh and Hoa living in poverty. The food poverty rate for ethnic minorities has been persistently higher than 30% and in 2004, there are about 3.5 million ethnic minorities living in food poverty as opposed to 2.5 million food poor in the Kinh-Hoa group.

The right panel of Figure 9 shows that ethnic minorities also failed to keep pace with the Kinh-Hoa group in terms of reducing the depth of poverty. On average, a poor person from Kinh-Hoa group is short of the poverty line by VND395 thousand or by about 20% of the poverty line, while these figures for an average poor person from ethnic minorities are VND 665 thousand and 33% respectively. The gap in per capita expenditures between the Kinh-Hoa group and ethnic minorities has also widened: while in 1993, the average per capita expenditure of a Kinh-Hoa household was equal to 1.72 times of that of ethnic

minority household, this ratio rose to 2.15 in 2004. This has been a consequence of large disparities in the growth rates of real per capita expenditures between the Kinh-Hoa group and ethnic minorities during the 1993-2004 period, with the former growing at 98% and the latter at only 58%. Hoang Thanh Huong *et al.* 2006 and Nguyen Thi Minh Hoa 2006 decompose this expenditure gap into two parts with the first one being explained by differences in household specific endowments such as demography, education, land possession etc. and the remaining part, being household-specific returns *and* location effects⁴. It is found that household specific endowments differ between the majority and minority people and the differences appear to increase over time. In 2004, these differences explain only 18% of the difference in per capita expenditures in the whole of rural Vietnam, but account for 51% of the gap in mixed communes where both the minority and majority people live. The analysis supports the view that location, which can be considered as a community level endowment of household is an important obstacle to increased well being for the minority people. Improving household specific and community level endowments of ethnic minority people and their returns, particularly in communes uniquely populated by minorities would therefore be needed.

Figure 11. Real Per Capita Expenditure by Ethnicity, 1993-2004 (VND thousand, in January 1993 prices)



Source: Constructed based on VLSS 1993, VLSS 1998, VHLSS 2002 and VHLSS 2004

Ethnic minorities also considerably lag behind the Kinh-Hoa group in all social indicators (Appendix 3). While the gaps in access to electricity, possession of TV and motorbike are narrowing substantially, they are still large and even widening with regards to access to clean water, sanitation and possession of a telephone. In particular, in 2004, only 4% of

⁴ Location should however be considered as part of the household endowment, although it is not totally household specific.

ethnic minority people have access to sanitation and 19% to clean water, as opposed to 36% and 63% respectively for the Kinh-Hoa group. This may suggest priority areas for Government's interventions.

3. What Factors Have Contributed to Fast Poverty Reduction?

This section aims to make a first attempt to explain why poverty reduction in Vietnam has been so rapid and so sustained over a long period of eleven years. Rapid economic growth and the pro-poor and equitable pattern of growth are arguably the main drivers of Vietnam's impressive achievements in reducing poverty. Digging deeper, the rate and pattern of growth are explained by a number of factors, which in particular include market-oriented reforms, greater geographic and occupational mobility, and progressive and pro-poor redistributive policies that have taken place since Vietnam embarked on the Doi Moi course.

3.1. Reform-Induced Rapid Economic Growth

Accelerated domestic reforms, the resultant large flows of FDI and ODA, and more favorable external conditions have reinforced each other to help Vietnam achieve relatively rapid and sustained growth over a long period since the early 1990s. Indeed, with average GDP and per capita GDP growth rates of 7.7% and 6.2% respectively over the period 1993-2004, Vietnam is considered to be one of the best performers in the world in terms of economic growth. Rapid economic growth is arguably the main driver of fast poverty reduction in Vietnam

Behind the whole progress in rapid economic growth and fast poverty reduction in Vietnam has been a series of economic reforms in the course of Doi Moi. First, the political Resolution 10 adopted in April 1988 has had a profound, long-run effect on poverty by promoting a private economy in agriculture, on which over seventy percent of population depends. Moreover, under the authority of the Resolution 10, the distribution of lands was relatively equal relative to the size of the farming household. Food production, which was essential for poverty reduction over the 1990's, increased from 19.5 million tons in 1998 to 21.7 million tons in 1991, 32.1 in 2001 and 39.5 million tons in 2005. Such a rate of growth in food production was unprecedented in the country's recent history. This has

helped Vietnam to reduce food poverty substantially, particularly among the Kinh-Hoa group.

The Land Law of 1993 has also played a substantive role in reducing poverty. Thanks to the Land Law, the Land Use Rights (LUR) can now be legally transferred, exchanged, mortgaged and inherited. According to Ravallion and van de Walle (2006), there is evidence that land allocation has become more efficient since the 1993 Land Law. Even though many policy makers are concerned about increasing rural landlessness and the greater poverty rate among the new rural landless, Ravallion and van de Walle “find no sign that rising landlessness has undermined the gains to the poor from the relatively equitable assignment of land-use rights achieved at the time of de-collectivization.”.

The Enterprise Law, which came into effect in January 2000, is believed to have led to massive registration of new enterprises. According to MPI statistics, over the four-year period 2001-2004, about 102,000 new enterprises with over VND 187 trillions in capital were registered. Partly driven by Government’s commitment to integrate into the world economy, the business environment has gradually improved. In 2003–2004, a set of important legal documents were issued that included the Decree on the guidelines for the implementation of the revised Law of Foreign Investment, the Decree on the conversion of foreign investment enterprises to joint stock companies, and other legal document changing administrative procedures with a view to gradual application of world trade norms in Viet Nam.

The abolition of the state monopoly on trade as a result of trade reform and opening-up the economy since 2000, combined with alignment of the official exchange rate with its market parallel and deeper integration into the world economy all served to boost exports of Viet Nam’s agricultural and other labour-intensive products. The country’s intensified efforts to integrate deeper into the world since 2000 contributed further positive outcomes in terms of economic growth and poverty reduction. The implementation of the Viet Nam-US Bilateral Trade Agreement (BTA) in December 2001 has enhanced the momentum of the expanding economy of Viet Nam. The employment in foreign investment enterprises increased by 16.5% in 2002, 24.5% in 2003 and 23.5% in 2004. The employment growth in enterprises that export goods to the US has been even more rapid, growing at 17.8% in 2002, 32.1% in 2003, and 37.5% in 2004 (Agency for Foreign Investment and STAR Project, 2005). The impact of the BTA is strong not only on exports, but also on the flow of investment in Viet Nam.

Thanks to these accelerated economic reforms, the flows of foreign direct investment (FDI) have been growing in recent years. The total capital of all FDI enterprises operating at the end of September 2004 is about \$26 billion and is an important component of export and growth. FDI enterprises offer large amount of good employment⁵. The competition between Asian countries and between Viet Nam's provinces for the inflow of FDI has been a factor in driving public administration reform⁶. Vietnam's commitments to market oriented reform and its impressive achievements in economic growth and poverty reduction have resulted in substantial increases in overseas development assistance. Foreign governments and international organizations have supported the reforms in Viet Nam and committed over twenty billion of US dollars of Official Development Assistance (ODA). From 1993 to 2004, over \$14 billion of ODA has been disbursed, out of total commitments of nearly USD 29 billion (Source: www.mpi.gov.vn). The ODA funds have been very helping not only in developing infrastructure, but also in capacity building, improving the system of public administration and further improvement of investment environment.

3.2. Pro-poor Pattern of Growth

International experience suggests that economic growth does not always lead to poverty reduction. There are cases where countries were unable to reduce poverty despite achieving fairly high rates of growth in per capita income. Thailand (in the 1980s), Malaysia (in the 1990s) and Sri Lanka (in the 1990s) are examples of such a failure (Pasha and Palanivel 2004).

