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Poverty

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
ASEAN	Association of South East Asian Nations
BTA	Bilateral Trade Agreement
CEPT	Common Effective Preferential Tariff
CIE	Center for International Economics
CIEM	Central Institute for Economic Management
CPC	Commune People's Committee
CPFC	Committee for Population, Family and Children
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CRP	Center for Rural Progress
DAF	Development Assistance Fund
DANIDA	Danish International Development Assistance
DATC	Debt and Assets Trading Company
DFID	Department for International Development
DOET	Department of Education and Vocational Training
DOLISA	Department of Labor, Invalids and Social Affairs
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistics Office
GTZ	German Agency for Technical Cooperation
HCFP	Health Care Fund for the Poor
HDI	Human Development Index
HEPR	Hunger Eradication and Poverty Reduction
HIPC	Highly Indebted Poor Country
ID	Identification
IMF	International Monetary Fund
IOS	Institute of Sociology
JETRO	Japan External Trade Organization
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
MDG	Millennium Development Goal
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MONRE	Ministry of Natural Resourses and Environment
MOLISA	Ministry of Labor, Invalids and Social Affairs
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
MTEF	Medium-Term Expenditure Framework
NCSSH	National Center for Social Science and Humanity

NEA	National Environment Agency
NGO	Non-Governmental Organization
NPL	Non-Performing Loan
NSCERD	National Steering Committee for Enterprise Reform and Development
ODA	Official Development Aid
OECD	Organization for Economic Cooperation and Development
OSS	One-Stop Shop
PAR	Public Administration Reform
PIP	Public Investment Program
PPA	Participatory Poverty Assessment
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PTA	Parent-Teacher Association
PTF	Poverty Task Force
RDSC	Rural Development Service Center
ROSCA	Rotational Savings and Credit Association
RPA	Regional Poverty Assessment
SBV	State Bank of Vietnam
SCUK	Save the Children UK
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprises
UK	United Kingdom of Great Britain
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
US	The United States
VAT	Value Added Tax
VBARD	Vietnam Bank for Agriculture and Rural Development
VBSP	Vietnam Bank for Social Policies
VDG	Vietnam Development Goal
VHLSS	Vietnam Household Living Standards Survey
VNHS	Vietnam National Health Survey
VLSS	Vietnam Living Standards Survey
WTO	World Trade Organization

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TABLE OF CONTENTS

Boxes

Tables

Figures

EXECUTIVE SUMMARY

Vietnam's achievements in terms of poverty reduction are one of the greatest success stories in economic development. Admittedly, there is no unique definition of poverty, and therefore no perfect indicator to measure its change over time. Poverty is a state of deprivation involving multiple dimensions, from limited income to vulnerability in the face of shocks to few possibilities to participate in collective decision making. But the expenditure approach to the measurement of poverty provides a reasonable first cut, and one that allows comparison across localities and over time. Based on this approach, and using a poverty line computed according to international standards, the success of Vietnam is simply remarkable. As recently as 1993, 58 percent of the population lived in poverty, compared to 37 percent in 1998 and 29 percent in 2002. This amounts to halving the share of poverty in less than a decade. Or, put differently, almost a third of the total population was lifted out of poverty in less than ten years. The precise figures would probably vary if other criteria were used to define and measure poverty, but the accomplishment would certainly remain.

Progress has also been substantial when other dimensions of poverty, apart from expenditures, are considered. The broader Vietnam Development Goals, which are a localized version of the Millennium Development Goals, show a consistent improvement of social indicators, from education enrollment to infant mortality. While some regions and some population groups gained more than others, Vietnam continues to reduce poverty considerably faster than other countries at a similar development level. In the early 1990s, its poverty rate was higher than could be expected, given the country's level of economic development. Some time during the second half of the 1990s Vietnam caught up with the "average" country at its development level, and it largely surpassed it by 2002.

The "story" behind the reduction in poverty has somewhat changed over time. Earlier gains had been associated with the distribution of agricultural land to rural households, in a context where economic reform provided the right incentives for increased farm production. But those gains have been mainly reaped by now. In more recent years, the driving forces behind poverty reduction are job creation by the private sector and the increased integration of agriculture in the market economy.

A vast majority of the working-age population of Vietnam actually works, and labor market participation rates are among the highest in the world. What has changed is not activity, but rather the composition of employment. Over the last four years, the proportion of people who mainly work on their own farm dropped from almost two thirds to slightly less than half. Instead, many more are now engaged in wage employment: 30 percent of those at work earned a wage in 2002, compared to 19 percent four years earlier. Thanks to its buoyant expansion, by 2002 the formal private sector already accounted for around 2.5 million jobs, more than the entire public sector. But a much larger number of jobs have been created by the private informal sector.

Over the past few years increased incomes from farming have also been important for

rural poverty reduction. Farm households in Vietnam have become much more oriented towards the market, as opposed to home consumption. Currently they are selling 70 percent of their farm output, compared to 48 percent nine years ago. This has not been at the expense of food security or nutritional intake as both of these indicators have improved over time. Increased diversification has also helped farmers reduce vulnerability to shocks.

At a deeper level, poverty reduction in Vietnam has been associated with strong economic growth. Public policies can reach the poor through targeted transfers, and they can also increase their assets, especially in terms of educational attainment and health status. However, there is only so much targeted programs and human development policies can do in the absence of sustained economic growth. From that perspective, the performance of Vietnam since *Doi Moi* is spectacular. Except for a few countries recovering from civil war or economic havoc, over the last decade only China and Ireland have seen faster growth of GDP per capita than Vietnam.

This performance has been made possible by sound macroeconomic management and the systematic introduction of market forces in the economy. The development strategy did not rely on a massive divestiture of state assets, other than agricultural land. There are at present almost 5,000 state-owned enterprises, and a program to divest those operating in non-strategic sectors is moving slowly. Efforts to increase the productivity of the state sector have rather relied on increased competition in the markets for goods and services and, to a lesser extent, on the hardening of the budget constraint faced by state-owned enterprises.

Looking forward, the "story" behind poverty reduction is likely to be sustained by the reform strategy of Vietnam, embodied chiefly in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). This key policy document foresees the completion of the transition to a market economy, with social policies aimed at keeping development inclusive, and an effort to build modern governance.

Implementing CPRGS will not be without difficulties, however. On the structural front, the policy area where reforms are most advanced is the integration with the world economy. The recent decision by the Government to try to join the World Trade Organization confirms its commitment to increased openness. On the other hand, slow progress on the twin agenda of state owned enterprise restructuring and financial sector reform could build up a considerable liability for the Vietnamese society. Inability to harden the budget constraint faced by State Owned Enterprise would imply that a portion of today's economic growth will have to be devoted, sooner or later, to clearing bad debts and protecting the solvability of financial institutions. On the governance front, the abuse of public office for private gain risks making everyday life miserable, when it happens at low levels, and leading to resource misallocation and waste, when it affects collective decision-making. Tackling difficulties on these two fronts is key for Vietnam to remain a success story in the longer term. While growth is bound to remain strong over the foreseeable future, failure to address them could lead to the emergence of a crony variant of capitalism already seen elsewhere, not to the development of a vibrant market economy with a socialist orientation.

But will rapid economic growth be enough to eradicate poverty within the next few years? While the pro-poor nature of economic growth in Vietnam over the last decade provides good reason to be optimistic, there are also clear signs that development is becoming less inclusive. Not surprisingly, bigger households, and especially those with more children, more elderly members, or where a spouse is missing, tend to have a lower level of

expenditures. Educational attainment makes a considerable difference too, and increasingly so. Even more striking are regional disparities, and especially the gap between urban and rural areas. Other things equal, an urban household spends about 78 percent more than a rural one. This effect dwarfs all others, including those associated with higher educational attainment. While correlation is not causation, this gap highlights the kind of urbanization pressures Vietnam may face in the coming years. Confronted with the possibility to substantially improve their well-being many rural households will choose to migrate to the cities. Administrative barriers, no matter how severe, may not be sufficient to dissuade them. A rapid improvement of well-being in rural areas might be the only way to slow down a migration wave in the making.

Poverty has a strong spatial (or geographical) dimension in Vietnam. While positive developments are visible in all regions, poverty rates vary considerably across them, and the speed of poverty reduction varies as well. Taken as a whole, the Central Highlands is the poorest region in the country, followed by the Northern Mountains and the North Central Coast. But this ranking can be questioned on the grounds that the Northern Mountains are quite heterogeneous, and the North West is actually the poorest region of all. Poverty rates are high in the two deltas, and in the South Central Coast, but they are lower by half compared to the poorest regions. The Central Highlands also stand up because of their very limited poverty reduction over the last four years. Food poverty in this region has remained almost unchanged for an entire decade, in sharp contrast with the improvements seen elsewhere.

The conclusions are different if the density of poverty is considered, rather than its incidence. From this perspective, poverty is very much concentrated in the two deltas and in the coastal areas. To some extent, this high density of poverty simply reflects the high overall population density in these areas. But the contrast between poverty density and poverty incidence points out to an important policy challenge: reducing poverty in the areas where it is most severe can be very expensive, as those areas may not be populated enough to justify substantial investments. Some could even see this contrast as a justification for a benign neglect of the areas where poverty rates are higher, on the grounds that they are not where most of the poor live. But this interpretation would not be warranted, as the geographical distribution of the poor is changing as well. The areas with higher density nowadays are also those where poverty is more shallow. Those with higher incidence, on the other hand, are likely to remain poor for many years to come.

Ethnic minorities are among the groups that will remain poor for longer. The Kinh and Chinese majority has handsomely benefited from growth. Ethnic minorities have made much less progress. A forward-looking estimate of the poverty rate of Vietnam puts it at 21 percent by 2010. Around 37 percent of those living in poverty by then would be ethnic minority people, more than twice their share of the poor in 1993, and close to three times their share of the Vietnamese population. By 2010, more than two thirds of those living in hunger (with expenditures below the food poverty line) could be ethnic minority people. While poverty has fallen steadily among the ethnic groups of the Mekong River Delta and the Northern Mountains, it has only declined marginally in the North and South Central Coasts, and has actually increased in the Central Highlands. This latter trend can be partly attributed to the collapse in the price of coffee. But overall, it is fair to say that in the case of ethnic minorities growth will not be enough. Specific policies targeted to them will be needed. They range from the improvement of local infrastructure, to the redistribution of land currently held by state forest enterprises, to the legal recognition of communal agricultural practices, to the development of social services in local languages. They also include measures to

improve the representation of ethnic minorities in local decision-making processes and build good governance in the most remote areas of the country.

Rural-urban migrants are another group potentially at risk. On the surface, members of this group have done well. However, the insufficient development of urban infrastructure and the current administrative mechanisms to limit the mobility of the population may keep many migrants in poverty too. A polluted environment, restricted access to social services in the case of unregistered migrants, the absence of the strong social networks characteristic of Vietnamese "villages" (or *thon*), are drawbacks that increased expenditures may not compensate. Even if only a fraction of the rural-urban migrants were to fail, the absolute numbers could be large, given that almost one million people will be migrating to the cities every year. Squarely recognizing the problem, through the assessment of the situation of rural-urban migrants groups (registered and unregistered), would be a key first step. It could pave the way to appropriate planning of public actions, from land zoning policies to the accelerated development of urban infrastructure and social services.

While the proportion of the population living out of poverty has increased steadily in Vietnam, many households are still vulnerable to falling into poverty. Among the most common shocks they confront are episodes of ill health, failure of a crop or investment (such as death of livestock), adverse movements in the prices of key agricultural commodities, unstable employment opportunities, and the occurrence of natural disasters. Depending on the estimate, between 5 and 10 percent of the population of Vietnam is still vulnerable to fall into poverty.

Overall, there is a steady tendency towards greater inequality, albeit at a moderate pace. The expenditure share of the poorest eighty percent of the population has declined slightly over time, while that of the richest quintile has increased. This trend could actually be an under-estimate. Household expenditures measured through household surveys fall short of consumption measured through national accounts, and the gap has increased over time. Depending on whether the rich or the poor are more likely to under-report their expenditures, inequality could be higher or lower than suggested by household survey data. In Vietnam it appears to be higher. And increasingly so. In 2002, the observed ratio between household expenditures per capita in the richest and the poorest quintiles of the population is 6.03. But it could be as high as 8.84 if figures corrected for under-reporting were used instead.

The trend towards increased inequality requires a deep reconsideration of public expenditure and public investment programs. Budget transfers already favor poorer provinces, but the rules and norms on which these transfers are based are still ad hoc. More equitable allocation mechanisms are needed, especially in the social sectors. Developments like the recent creation of the provincial health care funds for the poor are an important step in the right direction. State investment, on the other hand, favors richer provinces. This choice can be justified on the grounds that investment is more productive in densely populated and vibrant regions, and budget transfers can then be used to redistribute the increased wealth. However, the long-term sustainability of such a scheme is not guaranteed. As the gap between rich and poor provinces increases, the size of budget transfers will have to increase as well. Whether richer provinces will be willing to sustain year after year their poorer counterparts, as their relative backwardness makes them more expensive, remains an open question.

The quality of public spending needs to be reconsidered as well. Vietnam has made remarkable progress in expanding the coverage of education over time, even among the poor. Primary enrollment rates

now exceed 90 percent for all major groups, except for ethnic minorities and the poorest quintile of the population (two groups with a significant overlap). As for secondary education, the expansion of enrollment rates over the last decade has been spectacular. But its pace has been quite different for the rich and the poor. The direct cost of education is acting as a powerful deterrent for school enrolment. It takes the form of both explicit user fees, collected by the relevant authorities, and unofficial payments.

Economic transition brought dramatic changes to the health sector. As in education, the overall performance of Vietnam in this area is considerably better than that of other countries at a similar development level. However, large disparities exist between the rich and the poor. The poor are less likely to report themselves as being sick, but their illnesses appear to be more severe. Some of the most striking differences between poor and rich concern the health condition of children. The probability of being stunted among those in the poorest quintile of the population is almost three times as high as among children in the richest quintile. At almost five, the ratio is even higher for the probability of being under-weight. Out-of-pocket payments, whether official or unofficial, have become a dominant feature of the health landscape in Vietnam. They are partly responsible for reduced use of professional health care among the poor.

At present, public investment and recurrent expenditures are to a large extent disconnected, resulting in poor maintenance and operation of infrastructure. A forward-looking approach in public spending needs to be supported through the development of medium-term expenditure frameworks, especially in sectors that are key for poverty reduction, like education, health, agriculture and transport. The public investment program, in turn, is basically a compilation of pet projects of authorities at different levels, without a careful screening of their potential to support economic growth and lead to poverty reduction. Return rates for large-scale projects should be computed, and their potential poverty alleviation impacts assessed beforehand. Available evidence already points out to large differences in impact across sectors, from low in the case of irrigation infrastructure to high in the case of roads. Given that the public investment program represents a claim on almost a fifth of Vietnam's GDP, a selection of projects based on their economic growth and poverty alleviation impacts could do more to reduce the number of poor than any targeted program or safety net.

This said, targeted poverty alleviation programs are not irrelevant, and in Vietnam some of them have proven effective. This is the case, in particular, of exemptions of education fees. Increased reliance on local resources as the country decentralizes, and the irruption of market forces (both officially and unofficially) in the social sectors have led to a dramatic increase of out-of-pocket payments. As a result, professional health care services and school attendance have become increasingly burdensome to the poor, when they are not simply out of reach. Among the mechanisms to offset this trend are education fee exemptions, which currently reach almost one seventh of the poor. These exemptions are associated with a 10-point increase in school enrollment among the children of the beneficiaries, and also with substantially lower educational expenditures. Health care cards, allowing access to health services at a reduced cost, appear to have a positive impact too. Improvement of delivery mechanisms, through the health care funds for the poor, could increase their effectiveness. Results are more mixed for access to subsidized credit, which reaches less than 6 percent of the poor. But again, the recent creation of the Vietnam Bank for Social Policies could expand its coverage and lead over time to a better credit culture.

Overall, the Hunger Eradication and Poverty Reduction program, which currently serves as an umbrella for a variety

of benefits, should become more focused, by concentrating on a limited number of benefits whose effectiveness has been proven. Benefits should also be designed in a way that broadens their coverage of the poor, and facilitates monitoring and evaluation, especially through the development of appropriate baselines.

Equally important is to ensure that both targeted programs and, more broadly, budget transfers, reach those in need. Vietnam's spectacular success in reducing poverty took place in the absence of a mechanism to measure poverty or target the poor based on international standards. The distribution of agricultural land to rural households in the early 1990s, a process eminently vulnerable to capture by local elites, was remarkably egalitarian. The delivery of social services to the poor was also effective, as shown by the fact that Vietnam's social indicators are substantially above those of other countries at a similar development level. Yet, the very idea of identifying the poor based on expenditure data has not been fully endorsed at all levels of government yet. It remains largely extraneous to local authorities. But keeping growth pro-poor in the new phase of development Vietnam is entering will require an improvement in measurement and targeting methods. Progress in decentralization will increasingly need budget transfers from rich to poor provinces, hence a reliable way to measure poverty at the provincial level. The ever-growing role of market forces and out-of-pocket payments in the social sectors will make school fee exemptions and health care cards essential to the well-being of the poor. Making sure that the neediest communes receive the resources to cover the cost of these benefits requires reliable poverty measurement methods. An effective mechanism to identify the poorest households within each commune is also necessary for the local allocation of benefits such as school fee exemptions and health care cards at the local levels.

At present, a variety of methods are used to measure poverty and identify the poor in Vietnam. A careful comparison of their performance suggests a way forward, based on a combination of statistical data and participation at the local level. On the statistical front, enormous progress has been made in Vietnam in terms of using household surveys to measure poverty based on expenditure or income data. A first poverty map, able to generate consistent poverty rates at the district and commune levels, was released recently. This approach is not without limitations, and its application in a context of massive rural-urban migration, where the population censuses behind the maps get easily outdated, raises important challenges. But they could be overcome with appropriate use of administrative data on migration. And in spite of these limitations, maps based on rigorously computed income or expenditure measures of poverty can produce much more reliable results than the official poverty figures currently used in Vietnam.

But the authority of the statistician stops at the gate of the village, or *thon*. The actual classification of households produced by village assemblies, under the leadership of elected village chiefs and with assistance from local authorities, produces remarkably accurate results. At the village level, people know who is poor without having to compute income or expenditure measures. Moreover, the *thon* provides a solid foundation for grassroots democracy initiatives. A mechanism whereby household surveys and the associated poverty maps are used to allocate resources all the way down to the communes where they are most needed, and the distribution of these resources is decided in a participatory way in the villages in each commune, could be used to keep development inclusive in Vietnam. The potential of this mechanism would be enhanced if the resources transferred took the form of very visible benefits, such as a number of education fee exemptions and health care cards, depending on the poverty rate of each commune. Visibility would

create an incentive for popular participation in the allocation of benefits, thus reducing the potential for waste and misuse.

Consensus on the best mechanisms to measure poverty and identify the poor is only one (admittedly very important) step in the process of developing a set of indicators to monitor and evaluate CPRGS. The Vietnam Development Goals represent the next key layer of indicators. But the CPRGS is even more ambitious, as it includes a comprehensive list of monitoring indicators covering a wider range of social and institutional outcomes, in addition to indicators of macroeconomic performance. Identifying the appropriate way to measure those indicators, the frequency of the measurement, and the agency in charge, will provide a foundation for policy making that is more strongly rooted in evidence. Currently the biggest gaps are in tracking progress towards governance objectives. Developing the appropriate set of indicators to be used at sectoral and provincial levels is another important task. Given capacity constraints at the provincial level, being selective will be key to minimize the burden on local staff.

Provincial-level indicators of social and economic development are an important input in the process of "rolling out" CPRGS to the provinces. An ever increasing decentralization implies that local resources are a growing fraction of public expenditures at the local level. The ability of provincial governments to promote growth and reduce poverty very much depends on the effective use of those local resources. Gearing up planning and budgeting processes to localized development targets is certainly a new concept for many provincial officials. A major effort is thus needed to roll out the CPRGS approach to sub-national levels. This does not necessarily mean developing regional or provincial versions of the CPRGS. It rather implies the setting of a vision, the identification of the corresponding targets, the formulation of policies, the alignment of resources, the monitoring and evaluation of results, and the systematic use of popular consultation. This process, which the Government expects to complete by 2008, could boost poverty reduction in the less-developed provinces.

The public administration reform program has established a framework to improve service delivery to the poor. The one-stop shop model, which has already reached 35 out of 61 provinces, is particularly appreciated. As administration reform activities intensify and decentralization increases, sound monitoring of institutional change will become important. Mechanisms are needed to assess improvements in information flows and transparency on entitlements and obligations. Citizen feedback on the delivery of public services is important to keep public administration reform on track. But there is still some way to go in generating full participation of the poor in local decision-making. Initiatives to encourage greater grassroots democracy rely heavily on commune and village level officials. As more responsibilities are transferred to the commune level (as is now happening, for example, through decentralized infrastructure programs) it will be important to reinvigorate the role of the village chief and provide the right incentives for commune officials to operate in a transparent and consultative manner.

INTRODUCTION

Vietnam's achievements in terms of poverty reduction are one of the greatest success stories in economic development. A decade ago, 58 percent of the population had an expenditure level that was insufficient to support a healthy life (with the definition of "healthy" based on a minimum caloric intake per day plus a set of basic non-food needs). Five years later, the proportion of the population below this particular poverty line had fallen to 37 percent. And it had further declined to 29 percent by 2002. Thus almost a third of the total population, the equivalent of more than 20 million people, were lifted out of poverty in less than ten years. The precise figures would probably vary if other criteria were used to define and measure poverty, but the accomplishment would certainly remain.

While rapid economic growth accounts for an important part of the reduction in poverty over the last decade, one of the salient characteristics of Vietnam' growth pattern is its strong pro-poor nature. As the size of the economy roughly doubled between 1993 and 2002, the fraction of the population living in poverty declined by half. In annual terms, a growth rate of output per capita of roughly 5.9 percent was associated with a reduction in poverty by about 7 percent too, implying an "elasticity" of poverty reduction to economic growth higher than one. Such a high elasticity reflects the commitment of the Government of Vietnam to equality and social inclusion, reiterated throughout its blueprint for development, the Comprehensive Poverty Reduction and Growth Strategy, or CPRGS (Socialist Republic of Vietnam, 2002).

But this remarkable success should not lead to complacency. The low-hanging fruit are often harvested first. Further reducing poverty in Vietnam may become increasingly difficult, as more marginalized groups of the population will offer tougher pockets of resistance. Today, rural households still represent a vast majority of the poor. And poverty will remain mainly rural for many years to come. But it will become increasingly concentrated in remote areas, and very heavily so in ethnic minority areas. While broad-based growth will continue to reduce agricultural poverty, especially in the lowlands, it might be insufficient to tackle the problems of mountainous and remote areas as well as the specific issues faced by minorities. Conversely, urban households will represent an increasing share of the poor. Losses associated with distress sales of land, migration to urban and suburban areas without basic services, exposure to crime and environmental degradation in neighborhoods growing out of control… these are some of the emerging challenges for poverty alleviation efforts in Vietnam.

The pattern of growth might change as well. The economy is likely to expand at a rapid pace, but this expansion may be less pro-poor. A key to fast poverty reduction over the past decade was the redistribution of agricultural land to rural households. Because of its relative scarcity, land is one of the most valuable assets in Vietnam. The allocation of land-use right certificates to rural households in the lowlands amounted to a massive transfer of wealth. And not only was this transfer targeted to a poor segment of the population: it was also remarkably egalitarian across households in that segment. The development of agricultural production and exports resulting from the redistribution of land was phenomenal, and it effectively helped millions of households

to escape poverty. It also led to a relatively stable level of inequality. Whereas the development of the market economy raised incomes in urban areas, rural areas were not left behind. Completing the land redistribution process in the uplands, provided that it does not formalize the currently unequal allocation of perennial and forestry land, could further reduce rural poverty. But most of the gains from land redistribution might be reaped by now.

The next decade may well be characterized by increasing inequality in Vietnam. Three main forces will be at play. First, further integration with the world economy will primarily benefit the economic hubs of the country. At least for some time, the gap in earnings between urban and rural areas will increase. And the earnings gap between skilled and unskilled workers could increase as well. Provinces with more inefficient administrations and less business-friendly procedures will also be left behind, as their private sectors will be less dynamic and create fewer jobs. Second, the trend towards increased decentralization could amplify the disparities between rich and poor areas. As the fraction of public expenditures that is funded out of local revenue grows, richer provinces, communes and districts will be able to spend substantially more on infrastructure and social services than their poorer counterparts. Last but not least, increased reliance on market forces may raise the out-of-pocket cost of health and education. This trend has already been at work over the last few years and is likely to continue. While it may not have a large impact on access to the most basic social services, it could accentuate inequalities in the use of more advanced services, such as higher education or more sophisticated medical treatments.

These three forces may reinforce each other. Regions left behind in the growth drive will have relatively fewer resources to pay for their social services, forcing households to rely on more expensive providers. Limited investments in sanitation, health or education could in turn widen the human resources gap with the leading regions. All of which will make these regions less attractive to private investment, and lead to slower job creation.

This report aims at assessing the current poverty situation of Vietnam. Previous poverty assessments were conducted eight and four years ago (World Bank, 1995, 1999) taking advantage of the 1993 and 1998 Vietnam Living Standards Survey (VLSS). The availability of a new, very similar survey with a somewhat shorter questionnaire but a much larger sample size, the 2002 Vietnam Household Living Standards Survey (VHLSS), provides a good opportunity to update the knowledge gained through the previous surveys. However, this report is not based on the analysis of statistical data only. It also relies on a series of Participatory Poverty Assessments (PPAs) conducted in 43 communes across all regions of the country in the summer of 2003. The large size of the 2002 VHLSS sample, and the broad geographical coverage of the PPAs, mean that for the first time in Vietnam it is possible to get reliable insights on the varying nature of poverty in different parts of the country. This report is thus complemented by seven Regional Poverty Assessments (RPAs), released in early 2004.

The report, and the seven associated RPAs, aim at supporting the implementation of CPRGS at all levels: national, sectoral and provincial.

The CPRGS document embodies an encompassing approach to development, focused on simultaneous progress on three fronts: completing the transition to a market economy, ensuring social inclusion, and building modern governance. But due to the very broad nature of this approach, and also to gaps in the existing knowledge, it is not always easy to infer from the CPRGS document the key policy actions to undertake in each of these three fronts, nor their proper sequencing. By shedding light on the nature and determinants of poverty in Vietnam, and how they have changed since the last poverty assessment, this report should help “translate” CPRGS into

specific policies and programs. In this respect, the report highlights the importance of off-farm employment, hence of policies conducive to private sector development even in remote areas. The report also recommends reconsidering the delivery of basic services, with the goal of reducing out-of-pocket payments by the poor. It shows how more systematic criteria to assess the poverty alleviation impact of public investment projects can be used, thus leading to an improved Public Investment Program (PIP). It proposes a practical way to combine statistical data and consultation in order to identify the communes and households which should benefit from targeted programs. And it discusses specific mechanisms to foster participation in decision-making at the local level.

In a context where market forces may increase inequalities across regions, efforts to keep development inclusive will have to rely heavily on the social sectors. Plans to implement CPRGS put special emphasis on health, education, rural development and transport, because of the high poverty alleviation impact of policies in these sectors. Health and education are needed to increase the assets of the poor. Rural development and infrastructure are needed to promote private sector development and create job opportunities. Over the next few years, it is expected that Medium-Term Expenditure Frameworks (MTEFs) will be developed by each of the four corresponding Ministries. This report can be seen as an input for these efforts, by assessing the extent to which public spending reaches the poor and increases their well-being. Consensus on how to measure poverty could also help revise, in each of these sectors, the budget allocation norms which guide the distribution of resources across provinces. Consensus on how to identify poor communes, and poor households within each of them, should strengthen targeted poverty alleviation programs. And rigorous assessment of the impact of large-scale infrastructure projects on economic growth and poverty reduction, could help refine the transport strategy.

The report, and the seven associated RPAs, should also lead to better public policies at the provincial level. An ambitious initiative to roll-out the CPRGS approach to provinces was launched by the Ministry of Planning and Investment (MPI) earlier in 2003. Its goal is to gradually shift the preparation of provincial budgets from a command mentality to an approach based on identifying goals at the local level and supporting their attainment through reliance on empirical evidence and popular consultation. It is expected that by 2008 all 61 provinces will have switched to the new approach. Donors have endorsed this initiative and consider supporting a dozen provinces go through this transition every year. A key input for this initiative to succeed is for the provinces to identify goals that are based on locally relevant analyses of poverty trends and causes. Poverty issues in the Northern Mountains and the Central Highlands are substantially different from those in, say the Southeast, or in the Mekong Delta. And the appropriate policy responses differ as well. The seven RPAs that complement this report will hopefully become a key tool in the effort to roll-out the CPRGS approach to provinces.

From a methodological point of view, this report represents an attempt to combine the strengths of the statistical and the participatory approaches to the assessment of poverty and its determinants. The report relies on both a detailed analysis of household survey data and an intensive use of PPAs. But the insights from these two approaches are not discussed on separate tracks. They are rather integrated from the onset, as most of the communes where PPAs were conducted had been covered by the household survey and the hypotheses used in the statistical analysis are informed by the PPAs. In addition to statistical data analysis and PPAs, this report also relies on a series of specific inputs, ranging from impact evaluation studies for public spending and investment programs to an assessment of how increased openness to trade and foreign direct investment affects labor earnings.

I. WHO ARE THE POOR AND WHY ARE THEY POOR?

1. HOW MUCH POVERTY?

There is no unique definition of poverty and, therefore, no perfect indicator to measure it. Poverty is a state of deprivation involving multiple dimensions. Limited income, or limited opportunities to generate income; lack of assets to protect consumption in difficult times, and vulnerability in the face of adverse shocks; few possibilities to convey demands and grievances to those who could address them, and to participate in collective decision-making; a sense of humiliation, and lack of respect by others... all these are aspects of poverty. But measuring each of them in an uncontroversial way is very difficult, and aggregating these different dimensions into a single index or poverty measure is simply impossible. And still, poverty indicators are needed to inform public policies, and to evaluate their performance. Is economic reform and integration with the world economy succeeding at reducing poverty? Are enough resources being allocated to the poorest regions and provinces? Are poor households getting access to the social services and benefits they are entitled to? In order to answer these questions, some consensus is needed as to how poverty should be measured. This chapter updates the measurement of poverty in Vietnam, and discusses some of the methodological issues involved.

