

**POVERTY REDUCTION  
IN VIETNAM:  
ACHIEVEMENTS AND CHALLENGES**



**VIETNAM ACADEMY OF SOCIAL SCIENCES**

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## LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ANU	Australian National University
AusAID	Australian Agency for International Development
CAR	Capital Adequacy Ratio
CAF	Centre for Analysis and Forecasting
CEMA	Committee on Ethnic Minority Affairs
CGE	Computable General Equilibrium
CPI	Consumer Price Index
DEPOCEN	Development and Policies Research Center
DFID	Department for International Development
DIAL	Development, Institutions & Analyses de Long terme
ECD	Early Childhood Development
EM	Ethnic Minority
EVN	Vietnam Electricity
FDI	Foreign Direct Investment
FII	Foreign Indirect Investment
GDP	Gross Domestic Product
GSO	General Statistical Office
ICOR	Incremental Capital Output Ratio
IMF	International Monetary Fund
IRC	Indochina Research and Consulting
LMP	Labor Market Program/Policy
MDGs/VDGs	Millennium Development Goals/Vietnam Development Goals

MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
MRD	Mekong River Delta
NEU	National Economics University
NGO	Non-Government Organization
NTP PR	National Targeted Program for Poverty Reduction
ODA	Official Development Assistance
PCE	Per Capita Expenditure
PMUB	Participatory Monitoring of Urban Poverty
PPA	Participatory Poverty Assessment
RIM	Rapid Impact Monitoring
RRD	Red River Delta
SBV	State Bank of Vietnam
SEDP	Socio-Economic Development Plan
SIDA	Sweden International Development Agency
SMEs	Small and Medium sized Enterprises
SOEs	State-Owned Enterprises
TOT	Terms of Trade
TFP	Total Factor Productivity
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollar
VASS	Vietnam Academy of Social Sciences
VHLSS	Vietnam Household Living Standards Survey
VND	Vietnam Dong
VSS	Vietnam Social Security
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

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## EXECUTIVE SUMMARY

### **Looking back: Impressive achievements, but uneven progress**

In retrospect, Vietnam has indeed gained impressive achievements in poverty reduction. Broad-based economic growth has improved the well-being of almost everyone in the entire population. The General Statistical Office estimates that the poverty rate fell consistently from 58 percent in 1993 to 37.4 percent in 1998, 28.9 percent in 2002, 16 percent in 2006 and 14.5 percent in 2008. Some 28 million people are estimated to have been lifted out of poverty over approximately one and a half decades, an achievement widely applauded.

People who remain in poverty saw their well-being considerably improved over this period as well. The average poor's shortfall of consumption from the poverty line, measured by the poverty gap rate, also fell steadily from 18.5 percent in 1993 to as low as 3.5 percent in 2008. The poverty severity rate, which gives higher weight to the poorest among the poor, declined from 7.9 percent in 1993 to 1.2 percent in 2008. Other non-income indicators such as access of the poor to basic social services and infrastructures (education, health, electricity, road, water and sanitation, etc.) also confirm this very positive trend. Notably, while only less than 37 percent of the poor population had access to electricity in 1993, now almost 90 percent have electricity for daily use.

The poverty profile also changed rather considerably over this period. The average size of poor households declined from 5.2 people to 4.8 people while the dependency ratio dropped from 55 percent in 1993 to 49.7 percent in 2008, although this ratio had been, as expected, consistently higher than that of non-poor households throughout this period. In terms of education, the percentage of household heads having finished primary school rose, but the percentage of household heads with education higher than primary school declined. This may provide a partial explanation for the slow pace of the poor's movement out of agriculture, which is evidenced by a modest drop in the percentage of poor households working on farms, from 51.3 percent in 1993 to 47.3 percent in 2008. Notably, increased availability of media facilities for poor people is noted as one of the main changes observed between

the 2008 round of Participatory Poverty Assessment (PPA) and the previous two rounds of PPAs conducted in 1999 and 2003. As a result, the characterization of the poor, particularly of those from ethnic minorities, was gradually shifting from lacking access to information to lacking the ability to absorb and use information to improve their livelihoods and living conditions. The biggest change in the poverty profile was a sharp increase in the percentage of households with heads coming from ethnic minorities, from 17.7 percent in 1993 to 40.7 percent in 2008. Poverty thus appeared to have become an increasingly ethnic minority phenomenon, which is largely explained by the uneven progress in poverty reduction across different segments of the population.

Indeed, although all groups of the population have benefited from rapid and sustained economic growth over the last two decades, the degree of their participation in the development process has varied. This has in turn resulted in the sizeable disparities at present in well-being, assets ownership in broad terms (i.e. access to land, basic social services and educational attainments) and poverty reduction across different segments of the society. As reflected in the changed poverty profile, the largest difference in the progress made in poverty reduction was between the Kinh/Hoa group and ethnic minorities, with poverty rate rapidly falling for the former (from 53.9 percent in 1993 to only 9 percent in 2008) but only modestly declining for the latter (from 86.4 percent in 1993 to 50.3 percent in 2008). Although rapid poverty reduction was observed for both rural and urban populations, the poverty rate in rural areas (66.4 percent in 1993 and 18.7 percent in 2008) had been considerably higher than that in urban areas (25.1 percent in 1993 and 3.3 percent in 2008). Geographical disparities existed, with the South East and the Red River Delta outperforming all other regions in poverty reduction with single-digit poverty rates of 3.5 percent and 8.1 percent respectively in 2008, down from as high as 40 percent and 61.4 percent respectively in 1993. The slowest progress was observed in the North West region - characterized by a high population share of ethnic minorities and isolation from the national market - with the still high poverty incidence of 45.7 percent in 2008, down from 81 percent in 1993. In between these two ends were the North East, the Central Highlands and the North Central Coast, all of which shared a similar performance, falling slightly short of that of the South Central Coast. Within these groups, disparities were also considerable. Among ethnic minorities, poverty rates was as high as 83.4 percent and 75.2 percent for H-mong and other ethnic minorities respectively in the Central Highlands, but considerably lower for Kh-Me and Tay at 23.1 percent and 32.1 percent respectively. Diversity was also discernible among the poor, with considerable variation in explanations for their poverty status.

The Vietnamese society has thus become much more heterogeneous nowadays than it was a couple of decades ago when the country first embarked on economic

reforms under Doi Moi. Although the country as a whole has been taken off the list of poorest countries, there remain segments of the population that have not yet left the poverty trap for good. This implies that, unlike 20 years ago when “the tide lifted all boats”; nowadays, much more sophisticated and nuanced policies are required in order to bring down poverty further and to avoid the so-called “inequality traps”.

### **Static vs. dynamic poverty and policy**

Heterogeneity of the population segment that has experienced poverty is further identified through analysis of poverty dynamics, which needs to be taken into account properly when designing poverty reduction policies. Specifically, analysis of poverty dynamics using a three-wave panel dataset VHLSS 02, 04 and 06 finds that although poverty rate consistently fell from 28.9 percent in 2002 to 16 percent in 2006, 35 percent of the population experienced poverty during this period, of whom approximately one fourth (or 9.3 percent of the total population) lived in chronic poverty (i.e. remained poor throughout this period) and the remaining three fourths experienced changes in their poverty status. Within the group of people moving in and out of poverty, the permanent escapers (i.e. who were poor in the initial year of 2002, but not poor in the subsequent years of 2004 and 2006) made up 11.3 percent of the total population (or over 30 percent of the poor population). The rest, who may be termed as the transient poor, made up 14.4 percent in the total population (or over 40 percent of the poor population).

Further disaggregated analysis finds considerable differences across ethnicity in terms of poverty dynamics. For ethnic minorities (EM), the chronic poor had the largest EM population share of 39.2 percent; followed by the transient poor (29.4 percent), the permanent escapers (12.8 percent), and the non-poor (as small as 18.6 percent). For the Kinh/Hoa people, the order is almost reversed, with the non-poor sharing in almost 70 percent of the population of this group; followed by the transient poor (12.2 percent), the permanent escapers (11.8 percent) and finally, the chronic poor (6.1 percent). The poverty dynamics analysis also finds that ethnic minorities had a disproportionate share in the chronic poor population, which is estimated at 47.1 percent. Geographically, the North Central Coast had the largest share in the chronic poor population, followed by the Northern Uplands (24.9 percent), the Central Highlands (21.8 percent) and the Mekong River Delta (10.4 percent) while the share was negligible for the South East (0.8 percent) and small for the Red River Delta (3.8 percent). This group of chronic poor is also characterized by unfavorable initial conditions, notably high dependency ratio (30.7 percent vs. the average rate of 16.3 percent for the whole of Vietnam), abnormally high percentage of household heads without primary education (57.8 percent vs. the average of 31.5 percent), serious lack of access to electricity (36.8 percent vs. the average of 11.9 percent) and

lack of access to clean water (87.1 percent vs. the average of 57.2 percent). For the group of permanent escapers, their considerably higher percentage of household heads having finished lower secondary school (37 percent) as compared to that of the chronic poor (11 percent) and the transient poor (27.1 percent) is presumably the most striking characteristic.

Different types of policy interventions are needed for chronic and transitory poverty. To deal with chronic poverty given its largely static nature, social assistance including poverty targeted programs would be appropriate. The focus would then be on how to improve targeting, given the diverse needs and heterogeneity of the poor as mentioned above, in order to reduce leakage, broaden coverage and raise support levels. It is also important to simplify the program design and implementation procedures so as to cut down transaction costs and to reduce dependence culture among the poor. Poverty discussions in Vietnam, particularly among policy makers, have mostly focused on poverty targeted programs. These may not be very effective in dealing with transitory poverty, however, because the list of poor people is updated only annually, and is sometimes subject to quota on the poverty incidence imposed by higher authorities (often because of resource constraints) while movements in and out of poverty may occur much more frequently. Therefore the targeted approach is important but far from sufficient, as dynamic poverty has become an increasingly big issue in Vietnam's context of accelerating economic reforms and intensifying integration into the world economy with WTO accession in early 2007 as a key milestone. As a result, in order to help the poor to escape poverty in a sustainable manner while protecting the non-poor from falling into it in this new economic context, the country would require a broad-based poverty reduction approach that encompasses enlarging income earning opportunities, reducing risks and vulnerability, and building up human capital.

### **Enlarging opportunities and reducing risks in the new economic context of the post-WTO accession period**

Both opportunities and risks have considerably heightened since Vietnam joined the World Trade Organization (WTO) in early 2007 due to associated changes taking place at the border (reduction in import tariffs and removal of non-tariff barriers to trade), beyond the border (greater access to overseas markets and to the WTO's dispute settlement mechanism) and behind the border (opening of service sectors and distribution systems, changes in legal and regulatory frameworks etc.). WTO accession is thus seen by numerous commentators as a new round of economic reforms with far-reaching implications for economic growth and poverty reduction in Vietnam. While the net impacts of the WTO accession on economic growth and poverty reduction are expected to be positive and all the three types

of changes mentioned above are important, behind-the-border changes play the most important role in determining the final outcomes. In particular, with regard to external financial liberalization, international experiences suggest that having proper regulatory and supervisory structures is critical for any country to maximize the benefits and minimize the costs associated with this process. The high degree of volatility and the pro-cyclical nature of international capital flows have had destabilizing effects on countries whose regulatory frameworks for short-term capital are inadequate. In Vietnam, these potential problems were not understood well during the accession period but actually only arose afterwards in the first few subsequent years.

As a consequence, the first three years of the post-WTO accession period witnessed numerous challenges and difficulties, largely in the form of macroeconomic turbulences. Many commentators believe that part of the problem can be explained by large inflows of capital in various forms, particularly a surge of portfolio investments in 2007 caused by the exuberance of foreign investors in anticipation of huge business opportunities arising in Vietnam upon the country's accession to the WTO. The country was arguably not well-prepared to manage large indirect investment inflows in such a way to successfully avoid their undesirable effects, which in combination with the chronic problem of "dollarization" caused huge difficulties for monetary and exchange rate policies. Policy responses undertaken then failed to sterilize these inflows, resulting in high inflation, asset bubbles, and large macro imbalances.

After experiencing a mini-crisis in early 2008 that had resulted in high inflation and large macro imbalances, Vietnam subsequently fell victim to the global financial "tsunami", which delivered negative effects to the poor and the low income, particularly migrant workers and a subset of agricultural exports farmers. These very people were also affected by environmental degradation and other types of shocks. Specifically, according to analysis of household survey data VHLSS 2008, the largest percentage of the population perceived themselves to have been hit by the price shock far more severely than by other types of risks such as natural calamities, health shocks or job losses etc. Impacts of high inflation on the urban low income, as revealed by analysis of the most recent Urban Poverty Survey 2009 conducted in Hanoi and Ho Chi Minh City, were even greater: "strongly felt" by 69 percent of people in the bottom income quintile, by far exceeding other types of shocks (the health shock was felt by 28 percent while each of the remaining types of shocks was felt by less than 10 percent of the urban population in these two cities). Furthermore, deeper integration of the country into the world economy promises to continue to induce the so-called agglomeration effects in favor of big cities located closer to ports. So will continue the concentration of employment and associated income earning opportunities in

those cities. The last few years have also witnessed a shift in financial resources away from agricultural and rural sectors towards booming urban-based industries and services, a trend that has also contributed to asset bubbles. The conversion of land for industrial and residential use also raises concerns about distributional impacts at the expense of low income rural dwellers. This list of newly emerging issues is far from comprehensive, but already suggests a heavy agenda of policy interventions towards reducing risks and broadening opportunities for broad-based sustainable poverty reduction.

To reduce vulnerability, Vietnam should better manage both systemic and idiosyncratic risks. For the former, prudent macroeconomic management supported by coherent macroeconomic and financial policies is required, with key components including (i) determining the right pace of financial liberalization and setting up proper regulatory and monitoring mechanisms; (ii) minimizing moral hazard, which has been rising in the SOE sector and the banking system in recent years in Vietnam; (iii) managing asset bubbles; (iv) managing macro policies better by ensuring predictability and consistency between monetary and fiscal policies and making the exchange rate more flexible etc. Although these measures seem to be too far away from immediate concerns of the poor and the low income, they indeed help to avoid crises which may wipe out all poverty reduction achievements of the past as was seen in the case of a number of Asian countries during the Asian Financial Crisis.

Furthermore, to help the poor and the vulnerable better cope with idiosyncratic risks, social protection systems should be considerably strengthened. Farmers and migrant workers, who together make up the largest proportion of the population, are currently exposed to considerable risks given the limited coverage of the formal social security system. Specifically, the agricultural and non-agricultural informal business sectors made up approximately 50 percent and 24 percent of total employment respectively in 2007, according to labor force survey data. Few people belonging to these groups are covered by the social security system (mandatory or voluntary). Even in the formal business sector, which accounts for 16 percent of total employment (the remaining jobs are in the non-corporate public sector), only 51 percent of employees were covered by the social security system in 2008, with the average social security contribution rate of only 7.6 percent against the statutory rate of 23 percent. Evasion is particularly common among domestic private firms. As a consequence, in 2009, only 9.4 million or 18 percent of the labor force in total were covered by the mandatory social insurance scheme while as few as 50,000 people participated in voluntary social insurance. Considerably better coverage can be seen in health insurance, with 30 million and 11 million people being covered by mandatory and voluntary schemes respectively. However, the lack of a counter-cyclical nature in health insurance was observed at the peak

of impacts of the global economic crisis in early 2009, when retrenched workers were asked to return their health cards to employers if they wanted to receive severance pays. With the introduction of unemployment insurance contributions from January 2009 and unemployment payments from January 2010, this may change as health insurance is now retained for retrenched workers. However, it would take some time for these schemes to function smoothly. Outside the formal system, the existing informal safety nets, including informal credit and community/family support, have worked fairly well until recently, as evidenced by their important stabilizing roles in the current global economic crisis. These safety nets will, however, come under increasing stress as rising urbanization accelerates the change in family structure towards the nuclear family model. Therefore, it is important to strengthen the formal social security system with an emphasis on broadening coverage and improving enforcement such that the elderly and those affected by unforeseen circumstances are protected from falling into poverty.

To this effect, two transitions in employment should be encouraged to take place: (i) from farm to higher productivity non-farm, and (ii) from informal to formal sector. Within the formal business sector, regulations on social security participation should be better enforced; outside it, awareness should be raised and procedures should be simplified to encourage people to participate in voluntary schemes. For the first transition – transformation of rural population into industrial workers, which helps to raise both awareness about and demand for social insurance thanks to higher incomes – measures to improve geographic labor mobility are important, as these would help people from poorer rural provinces to better participate in the growth process, which is partly driven by urban-based, export-oriented and labor-intensive manufacturing. In this regard, the proposal on the introduction of a single social security number to be given to each individual at birth to ensure the portability of social benefits across both geographic locations and programs deserves a serious consideration, especially in light of fast-growing IT technology and more importantly, the recent broadening of the personal income tax system. This would also help to enhance international competitiveness of Vietnamese firms as they are now able to select workers from a much larger pool. For the second transition, any policies that lower costs of being formal relative to that of being informal would encourage informal sector firms to get registered, and vice versa. To this effect, one may suggest a more progressive system of social protection targeting firms of less than 10 employees in which social contributions (and social benefits) are set lower and therefore are more accessible to small and medium sized enterprises. Social protection incentives would then have a positive inducement effect on the registration and then formalization of small and medium sized enterprises (SMEs).

As SMEs play an important role in the generation of employment, particularly for low-skilled workers, they should be supported, firstly by removing distortions and biases in favor of big SOEs at the expense of SMEs. A level playing field should be created in every business area but most importantly in access to formal credit. Vietnam should also seek WTO-consistent instruments to support the rural sector which provides jobs to many working poor.

Fiscal policy is presumably the most powerful among those instruments at the disposal of the Government. Better distributional and poverty reduction outcomes may be achieved through progressive taxes on the revenue side and pro-poor allocation of budget expenditures across locations and sectors, with a distinct focus on social investments on the spending side. In particular, while the substantial fiscal subsidies to the power sector at present will clearly need to be phased out to ensure the sector's sustainability, electricity pricing may need to be made more progressive such that the better-off and the heavy users of electricity should disproportionately bear the financial burden of future price increases, and complementary policies and measures may need to be employed in order to minimize impacts on the poor and the low income. With regard to monetary policies, there is still some space for interventions towards the allocation of credit in favor of rural sector. More favorable poverty impacts may also be achieved by the removal of biases against the rural sector in existing trade policies.

Thus, mainstreaming poverty and distributional considerations into every macro policy and tool is an important part of a broad-based approach towards poverty reduction. Without pro-active and comprehensive interventions, poverty reduction will be bound to become increasingly resistant to economic growth.

### **Reducing ethnic minority poverty**

Resistance of poverty reduction to economic growth is presumably clearest among ethnic minorities despite the Government's fervent attention to this issue, manifested in numerous policies and programs it has introduced over the last two decades. In-depth analysis of datasets of household surveys conducted in different years finds that the consumption gap between the Kinh/Hoa group and ethnic minorities increased from 51 percent in 1998 to 74 percent in 2006 and that differences in observable endowments (including household characteristics: structure, education and landholding, as well as commune characteristics) explain 50 percent of the gap and differences in returns to these endowments explain the other 50 percent. Therefore, to help ethnic minority people to better participate in and benefit from the growth process, interventions should be directed towards raising both their endowments and returns to these endowments. For the former objective, policies should be designed to help ethnic minorities to have better

access to basic social services, infrastructures, wage employment, etc. For the latter objective, interventions should be directed towards reducing language barriers, improving the quality of education, overcoming stereotypes, etc. A focus should be placed on reducing the risk of intergenerational poverty transmission among ethnic minorities, particularly for households living in chronic poverty.

### **Looking forward: Unfinished poverty agenda**

Vietnam has become a lower middle-income country and has put forth an ambitious objective of becoming a largely industrialized country by 2020 and avoiding the so-called “middle income trap” thereafter. Although the country has been taken off the list of poorest countries, the poverty agenda is still far from finished.

What is known from existing evidence is that there is still a long way to go to help many ethnic minority people to escape from poverty for good (which may take generations, given the largely structural nature of poverty of this group) or to revamp social protection such that it is both inclusive and financially sustainable (which may take many decades). However, the existing data show little about new forms of poverty that will likely emerge or about which of the existing forms may become increasingly acute in the foreseeable future.

Urban poverty is one such form of poverty. Looking back, recent data have reported a low rate of poverty, which seems to be accurate as a recent urban poverty survey conducted in the two largest cities, Hanoi and Ho Chi Minh City, at the end of 2009 refutes the hypothesis that estimates of urban poverty rate may be biased downward because migrant workers are not included in the sampling frame. However, looking in the rear-view mirror may not be particularly helpful in predicting what will happen down the road in the new decade because of the multi-faceted nature of poverty with numerous non-income dimensions. These may include pollution, personal safety, working and housing conditions, or exposure to abuses, all of which are becoming increasingly acute for low income migrants who are technically classified as non-poor by both income measure and expenditure measure. If these dimensions are properly captured in the measurement of poverty, the urban poverty picture may change considerably. There are already some efforts to reflect these multiple dimensions of poverty in the analysis of datasets attained in the Urban Poverty Survey 2009. The results of this analysis show that while income-based poverty rates are low in both urban and rural areas of the two cities, the lack of access to the formal social protection system is the biggest welfare gap, followed by the lack of access to housing services and quality housing. These results confirm the importance of non-income dimensions of well-being and poverty in urban areas as well as suggest areas for priority interventions. Furthermore, as discovered in recent field surveys, more and more young married migrant workers are deciding to let their

children stay on with them instead of sending them back to their home village to the care of their grandparents. Urban poverty in general and child poverty in urban areas in particular, therefore, may very soon change their faces. Moreover, the need to avoid the “middle income trap” requires that Vietnam address the issue of child poverty right away, as investments into Early Childhood Development (ECD) will significantly influence subsequent human capital outcomes thus will yield greater returns if implemented earlier rather than later.