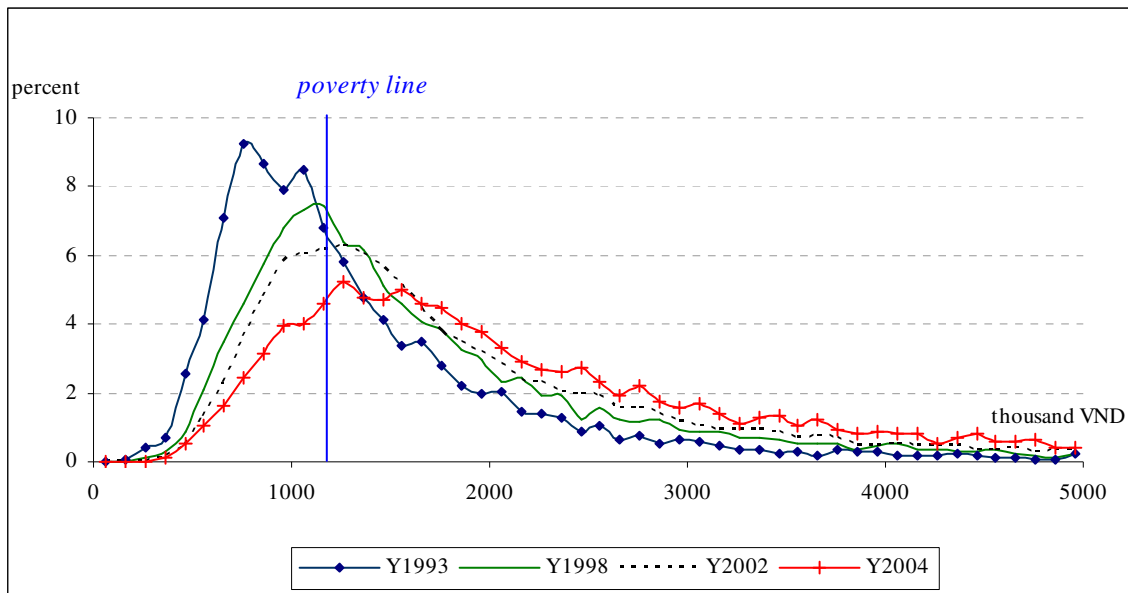
Therefore, a relatively strong association between rapid economic growth and fast poverty reduction, implying a strongly pro-poor pattern of growth in Vietnam is widely considered to be a great success. The growth elasticity of poverty reduction, a widely

⁵ According to Enterprise Survey (GSO, 2004), at the end of 2003, there were 860 thousand of employees in the foreign investment enterprises (FIEs), of whom nearly 688 thousand worked for the hundred percent foreign investment enterprises. Moreover the average wage in the FIEs is relatively high. The Survey data indicate that in 2003, average wage of FIEs' employees was 1,774 thousand VND per month. Among them, the joint-venture employees received as much as 2,849 thousand VND per month, while those in the hundred percent foreign investment enterprise received 1,494 thousand VND per month and that is substantially higher than that in domestic part of economy.

⁶ Malesky 2004 studied 61 provinces of Vietnam between 1990 and 2000 and found strong evidence for the impact of FDI on the effort of local authorities in application of economic reform experiments, which were incompliant to the regulations by the central government. The author realizes the existence of "the role existing investors have in shaping domestic institutions and policy".

used measure of connection between economic growth and poverty reduction, is estimated at 0.95 for 1993-1998 and 1.32 for 1998-2004 periods (see Appendix 1 for more details), and can be considered as highly pro-poor pattern of growth in Vietnam as compared to other the 30-year experience in Asian countries (See Table 3 in Pasha and Palanivel, 2004). The direct and most important reason for the pro-poor pattern of growth is the stability of the income distribution as measured by the consumption-based Gini coefficients, which is moderate if compared to that of other countries (Table 2). This consistently moderate inequality in its turn can partly be explained by the combination of the structure of livelihoods for the bulk of the poor population (that is, largely agriculture-based) and the relatively even land distribution that has meant that most Vietnamese farmers have possessed land assets in the recent past. There are also other factors explaining the pro-poor pattern of growth. For example, in Figure 12, high distribution density at the left side of the poverty line indicates that in 1993 there were many poor households whose expenditures were just short of the poverty line. Had there been less poor households whose incomes had just been below the poverty line, the effect of the growth would have not been so strong.

Figure 12. Distribution of Per Capita Expenditures
(Money values are in January 1993 price)



Sources: GSO, Household Surveys 1993 to 2004

There have been also other important factors that explain the stability of income distribution as well as the pro-poor pattern of growth. These factors have direct policy relevance and therefore will be treated at greater length in the following sections. Investigating the changes in the growth elasticity of poverty reduction reveals patterns of

interest to future policymaking: a one percent increase in GDP per capita has led to drop in poverty rate by 0.55 and 0.49 percentage points for the two sub-periods 1993-1998 and 1998-2004 respectively, indicating that over time a higher rate of growth in GDP per capita is required to reduce the poverty rate by one percentage point. This in turn confirms a well-established fact that the fight against poverty becomes harder at lower incidences of poverty.

3.3. Pro-poor Public Spending and Investments in Infrastructure

Public spending is an important instrument of the Government to achieve objectives it sets. Data suggest that public spending in Vietnam is generally progressive and one factor that supports growth to be more pro-poor and developmentally inclusive. The pro-poor pattern of public spending is evident from regional data as presented in Table 6 and provincial data as graphed in Figure 13, which both show a positive association between poverty rates and net transfers across regions⁷ or provinces in Vietnam⁸. The relatively prosperous regions are making contribution and the poor regions are consistently receiving funds from Central government. The transfers are significant for some provinces and regions. In particular, for the North West, the per capita transfer in 2003 and 2004 are as much as two thirds of the poverty line. The Central Highlands has the second highest per capita transfer in 2002 and 2003. The significance of this transfer during the two years prior to the 2004 survey (which shows an acceleration of poverty reduction in this region) may have been an explanatory factor behind the progress in poverty reduction of this region.

Table 6: Budget transfers⁹ per capita 1999-2004 by regions

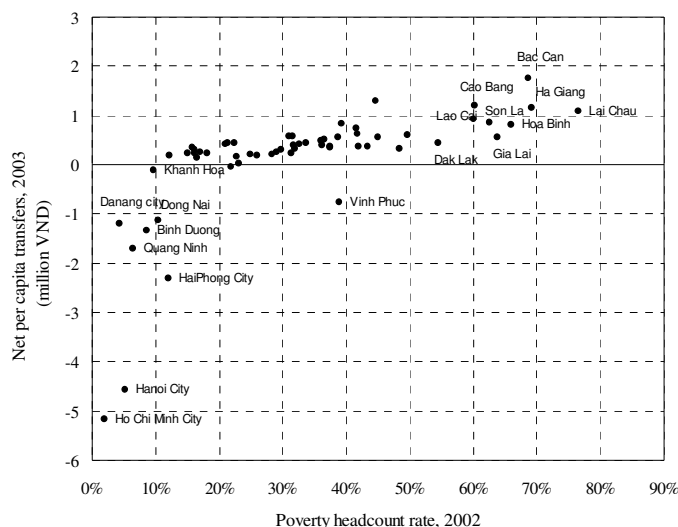
Regions	Unit: VND thousand					
	1999	2000	2001	2002	2003	2004
Red River Delta	-598	-663	-733	-894	-945	-1,150
North East	196	270	377	446	645	662
North West	453	548	730	822	1,425	1,431
North Central	77	241	330	330	306	271
South Central	-121	-13	-44	-179	-367	-142
Central Highlands	217	334	505	622	659	626
South East	-3,243	-4,290	-4,529	-4,933	-5,699	-5,676

⁷ Correlation coefficient between average per capita transfer for the period 1999-2004 derived from Table 6 and regional poverty rates in 1998 as in Figure 7 is as high as 0.82

⁸ These transfers include spending under the poverty targeting programmes - National Targeted Program for Hunger Eradication and Poverty Reduction (HEPR) and Program 135, which amounts to roughly two percent of GDP. More details about these programmes including assessments of effectiveness and impacts of their various components can be found in World Bank 2004.