Poverty Indicators

A variety of poverty and social development indicators are currently available in Vietnam. The Ministry of Labor, Invalids and Social Affairs (MOLISA) uses a methodology based on household income. Households are deemed poor if their income per capita falls below some conventional threshold, that varies between urban, rural and mountainous areas. Poverty rates are defined as the share of the population with incomes below those thresholds. The General Statistics Office (GSO) relies on both income and expenditures to compute a poverty rate. It defines a threshold based on the cost of a consumption basket which includes food and non-food items, with food spending being large enough to secure 2100 calories per day per person. Households are considered poor when their income or expenditure level is not high enough to afford this consumption basket. The National Center for Social Sciences and Humanities (NCSSH) computes a Human Development Index (HDI) at the provincial level (NCSSH, 2001). The HDI measures a country's achievements in three aspects of human development: longevity, knowledge, and a decent standard of living. Longevity is captured through life expectancy at birth, knowledge through a combination of the adult literacy rate and the combined primary, secondary and tertiary enrolment ratios, and the standard of living through the gross domestic product (GDP) per capita. Agreement has also been reached on the Vietnam Development Goals (VDGs), a series of indicators that are closely related to poverty and serve as targets to guide policy decisions (Poverty Task Force, 2002). And an even broader set of indicators in being developed to monitor and evaluate the implementation of the CPRGS. Many of those indicators are related to poverty as well.

A systematic comparison of the performance of some of these indicators is undertaken in Chapter 10 of this report. The claim is made that a specific combination of

statistical data at aggregate levels, and participatory approaches at lower levels, has the highest potential to produce credible poverty indicators and, therefore, to answer questions like those listed above. This claim is based on the ability of the various indicators to match the direct perceptions of poverty obtained through the PPAs conducted across the country during the Summer of 2003. Needless to say, no indicator appears to be ideal, in the sense of perfectly matching the direct perceptions of the poor as articulated by the local knowledge partners who led the PPA work. This is not surprising given the multiple dimensions of poverty. But the expenditure approach to the measurement of poverty emerges as a reasonable approximation. Such is the approach used in this chapter to measure the extent of poverty, but with the constant caveat that it is only a measure.

Subsequent chapters refine this measure by taking into account the perceptions of the poor, and a variety of other statistical indicators. And the discussions in this chapter make it clear that even expenditure-based poverty indicators may yield different messages, depending on key assumptions regarding the interpretation of the data. But the possibility of making different assumptions, and testing their implications, is in fact one of the main strengths of the expenditure-based approach to the measurement of poverty. Analysts and policy-makers can discuss those assumptions. They can make sure that the same assumptions are used across the country, so that poverty rates are based on comparable criteria. And proper adjustment of the assumptions also allows to assess poverty in Vietnam compared to other countries.

The 2002 VHLSS provides a sound basis to update the poverty indicators of Vietnam. The VHLSS builds upon the strengths of the 1993 and 1998 VLSS. Despite the relatively small size of these surveys, their high quality and the fact that they interviewed the same households at two points in time (in the statistical jargon, their "panel" dimension), made the VLSS a favorite among researchers. The VHLSS is similar in many ways, but some differences are worth noting. Unlike the 1993 and 1998 VLSS, the 2002 VHLSS was fully produced by GSO, which from now on will conduct a similar one every other year. While the 2002 VHLSS does not interview the same households as the 1993 and 1998 VLSS, it is expected that its subsequent rounds will have a panel dimension. Also, the size of the VHLSS sample is much larger than that of the previous VLSS. Detailed expenditure data are gathered from 30,000 households, and income data from an additional 45,000 households, compared to only 4,800 households in 1993 and 6,000 in 1998.

Poverty indicators based on the expenditure method are reported in Table 1.1. The top portion of the table shows the fraction of the population who cannot afford the consumption basket needed to secure 2100 calories per day to each of its members. This fraction is called the poverty rate in what follows, while the cost of the consumption basket is also known as the poverty line. The composition of the basket is derived from the VHLSS itself. It reflects the way households who are neither destitute nor well-off allocate their spending. Considerable effort goes into computing the caloric value of each of the items in the basket. The middle portion of the table indicates the fraction of the population that is too poor to afford the food part of this consumption basket, even if they were not to spend on non-food items at all. The cost of this basket is known as the food poverty line, and the fraction of households who cannot afford is called "food poverty" for brevity. It is clear that even poor households spend on non-food items. Households who could not afford the food part of the consumption basket are therefore unable to secure 2100 calories per day to their members. The last portion of Table 1.1 reports the so-called "poverty gap". This is the difference between actual household expenditures

Table 1.1: Poverty Rates and the Poverty Gap

In percent	1993	1998	2002
Poverty rate	58.1	37.4	28.9
Urban	25.1	9.2	6.6
Rural	66.4	45.5	35.6
Kinh and Chinese	53.9	31.1	23.1
Ethnic minorities	86.4	75.2	69.3
Food poverty	24.9	15.0	10.9
Urban	7.9	2.5	1.9
Rural	29.1	18.6	13.6
Kinh and Chinese	20.8	10.6	6.5
Ethnic minorities	52.0	41.8	41.5
Poverty gap	18.5	9.5	6.9
Urban	6.4	1.7	1.3
Rural	21.5	11.8	8.7
Kinh and Chinese	16.0	7.1	4.7
Ethnic minorities	34.7	24.2	22.8

Note: Poverty rates are measured as a percentage of the population. Poverty gaps reflect the average distance between the expenditures of the poor and the poverty line, in percentage of the latter.
Source: GSO.

and the poverty line, measured in percent of the latter. This indicator is computed as an average over all the households who are poor, with poverty defined as in the top portion of the table.

Based on these internationally comparable poverty indicators, 29 percent of the population was poor in Vietnam in 2002, compared to 37 in 1998 and 58 in 1993. Continued reduction of poverty is a remarkable accomplishment. The poverty rate was literally halved in less than a decade, and very few countries in the world can report a comparable success. But Table 1.1 also makes it clear that poverty is being reduced at a slower rate. During the first half of this short decade, poverty was falling at an average of more than 4 percentage points per year. But it was falling by only 2 percentage points per year in the second half. Moreover, there is an increasing disparity between urban and rural areas and, among the latter, a worrying situation regarding ethnic minorities. While food poverty has been almost eliminated in urban areas, it still affects more than forty percent of the population among ethnic minorities, where it has shown almost no decline over the last four years.

The relative stability of the poverty gap among ethnic minorities also suggests that their "distance" to the poverty line is narrowing very slowly. In rural areas, the poverty gap stands now at 8.7 percent. This means that a growth of income in the order of 2 percent per year, which is roughly the growth rate of the agricultural sector, would lift the average poor household out of poverty in about 4 years. But it would take a decade to accomplish the same result in the case of the average poor ethnic household.

The Spatial Dimension of Poverty

Poverty has a strong spatial (or geographical) dimension in Vietnam. Table 1.2 reports the same poverty indicators, now organized by regions. The list of provinces included in each region as of 2002 can be found in Table A.1. The pattern towards reduced poverty is

visible in all regions. But poverty rates vary considerably across them, and the speed of poverty reduction varies as well. Taken as a whole, the Central Highlands is the poorest region in the country, followed by the Northern Mountains and the North Central Coast. Poverty rates are high in the two deltas, and in the South Central Coast, but they are lower by half compared to the poorest regions. The Central Highlands also stand up because of their very limited poverty reduction over the last four years. Food poverty in this region has remained almost unchanged for an entire decade, in sharp contrast with the improvements seen elsewhere.

It must be noted, however, that the regional classification changed over time, and new provinces were created in the process. In particular, three poor provinces from the South Central Coast and the Central

Table 1.2: Poverty across Regions

In percent	1993	1998	2002
Poverty rate	58.1	37.4	28.9
Northern Mountains	81.5	64.2	43.9
North East	86.1	62.0	38.4
North West	81.0	73.4	68.0
Red River Delta	62.7	29.3	22.4
North Central Coast	74.5	48.1	43.9
South Central Coast	47.2	34.5	25.2
Central Highlands	70.0	52.4	51.8
South East	37.0	12.2	10.6
Mekong Delta	47.1	36.9	23.4
Food poverty	24.9	15.0	10.9
Northern Mountains	42.3	32.4	21.1
North East	29.6	17.6	15.4
North West	26.2	22.1	46.1
Red River Delta	24.2	8.5	5.3
North Central Coast	35.5	19.0	17.5
South Central Coast	22.8	15.9	9.0
Central Highlands	32.0	31.5	29.5
South East	11.7	5.0	3.0
Mekong Delta	17.7	11.3	6.5
Poverty gap	18.5	9.5	6.9
Northern Mountains	29.0	18.5	12.3
North East	29.6	17.6	9.6
North West	26.2	22.1	24.1
Red River Delta	18.3	6.2	4.3
North Central Coast	24.7	11.8	10.6
South Central Coast	17.2	10.2	6.0
Central Highlands	26.3	19.1	16.7
South East	10.1	3.0	2.2
Mekong Delta	13.8	8.1	4.7

Note: Poverty rates are measured as a percentage of the population. Poverty gaps reflect the average distance between the expenditures of the poor and the poverty line, in percentage of the latter. Regions are defined as in 2002.

Source: GSO.

Highlands (Ninh Thuan, Binh Thuan and Lam Dong) were remapped to the South East between 1998 and 2002. Lam Dong was the province with the lowest poverty rate in the Central Highlands in 1998. The reclassification thus contributed to the slow reduction in poverty observed both in the Central Highlands and the South East.

Regions like those considered in Table 1.2 are defined based on an administrative grouping of provinces, but they can be quite heterogeneous. The disaggregation of the Northern Mountains, illustrates this point.

One of the limitations of the expenditure method to measure poverty is that it is very demanding in terms of data. A large household survey, like the VHLSS, can be used to generate poverty rates at the provincial level. Those rates are used in many opportunities in this report, despite the fact that the margin of error can be considerable in the case of smaller provinces. But assessing poverty at more disaggregated levels requires the use of other statistical techniques. Poverty mapping, which is a variant of the expenditure method, is one of them.

A first detailed poverty map of Vietnam was completed in 2003 (Inter-Ministerial Poverty Mapping Task Force, 2003). This map combines data from the 1999 Population Census and the 1998 VLSS. In this respect, it can be considered outdated compared to the more recent 2002 VHLSS. However, the strong persistence of poverty at the regional level suggests that it may not be irrelevant. Two different representations of the map are presented in Figure 1.1. The left panel indicates poverty rates, measured in percentage of the corresponding population. It shows that the highest incidence of poverty is in the Northern Mountains and in the Central Highlands. The right panel shows the density of poverty, in thousands of poor people. From this perspective, poverty is very much concentrated in the two deltas and in the coastal areas. To some extent, this high density of poverty simply reflects the high overall population density in these areas.

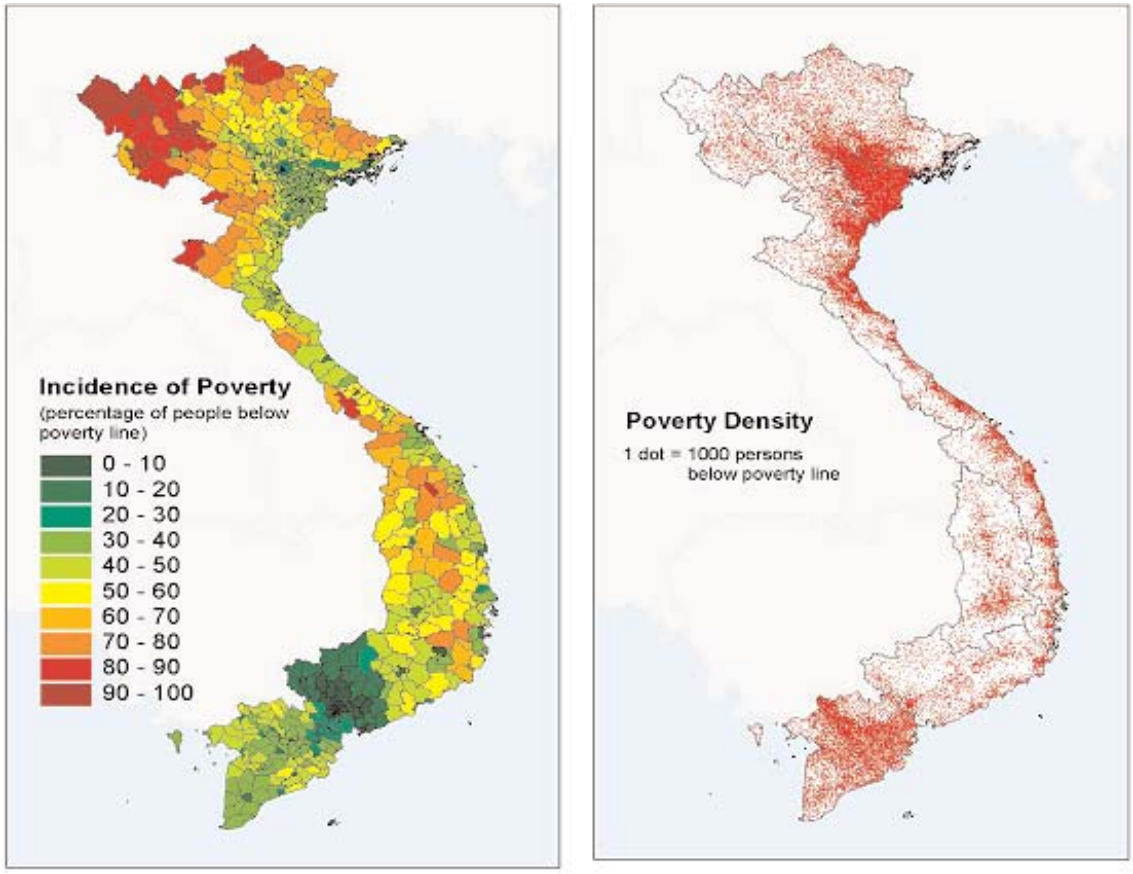
The contrast between the two panels in Figure 1.1 points out to an important policy challenge: reducing poverty in the areas where it is most severe can be very expensive, as those areas may not be populated enough to justify substantial investments. The right panel could actually be seen as a justification for a benign neglect of the areas where poverty rates are higher, on the grounds that they are not where most of the poor live.

Such an interpretation is not warranted, however. The poverty map in Figure 1.1 is based on household survey data from 1998. Table 1.3 updates the contribution of each region to total poverty in Vietnam based on the 2002 VHLSS. It shows that the contribution of the Red River Delta and the Mekong Delta to national poverty is declining. The region with the highest contribution to national poverty is still the Northern Mountains, but its contribution has also come down in recent thanks to fast poverty reduction in the North East. Two regions show a steady increase in their contribution to poverty in the Vietnam. These are the North Central Coast and the Central Highlands. Despite its low population density, the latter now accounts for 10 percent of total poverty in Vietnam, up from only 3 percent in 1993. The change in the regional distribution of poverty is even more dramatic when food poverty is considered. At present three regions, namely the Northern Mountains, the North Central Coast and the Central Highlands, account for more than two thirds of all the food-poor in Vietnam.

Inequality Indicators

A concept closely related to poverty is inequality. In this case, the focus is not just on those whose expenditure, income or well-being (however measured) falls below a certain threshold, but rather on the entire population, including the better-off. Keeping development inclusive is one of

Figure 1.1: The Geographical Distribution of Poverty in the Late 1990s



Note: Constructed by applying a household expenditure relationship estimated based on data from the 1998 VLSS to one third of the records from the 1999 Population Census

Source: Inter-Ministerial Poverty Mapping Task Force (2003), based on data from GSO.

the goals of Vietnam. From this perspective, assessing changes in inequality is warranted, despite the fact that this report is focused on poverty. Indeed, a substantial increase in inequality could lead to a less cohesive society, if not to a "secession of the rich".

A simple way to measure inequality is to break down the population in groups of equal size, from poorest to richest, and to measure the share of total expenditures represented by each of them. Table 1.4 reports a standard breakdown, based on five groups or quintiles. The table shows a steady tendency towards greater inequality, albeit at a moderate pace. The expenditure share of the poorest eighty percent of the population declines slightly over time, while that of the richest quintile increases. This split matches almost exactly the urban-rural divide of Vietnam, as almost eighty percent of the population still lives in rural areas, whereas the richest twenty percent live in urban areas.

Another conventional inequality indicator is the Gini index, which ranges from zero when the actual distribution is perfectly egalitarian, to one in the extreme case where all expenditures are concentrated in the richest population group. Table 1.5 shows that Vietnam is rather on the

Table 1.3: Where Are the Poor?

	The Poor			Population
In percent	1993	1998	2002	2002
Poverty rate	100	100	100	100
Northern Mountains	23	25	22	15
North East	19	20	16	12
North West	4	6	7	3
Red River Delta	24	18	17	22
North Central Coast	16	18	20	13
South Central Coast	5	8	7	8
Central Highlands	3	5	10	6
South East	11	5	5	15
Mekong Delta	17	21	17	21
Food poverty	100	100	100	100
Northern Mountains	26	32	28	15
North East	22	24	17	12
North West	4	7	11	3
Red River Delta	24	13	11	22
North Central Coast	18	18	22	13
South Central Coast	5	9	7	8
Central Highlands	3	8	16	6
South East	9	5	4	15
Mekong Delta	15	16	13	21

Note: Figures indicate the percentage of the total number of poor living in each of the regions.
Source: GSO.

Table 1.4: Share of Expenditures by Population Quintile

In percent or as a ratio	1993	1998	2002
Poorest	8.4	8.2	7.8
Near poorest	12.3	11.9	11.2
Middle	16.0	15.5	14.6
Near richest	21.5	21.2	20.6
Richest	41.8	43.3	45.9
Total	100.0	100.0	100.0
Richest/Poorest	4.97	5.49	6.03

Note: Quintile expenditure shares are measured in percent of total expenditure.
Source: GSO.

egalitarian end. But based on the Gini index, inequality is gradually increasing. Inequality is highest in the Southeast region, which includes the biggest and most dynamic urban center of Vietnam (Ho Chi Minh City). Inequality seems to have increased significantly in the Northern Mountain, the Red River Delta, and the Central Highlands.

Table 1.5: Gini Index for Expenditures

Index ranges from 0 to 1	1993	1998	2002
Vietnam	0.34	0.35	0.37
Urban	0.35	0.34	0.35
Rural	0.28	0.27	0.28
Northern Mountains	0.25	0.26	0.34
Red River Delta	0.32	0.32	0.36
North Central Coast	0.25	0.29	0.30
South Central Coast	0.36	0.33	0.33
Central Highlands	0.31	0.31	0.36
South East	0.36	0.36	0.38
Mekong Delta	0.33	0.30	0.30

Source: GSO.

An International Comparison

To assess whether poverty is high or low in Vietnam it is convenient to use an expenditure threshold that is comparable across countries. The poverty rates discussed in the previous sections are based on comparisons between actual expenditures and the cost of a consumption basket securing 2100 calories per day per person. International comparisons frequently involve a different expenditure threshold, measured in dollars per day. Or more specifically, in dollars with the same purchasing power as in the US (also known PPP dollars, for Purchasing Power Parity). Common thresholds are one and two PPP dollars per day.

Because goods and services are more expensive in the US than in most developing countries, one PPP dollar per day is the equivalent of much less than a current dollar per day. In the case of Vietnam, the so-called "PPP deviation" is roughly equal to five, which means that 20 cents of a dollar in Vietnam buy as much as one dollar in the US. The thresholds commonly used in international comparisons could therefore be interpreted as 20 and 40 cents of a dollar per day. But when considering these international comparisons it is worth reminding that estimates of PPP deviations are as sensitive to assumptions as poverty estimates, if not more. A poverty line based on the caloric intake associated with expenditures, such as the line used in this report, is therefore preferable to the one-dollar-a-day poverty line, except for international comparison purposes.

Internationally comparable poverty rates for Vietnam are presented in Table 1.6. Figures for 1993, 1998 and 2002 are based on household data from the two rounds of the VLSS and from the VHLSS. Data for other years are estimated assuming that household expenditure grows at the same rate as the output of the sector which accounts for the largest share of the household economic activity. For instance, in the case of rural households it is assumed that expenditures grow at the same rate as agricultural output. Therefore, the projections implicitly assume that there is no change in relative inequality within sectors.

When using the one-dollar-a-day poverty line, Vietnam's decline in poverty is spectacular. By this standard, the poverty rate was reduced by two thirds between 1993 and 2002. And if the projections are taken at face value, it could be reduced by four fifths between 1990 and 2004. On the

Table 1.6: The "One-Dollar-a-Day" Poverty Rate

	Mean expenditure per capita (in PPP $ per month)	Percent of population living with less than	
		1 PPP$ per day	2 PPP$ per day
1990	41.7	50.8	87.0
1993	*48.9*	*39.9*	*80.5*
1996	63.7	23.6	69.4
1998	*68.5*	*16.4*	*65.4*
1999	68.0	16.9	65.9
2000	71.3	15.2	63.5
2001	73.8	14.6	61.8
2002	*78.7*	*13.6*	*58.2*
2003	82.0	12.0	55.8
2004	85.5	10.6	53.4

Note: Figures in italics are based on actual household survey data. Other figures are computed based on growth rates of real output by sector, under the assumption that household income grows at the same rate as output in their main sector of activity. Interpolated figures are calibrated so as to match actual figures in the years when household surveys are available. PPP dollars are in constant 1993 prices.

Source: World Bank, East Asia and Pacific Region (2003).

other hand, the decline in poverty is much more modest when using the two-dollars-a-day poverty line. The contrast between these two trends is due to the fact that a large proportion of the Vietnamese population is not desperately poor anymore, but it is certainly not rich yet.

A meaningful international comparison also needs to take into account differences in development level across countries. Vietnam does well from this perspective too. Table 1.7 reports the most recent estimate available for the one-dollar-a-day poverty rate in a series of countries that could be considered as a reference by Vietnam, either because they belong to the same region or because of their importance as emerging economies. The table also reports the GDP per capita of those countries, in PPP dollars. Vietnam has a higher poverty rate than Malaysia, Thailand and Indonesia, but it does better than richer countries, such as China, India or the Philippines.

While the relationship between economic growth and poverty reduction is not mechanic, on average wealthier countries should have lower poverty rates. Figure 1.2 plots countries at various points in their recent history, based on their GDP per capita and their poverty rate. The larger dots correspond to Vietnam at different points in time. In this figure, GDP per capita is measured in internationally comparable terms, as it is expressed in PPP dollars. Poverty rates, on the other hand, are not all defined in the same way. Some are based on expenditures and others on income. Some refer to a poverty line that is related to a minimum caloric intake, while others do not. From that perspective, the larger dots for Vietnam cannot be compared to other dots in the figure. However, they can be compared to the relationship between poverty and economic development emerging from this figure, represented by the downward-sloping line.

In the early 1990s, Vietnam's poverty rate was higher than could be expected, given the country's level of economic

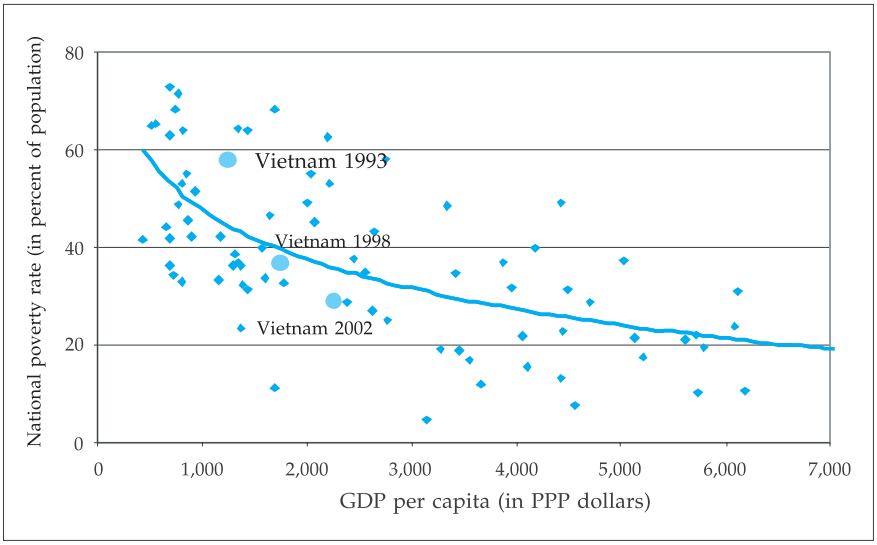
Table 1.7: Comparable Poverty Rates in Selected Countries

	GDP per capita in PPP $	Percent of the population living with less than one PPP $ per day
Malaysia	8,922	2.0
Thailand	6,788	2.0
Russia	7,926	6.1
Sri Lanka	3,447	6.6
Indonesia	3,138	7.2
Mexico	8,707	8.0
Brazil	7,516	9.9
Vietnam	*2,240*	*13.4*
Mongolia	1,651	13.9
Philippines	4,021	14.6
China	4,475	16.1
Lao PDR	1,678	26.3
India	2,571	34.7

Source: Constructed based on World Bank (2003a).

development. Some time during the second half of the 1990s Vietnam caught up with the "average" country at its development level (in terms of Figure 1.2, that is when it "crossed" the line). And by 2002, its poverty rate was substantially lower than that of other countries at the same development level. Thus, the "speed" at

Figure 1.2: Poverty and Economic Development across Countries



Source: Constructed based on the 1993 VLSS, 1998 VLSS, 2002 VHLSS and World Bank (2003a).

which poverty was reduced in Vietnam was much faster than the average speed across developing countries.

How Real is the Reduction in Poverty?

Even when using the same method to measure poverty, comparisons over time pose problems. Survey instruments are not identical from one round to the next. In Vietnam, the shift from the VLSS to the VHLSS could be a source of concern. Unlike the previous VLSS, the 2002 VHLSS was entirely implemented by the Government of Vietnam. Because of its large sample size, it required the participation of many provincial and district staff who were unfamiliar with the questionnaire. However, a series of careful checks suggests that the data are both of high quality and comparable to those of 1993 and 1998, making the 2002 VHLSS a breakthrough both in terms of Government ownership and scale.

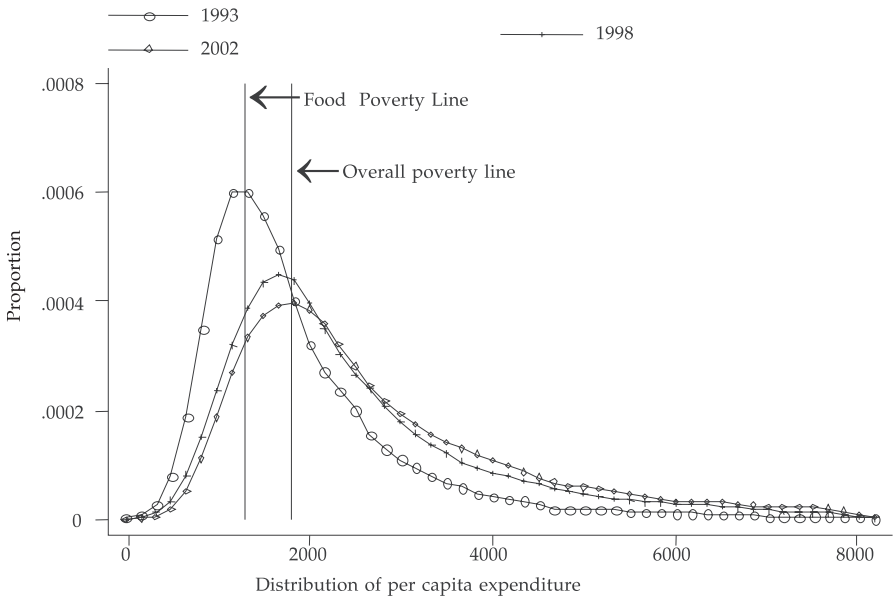
Other potential concerns have to do with the design of the sample. Apparently minor differences in this respect could have a major impact on the assessment of poverty and household welfare. Unregistered migrants are a case in point. This population group is particularly relevant, as it could account for an increasingly large share of the urban poor over time. The VLSS did not include migrants, which was a major shortcoming. In principle, the 2002 VHLSS covers all residents for more than six months, but the definition of residence still opens the door to uneven treatment across communes. Moreover, there is no way to identify unregistered migrants through the responses to the questionnaire. This makes it impossible to assess whether, say, access to services differs between migrants and non-migrants. It is hoped that this shortcoming of the VHLSS will be corrected for its next round.

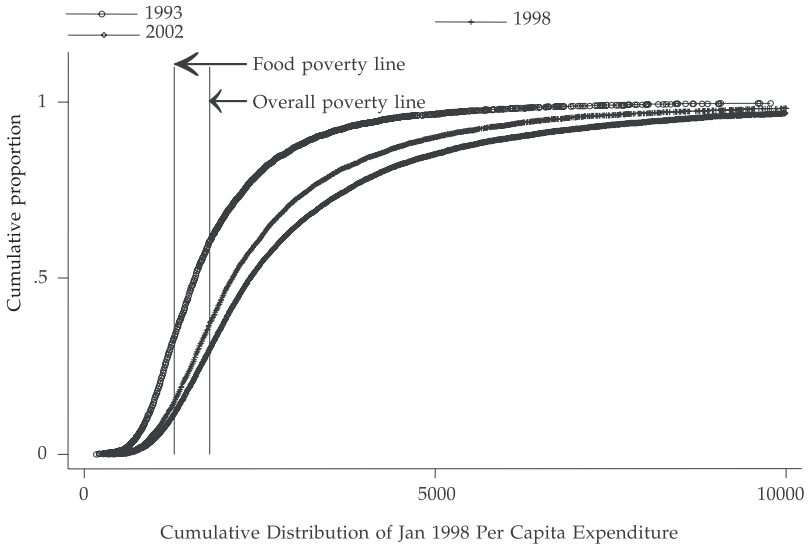
Poverty comparisons over time can also be sensitive to the choice of the poverty line. Witness, for instance, the contrast between the sharp reduction in poverty based on the one-dollar-a-day threshold, and the much slower decline when using the two-dollars-a-day threshold, in Table 1.6. In principle, at least, there could be cases where poverty falls when using a poverty line, and increases when using another one.