Inequality is another issue that may considerably worsen over the medium- and long-term if appropriate actions are not taken promptly. Commonly used inequality indexes such as Gini coefficient, top quintile over bottom quintile or top decile over bottom decile ratios all indicate that inequality rose modestly in the 1990s and relatively stabilized throughout the 2000s. However, it is not easy to reconcile these findings with what many ordinary people observe in real life. Similar to the case with urban poverty, there may exist several technical problems with sampling and/or housing value computation processes. There may also be economic reasons, notably how the middle class, proxied by the three middle income quintiles, have done particularly well in the 2000s. Past data in this case may not be particularly useful for future projections of inequality for numerous reasons, including the accelerating integration and urbanization processes, which tend to considerably raise the return to skills, which the poor and the low income normally lack.

Inequality in income may potentially translate into inequality in voices and representation in policy-making processes, as shown by international experiences. In Vietnam, this issue is becoming increasingly important as the society is becoming increasingly diverse, resulting in rising conflicts of interests between different groups. Knowledge and skills are among the key factors determining the effective participation of the poor and the disadvantaged in policy-making – both via local and grassroots developments and via mainstreaming poverty and distributional concerns into macro policies at the national level. There is still long distance to go to make it happen, but poverty-focused grassroots organizations and research institutions have a big role to play in supporting the poor in this process.

Finally, climate change, which is one of the central issues in the global agenda at present and has actually started to affect various disaster-prone regions in Vietnam, is bound to come up prominently in the immediate future. Vietnam should therefore proactively engage in this global agenda and seek to understand well the poverty and distributional impacts of climate change to be able to intervene appropriately and promptly.

## FOREWORD

During the 1990s and the first years of the 21st century, Vietnam has achieved rapid broad-based economic growth, resulting in remarkable progress in reducing poverty in its multiple dimensions. Household living standards surveys (undertaken in 1993, 1998, 2002, 2004 and 2006) and analyses conducted under previous poverty assessments reveal that Vietnam experienced a dramatic decline in poverty, regardless of the measurement used, between 1993 and 2006. Over this period, real GDP per capita grew by over 7.5 percent annually, while the proportion of the population living in poverty dropped by two thirds – i.e. over 25 million people were lifted out of poverty.

However, Vietnam is likely to encounter numerous challenges in maintaining the high growth rate and this impressive rate of poverty reduction. The Poverty Update 2006 identifies a number of challenges that lie ahead, as follows:

- (i) The poverty-reducing effect of economic growth may weaken such that a higher growth rate is required for the reduction of each subsequent percentage point in the rate of poverty;
- (ii) In turn, each subsequent percentage point in economic growth rate may require a higher level of investment if Vietnam is unable to improve the current quality and efficiency of investments and lower the incremental capital output ratio (ICOR). The implication is that poverty reduction may become more and more costly in the years to come;
- (iii) Vulnerability is an increasingly important issue, given the large number of near-poor households, and possible short-term shocks associated with the country's further integration into the world economy;
- (iv) The persistent lack of progress in poverty reduction among ethnic minorities, due possibly to their inadequate participation in and benefits from the growth process, is also an emerging issue.

These challenges have indeed shown up clearly in the past 5 years. Moreover, it is widely believed that Vietnam's huge development potential is only partially tapped. To sustain its impressive achievements in growth and poverty reduction,

Vietnam will need to accelerate policy and institutional reforms towards rapid, equitable and pro-poor growth; as well as to ensure more inclusive development. The Government and businesses alike will need to provide appropriate and prompt responses to emerging challenges. This implies a need for proper monitoring of both progress and emerging trends in growth and poverty reduction. It is also important to identify determinants of the discussed progress and trends in order to devise appropriate policy adjustments in response to any changes. This, in turn, requires that policy makers have access to credible sources that can provide evidence or information in a timely and reliable manner based on sound methodologies. The Poverty Assessment 2008-2010, which was implemented by numerous Vietnamese research institutes and individual researchers and experts under the leadership of the Vietnam Academy of Social Sciences and supported technically and financially by a number of donors including the World Bank in Vietnam, the Ford Foundation, AusAID, DFID, ADB and with the direct participation of Oxfam Great British and Action Aid (United Kingdom), is part of broader efforts to provide policy makers with evidence-based policy advice drawn from studies that are analytically rigorous, policy- and context-relevant to poverty- and inequality-related issues.

The Poverty Assessment 2008-2010 was conducted while Vietnam was on its way to implement its WTO commitments and monitor the progress in achieving its Millennium Development Goals and Vietnam Development Goals (MDGs/VDGs). The Assessment seeks to inform key policy processes in Vietnam, including the formulation of the Ten-Year Socio-Economic Development Strategy for the period from 2011 to 2020, which should reflect the important challenges of governing a middle-income country, and the Five-Year Socio-Economic Plan for the period from 2011 to 2015. It also seeks to provide evidence-based policy advice on the issues related to rapid and sustainable growth-based poverty reduction.

This synthesis report summarizes key findings of various studies conducted throughout the 2008-2010 period on numerous topics such as poverty dynamics, ethnic minority poverty, rural poverty, inequality, social protection etc. Findings of these studies were presented and discussed in a series of technical seminars on draft background papers held throughout the year 2009 with the participation of numerous Vietnamese and international researchers and experts; as well as in three regional consultation workshops organized in Hanoi, Da Nang and Ho Chi Minh City in August 2010 and at a workshop with Vietnam's international development partners in November 2010. These workshops hosted numerous policy makers and researchers from national and sub-national levels, as well as representatives of various multilateral and bilateral donors and international non-government organizations who not only participated but also made invaluable contributions.

Numerous findings have been disseminated on an on-going basis in various forms including policy submissions to senior policy makers, presentations in poverty-focused policy workshops and the 2008 Participatory Poverty Assessment report in book form, which was disseminated to a wide audience at both the national and sub-national levels.

To widen the evidence base, the synthesis report also draws on findings of studies conducted under parallel initiatives such as the Participatory Monitoring of Urban and Rural Poverty by Oxfam GB and Action Aid Vietnam; the Rapid Assessment of Impacts on Vietnam of Global Economic Crisis in various rounds supported by the World Bank, UNICEF, UNDP and the Ford Foundation; and the In-depth Assessment of Urban Poverty with the support of UNDP; among others.

As such, the report will hopefully provide readers with valuable information on important issues related to poverty and poverty reduction in Vietnam.

**President of Vietnam Academy of Social Sciences**

**Prof. Do Hoai Nam**



# **Chapter I.**

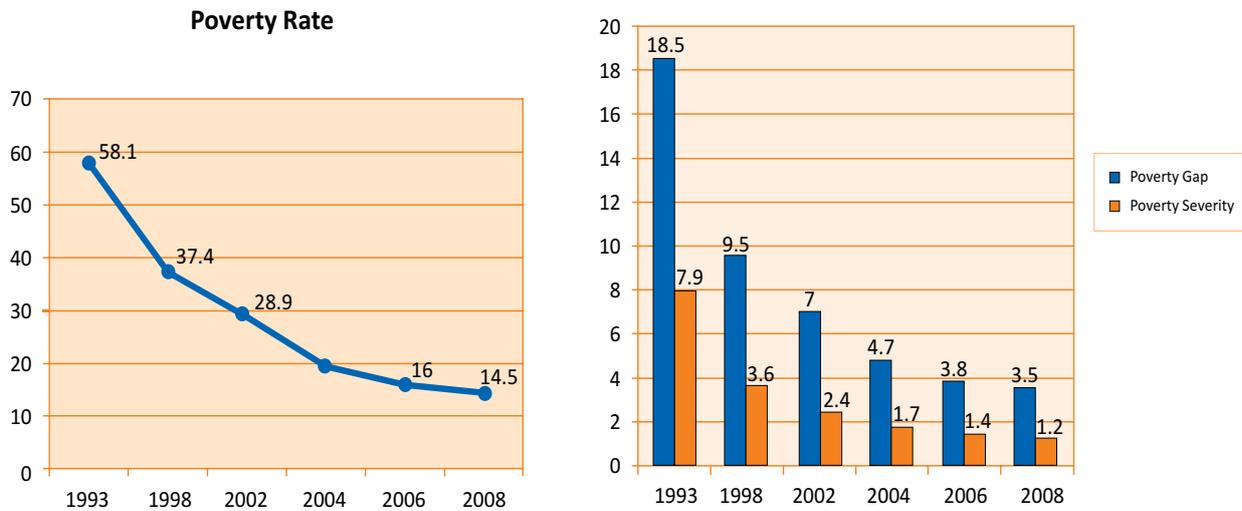
## **RECENT TRENDS IN POVERTY REDUCTION IN VIETNAM**

### **1. Looking Back: Impressive Achievements, but Uneven Progress**

This chapter starts with a review of past trends in poverty reduction in Vietnam over the last two decades, which aims at setting the stage for subsequent analysis of the challenges that Vietnam is facing in bringing down poverty further over the medium to long term. For this purpose, an expenditure-based poverty line constructed by the General Statistical Office (GSO) and the World Bank is used, as it allows for comparisons of key poverty indicators across six household surveys implemented by GSO with the support of UNDP and SIDA since 1993. Details on how the GSO-World Bank's food and general poverty lines are constructed and adjusted over time can be found in World Bank (1999).

Looking back, what has been achieved in terms of poverty reduction in Vietnam is indeed highly impressive. Broad-based sustained economic growth over the last two decades has improved the well-being of almost everyone in the entire population. The General Statistical Office estimates that the poverty rate fell consistently from 58 percent in 1993 to 37.4 percent in 1998, 28.9 percent in 2002, 16 percent in 2006 and 14.5 percent in 2008 (see left-hand side panel of Figure 1). Some 28 million people are estimated to have been lifted out of poverty over the last two decades; this was what has kept Vietnam on a firm track to achieving one of the most important Millennium Development Goals thus has been widely applauded by the international community.

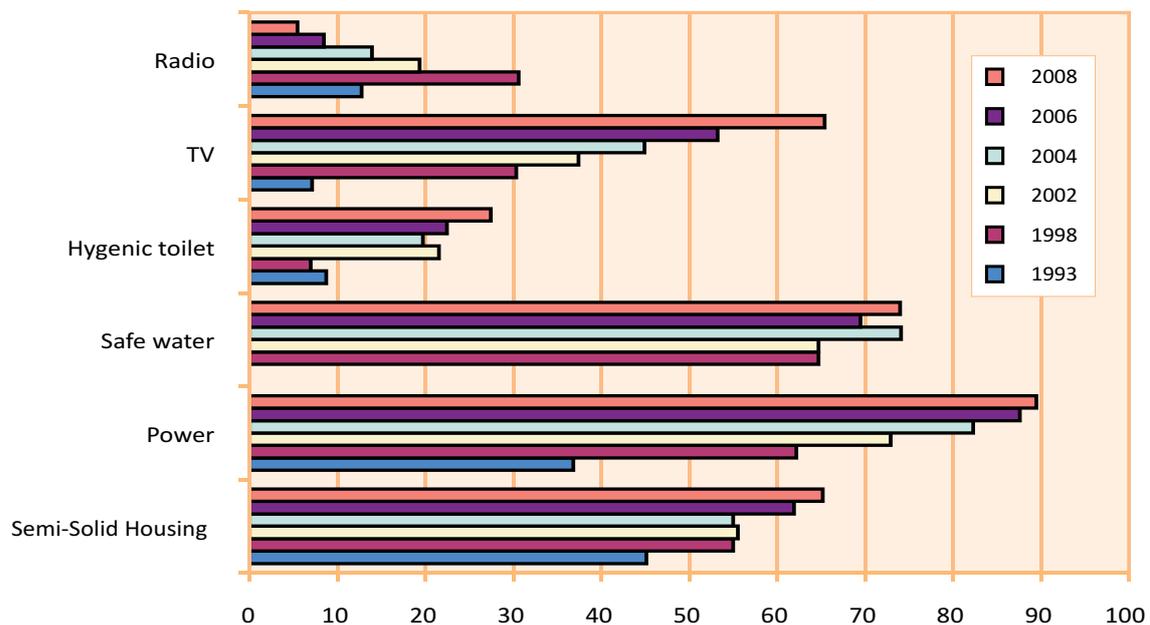
**Figure 1. Poverty Reduction 1993-2008 (%)**



*Source: General Statistical Office*

People who remain in poverty saw their well-being considerably improved over this period as well. The average poor's shortfall of consumption from the poverty line, measured by the poverty gap rate, also fell steadily from 18.5 percent in 1993 to as low as 3.5 percent in 2008. The poverty severity rate, which gives higher weight to the poorest among the poor, also declined from 7.9 percent to 1.2 percent (see right-hand side panel of Figure 1). Other non-income indicators such as access of the poor to basic services and infrastructures (education, health, electricity, road, water and sanitation etc.) also confirm this very positive trend. Notably, while only less than 37 percent of the poor population had access to electricity in 1993, now almost 90 percent have electricity for daily use. Declines in radio usage coupled with sharp increases in television usage indicate that the poor are moving away from primitive means of recreation and information towards more modern ones. Indeed, increased availability of media facilities to poor people is noted as one of main changes observed between the 2008 round of Participatory Poverty Assessment (PPA) and the previous two rounds of PPAs conducted in 1999 and 2003. The characterization of the poor, particularly of those from ethnic minorities, thus was gradually shifting from lacking access to information to lacking the ability to absorb and use information to improve their livelihoods and living conditions (VASS, 2009).

**Figure 2. Non-Income Indicators for the Poor (%)**



*Source: Estimates based on VHLSS data*

Other characteristics of the poor also changed rather considerably over this period. As revealed in data analysis of household surveys VHLSS (see Table 2), the average size of poor household declined from 5.2 people to 4.8 people while the dependency ratio dropped from 55 percent in 1993 to 49.7 percent in 2008, although this ratio had been, as expected, consistently higher than that of non-poor households throughout this period. In terms of education, the percentage of household heads having finished primary school rose, but the percentage of household heads with education higher than primary school declined. This may provide a partial explanation for the slow pace of the poor's movement out of agriculture, which is evidenced by a modest drop in the percentage of poor households working on farms, from 51.3 percent in 1993 to 47.3 percent in 2008, as opposed to a larger decline in farm employment observed for the entire population during the same period, from 35.8 percent in 1993 to 27.2 percent in 2008. The biggest change in the poverty profile was a sharp increase in the percentage of households with heads coming from ethnic minorities, from 17.7 percent in 1993 to 40.7 percent in 2008. Poverty thus appeared to have become an increasingly ethnic minority phenomenon, which is largely explained by the uneven progress in poverty reduction across different segments of the population. Depiction of the poverty profile can be enhanced by drawing on a number of participatory poverty assessments conducted in rural and urban areas, which are presented in Box.

### **Box. Characteristics of the Poor as Identified by Participatory Poverty Assessments**

**Rural poverty:** A VASS-coordinated participatory poverty assessment conducted in 2008 in five rural provinces of Lang Son, Hai Duong, Kon Tum, Binh Thuan and An Giang reveals the following rural poverty profile, which prevails in all survey sites (see Table 1).

**Table 1. General Characteristics of the Rural Poor**

Natural capital	
<b>Land</b>	Lacking cultivable land
Financial capital	
<b>Credit status</b>	Lacking funds
	Highly indebted
	Relying on bank loans to pay for food
Physical capital	
<b>Accommodation, consumer goods</b>	Temporary houses, low-value furniture
Human capital	
<b>Family status</b>	Newly-separated households
<b>Awareness status</b>	Limited work experience
	Poor awareness
<b>Education status</b>	School dropouts are common as children take up work to support their families
	Difficult to persuade children to go to school
	Incompletion of primary school education, or lacking (functional) literacy among adults
<b>Health status</b>	Households headed by people of old age and/or with poor health or disability

*Source: Based on VASS (2009)*

This qualitative poverty assessment also finds certain characteristics of the poor that were present in only some (not all) sites as follows:

- (i) **Demography:** having many children (particularly young children);
- (ii) **Labor and employment:** lacking household labor; lacking employment; lacking opportunities for non-agricultural employment;

agriculture-based livelihoods: self-subsistence farming or working for other farmers; working for others on mountainous fields; major livelihoods depend on paddy fields;

- (iii) **Land:** low quality including both fields and one-crop terraces; sloping land with poor-quality soil constantly subject to floods or droughts; inefficient use of land: low productivity due to under-utilization of technical advancements and mono-cultivation; lacking efforts to reclaim state-provided land;
- (iv) **Assets:** lacking productive assets, hence having to work for others; maintaining no livestock husbandry or keeping only one animal; limited investments in forestry;
- (v) **Human capital:** limited understanding of the Vietnamese language (for ethnic minorities); failing to absorb technical knowledge or even to make efforts to learn; having no interest in utilization of technical advancements or if yes, slow and inefficient application;
- (vi) **Connectivity:** living in isolated, remote areas (largely for ethnic minorities); being virtually isolated from the Kinh/Hoa group (for ethnic minorities); having poor access to and hence lacking information on prices and markets;
- (vii) **Institutional capital:** controlled by brokers who buy products at low prices then resell at considerably higher prices;
- (viii) **Social capital:** weak and involving several social problems such as alcoholism and gambling in a subset of the poor population.

Qualitative information collected from the PPA 2008 thus reveals that while there are quite a number of common characteristics in the poor population, diversity is still discernible among these people, with considerable variation in explanations for their poverty status. This was further highlighted in a number of regional consultation workshops that VASS conducted as part of this poverty assessment.

**Urban poverty:** Similar to results of quantitative analysis of nationally representative household surveys presented in Table 6, participatory urban poverty monitoring conducted by Oxfam GB and Action Aid since 2008 also confirms low urban poverty rates at the survey sites of Hai Phong and Ho Chi Minh City; however, chances for further reduction are low. A typical urban poverty profile as perceived by interviewees includes the following characteristics:

- (i) **career and income: working as** informal laborer or street vendor with low and uncertain income; or being out of working age or unable to work

- (ii) household members:** having many children and/or sick household members as dependants
- (iii) education of household members:** below lower secondary level
- (iv) housing:** corrugated-metal-roofed 1-storey house
- (v) assets:** 100 percent possessing both a bicycle and a TV, few possessing motorbikes in Hai Phong while 100 percent possessing cheap motorbikes in Ho Chi Minh City
- (vi) borrowing :** strong demand for borrowing from the Bank for Social Policy, but not many can actually access subsidized credit
- (vii) social activity participation:** rare in Hai Phong; some attendance but low or no participation in Ho Chi Minh City

*Source: Oxfam GB and Action Aid (2009), p. 22*

Furthermore, the same survey also finds that the poor and the low income in urban areas often gathered in recently-urbanized peripheral districts. In these areas, infrastructures such as electricity, transportation, water and drainage were of poor quality; therefore, prices of both housing and land were relatively low and more affordable to them. The urban poorest shared certain typical disadvantages including disability, prolonged illness, old age or HIV/AIDS contraction. Some other urban poor still possessed working capacity but had many small children as dependants (Oxfam GB and Action Aid, 2009, pp. 25-26).

As can be seen, despite the general impressive achievements, progress in poverty reduction has been uneven across different groups of the population. Although all groups of the population have benefited from rapid and sustained economic growth over the last two decades, the degree of their participation in the development process has varied. This in turn has resulted in sizable disparities in poverty reduction and in well-being as measured by per capita expenditure across different segments of the society, which will be analyzed at some length in what follows.

**Table 2. Characteristics of the Poor in Vietnam**

	1993		1998		2002		2004		2006		2008	
	Poor	Non-poor										
<b>Household demographics</b>												
Size of household	5.2	4.6	5.4	4.4	5.0	4.2	5.0	4.2	5.0	4.1	4.8	4.0
% of female members	51.6	52.2	52.1	51.2	51.5	50.1	51.3	50.3	52.1	50.8	52.8	50.8
% of members aged < 17	47.2	35.8	46.0	32.8	42.9	30.6	42.5	29.0	40.8	27.2	38.8	25.7
% of male members aged > 60; female > 55	7.8	11.4	8.8	12.7	8.8	10.6	9.9	11.0	10.4	11.9	10.9	12.5
% HH head is ethnic	17.7	4.5	27.2	5.2	26.6	4.9	34.4	5.6	39.1	6.9	40.7	7.0
% HH head is male	77.5	67.7	80.4	70.4	82.0	73.5	79.9	73.4	79.5	73.7	78.7	73.8

**Table 2. Characteristics of the Poor in Vietnam (cont.)**

	1993		1998		2002		2004		2006		2008	
	Poor	Non-poor										
<b>Household education</b>												
Head: % primary	24.7	24.1	23.4	20.4	26.0	23.1	26.4	23.3	28.5	23.6	27.8	24.2
Head: % lower secondary	26.2	19.9	22.3	21.8	25.3	27.0	20.0	25.5	18.9	27.2	17.7	26.8
Head: % higher secondary	3.5	6.1	3.4	6.5	4.6	10.0	3.5	9.6	2.2	9.9	3.4	10.2
Head: % technical school	6.7	12.4	6.1	14.8	1.1	7.7	2.3	11.0	1.8	10.8	2.4	11.6
Head: % higher education	0.4	4.4	0.2	4.4	0.1	5.3	0.0	5.8	0.2	5.6	0.0	5.7
Spouse: % primary	21.1	22.9	19.5	20.9	25.6	25.1	26.3	24.6	28.4	26.7	27.4	27.1
Spouse: % lower secondary	25.9	17.3	22.9	20.7	24.9	27.7	20.7	28.3	19.4	27.8	17.6	28.4
Spouse: % higher secondary	3.6	5.4	4.1	5.9	3.5	9.3	2.6	8.3	1.9	8.6	2.3	8.7
Spouse: % technical school	4.0	11.0	2.7	11.5	0.5	6.8	0.1	8.6	0.4	8.1	1.0	8.2
Spouse: % higher education	0.5	3.7	0.1	3.5	0.0	4.4	0.1	4.7	0.0	4.6	0.0	5.4

**Table 2. Characteristics of the Poor in Vietnam (cont.)**

	1993		1998		2002		2004		2006		2008	
	Poor	Non-poor										
<b>Household employment</b>												
% unemployed members	40.3	38.6	40.9	38.6	44.3	42.6	43.5	41.2	44.1	41.3	42.2	41.3
% members in agriculture	51.3	35.8	51.1	36.2	46.5	28.8	47.6	28.6	46.5	27.4	47.3	27.2
% members in industry and construction	4.4	9.8	4.3	9.1	5.1	11.3	5.0	12.2	6.0	12.7	7.0	12.7
% members in service sector	4.1	15.9	3.7	16.1	4.2	17.4	3.9	18.1	3.5	18.6	3.5	18.8
% members are skilled laborers	0.9	4.4	4.2	14.1	4.4	17.2	3.7	17.7	4.6	19.4	5.5	21.9
% members are simple laborers	58.5	56.5	54.9	47.3	51.3	39.9	52.8	40.9	51.4	39.2	52.3	36.6

**Table 2. Characteristics of the Poor in Vietnam (cont.)**

	1993		1998		2002		2004		2006		2008	
	Poor	Non-poor										
<b>Household housing and access to basic services</b>												
% having a permanent house	10.5	23.9	6.5	20.1	5.8	21.1	4.7	24.4	5.3	26.7	7.5	31.2
% having a semi-permanent house	45.1	49.3	55.0	61.3	55.5	60.3	55.0	59.6	61.9	59.8	65.2	57.9
% having electricity	36.8	63.1	62.2	86.3	72.9	93.0	82.3	96.3	87.6	97.6	89.5	98.9
% having clean water	77.1	81.2	64.7	81.2	64.7	83.5	74.1	90.7	69.5	90.2	74.0	92.5
% having a sanitary toilet	8.7	31.2	6.9	36.4	21.5	56.1	19.7	59.4	22.4	64.6	27.4	70.2
% having a TV	7.1	40.8	30.3	67.9	37.4	77.8	44.9	84.9	53.2	89.1	65.4	92.7
% having a radio	12.7	41.4	30.6	48.2	19.3	27.5	13.9	20.6	8.4	12.8	5.4	6.9

*Source: Estimates based on VHLSS household survey data*

Uneven progress in poverty reduction can be seen fairly clearly in Table 3. As reflected in the changed poverty profile, the largest difference in the progress made in poverty reduction was between the Kinh/Hoa group and ethnic minorities, with poverty rate rapidly falling for the former (from 53.9 percent in 1993 to only 9 percent in 2008) but only modestly declining for the latter (from 86.4 percent in 1993 to 50.3 percent in 2008). Analysis of ethnic minority poverty done at a more disaggregate level by Baulch et al. (2009) also finds considerable disparities between ethnic minority sub-groups, with the poverty rates in 2006 as high as 83.4 percent and 75.2 percent for H-mong and other ethnic minorities in the Central Highlands respectively, but considerably lower for Kh-Me and Tay at 23.1 percent and 32.1 percent respectively.