⁹ Negative means that region is net contributor to central budget

Figure 13. Provincial Poverty Rates in 2002 and Net Government Transfers To and From Provinces in 2003



Source: Hansen and Le Dang Trung (2006)

Together with large and progressive (and pro-poor) inter-provincial transfers, redistribution at the household level also appears to have been pro-poor. A most recent study, which is presented in Hansen and Le Dang Trung 2006, carries out an incidence analysis of social transfers which are defined to include social insurance, social assistance and education fee exemptions, using the household surveys 2002 and 2004 VHLSS and finds that the absolute value of the transfers mostly benefit the poorest quintile (although also the richest quintiles). Results of their analysis indicate that the social transfers had sizable effects on the poverty levels in 2002 and 2004¹⁰ and, furthermore, provided significant protection against falling into poverty.

The education sector has received a high and increasing share in public spending: the share of the budget spent on education rose from 14.0% in 1994 to 18% in 2005, reaching 5.6% of GDP, higher than the average level of Asia¹¹. And it is set to grow more; government targets suggest that 20% of the budget expenditure in 2010 should be spent on education. Public spending on education, particularly for primary schooling is

¹⁰ This study finds that in the absence of social transfers poverty would have been about 10-11 percentage points higher both in 2002 and 2004, and 1.7 percent of the population who are non-poor both in 2002 and 2004 would instead have fallen into poverty between 2002 and 2004 in the absence of social transfers

¹¹ The average level of Asia is 3.8% of GDP (SRV 2006).

progressive in the sense that poorer households receive larger share of the subsidy than richer households (World Bank 2005). Spending on primary and lower secondary school reached 53% of total educational expenditure¹². ODA projects in education and training concentrated mainly on basic education (primary, lower secondary and upper secondary school). Targets for education and training development were clearly stated in the Development Strategy for Training and Education 2001-2010; the National Action Plan of Education for All 2003-2015; the National Targeted Program on Education and Training 2001-2010; the Five Year and annual Socio-Economic Development Plans; and the National Assembly resolutions on reforming textbooks and universal lower secondary education. The government consistently pursues the “education for all” policy, particularly universal primary education. Policies have also been implemented to assure equal access to education, especially for ethnic minority children and children living in disadvantageous socio-economic conditions, giving priority to disadvantaged regions through special programs. The Ministry of Education and Training has experimented with alternative primary school models appropriate to the economic conditions of the difficult regions. The Government also issued education state bonds to assist mountainous provinces, the Central Highlands and other poor provinces to eliminate three-shift schools and replace temporary classrooms in the year 2005 (SRV 2005).

The data from household surveys also revealed that health insurance coverage has increased substantially across income groups, and an active redistribution policy through the provision of free health cards in this area is particularly pro-poor: the coverage for the poorest quintile (or poor people, given the poverty rate of 19.5% in 2004) has doubled to make it the second highest coverage among all income groups. This is particularly striking, as health shocks are widely believed to be one of major causes of poverty. Analysing panel data of the latest two household surveys VHLSS 2002 and VHLSS 2004, Vu Hoang Dat *et al.* 2006 in particular finds that an increase in the number of out-patient health treatment reduces household’s chance of escaping poverty.

Table 7. Health insurance and free health care card – expenditure quintiles

Regions	1998	2004	
	Percentage of people having health insurance	Percentage of people having health insurance	Percentage of people having health insurance plus free healthcare card
Poorest	6.22	22.69	41.81
Near poorest	9.67	23.22	30.43

¹² Analysing panel data VHLSS 02 – VHLSS 04, Vu Hoang Dat *et al.* 2006 finds that household having head with educational attainment at the lower secondary school would have a better chance of getting out of poverty.

Middle	13.59	26.15	31.37
Near richest	20.18	34.41	38.22
Richest	28.99	44.12	46.70
Total	15.73	29.53	37.56

Source: Estimates from household surveys VLSS 1998 and VHLSS 2004

Considerable investment in infrastructure is widely believed to have contributed to raising people's welfare and to reducing poverty. The lack of infrastructure is recognized as a major reason for the high rate of poverty in the rural and remote isolated localities, and good efforts have been made in this area to promote more inclusive development in Viet Nam, rather than leaving part of population disconnected from the mainstream of economic growth. Two types of infrastructure have been developed to maximize the network effect: (i) large-scale infrastructure with a view to creating the broader foundations of integration with markets and job creation, embodied in national roads, bridges, ports and electricity transmission lines; and (ii) small-scale infrastructure in the poorest communes to improve local social and physical infrastructure.

International donors, such as the Government of Japan, the World Bank, the ADB, the Government of Australia, and others have been providing ODA funds for large-scale infrastructure projects. The Government of Viet Nam has been providing substantial resources through a national targeted program for especially disadvantaged communes (often referred to as Program 135) which provides basic infrastructure in these communes. These investments include electrification of villages, development of roads usable by vehicles, building schools and health clinics, small-scale irrigation, market places, clean water supply and upgrading roads that link poor regions and poor communes with more developed centers. From 1999 to 2004, public investment of around VND 8.9 trillion was disbursed for communes included on the list of disadvantaged communes. By the end of 2004, using different sources (ODA, private investments, contributions of individuals, organizations and beneficiaries etc.), these communes managed to complete and begin operating more than 22,000 infrastructure projects. Infrastructure in the disadvantaged communes has improved substantially as a result. Program reports suggest that 90% disadvantaged communes have access to electric power, a broadcasting station, primary school, nursery school and kindergarten, small-scale irrigation; 97% communes have vehicle-passable roads to the commune centre; 100% communes have health clinics; 100% districts have upper secondary schools.¹³

¹³ Data are provided by Committee of Ethnic Minorities and Mountainous Areas

Results of econometric analysis of household survey VHLSS 2004 done by Le Thuc Duc *et al.* 2006 indicate that the availability of rural roads to communes is one of significant factors determining per capita expenditures in 2004. This is consistent with a number of earlier studies done on Viet Nam. The GRIPS Development Forum (2003) studies the impact of the Japan funded large scale infrastructures of National Highway No.5 and rehabilitation of Hai Phong Harbor and come to the conclusion that “development within the provinces of Hung Yen and Hai Duong where Highway No.5 extends, showed better results than the other provinces of the Northern area. The increase of income per capita is conspicuous, due to the diversification of agricultural products, the promotion of access to the large markets of Hanoi, the increase of foreign direct investments, advanced industrial structures.” Likewise “the rehabilitation of Hai Phong Harbor has contributed to the economic development of northern area of Viet Nam” and therefore has an impact on poverty reduction in the areas nearby.

An evaluation of a World Bank-funded rural road rehabilitation project in Viet Nam finds that the strongest positive impact was for the poorest households (van de Walle and Cratty 2002). In particular, the time savings to reach habitual places of destination were highly significant for the poorest 40% of households.” Pham, Rama, and Larsen (2004) conduct a systematic appraisal of the impact of the investment in large-scale infrastructures made over the period from 1996 to 2000 in Viet Nam’s Public Investment Program. Their results “show that spending one additional point of GDP in infrastructure has led to a proportionate reduction of the poverty rate by roughly 0.5 percent. The impact is larger in poorer provinces. Poverty alleviation impacts are stronger in the case of transport investments, and even more so in the case of water and sanitation investments. Investments in energy are likely to have less geographically concentrated poverty alleviation impacts.” Most recently, using the panel dataset constructed from VHLSS 2002 and VHLSS 2004, Vu Hoang Dat *et al.* 2006 find that having access to a permanent road, a lower secondary school and extension services centre at the village level raised chance of households from ethnic minorities of escaping poverty while access to electricity at the household level, and to upper secondary school, health care centre and permanent road at the village level increased probability of escaping from poverty for Kinh-Hoa household.

Moreover, the merits of infrastructure may go well beyond what can be assessed after a short run. For Viet Nam, the insufficient connection of some parts of economy to the rest may result in longer term social isolation. This problem will not be solved by private market. Better provision of infrastructure will allow greater exchange of goods and services, information and culture between the North West, the Central Highlands with the

other parts of economy. The long-run economic and social benefits are likely to be high, preventing an increase in regional and ethnic inequalities.