Vietnam is not one of those cases though. For any possible poverty line, the poverty rate was lower in 2002 than it was in 1998, and lower in 1998 than it was in 1993. This point is illustrated in Figure 1.3. The top panel of this figure represents the distribution of expenditure per capita, measured in 1998 prices, in the three years. The lines in this panel indicate the proportion of households associated with each level of expenditures per capita. The highest proportion (the mode, in statistical jargon) moves consistently to the right over time. In 1993, the mode was very close to the food poverty line. By 2002 it is close to the poverty line. Put differently, in 1993 the most common situation among households was to be barely able to cover food needs, whereas in 2002 the full consumption basket needed to secure 2100 calories per person per day, including its non-food components, could be afforded.

The bottom panel of Figure 1.3 is simply a transformation of the distributions in the top panel. Instead of indicating the fraction of households at each expenditure level, the lines show the accumulated proportion up to that expenditure level. When the expenditure level is the poverty line, the proportion is nothing but the poverty rate. The most salient aspect of this bottom panel is that the accumulated proportion of households in 2002 is below that in 1998 for any expenditure level. Similarly, the 1998 line is consistently below the 1993 line. This means that poverty has declined over time in Vietnam regardless of the poverty line used. Or, put differently, the decline in poverty is robust to changes in the definition of the poverty line. This is a reassuring finding, given the variety of methods used to measure poverty in Vietnam.

Figure 1.3: The Distribution of Household Expenditure





Note: Per capita expenditures and the two poverty lines are expressed in January 1998 prices.

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

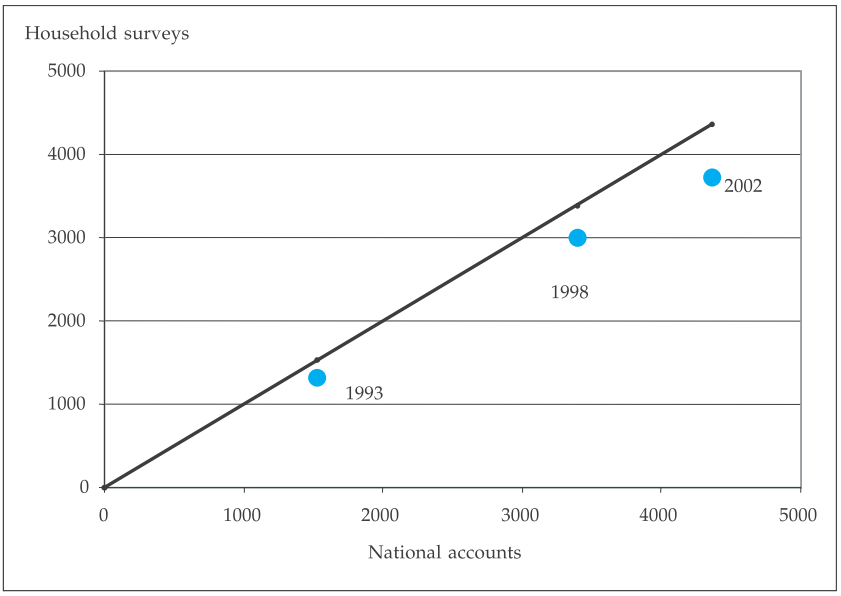
How Real is the Stability of Inequality?

The reliability of household expenditure data to identify the poor is a matter of debate. Aggregate expenditure figures computed based on household surveys typically fall short, some times by a large margin, of private consumption figures as computed based on national accounts. Needless to say, consumption figures from national accounts are also subject to considerable measurement error. These

figures result from adding up domestic production and imports, and subtracting exports, investement and government expenditures. Because of the "residual" nature of consumption in this calculation, mistakes can be cumulated at various steps in the process. Still, the tendency for the gap between consumption based on household survey and consumption based on national accounts data to increase is quite common. A parallel can be drawn, in this respect, between the expenditure module of a household survey and a statement of expenses after a business trip. The longer the trip, the more likely that some expenses will be forgotten. Similarly, the broader the range of items a household consumes, the more likely that some expenses will be omitted. Based on this parallel, under-reporting should be more common as an economy develops, and also more common among the better-off.

Vietnam is no exception in this respect, as shown in Figure 1.4. In 1993, household consumption per capita amounted to 1.33 million VND per year according to the VLSS, but to 1.53 million according to national accounts. The gap thus represented roughly 200.000 VND, or 15 percent of household expenditures per person. By 1998, the gap had increased to 392.000 VND (still, about 13 percent of household expenditures). And by 2002 it had attained 650.000 VND per year (18 percent). The actual gap could be even larger, as Vietnamese national accounts do not capture well the activities of the emerging private sector. The wedge between actual output (hence actual consumption) and the output measured by national accounts could be increasing over time. But even taking national account data at face value, an average under-estimation of expenditures by 650.000 VND per person per year is relevant, especially when considering that the annual value of the food poverty line is 1.38 million VND, and the annual value of the full poverty line is 1.92 million VND.

Figure 1.4: Household Surveys versus National Accounts



Note: The horizontal axis indicates average household consumption per capita and the vertical axis average expenditure per capita. Figures are in thousand VND per year.

Source: Martin Rama (2003).

If expenditures are under-estimated across all households, then the "true" poverty rates could be lower than those reported in the previous chapter. However, if under-reporting is mainly taking place among the better-off, then it is inequality indicators which could be higher than reported. But how much higher?

To address this question, three alternative "corrections" of the expenditure figure estimated for each household in the VLSS and VHLSS samples can be introduced, leading to the re-estimation of poverty and inequality indicators (Martin Rama, 2003). These corrections simply distribute across the population the consumption gap between household survey data and national accounts data. The first one assumes that the extent of under-reporting is the same for all households in each province. For instance, in 2002 there appears to be no under-reporting in Bac Ninh, but household expenditures in Hanoi could be 22 percent higher than suggested by the VHLSS. Therefore household expenditures in Bac Ninh are left unchanged, while those in Hanoi are inflated by 22 percent. The second correction supposes that under-reporting varies by type of income: farming, formal salaried jobs, and non-farming informal activities. Using aggregate data on all three income types, the extent of under-reporting appears to be larger for the latter group and smaller for the former. Household expenditures are therefore adjusted based on the household's sources of income. The third correction relates under-reporting to the education of the household head. Not surprisingly, it finds that the gap is larger in provinces where the average household head is more educated. Household expenditures are therefore adjusted based on the education of the household head.

The results are presented in Table 1.8. The corrections lead to a somewhat lower estimate of the percentage of the population classified as poor, which is not surprising, given that they all involve distributing an additional consumption among households. But the adjustment can be negligible, as for the correction based on the provincial gaps in consumption in 2002. On the other hand, all three corrections lead to a higher estimate of inequality in all years for which information is available. In 2002, in particular, the ratio between household expenditures per capita in the richest and the poorest quintiles is 6.03 based on the VHLSS, but it could be as high as 8.84 if corrected figures were used instead.

Table 1.8: "Adjusted" Poverty and Inequality Indicators

In percent or ratio	1993	1998	2002
Poverty rate			
Unadjusted	58.1	37.4	28.9
Adjusted by province	41.1	36.4	28.6
Adjusted by income source			22.7
Adjusted by educational attainment			23.9
Ratio between top and bottom quintile			
Unadjusted	4.97	5.49	6.03
Adjusted by province	7.82	6.47	8.84
Adjusted by income source			7.03
Adjusted by educational attainment			6.64

Source: Martin Rama (2003).

2. THE CHARACTERISTICS OF THE POOR

Counting the poor is only a first step towards aligning policies and programs to poverty reduction. Understanding who the poor are is equally important, if not more. The previous chapter implicitly identified a few of their characteristics. It showed, for instance, that poverty was higher in rural areas, and among ethnic minorities. It also showed that it was deeper in some regions, such as the Central Highlands. But it did not touch on other characteristics of poor households, such as their composition or assets. Household survey data can be used to identify some of those characteristics. But surveys may miss important aspects of poverty. Unregistered migrants, for instance, cannot be identified through the 2002 VHLSS. Surveys also consider the household as a whole, without really disentangling the specific situation of each member in it. Women and children are a case in point. And even for the aspects of poverty they cover well, surveys tend to "frame" responses in a way that might not be revealing enough. For instance, how could questions about vulnerability, or lack of voice, or humiliation, be coded? Directly listening to the poor is an essential complement to statistical analysis. Equally important are case studies focused on specific groups of the population which are especially poor or vulnerable. All these different perspectives are integrated in this chapter.

A Statistical Profile

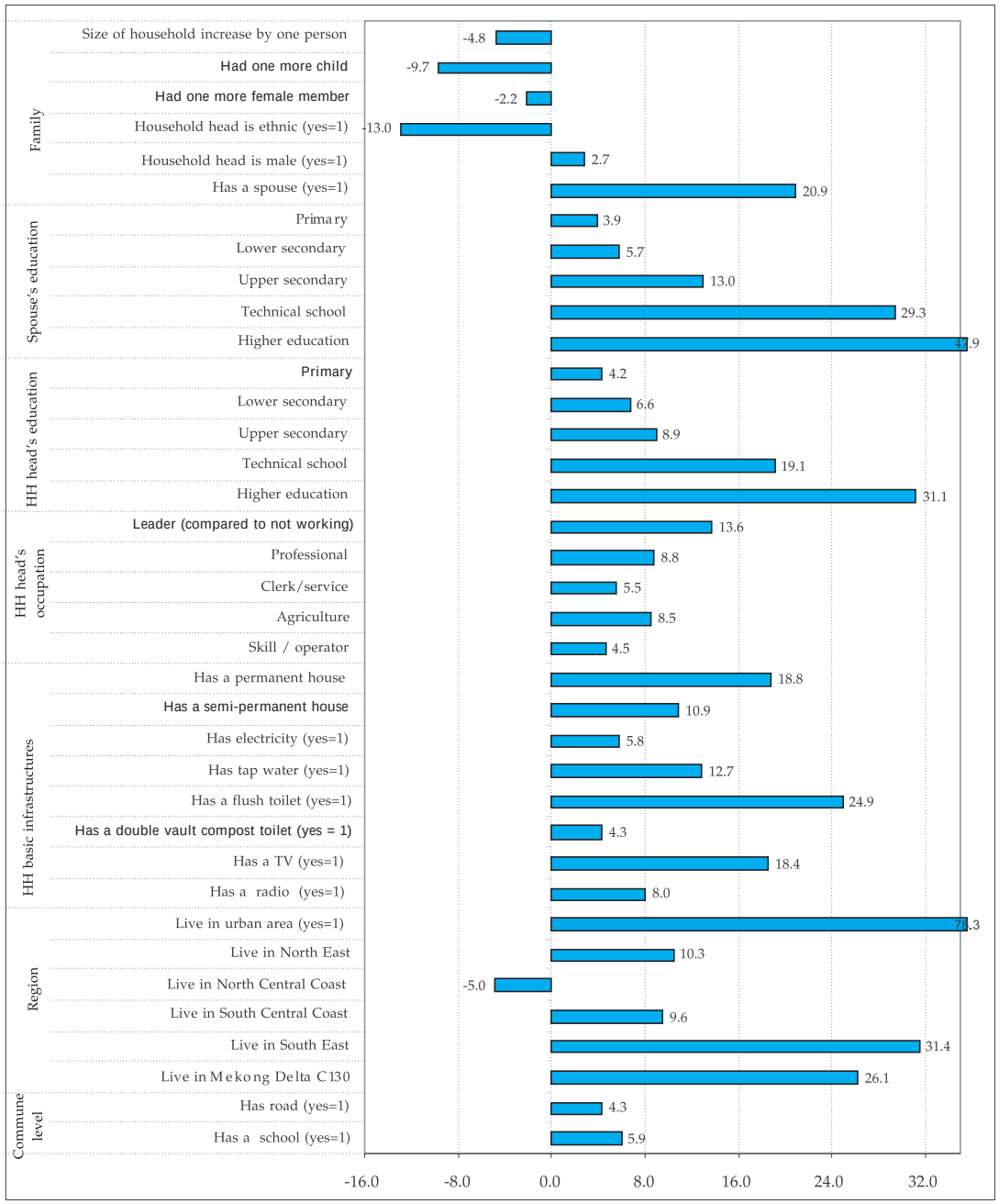
The same household surveys used to measure expenditure per capita can be relied upon to identify the household and commune characteristics most commonly associated with poverty. The statistical analysis linking poverty (or household expenditures) on the one hand, and household and commune characteristics on the other hand, is often called a poverty profile. But an important caveat applies: correlation is not causation. Consider the case of housing characteristics. Other things equal, households who have a flush toilet are less likely to be poor. But the flush toilet is clearly not the reason why they are not poor. Distributing flush toilets would probably do very little to reduce the poverty rate. While this example might seem too obvious to deserve any discussion, the confusion between correlation and causation is quite frequent when considering other household characteristics associated with poverty, such as the nature of the occupations performed by household members.

With this caveat in mind, there is a clear relationship between poverty and a number of geographic, household and community characteristics. Figure 2.1 summarizes this relationship by displaying the change in per capita expenditure associated with selected characteristics if everything else that was measured stayed the same. Note that this relationship is very similar in spirit to the one underlying the poverty map presented in the previous chapter, except that it is based on data for 2002. The figure emphasizes several sets of characteristics: family size and composition, education of household head and spouse, occupation, housing and assets, community characteristics, and geographical region.

Not surprisingly, bigger households, and especially those with more children, more elderly members, or where a spouse is missing, tend to have a lower level of expenditure per capita. Poverty is also strongly related to ethnicity. Even when all other characteristics are the same, the expenditures of a person belonging to an

ethnic minority household are 13 percent lower than those of a Kinh or Chinese household. Educational attainment makes a considerable difference too. A household whose head has technical education spends almost 19 percent more on average, and 31 percent more if the head has higher education. The corresponding figures for the education of the spouse are 29 percent and 48 percent.

Figure 2.1: Variation in Expenditure per Capita by Household Characteristic in 2002



Note: The bars for the impact of spouse having higher education and living in urban areas have been truncated due to limited space in the figure.

Source: Constructed using data from 2002 VHLSS.

Even more striking are regional disparities. Compared to households in the Red River Delta, those in the Mekong Delta have an expenditure level which is 26 percent higher, even if all other characteristics remain the same. The gap climbs to 31 percent in the case of the Southeast. But the biggest gap of all is between urban and rural areas. Other things equal, an urban household spends 78 percent more than a rural one. This effect dwarfs all others, including those associated with higher educational attainment. While correlation is not causation, this gap highlights the kind of urbanization pressures Vietnam may face in the coming years. Confronted with the possibility to substantially improve their well-being many rural households will choose to migrate to the cities. Administrative barriers, no matter how severe, may not be sufficient to dissuade them. A rapid improvement of well-being in rural areas might be the only way to slow down a migration wave in the making.

Community characteristics matter in this respect. Having a rural road, or a school, raises the average expenditure of all the households in the community by roughly 5 percent.

The Perceptions of the Poor

An altogether different approach to identify the characteristics of the poor is to listen to them directly. In this case, focus-group discussions and in-depth interviews replace highly-codified questionnaires. PPAs of this sort have the merit of not imposing a structure (hence the researcher's views) on household responses. They also allow collecting information on issues that are difficult to tackle through formal questionnaires; for example on the quality of social service delivery and participation in local level decision-making. And they make it possible to produce a more accurate assessment of the poverty status of each household in a specific commune. So-called "wealth-ranking exercises" are often revealing of the reasons why a household is considered poorer than another. "The husband drinks" or "the eldest son was put in jail", for instance, are sources of vulnerability that could be difficult to grasp through a standard survey questionnaire.

During the Summer of 2003, PPAs were conducted in twelve provinces across all seven regions of Vietnam. Their primary objective was to support the monitoring and implementation of the CPRGS at sub-national levels. Nevertheless, these PPAs also serve as a valuable source of information to update the assessment of poverty and its determinants in Vietnam, especially on issues that defy easy quantification. These PPAs were carried out by teams of Vietnamese researchers from a combination of international non-governmental organizations (NGOs), local NGOs, local research institutes and Government agencies. Researchers used a common framework and produced site reports following a similar format. The information gathered from 47 communes covered perceptions of poverty and well-being, in both material and non-material terms. It also dealt with participation in local decision-making and empowerment of poor households, the delivery of basic services to the poor, especially on education, health and agricultural extension, and the quality and targeting of social assistance. Compared to other PPAs, some of the most innovative aspects were related to the discussion of public administration reform (PAR), including responsiveness, transparency, accountability and efficiency of local administration. Potential problems of deprivation and social exclusion as urbanization occurs, and the environmental issues faced by the poor, were addressed as well.

Many of the views expressed by the roughly 5000 people who participated in the PPAs confirm the trends that emerge from the quantitative research. In most sites there is an overwhelming sense of improvement in well-being. People talk about greater stability of income, often generated by increases in agricultural productivity or by

an expansion of the sources of income. Respondents describe a noticeable decline in hunger. In most sites, especially the mountainous areas, they mention improvements in infrastructure and access to basic services. However, participants also emphasized that for some poverty was persisting, and for others exit from poverty was fragile and prone to reversal. Across all sites, a range of increasingly pressing environmental concerns were raised. They included deforestation in the uplands, pollution from enterprises and other facilities (including a hospital) in areas closer to towns, poor sanitation in urban and some rural areas, and problems associated with rapid development of shrimp farms in coastal areas.

Reasons for persistent poverty varied slightly from place to place. Box 2.1, extracted from the Dak Lak PPA, covers many of the elements mentioned in other upland sites. In addition to problems of poor quality land and low levels of access to financial services, which are common features of poverty in all the rural sites, respondents in the upland areas emphasized governance issues which were limiting progress. In Ha Giang, people talked about "information hunger", which was constraining the full integration of more remote ethnic minority groups in mainstream economic and social development. There was a more positive assessment of recent change from the Northern Uplands areas than from the Central Highlands and South Central coast.

In lowland sites, people mentioned a number of additional features. The labor market was a much more prominent concern in the Mekong Delta, the Red River Delta and in Ho Chi Minh City. Being

Box 2.1: Perceived Causes of Poverty in Dak Lak Province

Perceptions of Poor People	Perceptions of Local Authorities
■ Poorly developed factor and product markets ■ Poor infrastructure, especially irrigation, road ■ Ineffectiveness of Government policies and programmes at grass-root level ■ Lack of transparency, accountability, resulting in corruption; lack of people's participation in decision making ■ Inability and weakness of grass-roots authorities and cadres ■ Villagers' inability to apply new farming techniques and low level of education ■ Shortage of land ■ Lack of capital ■ Free in-migration ■ Poor health and lack of labor ■ Harsh climatic conditions: drought.	■ Lack of capital ■ Shortage of land ■ Many dependents to support ■ Lack of experience, and inability and incapability to apply new farming techniques ■ Investment failure, risks in agriculture (coffee price dropped) ■ Poor health, disability, getting old. ■ Lack of labor ■ Committed to social diseases, and laziness ■ Harsh climatic conditions: drought, flood.

Source: ActionAid Vietnam & ADB, (2003).

unskilled, being unemployed or dependent or facing an unstable demand for daily labour, were seen as important determinants of poverty. High levels of indebtedness were also a dominant characteristic of poverty. In the Mekong Delta, indebtedness was associated with loss of land. Box 2.2, which reports perceptions of poor people from Ho Chi Minh City, suggests that material deprivation is partly due to insecure livelihoods, a sense of alienation and low social capital.

Ethnic Minorities

The statistical poverty profile above showed that expenditure per capita among ethnic minority households was 13 percent lower than for Kinh or Chinese households, even if all other household and community characteristics were the same. Generally, they are not. Ethnic minority households are larger and have more children than the average. The educational attainment of household heads and spouses is lower too. And endowments in terms of housing and other assets are below average as well. The compounded effect of all these characteristics is such that minority households are substantially poorer.

There is also evidence that the overall relationship between household characteristics and poverty is not the same among ethnic minorities as among the Kinh and Chinese population groups (Dominique van

Box 2.2: Perceptions of the Poor in Ho Chi Minh City

"Poor people eat non-nutritious food. Sometimes we have enough to buy rice, other times having to do without rice" (poor local and migrant men and women)

"I eat at the pagoda when possible to save the money for food for the next day" (poor local women)

"I live on a stake house without an address for twenty years without KT1 registration. My electricity and water bills are so high, the house is weather-beaten, tatty, leaked, and flooded. I have no means to go to work, even a bicycle" (poor local men)

*"Living in a foul-smelling environment with high risks of many diseases" (*poor local men, women, young people, and children)

"Engaging in precarious livelihoods, petty trades, seasonal jobs" (poor local men and women)

"My children go to evening classes because we cannot afford to go to mainstream school" (poor local women)

"Children only go to school as long as we can afford" (poor local women)

"Children being malnourished", "Children working at young age" (poor local and migrant men, women, and children)

"In hospitals we know we do not receive good services because we have health insurance but not paying fully for the services like better-off people" (poor local men and women)

"My siblings and relatives are also poor so they cannot help me" (poor local men)

"Feeling inferior so trying to borrow enough money to go to weddings or parties" (poor local women)

"Not wanting to make friends with rich people" (all groups)

"The rich families in the locality play tennis, go jogging. We poor people work from dawn to dusk. How can we have the luxury to do sports?" (poor local men and women)

"Having no recreation, resorting to drinking, gambling, buying lottery playing a game with luck" (all groups, including children).

Source: SCUK & PTF, (2003).

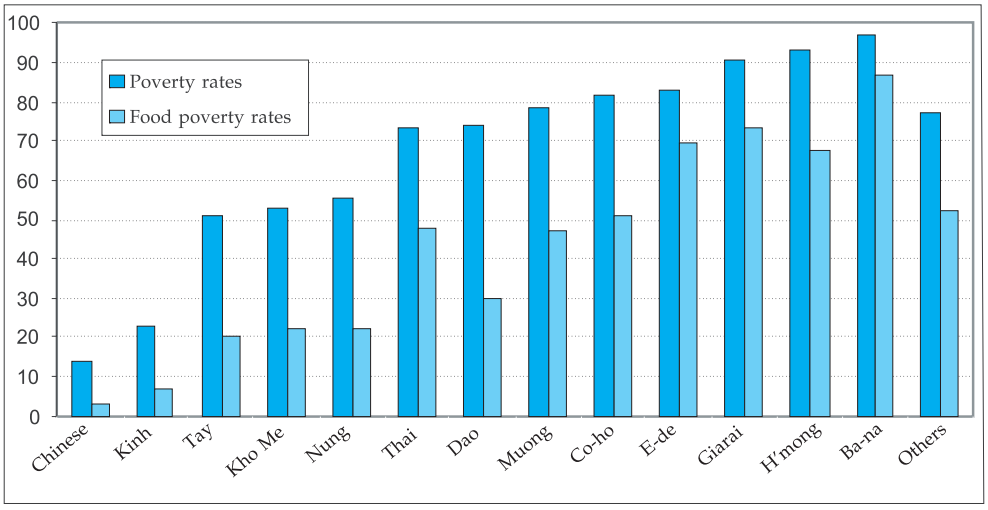
de Walle and Dileni Gunewardena, 2000). Part of the difference can be attributed to "quality gaps". For instance, the education received by the ethnic minority population could be of lesser quality. But part of it could be due to differences in behavior.

The extent of deprivation is not the same across all ethnic minorities, however. Poverty rates vary considerably from group to group, as shown in Figure 2.2. The variation in food poverty is even more striking, with more than 86 percent of the Ba-na not being able to afford the food consumption basket, compared to 21 percent among the Tay. Among the six poorest ethnic groups, four (Ba-na, Gia-rai, E-de, and Co-ho) are in the Central Highlands and two (H'mong, Muong) in the Northern Mountains.

The fortunes of ethnic minorities vary considerably by region, though in all regions more than 50 percent of the ethnic minority population lives in poverty (Figure 2.3). Those living in the Mekong Delta have experienced a steady decline in poverty and have the lowest rate of ethnic minority poverty of all regions. Of the ethnic minority groups living in the uplands, those in the Northern Mountains have enjoyed the steadiest improvement in well-being. Their incidence of poverty is now lower than in any of the other mountainous regions. At the other end, poverty has increased among the ethnic minority population living in the Central Highlands. More than 80 percent were living in poverty in 2002. The PPA in Dak Lak discusses many reasons why this has happened, but one of the most dominant is the fall in coffee prices, which has been associated with indebtedness and distress sales of land for some. The PPA also raises problems related to the representation of local populations in decision-making bodies and other governance-related questions which are described in more depth in Chapter 11.

About fifteen percent of Vietnam's ethnic minority population live either in the North Central Coast, the South Central Coast or the South East regions. The small representation of these groups in the

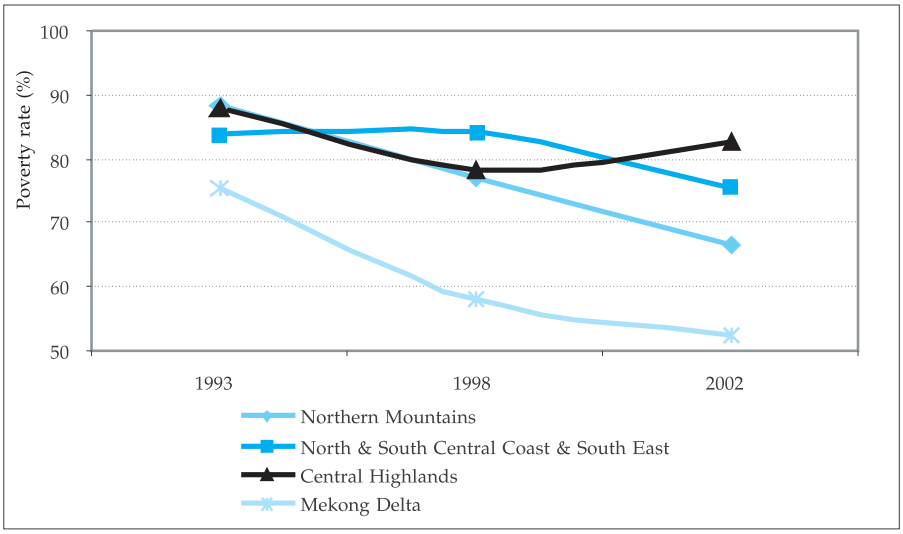
Figure 2.2: Poverty Rates across Ethnic Groups in 2002



Note: Poverty rates were computed only for ethnic minority groups with at least 100 observations in the sample of the 2002 VHLSS.

Source: Estimated based on 2002 VHLSS.

Figure 2.3: Poverty Rates among Ethnic Minorities by Region



Source: Estimated based on 1993 VLSS, 1998 VLSS and 2002 VHLSS.

sample of the 2002 VHLSS makes it unreliable to separate out trends by individual region. Collectively, however, people belonging to these ethnic groups remain extremely poor. About three quarters of them have expenditures below the poverty line and there has been only slow improvement over the last decade.

The share of ethnic minorities among the poor is also increasing steadily, from 20 percent in 1993 to more than 30 percent by 2002. A forecast that will be discussed in Chapter 4 suggests that by 2010 the share could be as high as 37 percent. The upward trend is even stronger if food poverty is considered instead. The share of ethnic minorities among the food-poor increased from less than 30 percent in 1993 to 53 percent in 2002. It could remain in that range in 2010. Over the current decade, therefore, poverty in Vietnam will become mostly associated with ethnic minorities.

Why are ethnic minorities so poor, and why is their poverty so persistent? Answering these questions is central to the agenda for poverty reduction in Vietnam. So far, the data suggest a range of interwoven disadvantages and deprivations. Cutting one or two strands of this "net" may make a small hole that some households can use as an exit route. For some of the poorer groups, however, positive change is likely to require simultaneous progress in a number of areas.

Poverty among ethnic minorities appears overwhelmingly high when considering other indicators of well-being, apart from the level of expenditure per capita. Ethnic minorities are less well-educated than their Kinh and Chinese counterparts. Though the indicators are improving, they are still way behind. Primary school enrolment rates for ethnic minority children have stabilized at about 80 percent, approximately 12 percentage points behind their non-ethnic counterparts (see Chapter 5). Gaps are larger for secondary education. Recent studies attribute those gaps to poor infrastructure and accessibility, language and cultural barriers, limited quality of teachers, low suitability of the curriculum, and the perception that returns to education are low (UNDP & PTF, 2002; DFID & PTF, 2002).

Health-related indicators also lag behind. Table 2.1, based on data from the 2002 Vietnam National Health Survey (VNHS), reveals that both boys and girls are better nourished than they were four years ago. But it also shows the striking gaps in malnutrition between the majority population and ethnic groups in mountainous areas. Approximately 23 percent of all ethnic minority children are underweight for their age. The proportion is even higher among ethnic people in the Northern Mountains (34 percent) and in the Central Coast and the Central Highlands (45 percent). The degree of malnutrition for these groups is also more severe. One quarter of underweight ethnic minority children in the Central Coast and Central Highlands suffer from level 2 or level 3 malnutrition. Only one tenth of underweight Vietnamese children suffer from malnutrition of this severity. Patterns are similar for other measures of child nutritional status.

Recent data on reproductive health also show worrying disparities by location. Attendance by health workers at deliveries is improving for Vietnam as a whole and for some regions. But for mountainous areas the data suggest that the proportion of births attended by health workers could even be dropping. Table 2.1 shows that 65 percent of women in the North West and 40 percent of women in the Central Highlands gave birth at home with no professional assistance. Although this is not reported in the table, disaggregating the findings by ethnicity indicates that three quarters of ethnic minority women in the Central Coast and Central Highlands delivered their children at home without professional help, compared to only 17 percent at the national level. A traditional reluctance to involve male health workers in delivery is an important factor for not seeking professional assistance. This is particularly problematic in remote mountainous areas, where it is difficult to recruit female health workers. Women also cite distance to medical facilities as a reason for delivering at home.

Table 2.1: Social Indicators in Ethnic Minority Areas

Proportion of children under 5 who are wasted (low weight for age) in 2002						
Ethnicity	Boys	Girls	Urban	Rural	Total	1998
All groups	25.1	26.3	14.8	28.4	25.7	35.6
Kinh and Chinese	22.5	23.9	13.9	25.9	23.2	
Northern Mountains Ethnic minority	33.6	35.0	19.0	34.9	34.3	
Central Coast and Central Highlands ethnic minority	45.5	45.1	33.8	46.7	45.3	

Proportion of women who gave birth at home with no assistance from qualified health workers in 2002				
Region	Rural	Urban	Total	1997
All Vietnam	3.0	20.2	16.6	23
North East			32.6	42
North West			64.6	
Central Highlands			40.3	36

Source: Figures for 2002 are from the VNHS (preliminary results); figures for 1998 are from the VLSS; figures for 1997 are from National Committee for Population and Family Planning (1999).