**Table 3. Disparities in Poverty Reduction (%)**

	1993	1998	2002	2004	2006	2008
<b>Whole of Vietnam</b>	58.1	37.4	28.9	19.5	16.0	14.5
<b>Urban-Rural Disparities</b>						
Urban	25.1	9.0	6.7	3.6	3.9	3.3
Rural	66.4	44.9	35.6	25.0	20.4	18.7
<b>Regional Disparities</b>						
Red River Delta	61.4	28.6	22.4	12.1	8.8	8.1
North East	78.9	55.8	38.4	29.4	25	24.3
North West	81.0	73.4	68	58.6	49	45.7
North Central Coast	74.5	48.1	43.9	31.9	29.1	22.6
South Central Coast	47.2	34.5	25.2	19	12.6	13.7
Central Highlands	61.2	57.9	51.8	33.1	28.6	24.1
South East	40.0	13.5	10.6	5.4	5.8	3.5
Mekong River Delta	47.1	36.9	23.4	19.5	10.3	12.3
<b>Ethnic Disparities</b>						
Kinh-Hoa	53.9	31.1	23.1	13.5	10.3	9.0
Ethnic Minorities	86.4	75.2	69.3	60.7	52.3	50.3

*Source: General Statistical Office*

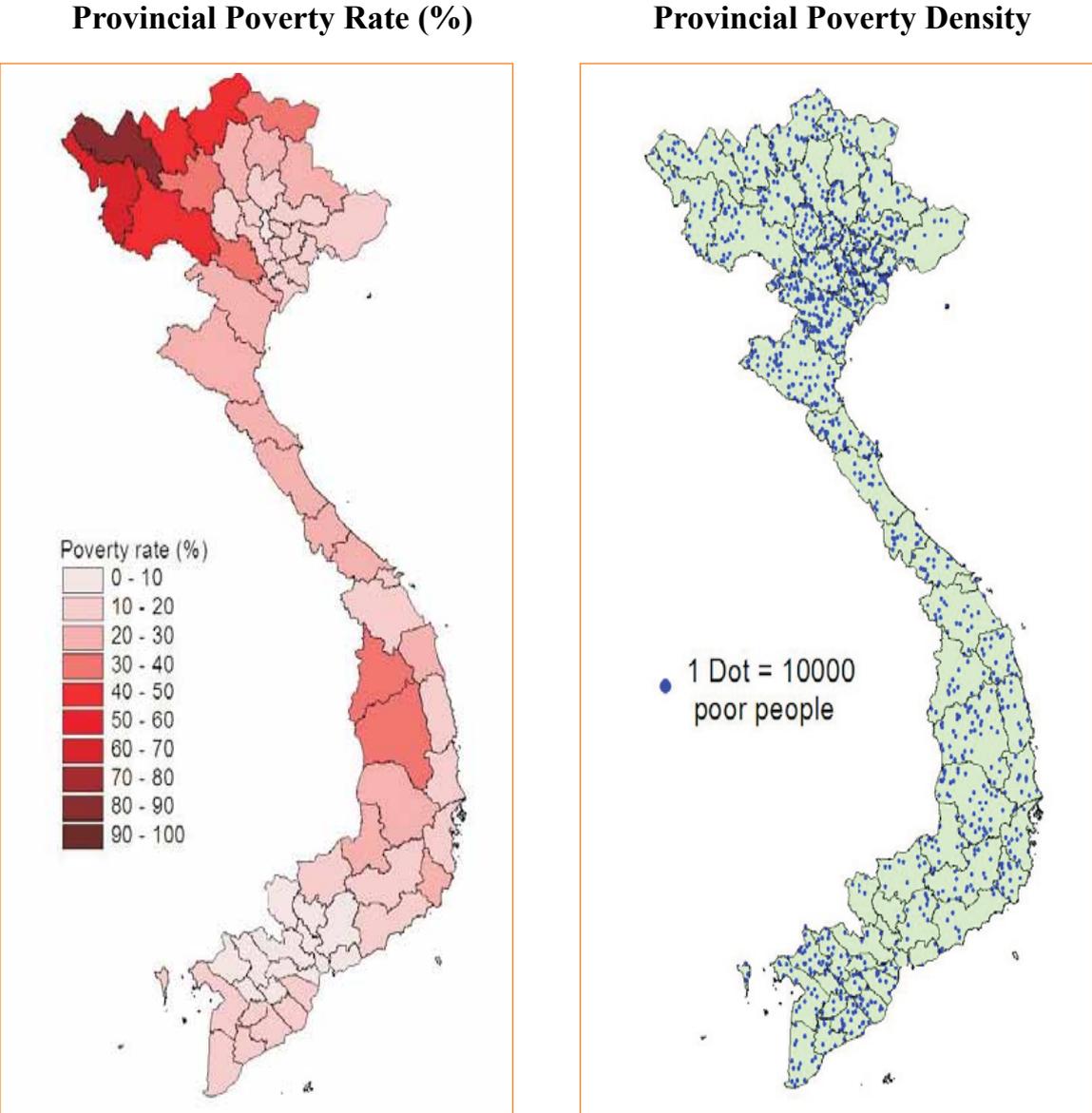
Rural-urban disparities in poverty reduction are evident: although rapid poverty reduction can be observed for both rural and urban populations, the poverty rate in rural areas was considerably higher than that in urban areas in all the six years that GSO household surveys were conducted.

Geographical disparities in poverty exist, with the South East and the Red River Delta outperforming all other regions in poverty reduction with single-digit poverty rates of 3.5 percent and 8.1 percent respectively in 2008, down from as high as 40 percent and 61.4 percent respectively in 1993. The slowest progress is observed in the still high poverty incidence of 45.7 percent in 2008, down from 81 percent in 1993 of the North West region, which is characterized by a high population share of ethnic minorities and isolation from the national market. In between these two ends are the North East, the Central Highlands and the North Central Coast which shared a similar performance, falling slightly short of that of the South Central Coast. A “higher resolution” picture of the spatial distribution of poverty and of spatial disparities in poverty rates at the provincial level has been constructed with a poverty mapping exercise. The small-area estimation method was employed, which identifies poverty correlates based on VHLSS 2006 data and subsequently uses information on these correlates from a considerably larger sample attained from the 2006 Rural Agriculture and Fishery Census to estimate poverty rates at the provincial and district levels. This method is important as such analysis cannot be directly done on VHLSS data as the sample size is inadequate to produce reliable estimates beyond the regional level. Figure 3 shows that while poverty incidence is higher in provinces of the Northern Uplands and the Central Highlands, the poor are actually concentrated in the delta regions. This important feature of the spatial distribution of poverty should be taken into account in the design of poverty reduction strategies.

Disparities in material well-being as measured by per capita expenditure are also evident between various groups of the population (see Figure 4). The gap between the poor and the non-poor consistently widened during the 1993-2008 period, with the average per capita expenditure of the poor dropping to only 30 percent of that of the non-poor in 2008, from 40 percent in 1993. The ethnic gap also remained large, having widened from 1993 to 2004 and stabilized since then. The rural-urban gap was fairly stable for the starting and ending points of the 1993-2008 period, although it fluctuated in between. In terms of regional gaps, the Red River Delta caught up relatively fast with the richest region, the South East, which is often used as the reference point for comparisons. The North West was way behind the South East and had not yet shown any signs of ever catching up with this benchmark region. After falling further behind the South East, the Central Highlands and the North Central Coast had almost succeeded in compressing the gap to the 1993 level while the South Central Coast and the Mekong River Delta were less successful in doing so. With regard to disparities between quintiles, the third and the fourth quintiles came back on track in the 2000s after falling further behind the top quintile in the

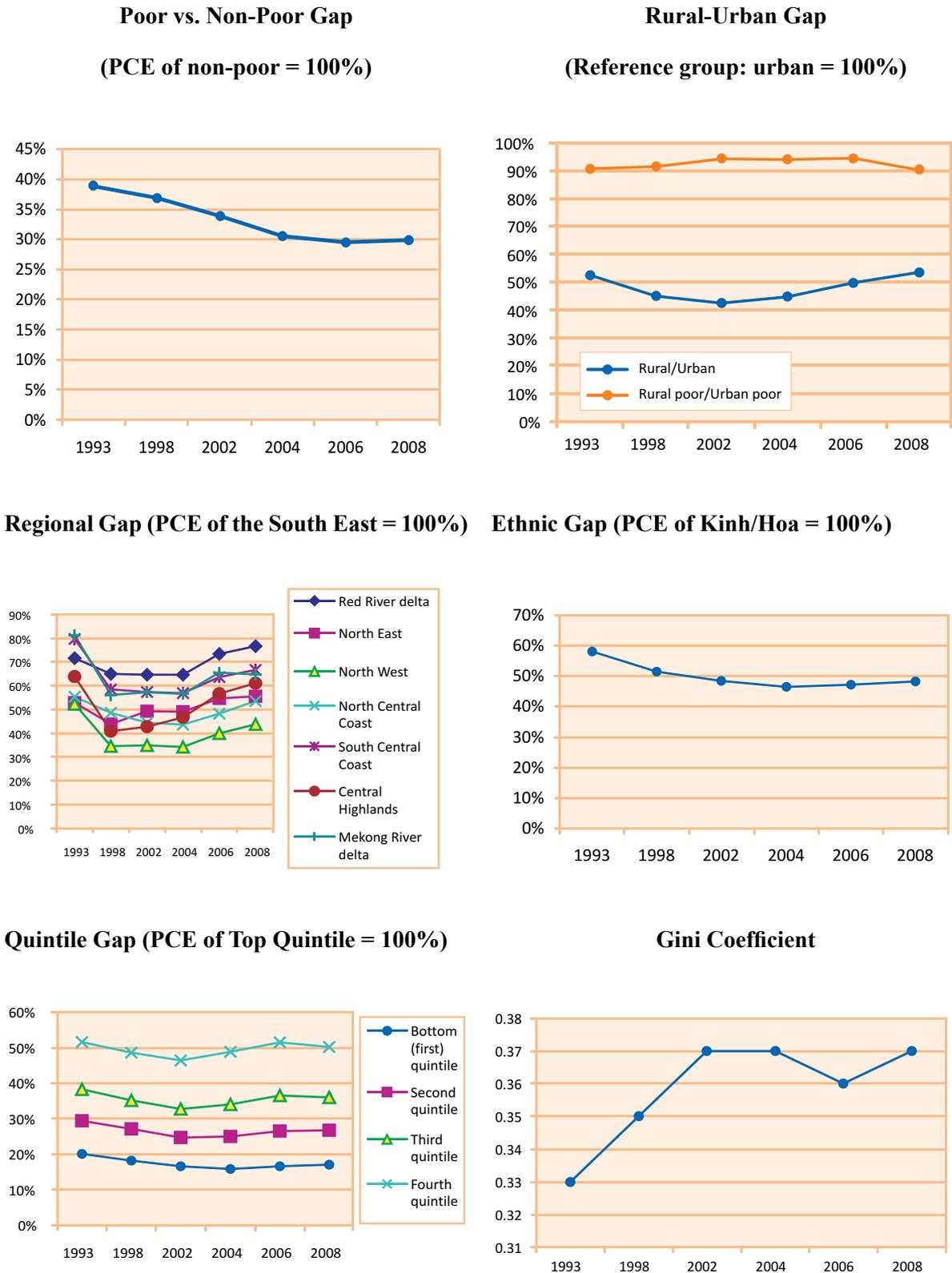
1990s, while the bottom and second quintiles saw their gaps with the top one widen. The fairly good performance by the third and the second quintiles, which may proxy for the middle class, may provide a partial explanation for the moderate changes in the national Gini coefficient, which rose modestly from 0.33 in 1993 to 0.37 in 2002 and has stabilized around that level since then. This value may be considered acceptable given the current state and level of development in Vietnam. A more comprehensive analysis of inequality in other dimensions such as education, land and access to basic public services by Pham Anh Tuyet et al. (2009) also confirms these overall trends in inequality.

**Figure 3. Poverty Rates and Spatial Distribution of Poverty at the Provincial Level**



Source: Nguyen Viet Cuong et al (2009)

**Figure 4. Disparities in Per Capita Expenditure (PCE)  
Across Various Groups of the Population**



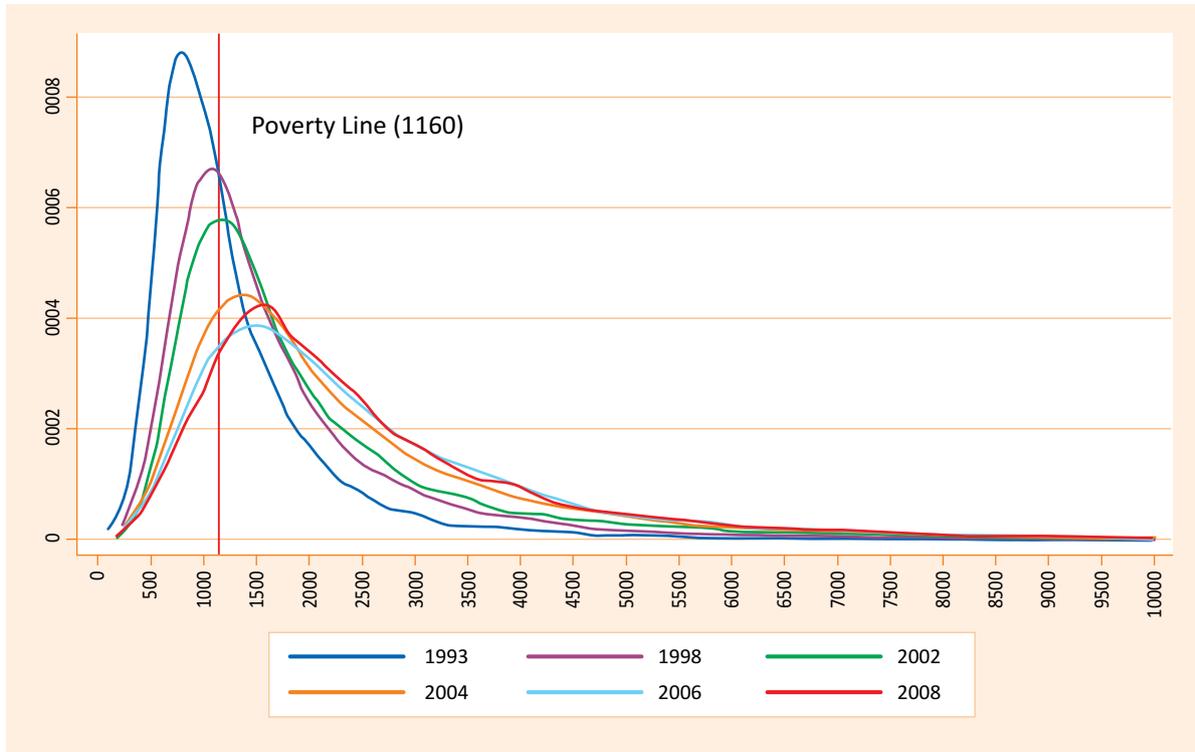
Source: Estimates based on VHLSS data

Although different types of gaps follow different trajectories with distinct fluctuations for each type as described above, they all share a common feature: in sheer volume, they all grew considerably from 1993 to 2008. The Vietnamese society has thus become much more heterogeneous nowadays than it was a couple of decades ago when the country first embarked on economic reforms under Doi Moi. Although the country as a whole has been taken off the list of poorest countries, segments of the population have not yet left the poverty trap for good. This implies that, as compared to 20 years ago when “the tide lifted all boats”; nowadays, much more sophisticated and nuanced policies are required in order to bring down poverty further and to avoid the so-called “inequality traps”.

Results of the above analysis also imply that in order to sustain past achievements in poverty reduction, policies should aim to promote not only rapid but also pro-poor and equitable economic growth. This point is further reinforced by looking at the changes in distribution of per capita expenditure of the population. Figure 5 shows that thanks largely to the sustained rapid economic growth and the corresponding rises in per capita consumption over the last two decades, the expenditure curve has shifted rightward and substantially flattened. As a consequence, the percentage of the population with per capita expenditure just below the poverty line has declined. Specifically, the percentage of the population with per capita expenditure within minus 10 percent (minus 20 percent) of the poverty line fell from 8.3 percent (17.8 percent) in 1993 to 3.4 percent (6.9 percent) in 2008. This implies that, with all other things being equal, poverty reduction would become more resistant to economic growth over time, i.e. a higher economic growth rate would be required for the reduction of each subsequent percentage point in the rate of poverty. In the context of the commonly acknowledged recent declines in efficiency of national investments, each subsequent percentage point in economic growth rate may require a higher level of investment. The implication is thus that poverty reduction may become more and more “costly” in the years to come unless a more efficient, pro-poor and equitable growth pattern is achieved.

**Figure 5. Distribution of Per Capita Expenditure During the Period of 1993-2008 in Vietnam**

(Unit: VND 1,000 at Fixed Prices of 1993)



Source: Our own construction based on VHLSS data

## 2. Poverty Dynamics and Policy

Heterogeneity of the population segment that has experienced poverty is further identified through analysis of poverty dynamics, which needs to be taken into account properly when designing poverty reduction policies. Specifically, a study on poverty dynamics (Bob Baulch and Vu Hoang Dat, 2010), which uses a three-wave panel dataset VHLSS 2002, 2004 and 2006, finds that although poverty rate consistently fell from 28.9 percent in 2002 to 16 percent in 2006, 35 percent of the population experienced poverty during this period, of whom approximately one fourth (or 9.3 percent of the total population) lived in chronic poverty (i.e. they remained poor throughout this period) and the remaining three fourths experienced changes in their poverty status. Within the group of people moving in and out of poverty, the permanent escapers (i.e. who were poor in the initial year of 2002, but not poor in the subsequent years of 2004 and 2006) made up 11.3 percent of the total population (or over 30 percent of the poor population). The rest, who may be termed as the transient poor, made up 14.4 percent in the total population (or over 40 percent of the poor population). A more sophisticated technique of contour analysis of the same panel dataset finds that a large

number of households in Vietnam remained highly vulnerable to falling back into poverty<sup>1</sup>. Also, the chronic poor category has both the lowest inter-temporal mean and median expenditure in real terms, which is not the case in all countries<sup>2</sup>.

Further disaggregated analysis finds considerable differences across ethnicity in terms of poverty dynamics (Appendix 1). For ethnic minorities (EM), the chronic poor had the largest EM population share of 39.2 percent followed by the transient poor (29.4 percent), the permanent escapers (12.8 percent), and the non-poor (as small as 18.6 percent). For the Kinh/Hoa people, the order is almost reversed, with the non-poor sharing in almost 70 percent of the population of this group, followed by the transient poor (12.2 percent), the permanent escapers (11.8 percent) and finally, the chronic poor (6.1 percent). The poverty dynamics analysis also finds that ethnic minorities had a disproportionate share in the chronic poor population, which is estimated at 47.1%. Geographically, the North Central Coast had the largest share in the chronic poor population, followed by the Northern Uplands (24.9 percent), the Central Highlands (21.8 percent) and the Mekong River Delta (10.4 percent) while the share was negligible for the South East (0.8 percent) and small for the Red River Delta (3.8 percent). This group of chronic poor is also characterized by unfavorable initial conditions, notably high dependency ratio (30.7 percent vs. the average rate of 16.3 percent for the whole of Vietnam), abnormally high percentage of household heads without primary education (57.8 percent vs. the average of 31.5 percent), serious lack of access to electricity (36.8 percent vs. the average of 11.9 percent) and lack of access to clean water (87.1 percent vs. the average of 57.2 percent). For the group of permanent escapers, their considerably higher percentage of household heads having finished lower secondary school (37 percent) as compared to that of the chronic poor (11 percent) and the transient poor (27.1 percent) is presumably the most striking characteristic.