The State allocated a considerable amount of public funds totaling VND 21,000 billion to the Hunger Eradication and Poverty Reduction (HEPR) Program during the period 2001-2005. This Program aimed to improve the access of the poor to credit and other production support services, as well as to basic social services. The Program's components on health and education subsidies for the poor have arguably contributed to the improvements in well-being of the poor (MOLISA-UNDP 2004). The Motherland Front and mass organisations such as Women Union, Farmers' Association, Veterans' Association etc. also provided direct support to the poor. Although insignificant in absolute terms, this support has strengthened political and public support through accompanying communication activities, including those through the media.

3.4. Increased Geographic and Occupational Labour Mobility

Greater geographic mobility has been an important achievement of the Doi Moi reforms, not simply from an economic perspective. More Vietnamese have permission to go out of the country for work, to study, for family reunification, and other reasons. The economic impact of the emigration is significant. For instance, the remittances from overseas Vietnamese have also been increasing steadily and are estimated at USD 2.6 billion in 2003 and USD 3.2 billion in 2004¹⁴. Though important in terms of contribution to the country's GDP as well as other benefits, the direct poverty impact of international migration appears to have been negligible. Indeed, our analysis of the VHLSS 2004 finds that average overseas remittances per household for the poorest expenditure quintile (they can be classified as the poor, given the poverty rate of 19.5% in 2004) was as low as VND 99,000 as opposed to VND 3,153,000 for the richest group.

On the contrary, a number of studies confirm the significant importance of internal migration for poverty reduction. Dang Nguyen Anh (2005) suggests it "represents a livelihood strategy for most rural households. In this way, the flow of remittances is not a random by-product of individual migration, but an integral part of a family strategy behind migration - a livelihood strategy for poor people". Nguyen Thu Phuong *et al.* 2006 finds that migrants tend to move from provinces with low GDP per capita levels, low Human Development Index (HDI) and high underemployment rates to provinces

¹⁴ Source: Ministry of Planning and Investment's News: www.mpi.gov.vn/showTinvan.aspx?lang=4&ma_tinvan=10052

with high GDP per capita levels, high HDI and low underemployment rates (Table 8). This suggests that internal migration is likely to be an important channel for achieving more balanced regional development. The remittances sent by internal migrants' are often significant for the households of origin. A recent survey in poorer provinces of Thanh Hoa and Nghe An has confirmed the importance of migration for the livelihood of the sending households and community (Nguyen Thang 2005). In particular, 85% of respondents said that there had been many people in their community working away from home (mostly in other provinces) and 36% of them said that migration had helped to substantially raise incomes of the sending households.

Table 8. Net migration flows from respectively to the most important origin and destination areas, 2002-2004

Province	Net migration (persons) 2002- 2004	Migration rank 2002- 2004	Migration rate (%) [*]	GDP per capita** ('000 VND/head) 2002	Rank of GDP per capita 2002	Rank of HDI 2002	Under- employment rate (%) 2002	Rank of under- employment 2002
5 most destinations								
Ho Chi Minh	210,237	1	3.84	11,621	2	3	6.48	61
Hanoi	148,063	2	5.05	8,410	3	2	22.63	50
Binh Duong	40,761	3	5.18	6,643	4	6	17.55	57
Quang Ninh	5,248	4	0.5	4,897	10	10	17.64	56
Da Nang	3,941	5	0.54	5,916	6	4	15.77	58
5 most origins								
Thanh Hoa	-37,848	64	-1.07	2,579	41	35	79.62	5
Nam Dinh	-27,482	63	-1.42	2,653	38	17	73.06	12
Thai Binh	-23,350	62	-1.28	2,809	32	12	79.89	4
Ha Tay	-19,723	61	-0.8	2,771	33	24	31.03	43
Quang Nam	-17,455	60	-1.23	2,525	42	25	71.53	17

Source: GSO (2006) cited in Nguyen Thu Phuong *et al.* 2006

Migration and associated total remittances may provide an explanation for a loose linkage between regions' economic growth and the change in poverty incidence. In fact, some

regions do not perform very well economically, but have reduced the incidence of poverty more than the economic development data would imply. The significance of the impact of internal migration on poverty in recent years is clear from Box 1.

Box 1. How Important are Migration and Remittances for Incomes of Receiving Households and for Poverty Reduction?

Remittances have become an increasingly important source of household's income, sharing between 4% and 11% of total income in 2004 depending on geographical region. The figures in the last column of Table 9 indicate that in North Central, South East and Mekong Delta, the total remittances count for as much as ten percent of total income of the surveyed households. The North West and Central Highlands have relatively low remittances and that could have been a factor behind the severity of poverty in these regions. This may suggest that remittances may have changed the poverty status of numerous households.

Table 9: Significance of Remittances in Regions

	Average household remittance (VND thousand)	Average household income (VND thousand)	Ratio (1)/(2)
North East	1,556	22,330	6.3%
North West	850	16,891	4.2%
Red River Delta	2,898	26,885	9.9%
North Central Coast	2,224	18,799	9.8%
South Central Coast	2,080	24,387	7.8%
Central Highlands	1,342	24,181	5.2%
South East	5,830	46,850	11.0%
Mekong River Delta	3,178	28,071	9.7%
Vietnam	2,965	28,087	9.0%

Source: Constructed based on VHLSS 2004

If we assume that households used 70% of their remittances for consumption, then the poverty rate in 2004 in Red River Delta, North Central Coast and Mekong Delta would have been as much as 7% higher in the absence of the remittances (see Table 10, column 4 "Difference 1"). Even in the most prosperous region of South East, the poverty rate could have been 9.6%, which is nearly double of what is recorded if the remittances were not counted in expenditure data for the households in the South East.

Table 10 shows that the exclusion of remittances changes the rank of regions in terms of poverty incidence. Without remittances, the (counterfactual) poverty rate in North Central

Coast is higher than that in Central Highlands. Besides, counting out the remittances, the regions of South Central Coast and Mekong Delta would have virtually the same rates of poverty in 2004. The poorest North West is, nevertheless, the only region the remittances made difference in the poverty incidence by no more than one percentage point. This is another evidence for the weak link between the North West region and the rest of the economy.

However, Nguyen Thu Phuong *et al.* 2006 argue that there are two caveats with the use of remittances for measuring the impact of migration on household's welfare and poverty rate. First, any receipts from non-household members that have never been household members in the past are included as well. Second, any receipts from migrants who have been away for some part of the year and who are counted as household members are not included. In other words, the link between these 'remittances' and migration is imperfect, as they include receipts from non-migrants and exclude receipts from migrants who are regarded as household members. They therefore opted for more sophisticated economic technique, which models the link between household's total expenditure and the number of migrants (both the short-term for between 1 and 6 months and long-term – more than 6 months away from home) in the household, controlling for a number of relevant household and community characteristics. On this basis, they constructed "counterfactual" household expenditure in the absence of migration. Building on their model, we calculated "counter-factual" poverty rates in the absence of migration. The results are reported in the last column of Table 10 – Difference 2, which indicate even larger poverty impacts of migration across all 8 regions. The two sets of results produced by the simple and more sophisticated methods are quite similar (with correlation coefficient of 0.6) and more importantly, both point out to the important role that migration has played for poverty reduction in Vietnam. On the other hand, there are still barriers to migration. IWEP *et al.* (2005) finds that migrants are in a more difficult position in the job market. It takes more time for migrant workers than non-migrant ones to find a new job, and therefore they often have to accept unskilled employment with low pay. Migrants earn significantly less than non-migrants, other things being equal. There is a high risk that this group will fall back into poverty. It is therefore important to further relax barriers to migrants at destinations, if Vietnam is to sustain fast poverty reduction.