The vast majority of ethnic minority people in Vietnam are farmers. Only 13 percent of them are engaged in wage employment, compared to almost one third for the population as a whole. In addition, only one tenth of them has a household business as their most important source of income, compared to nearly one quarter for the Vietnamese population as whole. Therefore, land represents an extremely important asset to ethnic minorities. Data show that ethnic minorities in general have similar land holdings to Kinh farmers, but with different composition and potentially lower returns. In particular, they tend to have lower allocations of perennial land, which plays an important role in allowing farming households to diversify their income sources. In PPA sites, unresolved land disputes were raised as issues. Some of these disputes may be caused by migration: the share of Vietnam's population that lives in the Central Highlands has gone up from less than four percent in 1998 to almost six percent in 2002, while at the same time the share of ethnic minorities decreased from 45 to 39 percent. This suggests substantial migration of Kinh groups to the Central Highlands.

Migrants

This is a group that cannot be identified as poor based on a statistical poverty profile, because the 2002 VHLSS does not ask about migrant status. However, the PPAs reveal its significance among the urban poor. Much the same as poverty in rural areas will be increasingly associated with ethnic minorities, poverty in urban areas is likely to be concentrated among migrants. For now, this group represents a relatively minor share of the population. But it is estimated that over the next two decades, almost one million people could move every year to urban areas in Vietnam. Most of them are likely to prosper. But even if only a fraction of them failed, the overall face of poverty in Vietnam could change.

It is possible to determine from the VHLSS which households have been living in their current house for less than five years, having moved to this house from another province. Given other descriptions of migration patterns, the number of households who report moving from another province in the last five years appears to be very low (only one percent of the total) suggesting that the more mobile populations may not be fully represented in the VHLSS sample. An analysis based on census data, by contrast, estimated that 6.5 percent of the population moved in the preceding five years, half of them out of their province (GSO & UNDP, 2001). Keeping this limitation in mind, the VHLSS data suggests that one third of the inter-provincial movers went to the Central Highlands. About a third of them are ethnic minority people; more than half of them are still poor. Another third moved to the booming South East region, but among them only 12 percent are still living in poverty.

The PPAs add more detail to these data. Migration, with its associated benefits and costs, emerged as an issue in all twelve PPAs. Out-migration from rural areas in search of livelihoods is providing an important source of supplementary income in poor areas. In the Mekong Delta, for example, people described four types of migration which were supporting household incomes (UNDP, AusAID, & Long An Community Health Centre, 2003):

- Seasonal migration to work as hired agricultural labor within the Mekong Delta. Large groups of men migrate for one or two months at a stretch during times of peak demand for agricultural labor. Each person can earn 400 to 600 thousand VND after expenses, "*sufficient to feed them and their families for several months after returning home*".

- Seasonal migration to work as hired agricultural labor in other regions. Men travel to the Central Highlands during the coffee harvest and earn 15,000 VND per day. Or they travel to Ca Mau to dig shrimp ponds. Aquaculture is becoming more mechanized, however, hence attracting fewer migrants.

- Long-term migration to Ho Chi Minh City and other provinces. In one of the communes studied there were 300 applicants for "leave passes", of which 153 were women. Their objective was to do semi-skilled work in Ho Chi Minh City, Binh Duong and Dong Nai. These migrants were typically able to remit about 400 to 600 thousand VND per month, which had become a "key source of income for many families".

- Participation in "labor export" programs. However, there are relatively few poor among this group of migrants due to impediments such as lack of information, lack of vocational skills, complex procedures and lack of funds for upfront payments.

Similar stories emerge from other rural sites where PPAs were carried out. In Nghe An, officials from one of the research communes, with a population of 1,765 households, reported that more than 300 people had migrated to work in garment and footwear factories in Binh Duong or Ho Chi Minh City, and that about 15 people were working overseas under labor export programs. Provincial officials suggested that "*a great number of children from Nghe An have left the province for work. When they come home and give their parents 500 thousand VND, the sum is equal to their parents' income for the whole year. This is also a major contribution to eliminating hunger and reducing poverty*" (JICA & Institute of Sociology, 2003). Researchers, felt, though that it was the better-off families with more educated children who were prospering most. Migrants from poorer families would be less likely to be generating enough income to remit a significant amount.

The Central Highlands region has experienced large inflows of migrants since 1975. According to official figures, there were 557,652 migrants in Dak Lak Province at the end of the first quarter of 2003. Earlier migration patterns were predominantly planned movements of people from northern and central provinces, aimed at developing new economic zones. More recent in-migration has tended to be spontaneous, and the official figures show that free migrants make up approximately one third of the total number. About 30 percent of them are from ethnic minorities in the Northern Mountains, particularly Tay, Nung, Dao, San Chi and H'mong. Many of the more recent migrants lack both household registration and land use certificates.

These spontaneous migration movements are taking place at a sometimes surprising pace. In the period 1986-2003, the population of the Dak Rlap District increased from 12,000 to 80,000 people (ActionAid Vietnam & ADB, 2003). Of these, 20,000 still lack permanent registration. In one of the villages visited by the PPA team, only four out of 119 households held "red books". The rapid growth of population has put pressure on the land and there has been a series of land disputes between migrants and the resident ethnic minority population and between migrants and the forestry enterprises. Some of these disputes are still outstanding, thus leading to increasing ethnic tensions.

One area of urgent concern is the system to register migrants. In Ho Chi Minh City, households are divided into four groups. Those in the "KT3" category are considered to be temporarily registered, while those in the "KT4" have just logged their names with the police. Depending on the resources of the local authorities, these households are likely to be excluded from benefits which are accessible to the resident poor, such as health care cards and exemptions from school fees under the Hunger Eradication and Poverty Reduction (HEPR) Program as well as access to mainstream education. These households also face administrative hurdles in buying property and having an official address, which in turn makes it difficult for them to secure electricity and water connections. The lack of an official building or land title means

they are vulnerable in instances of urban development that requires resettlement (those without titles receive no compensation). Details vary from place to place, but in many PPA sites, including Ninh Thuan, Nghe An, Dak Lak and Ha Tay, the treatment of registered and unregistered households was different.

The Ho Chi Minh City PPA estimated, based on official figures, that in the research sites between one third and two thirds of the population had either KT3 or KT4 status. It also estimated that migrant populations had increased by somewhere between 25 and 50 percent (depending on site) over the last three to four years. Figures are presumably smaller in other provinces and communes. But if this rate of increase is sustained over time, the exclusion of unregistered or temporarily migrants from basic services could become a source of severe social problems in major urban areas.

Some officials at district and ward levels in the PPA research sites recognize the problem, and the attitude towards migrants is becoming increasingly constructive. One official acknowledged: "*we must wipe out previous stereotypes on migrants; even the word "migrants" we are using also reveals some discrimination, making them have more inferiority complex*". At the same time, officials in areas of high in-migration often refer to their resource constraints in providing services to both registered and unregistered populations. Socio-economic planning is still based on population estimates which are incomplete, as ward records are not updated to reflect "temporary" populations. Official population lists presented by ward or commune officials were often quite different from the actual population.

Urban poverty, however, is not limited to migrants. Undoubtedly migrants do face a particular set of disadvantages and vulnerabilities, but there are also issues faced by the urban poor in general, both registered and unregistered. Poor people in urban and peri-urban areas who are dependent on street-based informal work for their livelihoods report multiple problems in earning a stable income. Part of the problem arises from the nature of the work. But part of it arises from the regulatory framework, which seeks to maintain order in urban areas (see Box 2.3).

Women and Children

Within-household aspects of poverty are difficult to tackle through household surveys. The expenditure method to measure poverty is particularly ill-suited in this respect, as it assumes that expenditures are shared equally among household members. In practice the process leading to decision-making at the household level may not give an equal weight, or voice, to all of its members. Vietnam certainly does much better than many other developing countries when it comes to women and children. But it is still worth checking whether there are specific issues in their case.

The PPAs asked how different groups of people had benefited differently from recent economic growth. Separate focus group discussions were held with women in order to capture their perspectives on poverty. In some sites, separate group discussions were also held with children or young people. Though there was a sense that material conditions for women had improved over recent years, these discussions highlighted a number of disadvantages and deprivations which women faced, especially in ethnic minority sites. The findings are similar to those that emerged from PPAs in 1999 and their persistence suggests that a stronger effort to tackle inequality within the household is needed.

Many of the sites referred to the burdensome workload of women. A woman in Nghi Thai Commune, Nghe An Province said, "*men have enjoyed more benefits from development over the past three years. Women have to work harder because*

Box 2.3: "Cleaning" the Streets of Hanoi

While it is generally recognized that the poor make major contributions to the urban economy, clear sectoral analyses of this contribution are rare. One sector of the urban economy, recycling and waste management, provides tangible proof of these benefits.

In 1997, roughly 5,700 itinerant waste buyers and scavengers worked day and night in Hanoi's four central districts. Together, this group, which at the time was nearly 70 percent female, collected over 200 tons of material per day. Eighty-one percent of this population of recyclers at the base of the system were registered residents of villages outside Hanoi province. The majority, 53 percent, were from several villages in Xuan Truong District in Nam Dinh. The total amount retained by these recyclers in savings returned to their homes was more than $550,000 per year. In addition, these same women saved the Urban Environment Company roughly $2,100 per day in collection, transport and disposal costs within the central city. On an annual basis, this amounted to more than $750,000.

Recyclers continue to make a positive contribution to Hanoi's environment and economy. A group of 17 female waste buyers surveyed in central Hanoi in April 2003 collected 4.6 tons of materials in one week, providing these women with $150 in income and the Urban Environment Company with $460 of avoided costs.

The recent campaign to create a "civilized" urban environment in preparation for the Seagames has made life more difficult for recyclers, as it has for other street traders and retailers. Beginning with requests for recyclers to sign promissory notes stating that they would return to their home towns, the campaign has widened to include traders and dealers through enforcement of regulations regarding traffic and the use of sidewalk space. Constriction on the market for waste materials has resulted in price increases. Waste carton and mixed waste paper, for example, rose in price by 25 and 17 percent respectively in October 2003. In most situations, this should benefit those at the lowest end of the system. With little or no capital to make purchases, however, dealers cannot afford to buy materials. As a result, increasing amounts of recyclable waste are transported to the city's landfill. Thus, Hanoi's Urban Environment Company currently reports that are collecting 85-90 percent of the domestic, shop and street waste generated in Hanoi, an increase over its regular collection rate of roughly 65-70 percent. Not only does this raise the costs of collection, transport and disposal: if extended over the longer term, it will result in a transfer of recycling from relatively clean city sources to landfills, where the conditions of work are dangerous and materials are of lower value. The sensible approach would be to create conditions within the city that support the work of recyclers since it reduces the cost of waste management while providing income to recyclers and environmental services to the city's residents.

Source: Michael DiGregorio, Trinh Thi Tien, Nguyen Thi Hoang Lan, and Nguyen Thu Ha (1997).

they have to bring up children and have more work to do. In normal months, people still have rice and sweet potato for meals, but in January and February, most of women in the commune have to catch crabs and shellfish, which is very hard and miserable." Aside from its physical effects, this heavy workload can be an important factor excluding women from other activities. In Lao Cai, for example, participants in a women's group were pressing for literacy classes. They explained that they now had time to attend such classes because access to new maize-husking machines meant that they no longer had to spend the evenings grinding maize as had been the case before. Because they were not available at all during the day, officials said that they would have to wait until the end of the year when electricity would become available thus

allowing night classes. Illiteracy was mentioned in many of the sites as a problem that was particularly acute for women. In all rural sites except Nghe An women reported that despite performing much of the agricultural labor, they were likely to be overlooked when extension training took place.

Women also play a more limited role in community life. Participation in village meetings by they was described as being very limited because they were busy working either in the fields or in the house. When they did attend the meetings, they would be among the quieter voices in the room. The head of the Women's Union in Nghe An explained that this would then skew local decision-making towards male interests: "*Inequality between men and women still remains; family members usually have to follow men's decisions; therefore men speak at meetings from their own points of view which might not represent women's viewpoints and might not bring about practical advantages to them*". In Lao Cai, respondents suggested that both illiteracy and lack of self-confidence restricted women's participation in decision-making discussions. The Ha Giang PPA noted that the very limited representation of women in village and commune leadership means that the lack of women's perspectives is unlikely to be addressed within the administration.

The PPAs did not ask directly about domestic violence. However, several research teams report it as an issue which came up in discussions. Domestic violence was often associated with excessive alcohol consumption. This accords with findings from PPAs conducted in 1999. The most recent Lao Cai PPA was carried out in the same villages as in 1999, where disturbing rates of domestic violence were described by women's groups. Discussions in this PPA suggested that the situation had not improved at all. In Ha Giang, instances of drunken domestic violence were described as common.

The statistical poverty profile presented above shows that male-headed households are better-off. A similar conclusion emerges from the PPAs. In several of the sites (Red River Delta, Ninh Thuan, Nghe An and Ha Giang) participants were clear in identifying certain types of women-headed households as particularly vulnerable. In Ninh Thuan, they said that women who had divorced or been deserted by their husbands were likely to be poor. In Ha Giang and Hai Duong, they responded that single-parent households would be likely to be poor, but particularly so if that single parent was a woman.

As for children, discussions in the PPAs revolved mostly around their access to education, which in most cases was seen to be improving. High costs of education were mentioned as a cause of hardship in all PPA sites, and are still described as a factor in making school attendance unreliable. In Ho Chi Minh City, children in poor families were an important source of income and were engaged in a range of activities, such as selling lottery tickets, washing duck eggs and collecting scrap metal. Respondents were clear that this would lead to diminished opportunities in the future for these children and that an early exit from school meant likely unemployment in later life (Ho Chi Minh City PPA). Other research, summarized in Box 2.4, indicates that children can be particularly vulnerable in poverty situations.

Some additional information emerges from the 2002 VHLSS. Initial findings by the Committee for Population, Family and Children (CPFC) and GSO indicate that 13.5 percent of children aged 10 to 16 work on the family farm, but the proportion is much higher among ethnic minorities (33.5 percent). Only 2.3 percent of children in this age group were found to be working for a wage. But the proportion was 6.7 percent among 15-year olds, who work on average nearly 33 hours a week. Earlier studies of child labour in Vietnam suggest

Box 2.4: Poverty among Children

In May 2002, the United Nations held a General Assembly Special Session on Children, the first of it kind. As a result of that meeting, world leaders made a powerful commitment. In the outcome document, they declared: "Eradicate poverty; invest in children: we reaffirm our vow to break the cycle of poverty within a single generation, united in the conviction that investments in children and the realization of their rights are among the most effective ways to eradicate poverty" (United Nations, 2002). Childhood poverty means children and young people growing up without access to different types of resources (economic, social, physical, environmental, political) necessary for their well-being and to realize their full potential. It also means growing up without adequate livelihoods, without opportunities for human development, without social networks that protect and nurture, without a voice.

A new survey of a cohort of children in Vietnam is attempting to improve understanding of the causes and consequences of childhood poverty in a holistic way. This survey is part of an international research project being conducted in four countries. The project collects data over several years on the situation of a group of children, their caregivers, their households, their communities and the overall context surrounding them.

The first round of the survey covered 2,000 one-year-old children, as well as a comparator group of 1,000 eight-year olds. The results are for now descriptive, rather than analytical. It is expected that deeper insights will be generated after the second survey round and beyond. However, some initial results indicate priority areas for action. These results often show significant variance in welfare opportunities and outcomes according to location and poverty status.

- Health and nutrition: stunting affects 27 percent of the poorest one-year olds, but only 1 percent of the better-off. 68 percent of households do not have a clean water supply.
- Education: Just under half of the poorest children were able to write to the level expected for their age compared with almost all of the better off. Only 38 percent of the caregivers had completed primary education
- Livelihoods: Household livelihoods were seriously affected by debt and by economic shocks, especially health-related shocks; they coped mainly through household or community support, rather than by resorting to Government help or other external resources.

Source: SCUK (2003) and White Masset (2002) and (2003).

that these children are likely to be highly vulnerable (Eric Edmonds & Carolyn Turk, in press).

Measuring Vulnerability

While the proportion of the population living out of poverty has increased steadily in Vietnam, many households are still vulnerable to falling into poverty if confronted with an adverse shock. The PPAs indicate that such shocks commonly include:

- Episodes of ill health or incidents of occupational accidents (in Ho Chi Minh City), especially destabilizing if they affect a key income-earner.
- Failure of a crop or investment, such as death of livestock, which is particularly hard to handle if it has been funded through credit.
- Adverse movements in the prices of key agricultural commodities, especially where there is little diversification in household income sources.

- For those engaged in off-farm employment, fluctuations in income associated with unstable employment opportunities.

- Occurrence of natural disasters, which in Vietnam are largely weather-related.

An attempt to measure the fraction of the population which, without being poor, is not in a position to sustain its expenditure level in the event of an adverse shock is presented in Table 2.2. Among the households considered in this table are those with a level of expenditure per capita which is less than ten percent higher than the poverty line. Households who own very little in terms of durable assets, such as housing, motorcycle and TV, were consider as well. From this perspective, households were considered vulnerable if their dwellings were valued at less than 15 million VND, and the total value of their durable assets did not exceed 5 million VND. Even if these households have a level of expenditure per capita which is substantially higher than the poverty line, a shock such as a serious illness of the household head could push them into poverty in a matter of months.

Using this particular measure of vulnerability, between 7 and 10 percent of the population would be unable to sustain a serious adverse shock. While figures are similar across regions, they tend to be lower in the North West, and higher in the Mekong River Delta. The low figures for the North West are basically due to the fact that people are directly poor, rather than simply vulnerable. In the Mekong River Delta, the proportion of the population owning very little in terms of assets is striking. Such limited "cushion" is especially worrying given that this is a region prone to natural disasters.

While the 2002 VHLSS does not include enough information on natural disasters at the commune level, the 2002 VNHS does. This information is used in Table 2.3 to compute the fraction of the population whose expenditures are less than 10 percent higher than the poverty line (the so-called "near-poor") and lives in areas that are prone to floods, typhoons or droughts. The first data column in Table 2.3 considers communes which experienced at least two natural disasters in the three years preceding the survey. The second data column focuses on communes suffering at least three disasters. From this perspective, between four and five percent of the

Table 2.2: Vulnerable Groups across Regions in 2002

In percent	Percent of the population who		
	Have expenditures below the poverty line	Are less than 10 percent above the poverty line	Have no assets to cope with shocks
North East	38.4	6.6	10.0
North West	68.0	4.3	4.1
Red River Delta	22.4	7.8	6.2
North Central Coast	43.9	8.0	8.0
South Central Coast	25.2	6.8	9.8
Central Highlands	51.8	6.2	8.3
South East	10.6	3.3	9.5
Mekong Delta	23.4	7.5	17.8
Vietnam	28.9	6.7	10.2

Source: Estimated using data from the 2002 VHLSS.

Table 2.3: Population Living in Disaster-Prone Areas in 2002

In percent	Percent of the population who are not poor but	
	live in areas prone to natural disasters	live in areas extremely prone to natural disasters
Urban	1.8	1.3
Rural	6.0	4.9
North East	6.6	5.7
North West	3.1	2.7
Red River Delta	3.0	2.2
North Central Coast	7.5	6.6
South Central Coast	9.3	8.1
Central Highlands	4.1	3.0
South East	2.7	2.0
Mekong River Delta	5.3	3.7
Vietnam	5.0	4.0

Note: Expenditure data are imputed in the VNHS based on an expenditure function estimated with data from the 2002 VHLSS.

Source: Constructed using data from the 2002 VNHS, the 2002 VHLSS and MOH.

Vietnamese population can be considered vulnerable. The proportions are much higher in the North and South Central Coast. They are lowest in the Southeast.

Illness was identified as another source of vulnerability in every PPA site. For example, long-term disease was mentioned as a defining characteristic of poor families in seven out of eight villages in Ninh Thuan, and in five out of eight villages in Quang Ngai. In Nghe An, people proposed that *"households whose members are constantly struck by diseases or illnesses"* should be considered poor. The phrases "ill health", "chronic disease", "becoming sick", "becoming indebted to pay medical costs" cropped up in all of the research sites as features of poor households. Ill health was particularly important in describing situations in which households had become worse-off over the last few years and poor households regularly describe ill health as the most significant risk that they have to confront (Box 2.5).

Box 2.5: Health Crises and Poverty

Nguyen Quang Hien, aged 46, and his 6-member family live in Luong Son Commune of Ninh Thuan Province. His is a poor household and he has a certificate to demonstrate this. His eight-year old son suffers from epilepsy. His wife has been suffering from a spinal conditions for the past three years. Before 2001, his wife and son received vouchers permitting free health care. In 2002 these vouchers were revoked. The family faces high medical bills ranging from VND 60,000 to VND 200,000 each visit. They are now in heavy debt.

Trinh's family came to settle in the village Ea 'hiao Commune in Dak Lak in 1995. They used to be able to get by, providing for the family's daily needs by farming more than a half hectare of coffee and a piece of land for paddy. Unfortunately, her fortunes changed. She and her husband suffered in the severe malaria outbreaks which have occurred since 1999 and she had to spend a significant amount of money on medical treatment. At the same time, the coffee price dropped sharply. She had to sell two out of the five pieces of coffee land because of the combination of ill health and price drops. Due to the extended period of illness and food shortage for the last two years, her husband has not been able to not work in the field. Her elder daughter has left school to work in the fields and she has tried to find daily waged employment to meet her family daily consumption requirements. Villagers ranked her family as hungry.

Xoa, a H'mong woman, lives in Ta Gai Khau Commune of Lao Cai Province. In 2002, her husband fell sick with a liver disease that forced him to go to provincial hospital. Xoa's family had to sell 2 cows and one pig to cover transportation, meals and additional medicine expenses. The total hospital fee was 1.4 million VND. Unfortunately, her husband became sicker and died. Her family has fallen into a severe economic crisis and their living conditions have deteriorated. She is now classified as one of the village's poor households.

Source: Center for Rural Progress & World Bank, (2003), ActionAid Vietnam & ADB, (2003) and DFID, (2003).

3. ASSETS AND RETURNS

Opportunity is one of the most important avenues to poverty reduction. Opportunity can be seen as the combination of two elements: the possession of assets (or, at least, the possibility to access them) and the returns on those assets. Quite often, the main asset of the poor is their labor. But in the absence of decently remunerated jobs, this asset alone may prove insufficient to secure enough income for the household. Other key assets are skills, land, physical capital and the environment. One of the strengths of Vietnam is to have secured a relatively high level of education to its population, including a large fraction of the poor. Through the land reform process, rural households in the lowlands also gained access to land-use rights. And significant efforts have been made to give access to micro-finance to poor households. However, land and capital markets are still under-developed in Vietnam, whereas the integration with the world economy may be affecting the returns to labor in general, and to skills in particular. Rapid economic development could affect the enviorment in ways particularly damaging to the poor. More generally, the development process fundamentally modifies both the structure of asset ownership and the returns to those assets, which in turn has implications for poverty and inequality.

Land

The distribution of land to rural households, initiated in 1988, was remarkably egalitarian. This distribution was managed in a decentralized way. Directives were disseminated to local authorities, allowing them to adapt them to local conditions, priorities and customs. A few years later, most of the agricultural land in the lowlands had been allocated. At present, a similar process is under way (albeit much more slowly) in the uplands.

Analysis using data from the 1993 VLSS shows that the observed allocation of land roughly amounted to giving every household in a commune the same irrigated-land equivalent (Martin Ravallion and Dominique van de Walle, 2001). This result suggests that a decentralized allocation of resources was not hijacked by local elites, as could have been feared. Such egalitarianism is probably due to the strength of local-level institutions predating the current political system, namely the *thon* and the village chief. These institutions are briefly described in Chapter 6, and their implications for the allocation of benefits targeted to the poor are discussed in Chapter 10.

At the same time, a market for land transactions is gradually emerging. In 2002, 15 percent of rural households had some land leased in or out, compared to 10 percent in 1998 and 5 percent in 1993. While the development of a land market is a key step towards increased economic efficiency, it could also lead to a gradual concentration of land ownership. A comparison between the allocations observed in 1993 and in 1998 suggests a move away from the egalitarianism of the original distribution. The process tends to favor households with long-term roots in their communities, with male heads, and better education (Martin Ravallion and Donisique van de Walle, 2003).

The tendency towards the concentration of land is clearly visible in the data from the 2002 VHLSS, as shown in Table 3.1. Overall, 18.9 percent of rural households

Table 3.1: Landlessness in Rural Areas

In percent	Vietnam	Northern Mountains	Red River Delta	N. Central Coast	S. Central Coast	Central Highlands	Southeast Delta	Mekong
Year								
1993	8.2	2.0	3.2	3.8	10.7	3.9	21.3	16.9
1998	9.2	0.5	3.3	8.0	2.0	2.6	23.5	21.3
2002	18.9	4.8	13.9	12.2	19.6	4.3	43.0	28.9
Quintile 2002								
Poorest	11	1	7	8	9	3	31	39
Near poorest	14	2	5	8	18	3	40	30
Middle	17	6	11	13	15	5	35	26
Near richest	23	12	15	22	27	7	41	25
Richest	38	25	43	25	45	11	59	28

Source: Constructed using data from the 1993 VLSS, 1998 VLSS and 2002 VHLSS.

were landless in 2002, compared to 9.2 percent in 1998 and 8.2 in 1993. The tendency is consistent across all regions, although with fluctuations in the case of the South Central Coast and the Central Highlands. Part of the increased landlessness is due to the fact that the better-off do not rely on land as a source of income. The Ho Chi Minh City PPA reports numerous cases where housing or, more generally, a higher level of expenditure was financed through the sale of land. Table 1.3 confirms that landlessness is more prevalent among the rich than among the poor. The Mekong Delta is an exception to this pattern though. In this region, which has the second-highest level of landlessness in the country, it is the poorest fifth of the rural population who lacks access to land. This region also displays a very rapid increase in landlessness among the rural poor. Four years ago 26 percent of the poorest quintile of the population was landless, compared to 39 percent nowadays.

This trend is confirmed by the recent PPA in the Mekong Delta. The research teams in Dong Thap and Ben Tre found that almost half of the poor households had no or little land for farming. The Mekong Delta PPA depicts a cycle of poverty which involves distress sales or mortgaging of land in response to episodes of ill health, business failure and indebtedness. This appeared to be less of an issue in other rural PPA sites.

The average size of the total landholding has risen slightly between 1998 and 2002. This is due to the allocation of further land to rural households. The average size of forest landholdings increased by 35 percent during this period, and the average size of perennial crop landholdings by 19 percent. However, there are considerable disparities in the type of land owned by the poor and the rich, as shown by Table 3.2.

Perennial crop land plays an important role in people's livelihoods, but its distribution is much less even that for annual crop land. The distribution is especially biased towards the rich in some of the poorest regions. For example, in the Central Highlands the richest fifth of the rural households have 2.5 times more perennial crop land than the poorest fifth, which is mainly composed of ethnic minorities. And in the North West the perennial crop landholdings of households in the richest quintile are more than 11 times those of households in the poorest one.

Table 3.2 Average Land Holdings per Household in 2002

In square meters	Quintile				
	Poorest	Near poorest	Middle	Near richest	Richest
Annual crop land					
All regions	4778	3898	4333	4610	4867
Perennial crop land					
All regions	1114	1189	1427	2239	2649
Central Highlands	4199	7183	7866	12978	9941
North West	656	1558	1314	1291	7578
Forest land					
All regions	2743	1591	1501	1268	1233
North East	8068	5258	4974	5517	7751
North Central Coast	2756	2240	3098	2889	3486
Fish ponds					
All regions	175	209	335	454	1181
North Central Coast	78	77	122	532	511
Mekong Delta	1197	723	925	1120	2700

Note: Excludes households who have no land at all.

Source: Based on 2002 VHLSS.

Land classified as "forest" is often allocated to rural households to grow trees or other perennials. While nationwide only 11 percent of rural households have some forest land, this figure is much higher the North East and the North West, where 38 and 32 percent of rural households respectively have been allocated some. In these two regions forest landholdings are most common among ethnic minorities: more than half of them have at least some. In general, the poor are more likely to have forest land than the rich. The largest average holdings are in the North East and the Central Coast. In these two regions forest land represents about half the total land holding. Ethnic minorities in the northern regions of Vietnam have on average almost 1 hectare of forest land, about 13 times as much as the Kinh and Chinese. But they generally have not been able to turn this land into highly productive use. This failure is partly related to the fact that the land is often sloping and fragile. More importantly, tenure security is often weak. Most of the forestry land is actually under the control of State Forest Enterprises (SFEs) who contract it out to smallholders. Farmer rights are often based on unwritten understandings with SFE management or District administrators (Igor Artemiev, 2003).

Fish ponds are increasingly common in Vietnam. By now, 15 percent of rural households have at least one. Sizes are generally small (typically 80 to 200 square meters) except in the Mekong Delta where they are much larger (on average about 1250 square meters). While both poor and rich households have fish ponds, those of the rich tend to be much larger, especially in the Mekong Delta and the North Central Coast. This pattern is likely to be related to the large amount of capital needed for aquaculture.

Increased incomes from farming have been important for rural poverty

reduction. Table 3.3 shows the pattern of two measures of commercialization, one for crops and the other for total agricultural production. It appears that farm households in Vietnam have become much more oriented towards the market. Currently they are selling 70 percent of their farm output, compared to 48 percent nine years ago. This has not been at the expense of food security or nutritional intake as both of these indicators have also improved over time (DFID/UNDP, 2003, and MARD, 2002). Southern regions have the highest rates of farm commercialization. In contrast, the Central Highlands started with a high rate of commercialization but became too dependant on one export crop, namely coffee. Most PPA discussions confirm that increased diversification has helped farmers reduce vulnerability to shocks.