In the same study, econometric analysis of rural poverty dynamics, which allows for “like with like” comparisons by controlling relevant variables, confirms that certain household and geographic characteristics (such as ethnicity, lack of education, and resident status in northern Vietnam) exert immense influence that locks households in chronic poverty, and that education at the secondary level and higher provides the platform for many to escape from poverty. This implies that the structural nature of chronic poverty in rural Vietnam prevails. Consequently, it would take a long time, even generations, to help this group to break away from poverty. While certain characteristics such as ethnicity and education of household

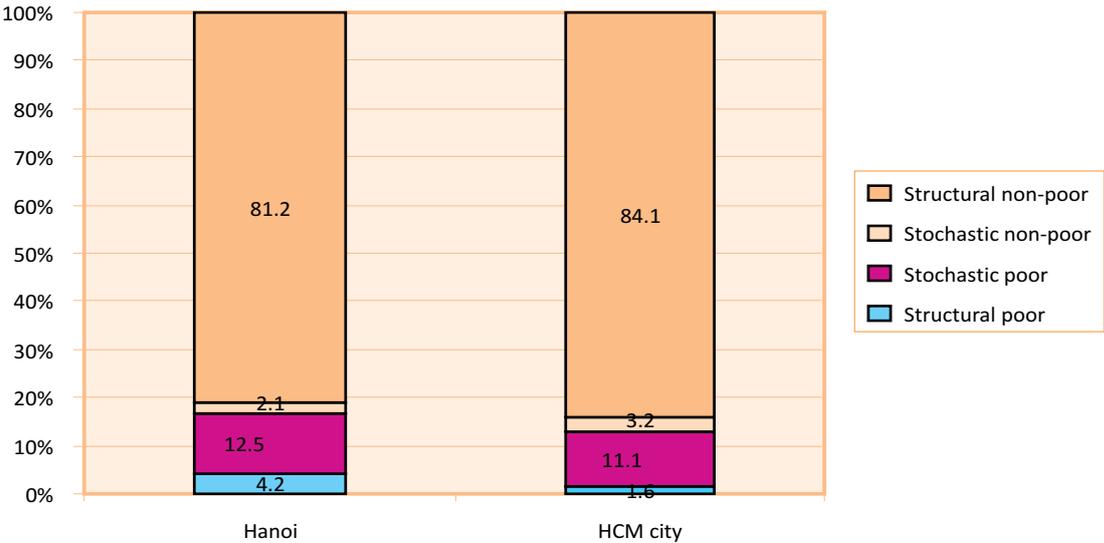
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1. In this study, a small simulation exercise was done to evaluate the likely impacts of the rise in food and fuel prices in late 2007-08 on poverty in Vietnam. For example, if food expenditures in 2006 are adjusted for the rise in the CPI for food and foodstuffs between December 2006 and October 2008, the calculated number of households moving out of poverty between 2002 and 2006 falls by 45%

2. For example, in rural South India, Gaiha (1989) finds that households moving into poverty had the lowest per capita incomes (Bob Baulch and Vu Hoang Dat, 2010)

heads<sup>1</sup> or dependency ratio etc. are impossible to alter, it would be crucial to avoid the so-called “inter-temporal transfer” or “perpetuation” of poverty<sup>2</sup> by proactively implementing Government’s targeted interventions to enable children to receive the right level of education and skills that would grant them access to wage jobs in the faster-growing sectors and regions of the country, regardless of their birth locations. Migration, particularly rural-to-urban movements, plays an important role in this aspect in light of the accelerating urbanization process in Vietnam. Analysis of the 2009 Urban Poverty Survey data by Nguyen Viet Cuong et al. (2010) also finds that transitory poverty is an issue even in the two richest provinces of Hanoi and Ho Chi Minh City. Figure 6 shows that when a relatively high poverty line of VND 1 million per month (or approximately USD 2 per day in current dollar values) is applied for both cities, the structural poor (or chronic poor) only makes up a small population share in Hanoi (4.2 percent) and an even smaller one in Ho Chi Minh City (1.6 percent), while the population share of the stochastic poor (which is in many ways similar to transient poor), is high at two-digit levels of 12.5 percent and 11.1 percent respectively.

**Figure 6. Urban Poverty Dynamics**



*Note: **Structural poor:** poor by both income and assets (demographics; education; housing; types of employment); **Stochastic poor:** poor by income, but non-poor by assets*

*Source: Nguyen Viet Cuong et al. (2010)*

1. Le Thuc Duc et al. (2011) finds a discernibly positive impact of the level of education of caregivers on reducing underweight problems, growth stunting, and children’s housework duties which are believed to be the trade-off of the time used for self-studying or extra classes. All of these help to raise children’s human capital and consequently, reduce the probability of them falling into poverty in the future. This study thus further stresses the role of education in reducing not only current but also future poverty.
2. According to UNICEF (2009), children living in households that live below the monetary poverty line display higher vulnerability to poverty

VASS-coordinated Participatory Poverty Assessment (PPA) conducted in 2008 comes up with a considerably more comprehensive list of explanations for changes in poverty status (Table 4).

**Table 4. Findings on Poverty Dynamics of the 2008 Participatory Poverty Assessment**

The case for success in escaping poverty	
<b>Financial capital</b>	Having high initiative in applying for and using loans for effective poverty reduction
	Receiving compensation for land seized for local infrastructure construction
	Having savings (at some sites)
<b>Labor</b>	Relatively better human capital
	Having many children but grown-up children are better educated and employed thus able to help support their families
	Healthy and hard-working parents
<b>Natural conditions</b>	Few natural calamities and crop epidemics in recent years (at some sites)
	Having land and better productive assets, including quality or highly-valued cultivable land or land in locations suitable for setting up production workshops or small retailing businesses.
<b>Awareness, lifestyles</b>	Having strong determination to escape poverty, desire to learn new techniques, and good awareness
	Active and rational in consumption and savings for production investment
	Free from alcoholism
	Seen as being credit-worthy

<b>External support</b>	Poverty reduction schemes, particularly those relating to infrastructure, influence production and prices of products positively (at some sites)
	Ethnic minorities receiving substantial support from the State and non-state institutions through poverty reduction schemes both for the general population and for ethnic minorities (provision of cultivable land, new seedlings, fertilizers; forest protection contracts; price subsidies; replacement of temporary housing, etc.) (at some sites)
	Able to make good use of state support (at some sites)
	Synchronized implementation of poverty reduction measures and schemes that involved the participation of the entire community
	Supportive policies and schemes for generating regular employment
	Loan schemes for production and business
<b>New livelihood, models</b>	Having access to training and applying newly-acquired knowledge to production
	Some ethnic minority people who have better awareness, work harder and understand the Vietnamese language better are selected to experiment with new cultivation and livestock husbandry models (at some sites)
<b>Capacity</b>	High-productivity crops, new seedlings, expanded cultivation land, rising market prices for crops (at some sites).
	Able to make good use of opportunities extended from institutions, schemes and policies (at some sites)
<b>Risks</b>	Having good access to information and able to make the right decisions
	<b>The case for falling below poverty lines</b>
<b>Risks</b>	Fatal accidents (in production and business)
	Long-term or serious physical illnesses, loss of key labor
	Natural calamities, crop and livestock epidemics, harvest losses
	Other risks in production
<b>Labor, employment</b>	Lacking labor
	Too indolent to work
	Poor education

<b>Demographic changes</b>	Many children and dependants
	Newly separated households
<b>Social impacts</b>	Being under an obligation to organize and/or contribute to major ceremonies such as weddings and funerals sometimes push near-poor, even better-off, households into poverty and indebtedness
	Social problems such as alcoholism and gambling (at some sites)
<b>The case for remaining under poverty lines</b>	
<b>Natural capital</b>	Having no land or insufficient land for cultivation, lacking capital and productive assets
	Having land but lacking funds for investment
	Having land but too indolent to reclaim it
<b>Labor, employment</b>	Reliance on casual employment
<b>Awareness, lifestyles</b>	Poor education and awareness
	Inactiveness
<b>Risks</b>	Long-term illnesses
	Inflation
<b>Demography</b>	Lacking labor and/or having many dependants
	Having to pay for children's schooling
<b>Social impacts</b>	Customs, conventional spending and consumption practices
<b>External support</b>	Lacking technical assistance

*Source: VASS (2009)*

Different types of policy interventions are needed for chronic and transitory poverty. To deal with chronic poverty, due to its largely static nature, social assistance including poverty targeted programs would be appropriate. The focus would then be on how to improve targeting, given the diverse needs and heterogeneity of the poor as mentioned above, in order to reduce leakage, broaden coverage and raise support levels. It is also important to simplify the program design and implementation procedures so as to cut down transaction costs and to reduce dependence culture among the poor. Poverty discussions in Vietnam, particularly among policy makers, have mostly focused on poverty targeted programs. These may not be very effective in dealing with

transitory poverty, however, because the list of poor people is updated only annually, and is often subject to quota on the poverty incidence imposed by higher authorities while movements in and out of poverty may occur much more frequently. Therefore, while the targeted approach is important, it is far from sufficient because dynamic poverty has become an increasingly big issue as Vietnam is accelerating economic reforms and intensifying integration into the world economy, with WTO accession in early 2007 as a key milestone. As such, in order to help the poor to escape poverty in a sustainable manner while protecting the non-poor from falling into it in this new economic context, the country would require a broad-based poverty reduction approach that encompasses enlarging income earning opportunities, reducing risks and vulnerability, and building up human capital.

## **Chapter II.**

# **POVERTY REDUCTION IN VIETNAM IN THE NEW ECONOMIC CONTEXT OF THE POST-WTO ACCESSION PERIOD**

This chapter will start with a discussion of the new economic context in the post-WTO accession period in Vietnam. It will then discuss newly-emerging opportunities and challenges that have arisen in this new context, with a special focus on how to deal with systemic and idiosyncratic risks and how to create more opportunities for the poor and the low income in the new economic context. Specifically, issues related to maintaining macroeconomic stability, strengthening the social protection system, enhancing opportunities for and capabilities of the poor and the low income will be discussed at length. The chapter will then be concluded with an analysis of poverty of ethnic minorities, who are way behind the Kinh/Hoa majority in terms of development.

### **1. The New Economic Context in the Post-WTO Accession Period in Vietnam**

The Doi Moi process spanning over 20 years has constantly been associated with Vietnam's consistent integration into the world economy. Over the last two decades, Vietnam has taken a number of steps to liberalize trade at the unilateral, bilateral, regional and multilateral levels. Vietnam's accession to the WTO in early 2007 is widely seen as an important milestone in the country's integration process. Some commentators see this as the starting point of a new round of reforms that would lead to far-reaching changes in both policy and business environment, with major implications for Vietnam's economic growth and poverty reduction performance. Major changes have taken place across the board at, beyond and behind the border. Beyond-the-border changes include Vietnam's greater access to foreign markets, notably via the removal of quotas on Vietnam's garment exports, which provides jobs to many low-skilled workers, as well as via the dispute settlement mechanisms exclusive to WTO's

members, which Vietnam has started to resort to in order to fight away unfair practices by certain trading partners against its footwear and seafood exports. These two export sectors provide income-earning opportunities for many low-skilled migrant workers and rural laborers. At-the-border changes include the lowering of barriers to trade in the form of the reduction of import tariffs and the dismantling of numerous non-tariff barriers. Behind-the-border changes include the opening up of services and distribution sectors, as well as the legal and institutional reforms required by Vietnam's commitments under WTO accession. These will help Vietnam accelerate its transition to a market economy, with salutary consequences for economic growth and poverty reduction.

However, challenges go hand in hand with opportunities. First, both the lowering of import tariffs, from the pre-accession average rate of 17.4 percent to the ceiling of 13.4 percent at the end of the transition period, and the dismantling of non-tariff barriers to trade will translate into greater competition from foreign firms, particularly from countries within the region where a wide range of similar products to ours are made. The national treatment principle means that domestic enterprises have to compete with foreign firms on an equal footing, without relying on the Government's targeted support, which they were accustomed to in the past. Other WTO commitments require that the Government of Vietnam should employ only WTO-consistent instruments to strengthen domestic firms' competitiveness, promote exports and encourage investments into certain sectors or regions to achieve the country's development objectives.

Thus, upon the country's accession to the WTO, a number of policy levers previously available for the Government of Vietnam as well as some industrial policy tools used extensively by East Asian countries in the early stages of their socio-economic development can no longer be deployed. Specifically, the need to comply with trade-related investment measures upon accession means that preferential state credit and import tariffs contingent upon localization ratios ceased to exist as soon as Vietnam became a WTO member. Nor can the Government continue to provide subsidies in the form of export performance linked investment incentives beyond the five-year phase-out period. Special treatment for SOEs in general and state trading enterprises in particular, which was fairly common in the pre-accession period, is also no longer allowed. Furthermore, Vietnam is among the few WTO members who still suffer from the unjustly- and arbitrarily-imposed "non-market economy" status. This considerable disadvantage will likely continue until 2018 unless Vietnam's efforts to escape this status come to fruition earlier. Until then, trading partners can, without difficulty, take anti-dumping actions that leave devastating effects on Vietnamese firms, workers and households. Thus, Vietnam is highly vulnerable to global protectionism, which tends to escalate in the face of challenges during and after the global financial crisis.

With regard to external financial liberalization, international experiences suggest that having proper regulatory and supervisory structures is critical for a country to maximize the benefits and minimize the costs associated with this process. The high degree of volatility and the pro-cyclical nature of international capital flows have had destabilizing effects on countries whose regulatory frameworks for short-term capital are inadequate. In Vietnam, these potential problems were not understood well during the accession period, but actually only arose afterwards in the first few subsequent years. The resultant macroeconomic turbulences and their impacts on the poor and the low income will be discussed at length in the next section.

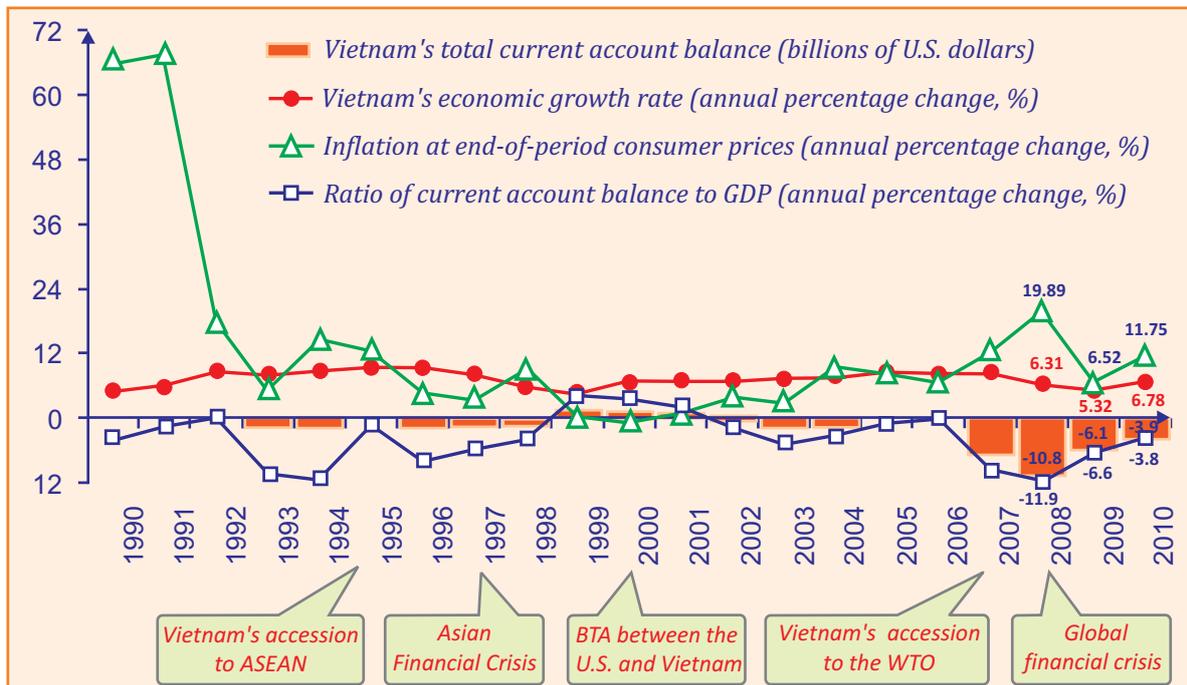
In short, both opportunities and risks have considerably heightened since Vietnam joined the World Trade Organization (WTO) in early 2007. While the net impacts of the accession on economic growth and poverty reduction are expected to be positive, and all the three types of changes mentioned above are important, behind-the-border changes and policy responses to all types of changes play the most important role in determining the final outcomes.

## **2. Maintaining Macroeconomic Stability for Growth-Based Sustainable Poverty Reduction**

### **2.1. Macroeconomic Performance in the Post-WTO Accession Period**

Macroeconomic stability was commonly seen as a relative strength of Vietnam before it acceded to the WTO. In fact, it consistently received the highest score among the so-called “pillars” that make up the Competitiveness Index of the World Economic Forum (WEF) during the period leading to WTO’s accession. In 2006, right before the accession, while Vietnam’s overall ranking was 77, its macroeconomic stability was ranked 53, highest among all “pillars” making up Vietnam’s overall competitiveness index. However, in the post-WTO accession period, the situation was reversed. Overall, Vietnam was ranked 75 while its macroeconomic stability was ranked 112 in 2009, way lower in ranking than the rest of the twelve pillars. (Source: <http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>) The worsening macroeconomic performance can be seen very clearly from Vietnam’s macroeconomic data. Figure 7 shows that the year 2007 marked the start of macroeconomic turbulences with inflation rate reaching a two-digit level of 12 percent. In the ensuing year of 2008, both inflation and current account deficit peaked at 19.9 percent and at 11 percent of GDP respectively, the highest levels seen in Vietnam since 1992. Systemic risks have thus been on the rise since 2007.

**Figure 7. Vietnam's Macroeconomic Performance During the Period 1990-2010**



Source: General Statistical Office (GSO), State Bank of Vietnam (SBV), International Monetary Fund (IMF) and World Bank (WB)

Many commentators believe that part of the problem can be explained by large inflows of capital in various forms, particularly a surge of portfolio investments in 2007 caused by the exuberance of foreign investors in anticipation of huge business opportunities arising in Vietnam upon the country's accession to the WTO. In particular, foreign indirect investment (FII) in 2007 was as large as USD 8.9 billion as opposed to considerably smaller scales in the pre-WTO accession period at USD 0.6, 0.7 and 2.1 billion in 2004, 2005 and 2006 respectively. In relative terms, FII in 2007 was equal to 12.7 percent of GDP, by far exceeding the same figure for other emerging economies in the same year (0.7 percent, 0.1 percent, and 2.4 percent GDP for China, Indonesia, and South Korea respectively) and even for a number of preceding years (Source: Merrill Lynch, 2008). The country was arguably not well-prepared to manage large indirect investment inflows in such a way that would help to successfully avoid their undesirable effects, which in combination with the chronic problem of "dollarization" caused huge difficulties for monetary and exchange rate policies. Policy responses undertaken then failed to sterilize these inflows, resulting in high inflation, asset bubbles, and large macro imbalances. As a result, market sentiment quickly turned from exuberance to fear in the middle of 2008. Inappropriate macroeconomic management thus exacerbated the country's

inherent structural problems, which include low efficiency in public sector investments, weak infrastructures and inadequate human capital being widely seen as critical bottlenecks to growth, persistently large budget deficits, and growing trade deficits. Consequently, macroeconomic instability has persisted since 2007, a fact few people anticipated during the WTO accession process. After experiencing huge macro shocks in 2008, Vietnam subsequently fell victim to the global financial “tsunami” in early 2009. These shocks actually presented a real test for both economic growth and poverty reduction in Vietnam. There is abundant evidence of how macroeconomic instability has heavily affected the economy in general and low income workers and households in particular thanks to a number of studies done on the topic, which include both quantitative and qualitative research conducted under the Poverty Assessment of 2008-2010 and a number of initiatives in the form of rapid monitoring of impacts of the global economic crisis on Vietnamese firms, laborers and households.

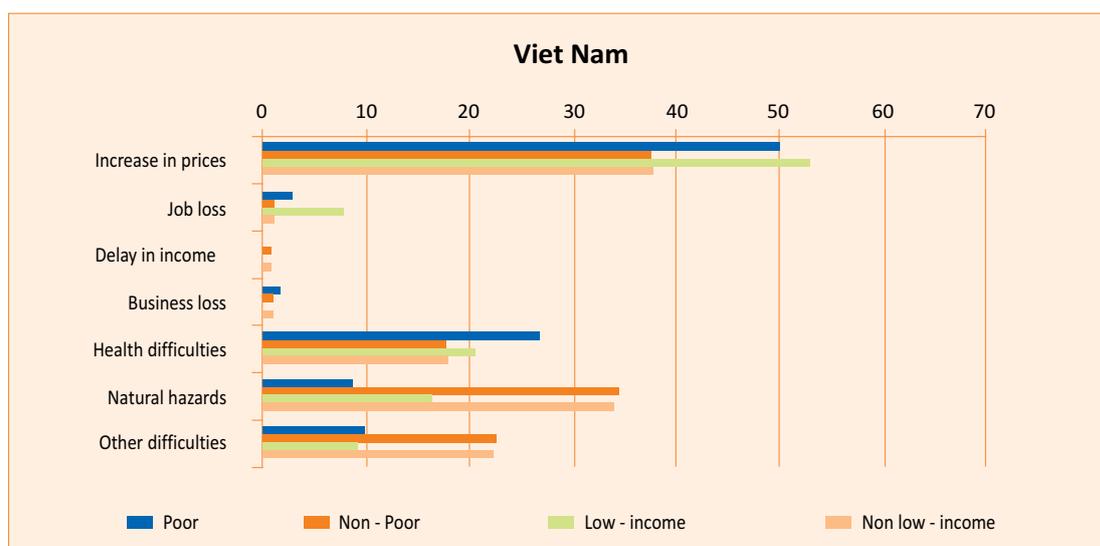
## **2.2. Impacts of Macroeconomic Instability on the Poor and the Low Income**

Nguyen Viet Cuong (2009) uses datasets from VHLSS 2002, 2004 and 2006 to simulate the impacts on poverty of sharp increases in price that Vietnam experienced in 2008, keeping all other things equal. This study finds that the impact of the high inflation of 2008 on poverty is discernible as the poverty incidence was raised by 2.1 percentage points. Admittedly, this number may have over-estimated the impact of high inflation on poverty given the strong assumption on a constant ratio of consumption over income<sup>1</sup> made by the study. Nevertheless, the slowdown in poverty reduction in 2008 is still evident in the data obtained by VHLSS 2008, with poverty rate dropping by 1.5 percentage points from 16 percent in 2006 to 14.5 percent in 2008 as compared to decreases of 3.5 and 19.5 percentage points during 2004-2006 and 2002-2004 periods respectively. This slowdown is observed in almost all groups of the population. Although there were many other factors at work at the same time including the declining percentage of the poor population around the poverty line as mentioned earlier, there are strong reasons to believe that the high inflation of 2008 and the resultant sharp contraction of labor-intensive construction sector were among key causes for the recent slowdown in poverty reduction as observed from the VHLSS 2008 data. Further analysis finds that the largest percentage of the population perceived themselves to have been hit by the price shock far more severely than by other types of risks (see Figure 8).