Table 10: The hypothetical and actual poverty rates in 2004

Regions	Unit: percent		
	Actual rate	Difference 1	Difference 2
North East	29.4	4.6	11.3

North West	58.6	1.0	5.7
Red River Delta	12.1	7.0	15.2
North Central Coast	31.9	6.9	11.1
South Central Coast	19.0	3.7	10.8
Central Highlands	33.1	2.8	7.4
South East	5.4	3.9	3.1
Mekong Delta	15.9	6.2	8.6
Vienam	19.5	5.3	10.1

Source: Constructed based on VHLSS 2004

There have also been substantial occupational changes in recent years. In particular, there has been a notable shift from non-wage to wage employment over the period 1998-2004 (Table 11): the proportion of population who have wage employment increased from 19% in 1998 to 31% in 2004, or by 12 percentage points, which is quite impressive. This increase happened across the board, including in the group of poor people: over a short period of 2002-2004, this percentage rose from 12% to 15% in the lowest expenditure quintile (GSO).

Table 11. Main Job of People of 15 Years and Older

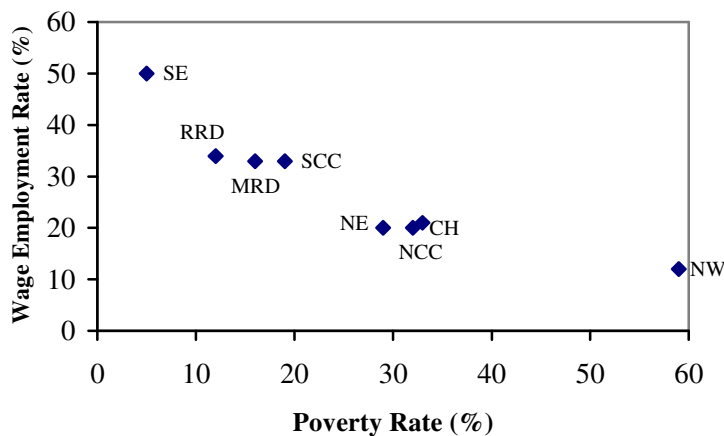
	1998	2002	2004
Wage employment	19	28	31
Working on Own Farm	63	53	50
Working on Own Household Enterprise	18	19	19
Total	100	100	100

Source: GSO

The movement from non-wage into wage employment has clearly contributed to improving incomes of those who managed to do so. The importance of the movement into wage employment for welfare improvements and poverty reduction is also confirmed by a number of studies that use the panel data from VHLSS 2002 and VHLSS 2004. Vu Hoang Dat *et al.* 2006 find that a shift in the employment of the household head from agriculture to sales or non-agricultural production reduces probability of household

falling into poverty. Le Van Chon *et al.* 2006 finds that the marginal value of time at the household or individual level (or what is earned by a non-wage labourer per time unit, for example, per hour) is considerably lower than the actual market wage, which is earned by a wage labourer per hour in both 2002 and 2004, though the gap is being slowly closed¹⁵. This wage gap on the other hand indicates a lack of integration between wage- and self-employment because of the existence of surplus labour in rural areas. The magnitude of the gap indicates that there is still considerable scope to increase the proportion of wage employment even further, if there are policy measures that can address the causes such as barriers to job mobility, lack of job market information, and discrimination. A further shift towards wage employment through the creation of more wage jobs and a better integration of the labour market appears to be a way to increase people's well-being and further reduce poverty. Given a strong negative association between regional wage employment and poverty rates (Figure 14), measures that help to raise wage employment in less developed regions would also reduce regional disparities in poverty.

Figure 14. Wage Employment and Poverty Rates by Region in 2004



Source: GSO

¹⁵ This study also finds that the integration is the strongest in the South East and the Mekong River Delta, and the weakest in the North East, suggesting that the integration of markets for wage and self-employment is local.

4. Sustaining Fast Poverty Reduction: Challenges Ahead and Ways Forward

Vietnam's five-year plan 2006-2010 sets ambitious objectives "... to boost the industrialization and modernization process, avoid the risk of "lagging behind", bring Vietnam out of the less-developing situation and low income group, together with the implementation of the MDGs according to international commitments." (SRV 2006). These objectives are translated into a set of quantitative targets including annual average growth rate of 7.5-8% and higher, creation of jobs for over 8 million labourers over the five years, GDP per capita of USD 1,050-1,100, universal lower secondary school, forest coverage at 42 - 43%, access to clean water for 95% of urban population and 75% of rural population at the end year. It particularly sets an ambitious target of bringing down the poverty rate (according to the new national poverty line, which is equal to VND 200,000 per capita income in rural areas and VND 260,000 in urban areas¹⁶) from 22% in 2005 down to 10 – 11% by 2010, or in other words, halving it over the next five years (SRV 2006). In short, it is envisaged that fast poverty reduction will continue to be based on rapid and sustainable economic growth.

Although Vietnam has achieved fast poverty reduction over more than a decade, sustaining these impressive achievements in the years to come is a challenging task. There are some reasons to believe that the "poverty story" over the next 5 years may not be quite the same as what has happened up until now. This in turn implies that appropriate and innovative policy measures are needed if Vietnam is to achieve the ambitious targets set on poverty reduction.

4.1. Improving the Quality of Growth and Enhancing the Participation of the Poor in the Growth Process

Distribution of households around the poverty line, which, as mentioned earlier, has been an important factor explaining a relatively strong impact on poverty reduction of economic growth in recent years has changed substantially. Figure 12 shows that if in 1998, there were many poor people whose expenditures were very close to the poverty line, there were less in 2004. Numerically, in 1998, the percentage of poor people who are short by 10% and 5% from the poverty line was 8.3% and 4.2% respectively. The comparable figures for 2004 were 4.8% and 2.4%. This may imply that in the years to come, the poverty reducing effect of economic growth may become smaller than it has

¹⁶ Since 2005, Vietnam has set up a new poverty line, which is equivalent to the international standard of 2\$ PPP per day per person.

been until very recently. In other words, a higher growth rate is required to reduce each percentage point in poverty, as was pointed out earlier in the report. Of equal importance, policies and interventions should aim to enhance the participation of the poor and low income in the growth progress.

As long as economic growth continues to be a main driver of poverty reduction and of helping the country as the whole graduate from the list of poorest countries as set out in the SEDP 2006-2010, sustaining high growth rate is critical. As the current rate of investment (or alternatively, the rate of foregone consumption) of 40% GDP (SRV 2006) is already very high by international standards and therefore difficult to sustain¹⁷, a main challenge in the promotion of rapid growth-based poverty reduction lies in raising the quality of investment in particular and the efficiency of the economy in general. Special attention should be given to state investment, as its efficiency is officially acknowledged as low (SRV 2006), while it has been so far the most important source of investment in Vietnam, accounting for more than half of total investment in the economy since 1998¹⁸. Implementing market-oriented reforms with emphasis on the development of the private sector as mapped out in the SEDP 2006-2010 is clearly a way to sustain rapid growth and associated fast poverty reduction. The acceleration of SOE reforms would also help, as these would improve resource allocation in favour of more efficient and dynamic private firms.

The poverty reducing effect of economic growth to a large extent depends on the degree of participation of the poor in the growth process. Evidence suggests that there is scope to improve it. First, this can be done through the creation of jobs (and good, decent jobs) and, as pointed out in earlier parts of this report¹⁹, overcoming labour market imperfections towards better geographic and occupational mobility to increase the chance of the poor and people from poorer provinces to engage in wage employment. The SEDP 2006-2010 specifies a number of measures in this regard, including private sector development: “non-state economic sectors remain the most attractive which have employed approximately 91% of the labor force or accounted for 90% of new employment in the entire economy”; The SEDP also proposes improving geographic labour mobility: “Prepare appropriate master plans and policies to cope with population immigration from rural to urban areas.... Build an appropriate migration policy to speed up labor distribution among regions, assist (im)migrants to have access to social

¹⁷ China and Singapore are among possibly a very few countries that can achieve and sustain the rate of investment (or foregone consumption) over 40% of GDP.