Access to Credit

Households in Vietnam generally have access to several sources of credit, both formal and informal. One of them is managed through the HEPR program, and has mainly the characteristics of a transfer. As social programs targeted to the poor are reviewed in the second part of this report, the coverage and impact of this source of micro-finance is not discussed here. Other sources of credit accessible to the poor are the Vietnam Bank for Social Policies (VBSP) and, for farmers, the Vietnam Bank for Agriculture and Rural Development (VBARD). In addition, several communes run savings-and-loans schemes, usually with help from local NGOs. Mass organizations provide credit programs, and there are many informal sources of credit. Overall, it appears that a majority of households have had access to credit, in one way or another, though the poorest farmers are likely to be more dependent on informal financial services. Previous surveys showed that low-income households accounted for 61 percent of micro-lending in 2001.

VBSP is the primary formal lending institution explicitly targeting the poor, (see Box 3.1). It began operations in March 2003, and concentrates its lending activities on poor households certified as such by local People's Committees. Lending to poor households can be undertaken through group arrangements. The group has joint liability for the loans and poor households do not have to post collateral. They can borrow up to 7 million VND for 1- to 5-years maturity at and interest rate of 0.5 percent per month. The terms of the loans are flexible and generally include monthly or quarterly interest repayment. The loans can

Table 3.3: Commercialization of Farm Production

	Share of output that is sold					
	Crop output			All agricultural output		
In percent	1993	1998	2002	1993	1998	2002
All of Vietnam	40	54	61	48	59	70
Northern Mountains	22	33	34	36	44	52
Red River Delta	23	29	34	39	45	61
North Central Coast	22	30	38	37	44	63
South Central Coast	23	46	53	39	55	73
Central Highlands	78	78	74	77	78	74
South East	65	77	88	69	79	84
Mekong River Delta	56	74	84	59	74	85

Source: IFPRI and JBIC (2003) based on GSO data.

Box 3.1: Micro-Credit in Vietnam: the Financial Perspective

The two formal sector financial institutions that dominate the provision of micro-finance in Vietnam, VBARD and VBSP, provided credit to 8.3 million rural households in 2001. VBARD accounted for 60 percent of the total number of loans, but with larger size loans on average (approximately 6.45 million VND, compared to two million VND for VBSP).

While VBARD is the dominant player, VBSP is expanding its operations rapidly. VBSP took over the functions of the Vietnam Bank for the Poor and the Central Credit Fund/People's Credit Fund network. It will become the channel for subsidized micro-credit provision by the Government, done in the past through ministries under various poverty reduction or social policy-oriented projects and programs. VBSP plans to develop a network of 500-700 branches across all 61 provinces. It will concentrate its subsidized lending to poor households and businesses in remote areas. By end-2003, it has 9.75 trillion VND in loans outstanding and expects to have over 16 trillion VND by end-2004. This represents more than three quarters of the current loan portfolio of VBARD.

VBSP will be mobilizing an increasing amount of capital for lending into the future, including a mandatory contribution of 2 percent of the deposits of the State Owned Commercial Banks. Beyond these features, VBSP is a unique participant in the provision of micro-credit because its solvency is fully guaranteed by the Government, it is exempt from taxes, state budget remittances, and the deposit insurance scheme. However, VBSP will operate under the Law on Credit Institutions and is supervised by the State Bank of Vietnam (SBV).

There is strong demand for the micro-finance in Vietnam as evidenced in the 47 percent growth in lending between 1998 and 2001. However, the many disparate players in the microfinance market have created fragmented approaches, regulations, and impacts in the sector. This fragmentation has resulted in some specific concerns about the extent to which subsidized operations will undermine the sustainability of the microfinance sector and generate potentially large fiscal liabilities, both in terms of loans and deposits in the system, for the Government in the future. This is particularly relevant considering the nascent state of credit risk analysis and management at the formal financial institutions. A regulatory and supervisory framework of microfinance activities is currently being developed. It is necessary to ensure their sustainability and improvement over time.

Source: Price-Waterhouse Coopers and Enterplan (2003), Dao Van Hung, Bui Minh Giap, Pham Minh Thu and Nguyen Xuan Nguyen (2002), McCarty (2001) and World Bank, Financial Sector Group Vietnam (2003).

be used for a variety of purposes, including the purchase of business inputs, house construction and improvement, electricity connection, clean water facilities, and partial educational coverage. The repayment rate of VBSP loans to poor households is not yet clear, but VBSP claims it is very high for group lending arrangements. However, VBSP is a new institution and has insufficient credit risk and management skills, as well as limited internal audit and reporting systems, which may produce difficulties in accurately monitoring the bank's outstanding loans.

According to PPA interviewees, there are terms for rescheduling and extending overdue loans. First-time credit applicants can have access to one million VND in credit. Households which are not classified as poor at the local level have to provide collateral. But the requirement can be waived if the corresponding People's Committee endorses the application. Floods, for instance, are a justification to apply for credit without any collateral. Interest has to be paid monthly, at the rate of 0.5 percent per month. The first large payment is scheduled to happen after one

year, and is met with difficulty by many debtors. Those who repay the loan can apply to a credit of two million VND, and then subsequently to a maximum of three million VND. In practice, however, the two- and three-million VND loans are taken to cancel the arrears. Which means that a large majority of borrowers get three-million VND in credit from VBSP. The PPAs suggest that as many as 70 percent of households in poor communes default on their obligations, despite sometimes having enough resources to repay the loans.

Accessing credit from VBARD is common among farmers. Loans of up to ten million VND do not require collateral if the applicant is sponsored by the Women's Union or the Farmer's Union. The sponsoring mass organization becomes jointly responsible for servicing the loan. Households classified as poor at the local level lose their "poor certificate" if they access a loan from VBARD. Collateral is needed for all loans above ten million VND. Loans are typically for six months, renewable for another six. Interest rates are in the range of 0.8 to 1.2 percent per month, and fluctuate with the market. VBARD offers a variety of repayment formulas, from lump sum to regular installments. Debt rescheduling is not uncommon, but a better interest rate applies to arrears. Compliance with debt obligations is better than in the case of VBSP. According to the PPAs, less than one third of the loans are non-performing in poor communes.

Mass organisations, including the Vietnam Women's Union, the Vietnam Farmer's Union, the Vietnam Youth Union, as well as the Commune People's Committee and District Governments, are deeply involved with the micro-credit process at the local level, mainly through the development and certification of credit groups. Some of these local organizations, such as the Women's Union, also operate savings and credit mechanisms.

In addition, some 57 international NGOs support micro-finance activities in Vietnam, some channeled through mass organizations. A micro-credit mechanism set up with help from the Center for Rural Progress in Ninh Thuan province is a good example. Established in 2001, it already has 2124 member households in three communes. Each of them has to save 10,000 VND per month, and is eligible to take a one-million VND almost immediately without collateral. But loans are given to groups of five member households, who are jointly responsible for repayments. These groups receive a three-day training on procedures and on how to better use the money. Credit is spent on a variety of small investments, typically for the development of a small business enterprise. Repayments are on a bi-weekly basis, for both interest and principal. Households who comply with their obligations are entitled to take loans of 1.5 million VND in a second round, and two million VND in the third round. This scheme became financially sustainable in 2003.

The total size of activities supported by NGOs amounts to only five percent of all micro-credit offered in Vietnam, but these activities often play a significant role in poor localities. In Cam Xuyen District in Ha Tinh, an NGO-supported scheme run by the Women's Union reaches more households than either VBARD or the VBSP. Like many such schemes, it is considerably more pro-poor.

The informal sector continues to be of great importance in the provision of micro-finance in Vietnam, with moneylenders, rotational savings and credit associations (ROSCAs), and lending between friends and relatives comprising the majority of this segment. The informal sector accounts for close to 50 percent of the total micro-credit market based on relatively old statistics, but borrowing rates are significantly higher than in formal financial sector finance. The average rate charged by informal lenders is approximately four percent per month, and can reach as much as ten percent. The discrepancies with formal lending rates

have been attributed to a number of factors, including the borrower's lack of collateral, the small size of the loan, and the related high transaction costs.

According to some accounts, up to three quarters of households get credit, in one form or another. This figure includes loans under the HEPR, which should rather be classified as targeted social assistance. Still, it is remarkably high. Younger households, and those with more difficulty to understand the procedures, are among those not having used any of the available sources of credit. And account of secondary transactions, whereby households who can borrow without collateral on-lend to others, also abound. On the other hand, few households in poor communes appear to save through formal mechanisms, such as bank accounts, and most are unaware of the existence of postal savings. The formal micro-finance institutions (VBARD and VBSP) also provide savings products at the same interest rates, but VBSP has not been able to mobilize any substantial amount of deposits to date. The establishment of a more extensive range of facilities for profitable cash savings could be an important mechanism to help poor households better manage the risks that crop up in daily life.

Skills

As in most command economies, the dispersion of wages was quite "compressed" in Vietnam. Or, put differently, the earnings gap between a skilled and an unskilled worker was much narrower than in a typical country at the same development level. A common way to measure that gap is the returns to schooling, defined as the average increase in labor earnings associated with an additional year of education. Returns to schooling can be estimated using individual data on labor earnings, educational attainment and work experience from households surveys. They are usually around ten percent in market economies. In Vietnam, in 1993, there were about three percent. This difference may seem relatively minor, but its accumulation over many years of schooling can become quite considerable.

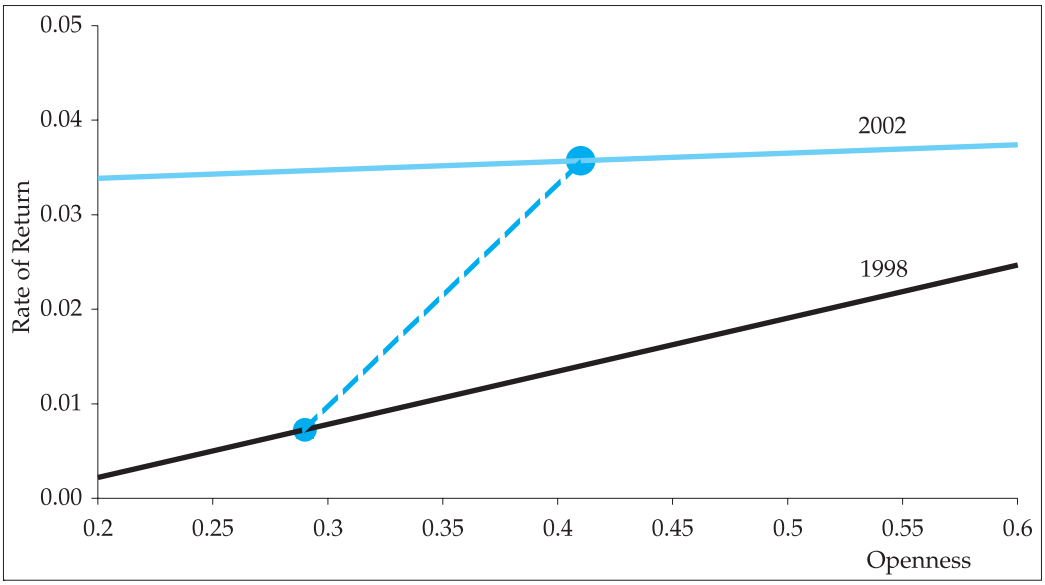
While the transition to a market economy can be expected to "decompress" labor earnings, an open issue is whether the increasing integration of Vietnam in the world economy will amplify or dampen the decompression trend. An optimistic view posits that international trade should narrow the earnings gap between the skilled and the unskilled in developing countries. The most abundant factor of production in these countries is unskilled labor. Trade pushes countries to specialize in the production of goods for which they have a comparative advantage. In the case of developing countries, those goods are labor-intensive. By shifting the structure of the economy away from heavy industries towards light manufacturing, integration with the world economy should boost the demand for unskilled workers, thus raising their relative wages. In more practical terms, young unskilled women would be more sought after by garments and footwear industries, while older skilled men producing steel or machinery would face a bigger risk of losing their jobs, which in turn should exert a downward pressure on their wages.

In contradiction with this optimistic wiew, there is increasing evidence across countries that openness to international trade is associated with an increase in the returns to schooling (Martin Rama, in press). Is Vietnam an exception? Differences in the extent to which different provinces are exposed to international trade can be used to answer this question. For 1998 and 2002, data on exports and imports are available at the provincial level. It is therefore possible to compare returns to schooling across provinces, depending on their openness to international trade. Openness is measured as the ratio of provincial imports and exports over provincial GDP.

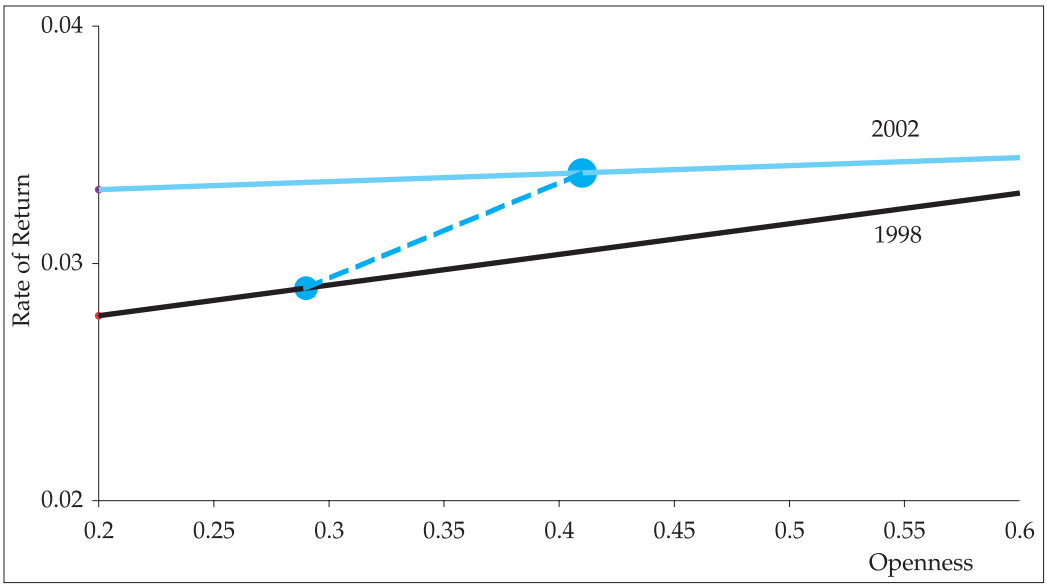
Figure 3.1 presents the results of such a comparison. The returns to schooling

Figure 3.1: Returns to Education and Openness

Among Female Wage Earners with the Private Sector



Among Male Wage Earners with the Private Sector



Note: Returns to one additional year of schooling, as a function of provincial openness to trade, measured as a fraction of provincial GDP. The bottom line corresponds to 1998 and the top one to 2002.

Source: Sarah Bales, Nga Nguyet Nguyen and Martin Rama (2003)

reported in this figure are estimated using data on earnings, educational attainment and work experience from respondents to the 1998 VLSS and the 2002 VHLSS. The analysis also controls for other provincial characteristics, in addition to openness to trade. Among them is the ratio of Foreign Direct Investment (FDI) to GDP at the provincial level. Following John Luke Gallup (in press), the analysis also controls

for the average level of education in each province.

The average returns to education in 1998 and 2002 for all wage earners in Vietnam's private sector, as well as the average provincial operress to trade, are represented by the large dots in Figure 3.1. The dots in the upper panel correspond to female workers, those in the lower panel to male workers. The vertical axis in this figure indicates the returns to schooling and the horizontal axis the provincial ratio of foreign trade to GDP. At the aggregate level, the large dots show that both returns to schooling and openness to trade increase steadily over time, for women and for men, which in turn suggests that integration with the world economy does amplify the earnings gap between the skilled and the unskilled. The dotted lines in Figure 3.1 capture this trend.

However, this interpretation is not fully warranted. The solid lines in Figure 3.1 indicate the average returns to schooling across provinces with different degrees of openness to international trade. The lines for 1998 are upward-sloping, which confirms that openness is associated with a larger skill gap in earnings. But they are not as steep as the dotted lines. This is because other forces, in addition to integration with the world economy, are pushing in the direction of higher returns to schooling. Those other forces are probably related to the transition from a command to a market economy.

The lines for 2002, while still being upward-sloping (significantly so, in statistical terms), are much flatter. Both for men and for women. In fact, the difference in returns to schooling between a province that is highly exposed to international trade and one that is not is almost non-noticeable. The flattening probably reflects the irruption of market forces even in provinces which are not so well integrated with the world economy. While the results represented in Figure 3.1 do not support the optimistic view of international trade theorists, fears that further integration with the world economy could be a source of increased inequality among wage earners can also be dismissed.

Jobs

A vast majority of the working-age population of Vietnam actually works. Labor market participation rates are among the highest in the world. In 2002, 85 percent of men between the ages of 15 and 60, and 83 percent of women in that age group, were economically active. Moreover, unemployment rates are not high in Vietnam: 1.3 percent for the country as a whole, but only 0.67 percent among the poor. This is slightly less than the official unemployment rate reported by MOLISA (2002). The gap can be attributed to differences in the sample and the ages considered. Unemployment among the poor is uncommon, as only those who have some savings or resources are able to

Table 3.4: Main Job of People of 15 Years and Older

In percent	1998	2002
Main job	100	100
Wage Employment	19	30
Working on own farm	64	47
Working in own household enterprise	18	23
Wage employment	100	100
Public sector	42	31
Private sector	58	69

Source: Constructed based on data from 1998 VLSS and 2002 VHLSS.

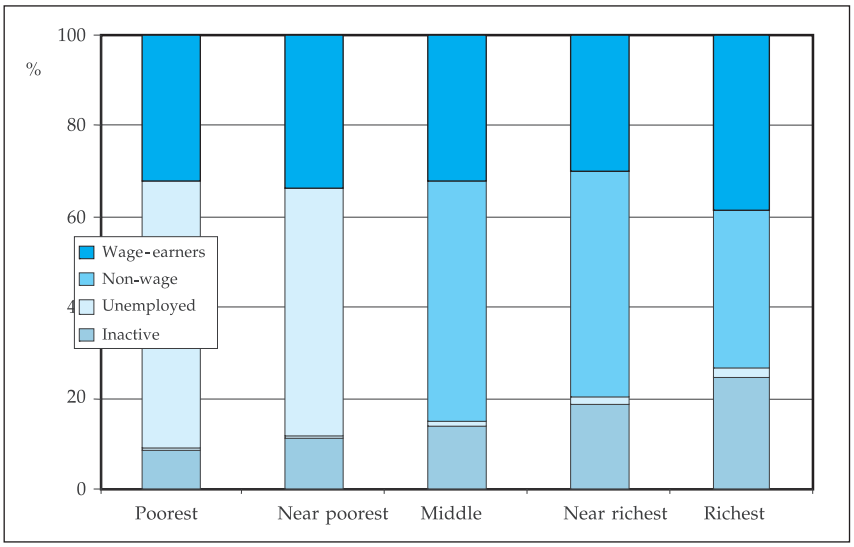
afford being jobless. Salaried work, on the other hand, is becoming more common. In barely four years, the proportion of people who mainly work on their own farm dropped from almost two thirds to slightly less than half (see Table 3.4). Instead, many more are now engaged in wage employment. The proportion is particularly high in the South East. Roughly a third of salaried jobs are still related to Government administration and State-Owned Enterprises (SOEs). However, thanks to its buoyant expansion, by 2002 the formal private sector already accounted for around 2.5 million jobs, more than the entire public sector.

The fraction of household running their own, non-farm business has also increased substantially. Businesses of this sort are now the main source of income for almost a quarter of the adult population. The proportion has increased across all regions, but interestingly enough not in the South East. One possible interpretation is that non-farm household enterprises play an important role in the period of transition, when agriculture is declining in importance but the formal sector has not developed enough to take up all of the slack (Jonathan Haughton and Wim Vijverberg, in press).

For most poor households in Vietnam getting a salaried job, any job, is a much more important concern than the pay gap between salaried jobs of different sorts discussed above. The poverty profile in the previous chapter explored the correlation between the level of household expenditures and the occupation of the household head. The analysis can be replicated focusing specifically on salaried jobs. Figure 3.2 shows a breakdown of the working-age population (between 15 and 60 years of age) depending on the level of expenditure per capita. It appears that wage earners are a slightly larger fraction of the working age population among the rich. But they are a substantially larger fraction of the employed population. Indeed, economic inactivity and unemployment are more common among the rich.

A similar perspective is provided by Figure 3.3, which shows the correlation between having at least one wage earner in a household and the level of expenditures per capita. The second bar from the bottom in the figure indicate that households with a wage earner in the private sector have

Figure 3.2: Economic Activity, from Poor to Rich, in 2002



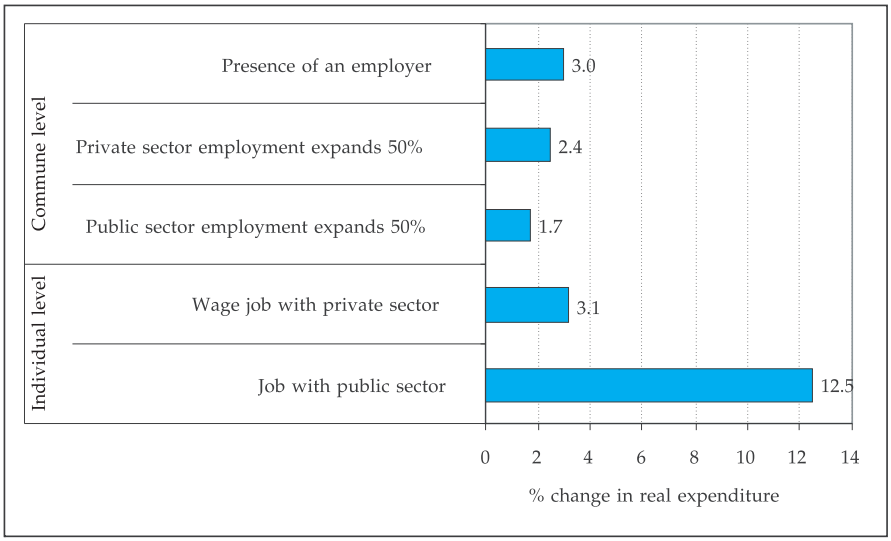
Source: Constructed using data from the 2002 VHLSS.

expenditures which are 3 percent higher. This is under the assumption that all other household characteristics remain the same. The gap increases to 12 percent for households with a wage earner in the public sector, which casts doubts on the idea that public sector workers could be under-paid. While this is probably true at technical and professional levels, on average holding a public sector job is still a privilege.

Correlation is not causation, as the case of flush toilets (also associated with higher expenditures) suggested. For jobs, the correlation could simply reflect the fact that more entrepreneurial or hard-working individuals are both likely to find and keep salaried jobs and, at the same time, to attain a higher level of expenditures using the same assets. There is a strong presumption, however, that an increased availability of jobs in any particular area would be associated with a decline in poverty levels among households living in that area. (Huong Lan Pham, Tuan Quang Bui and Minh Hien Dinh, 2003).

There are simple ways to test this presumption. They involve using information on jobs that is truly independent from how entrepreneurial, or hard-working any particular household is. The community questionnaire of the 2002 VHLSS reports information on whether the commune has an employer within 10 km from the commune center. But out of the household questionnaire, it is also possible to compute the fraction of the working-age population in any given community that has a salaried job. Each of these two indicators can be used to estimate the impact of the availability of jobs at the local level on household expenditures, controlling for other household and community characteristics. The results are illustrated by the top bars in Figure 3.3. It appears there that the presence of an employer in a community, everything else equal, increases the average expenditure level of all households in that community by three percent. A 50-percent expansion of wage employment in the private and public sectors is also associated with an increase in expenditures, by 2.4 and 1.7 percent respectively. While not all would benefit to the same extent, it appears that the emerging non-farming economy of Vietnam

Figure 3.3: Availability of Jobs and Household Expenditures in 2002



Source: Estimated using data from the 2002 VHLSS.

could be an important route out of poverty (Dominique van de Walle and Dorotyjearn Cratty, 2003).

It does not follow that all jobs are "good", or that conditions of work should be ignored for the sake of poverty alleviation. In fact, the PPAs reveal that job security, and health and safety standards are increasingly a concern for the poor. In interviews in Ho Chi Minh City, those with salaried employment generally say that they are luckier than others, because they have more stable incomes. However, many of them also mention the risk of losing their jobs without warning, as well as the fact that no contributions to social insurance are made on their behalf. Young people who are employed in large factories complained about long and unregulated working hours. Workers explained that they were not entitled to sick pay but were more likely to get sick the longer they worked. In the event of a work-related accident, they reported, they could lose their jobs without any compensation. *"I was knocked down by an iron bar at work and for more than twenty days I have not been able to work to earn a living. I have to borrow "hot" money to cover the medicine and daily living costs. I don't know when I will be able to work again and pay off the debt"* , reported a 30-year-old migrant in An Lac. Most poor people confirm that the only assistance they receive in such situations is some one-off donation from colleagues and friends after the accident.

The importance of job availability for poverty alleviation could also suggest that placement services have a key role to play. However, placement can only have a marginal impact in a country like Vietnam. Except for skilled workers and managers, there is little evidence that unfilled vacancies abound. In this context, improving the matching between vacancies and job-seekers is bound to result in a limited increase in employment. Most likely, placement efforts could have more impact on who gets the jobs than on the total number of jobs.

The experience of placement centers is revealing in this respect. Government-provided employment services are generally run by centers affiliated with the provincial Department of Labor, Invalids and Social Affairs (DOLISA) or by vocational training facilities attached to the provincial Department of Education and Vocational Training (DOET). In some districts, job announcements are also posted at the local People's Committee office. However, the Ho Chi Minh City PPA reported that small and medium enterprises seldom use Government-run employment services, which are considered of poor quality. When they need to recruit, they usually let the workers recommend their relatives. As a result, poor people (and especially migrants) have difficulties accessing information on vacancies. They some times resort to private employment services, which charge from 70 to 150 thousand VND per placement. But these services are not considered reliable either. The jobs they offer do not last long, and often pay less than stated in the original agreement between the placement agency and the job seekers. Some PPA participants do not hesitate to call these services a "cheating business".

Job creation, more than job allocation, is the key to poverty alleviation. In this respect, the policies with most potential are those which improve the investment climate, encouraging the creation of new private enterprises and the "formalization" of existing ones (Stoyan Tenev, Amanda Carlier, Omar Chaudry, and Quynh Tran Nguyen, 2003).

The Environment

Because of their limited capacity to purchase goods and services in markets, the poor can be more seriously affected by the degradation of a free resource like the environment. Depending on the regions, reduced access to forest land, depleted water resources, pollution and over-fishing are reported as key problems.

Many of the communities involved in the

PPAs were dependent to varying degrees on forest land, ether cropping it directly or relying on it as a source of supplementary income. The collection and sale of non-timber forestry products, and the use of food and firewood for consumption, are reportedly common, especially among ethnic minority groups. In some areas, such as in Quang Ngai, the surface under forest cover is increasing, but poor people claim to have less access to forest land. They argue that the process of allocating land has not always included poor villagers and that they are now kept out from areas that were previously considered common property. In the Central Highlands, large tracts of forest have been converted to make way for coffee and pepper cultivation. Associated problems include shortages of water supply during the dry season, more serious flooding damages during the rainy season, and a loss of soil fertility. As a result, many poor households have had to change their traditional livelihood strategies, which has resulted in an increased work burden for women and children who perform most of the firewood-collection tasks.

Water supply in many areas was described as becoming increasingly erratic, with serious implications for crop production. In Quang Ngai, dry season water levels in local rivers were reportedly down from between hip and chest height in 1993 to just above knee level in 2003. This was attributed to a combination of weather and deforestation. In Ninh Thuan, people noted that the land was drying up because large quantities of fresh water were being pumped into shrimp ponds owned by wealthier farmers. This was of concern to the people farming the sandy land around the shrimp ponds, as they were too poor to afford the investment necessary for shrimp farming and were now experiencing problems in irrigating their farm land.

In many of the sites, people commented on the impact of industrial pollution on the environment which formed an important foundation of their farming systems. In the Central Highlands, enterprise development was seen by some as incompatible with forestry protection objectives. Elderly informants in the Tung Kuh Village of the Earal Commune said: *"please allocate the forest to the people, otherwise [name of the company] wood furniture enterprise will destroy it soon"*. In Nghe An, initiatives to promote cattle-raising had also led to some forestry destruction. In other sites, enterprise development was leading to pollution and the contamination of water supplies. In Quang Ngai, water sources were contaminated with the DDT used as a preservative in the processing of garlic and onions. In Nghe An, downstream pollution was created by hospitals in Vinh. There were similar issues in Ninh Thuan and the Red River Delta, associated with the discharge of industrial waste into water sources. And pesticide pollution of water resources was mentioned as an important and growing problem in the Mekong Delta (World Bank, DANIDA and MONRE, 2003). In all cases, there was little evidence of control or regulation over these activities.

In a coastal area of Quang Ngai province, people described rapidly falling incomes from fishing activities. They complained that fish stocks were severely depleted, due to a rapid expansion in the number of off-shore fishing vessels and the use of destructive fishing methods (using electricity or explosives to kill fish). Similar problems were reported in the Mekong Delta.

The environmental impact of poorly planned urban development emerged as a very important issue in Ho Chi Minh City. Inadequate infrastructure for treatment of waste water and poor sanitation has led to profound pollution of waterways which flood during the rainy season. Poor households, commonly living in areas with blocked drainage systems, faced routine flooding in their houses and reported that this had negative health consequences.

II. CURRENT PUBLIC POLICIES AND THE POOR

4. ECONOMIC REFORMS

Promoting economic growth and job creation is arguably the most important contribution a government can make to poverty reduction. Public policies can reach the poor through targeted transfers, and they can also increase their assets, especially in terms of educational attainment and health status. However, there is only so much targeted programs and human development policies can do in the absence of sustained economic growth. From that perspective, the performance of Vietnam since *Doi Moi* is simply spectacular. Only five countries in the world have experienced a faster increase in their Gross Domestic Product (GDP) per capita over the last decade. Three of them were just recovering from civil war and economic havoc, and it would be difficult to count them as success stories. Which puts Vietnam in the company of China and Ireland. The challenge will be to sustain this performance, by successfully completing the transition to a market economy. It is also clear that the pattern of growth matters for poverty reduction. The range of country experiences has been extremely wide, from trickle-down economics to genuinely pro-poor growth. Again, Vietnam's performance in this respect is outstanding. But growth is becoming less pro-poor, especially now that the effects of land redistribution to agricultural households have been reaped. Keeping growth inclusive could actually be the most difficult challenge the Government will face over the coming years. This chapter analyzes the link between economic growth and poverty reduction in Vietnam, emphasizing the role played by policy reforms.