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1. This assumption may not be in line with the Life Cycle-Permanent Income hypothesis, which states that people smooth their consumption over the long term, resulting in a rise in the consumption over income ratio in challenging times and vice versa.

**Figure 8. Household's Exposure to Various Types of Risks (% of Households)**



*Note: Low income – bottom quintile*

*Source: Tran Ngo Minh Tam and Le Dang Trung (2010), based on analysis of VHLSS 2008 data*

Further evidence on the impacts on poverty and income distribution of high inflation in both rural and urban Vietnam can be found in recent surveys. In rural areas, interviews with local officials and people conducted at numerous rural sites in the North, the South and the Central of Vietnam under the 2008 Participatory Poverty Assessment find that risks caused by the 2008 high inflation yielded the most wide-ranging impacts on all income groups, poor or non-poor, from the Kinh/Hoa people to ethnic minority people; and that inflation was indeed regarded as the biggest concern for many respondents. The impacts of inflation on the poor are one of the issues that distinguished the PPA 2008 from the previous PPAs conducted in 1993 and 2003 (VASS, 2009, p.50).

In urban areas, analysis of data collected from an urban poverty survey conducted in the two largest cities of Vietnam, Hanoi and Ho Chi Minh City, at the end of 2009 also confirms that inflation was the biggest risk, hitting 69 percent of the bottom income quintile, by far exceeding other types of shocks (the health shock hits 28 percent and each of the remaining types of shocks hits less than 10 percent of the urban population in these two cities<sup>1</sup>). What is most notable about this finding is that the questions asked were about risks experienced by the households within

1. Source: Hanoi and Ho Chi Minh City Statistical Offices (2010)

the 12 months preceding the interview time (October-November 2009) thus also included external shocks arising from the global economic crisis. Interviews under another initiative on the rapid monitoring of impacts on Vietnam of the global economic crisis conducted in the first half of 2009 put forth similar findings: most respondents displayed lasting memories about impacts of inflation, citing price hikes as the biggest problem even at the peak of this external shock when shorter working hours and even outright layoffs directly leading to considerable drops in nominal incomes prevailed at all survey sites.

Furthermore, field surveys conducted under the Participatory Monitoring of Urban Poverty 2008 (PMUB 2008) by Oxfam GB and Action Aid (Oxfam GB and Action Aid 2009) find that the sharp increases in prices of food and other services in 2008 without proportional increases in income from jobs<sup>1</sup> and social subsidies resulted in great difficulties for most urban poor and near-poor people. As their purchasing power decreased, the poor and the low income in urban areas had to spend almost all of their income on food and other essentials such as electricity, water, gas, etc., leaving almost nothing for savings. This translated into increasing vulnerability, particularly when these groups had to face with serious risks such as health problems. The impact of the high inflation of 2008 varied across different groups of the poor and low income population. Non-working people (e.g. pensioners or laborers with health problems) were hit the hardest as their incomes in nominal terms considerably lagged behind or did not even rise at all. The 2008 “price storm” also heavily affected low-income migrant workers. Unlike local people, migrant workers had to bear additional expenses in the form of accommodation rents or higher prices for electricity and water<sup>2</sup>, all of which rose sharply in 2008, apart from the burden of rising costs for food and services. As a substantial proportion of these migrants’ incomes were set aside for savings and remittances to be sent back to their home village (estimated at approximately 23-28 percent<sup>3</sup>), when their incomes were reduced, these amounts necessarily decreased. This was in turn relayed back to the countryside with adverse impacts on rural poverty reduction.

In rural areas, the PPA 2008 interviews find that the general price inflation had substantially negative impacts on many people, especially non-rice producers. In non-rice growing regions covered in the PPA 2008, it was observed that the rising costs of agricultural inputs slowed down the restructuring of crops and livestock as well as the production process and the poverty reduction progress. For example,

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1. Incomes in the surveyed areas rose by a maximum of only 10-20%, while prices of most products and services increased by 30-50% in 2008 (Oxfam GB and Action Aid, 2009, p. 59)
  2. Migrants are always charged 2 to 4 times higher for electricity and water as compared to local residents as they do not have their own meters like local residents thus have to pay the highest tariff (from VND 2,000/kwh for electricity and from VND 7,000/m<sup>3</sup> for water in 2008) to their landlords who own the meters. House rents went up by 20-30% in 2008 (Oxfam GB and Action Aid, 2009, p. 56).
  3. Source: Oxfam GB and Action Aid (2009), p. 56

in Kon Tum, the PPA 2008 reveals that many inputs became 2 to 3 times more expensive and poor households that usually bought their inputs on credit were subject to having to pay even higher prices. As costs for seedlings, fertilizers and labor went up; some households could not continue to invest in perennial industrial crops such as rubber, coffee, pepper and *litsea glutinosa*. However, the fluctuating production prices and increased consumption prices for paddy rice led to mixed outcomes in rice-growing regions. For example, in the Mekong River Delta, both winners and losers emerged from this price shock with the boundaries between them sometimes becoming ambiguous, thus generating very diverse views on this issue. While a large number of local people were especially concerned about increases in both production and consumption prices for rice, a subset of rice producers were actually happy because their production became more profitable as prices of paddy rice went up. This “winner” group normally consisted of households with large land area and stable financial resources plus some luck to be able to sell paddy at the right time to substantially benefit from the rice price hikes. However, for numerous other rice producers, the increase in rice price was partially or completely offset by that in input prices, especially if they sold paddy at the wrong time just to meet urgent production or consumption needs in the absence of adequate financial buffer. As a consequence, some respondents highlighted the distributional impacts of rising food prices, with the gap widening between households with adequate land and financial resources and those without.

Findings of the above-mentioned rural and urban surveys are broadly in line with results that were obtained from a quantitative analysis of poverty and distributional impacts of food price inflation by Vu Hoang Linh and Paul Glewwe (2009), which uses the nationally representative household survey VHLSS 2006. This study finds that while the net impact of higher food prices on an average Vietnamese household’s welfare was positive, the distribution of benefits and costs was uneven across the population, with 57 percent of households made worse off by a uniform 20 percent increase in both food production and consumption prices. In particular, a uniform 20 percent increase in price of rice would worsen the welfare of 54 percent of rural households and 92 percent of urban households. In terms of poverty impact, a large food price increase, for example by 50 percent, would likely significantly increase the poverty rate<sup>1</sup>.

The price shock of 2008 was immediately followed by another big shock that came in early 2009 after the global economic crisis broke out in the US in the fourth

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1. These results are sensitive to the assumption on uniform increases in both production and consumption prices for food. This may be a strong assumption as in reality, large food companies, which are few in number and possess abundant financial resources, normally have a considerably better bargaining position vis-à-vis small food producing farmers, who are many in number and possess limited financial resources. As such, it is unlikely that increases in consumption prices for food are fully passed on to food producing farmers in the countryside.

quarter of 2008 and quickly spread throughout the world. The Vietnamese economy was hit hard by this external shock largely through the export channel due to credit crunch and the resultant shrinking demand from markets in the West. Surveys on export-oriented sectors conducted under the Rapid Impact Monitoring of the Global Economic Crisis (RIM) coordinated by the Vietnam Academy of Social Sciences since the first quarter of 2009 find that at the peak of impacts in the first half of 2009, export-oriented labor-intensive manufacturing industry was hit extremely hard, to a larger extent in wood processing, electronics and handicraft firms, and to a lesser extent in seafood, footwear, textiles and garment firms. In response, these firms had to scale down their production and in turn, shorten their working hours or even retrench some of their workers. In the urban labor market, laborers who lost jobs or “voluntarily” left firms due to insufficient income from shorter working hours moved to the informal sector. This sector actually played the role of the “last-resort employer” in the challenging times of economic downturn, but eventually also came under pressures of rapid increases in labor supply, resulting in mounting underemployment and falling earnings. Some of the retrenched workers headed back to their home village, which exerted some pressure on the rural labor market but not for long as these workers tended to return to the cities in search of urban-based jobs again.

The shock experienced by Vietnam’s external demand has been, fortunately, rather short-lived, having started to fade away since as early as the third quarter of 2009. As of the third quarter of 2010, when the latest round of the RIM was conducted, the export sector had almost fully recovered albeit unevenly across different types of firms. While strong rebounds were observed for firms in wood processing, textiles and garment, footwear, electronics and tourism; recovery was sluggish for seafood and handicraft sectors<sup>1</sup>. Together with the recovery of export sectors, non-tradable sectors, notably labor-intensive construction and retailing, also enjoyed strong recovery thanks partially to the stimulus package rolled out by the Government of Vietnam in 2009. The labor market also strongly rebounded since the third quarter of 2009 and observed a complete reversal in the labor market from employment shortage to labor shortage, which persistently continued into the fourth quarter of 2010 and beyond. However, high inflation started to emerge again; and the main problems facing the majority of firms, including labor-intensive ones, were not weak demand for their products but high and still

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1. In-depth interviews with managers of export-oriented manufacturing firms including FDI enterprises conducted under the RIM reveal that the export rebound may be attributed to a number of factors including (i) clients in the West had their access to credit considerably improved after experiencing the credit crunch during the financial crisis; (ii) core demand overseas for numerous export products from Vietnam increased thanks to the overall economic recovery abroad, (iii) China, the biggest competitor for markets of Vietnam’s exports and import-substituting goods, started to break away from these low-end segments to move up the value chain, due in part to the appreciation of the Chinese Yuan; (iv) numerous FDI firms started to close down their subsidiaries in countries where production costs are relatively high and moved to Vietnam.

rising input prices and extremely high borrowing interest rates. This situation was, in many ways, similar to what happened during the period of abnormally high inflation in 2008.

The RIM surveys as well as Cling et al. (2009) find that macroeconomic turbulences in 2008 and 2009 resulted in qualitative adjustments in the form of shorter working hours and/or reduced earnings/income, which then were considerably more common than open unemployment. Indeed, nominal wages hit the bottom in the first quarter of 2009, having dropped by approximately 30-40 percent from the mid-2008 level. Wages almost fully recovered in nominal terms by the end of the third quarter of 2009, and started to rise above the mid-2008 level measured in real terms in the second half of 2010 (VASS, 2010). While no rigorous evaluation of poverty impacts of the global economic crisis is available, it is apparent that low income laborers have been highly vulnerable to systemic shocks persistently hitting Vietnam from late 2007 until now, with price shocks alternating with employment shocks. Evaluation of the poverty impacts of recurring systemic shocks can be done in a more rigorous way only when the dataset of VHLSS 2010 is made available. However, appropriate measures to reduce systemic risks should be employed right away without a need to wait until then. Although these types of policy measures seem to be too far away from immediate concerns of the poor and the low income, they indeed help to avoid crises which may wipe out all poverty reduction achievements of the past as was seen in the case of a number of East Asian countries during the Asian Financial Crisis.

### **2.3. Measures to Maintain Macroeconomic Stability for Sustainable Economic Growth and Poverty Reduction**

To this effect, prudent macroeconomic management supported by coherent macroeconomic and financial policies is needed as it would help Vietnam to avoid crises that can seriously threaten both economic growth and poverty reduction. VASS and World Bank (2010b) proposes a number of priority areas that Vietnam should focus on to ensure macroeconomic stability. It is important to differentiate between internal and external risk factors in order to come up with the right mix of policy responses and reforms. Specifically, to make the economy more resilient to external shocks, it is important to identify the right pace of financial liberalization and to set up proper regulatory and monitoring frameworks for foreign indirect investments with special attention to short-term speculative funds, and to introduce instruments of hedging against commodity price and exchange rate risks.

On the domestic front, it is critical to deal with risks from their roots – inherent structural problems mentioned above such as inefficiency in the SOE sector or moral hazard in the SOE sector and banking system, both of which have arguably

been rising in recent years. Large gaps between savings and investment and the associated twin deficits in both budget and current account should be kept down to manageable levels, firstly by efforts to cut down the currently large budget deficit. Asset bubbles management should be given special attention as it would help to curb both instability in the banking system and excessive consumption due to the wealth effect of inflated assets, which lowers domestic savings rates and consequently, negatively affects Vietnam's long-term growth. Avoiding asset bubbles would also contribute to keeping down inequality as it helps to reduce the absolute gap between the rich and the poor.

Measures that are designed to address structural problems of the Vietnamese economy should be propped up by better macroeconomic management. This would include improving the predictability and credibility of policies, ensuring consistency between monetary and fiscal policies, and making exchange rate more flexible to better absorb external shocks, which all help to reduce the high cost of an inflation-growth trade-off in the short-run, an issue Vietnam has been struggling with in the context of high inflation in recent years. More importantly, macroeconomic management would contribute towards creating an enabling environment for long-term high-quality investment, which is critical in addressing bottlenecks to growth and raising the country's productive capacities with positive spillovers to labor-intensive small and medium-sized enterprises and to agriculture and rural sector. Furthermore, it is important to restore room for maneuver by improving fiscal position and building up the State Bank of Vietnam's foreign reserves in good times, as this would give the Government adequate policy space to respond to shocks and more importantly, to work towards raising investors' and public confidence and improving market sentiment, which in turn would contribute to minimizing vulnerability to systemic shocks.

In light of the above discussion, the recent draft of the 5-year Socio-Economic Development Plan 2011-2015 (SEDP 2011-2015) still raises some questions with regard to macroeconomic stability. First, the inflation target as set in the latest version of the SEDP 2011-2015 document that the drafting team of this report had access to (MPI, 2010) is vague. The instruction "to restrain inflation in secure limit" (MPI, 2010, p. 70) leaves too much discretion for policy makers to temper with this critical target and therefore can potentially undermine the credibility of monetary and other relevant authorities, with possibly much higher resultant costs of the short-term growth-inflation trade-off as seen in recent years. The inflation target should thus be made more specific, for example, a one-digit inflation rate should be targeted, which is the rate found by some cross-country empirical studies as most reasonable for developing countries to best achieve

rapid, stable and sustainable growth<sup>1</sup>. Even more conservative inflation rates of approximately 5 percent may need to be considered over a longer term in order to restore public confidence, which has been eroded in recent years due to high inflation and macroeconomic turbulences. Second, Vietnam has, by design, a large savings-investment gap (of approximately 10 percent GDP) as a major macroeconomic imbalance. In the aspect of assessment of past achievements, the plan document tends to give credit to the high total investment to GDP ratio for the period 2006-2010 (averaged at 42.5 percent per year) and set a high target of 40-41 percent per year while domestic savings target is set at 31.4-31.7 percent of GDP for the period 2011-2015. So the draft SEDP 2011-2015, by design, plans for a large savings-investment gap of approximately 10 percent of GDP in the next 5 years and envisages that such a gap would be financed by foreign savings. This, especially in relation to macroeconomic stability and the seemingly too ambitious targets/forecasts of Vietnam's ability in mobilizing foreign funds (in the form of FDI, FII and ODA) needs to be carefully re-evaluated. While the financing needs for a fast growing economy with such a young labor force and such abundance of good investment opportunities are clearly huge, the large savings-investment gap and the associated large trade and current account deficits as designed in the current draft of SEDP raise a number of concerns about macroeconomic instability and the country's vulnerability to external shocks. Furthermore, high public and private debts in foreign currencies as designed in this plan will considerably reduce the room for policy maneuver in case Vietnam is hit by systemic shocks, especially in the context of intensifying integration into the world economy in the post-WTO accession period. Therefore, there should be more explicit, specific and even conservative targets for budget deficits, current account deficits and public debts, for example under 4-5 percent of GDP for the first two<sup>2</sup> and under 40-50 percent of GDP for the last one. Although specific figures need to be worked out in a more thorough way, the bottom line is that they need to be conservative in order to restore the weakened public confidence. There are also concerns about the large inflows of indirect (portfolio) investments being projected in this draft of SEDP 2011-2015, at USD 10-12 billion, which is almost of similar magnitude compared to more stable and long-term ODA disbursements which are projected at USD 14-15 billion. While more stable inflows of indirect investments by strategic investors

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1. For example, Khan and Senhandji (2001), which analyzes data of 140 developing and industrialized countries for the period 1960-1998, find that there exists a threshold beyond which inflation exerts a negative effect on growth. This threshold is estimated at 1-3% and 11-12% for industrial and developing countries respectively.

2. Analysis of the database of IMF's World Development Outlook, April 2008 finds that the mean and median values of current account deficits for countries with per capita income lower than USD 10,000 in 2007 PPP prices were 4.97% and 4.38% respectively for the period 1980-2007 (which can be considered as a proxy for very long-term time horizon), 4.34% and 4.51% respectively for the period 1998-2007 (long-term), 3.07% and 3.8% respectively for the period 2003-2007 (medium-term), and 3.06% and 4.62% respectively in 2007 (short-term)

who also bring in management know-how and by long-term investors are desirable, Vietnam should be extremely wary of the “hot money” by hedge funds and international financial speculators, as it is highly pro-cyclical. Therefore, proper mechanisms should be set up to supervise and regulate the “easy come, easy go” pattern of indirect investment, which should subsequently become a part of SEDP 2011-2015.

### **3. Strengthening Social Protection for Sustainable Poverty Reduction**

#### **3.1. Idiosyncratic Shocks Facing Vietnamese Households**

The poor and the low income are also exposed to various types of idiosyncratic risks at the community, household and individual levels.

In rural areas, natural calamities and epidemics are among the most serious risks for the poor. The PPA 2008 finds that as a consequence of droughts and harvest losses, many poor households in Binh Thuan were short of food for consumption and indebted to private lenders. In Lang Son, as a result of droughts, many households lacked water for production and daily use, which became especially serious in 2006 and early 2008. To cope with shortage, they had to re-use water multiple times, leading to serious implications in food safety, human hygiene and environmental conservation. According to Oxfam GB and Action Aid (2009), signs of climate change were clear at survey sites under their rural poverty monitoring as weather patterns were becoming increasingly extreme and unpredictable. The extremely cold weather in late 2007 and early 2008 in the northern mountainous provinces caused massive cattle death, lowered crops productivity and plunged many households into difficulties with loan payment settlements. Rice price increased due to the cold and rain, inducing a corresponding increase in poverty rate (Oxfam GB and Action Aid, 2009, pp. 55-56).

Crop and livestock epidemics also lead to severe consequences. At the PPA 2008 sites in Binh Thuan, many households in Dong Tien and Thuan Hoa communes, Ham Thuan Bac District lost all crops to epidemics such as brown leaf hoppers, chlorosis and other leaf diseases in the winter-spring crop of 2006 – 2007. Many poor households had to bear rather heavy debts for their investment in agricultural inputs. In 2007, foot-and-mouth and plagiorchis-arcuatus epidemics resulted in massive cow death in Binh Thuan. Many households lost five to six cows each, many of which were bought on credit under Provincial Resolution 04.

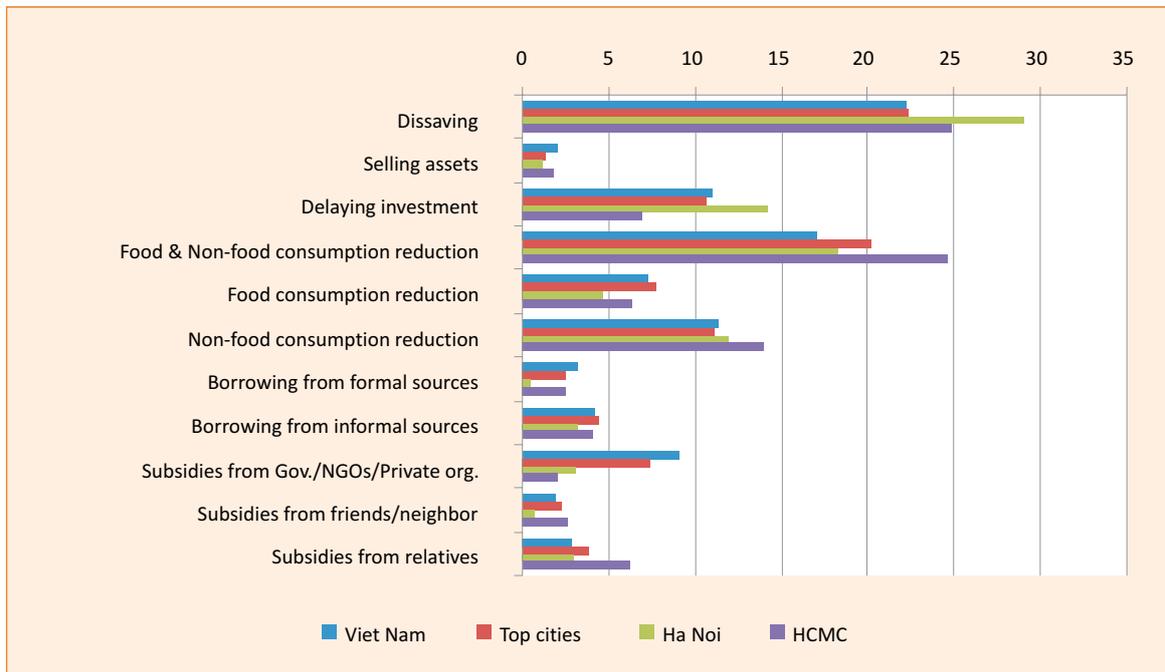
Illnesses also cause a serious problem to poor households. Focus group discussions with commune officials and health care workers at the PPA 2008 sites show that unhygienic living conditions and eating habits, coupled with

the lack of nutritious meals, harsh weather conditions, heavy workload and low awareness of healthcare issues caused many diseases among the poor thus resulted in loss of key labor in their households. Oxfam GB and Action Aid (2009) confirm that people in all survey areas regarded “lacking labor” as the biggest worry and therefore illnesses leading to loss of labor and high treatment expenses were always major concerns especially because labor is often their most valuable if not their only asset.