¹⁸ The share of state investment out of total investment is even higher, at more than 80% in the poorest regions - the Northern Uplands, the North Central Coast and the Central Highlands.

services”; and facilitating further shift towards higher share of wage employment and better paid jobs “Continue labor structural shift with reduction of agriculture, forestry and fishery labor to 50% in 2010, increase of industry and construction labor to at least 23 – 24% and increase service-commerce labour to at least 26 – 27 %”.

As long as agriculture is still the main source of income of the majority of poor households and agricultural growth is critical to poverty reduction²⁰, it is important to achieve the target of agricultural growth rate of 3-3.2% as set out in SEDP 2006-2010. The State should give priority to agricultural R&D and extension services to promote higher yields, which are known to be the most important source of income growth for the poor (Minot *et al.* 2006). Within the agriculture sector, poor people’s access to new market opportunities and to higher value and higher margin activities is primarily constrained by lack of skills, knowledge, and social capital, and also high dependency ratio, particularly in female headed households (ILSSA-ADB 2003). However, evidence suggests that there may also be innovative measures to help the rural poor to better participate in and benefit from the growth process. For example, a study on the tea value chain under the Project “Making Markets Work Better for the Poor” (2004) (ADB MP4 2004) finds that low product quality proved to be a major constraint for farmers to move out of poverty, once the market is there and producers, who are better coordinated with processors through wage or contractual relations, were significantly better off than those relying solely on market-based transactions. These indicate that the development and strengthening of partnerships between all players, both domestically and overseas to enhance the product quality in every stage of the chain, and the removal of institutional and information constraints would help both growth and poverty reduction. As another example, Moustier et al (2005) pointed out that poor farmers are generally excluded from supermarket development due to the requirements in quality assurance and large-scale supply, as well as delays in payment. A way of helping them to be inclusive is turning them into indirect suppliers of supermarkets through belonging to (or contracting with) farmers’ associations supplying supermarkets.²¹

²⁰ Vu Hoang Dat et al. 2006 finds that the following agricultural activities – rice, coffee, fruits, pig, feathered animals and aquaculture – all raise the chance of poor households to move out of poverty.

²¹ The latter should provide their members with technical training (e.g. as regards safe vegetable production), input supply, collective marketing, quality control and credit supply. Poor farmers should also be enhanced with knowledge on contract performance and institutional context for contract building; provided with storage and wholesale facilities. New market niches may be a promising option.

4.2. Improving Insurance and Social Protection System

This seemingly old question has come up even stronger in recent years. Figure 12 presented earlier indicates, the income distribution in 2004 is such that there were more near poor people located in the right side of the poverty line than poor people located in its left neighbourhood, which is very different from the 1998 distribution of incomes. This may imply that protecting the near poor from falling into poverty would be critical to poverty reduction in the short to the medium term.

Together with economic growth and intensified international integration, the country is also facing numerous risks, explicitly set out in the 2006-2010 Socio-Economic Development Plan “Inside the country, new epidemic diseases appeared (such as SARS and Avian (bird) flu, natural disasters, complex changes of weather and climate, etc. Internationally, the complexity of the world’s politics and security, the slow recovery of the world economy, the changes of prices in the world market, natural catastrophes, etc., have created numerous difficulties for the fulfillment of the socio-economic development tasks.” (SRV 2006).

WTO accession at the end of 2006 in particular is one of the biggest events in Vietnam, which is seen by some commentators as the start of the third round of reforms with far reaching economic and social implications for the country. While the benefits will clearly outweigh the costs at the aggregate level, which explains Vietnam’s strong determination to join the WTO, there are still a number of concerns about associated risks and social impacts. Numerous studies have pointed out to a number of areas that may be affected negatively. The so called “problem areas” may include production of sugar, soybean, maize, some kinds of livestock etc., on which livelihoods of many poor and near poor households heavily rely (Rama Martin and Sa Kim Le 2005). Furthermore, there are also concerns about some adverse effects of the opening up of the banking sector whereby expected fiercer competition induced by foreign entry in various forms may force out weaker rural-based banks to lower margin segments, which may lead to the deterioration of banking services in rural areas. As the economy is further opened and integrated into the world system, it will be increasingly exposed to external shocks. Deeper integration does not only adversely affect inefficient sectors, but sometimes also produces undesirable outcomes for the exportable sectors. This has already been demonstrated very clearly from the case with coffee production: while a sharp price increase in most part of the 1990s helped many coffee growers escape poverty, the price drop in the late 1990s

and the early 2000s pulled them back to poverty. This is a major cause of sluggish reduction in poverty in the Central Highlands between 1998 and 2002. Many poor in Central Highlands cannot participate in coffee production because they see it as “too risky” (ILSSA-ADB 2005).

In this context, protecting the gains in poverty reduction and maintaining an equitable pattern of growth in the context of Vietnam’s further integration into the world economy²² through better insurance and social protection systems is becoming increasingly important²³, and at the same time, challenging in the years to come. The SEDP 2006-2010 states “Develop insurance policies for agricultural production and farmers such as social insurance, natural disaster insurance, insurance against risks due to market and price fluctuation. Work out proper measures to release impacts of integration on agricultural and rural fields”. An index-based flood insurance scheme to be piloted in the Mekong Delta in 2007-2009 would possibly be among the first attempts to introduce formal, market-based risk-management tools (World Bank 2006). The social protection system²⁴ is still in transition from the old model which was set up under central planning to the one that more conforms to the requirements of a market economy with the increasing importance of the non-state sector under the context of intensified international integration. In particular, as long as social insurance is concerned, low coverage and participation rates and financial non-sustainability of the system are identified as the key shortcomings (Nguyen Manh Cuong 2006)²⁵. To revamp the system, a number of suggestions have been made on further expansion of coverage to possibly include voluntary participation by workers in the informal sector and by farmers. Introduction of unemployment benefits or universal old-age pension system may also be considered in a longer term (Justino 2005). Indeed, unemployment insurance and benefit and voluntary insurance are legalised for the first time in the Social Security Law passed

²² Integration is associated with higher pay-offs to skills, thus tending to leave low skilled people further behind the better off in the growth process.

²³ It is also important on the efficiency grounds. Without adequate insurance against production and price risks, farmers have to take sub-optimal production decisions. More dependence of manufacturing and services sectors on the changing pattern of world demand requires greater flexibility of labour market with significantly improved occupational and geographic mobility to ensure adequate supply response. The latter would thus be hampered if social benefits are not portable across occupations and locations.

²⁴ According to the ADB’s definition, social protection is defined as comprising five major kinds of activities: (i) labour-market policies and programmes; (ii) social insurance; (iii) social assistance; (iv) micro/area-based schemes; and (v) child protection (ADB 2001).

²⁵ According to MOLISA, in 2005, out of 43 million people in the work force, only 10 million were subject to compulsory social insurance and 5.9 million actually participated in it. It is projected, without radical changes in the contribution and payment policies, the Social Insurance Fund may not sustain its operation in 2030 (Nguyen Manh Cuong 2006).

by the National Assembly of Vietnam on 29 June 2006 and enforcement will take place from 2008 and 2009 respectively. While any further expansion of coverage towards universalism tends to be progressive, government subsidies are clearly needed to ensure adequate coverage of the poor and near poor by the social protection system²⁶. This again emphasises the role of public spending and more importantly, its progressive and pro-poor pattern for inclusive development. The model that is adopted for health insurance (mandatory for the wage-employed, voluntary for the better-off self employed and subsidized for the poor – but comparable service delivery for all) is one worth emulating in the development of pensions. Weeks *et al.* 2004 shows that the Government of Vietnam enjoys a fiscal position that allows it to expand existing poverty targeting programmes towards universal schemes. Using Vietnam's macro data, they demonstrate that a universal old age pension is well within the fiscal resources of the government, if it is set at an appropriate level. An extension of the social safety net to workers retrenched because of enterprise reforms, though costly and not entirely equitable²⁷, is worth considering, given the need to deal with short-term negative effects of adjustments upon Vietnam's WTO accession. In general, universal systems of social protection could be both inclusive and fiscally sustainable if actuarial benchmarks were used. There is also an interesting suggestion of introducing a single social insurance number for all targeted benefits and social insurance programs, which deserves consideration, as it can be considered as an important step towards universalism (World Bank 2006). It also reduces administration cost and importantly, improves the labour market efficiency and flexibility.