Gradual Transition, Rapid Growth

The real GDP per capita of Vietnam grew by 5.9 percent annually between 1993, at the time of the first comprehensive poverty assessment, and 2002. This could be an under-estimate, to the extent that national accounts are not well-geared to measuring the output of the emerging private sector. A range of figures have been advanced for the size of the informal sector. All methodologies have their own shortcomings, which makes it difficult to endorse any of those figures. But it is almost certain that the "true" GDP per capita of Vietnam more than doubled over the last decade. And it could continue growing at a similar pace over the next few years.

This spectacular growth performance has been made possible by sound macroeconomic management. After a period of economic turbulence, following the collapse of the former Soviet Union, Vietnam has managed to keep a low inflation rate, a moderate budget deficit, and a sustainable level of external debt (International Development Association & IMF, 2003). The growth performance has also been based on a systematic unleashing of market forces. The distribution of land-use rights to households in agricultural areas, the gradual liberalization of international trade, and the legal regime to register new enterprises have been among the most significant milestones in this process.

Except for agricultural land, the development strategy has not relied on a massive divestiture of state assets. At present, there are roughly five thousand SOEs. The number was much larger, closer to 12,000, in the early 1990s. But a dramatic process of closures and mergers in the aftermath of the collapse of the Soviet Union

resulted in a reduction of the number of SOEs to 6,300 by 1992. SOE divestment recommenced in 1997 under new Government directives, since when about 1,100 SOEs have been divested. These enterprises were smaller than the average, and divestiture took often the form of insider privatization. A more ambitious divestiture program, under the form of 104 specific plans by line ministries, provinces and General Corporations, was adopted recently. It should lead to the equitization, sale or liquidation of another about 2700 SOEs over the next three years. This program follows the identification of sectors with limited rationale for state intervention. While there is a real prospect of having "only" three thousand SOEs by 2006, ownership transformation has not been dramatic in Vietnam, as shown by Table 4.1.

This gradual decline of the State share of economic activity, combined with the remarkably high rate of economic growth, implies that the performance of the State sector has not been dismal. Industrial production by SOEs has been expanding at 11 percent per year on average over the past five years. This is certainly less than the 18 percent expansion that was recorded by both the foreign-invested companies and domestic private enterprises during the same period. Moreover, it is clear that SOEs are a very heterogeneous group, combining profit-makers and loss-makers. But overall, Vietnam would not have grown the way it did if the state sector had not increased its efficiency. Efficiency gains were due in large part to increased competition in the markets for goods and services and, to a lesser extent, to the hardening of the budget constraint faced by SOEs.

The increase in competition is reflected in the rising integration of the Vietnamese economy in world markets. Table 4.2 shows that the ratio of exports to GDP doubled in less than one decade, and foreign trade is larger by now than GDP. The trend is much less spectacular in the case of FDI, as the East Asian crisis was associated with a dramatic decline in approvals and inflows. But the latter have been growing steadily since the late 1990s, at a rate of roughly ten percent per year. And even if the figures may seem small compared to the mid-1990s, the ratio of FDI inflows to GDP is currently higher in Vietnam than in China. The signing of the Bilateral Trade Agreement (BTA) with the US in 2001 and, especially, accession to the World Trade Organization (WTO) (hoped by the Government for 2005) should consolidate the economic transition. By fostering

Table 4.1: The Transition to a Market Economy

In percent	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP									
State	40.1	40.2	39.9	40.5	40.0	38.7	38.5	38.4	38.3
Non-state	59.9	59.8	60.1	59.5	60.0	61.3	61.5	61.6	61.7
Industrial output									
State	49.6	50.3	49.3	48.0	46.3	43.4	41.8	41.1	40.1
Non-state	50.4	49.7	50.7	52.0	53.7	56.6	58.2	58.9	59.9
Banking credit									
State	65.9	61.1	56.4	53.0	57.3	49.5	44.7	42.8	41.0
Non-state	34.1	38.9	43.6	47.0	42.7	50.5	55.3	57.2	59.0

Note: The non-state sector includes household enterprises, the domestic private sector, cooperatives and mixed enterprises, as well as foreign direct investment (FDI). Banking credit to the Government is included in the State sector.

Source: Based on data from GSO and SBV.

Table 4.2: The Integration with the World Economy

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Trade (percent of GDP)									
Exports	24.9	26.3	29.4	34.3	34.5	40.2	46.5	46.2	47.5
Imports	35.8	39.3	45.2	43.3	42.4	40.9	50.2	49.9	56.1
Total trade	60.7	65.6	74.6	77.6	76.8	81.2	96.6	96.1	103.6
FDI (US$ million)									
Approvals	3,766	6,531	8,497	4,649	3,897	1,568	2,012	2,536	1,558
Inflows	1,636	2,260	1,963	2,074	800	700	800	900	1,100

Note: FDI estimates are based on reported foreign equity inflows plus foreign borrowing by joint ventures.
Source: Based on data from GSO, IMF, MPI and the World Bank.

competition in services, these two international commitments should make most markets contestable, even in areas currently dominated by the State.

Progress is slower regarding the hardening of the budget constraint. Explicit subsidies to SOEs have been removed, and policy lending has formally been taken out of the banking system. Still, the servicing of debts by SOEs is uneven, to the point where some 15 percent of all bank loans could be non-performing (IMF, 2003). New loans are allegedly subject to better assessment of credit risk, but this improvement is happening at a slow pace. Worryingly enough, policy lending through the Development Assistance Fund (DAF) has been growing rapidly. The DAF is much less advanced in its restructuring than commercial banks, and its portfolio is likely to be in worse shape. Acknowledging that bad loans are unrecoverable could cost the equivalent of several points of GDP to the Vietnamese society. Failure at hardening the budget constraint faced by SOEs may not slow down growth in the short run. But it could lead to losing the equivalent of one (if not several) years of economic growth further down the road.

Sustaining economic growth over the long run will also require significant improvements in governance. Management systems for recurrent public expenditures, as well as for the PIP, are still weak. Inefficiency and the risk of corruption are the main consequences. Planning processes are weak as well. At present, there is an almost total disconnect between recurrent and capital expenditures. The latter are decided through the PIP, which amounts to little more than a compilation of the preferred projects of line ministries, provinces and SOEs, but still sets a claim on almost one fifth of GDP, year after year. The CPRGS represented a breakthrough in terms of identifying clear development goals, aligning policies towards attaining those goals, and beginning a reorientation of current public expenditures accordingly. But at sub-national levels, and especially in many provinces, the old command approach still prevails.

The need to complete the transition to a market economy, to reform the financial sector, and to improve efficiency and transparency in public sector management are recognized as priorities in the CPRGS. Sustaining growth, hence making it possible to further reduce poverty, will very much depend on Vietnam's ability to deliver on those priorities.

Pro-Poor Growth

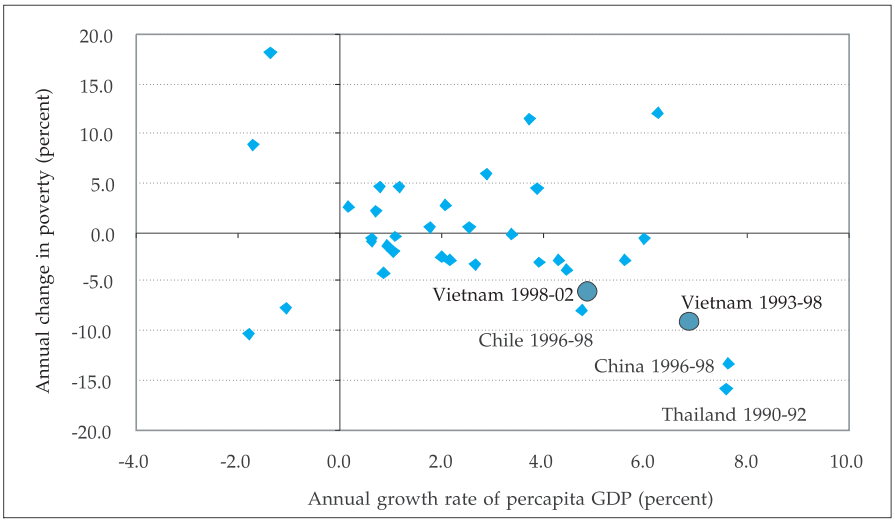
Vietnam has also done well in terms of how much poverty was reduced with each point of economic growth. Figure 4.1 shows, in its vertical axis, the change in the

poverty rate observed in a series of developing countries between two consecutive household surveys. This reduction is expressed in annual terms, as a percentage of the poverty rate in the initial period. National poverty rates are used in this exercise. While their absolute level is not strictly comparable across countries, their relative change over time might be. The horizontal axis in the figure indicates the annual growth rate of per capita GDP during the same period. In general, it appears that economic growth is associated with poverty reduction (the points on the left-hand side of the figure are "higher" than those on the right-hand side). In this respect, it is correct to conclude that growth is good for the poor. However, the wide dispersion of the dots reveals the importance of looking beyond averages. Part of the dispersion is almost certainly due to measurement error. But the dispersion also suggests that circumstances can differ considerably across countries, with some of them experiencing rapid growth without much poverty reduction, and others experiencing poverty reduction despite slower growth.

The larger dots in Figure 4.1 correspond to Vietnam. One of them is for the period 1993-1998, when GDP per capita increased at an annual rate of 6.9 percent and the poverty rate declined by 9.0 percent per year (as a proportion of total poverty). Only two of the countries for which data are available, namely Thailand in the early 1990s and China in the late 1990s, did better. The other Vietnam dot is for 1998-2002, when GDP per capita grew at 4.9 percent per year and the poverty rate fell by 6.1 percent per year. This performance is comparable to that of Chile during the late 1990s.

During the period 1993-98, an increase in GDP per capita by one percent was associated with a reduction in poverty by 1.3 percent, whereas during the period 1998-2002 it was associated with a reduction by 1.2 percent. Both ratios are higher than the average observed across countries. And the difference between them is probably too small to be significant. Figure 4.1 suggests, however, that Vietnam is getting closer to the average over time. If this trend were to continue, growth could be less pro-poor at present than it was in the early 1990s.

Figure 4.1: Growth and Poverty Reduction across Countries



Source: Based on data from GSO and World Bank (2003a).

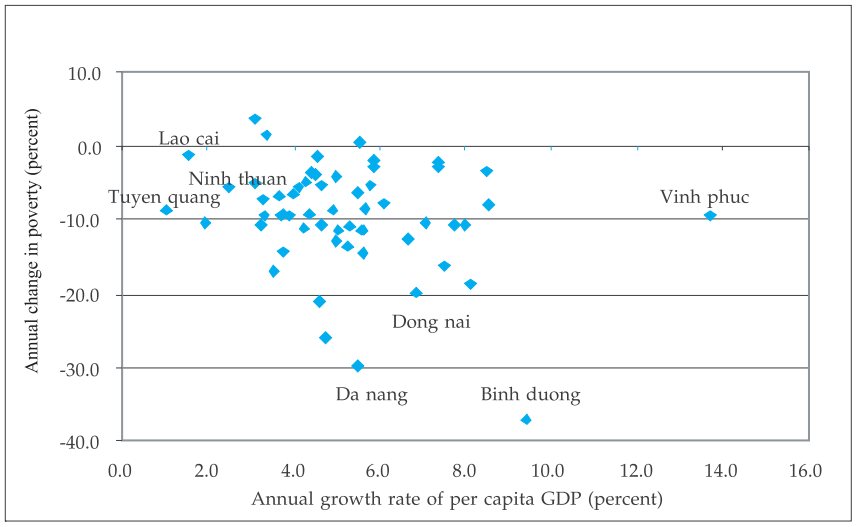
Disparities across Provinces

The relationship between economic growth and poverty reduction can also be assessed at sub-national levels. Some provincial Governments have been much more determined than others in embracing reforms, attracting FDI and promoting private sector development. There are also differences in the extent to which they have improved their planning and budgeting processes, and worked towards a more effective delivery of social services. Uneven progress in structural, social and governance reforms across provinces is, in fact, one of the distinctive features of economic transition in Vietnam. As a result, the experience in reducing poverty at the provincial level is quite diverse as well.

Provincial performance in terms of economic growth and poverty reduction over the last decade is summarized in Figure 4.2. This figure is similar to the one used in the previous section to compare Vietnam to other countries. The horizontal axis shows the annual growth rate of provincial GDP per capita between 1993 and 2002, in percent. The vertical axis indicates the annual percent change in the poverty rate. Province-level indicators are subject to considerable measurement error. Data on provincial GDP are less reliable than the already questionable national-level data. As for the poverty data, the sample of the 1993 VLSS is not large enough to generate precise provincial estimates. Therefore, caution is needed when interpreting the results. However, by averaging the rate of change of both GDP per capita and the poverty rate over an entire decade, Figure 4.2 probably provides a reasonably accurate picture.

While most observations in Figure 4.2 are clustered around GDP growth rates of 3 to 8 percent per year, and annual reductions in the poverty rate of 3 to 15 per year, several provinces stand out. At one end, Lao Cai displays very little growth and almost no poverty reduction. At the other end, Binh Duong, Da Nang and Dong Nai have a remarkable performance on both counts. In between these two extremes, a province like Tuyen Quang manages to reduce poverty by almost 10 percent per year (as a proportion of total poverty) in spite of modest economic growth, whereas Vinh Phuc has a

Figure 4.2: Growth and Poverty Reduction across Provinces, 1993 to 2002



Source: Constructed using data from GSO.

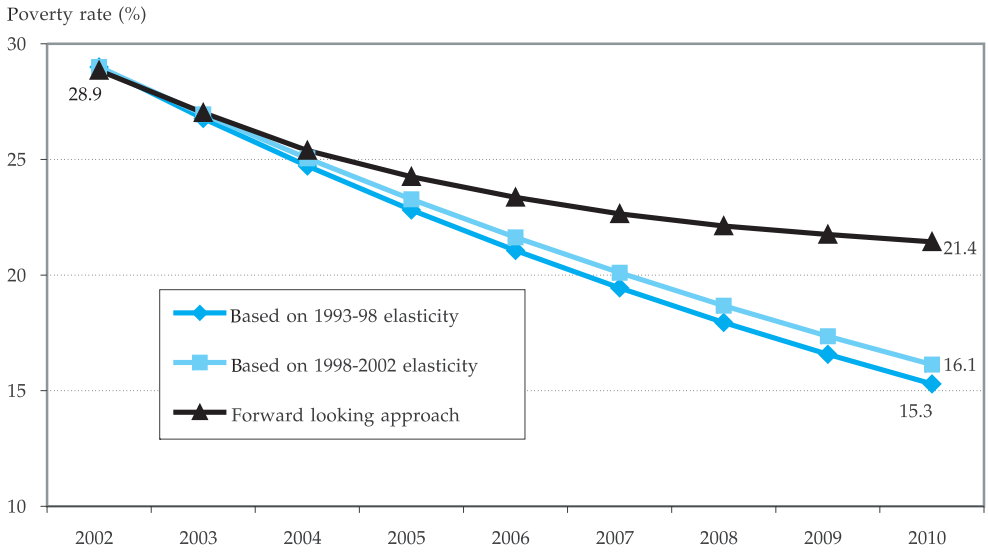
similar record in terms of poverty reduction despite having the highest growth rate across all provinces. While measurement error should lead to consider these results with caution, it appears that provinces like Da Nang and Binh Duong among the fast growers, and Tuyen Quang among the slow growers, might have done things "better". In the process of rolling out CPRGS, to be discussed in Chapter 9, other provinces could benefit from their experience.

Growth Is not Enough

Looking forward, will rapid economic growth succeed in eradicating poverty within a short period of time? The pro-poor nature of economic growth in Vietnam provides good reason to be optimistic. If an increase in GDP per capita by one percent reduces poverty by 1.3 percent points, as it did between 1993 and 1998, then the poverty rate could be as low as 15 percent by 2010, as shown by the lowest line in Figure 4.3. This line is constructed under the assumption that GDP grows by 7 percent per year in real terms, whereas the population expands at an annual rate of 1.35 percent. With an assumed poverty reduction elasticity of 1.3, the resulting 5.65 percent growth of GDP per capita translates into a reduction of the poverty rate by 7.3 percent (= 5.3 x 1.3). Thus, in 2003 the poverty rate would be 26.8 percent (6.9 percent less than in 2002), in 2004 it would be equal to 24.8, and so on and so forth. The poverty rate would decline slightly less if an increase in GDP per capita by one percent reduced poverty by 1.2 percent, as in 1998-2002. The resulting trend under this assumption is represented by the second lowest line in Figure 4.3. It leads to a poverty rate of 16 percent by 2010.

However, it is not clear that a forward-looking exercise has to be based on aggregate patterns, as reflected by the elasticity of poverty reduction to economic growth. Another alternative is to predict the growth in the expenditure level of each of the households covered by the 2002 VHLSS, and to compute poverty rates using the adjusted expenditure data, as if they came from a new household survey. Suppose that the expenditures of ethnic minority households in rural areas keep growing at

Figure 4.3: A Forecast of the Poverty Rate until 2010



Source: Estimated using data from the 2002 VHLSS.

the same rate the average expenditure per capita of ethnic minorities in rural areas did between 1998 and 2002 (this is 0.95 percent per year). Suppose also that expenditures of non-ethnic households in each province increase over time in line with the expected growth rate of that province These assumptions are consistert with a growth rate of GDP per capita in the order of 5.65 percent per year. The line labeled "forward-looking approach" in Figure 4.3 is constructed under these assumptions. It shows that the poverty rate could still be as high as 21.4 percent in 2010.

How pro-poor will economic growth have been, by 2010, if the forward-looking approach is correct? The annual reduction in poverty between 2002 and 2010 will then be about one percentage point per year, or the equivalent of 3.3 percent of the initial poverty rate per year. In the meantime, GDP per capita will have expanded at an annual rate of roughly 5.65 percent per year. Therefore, the elasticity of poverty reduction to growth will fall to below one, which is roughly the average observed across countries (see Figure 4.1). It follows that Vietnam would cease to be an exceptional country in terms of poverty reduction.

Moreover, those who will still be poor by 2010 will represent the "hard core" of poverty in Vietnam. Based on the forward-looking approach, 37 percent of them will be from ethnic minorities, compared to only 13 percent of the population belonging to ethnic groups. And a staggering 49 percent of those with expenditures below the food poverty line will be ethnic minority people. Although the VHLSS questionnaire does not allow to identify them, by 2010 many among the other poor households could be migrants to urban areas. Other vulnerable groups are also likely to be over-represented among the poor. Economic growth will not be enough to lift this last, "hard core" out of poverty. Serious efforts to identify those likely to be left behind, a clear strategy to improve their well-being, and a stronger poverty focus across public polices will be essential.

5. SERVICE DELIVERY

A significant portion of public expenditures is related, in one way or another, to the delivery of basic services. Primary and secondary education, health care, and water and sanitation are mainly provided by the State. The same is true of agricultural extension in rural areas. Even when private providers are involved in service delivery, the State retains a significant role, through regulation or subsidization. Who has access to basic services, at what cost, and at which quality level, is key for poverty reduction. It is generally accepted that the poor could not afford these services if they had to pay their full cost. Therefore, the delivery of basic services often involves net transfers of resources. But the introduction of market forces, the trend towards decentralization, and the increasing reliance on out-of-pocket payments make the net outcome of those transfers opaque. And neither access nor quality can be taken for granted. This chapter first reviews the overall structure of budget transfers across provinces, to determine whether resources are channeled to the poorest areas. It then assesses the coverage, cost and quality of basic services in education, health, water and sanitation, and agricultural extension at the household and commune levels, with a focus on the poor.

The Allocation of Resources

Whether the delivery of basic services involves a transfer of resources towards poor households very much depends on budget allocations. Admittedly, the effectiveness of public spending matters as well. Around the world examples abound of Governments failing to deliver basic services to the poor despite generous spending. And examples of successful delivery with limited resources exist as well (World Bank, 2003b). Still, appropriate budget allocations are an important step towards effective service delivery. One important issue in this respect is how much resources are directed towards the social sectors, compared to other expenditures. Table 5.1 shows that social expenditures have been a relatively stable fraction of Government spending (including central and local levels). If anything, they display a slight downward trend, from one third of total spending in the late 1990s to less than

Table 5.1 Public Spending in the Social Sectors

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Social Expenditures	32.0	33.0	32.3	33.4	33.3	30.2	29.8	31.3	29.7
Education	7.8	8.6	8.7	10.1	10.2	9.4	9.6	10.1	10.4
Health	5.0	4.4	4.4	4.3	4.1	3.7	3.4	2.9	3.0
Pensions and social relief	13.3	13.5	13.0	13.0	11.7	10.6	10.4	11.2	9.3
Other	5.8	6.9	6.1	6.1	6.7	6.4	6.4	7.1	7.0

Note: Figures are in percent of total Government spending.
Source: MOF.

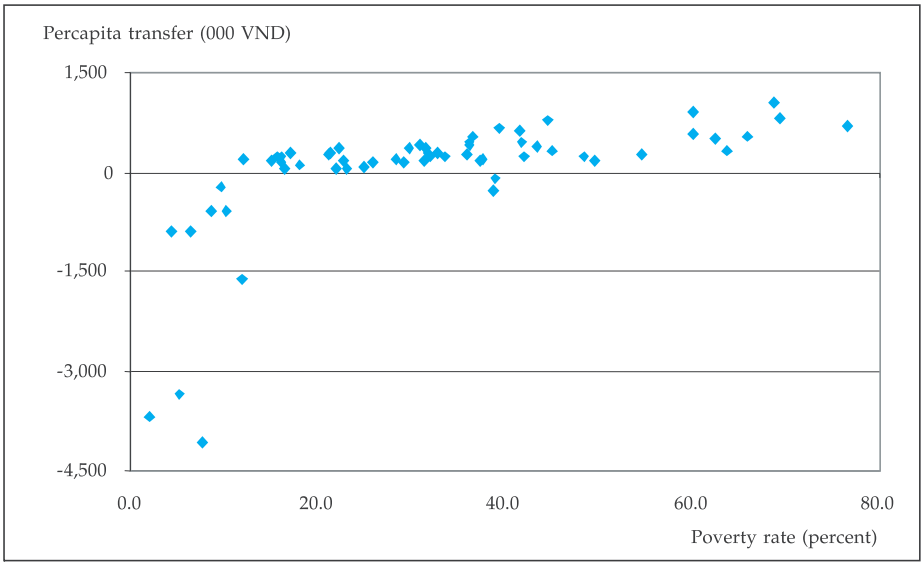
30 percent today. At a more disaggregated level, there is a sharp contrast between the steady increase in education spending and the steady decrease in health spending. This latter trend is surprising, and at odds with the observed expansion of health care expenditures as countries grow wealthier.

As Vietnam is becoming increasingly decentralized, another important dimension to consider is whether resources are reaching the poorest province. At the secoral level, this process is guided by budget allocation norms by sectors. For instance, the transfer of resources for education was, until quite recently, based on the number of children enrolled in school. In 2003 the decision was made to use the number of children of school age instead. It would be useful to assess these norms on a case-by-case basis, and determine whether they lead to progressive (pro-poor) or regressive (pro-rich) allocations in each of the sectors involved.

It is also possible to evaluate the net transfer across all sectors, and assess whether poorer provinces get a larger share of the budget, other things equal. This is done in Figure 5.1. The horizontal axis in this figure shows the provincial poverty rate, based on the 2002 VHLSS. The vertical axis measures the size of the net transfer per person from the central government. This variable is estimated as the difference between all the revenue collected by each province, including revenue collected on behalf of the central government, and actual provincial spending. It provides a reasonable approximation to the actual transfer when provincial budget deficits or surpluses are not too large. A negative value indicates that the provinces makes a net transfer of resources to the central budget.

It appears in this figure that resources are transferred indeed from richer provinces to poorer provinces. Three of the richest ones, namely Hanoi, Ho Chi Minh City and Haiphong transfer more than three million VND per person each. But most provinces, and especially the poorest ones, do receive a net transfer. In some cases the amount can be considerable. Bac Kan province, admittedly the most favored one, receives the equivalent of 1.19 million VND per

Figure 5.1: Budget Transfers and Poverty across Provinces in 2002



Source: Based on data from 2002 VHLSS.

person and per year. This is not to far from the food poverty line, worth 1.38 million VND per person and per year, and amounts to roughly 62 percent of the full poverty line, whose annual value is 1.92 million VND per person. On the other hand, it also appears that the relationship between budget transfers and poverty is "kinked". A transfer mechanism focused on poverty alleviation would yield a "smoother" relationship, with provinces whose poverty rates are below the national average making net transfers and the others being net recipients.

Education

Vietnam has made remarkable progress in expanding the coverage of education, even among the poor. Continued commitment to quality education to all segments of society is underscored by the recent adoption of a national Education For All strategy. As shown by Table 5.2, primary enrollment rates exceed 90 percent for all major groups, except ethnic minorities and the poorest quintile of the population. These two groups presumably have a very significant overlap. In mountainous areas, where education is delivered in a non-native language and where the journey to and from school is hazardous, children often experience only a few years of education before having to leave school. As for secondary education, the expansion of enrollment rates over the last decade has been spectacular. But its pace has been quite different for the rich and the poor. As of 2002, a vast majority of the children in the richest population quintile had access to lower secondary education, compared to barely more than half in the case of the poorest quintile. The ratio between the enrollment rates of the richest and the poorest quintile was four to one in the case of upper secondary education.

One of the reasons underlying differences in enrollment rates is the opportunity cost of sending children to school. For many poor families, the labor contribution of a child is too valuable to justify keeping him or her in school. The long-term gains from education are simply not commensurate with the short-term sacrifice in income or expenditure. Box 5.1 reports circumstances

Table 5.2: Net Enrollment Rates

	Primary			Lower secondary			Upper secondary		
In percent	1993	1998	2002	1993	1998	2002	1993	1998	2002
Vietnam	86.7	91.4	90.1	30.1	61.7	72.1	7.2	28.6	41.8
Poorest	72.0	81.9	84.5	12.0	33.6	53.8	1.1	4.5	17.1
Near poorest	87.0	93.2	90.3	16.6	53.0	71.3	1.6	13.3	34.1
Middle	90.8	94.6	91.9	28.8	65.5	77.6	2.6	20.7	42.6
Near richest	93.5	96.0	93.7	38.4	71.8	78.8	7.7	36.4	53.0
Richest	95.9	96.4	95.3	55.0	91.0	85.8	20.9	64.3	67.2
Kinh and Chinese	90.6	93.3	92.1	33.6	66.2	75.9	7.9	31.9	45.2
Ethnic minorities	63.8	82.2	80.0	6.6	36.5	48.0	2.1	8.1	19.3
Urban	96.6	95.5	94.1	48.5	80.3	80.8	17.3	54.5	59.2
Rural	84.8	90.6	89.2	26.3	57.9	69.9	4.7	22.6	37.7

Note: Are considered enrolled at each level those who reported being in school and having only completed the level immediately below. At the secondary level, enrollment might thus include those who are in technical or vocational schools. However, the proportion of children of secondary school age who are in vocational or technical schools is very small (in 1998 it was estimated at 0.05 percent for lower secondary and 1.69 percent for upper secondary).

Source: Estimated using data from the 1993 VLSS, 1998 VLSS, and 2002 VHLSS.

Box 5.1. Dropping out of School

Loan was born into a poor, Tay family in a village of Ea 'Hiao commune in Dak Lak province. She studied well though almost every day she had to work in the field to help her parents after school. Last year, the rice and coffee harvests failed due to a bad drought. As a result, her family had no money for the school construction fee and other contributions. She felt so ashamed when her teacher sent her out of class because she did not have the fees. Eventually, she dropped out of grade 5 partly because the school costs were becoming unaffordable and partly because her family also needed her to work at home.

In Ninh Thuan, the development of cattle ranches in the area has led to an increased demand for young laborers to tend to their herds. Thuo, the third of six children (four of which are at school age) in a family of Tu Thien villlage, Phuoc Dinh Commune, had to quit school after the first grade to tend to 25-head of cattle for a wealthy village rancher. After one year, the owner paid 800,000 VND to Thuo's parents for services rendered, offering Thuo food and clothes. "My family cannot afford four children to go to school," confessed the father. "Thuo had to quit school to support the family."

Sai and Pau live in Thai Giang San hamlet - Ta Gia Khau commune in Lao Cai province. Sai (daughter, aged 11, just graduated from 4th grade) and Pao (son, aged 9 graduated from 3rd grade) are the two eldest siblings in a family with four children. Their father died in 2001. Sai and Pao have assisted her mother with many chores. Sai takes care of her younger brothers and sisters, carrying water, cooking rice and preparing feed for the pig. She has looked after her younger siblings since she was six. Pao grazed buffalo since he was six. The mother wants her children to finish the 5th grade at the village class and then to attend the lower secondary school at the communal center. Yet her family has no other adult, so her two eldest children could not go to school regularly because she needed their help at home. Especially when she has to go to the upland field early in the morning. Then Sai has to feed her younger brothers and sisters.

Source: ActionAid Vietnam & ADB, (2003), Center for Rural Progress (CRP) & World Bank, (2003), and DFID, (2003).

that arise in all sites to prevent children from completing education or from attending school on a regular basis.

A number of non-financial factors were also mentioned as constraints to educational attainment in the PPAs. They include distance to school and difficulties with transport, language problems and cultural barriers in ethnic minority areas, early marriage for girls, and the perceived irrelevance of the school curriculum. For unregistered groups, administrative barriers also complicate access to education. This was an important issue in Ho Chi Minh City, but was also documented in rural sites which had experienced in-migration, such as Ninh Thuan. The researchers in Ho Chi Minh City found that children who have KT3 registration are allowed to enroll only if there are spaces left after the enrolment of children with KT1 and KT2 registration is complete. Children who have KT4 registration are very unlikely to enroll. Local providers of education services reported that they were making every effort to accommodate the unregistered groups, but the available resources would simply not cover the entire population. Several migrants participating in discussions revealed that their children had to go to evening classes which were of far lower quality than that of daytime regular classes. Better off migrants could send their children to private schools. The fees there are much higher and they, therefore, cannot predict how long they can keep sending their children to those schools: "*we send our children to those schools until we*

can afford. When we cannot, they will have to stop going there" (Group of male migrants in Ward 4, District 8).