In urban areas, according to Oxfam and Action Aid (2009), unstable incomes due to shortage of decent jobs or illnesses and unforeseen expenses due to illnesses are risks that cause the most concern among urban laborers. Following an earlier discussion, Figure 8 shows that health shock, mentioned by almost 30 percent of respondents, is ranked the second biggest risk after inflation. Furthermore, certain groups of laborers face certain specific risks. For example, motorbike taxi drivers face personal security risks such as being robbed at night. They are also particularly at risk of respiratory diseases with both short-term and long-term consequences due to constant exposure to dust and smoke pollution as they work on the streets for over 10 hours per day on average.

In terms of coping strategies employed by households, the most popular is dissaving, followed by cutting down on non-food consumption (employed by over 20 percent of affected households) and delaying investment (employed by over 10 percent of affected households). The rest of the strategies were only employed by less than 10 percent of affected households. Approximately 8 percent of affected households in Vietnam receive subsidies from the Government, non-government organizations (NGOs) or private entities, although this figure is considerably smaller for the two biggest cities of Hanoi and Ho Chi Minh City (Figure 9). Analysis of the dataset obtained from the Urban Poverty Survey 2009 finds that the lack of access to social protection tops the list of issues related to the multiple dimensions of general well-being of Vietnamese people, overtaking other types of deprivations such as inadequate housing services or quality housing, etc. (Source: Nguyen Bui Linh, 2010).

**Figure 9. Household's Risk Coping Strategies  
(% of households facing risks)**



*Note: “Top cities” include special municipalities (Hanoi, Ho Chi Minh City), centrally-governed municipalities (Hai Phong, Da Nang, Can Tho) and provincially-governed municipalities (Hue, Vinh, Da Lat, Nha Trang, Quy Nhon, Buon Ma Thuot).*

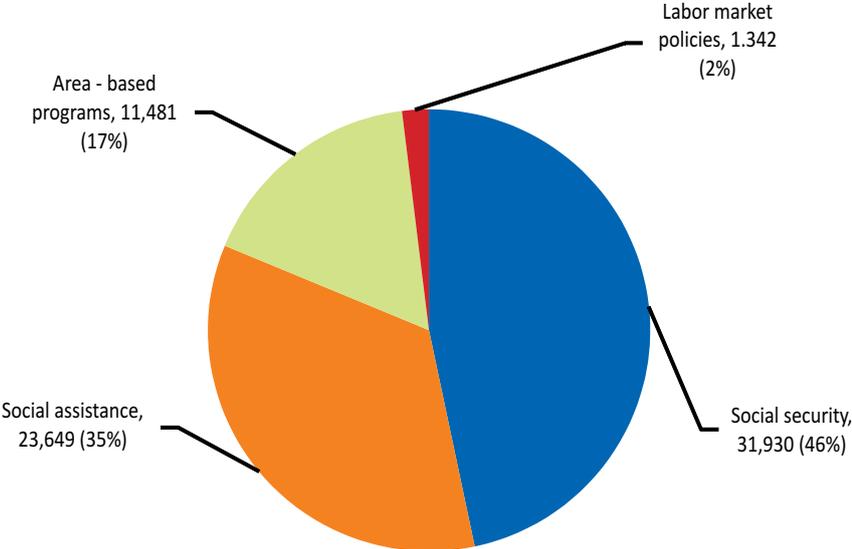
*Source: Tran Ngo Minh Tam and Le Dang Trung (2010), based on VHLSS 2008 data*

In the context of increased vulnerability to economic, natural and other types of risk as Vietnam accelerates both market reforms and integration into the world economy, sustaining impressive achievements in poverty reduction of the past requires the strengthening of the social protection system so as to diminish impacts of idiosyncratic and systemic risks thanks to a number of components of this system playing the role of automatic stabilizers. The main policy question would therefore be whether the social protection system in Vietnam can effectively help to protect people, particularly the poor and the low income, from shocks or not.

### 3.2. The Social Protection System in Vietnam: Effectiveness and Measures for Improvements for Sustainable Poverty Reduction

In Vietnam, the current social protection system consists of three main components<sup>1</sup>, which are social security<sup>2</sup>, social assistance and area-based programs in decreasing order of significance in terms of fiscal costs. In 2009, of total Government expenditure on social protection, spending on social security accounted for 47 percent, followed by social assistance with 34 percent and area-based programs<sup>3</sup> with 17 percent. The “labor market program/policy” (LMP) component existed but only played a modest role in the system with an extremely modest budget share of 2 percent and no own funds/separate funds available (Figure 10)<sup>4</sup>.

**Figure 10: Vietnam’s State Budget for Social Protection, 2009 (VND billion)**

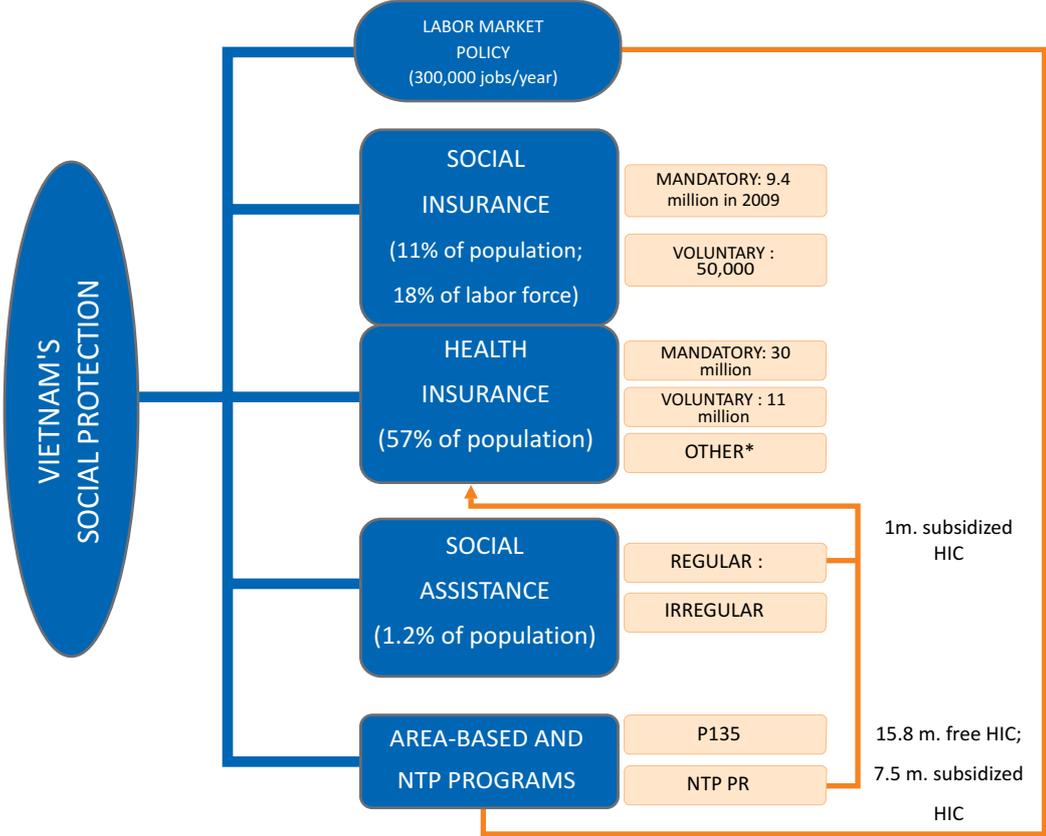


Source: Adapted from CAF (2010)

1. It is slightly different from ADB’s categorization of social protection, which consists of five components: (1) labor market programs/policies; (2) social insurance; (3) social assistance; (4) micro- and area-based programs and (5) child protection (Source: <http://www.adb.org/socialprotection/>)
2. Social security is understood in this report to be those components of social protection that are managed by the Vietnam Social Security (VSS), including social insurance, health insurance and unemployment insurance
3. Of area-based programs, spending on emergency relief to provide aid to natural disaster victims took up 0.29% of GDP, which may be inadequate, as Figure 8 shows that natural hazards were regarded by people as the second biggest risk after inflation
4. Government spending on social protection includes state budget transfers for pre-95 retirees, severance pays for 200,000 workers, contributions to health insurance, as well as transfers for children under the age of 6 and support for the near-poor since 2009. Furthermore, since 2009, spending on social protection has also included one-off handouts for the poor on New Year’s Eve, which were made as part of the fiscal stimulus to mitigate the negative impacts of the global economic crisis.

In terms of coverage, health insurance takes the lead, having been extended to nearly 57 percent of the total population, considerably outperforming social insurance (11 percent of the total population and 18 percent of the labor force, overwhelmingly dominated by mandatory schemes with only 50,000 participants in the voluntary scheme) and social assistance (1.2 percent of the total population). As shown in Figure 11, the contributory health insurance scheme was effectively supplemented by the non-contributory one through free health care cards provided under social assistance and national poverty targeted programs (P-135 and NTP PR). In other words, 43 percent of the population was not insured against health shocks while 82 percent of the labor force was not protected against job losses or income reductions due to illnesses, unpaid maternity leave, or old age, etc. Having a job, therefore, is far from sufficient in getting oneself protected by the social security system. Limited social protection coverage presents a genuine policy concern, given various types of risks as shown in Figure 8. More details at the component level will be further discussed in what follows.

**Figure 11: The Social Protection System in Vietnam**



*Note: \* those funded/supported by the State such as the poor, the disadvantaged, children under 6; statistics of 2008*

*Source: Adapted from CAF (2010)*

The *labor market programs* have a number of sub-components including (i) support in training and re-training (for ethnic minority laborers, laborers in rural areas, laborers and the youth in areas where agricultural land has been converted), (ii) provision of preferential credit for labor-intensive enterprises, poor rural households/ households with disabled members that have plans to expand production or for students who plan to start up their business, and (iii) provision for demand- supply matching of labor. According to MOLISA (2009), out of approximately 1.5 million people entering the labor force per annum, labor market programs are responsible for around 300,000 new jobs created; however, empirical evidence has yet been found to support this claim or to evaluate its poverty impacts.

The *social assistance component* targets beneficiaries from both of the regular group<sup>1</sup>, including the elderly aged 85 and over or living alone, the disabled, mentally-disordered patients, single parents, orphans, and others; and the occasional group including victims of natural disasters and epidemic diseases. The beneficiaries of the regular social assistance component represent only 1.2 percent of the population, considerably lower than the corresponding rate of up to 2.5-3 percent in other countries in the region. The base level of subsidies, which equals to only less than 33 percent of the poverty line, does not allow the beneficiaries to afford even minimal living standards. Among the poor population that constitutes about 34 percent of the social assistance's beneficiaries, only 19 percent have escaped from poverty thanks to this component (MOLISA, 2009). In fact, social assistance will likely become a burden to society in the future, with increasing numbers of beneficiaries being cast aside by the under-developed social security system, which will be discussed shortly.

The *area-based and poverty targeted programs*, which essentially include the National Targeted Program for Poverty Reduction 2006-2010 and Program 135, bring together various policies and programs to support poor households as well as their community's economic development. These policies/programs are designed to develop the infrastructure in poor communes and districts and to improve access by poor or ethnic minority households to credit, health insurance, education, housing, clean water, agricultural extension services etc. State subsidies on education fees and health insurance are also included. Calculations using data obtained from household surveys (VHLSSs) show that nearly 40 percent and 46 percent of the MOLISA-designated poor households had access to preferential credit in 2006 and 2008 respectively. The 2008 mid-term review of these two poverty targeted programs (Source: MOLISA, CEMA and UNDP, 2009) identifies a number of areas for improvements to generate greater poverty reduction impacts. These include improving targeting<sup>2</sup>, given the

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1. Stipulated in the Ordinance on Disabled people, Ordinance on Elderly people, and Government's Decree No. 67, 68.

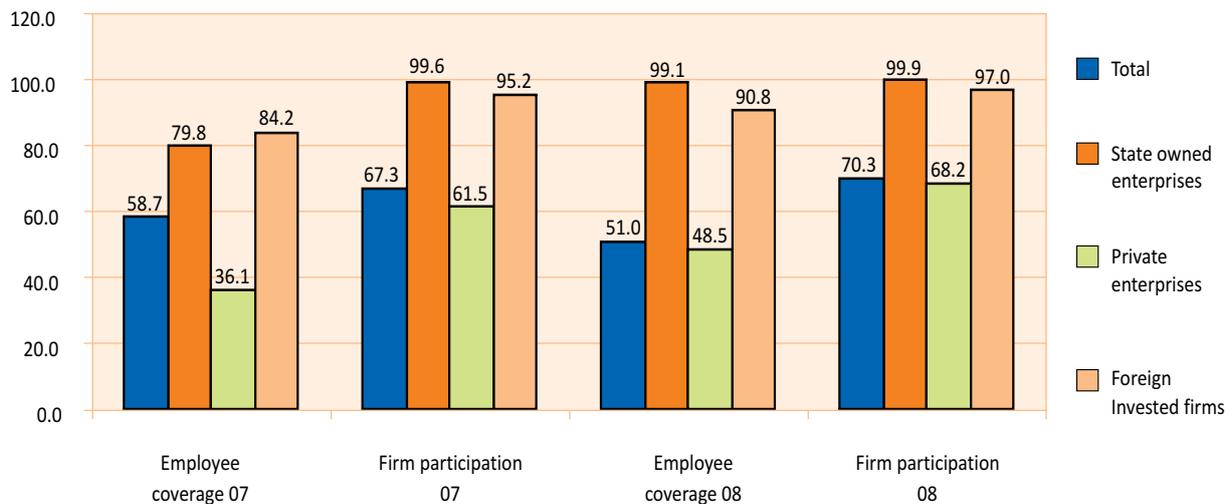
2. The 2008 Mid-Term Review pointed out that the beneficiary targeting system was slow, unwieldy and not well-suited to the current context in which people may move in and out of poverty very frequently.

diverse needs and heterogeneity of the poor, in such a way that would help reduce leakage, broaden coverage and raise support levels. It is also necessary to simplify the program design and implementation so as to cut down transaction costs. Participation and communication should also be improved. The need to reduce dependence culture among the poor was also mentioned in numerous poverty-focused workshops and forums. The 2008 mid-term review also recommends a more transparent relationship between targeted poverty reduction support and mainstream policies and programs. For example, placing responsibility for the poor's access to basic health and education services solely in the hands of line ministries may improve transparency and result in a more "pro-poor" orientation to mainstream, universally-provided policies themselves.

For *the social security component*, which plays the role of an automatic stabilizer by taking in contributions in good times and handing out payments in bad times thus is highly relevant to addressing dynamic poverty; a number of reasons may explain its low coverage. The distinct employment structure in Vietnam is one such reason. Specifically, the agricultural and non-agricultural informal business sectors make up approximately 50 percent and 24 percent of total employment respectively, according to data from the 2007 labor force survey. The overwhelming majority of laborers in these sectors are excluded from mandatory social security contributions and only few, if at all, participate in the voluntary scheme. Expansion of voluntary social security for these sectors seems relatively difficult for two reasons. First, laborers in agricultural and non-agricultural informal business sectors are typically low-income earners, hence social insurance contributions made based on their low incomes would only provide them with very low pensions that are not adequate to cover living costs in the later phases of their life cycle. Second, the 20-year contribution requirement itself is a barrier to the expansion of coverage, as it excludes those workers who may want to join the voluntary scheme, but they are expected to retire in less than twenty years because their age has already passed 40 (for men) and 35 (for women).

Furthermore, in the formal business sector, which accounts for 16 percent of total employment (the rest belongs to the non-corporate public sector); only 51 percent of the employees were covered by the social security system in 2008. Evasion is particularly common among private domestic firms (Figure 12). Even among enterprises that opt to contribute, the average contributions paid to the Vietnam Social Security were only 7.6 percent of wage levels, i.e. one third of the statutory overall rate of 23 percent (To Trung Thanh and Castel, 2009). This was the consequence of under-reporting wage levels by firms in determining levels of social security contribution. This shortfall in social security contributions would hinder coverage expansion and erode the long-term financial sustainability of the system.

**Figure 12: Social Security Participation by Firms and Coverage for Employees in Vietnam (%)**



*Source: CAF (2010), based on Enterprise Census 2007 and 2008 datasets*

Econometric analysis of these datasets obtained from the Enterprise Census at a more disaggregate level finds a number of firm's characteristics that seem to influence firm's participation in the social security system. Specifically, with all other things being equal, ownership matters as described earlier, and so does firm's size: employees in bigger firms are more likely to be covered under the social security program. Location is also a determinant of both firm and employee participation in the program, with the two largest cities Hanoi and Ho Chi Minh City taking the lead, followed by northern-based firms, then central- and southern-based firms who are almost equally likely to participate. Notably, firms that participate in international trade are more likely to participate than those that do not<sup>1</sup>.

With regard to health insurance, despite a considerably better coverage rate of 57 percent of the population, the system is still far from perfect. Problems include the low quality of health care infrastructure as well as the discrimination towards health card holders due to revenue interests as reported by the media. Furthermore, the lack of a counter-cyclical nature in health insurance was observed at the peak of impacts of the global economic crisis in early 2009, when retrenched workers were asked to return their health cards to employers if they wanted to receive severance pays. With the recent introduction of unemployment insurance - contributions from January 2009 and unemployment payments, if any, from January 2010; this may change as health insurance is maintained for retrenched workers. However, it would take some time for these schemes to function smoothly.

1. This might be explained partially by increased exposure of these firms to global initiatives such as corporate social responsibility; which, under pressures from customers in the West, has been exercised quite actively by foreign clients on their local suppliers.

Outside of the formal social security system, the existing informal safety nets, including informal credit and community/family support, have worked fairly well until recently, as evidenced by their important roles in the current global economic crisis. These safety nets will, however, come under increasing stress as rising urbanization accelerates the change in family structure towards the nuclear family model. Therefore, it is important to strengthen the formal social security system with an emphasis on broadening coverage and improving enforcement such that the elderly and those affected by unforeseen circumstances are protected from falling into poverty.

To this effect, two transitions in employment should be encouraged to take place: (i) from farm to higher productivity non-farm, and (ii) from informal to formal sector. Within the formal business sector, regulations on social security participation should be better enforced; outside it, awareness should be raised and procedures should be simplified to encourage people to participate in voluntary schemes. For the first transition – transformation of rural population into industrial workers, which helps to raise both awareness about and demand for social insurance thanks to higher incomes – measures to improve geographic labor mobility are important, as these would help people from poorer rural provinces to better participate in the growth process, which is partly driven by urban-based, export-oriented and labor-intensive manufacturing. In this regard, the proposal on the introduction of a single social security number to be given to each individual at birth to ensure the portability of social benefits across both geographic locations and programs deserves a serious consideration, especially in light of fast-growing IT technology and more importantly, the recent broadening of the personal income tax system, whose infrastructures may be used, with some modifications and extensions, for the social security system. This approach would also help to enhance international competitiveness of Vietnamese firms as they are now able to select workers from a much larger pool, thus it deserves more thorough discussion in the next section. For the second transition, any policies that lower costs of being formal relative to that of being informal would encourage informal sector firms to get registered, and vice versa. To this effect, one may suggest a more progressive system of social security targeting firms of less than 10 employees in which social contributions (and social benefits) are set lower and therefore are more accessible to small and medium sized enterprises (SMEs). Such changes in regulation on social security would then have a positive inducement effect on the registration and then formalization of small and medium sized enterprises.

#### **4. Enlarging Opportunities for the Poor and the Low Income to Adequately Participate in and Benefit from the Growth Process**

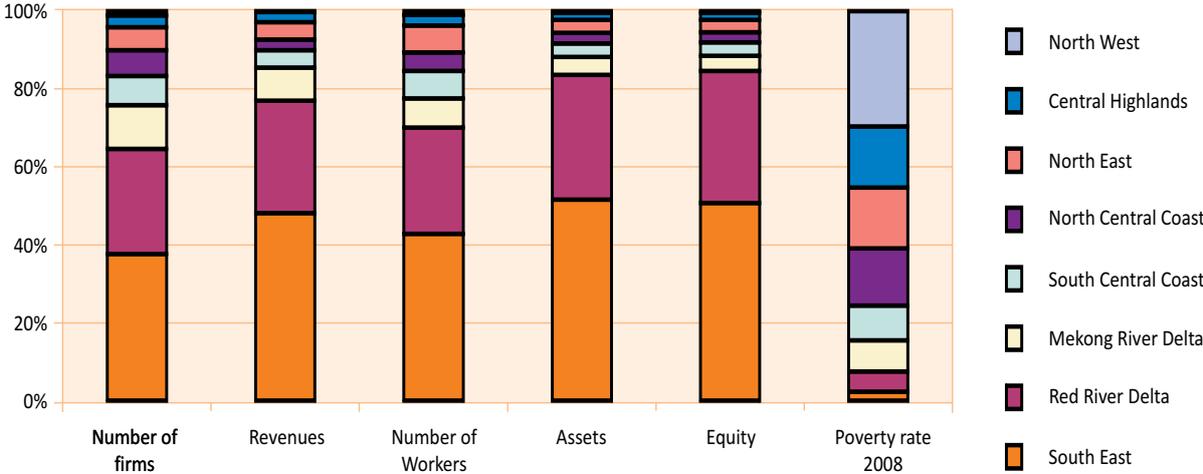
Broad-based economic growth is arguably the most important factor that has contributed to rapid poverty reduction in Vietnam over the last two decades. Looking

forward, sustaining the impressive achievements in poverty reduction of the past requires that the pro-poor growth pattern be consistently pursued and reinforced, given the resistance of poverty reduction to economic growth as discussed earlier. To this end, it is important, as mentioned earlier, to facilitate movements of laborers away from agriculture and towards sectors with higher productivity and better incomes. For people who still remain in agricultural production, it is important to improve agricultural productivity in order to raise rural incomes. There are a number of policy instruments that the Government can employ to achieve these important development outcomes.