4.3. Accelerating of Poverty Reduction among Ethnic Minorities and in “Lagging Regions”

The persistently high incidence and depth of poverty (including food poverty) among ethnic minority groups against the background of overall fast economic growth and poverty reduction in its multiple dimensions has caused serious concerns in Vietnam. According to the MOLISA's forecast (MOLISA 2005), by 2010, the poor in the ethnic minorities would constitute 50 percent of the total number of poor households in Vietnam. The SEDP 2006-2010 gives a high priority to improving welfare of ethnic minorities in Vietnam and specifies a number of measures including “Continue the implementation of the Program on Socio-economic Development of extremely disadvantaged communes (Program 135) in the 2006-2010 period, basically ensure that

²⁶ These subsidies are suggested in the Draft National Targeting Programme on Poverty Reduction 2006-2010 (MOLISA 2006)

²⁷ Up to now it is applicable only to workers from downsized SOEs.

all communes have essential public works...Well perform the allocation of land and forest to individuals, households and organizations in ethnic and mountainous areas, especially to households of ethnic minorities. Effectively carry out the assistance policy on cultivation land, residential land, housing, and clean water for poor ethnic minority people...”

The process of poverty reduction in remote areas and for ethnic minorities requires a clear set of priority interventions. Increased focus on national programs targeted towards the pure minority communes, such as the new programme launched in January 2006 that covers all the mountainous and ethnic minority areas, appears highly warranted. Furthermore, according to Swinkels and Turk 2006, access of ethnic minority people to basic services and outreach in credit provision and accessibility have been improved over recent years, but there are still problems in the access to land of different types, particularly the ability to use forestry land in a profitable manner. Introducing more unified control over forest land under the district and commune authorities, and measures to improve transparency and equity in the allocation of forest land and product usage rights are suggested as priority actions to enhance the participation of ethnic minorities in the growth process. Of equal importance, innovative measures and interventions are also needed, if considerable progress on reducing poverty among ethnic minorities is to be made. Therefore, further studies including social research may be needed to better understand specific characteristics and needs of ethnic minorities in a variety of forms, given the heterogeneity among 52 ethnic minority groups in Vietnam²⁸. These would help to come up with more innovative policy measures, beyond the area-based schemes being in operation, to better address needs of the most disadvantaged ethnic minority groups, properly taking into account their specific habits, customs and culture.

Acceleration of poverty reduction among ethnic minorities is expected to also reduce regional differences in poverty incidence, as it would help lagging regions with high percentage of ethnic minority people such as North East, North West and Central Highlands, to catch up with the best performing regions. However, there should also be policy measures and interventions to support other non-ethnic minority lagging regions with relatively high poverty incidence, e.g. North and South Central Coasts. A project on infrastructure development for communes with special difficulties in coastal and island areas is proposed in the Draft National Targeting Programme on Poverty Reduction 2006-2010 (MOLISA 2006). Other types of interventions would include, as mentioned

²⁸ This point came up strongly in regional consultation workshops organised by the Drafting Team in June 2006.

earlier, the facilitation of the movement into wage employment, which is still very low in the lagging regions (Figure 14) and to improve geographic mobility of labour.

4.4. Avoiding the Emergence of New Forms of Poverty

A new challenge to poverty reduction in Viet Nam is the emergence of the new poor group. One of the causes is linked to the urbanisation process, which results in agricultural land being converted to other purposes. By 2005, land had been recovered from over 100,000 households for the development of more than 190 industrial zones and clusters. CLIP&CIEM 2006 found that although over half of surveyed households felt that their situation had improved since land recovery, for around one third of displaced households land recovery causes severe economic disruption, particularly if all productive landholdings are recovered. Residence is disrupted, insufficient notice is given by the local authorities and family members do not have appropriate educational background or vocational skills to shift into new occupations. The scale of state support to displaced households appears to vary between provinces but is generally low. Furthermore, employment and retraining opportunities are not easily accessible by displaced households²⁹. A PPA in Da Nang found that urbanisation process created more opportunities for many people, but not for the poor, who instead face with turbulence and unfavourable changes in their life. In some cases, poor people who lost their stable livelihood turned to commercial sex work to earn a living. Finding a new dwelling and employment became the most critical preoccupation of the poor and the urbanization creates new poor areas. (ILSSA-ADB 2003). Therefore, social impacts of urbanisation should be carefully evaluated and properly taken into account in urban planning, which should work out adequate measures to help the affected. The move towards universalism of the social protection system as discussed above would also help to lessen the problem, once it arises.

In summary, sustaining poverty reduction over the short to medium term would require a combination of policy measures including acceleration of market oriented reforms and introducing modern governance to achieve higher efficiency and more rapid growth; revamping and strengthening social protection system to protect the poor and the vulnerable from adverse shocks in light of intensified international integration, enhancing progressive and pro-poor pattern of public spending, introducing more innovative

²⁹ Only 8% of interviewed households in Long An and Can Tho, 5% in Vinh Phuc and Ha Tay had their members employed in industrial zones. Meanwhile, access to retraining opportunities for them, who usually have no other skills than farming was generally low. 28% of surveyed households in Binh Dinh, 2% in Quang Nam, 4% in Long An and Can Tho.

measures to better target the specific needs of ethnic minorities, and also measures to avoid new forms of poverty.

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Appendices

Appendix 1. Growth Elasticity of Poverty Reduction

The total growth-elasticity of poverty, ϵ , may be defined as the relative change in the poverty headcount between two periods for a one percent growth in mean income (assuming that the poverty line remains constant in real terms).

$$\epsilon_H = \frac{\partial H}{\partial \mu} \frac{\mu}{H}$$

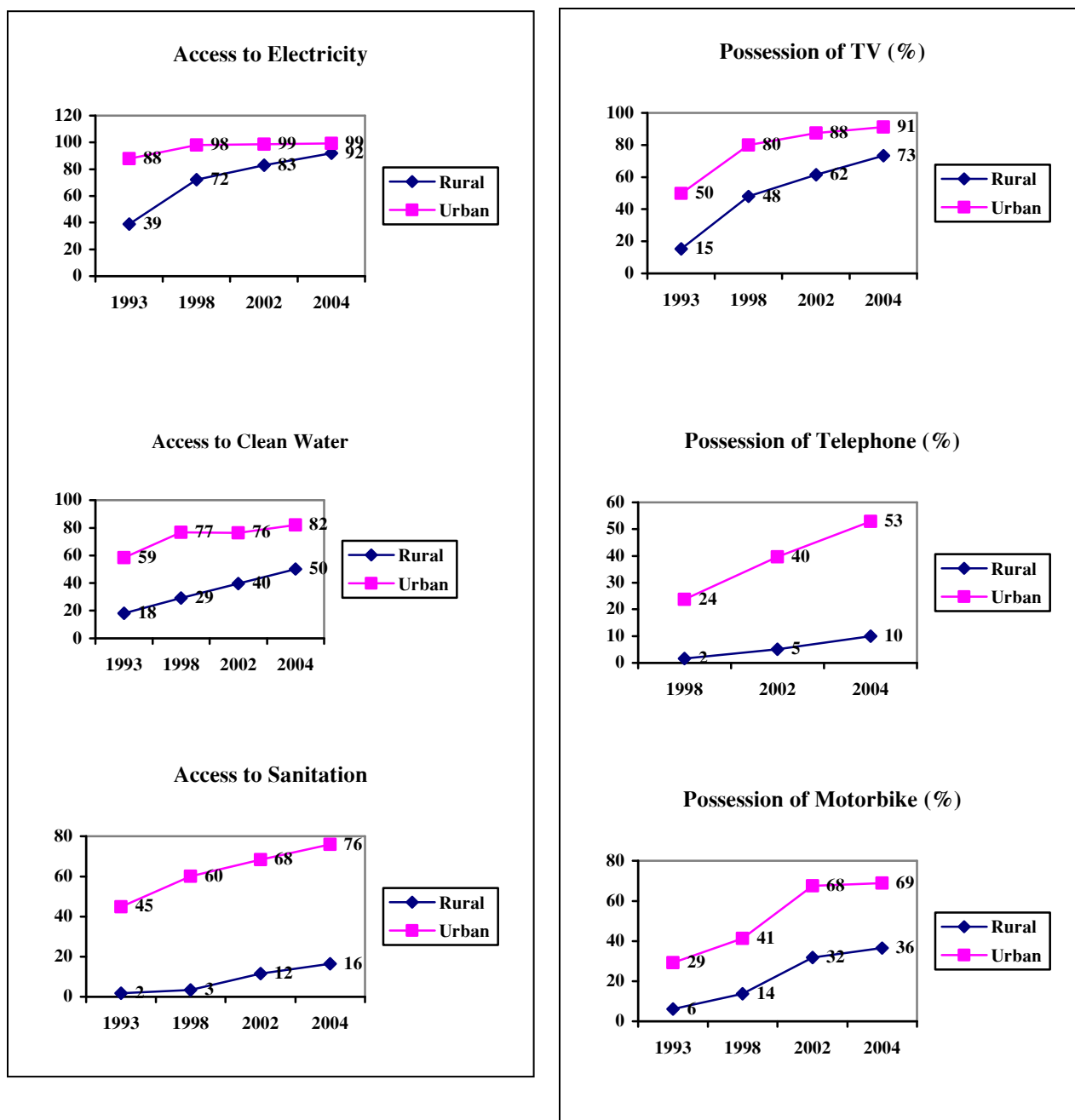
where H is the headcount index and μ is the mean income.