The direct cost of education is also acting as a powerful deterrent for school enrollment, as consistently pointed out in all the PPAs. The direct cost of education takes the form of both explicit user fees, collected by the relevant authorities, and unofficial payments. "Extra classes" are an example of the latter. It could be argued that household expenditures for extra classes should not be counted as a direct cost of education, but rather as a separate consumption item, comparable to recreational books, or music lessons. However, in many schools in Vietnam the teacher is the main supplier of the extra classes, which often take place at his or her house after official school hours. Parents know that an important part of the learning will happen during these extra classes, compared to the official school hours. Extra classes can therefore become a mechanism through which civil servants use their position for private gain. People in the Red River Delta explicitly singled out the costs of extra classes as being particularly punitive but felt that they had to do this in order to "please the teachers and avoid problems for our children".

Direct costs of education can actually be sizeable, as shown in Table 5.3. According to the 2002 VHLSS, they amount to an average of 270 thousand VND per year for a child in a primary school, and 455 thousand VND per year for a child in lower secondary school. About a quarter of this amount corresponds to extra classes. As one woman in the Red River Delta said, "*they removed the school fee, but created a lot of other fees"*; she then continued to list about thirty different types of fees or payments made by students. Moreover, despite the existence of school fee exemptions (which will be discussed in the Chapter 7) the direct cost of education does not appear to be progressive. Except for the richest

Table 5.3: Out-Of-Pocket Expenditures in Education in 2002

Primary education	In thousand VND per year								In percent of household expenditure
	Tuition fee	Contri-bution	Uniform	Text-books	School tools	Extra classes	Others	Total	
Poorest	4.7	41.9	17.0	27.6	26.5	7.4	4.8	130.7	1.9
Near poorest	7.5	47.2	24.9	36.4	34.6	14.1	8.8	174.3	1.9
Middle	11.5	50.3	33.0	41.3	38.6	22.6	15.4	215.0	1.8
Near richest	26.4	59.8	44.9	44.9	43.8	44.7	22.0	290.8	1.8
Richest	131.1	102.5	73.9	58.8	62.6	218.2	89.3	756.7	2.4
Vietnam	27.8	56.0	34.4	39.5	38.6	47.2	22.3	270.3	1.9
Lower secondary education	In thousand VND per year								In percent of household expenditure
	Tuition fee	Contri-bution	Uniform	Text-books	School tools	Extra classes	Others	Total	
Poorest	30.7	51.3	28.3	49.0	40.4	15.5	9.1	225.7	2.9
Near poorest	45.9	56.4	39.1	56.3	49.3	28.9	16.0	293.2	2.9
Middle	55.0	60.5	44.5	62.7	54.7	45.6	18.0	343.1	2.7
Near richest	70.0	68.8	60.7	70.1	63.3	89.9	31.0	457.5	2.7
Richest	180.1	103.4	100.8	90.6	79.3	425.7	89.4	1076.0	3.1
Vietnam	72.2	66.7	53.1	65.0	56.8	107.5	30.3	454.8	2.9

Source: Estimated using data from the 2002 VHLSS.

quintile, which pays slightly more, the burden measured in percent of total household expenditure is roughly the same for all population groups. If anything, it is slightly higher for the two poorest quintiles. It is also clear from Table 5.3 that the poor spend less on extra classes than the better off. If these classes are playing an important role in delivering quality learning outcomes, then children from poor families are receiving less tuition than children from better off families.

The size of direct costs of education in Vietnam does not appear to be a statistical artifact, due to particular features of the survey instruments. The PPAs reveal similar orders of magnitude. In Ninh Thuan, for instance, out-of-pocket spending on education among the poor is said to be around 225 thousand VND per year for primary education, and 450 for secondary education. At 310 and 580 thousand VND per year respectively, the figures from the 2002 VHLSS are not substantially different.

One argument put forward to support private financial contributions to education is that it gives users a stronger stake in holding the schools accountable for delivering quality education services. The PPA research teams asked poor communities about their involvement in school activities, the degree to which they had any information about or influence over how school budgets are formulated and the mechanisms for interaction with school staff. The research consistently suggested that the parent-teacher association (PTA) played a very limited role in engaging communities in the provision of education. Parents explained that parental representation on the PTA was limited to the better off, well-connected members of the community. In the Red River Delta, people described themselves as marginalized and voiceless with respect to education service providers. They saw the PTA as an instrument for mobilizing contributions with limited potential in taking forward their interests. In the Mekong Delta, parents depicted a distant relationship between the school and the communities with the PTA holding bi-annual meetings with minimal space for lively debate and discussion. In the Central Highlands, people complained about the attitude of teachers making interactions quite stressful. Several parents said that they felt unable to attend meetings at the school because they were behind with their payments. Nevertheless, there was a strong interest in becoming more involved in children's education. Specific proposals included making the PTA a forum for two-way dialogue which explicitly recognizes a role for parents, training the teachers in having a respectful attitude towards parents, and allowing parents who pay contributions to have a say in decisions involving the use of their contributions.

Health

Economic transition brought dramatic changes to the health sector. As in education, the overall performance of Vietnam in this area is considerably better than that of other countries at a similar development level. However, large disparities exist between the rich and the poor, as shown by Table 5.4. While the poor are less likely to report themselves as having been sick over the last twelve months, their illnesses appear to be more severe, as shown by the fraction of the ill who are unable to work. But some of the most striking differences between poor and rich concern the health condition of children. The fraction stunted among those in the poorest quintile of the population is almost three times as high as among children in the richest quintile. At almost five, the ratio is even higher for the fraction under-weight.

One of the forces underlying the differences in health outcomes is a different use of health care facilities, as shown in Table 5.5. The poor are likely to make a more limited use of health services, even when counting self-treatment as one of those services. They are also likely to make a less intense use of health services, as reflected by the number

Table 5.4 Health Outcomes, from Poor to Rich, in 2002

In percent	Proportion of people who were ill over last 12 months	Proportion of ill people who unable to work	Child malnutrition under age 5 (percent)		
			Low weight for age	Low height for age	Low weight for height
Poorest	33.5	13.4	34.2	34.4	8.6
Near poorest	40.4	13.3	29.1	24.5	7.6
Middle	39.3	11.8	23.8	18.4	6.0
Near richest	39.5	9.9	21.0	15.4	5.8
Richest	34.3	6.7	12.7	9.0	5.6
Vietnam	37.4	10.9	25.7	22.5	7.0

Source: Estimated using data from the VNHS 2002 and the 2002 VHLSS.

of visits per year. And even for professional medicine, they are less likely to rely on Western clinics, or central and provincial facilities, and more likely to resort to regional policlinics.

Out-of-pocket payments, whether official or unofficial, have become a dominant feature of the health landscape in Vietnam. But their measurement is made difficult because households can choose not to seek treatment, or at least professional medical treatment. Compared to education, the possibilities for substitution are much higher, and the diversity of circumstances and treatments much broader. Previous studies, using data from the 1998 VLSS, had uncovered an extreme pattern, whereby a higher direct cost of health services was actually leading to lower health expenditures, especially among the poor (see World Bank and others, 2001, and Menno Pradhan, 2002). This outcome could hardly be considered a success, as it was simply due to higher reliance on self-treatment and traditional medicine.

Table 5.5: Utilization of Health Services in 2002

	Poorest	Near poorest	Richest	Vietnam
Percent using health services or getting self-treatment	34.4	43.1	37.4	39.8
Average health service utilization visits per year	8.3	11.6	10.4	10.8
Distribution of inpatient/outpatient visits (percent)				
District hospital inpatient	1.9	1.0	0.3	0.9
District hospital outpatient	7.2	7.0	6.4	7.3
Central/Provincial hospital inpatient	0.9	0.8	1.7	1.2
Central/Provincial hospital outpatient	4.0	3.7	13.9	7.4
Regional policlinic / CHCs inpatient	1.0	0.7	0.1	0.4
Regional policlinic / CHCs outpatient	36.3	24.9	11.1	21.5
Private Western clinic	41.0	53.2	54.0	51.2

Source: Estimated using data from the VNHS 2002 and the 2002 VHLSS.

An attempt to measure out-of-pocket expenditure in health for those who do seek health care can be found in Table 5.6. This table was constructed using data from the 2002 VHLSS. It shows average spending in excess of 800 thousand VND per year, of which two thirds correspond to treatment. Whereas spending on health is more progressive than spending on education, differences in the health share of household expenditure across population quintiles are relatively minor. Even for the poorest quintile, out-of-pocket expenditures amount to roughly 300 thousand VND per person seeking treatment per year.

Support with out-of-pocket payments has, until now, been provided under the form of health care cards. Whether these cards are effectively allocated to the poor, and whether they make a difference in households' livelihoods, will be discussed in Chapter 7. But here, it is worth mentioning what the PPA research reports in terms of how the system providing exemptions operates in practice. Several problems were raised in this respect. Delays in the issuance of the cards were common across all sites. Cards were often issued only in the name of the household head or they missed some household members and people in many sites complained that it was not the right person who fell sick. And there were problems associated with claiming the benefits due to the households' lack of information on the rights conferred by the card.

Many of the PPAs report stories of confusion, complicated procedures and supplementary payments. Major causes to the delayed process are explained by medical center's officers as follows:

- There are so many beneficiaries that listing them and preparing health cards for them becomes very time-consuming. In Lao Cai province alone, nearly 300,000 people province-wide would be eligible;
- The lists of beneficiaries transferred from the DOLISA to the medical centers contain only names, so medical centers must contact each commune again.
- Ethnic minority populations in specific communes are eligible to receive the cards, but cross-ethnic marriages make their identification difficult.

Stories of ineffective use of the health care cards also abound.

However, the Government has recently introduced a new mechanism for tackling out-of-pocket payments, in the form of Decision 139. This mechanism has the potential to make a difference in the delivery of health services to the poor, but

Table 5.6: Out-of-Pocket Expenditures in Health in 2002

	Percent seeking professio-nal care	In thousand VND per year						In percent of household expenditure
		Treatment	Medicines	Health tools	Contribu-tion	Health insurance	Total	
Poorest	46.3	151.6	137.1	3.3	2.4	4.5	298.8	4.31
Near poorest	48.4	254.4	187.1	5.5	2.3	7.4	456.7	5.02
Middle	48.8	365.9	213.0	6.2	2.0	10.9	598.1	5.28
Near richest	52.6	553.9	262.9	8.6	1.9	16.8	844.0	5.78
Richest	56.3	1110.4	449.8	21.4	1.4	31.1	1614.1	5.77
Vietnam	50.6	520.6	260.6	9.6	2.0	15.1	807.9	5.29

Note: Out-of-pocket expenditure for health is calculated per ill person who sought care or bought medicine.
Source: Estimated using data from 2002 VHLSS.

its success will very much depend on its practical implementation (see box 5.2).

An important health challenge that is likely to have implications for the poor is the spread of HIV/AIDS. Current estimates suggest that 70,000 people are infected, and there is evidence that the disease is breaking out from high risk groups to other segments of the population. Of particular concern is the increase in the transmission to mothers. The Government is currently drafting a strategy to tackle the worsening epidemic which will hopefully address some of the limitations of the previous, more repressive approach (see Box 5.3).

Water and Sanitation

Over the past decade Vietnam has made enormous progress in developing its water and sanitation infrastructure. Currently, almost half of the population has access to clean water, almost double than in 1993 (Table 5.7). This figure is based on an adapted version of the international definition of clean water, where "bought water" is included but all "water from hand-dug wells" is excluded. The reason for the exclusion is that the 2002 VHLSS does not distinguish between protected and unprotected hand-dug wells, and only the former count as clean water. The reported figure is therefore an under-estimate of the coverage of clean water. If all hand-dug wells were counted in, then the nation-wide access to clean water would be 78.7 percent. Even with the more restrictive definition used here, the proportion of the population with access to clean water would have increased by 2.5 percentage points per year, which is remarkably high by international standards.

Current access to clean drinking water is divided rather unequally among the population. Access to clean water is about half as frequent in rural areas as it is in

Box 5.2 : Decision 139 on Health Care Funds for the Poor

Decision 139 was issued in 2002 with the goal of securing access by the poor to health care, in particular for in-patient treatment. It created province-level Health Care Funds for the Poor (HCFPs) to finance the out-of-pocket costs of eligible individuals who use publicly provided health services. With province-level governments expected to play a major role, Decision 139 directs HCFPs to either buy health insurance cards for the poor, or to pay directly for the out-of-pocket costs of services supplied to beneficiaries by hospitals and possibly other public providers.

Decision 139 is designed to bring benefits to the poor on two fronts: increased utilization of health services, and reductions in the extent of "income" poverty. Decision 139 could also increase efficiency especially in those provinces in which responsibilities will be increasingly divided between financing and service delivery. This split in key functions provides opportunities for downward pressures on costs and upward pressures on service quality.

What makes this initiative unusual is that it:

- directs central resources at the poor and other vulnerable groups on the basis of clear definitions of who is poor;
- brings to bear resources on a scale large enough to make an impact; public spending on health is expected to increase by 8 percent nationally, and by more than 20 percent in some provinces;
- intervenes on the demand side, when services are purchased, which provides opportunities to influence providers through incentives rather than direct controls;
- builds in an important role for provinces in fine-tuning and "localizing" design and activities; and
- has linkages with Vietnam Social Security (VSS) and formal health insurance programs.

Box 5.3: A Spreading Epidemic?

Vietnam is facing an HIV and AIDS epidemic that is accelerating while at the same time changing its character. MOH reports 72,240 HIV infected individuals, 11,020 AIDS cases and 6,195 AIDS-related fatalities by the end of September 2003. A snapshot reveals a concentrated epidemic: most reported HIV-infected persons are men (85 percent) with nearly half of them and a clear majority of new the HIV cases falling in the 15-29 age range. Within this increasingly youthful group, the epidemic has a geographic pattern. By the end of 2001, all 61 provinces and 93 percent of districts had reported HIV infections. The overall national prevalence among adults aged 15-49 years was 0.28 percent in 2002, but Quang Ninh, Hai Phong and Ho Chi Minh City were considerably above this average.

In high prevalence areas, the disease is still concentrated within groups with vulnerable lifestyles, mainly injecting drug users, sex workers and their male clients. Behavioral surveillance surveys reveals considerable overlap between these groups. Sexual workers report low levels of consistent condom use by their clients. But the epidemic is not confined to these groups, as revealed by the marked increases in HIV prevalence among military recruits and tuberculosis and antenatal patients. These are leading indicators of the epidemic spreading to the general population. A legal framework was developed to support the implementation of the national AIDS program, and AIDS committees have been set up in each province.

Achievements to date and remaining challenges are captured in the National Strategy on HIV/AIDS Prevention and Control for the period 2004-2010, currently under preparation. The next critical step will be to implement the strategy by setting priorities, factoring in sub-national budgetary and capacity constraints, and delineating the roles of different partners. Institutional innovation will also play a key role in enabling Government to respond to this emerging challenge. Identifying appropriate programs that target the youth could potentially have a big impact on preventing and contain the spread of the disease into the general population. And further work is needed to understand the motivations of young people undertaking risky behaviors.

The incorporation of HIV/AIDS prevention into specific Government branches (such as education, mines, public works or the armed forces) has been limited on a national scale and almost non-existent at lower levels. The Prime Minister recently issued a directive aimed at strengthening HIV/AIDS prevention activities and overall coordination amongst Government agencies. Such a directive may help MOH strengthen its leadership role fostering broad-based HIV/AIDS programs within the Government of Vietnam.

urban areas, and it is also much less common among ethnic minorities. Only one eighth of the ethnic population is currently covered, compared to more than half of the Kinh and Chinese population. Progress for the ethnic minorities over time has been much slower too. Between 1993 and 2002 an extra 7.5 percent of the ethnic population obtained access to clean water, whereas the corresponding figure for the Kinh and the Chinese population was 23.6 percent. Among the poorest quintile of the population, slightly more than a fifth of the population has access, compared to almost four fifths for the richest quintile. And absolute progress in coverage has also been slower among the poor. In terms of geography, access to clean water varies from 71.1 percent of the population in the Red River Delta to 4.3 percent in the Central Highlands.

Proper sanitation facilities are important to prevent diseases, diarrhea and malnutrition. Access to hygienic latrines in Vietnam is now 2.5 times more common

Table 5.7: Water and Sanitation, from Poor to Rich, in 2002

In percent	Access to clean water			Access to hygienic latrines		
	1993	1998	2002	1993	1998	2002
Vietnam	26.2	40.6	48.5	10.4	17.0	25.3
Urban	58.5	76.8	76.3	44.9	60.1	68.3
Rural	18.1	29.1	39.6	1.8	3.4	11.5
Kinh and Chinese	29.0	44.9	52.6	11.6	19.3	27.7
Others	5.3	9.9	12.8	1.1	0.8	4.1
Poorest	9.4	16.1	22.7	1.0	0.6	2.0
Near poorest	16.7	26.9	35.4	1.0	2.4	5.0
Middle	21.3	31.7	42.7	3.3	5.3	10.7
Near richest	27.5	45.5	54.0	7.9	14.5	28.4
Richest	51.3	72.1	78.8	34.8	53.0	69.6

Note: Constructed using data from the 1993 VLSS, 1998 VLSS and 2002 VHLSS.

than in 1993. But overall access is still low, in particular in rural areas, for ethnic minorities and for the poorest quintile of the population.

Currently, more than half of households living in urban areas are paying for their drinking water, whereas nearly all rural households get it for free (Table 5.8). In general, payment for water is more common among the richest fifth of the population than among the poorest. But the urban areas of the South East region are an exception to this pattern, as almost 80 percent of the poorest people pay for their water, compared to two thirds of the richest. In terms of actual amounts, nation-wide the rich spend more on water than the poor. But as a proportion of their total expenditures, people in the poorest quintile of the population spend more than double what people in the richest quintile spend.

In urban areas, the cost of water is a recurrent theme among the poor, and especially among migrants. This is due to

Table 5.8 Out-of-Pocket Cost of Drinking Water in 2002

	Households paying for water (in percent)		Average expenditure on water, per paying household		
			In thousand VND per year		In percent of household expenditure
	Rural	Urban	Rural	Urban	
Poorest	2.0	17.9	115	170	2.8
Near poorest	3.6	14.3	159	245	2.7
Middle	5.7	27.9	171	282	2.2
Near richest	10.2	51.7	233	301	1.8
Richest	19.1	68.9	300	446	1.3
Vietnam	6.8	56.3	225	402	1.4

Source: Constructed using data from the 2002 VHLSS.

their inability to secure water connections, which forces them to buy the water from better-off households. The Ho Chi Minh City PPA found that the majority of poor migrants without KT3 living registration have to pay charges which are many times higher than the resident population. In Tan Binh District, the PPA team estimated that migrants without registration could pay seven or eight times the amount residents pay. Where the infrastructure is less developed, as in District 8, the difference in charges between those with and without access to water connections is usually higher.

In rural areas, the PPA discussions revolve more around availability than cost. Shallow hand-dug wells and streams are commonly cited as sources of drinking water. In the uplands there is a water shortage during dry seasons. In Ninh Thuan, which has very low annual rainfall, water supplies are so distant that people have to buy water from visiting water tankers. In the Mekong Delta, the rainy season provokes more problems because water sources easily become contaminated as the fields flood. People noted problems of pollution from agricultural activities and from enterprises.

Agricultural Extension

Agricultural extension services, aimed at facilitating farmers' access to information on production techniques and market developments, have the potential to improve the well-being of rural households. The national extension system of Vietnam was created a decade ago and it is not yet operational throughout the country. At about 3000/1 the farmer-agent ratio is high, and research-extension linkages are poor (ANZDEC Ltd., 2001). Public expenditure on agricultural extension is about 0.4 percent of agricultural GDP, which is low compared to neighboring countries such as China, Thailand and Malaysia (ADB, 2002). Most of the budget for extension is provided at the local level. As Table 5.9 shows, slightly more than a quarter of rural households live in a commune which has an extension center. Not surprisingly, the rich are better endowed than the poor, and the Kinh and Chinese population is better endowed than ethnic minorities. But the gap is somewhat smaller than for other basic services. The average distance to an extension center in Vietnam is 11.3 km, but the poorest fifth of the households live further away from them (14.5 km) than the richest fifth (9.5 km).

The PPAs suggest that the experience of the poor in dealing with extension services are quite diverse across the country and across income groups. In Ha Giang, the research team described the positive contribution extension workers had made to increasing

Table 5.9: Extension Services at the Commune Level in 2002

	Proportion of households having an extension center in their commune	Average distance to extension center (in km)	Annual visits to commune by extension officer (average)
All rural	28	11.3	10.0
Kinh and Chinese	29	10.3	9.7
Ethnic minorities	21	17.5	12.8
Poorest	28	14.5	9.9
Near poorest	27	10.9	9.8
Middle	31	10.6	10.1
Near richest	30	10.1	10.6
Richest	30	9.5	10.6

Source: Constructed using data from the 2002 VHLSS.

agricultural incomes. This was a view expressed by rich and poor farmers, regardless of ethnicity. Each of the 191 communes in the province had an extension officer, paid 300 to 400 thousand VND per month (which compares favorably with the 90 thousand VND received by their counterparts in Lao Cai). Of the 3,035 villages in the province, 1,285 had extension workers who were supposed to receive an allowance of 100 thousand per month. But this was the only site that had such a well-developed network, down to the village level. Its staffing was much higher than the other sites, which generally reported between four to six employees per district. The positive impact of forestry extension workers was also described.

But the PPAs uncovered criticism as well, with Box 5.4 summarizing views voiced in many sites. Extension services were seen as not providing much meaningful assistance to the poor either because the poor were not attending the training or because the services and training that the extension workers were resourced to deliver were more suitable for better off farmers. With

Box 5.4: Views on Extension Services

The poor need....	The extension service provides...
To know what they can demand of the extension services since much of the time the services are reacting to requests	A reactive service demanded more by the rich while the poor need more proactive efforts.
Direct guidance from and interaction with the extension officers	Few extension workers. Many of them do not know ethnic minority language and village extension officers are not yet available. Training is often one way and delivered indirectly (through village leader)
To deal with specific issues in production	Local extension workers who are weak in technical skills, and practical hands-on advice
To travel long distances, while living in areas with undeveloped traffic	Local extension workers who lack means of transportation
To get input support despite the fact that they cannot make contributions	Budgets for extension service and allowances for commune extension workers which are too low
To be introduced to a range of options and solutions to fit their own situation in a manner that is highly responsive to diverse environments	Single and monotonous technical demonstration models for each plant and animal, with no adaptation for different income groups or environments
To get simple materials with "attractive pictures and big letters" for less educated people, or by way of verbal culture in mountainous areas	Leaflet and letter-intensive materials, which are not suitable for less-educated people
To learn about opportunities for market access.	Little information on accessing markets. Undeveloped private sector services in remote and isolated areas cannot fill this gap.

Source : DFID (2003).

the exception of Nghe An, poor women seemed to have least access to the extension training, prompting people in Lao Cai to say *"the women work and the men study"*. Extension or farmer clubs were not seen to be particularly helpful to the poor.

There were several messages which resonated around all the sites. The first refers to the need to move away from a single agricultural model towards promoting a diversification of income sources, leading to reduced risk. This was voiced particularly strongly in Dak Lak, where people had suffered badly because of the drop in coffee prices. However, it was also an issue of concern in other sites as well.

The second strong message from all the rural sites refers to the void that farmers experience in accessing information about markets in agricultural products. Extension officers play little role in facilitating access to markets or providing useful information on commodities. In some areas the private sector was one source of information, but farmers felt uneasy depending on traders as their only source of information about prices. In several sites farmers felt that they had been cheated by traders. In Dak Lak, for example, they talked about being encouraged to grow cassava which they could not sell subsequently and about cotton traders distorting prices unfavorably.

A third message related to the need for better-researched advice. In every site there was a different yet similar story of extension services introducing inappropriate varieties or techniques. Experiences related to the research teams included: 29 hectares of "no corn" maize being planted in Ninh Thuan; the introduction of un-quarantined goats that died quickly in Ha Giang; promotion of hybrid maize and paddy varieties in Lao Cai in areas without adequate irrigation; introduction of chickens with unaffordable appetites in Dak Lak; the provision of poor quality cotton seed and fertiliser in Dak Lak; and the promotion of unsuitable strains of saplings in Nghe An.

A final point that echoed around all the sites was the assertion that there could be much stronger coordination and collaboration between the various extension activities. In each district there was some combination of agricultural extension officers, forestry extension officers, plant protection officers, veterinary officers, all working in apparent isolation from each other. People felt there could be real gains from pooling resources more and coordinating the activities of the various professional branches and their messages in a more consistent fashion. There was also a call for better links between the provision of credit and agricultural extension, and between infrastructure development and agricultural development.

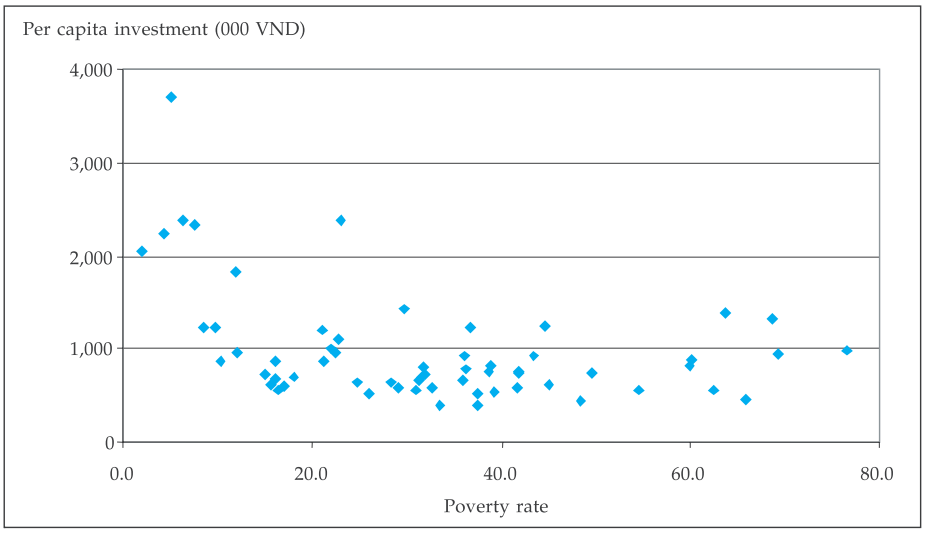
6. PUBLIC INVESTMENT

If it were fully implemented, the PIP would represent a claim over almost one fifth of Vietnam's GDP, year after year. The PIP is a compilation of investment projects supported by line ministries, provincial governments and SOEs, funded through a combination of ODA, budget credit, banking loans and, in the case of SOEs, re-invested profits. Projects are classified according on their size, which determines the level of government which is authorized to approve them. The PIP contains a few hundred "A" projects, corresponding mainly to large-scale infrastructure in energy, transport, water and sanitation and irrigation. It is clear that depending on their nature and location, these projects might have different impacts on economic growth and poverty reduction. While these are the two main objectives of the development strategy embodied in the CPRGS, the projects in the PIP are not explicitly appraised on these two counts. The contents of the PIP seem rather determined by a combination of sectoral strategies and the preferences of a variety of key stakeholders, ranging from provincial governments to international donors. The purpose of this chapter is to summarize what is known about the poverty alleviation impacts of large-scale infrastructure projects in Vietnam.

The Allocation of Resources

While it can be difficult to predict whether specific investment projects will reduce poverty, and by how much, it is at least possible to assess whether investment resources are going to the places where the poor live. Data on State investment are now available by province. Figure 6.1

Figure 6.1 State Investment and Poverty Rates across Provinces



Source: Constructed using data from GSO and the 2002 VHLSS.

shows the average State investment per capita at the provincial level in 2000 (the most recent figure), relating it to the provincial poverty rate as of 2002. The contrast with Figure 5.1, on transfers per capita to support recurrent expenditures, is striking. Net transfers for recurrent expenditures go to the poorest provinces, whereas resources for investment go to the richest ones. The orders of magnitude are quite similar in both cases. For instance, Hanoi transfers roughly 3.4 million VND per person per year to the budget but gets the equivalent of 3.7 million in public investment from the State. Danang transfers 0.9 million and receives 2.2 million. Admittedly, the figures are not strictly comparable. Still, the correlation between budget transfers per capita and State investment per capita is –0.72.

Should this be a matter of concern from a poverty perspective? Not necessarily. It could well be the case that public investment has higher economic returns in richer provinces. Infrastructure could have a smaller impact on economic growth in, say remote and mountainous areas. From this perspective, allocating investment across provinces in a way that maximizes the growth potential of the country as a whole, and redistributing the returns from this investment across provinces in a way that maximizes poverty reduction, is certainly a defensible approach. And this is what Vietnam appears to be doing at present.

There are, however, two risks associated with this approach. The first one concerns its long-term sustainability. The provinces getting resources to invest massively are bound to grow faster, so that the productivity gap between them and their poorer counterparts will increase over time. This gap can be partially redressed resorting to inter-provincial budget transfers like those currently used in Vietnam. But the bigger the productivity gap between rich and poor provinces, the bigger also the transfer needed to bring their incomes closer. For this approach to be sustainable, budget transfers need to grow over time, both in absolute terms and as a share of GDP. The temptation for the richer provinces to renege on an agreement of this sort later on could be strong. In economic parlance, this approach is not time-consistent. Without a very strong political determination to redress inequalities across provinces, it could simply unravel. Preventing the productivity gap between rich and poor provinces to grow too wide could be necessary to keep transfers manageable and prevent the secession of the rich. From this perspective, it would make sense to invest more in poorer provinces, even if returns are not as high as in richer provinces.

Concentrating investment in the richer provinces could also lead to a less inclusive development pattern over time. Assume that large inter-provincial budget transfers are sustainable in the long-run, and income disparities between provinces can be kept under a certain ceiling despite growing productivity disparities. The source of household income in poorer and richer provinces would still become increasingly different, despite the similarity of its level. Wages and profits would be the main income source in the richer provinces, whereas government transfers would have to become increasingly important in the poorer provinces. Would a scenario in which some see their well-being improve thanks to job creation, while for others the best hope is to get handouts, be socially acceptable? Again, based on this argument it would be justified to increase investment in poorer provinces, even if the returns are not as high as in the richer ones.

The discussion above is based on the premise that investing in richer provinces has a higher impact on economic growth, which is probably true, but even within a province impacts can differ considerably from investment project to investment project. And the same applies to the impact on poverty alleviation. A bridge in the Mekong delta, or a sanitation project in Ho Chi Minh City, could have a high poverty

alleviation impact. Conversely, creating an SOE in Lao Cai is unlikely to make a difference.