**4.1. Improving Labor Mobility**

As mentioned earlier, a way to enable people from poorer rural provinces to adequately participate in the growth process, which is geographically uneven for economic reasons, is to improve geographic labor mobility and make full use of rural-urban migration as a key channel of rural-urban linkages. Figure 13 shows how registered firms and their assets and jobs are distributed across different regions of the country. The South East and the Red River Delta top the list, sharing a combined 64.6 percent of total number of firms, 77 percent of total revenues, 70.1 percent of total employment, 83.6 percent of total assets and 84.6 percent of total equity in formal corporate sector. Figure 13 also shows that the regional distribution of formal sector jobs is almost perfectly negatively correlated with regional distribution of poverty rates.

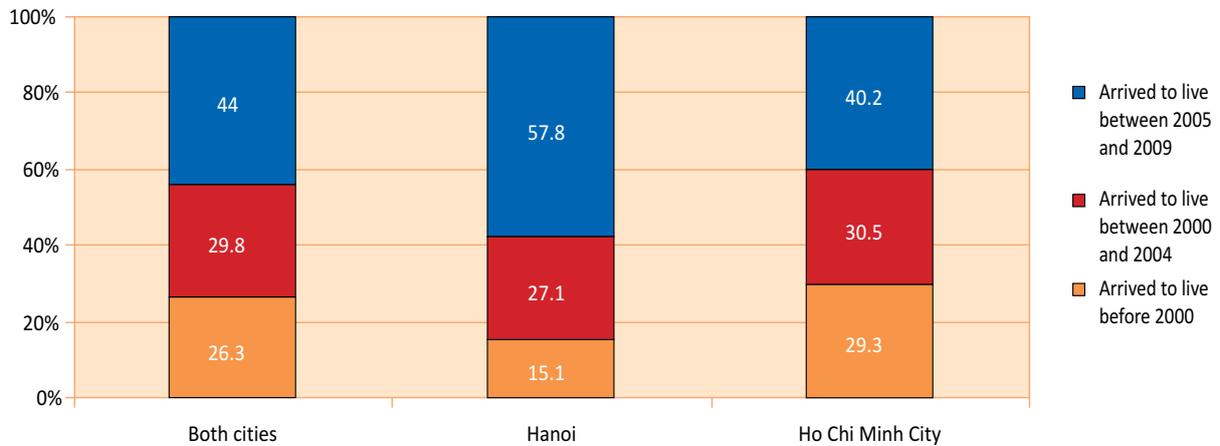
**Figure 13. Regional Distribution of Job Opportunities in Formal Sector in 2007 and Poverty Rates in 2008 (%)**



Source: Based on Industrial Census 2007 data with 155,607 registered firms

More importantly, this trend is bound to continue into the future, as Vietnam's further integration into the world economy continues to induce the so-called agglomeration effects in favor of big cities located closer to ports. So will continue the concentration of employment and associated income earning opportunities in those cities. VASS (2007) provided some empirical evidence of the role played by remittances in poverty reduction, while data analysis of the Urban Poverty Survey 2009 shows that migrants in the country's two largest cities make up relatively large shares of the population, 11.4 percent and 20.6 percent in Hanoi and Ho Chi Minh City respectively; and that migration into these cities has apparently been rising at a faster pace (see Figure 14). On the other hand, Oxfam GB and Action Aid (2009) finds that the migrant poor still found it difficult to access social services, particularly education at the lower and upper secondary levels, nor can they access benefits under the poverty targeted programs. These barriers hinder spillovers from urban-based growth to poverty reduction in rural areas. They also represent an implicit tax on private investment in human capital in the countryside, as they lower returns to human endowments of migrants, thus discourage rural people from seeking further education critical for movement out of agriculture to higher productivity manufacturing and services sectors. The introduction of a single social security number to be given to each individual at birth, which, as mentioned earlier, helps to raise the portability of social benefits across both geographic locations and programs, is one of the feasible initiatives for the Government to strengthen rural-urban linkages for more balanced regional development in the context of unbalanced economic growth. Another thing that the Government can do is to craft urban and regional planning in such a way that properly takes into account long-term global economic trends and Vietnam's integration strategy as well as its distinctive geographic and climate features such as its long coastal lines. Determining the right size distribution and spatial distribution of cities would work towards both rapid and equitable growth, as it will help to deal with the mounting problem of diseconomies of agglomeration, which started to take off in more advanced parts of the existing growth poles; as well as help migrant workers to cut down both relocation costs thanks to shorter rural-to-urban migration distances and living costs thanks to increased access to accommodation in smaller but less expensive towns.

**Figure 14. Migration Trends in Hanoi and Ho Chi Minh City  
(% of Total Migrants)**



*Source: Calculated based on the Urban Poverty Survey 2009 data*

Furthermore, many low-skilled migrant and non-migrant laborers work in SMEs and household enterprises, which continue to play an important role in the generation of employment in Vietnam for many years to come (Cling et al., 2009). These types of firms therefore need to be supported, notably by removing distortions and biases in favor of big SOEs at the expense of SMEs. A level playing field should be created in every business area but especially in access to formal credit. Cling et al. (2009) also proposes better tailoring of vocational training to cater to the needs and specific characteristics of informal sector firms.

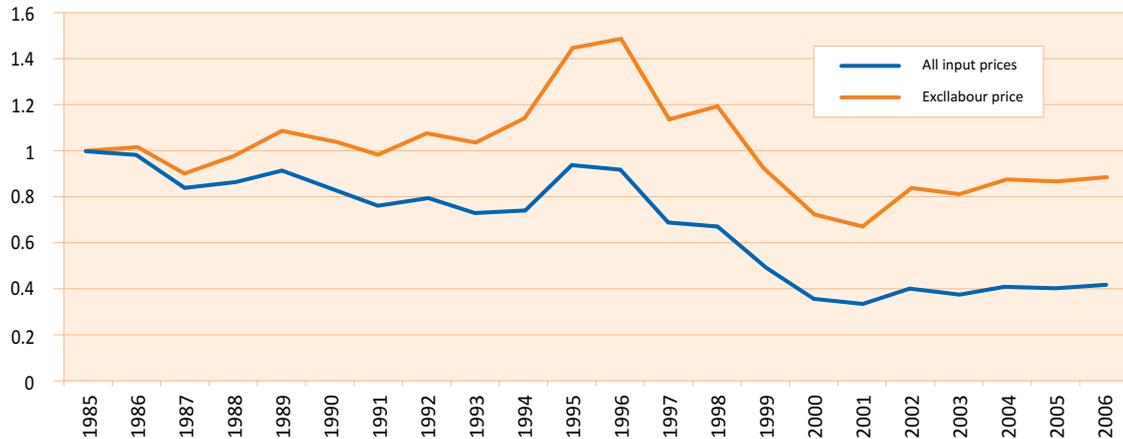
#### **4.2. Raising Agricultural Productivity and Net Returns to Agricultural Production**

Accelerated transition from agricultural to non-agricultural employment does not only help those moving out of agriculture to raise both incomes and remittances to send back to their home village (in the case of migrant laborers)<sup>1</sup>, but also those who remain in farming. This thus magnifies the effect of rural-to-urban migration on rural development in general and rural poverty reduction in particular. The main reason is that Vietnam is arguably short of arable and productive land for agricultural production; and whatever can help to improve the land per labor ratio would help to increase agricultural productivity. Rural-to-urban migration thus facilitates this efficiency-enhancing process in an equity-preserving manner because in a country with such a prevalence of land fragmentation, improved land concentration would help to raise agricultural productivity and thereby, to partly

1. Oxfam GB and Action Aid (2009) estimates that remittances make up between 12% and 16% of incomes of migrant workers

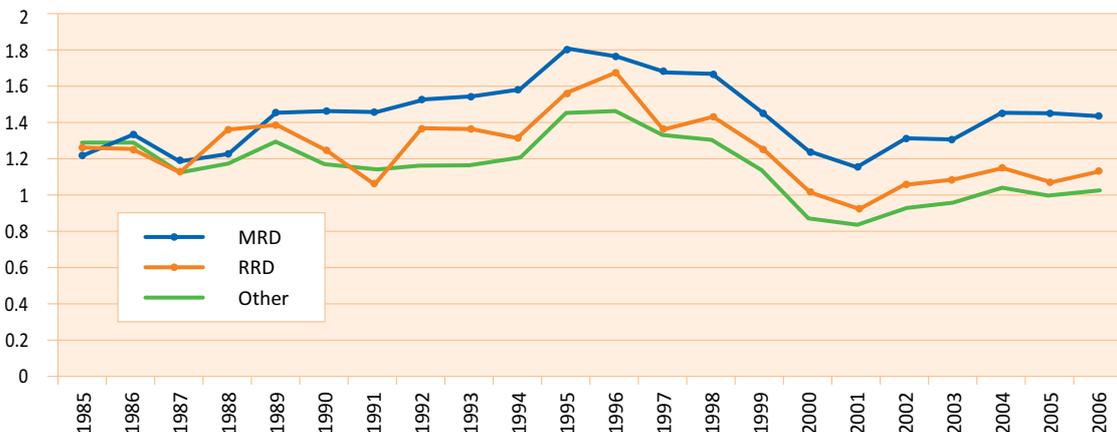
offset the worsening Terms of Trade (TOT) (Figure 15), and the declining net returns to rice production in some regions in Vietnam (Figure 16), both of which have taken place since 2000.

**Figure 15. Terms of Trade (TOT) Indexes for Rice Production in Vietnam (1985-2006)<sup>1</sup>**



Source: Kompas et al. (2009)

**Figure 16. Net Returns to Paddy Rice Production in the Mekong River Delta (MRD), the Red River Delta (RRD) and All Other Regions (Other), 1985-2006.**



Note: Net returns are calculated as the indexed ratio of revenues to input costs in paddy rice production

Source: Kompas et al. (2009a)

1. As many household farms do not clearly distinguish "household wages" from "profits", TOT is calculated as the ratio of indexed paddy prices to total indexed input prices including and excluding labor prices. The latter is the per unit measure of paddy prices to input prices net of the price of labor; i.e., it is a measure of the "surplus" per unit available to the farmer. Both series show a similar pattern.

Recent evidence on this was provided by Kompas et al. (2009). This study analyzes in detail rice production, whose importance is confirmed by the fact that it engages 53 percent of Vietnamese households and two thirds of the rural population. The study finds that extensive land and market reforms in Vietnam, which transformed the entire face of rice production from commune-based public ownership and control to one with effective private property rights over land and farm assets, competitive domestic markets and individual decision-making power over a wide range of agricultural activities, has resulted in dramatic increases in rice output over the past thirty years. It is found that the total factor productivity (TFP) has risen considerably in the major rice producing regions of the Red River Delta and the Mekong River Delta during the early years of reform and beyond; but there is also clear evidence of a productivity slowdown since 2000. Econometric analysis that employs a frontier and efficiency model finds that larger and less land-fragmented farms, farms in the major rice growing areas, and farms that are better irrigated tend to have higher capital per unit of cultivated land, a greater proportion of land areas with clear property rights or land use certificates, and more efficient access to agricultural extension services.

However, the PPA 2008 finds that there were a number of concerns by people regarding land title and use, land fragmentation and the lack of rural credit availability and supporting rural services. It was reported that the processes of land conversion (i.e., land transferred or converted to other uses) and land accumulation (i.e., trade and accumulation of land plots) were often long and that transactions costs were high, making it difficult for poor farmers in particular to participate. Furthermore, although some land consolidation in Vietnam is in place, with a number of important benefits offered (see Ravallion and van de Walle, 2008); there are still restrictions on total land area<sup>1</sup>. One of the major obstacles to land consolidation is the lack of secure property rights. Land use title for agricultural land was extended from 15 to 20 years with the Land Law of 1993, but in many cases, even 20 years is still too short to provide enough security in shifting to larger farms, or to a process where farm land is converted for use in small manufacturing or industry. Overall, the process of land certification or entitlement itself has also been performing below expectations.

These findings suggest a number of areas in which the Government may intervene to accomplish the objectives of raising agricultural productivity and in turn, raising rural incomes. These areas may include irrigation, agricultural

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1. In 2007, the Vietnamese government loosened restrictions on the transfer of land use rights for annual agriculture from 3 to 6 hectares for the South East, the Mekong River Delta and Ho Chi Minh City and from 2 to 4 hectares for the remaining cities and provinces. This is a welcome albeit modest change for many farmers, but in most cases rice farming outside of the MRD still takes place on very small farms and at subsistence levels (GSO (VHLSS), 2004; VASS, 2009).

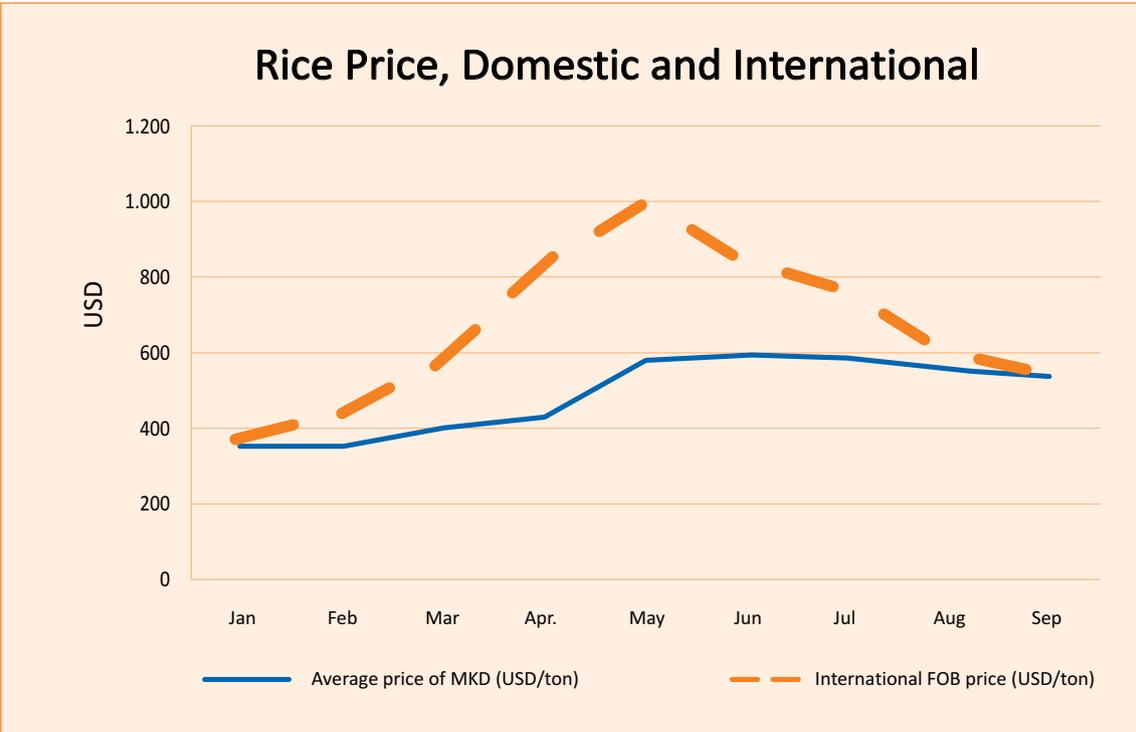
extension services, land use title and rural credit availability. While all of these are important and are within the reach of the Government with its available policy instruments, rural credit deserves special attention. The reason is that in the context of industry and services booming just as expected in the post-WTO accession period, financial resources have been poured into these sectors, notably into stock exchange and urban real estate, at the expense of agricultural and rural sectors. Evidence can be found in the conversion of numerous rural-based banks which used to primarily serve clients in the rural sector into urban-based banks, in which numerous large economic groups enthusiastically participated as big shareholders. As a consequence, rural financial resources have arguably been drained up. In this context, the State Bank of Vietnam (SBV) has employed a number of measures including raising the Capital Adequacy Ratio (CAR) in lending to stock exchange and real estate activities and lowering it for agriculture-related and other productive activities, and others so as to encourage financial resources to remain within the rural sector. These are the right moves as they will help to achieve more pro-poor and equitable economic growth as well as to reduce systemic risks through cooling down asset bubbles. SBV may need to seek more innovative WTO-consistent measures to lower capital costs of agricultural production and other rural-based activities to achieve better development outcomes.

In terms of trade policy, there is a heated debate about restrictions imposed on rice exports to ensure domestic food security in the context of the sharp rises in the world food prices in 2008. The exports ban employed by the Government in that year widened the wedge between domestic and international rice prices (Figure 17), which reached a peak in May 2008, when the abnormally high inflation at the time also hit the top month-on-month rate. The ban benefited net consumers of rice including people living in urban areas and rural rice-deficient regions, but hurt many farmers in the Mekong River Delta. All three disinflation, efficiency and distributional effects of this policy were presumably strong. The first effect was then very important, given the fact that the market sentiment at the time was extremely unfavorable, as evidenced by the shift of many market participants from production to speculation. With regard to efficiency and distributional impacts, Kompas et al. (2009) uses a “bottom up” CGE model for Vietnam, which was constructed for 28 commodities and 8 regions using a GSO input-output table for 2005, to analyze the dramatic increases in world rice prices as well as Vietnam’s policy response to limit exports. Although limited “pro-poor” outcomes were apparent, the CGE model and a micro-simulation (using 2006 VHLSS data) show that the rice exports quotas imposed at the time actually resulted in drops in total rural savings as measured by total incomes less total production costs and total household consumption. Furthermore, this inflexible policy tool may create rent-seeking behavior and discourage enterprises from

expanding their exports market, cooperating closely with farmers in producing high quality rice and establishing a brand name for Vietnamese rice.

Although this policy episode was already over, the tradeoff remains to call for careful consideration as the food crisis continues to threaten on a global scale. In this context, a question that may arise is whether Vietnam can react better if this ever happens again in the future. It is rather obvious that restrictions on exports of rice cannot be entirely excluded in the context of a global food crisis, given the fact that food prices are the main driver of high inflation in Vietnam, which in turn causes a worsening of market psychology that may have destabilizing effects in a country already extremely tired of its histories of inflation. But it is also fairly clear that Vietnam can do better by imposing an exports tax instead of a ban in this case. With the revenues that the Government collects from such an emergency export tax, the Government can at least partially offset the losses incurred by net rice producers by providing targeted support to rice growing regions in the form of investments in irrigation or agricultural extension services for rice production, thus helping to meet some of their many needs. In short, better development outcomes can be achieved by employing an appropriate trade policy complemented by a suitable fiscal policy.

**Figure 17. Vietnam Domestic Retail Rice Price and Free-on-Board Rice Price (USD/ton) in 2008**



Source: Kompas et al. (2009b)

Fiscal policy is presumably the most powerful among the instruments at the disposal of the Government. Better distributional and poverty reduction outcomes may be achieved through progressive taxes, with an emphasis on special consumption and property taxes on the revenue side, and pro-poor allocation of budget expenditures across locations and sectors, with a distinct focus on social investments on the spending side. A progressive fiscal policy would benefit disadvantaged rural poorer provinces, particularly those with a large ethnic minority population. However, it would take some time to observe how the recently-issued law on non-agricultural land tax will work, particularly whether it can help to bring down the “price fever” of real estates in big cities, which is clearly neither healthy for macroeconomic stability nor the welfare of the urban poor and low income. Evidence on distributional effects of budget expenditures is still rather limited. One of the rare studies on this subject, Hansen et al. (2007), finds somewhat pro-poor budget allocation across provinces. Specifically, the study finds that provinces in the country’s growth poles, which have low poverty rates, transferred large amounts of money to the central government. These sums were subsequently used to support the poorer provinces, mainly in the Central Highlands and the Northern Uplands. Household-level analysis done in this study finds that these transfers had a sizeable impact on the poverty rate in both 2002 and 2004, as well as provided protection against falling into poverty in that period. However, the analysis may need to be updated with more recent data to validate if these findings still hold.

A budget-related issue that has recently come up prominently is electricity pricing. Power prices are arguably way below the market-based level, due in part to the fact that their adjustments have clearly fallen short of rises in the general price level. Even with the most recent increase in electricity price, which was adjusted upward by the Prime Minister’s Decision 269/QĐ-TTg to the average level of VND 1,242 per kWh (or approximately USD 0.06) as of March 1, 2011, it is widely believed to still considerably fall short of the long-run equilibrium level. As a consequence, electricity supply has been falling even further behind the rapidly rising demand, resulting in higher frequency of power outage with increasingly negative impacts on production, business activities, and daily living. Therefore, the Government has recently announced plans to gradually move towards market-based pricing for electricity in order to attract new private investments into this sector and to encourage more efficient power use. These planned changes are clearly necessary in order to ensure sustainability of the power sector and to protect the environment. However, distributional impacts of these policy changes should be better understood in order to appropriately design and implement complementary measures to protect the poor and the low income. While this exercise may take some time to complete, there are a couple of suggestions that can be made. First, the pricing scheme for electricity should be made more progressive such that the better-off and the heavy users of

electricity disproportionately bear the financial burden of future price increases to cross-subsidize the poor and the low income. Second, the recent introduction of power prepaid card, which allows urban dwellers without permanent resident status to directly buy electricity from Vietnam Electricity (EVN) at more reasonable prices than what they have to pay under indirect purchases from their landlords, should be scaled up to help migrants escape the exorbitant prices they have had to pay up until now.

In short, mainstreaming poverty and distributional considerations into every macro policy and tool is an important part of a broad-based approach towards poverty reduction. Without a comprehensive approach and pro-active interventions, poverty reduction will be bound to become increasingly resistant to economic growth.

## **5. Reducing Ethnic Minority Poverty**

Resistance of poverty reduction to economic growth is presumably clearest among ethnic minorities despite the Government's fervent attention to this issue, manifested in numerous policies and programs it has introduced over the last two decades. As pointed out earlier, a large proportion of the ethnic minority population lives in chronic poverty. This means that they remain poor even in good times, and are likely to get even poorer in bad times. Evidence strongly suggests that ethnic minorities are way behind the Kinh/Hoa group in terms of poverty reduction; therefore, the issue of ethnic minority poverty will be analyzed at greater length here.