(Source: World Bank's website on Growth, Poverty and Inequality)

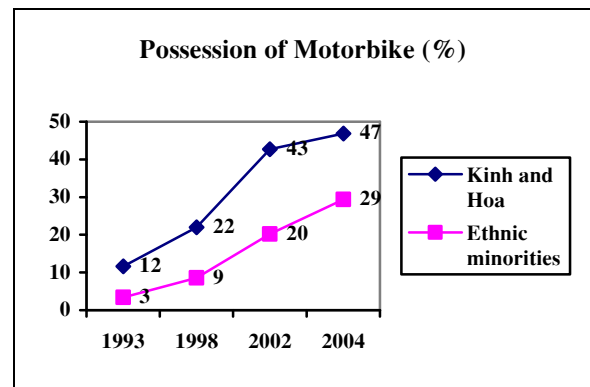
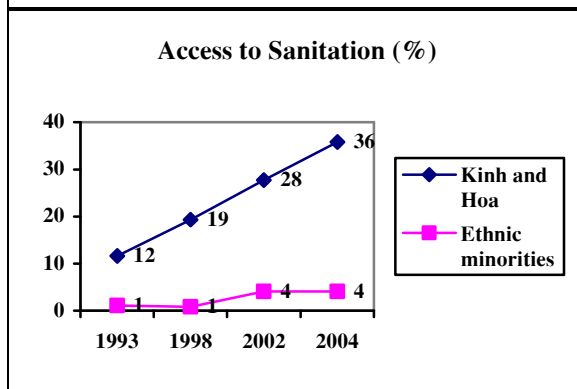
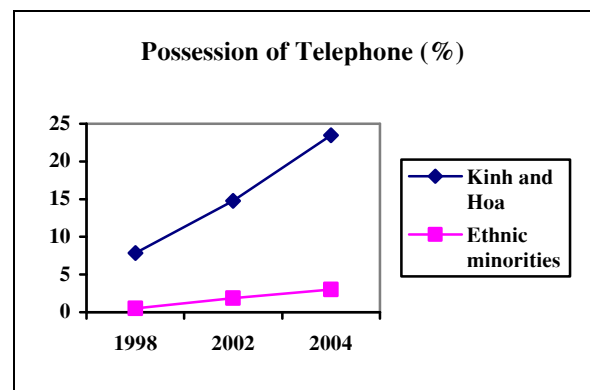
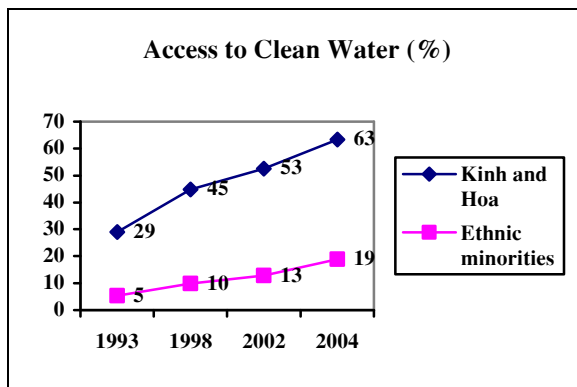
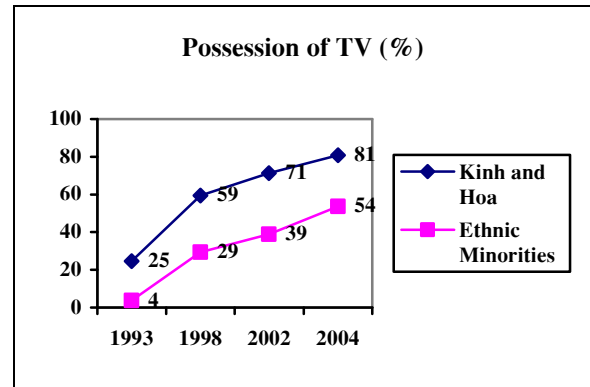
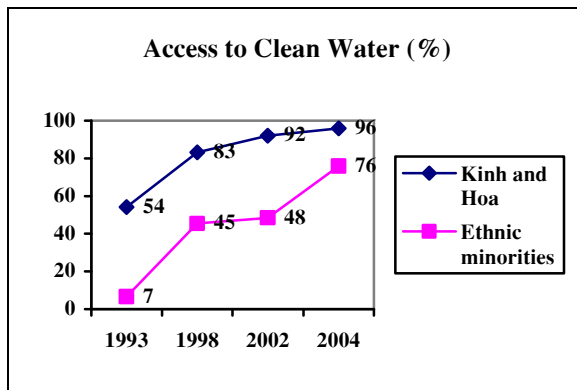
						Elasticity with regards to growth	Decrease in PERCENTAGE POINTS associated with 1-percent increase in growth of GDP per capita
	Population (thousand)	Poverty Incidence	GDP (million)	GDP per capita (million)			
1993	69,645	58.1%	164043	2.36			
1998	75,456	37.4%	244596	3.24	1993-1998	0.95	0.55
2002	79,727	28.9%	313247	3.93	1998-2002	1.07	0.40
2004	82,032	19.5%	362092	4.41	1998-2004	1.32	0.49
					1993-2004	0.76	0.44
					2002-2004	2.63	0.76

Source: GSO

Appendix 2. Rural-Urban Gaps in Social Indicators 1993-2004



Appendix 3. Ethnicity Gaps in Social Indicators 1993-2004



Appendix 4. Theil L Index of Inequality

	1993	1998	2004	Change 93-98	Change 98-04	Change 93-04
Rural	0.13	0.13	0.15	0.00	0.02	0.02
Urban	0.19	0.20	0.18	0.01	-0.01	0.00
Total	0.18	0.20	0.24	0.02	0.04	0.06
Between rural and urban	0.04	0.06	0.08	0.02	0.02	0.04
Within rural and urban	0.14	0.14	0.16	0.00	0.02	0.02
Between regions	0.03	0.05	0.04	0.02	0.00	0.02
Within regions	0.15	0.16	0.20	0.00	0.04	0.05
<i>Sources of change</i>						
Total	100%	100%	100%	100%	100%	100%
Between rural and urban	21%	30%	31%	96%	39%	61%
Within rural and urban	79%	70%	69%	4%	61%	39%
Between regions	15%	23%	17%	83%	-12%	24%
Within regions	85%	77%	83%	17%	112%	76%