In-depth analysis of datasets obtained from household surveys conducted in different years by Baulch et al. (2009) comes up with a number of findings. First, there is considerable heterogeneity across various ethnic minority groups in terms of welfare and poverty (Table 5) and as a result, a simple majority/minority dichotomy, which is widely used due to the lack of observations in household survey data, would potentially conceal important differences between individual ethnic groups.

**Table 5. Poverty and Per Capita (PC) Expenditures by Ethnic Category, Rural Areas 2006**

<b>Ethnic Category</b>	<b>Poverty Headcount</b>	<b>Poverty Gap</b>	<b>Median PC Expenditures (VND million)</b>	<b>Observations</b>
Kinh-Hoa	13.5%	2.7%	4.267	5,875
Khmer-Cham	34.6%	5.8%	2.819	122
Tay-Thai-Muong-Nung	45.2%	11.1%	2.729	420
Other Northern Uplands	72.4%	26.1%	1.878	239
Central Highlands	73.6%	25.7%	1.955	198
Others	50.1%	23.5%	1.942	28
<b>Total</b>	<b>20.4%</b>	<b>4.9%</b>	<b>3.936</b>	<b>6,882</b>

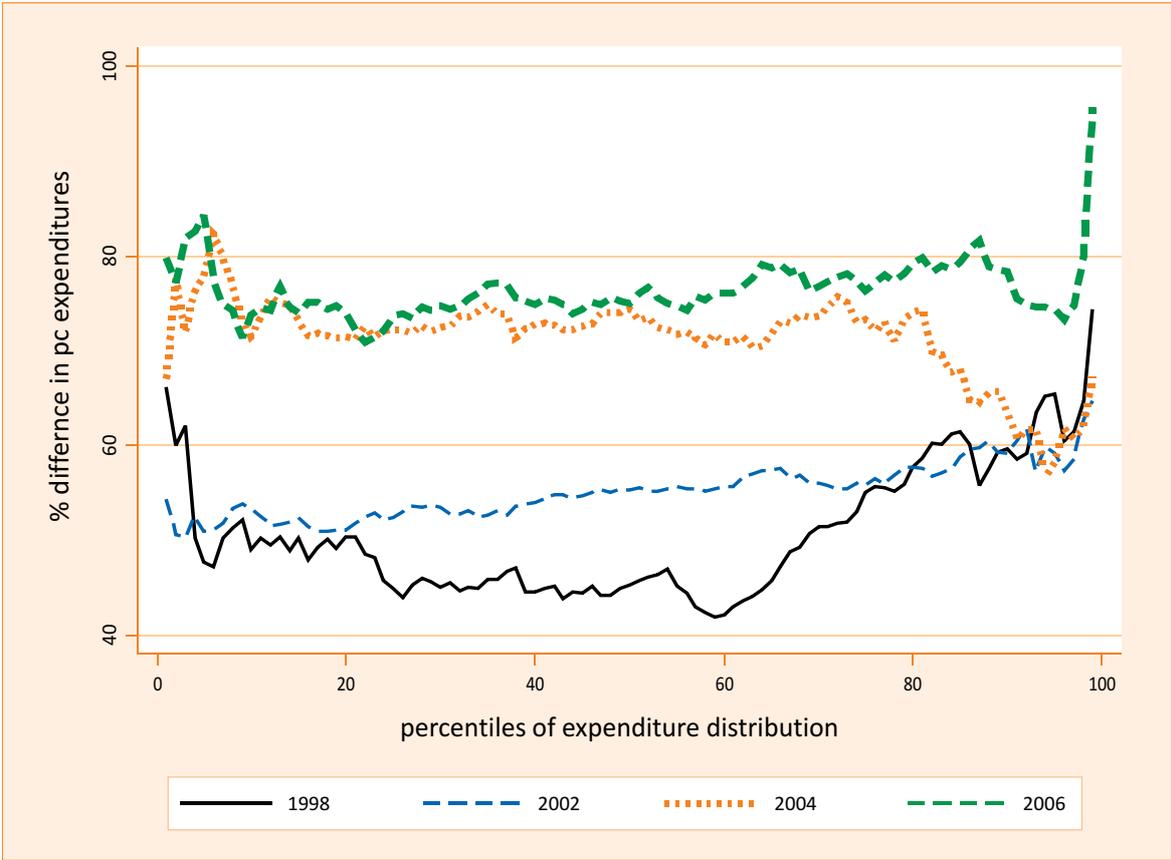
*Source: Baulch et al. (2009)*

Second, ethnic minority people who are not fluent in the Vietnamese language are 1.9 times more likely to be poor than ethnic minority people who are fluent in Vietnamese, and 7.8 times more likely to be poor than the Kinh/Hoa people.

Third, ethnic minority children, except the Khmer and Cham children, tend to be more malnourished than their Kinh/Hoa counterparts, with wasting rate increasing for all children under 24 months between 1998 and 2006 and malnutrition arising not only from lower living standards but also other factors such as mothers' level of education, living environment and the incidence of infectious diseases, especially diarrhea. Therefore, it is suggested that ethnic minorities should (i) encourage breastfeeding, (ii) let mothers have longer maternity leaves; (iii) give more attention to the type of weaning food given to children under 24 months of age; (iv) introduce programs to increase mothers' knowledge on health issues; (v) introduce measures to improve living standards and hygiene in living environment, especially in remote areas.

This study also looks into the consumption gap between the Kinh/Hoa group and ethnic minorities. It is found that rural ethnic expenditure gap increased from 51 percent in 1998 to 74 percent in 2006, and the gaps in household living standards widened considerably over time at almost all the non-extreme percentiles of the distribution and these gaps exhibited a degree of stability across most of the expenditure distribution (Figure 18).

**Figure 18. Evolution of the Rural Ethnic Poverty Gap**

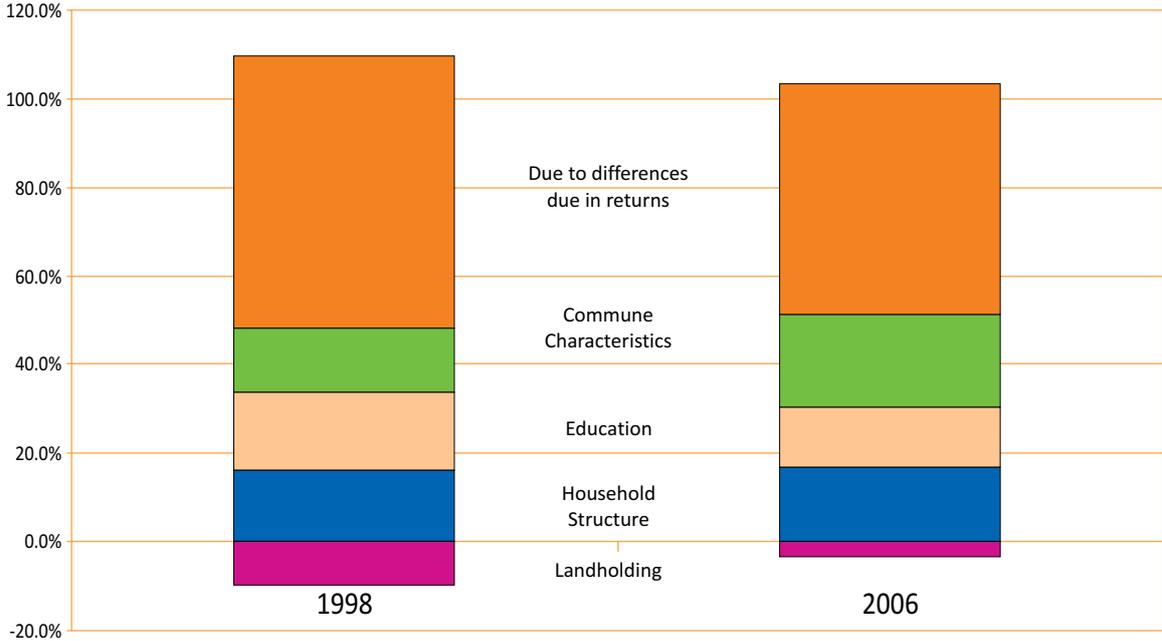


Source: Baulch et al. (2009)

The gaps in average per capita expenditure between ethnic minorities and the Kinh/Hoa group are traced back to two explanations. The first quotes differences in their observable endowments at mean values, which include household structure (e.g. household size, household age composition), household education levels, landholding patterns (household access to different types of land), and commune characteristics (access to electricity, markets, post-offices, roads, schools; as well as geographic attributes of the commune). The second quotes differences in returns to these endowments between ethnic

minorities and the Kinh/Hoa group. The corresponding results are presented in Figure 19, which show that differences in endowments explain 50 percent of the gap and differences in returns to these endowments explain the remaining 50 percent.

**Figure 19. Mean Decomposition Results of the Average Per Capita Expenditure Gaps between Ethnic Minorities and the Kinh/Hoa Group**



Source: Baulch et al. (2009)

Therefore, to help ethnic minority people to better participate in and benefit from the growth process, interventions should be directed towards raising both their endowments and returns to these endowments. For the former objective, policies should be designed to help ethnic minorities to have better access to basic social services, infrastructures, wage employment<sup>1</sup>, etc. For the latter objective, interventions should be directed towards reducing language barriers, improving the quality of education, overcoming stereotypes etc. Many of the disadvantages are structural and therefore bringing ethnic minority poverty down to low levels

<sup>1</sup> Analysis of the Labor Force Survey 2007 by Roubard (cited in Baulch et al., 2009) finds that in rural areas, ethnic minority people are about two-and-a-half times less likely to be wage workers and receive much lower labor income than the Kinh/Hoa people. Also, they are much less likely to sign formal labor contracts as well as receive pay slips or social security benefits.

would take generations. A focus should therefore be placed on reducing the risk of intergenerational poverty transmission among ethnic minorities, particularly for households living in chronic poverty. This can be done through increased social investments in ethnic minority children.

## **Chapter III.**

### **LOOKING FORWARD: WHAT CHALLENGES LIE AHEAD?**

Vietnam has become a lower middle-income country and has put forth an ambitious objective of becoming a largely industrialized country by 2020 and avoiding the so-called “middle income trap” thereafter. Although the country has been taken off the list of poorest countries, the poverty agenda is still far from finished.

What is known from existing evidence as discussed earlier is that there is still a long way to go to help many ethnic minority people to escape from poverty for good (it may take generations, given the largely structural nature of poverty of this group) or to revamp social protection such that it is both inclusive and financially sustainable (it may take many decades). However, the existing data show little about new forms of poverty that will likely emerge or about which of the existing forms may become increasingly acute in the foreseeable future.

Urban poverty is one such form of poverty. Looking back, recent data have reported a low rate of poverty, which seems to be accurate as a recent urban poverty survey conducted in the two largest cities, Hanoi and Ho Chi Minh City at the end of 2009 refutes the hypothesis that estimates of urban poverty rate may be biased downward because migrant workers are not included in the sampling frame. Indeed, Table 6 shows that poverty rates varied little across the two groups of people who had or did not have local resident status.

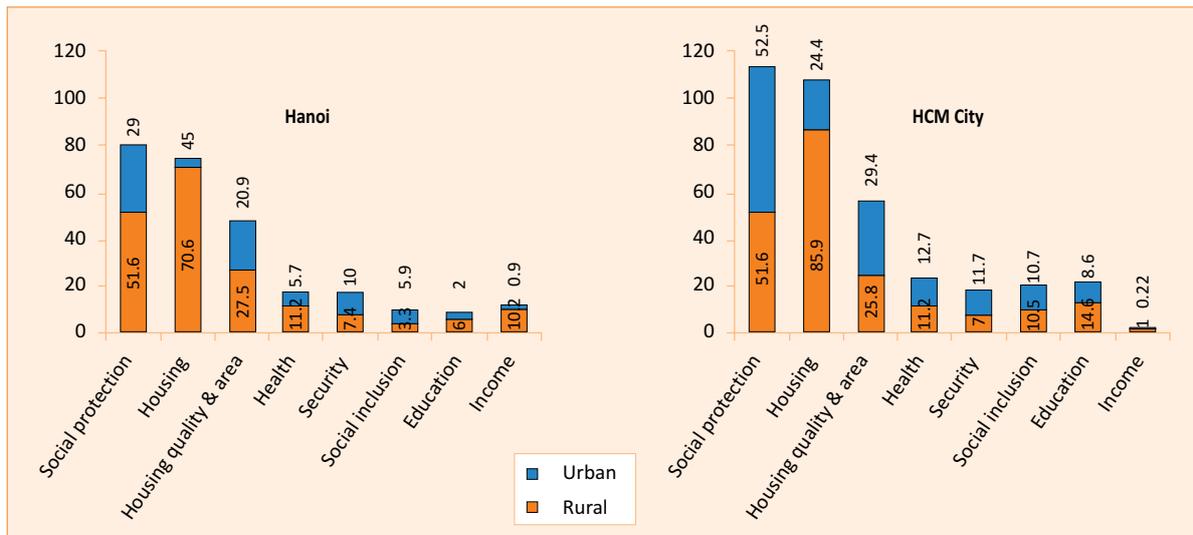
**Table 6. Income-based Poverty Rates in Hanoi and Ho Chi Minh City in 2009**

	National Poverty Line 2006	International Poverty Line USD 1.25 per person-day	International Poverty Line USD 2 per person-day	Individual City's Poverty Line
Both cities	0.65	0.65	2.95	9.62
Hanoi	1.27	1.34	4.57	1.56
Ho Chi Minh City	0.31	0.29	2.08	13.92
Urban	0.28	0.23	1.68	8.28
Rural	1.69	1.86	6.51	13.42
With local resident status	0.54	0.58	3.01	9.60
Without local resident status	1.16	1.03	2.64	9.74
% of people without local resident status in the poor population	31.31	27.36	15.59	17.63

*Source: Nguyen Bui Linh (2010)*

However, looking in the rear-view mirror may not be particularly helpful in predicting what will happen down the road in the new decade because of the multi-faceted nature of poverty with numerous non-income dimensions. These may include pollution, personal safety, working and housing conditions, or exposure to abuses, all of which are becoming increasingly acute for low income migrants who are technically classified as non-poor by both income measure and expenditure measure. Some of these issues are already discussed earlier based on evidence from a recent participatory urban poverty survey. If these dimensions are properly captured in the measurement of poverty, the urban poverty picture may change considerably. There are already some efforts to reflect these multiple dimensions of poverty in the analysis of datasets attained in the Urban Poverty Survey 2009.

**Figure 20. Multidimensional Poverty in Hanoi and Ho Chi Minh City**



Source: Nguyen Bui Linh (2010)

The results of this analysis show that while income-based poverty rate is low in both urban and rural areas of the two cities, the lack of access to the formal social protection system is the biggest welfare gap, followed by the lack of access to housing services and quality housing (Figure 20). These results confirm the importance of non-income dimensions of well-being and of poverty in urban areas, and at the same time indicate areas for priority interventions. Furthermore, as discovered in recent field surveys carried out under RIM, more and more young married migrant workers are deciding to let their children stay on with them instead of sending them back to their home village to the care of their grandparents. Urban poverty in general and child poverty in urban areas in particular, therefore, may very soon change their faces, if migrants cannot have equal access to social services. Moreover, the need to avoid the “middle income trap” requires that Vietnam address the issue of child poverty right away, as investments into Early Childhood Development (ECD) will significantly influence subsequent human capital outcomes thus will yield greater returns if implemented earlier rather than later.

Inequality is another issue that may considerably worsen over the medium and long-term if appropriate actions are not taken promptly. Commonly used inequality indexes such as Gini coefficient, top quintile over bottom quintile income/expenditure or top decile over bottom decile income/expenditure all indicate that inequality rose modestly in the 1990s and relatively stabilized throughout the 2000s. However, it is not easy to reconcile these findings with what many ordinary people observe in real life. Similar to the case with urban poverty, there may exist several technical problems with sampling and/or housing value computation processes, resulting in under-estimation of this expenditure item at the top end of the income

distribution. There may also be economic reasons preventing the Gini coefficient from rising too fast, notably how the middle class, proxied by the three middle income quintiles, have done particularly well in the 2000s., Past data in this case may not be particularly useful for future projections of inequality for numerous reasons, including the accelerating integration and urbanization processes, which tend to considerably raise the return to skills, which are precisely what the poor and the low income normally lack.

Inequality in income may potentially translate into inequality in voices and representation in policy-making processes, as shown by international experiences. In Vietnam, this issue is becoming increasingly important as the society is becoming increasingly diverse, resulting in rising conflicts of interests between different groups. Knowledge and skills are among the key factors determining the effective participation of the poor and the disadvantaged in policy-making – both via local and grassroots developments and via mainstreaming poverty and distributional concerns into macro policies at the national level. There is still long distance to go to make it happen, but poverty-focused grassroots organizations and research institutions have a major role to play in supporting the poor in this process.

Finally, climate change, which is one of the central issues in the global agenda at present and has actually started to affect various disaster-prone regions in Vietnam, is bound to come up prominently in the immediate future. Vietnam should therefore proactively engage in this global agenda and seek to understand well the poverty and distributional impacts of climate change to be able to intervene appropriately and promptly.

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## APPENDIX.

### Characterization of the Population by Poverty Dynamics

	Whole Vietnam				Rural Vietnam			
	Chronic Poor	Transient Poor	Sustainable escaper	Never poor	Chronic Poor	Transient Poor	Permanent Escapers	Never poor
	PPP		PNN	NNN	PPP		PNN	NNN
<b>Location (distribution within a poverty category)</b>	100.0	100.0	100.0	100.0				
Northern Uplands	24.9	23.7	13.7	10.3	27.5	22.8	13.6	10.5
Red River Delta	3.8	17.7	15.3	22.2	3.4	18.5	16.6	24.0
North Central Coast	32.6	17.7	21.1	12.1	36.1	18.7	22.0	13.2
South Central Coast	5.8	7.4	11.6	10.9	6.4	7.8	12.4	9.8
Central Highlands	21.8	11.1	12.0	3.4	14.2	10.7	11.6	3.7
South East	0.8	6.3	9.1	16.0	0.8	5.8	8.4	11.0
Mekong River Delta	10.4	16.0	17.3	25.1	11.5	15.6	15.4	27.9
<b>Household demographic</b>								
Household size	6.4	5.4	5.6	4.9	6.3	5.4	5.5	4.9
Share of children under 19 years	51.2	46.8	46.4	35.1	51.3	47.2	47.4	36.7
Share of children under 10 years	30.7	22.9	21.1	11.6	30.7	23.3	21.6	11.5
Share of Elderly (+55 for female and +60 for male)	7.2	8.5	9.1	9.9	7.1	8.6	8.6	9.6
<b>Household Head Characteristics</b>								
Coming from Ethnic Minorities (%)	47.1	25.0	13.0	3.5	44.4	25.5	12.0	3.9
Mean age	45.5	43.6	46.2	49.3	45.0	43.4	45.8	49.0
Male (%)	88.7	90.1	82.8	79.2	88.4	90.7	83.5	84.5
Married (%)	85.4	89.8	85.1	85.6	84.7	90.4	85.8	86.2
<b>Education of Household Head (distribution within a poverty category)</b>								
< primary school	57.8	35.4	34.8	25.8	57.0	35.6	31.8	27.1
Primary school	28.1	32.7	21.9	24.1	27.5	32.2	22.2	25.5
Lower secondary school	11.0	27.1	37.0	28.6	12.2	27.6	39.3	31.3
Upper secondary school	2.9	3.8	4.0	9.2	3.2	3.6	4.3	9.3
College/University	0.2	1.0	2.3	12.2	0.2	1.0	2.5	6.8

## APPENDIX.

### Characterization of the Population by Poverty Dynamics (cont.)

	Whole Vietnam				Rural Vietnam			
	Chronic Poor	Transient Poor	Permanent escapers	Never poor	Chronic Poor	Transient Poor	Permanent Escapers	Never poor
	PPP		PNN	NNN	PPP		PNN	NNN
<b>Employment of Household Head (distribution within a poverty category)</b>								
White Collar/Technician	0.8	7.1	7.9	13.7	0.9	6.6	8.5	10.5
Worker in Sales/Services	4.8	3.4	6.0	12.0	5.3	3.1	4.8	8.7
Agriculture	80.6	64.5	60.0	41.6	81.3	65.4	62.2	52.3
Worker in Non-farm Production	3.8	15.9	15.9	18.2	4.2	16.7	15.2	17.1
Non-Working	10.0	9.1	10.2	14.5	8.3	8.3	9.2	11.4
<b>Household Infrastructure (%)</b>								
No electricity	36.8	20.0	12.8	6.0	40.2	20.6	13.1	8.0
No access to clean water	87.1	74.2	76.9	44.9	87.7	74.6	76.8	53.7
<b>Commune Infrastructure (%)</b>								
No car road to commune	80.6	65.2	66.9	64.5	78.5	63.2	64.2	51.5
No market at commune	55.2	55.3	50.9	57.5	50.4	52.8	46.9	41.9
No lower secondary school	69.2	73.5	73.7	73.8	65.9	72.1	71.5	64.3
No upper secondary school	91.8	96.3	94.0	96.3	90.9	96.1	93.5	94.9
No health station	3.7	2.5	0.6	1.9	4.1	2.4	0.7	1.0
No agricultural extension center	83.1	67.6	69.3	75.2	84.1	69.4	68.5	71.2

NHÀ XUẤT BẢN THẾ GIỚI

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## GIẢM NGHÈO Ở VIỆT NAM: THÀNH TỰU VÀ THÁCH THỨC

Chịu trách nhiệm xuất bản

TRẦN ĐOÀN LÂM

Biên tập: Quang Minh  
Sửa bản in: Lan Anh  
Bìa: Anh Tuấn  
Trình bày: Phạm Trần Hiếu

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In 500 bản, khổ 21 x 29,7 cm, tại TT Chế bản và In NXB Thế Giới. Giấy chấp nhận đăng ký kế hoạch xuất bản số: 662-2011/CXB/2-120/ThG cấp ngày 28/6/2011. In xong và nộp lưu chiểu năm 2011.