Assessing Infrastructure Projects

The high investment rate of Vietnam suggests that capital accumulation is not very productive. In rough terms, it takes about 5 dollars of investment to get 1 dollar of output growth, which is very high by international standards (David Dapice, 2003). Based on an analysis of economic performance across provinces, it has been claimed that the growth impact of private investment is positive, whereas the impact of public investment is negative (Rainer Klump, 2003). While the methodology behind this claim can be questioned, it is clear that not all public investment is productive in Vietnam. It is therefore necessary to look beyond the provincial allocation of State investment, and to consider large-scale projects one by one. Box 6.1 presents two practical ways to assess, beforehand, the poverty alleviation impact of investment projects. While one of them might be difficult to implement at this stage, the other one, based on the systematic estimation of the rate of return of investment projects, could easily be streamlined into the preparation of the PIP.

Consider the 1996-2000 PIP. Unfortunately, no information is available for now on the average rate of return of the large-scale infrastructure projects included in it (an effort to estimate this average rate of return is currently under way). In the absence of that figure, only an order of magnitude for its poverty alleviation impact can be proposed, not a precise figure. To illustrate how this can be achieved, suppose that the average rate of return of large-scale infrastructure projects was 15 percent. It is estimated that slightly less than 60 percent of the investment planned in the 1996-2000 PIP was actually executed during that period, bringing the ratio of investment to GDP down from the planned 18 percent to 11 percent (Theo Ib Larsen & Martin Rama, 2003). Based on the first formula in Box 6.1, large-scale investment projects in the 1996-2000 PIP would have reduced poverty by 2 percent of the initial poverty rate every year. This estimate assumes that the elasticity of poverty reduction to economic growth is 1.2, as observed between 1998 and 2002. The 2 percent figure results from multiplying 15 by 0.11 by 1.2. If this were correct, about a third of the 6.1 percent annual reduction in poverty (as a proportion of total poverty) observed in Vietnam between 1998 and 2002 could be attributed to the PIP. And this estimate only considers the direct effects of investment, not its indirect effects through accelerated private sector development and job creation. On the other hand, it also assumes a reasonably high rate of return on public investment projects, whichs is questionable.

The estimates in the previous paragraph only serve illustrative purposes and should not be taken literally. In reality, the 1996-2000 PIP was a collection of projects of uneven quality, including dubious investments in SOEs. If bad projects drove the average rate of return down to, say 10 percent, then the direct annual reduction in poverty resulting from the 1996-2000 PIP would have been 1.3 percent per year. The purpose of the estimate proposed above is thus to highlight the importance of the screening process leading to the compilation of the PIP. “Bad” projects do not only represent a waste of resources, they are also a missed opportunity for further poverty reduction.

Roads, Big and Small

Assessing the poverty alleviation impacts of large-scale infrastructure projects at an aggregate level can only provide a very broad picture of the quality of public investment. To decide on the merits of specific projects, it is necessary to integrate them into a broader sectoral strategy. For the largest projects, it should also be possible to conduct specific assessments of their economic and social impacts (see Box 6.2).

Box 6.1: Investment Appraisal from a Poverty Perspective

The merits of investment decisions are typically assessed using one of two methods. Sectoral specialists rely on what can be called the "project approach", whereas poverty specialists tend to prefer a "statistical approach".

The project approach considers the direct effects of an investment project. For instance, the energy produced by a power plant, or the additional number of vehicles per day allowed by a road. In its simplest form, this approach values the additional output from the project using market prices. Thus, electricity can be multiplied by its price and the vehicle traffic by the cost of a ride or a cargo load over the road. This multiplication yields the additional income generated by the project, which can then be compared to the cost of investment. The ratio between the additional income generated by a project and its cost is called the rate of return. This rate is computed for most large-scale investment projects. Assume that the project has only direct effects. In this case, if the elasticity of poverty reduction to economic growth is known, the nation-wide poverty alleviation impact of a project can be inferred from its rate of return. This impact can be expressed as:

Poverty reduction (in percent)	=	Project rate of return (in percent)	x	Investment rate (project size / total GDP)	x	Elasticity of poverty reduction to growth

Based on data from period 1998-2002, in Vietnam the elasticity of poverty reduction to growth is about 1.2 (see Chapter 4). Thus, an investment project with a rate of return of 20 percent, absorbing 1/1000 of GDP, would reduce the nation-wide poverty rate by 0.024 percent.

The statistical approach considers the local effects of an investment project. Using more or less sophisticated methods, it empirically assesses by how much poverty in a commune, district or province falls when a certain volume of investment is located in that commune, district or province. Local data, often from household surveys, are used for the empirical assessment. The data refer, for instance, to the expenditures of households who live in the commune where the investment takes place. The estimated impact estimate can be expressed as the reduction in local poverty (in percent) associated with some volume of local investment (in percent of local GDP). Assume that the project has only local effects. In this case, the nation-wide poverty alleviation impact of a project can be inferred from the local impact estimate, as follows:

Poverty reduction (in percent)	=	Statistical impact (estimated at the local level)	x	Local poor (as a fraction of the total poor)	x	Investment rate (project size / local GDP)

The challenge posed by this approach is to credibly estimate the statistical impact on investment projects at the local level. An effort is currently underway in Vietnam, focusing on 50 out of 107 large-scale infrastructure projects in the 1996-2000 PIP. Taken together these projects account for 96 percent of PIP spending on energy projects, 94 percent of spending in transport projects and 75 percent of spending on water and sanitation projects.

While these two approaches yield concrete figures for the poverty reduction impact of investment projects, they both have important shortcomings. The project approach only considers the direct impacts of a project, such as more energy or more vehicle traffic. It ignores indirect effects (externalities in the economic jargon) from the project, say on private sector development and job creation. Externalities of this sort are common in less-developed economies. The statistical approach, in turn, only considers local impacts. It ignores the network effects which are typical of large-scale infrastructure. For instance, the additional energy can be transmitted to other provinces while a road can lead to increased vehicle traffic on other roads. Therefore, these two approaches only provide a benchmark when estimating poverty alleviation effects of large-scale investment projects.

Source: Theo Ib Larsen and Martin Rama (2003).

Box 6.2: Highway 5 and the My Thuan Bridge

The National Highway 5 Improvement Project consists of upgrading and rehabilitating the highway between Hanoi and Haiphong Port. The investment was carried out between 1994 and 2000, with total costs amounting to 175 million US dollars.

In 2003, an economic and social impact assessment of the investment was undertaken. The aim was to examine the role of large scale infrastructure investments on growth and poverty reduction. The project was assessed along three dimensions: provincial growth and poverty reduction; local implementation of FDI projects; and rural development. The impact was evaluated by comparing relevant provincial statistics before and after the project was implemented, with the same statistics in neighboring, similar provinces where no road investment projects were implemented. The study also used a household survey to discern the impact on incomes, expenditures and access to services.

The study finds that growth and poverty reduction have been significantly stronger in the provinces that benefited from this highway upgrade and rehabilitation, when compared to provinces where no highway improvement was undertaken. The study also finds that FDI was several times higher in the provinces along Highway 5 in comparison with other regional provinces. The study further holds that households in provinces along the highway were helped to diversify their income sources between 1997 and 2003, essentially through salaried employment, trading opportunities and service provision.

The My Thuan cable-stayed Bridge spans 1.5 kilometers across the Tien Giang river in the Southern Mekong Delta provinces of Dong Thap and Tien Giang. The bridge was built between 1997 and 2000, for a total cost of 60 million US dollars.

In 2003, a study to monitor the impact of the My Thuan Bridge was undertaken. The social impact of the investment was assessed by measuring traffic crossing the Tien Giang river at My Thuan in terms of vehicles, people and freight, before and after the bridge was opened. The environmental impact of the project was assessed along the dimensions of air pollution, water pollution, and noise.

The daily number of vehicles crossing the river at My Thuan has increased by 31 percent annually in the 1999-2002 period. From the 1994-99 period to the 1999-2002 period the number of people crossing the river increased by 18 percent. In the same period, the freight volume that is transported across the Tien Giang river increased by 16 percent. These numbers are much higher than the forecasts in the feasibility study of the project. The bridge has on average reduced travel time across the river by 26 minutes and eliminated delays, while at the same time reducing costs by VND 10,000 for passengers and VDN 25,000 for trucks.

Air pollution has been reduced at ferry landings from vehicles queuing, though overall traffic has increased. There is now less water pollution, Noise levels have generally been reduced and the noise is now more distant from most people. The former ferry employees have found other occupations, and new markets have been established to provide opportunities for the vendors at the ferry landings.

Source: AusAID (2003b) and JBIC (2003).

Investment in transport is recognized to be an important instrument for limiting the growing gap between living standards inside and outside the growth poles, and helping the more remote regions to participate in improving living standards. A particular focus on providing basic access to those commune centers currently

lacking a motor vehicle accessible road is warranted. These are mainly located in the mountainous regions, and in the Mekong Delta, where considerable local movement takes place by inland waterways. The number of the poorest communes lacking basic road access has been reduced from 518 in 2000 to 269 by 2003. But despite these efforts many provinces still have important transport links that are impassable during the rainy season, and a road network in need of substantial further investment.

Economic growth has been accompanied by increasing vehicle ownership, particularly bicycles and motorcycles. Car and truck ownership remains low. Apart from use of two-wheeled transport, the dominant load carriers in the rural areas are locally manufactured *Cong Nong*, which combine low cost diesel engines with simple but ingenious body parts, and cost less than 2,000 US dollars. Many of these vehicles are not registered, but their number has continued to grow rapidly. They keep transport costs remarkably low despite the poor state of road maintenance. As a result, transport services in rural areas are dominated by household-owned transport plus very small-scale local service providers using bicycles and motorcycles adapted for load carrying, plus *Cong Nong*. Because of increased vehicle ownership, even among the poor, and the dominance of household-owned enterprises in transport services, rural roads can be expected to make a substantial contribution to economic activity at the local level, hence to poverty reduction.

However, the burden of building the roads also falls on local communities. Local sources are the dominant mode of funding for rural transport spending. Whereas three quarters of the volume of investment in transport in the 1996-2000 PIP were financed by ODA, expenditure by the local entities was mainly funded by Government and contributions by the people. Analysis by the MOT shows that local contributions continue to finance three quarters of investment in rural transport infrastructure. Contributions from communities financed half of rural road spending in 1996-2000, and are planned to finance nearly 60 percent of a much higher level of spending in the period to 2010. The combination of local funding of rural roads with significant differences in costs of road construction and maintenance among regions results in significant regional gaps in the financial burden of roads. For instance, in the Northern Mountains, the average household contributes 94,000 VND annually towards roads, compared to 55,000 VND for the country as a whole.

Irrigation Projects

Because a vast majority of the poor work in agriculture, the poverty alleviation impact of irrigation is in principle considerable. At present, irrigation and drainage investments amount to 250 million US dollars per year, which represents about half of all public spending in the agricultural sector, and three quarters of capital spending in the sector.

On the other hand, most of flat land is already under irrigation and a large proportion of crop production is from irrigated land. The fraction irrigated increased dramatically in previous decades, from 18 percent in 1961 to more than 50 percent in 1990. Since then, however, it has actually declined. This trend suggests that the economic returns, and poverty reduction impacts, might be low. It is also generally recognized that large-scale irrigation and drainage systems in Vietnam suffer from poor accountability of management and finance, and an accumulated backlog of maintenance. (Mark Svendsen, 2003). In addition, local-level participation through water user associations is seen as vital to ensure service quality and the economical use of the available water (Tiep Xuan Nguyen, 2003).

A study currently under way attempts to assess the poverty reduction impact of

several large-scale irrigation and drainage investment projects supported by international donors during the 1990s (Mekong Economics Ltd., Vu Thieu & Janaiah Aldas, 2003). The assessment focuses on three schemes: one in Tay Ninh-Ho Chi Minh City, where the project had aimed at improving water management; one in Quang Nam, where it rehabilitated infrastructure; and one in Thanh Hoa, where it combined both types of interventions. Data from 1200 households were collected in these three schemes and in three neighboring communes with a similar topography but no irrigation investments. The evaluation basically compared households in each of the communes with irrigation projects with the most similar households in its neighboring commune. "Similarity" in this context was defined based on household characteristics which are not likely to have changed due to the irrigation intervention, such as age and education level of the household head, household size and composition and the like. A "matching" technique was used to identify, for each household in a scheme, the most similar household in the neighboring commune.

The assessment of the impacts of improved irrigation considered various outcomes, including cropping intensity, farm income, productivity, household income, and other livelihood indicators. Table 6.1 shows the results of the assessment for the Tay Ninh-Ho Chi Minh City and Thanh Hoa schemes. Unfortunately, data from Quang Nam had to be discarded due to their poor quality. And uncertainties remain for the other two schemes as well, due to the potential arbitrariness in the selection of the neighboring communes. More generally, it appears that properly conducting impact assessments of this type is not easy, and more effort should be put into conducting

Table 6.1: Impact of Irrigation Investments

Province the scheme is located in	Estimated impact (in percent)	
	Tay Ninh/ HCMC	Thanh Hoa
Scheme	Dau Tieng	Song Chu
Type of irrigation intervention	Improved water management	Improved water management and improved infrastructure
Cultivated area (square meters)	23*	1
Cropping intensity (crops per year)	5*	7*
Rice yield (tons per hectare per season)	34*	6
Rice value (VND per hectare per season)	32*	4
Total material inputs ('000 VND per hectare)	-47	-31
Total own and hired labor ('000 VND per hectare)	-53*	-49*
Net profit margin (000 VND per hectare)	91	97
Total farm income (000 VND)	37*	59*
Total non-farm income (000 VND)	25*	-26*
Total income ('000 VND)	31*	-7

Note: Asterisks indicate statistically significant effect.
Source: Mekong Economics Ltd., Vu Thieu & Janaiah Aldas (2003).

baseline surveys at the start of investment projects.

With these caveats in mind, it appears that the interventions have led to increased rice yield, with the impact being much larger under improved water management. These yields were achieved with significantly less labor inputs. Improved reliability of water supply to the fields through the gravity scheme probably led to a large reduction in farm labor needed for manual irrigation. Less material inputs were used as well, but the impact was not statistically significant. Total farm income increased substantially, but in Thanh Hoa this increase was offset by a decline in non-farm income. Overall, total household income increased significantly in the Tay Ninh-Ho Chi Minh City scheme, but not in Thanh Hoa.

Rural Public Spending

As most of the poor live in rural areas, rural public spending can be expected to make a significant contribution to poverty alleviation. But recent research on China and India has shown that different kinds of rural public spending have widely different impacts on economic growth and poverty reduction (Shenggan Fan, Peter Hazell & Sukhadeo Thorat, 2000; Shenggan Fan, Linxiu Zhang & Xiabo Zhang, 2002). The same approach can be applied to data from Vietnam. The analysis uses data on national and regional public investment and recurrent expenditures over time to estimate a model of the rural economy, and infer from it the consequences of different kinds of public spending.

Three main relationships are considered when modeling the rural economy. First, the level of poverty is assumed to decline with growth in agricultural production and in non-farm employment, controlling for other factors. This relation is very much in the spirit of the statistical profile of the poor presented in Chapter 2. Second, agricultural production is supposed to depend on the inputs used, but also on the extent of agricultural research, the development of local infrastructure and the education level of the rural population. In economic jargon, this second relationship is nothing but a production function for the agricultural sector. Finally, non-farm employment is assumed to increase with agricultural production, with local infrastructure and with education. In economic jargon, this is a labor demand equation.

Once estimated, this model makes it possible to compute the direct and indirect poverty alleviation impact of, say, higher spending on agricultural research, or more rural roads, or more irrigation, or more education. Note that this higher spending is a combination of recurrent expenditures (for agricultural research and education) and capital expenditures (for roads and irrigation). From this perspective, the discussion of this model of the rural economy belongs in both this chapter of the report, on public investment and the previos one, on service delivery.

The estimates for the rural economy of Vietnam turn out to be quite plausible (Shenggan Fan, Pham Lan Huong & Trinh Quang Long, 2003). Table 6.2 shows the impact of spending of various kinds on agricultural production, measured in additional VND of output per VND spent. The figures in this table are only estimates, and they should not be interpreted literally. In particular, they do not imply that all rural investments in Vietnam have had the same kind of impact. Rather, they can be seen as rough benefit-to-cost ratios. From this perspective, it appears that agricultural research has the largest return. For every VND spent, output increases by almost 8 VND. Investing on rural roads has the second largest return with a benefit-to-cost ratio of 4.84. Spending on education also has a positive return, as for every VND spent an additional 2.66 VND of agricultural output would be generated. On the other hand, the benefit-to-cost ratio for irrigation investment is less than one, meaning that the additional output is not enough to cover the cost.

Table 6.2: Rural Public Spending and Agricultural Output

VND of output per VND spent	Agricultural research	Irrigation	Roads	Education
Northern Mountains		0.43	3.19	1.79
Red River Delta		0.55	6.17	2.46
North Central Coast		0.43	6.17	2.00
South Central Coast		0.39	2.83	1.63
Central Highlands		1.17	6.71	3.94
South East		0.97	2.34	1.68
Mekong Delta		1.13	7.86	5.47
Vietnam	7.91	0.67	4.82	2.66

Source: Sheggan Fan, Pham Lan Huong, and Trinh Quang Long (2003).

The regional disaggregation in Table 6.2 reveals that for most types of public spending, the Mekong Delta has the largest returns in terms of agricultural growth, followed by the Central Highlands. The lowest returns correspond to the Central Coast and the South East. But these results should not be taken at face value, as the database used to estimate the model has important limitations.

The estimated effects of rural public spending on poverty are summarized in Table 6.3. These effects are measured in numbers of poor people lifted out of poverty per billion VND spent. Again, these are crude estimates, and they should not be interpreted literally. The most important information they provide refers to the ranking of poverty alleviation impacts across different types of spending. From this perspective, investing on rural roads has the largest payoffs. For every billion VND spent, 270 people would be lifted out of poverty. The impact of spending on education ranks second, as for every billion VND spent, 47 people would escape poverty. Agricultural research also has a favorable impact on poverty reduction, but its overall effect is only one tenth of that of roads, and half that of education. Investment on irrigation has the

Table 6.3: Rural Public Spending and Poverty Reduction

People lifted out of poverty per billion VND spent	Agricultural research	Irrigation	Roads	Education
Northern Mountains		11.8	311.6	54.6
Red River Delta		7.0	278.8	34.8
North Central Coast		13.4	686.7	69.5
South Central Coast		11.7	302.2	54.4
Central Highlands		17.7	362.1	66.3
South East		8.5	73.1	16.5
Mekong Delta		10.1	248.6	54.1
Vietnam	27.0	10.6	270.6	46.8

Source: Shenggan Fan, Pham Lan Huong, and Trinh Quang Long (2003).

smallest poverty impact among all types of spending considered in the study.

Based on the estimated model of the rural economy, there is a large variation among regions in the terms of poverty alleviation effects of public spending. The North Central Coast appears to have the largest impacts from investments in roads and spending in education. According to the estimates, for every billion VND spent on rural roads, 687 people would be lifted out of poverty. This is equivalent of allocating 90 US dollars per poor person. Spending in the Central Coast and the Highlands also has quite high returns in terms of poverty reduction. The lowest poverty alleviation impact is in the Southeast. But again, these results have to be interpreted with caution due to the limitations of the underlying data.

7. SAFETY NETS

Vietnam has a series of programs which transfer resources to specific population groups. These programs do not aim at increasing the overall supply of basic services, although the resources might be tied to the use of those services. They do not aim at expanding infrastructure in general either, even if they may involve public investments in selected communes. What is common to these programs is that they explicitly favor or compensate households or communes with specific characteristics. Some of these programs have a deliberate poverty alleviation objective. Household-level benefits under the Hunger Eradication and Poverty Reduction (HEPR) program and commune-level investments under the so-called Program 135 fall into this category. Other transfers aim at mitigating adverse shocks, even if the beneficiaries are not poor to begin with. This is the case of compensation for job loss, paid for by the Social Safety Net Fund for redundant SOE workers. Two main questions arise with transfer programs of this sort. The first one is whether they reach the intended population, or rather other, less-needy groups. In the jargon of program evaluation, this question is related to the "coverage" and "leakage" of the transfers. The second question is whether the programs actually make a difference. In principle, at least, transfers from the Government could simply displace transfers from relatives, or induce households to work less, in which case household expenditures would not change much. The purpose of this chapter is to assess the main safety nets programs currently in operation in Vietnam.

Household Benefits under HEPR

The program nowadays known as HEPR originated in the early 1990s, from local initiatives and various sectoral efforts by the central government. But it was formally set up only in 1998, due to impediments in clarifying its institutional structure. HEPR provides a nation-wide framework to coordinate and integrate efforts of various sectors at different levels. Some of its benefits are targeted to poor households and others to poor communes. Among the former are the provision of "poor household certificates" and "health insurance cards". Both of these give some entitlement to free medical treatment in government hospitals and clinics. A different component of the HEPR program provides partial or full exemptions to school fees, and yet another provides access to subsidized loans. Lists of beneficiaries are drawn up for each component of the HEPR program. For instance, the guidelines for support with health costs go beyond those with poor-household certificates, as they also include everybody resident in a commune covered by Program 135, and all ethnic minority people.

The allocation of poor-household certificates is based on decisions made by local commune and village officials using (in principle, at least) the method to target the poor developed by MOLISA. According to this method, households are considered poor if their income per capita is lower than 150,000 VND per month in urban areas, 100,000 VND in rural areas, and 80,000 VND in mountainous and remote areas. In practice, however, relatively few households are surveyed to measure their incomes. The identification of beneficiaries for the exemption of education fees or the distribution of health care cards is actually based on a more participatory method.

Each commune includes several units, or *thon* for short, regrouping from a few dozen to more than a hundred households each (see Box 7.1). Assemblies at the *thon* level actually debate, and even sometimes vote, on the poverty status of their participants, so as to allocate whichever benefits are available.

While some consideration is given in these assemblies to the income benchmarks used by MOLISA, the first-hand knowledge neighbors have of each other is often a more important consideration. The PPAs suggest that the actual mechanism used by local officials to allocate benefits is genuinely oriented towards the identification of the poorest households. This was also the mechanism that was used to allocate agricultural land, and there is evidence that such allocation was indeed pro-poor (see Chapter 3). However, the PPAs also reveal some systematic biases. In many *thon*, unregistered migrants belonging to the KT3 and KT4 categories (see Chapter 2) are excluded from the allocation of benefits, regardless of their poverty status. In addition, households who are considered "non-deserving" because they do not work hard enough are excluded as well.

Box 7.1: The *Thon* and the Village Chief

Formally, the institutional organization of Vietnam is such that the lowest level of Government is the commune. In practice, however, many decisions are made at level of the village. This lowest institutional unit is known as *lang* or *thon* in the North, often referred to as *ap* in the South, and also called *ban* by ethnic minority people. For simplicity it is identified as *thon* in this report. Allocation of benefits from targeted programs such as HEPR, and to some extent choices related to small-scale investment grants, like those provided by Program 135, are decided at the *thon* level. Moreover, the *thon* is increasingly perceived as the natural venue for the development of grassroots democracy.

Traditionally, the *thon* is a nuclear unit established on the base of a developed clan, originating from an individual or a family who claimed a waste land area and settled in it long ago. Over time, many *thon* were combined into a commune, and as a result the number of villages in a commune considerably varied from region to region. Under the colonial regime, the *thon* was the lowest level of the administrative hierarchy. But while it was formally replaced by the commune since 1945 (in the North) or 1975 (in the rest of the country), the *thon* remained at the center of the commune's life, organizing itself by following traditional arrangements. In this respect, two lines of institutional power have been simultaneously ruling the communes' everyday life: government rule and traditional customs.

The village chief and his or her aides are a key bridge between the *thon* and commune authorities. The village chief is in principle elected by popular vote. In 30 to 40 percent of the *thon*, reportedly, the village chief is not the Party cell secretary.

Typical activities of a village chief include collecting taxes, mobilizing villagers to participate in socio-cultural movements, and introducing and explaining laws and policies to villagers. On the other hand, as an elected figure, the village chief represents the *thon* at the commune level, defending the interests of the villagers when necessary. At present, a village chief receives an average monthly stipend of between 20 to 100 thousand VND, in cash or in kind, mostly contributed by villagers. The actual allowance varies from region to region, but it is becoming increasingly unattractive as earnings increase. In many cases, village chiefs work for their *thon* on voluntary basis in response to the respect and trust they get from villagers. But this reciprocity scheme could easily unravel as the population becomes increasingly urban and the *thon* become subsumed in the cities.

Source: Ho Chi Minh National Political Academy (2001).

Whether the MOLISA method, if applied by the book, or the more ad hoc process actually followed at the *thon* level, are successful in identifying poor households will be discussed in Chapter 10. Here the focus is on the poverty status of those who get specific benefits, including exemption of education fees, health care cards or access to credit. In practice, the actual list of beneficiaries depends not only on the classification of households, however decided, but also, very critically, on the funding available. The benefits that can be distributed at the *thon* level, under the form of school fee exemptions or health care cards, are seldom commensurate with the number of poor households.

The 2002 VHLSS questionnaire asks whether the household has access to each of the components of the HEPR program. Since the expenditure level of the household is known, it is possible to establish how many of the beneficiaries are poor (based on the GSO definition) and how many of the poor actually get the benefits. This is done in the first four data rows of Table 7.1 for the poor-household certificates, health care cards, subsidized credit, and the exemption of school fees (Cuong Viet Nguyen, 2003). For other components, the number of beneficiaries in the 2002 VHLSS sample was too small to make any rigorous inference.

Three of the components of the HEPR program which are targeted to households are fairly effective in reaching the poor. Less than 30 percent of the households who get poor-household certificates, health care cards and access to subsidized credit can be classified as non-poor, based on the expenditure method used by GSO. These "leakage" rates are not high by international standards (David Coady, Margaret Grosh & John Hoddinott, 2002). However, the coverage rate of these three

Table 7.1: Access to Targeted Benefits in 2002

	Percent of households with/ who	Percent of beneficiaries who are			Percent of the poor who are beneficiaries		Distribution of beneficiaries by quintile				
		Non-poor	Poor	Food poor	Among all the poor	Among the food poor	Poorest	Near poorest	Middle	Near richest	Richest
Poor-household certificate	3.8	27.4	72.6	36.9	9.5	12.8	58.5	24.7	9.1	6.5	1.1
Health care card	4.0	28.6	71.4	42.0	9.9	15.5	57.8	20.8	13.6	4.6	3.3
Access to subsidized credit	2.2	25.1	74.9	37.9	5.8	7.1	60.2	20.4	13.7	4.4	1.3
Exemption of education fees	5.5	30.2	69.8	39.8	13.2	20.0	56.9	23.3	11.6	6.5	1.9
Live in Program 135 commune	14.8	44.8	55.2	30.1	28.2	41.0	43.5	22.6	15.1	13.6	5.3

Source: Cuong Viet Nguyen (2003).

components is low as well. In contrast, the education fee exemption program for poor households and ethnic minorities has a higher coverage rate. It reaches almost one seventh of all poor, and a fifth of the food-poor.

Commune Benefits under Program 135

Program 135 was created in 1998 and has since then being renamed and revamped several times. Benefits under Program 135 take the form of a series of grants to finance small-scale infrastructure investments, given to the supposedly most difficult and remote communes. The first grant was spread over the years 1998-2000, and amounted to a total of up to 760 billion VND. The selection of the communes benefiting from the program has been made through a process spreading over several stages and involving various criteria. Decisions on the allocation of the grant are made by the commune itself, from a pre-specified list of possible uses which includes building a local market, a commune road, a school or a commune health center, as well as connecting to the electricity grid. In 2001, a new phase of the program was set up under the name Program 147. And there is also Program 133, which does not have separated funding but provides a framework to coordinate sectoral and local HEPR-related efforts (see Box 7.2).

According to officials guidelines, households at the commune level are involved in planning and managing investments under Program 135. They are also consulted on the level of community contributions. The commune People's Committee (CPC), or the management board for Program 135, proposes a plan to the People's Council. The Fatherland front and other mass organizations disseminate information and consult the local population through village meetings. Originally it was foreseen that the CPC would have overall procurement and management responsibility for small-scale infrastructure works, with the financial management done through the commune's treasury account. However, in a majority of provinces involved in Program 135, such powers have not been delegated to the commune. As a consequence, the extent of local-level participation in planning and implementation has varied from place to place (Pham Van Hai as cited in World Bank & Partnership to Assist the Poorest Communes [PAC], 2003). Similarly, while the program guidelines indicate the need to establish commune-level Supervision

Box 7.2: Identifying Poor Communes

The identification of the most difficult and remote communes, which benefit from Program 135, was made based on a combination of criteria. These include: a poverty rate higher than 30 percent according to the MOLISA method, remoteness, altitude with respect to sea level, distance from the district center, and difficult conditions for production.

The list of communes was compiled from the bottom up, through a series of stages. In the first phase, between 1998 and 2000, 1715 communes were selected to participate in Program 135. One thousand of them were labeled as "the most difficult and remote", but it is not clear how this selection was made. By 2002 the list was expanded from 1715 to 1870 communes. In the second phase, under Program 147, the total number of beneficiaries increased to 2362 communes.

A separate list was compiled for Program 133. To be included in this list the commune must have at least 40 percent of the households classified as poor based on the MOLISA method. Communes which do not have basic infrastructure are also included in this list.

Source: Based on the corresponding decrees and regulations.

Boards, the powers given to these boards are often quite limited (World Bank & PAC, 2003).

Program 135 is funded on an annual basis, with resources transferred directly to communes, districts or implementing institutions according to approved investment plans. The coordination and integration of various HEPR efforts is mainly done through the annual planning process, particularly at the provincial level. This transforms the provincial authorities into key players, especially given that few communes are empowered yet to fully participate in the decision-making process, not to mention its management and evaluation.

The weakness of mechanisms for participation and oversight by the potential beneficiaries of the infrastructure works has resulted in numerous cases of resource misuse. At a popular level, program 135 is often referred to as "program 5-3-1", because of the considerable leakage of funds as resources are transferred from central to commune levels. Nonetheless, some provinces seem to have implemented the program successfully and have taken a more progressive approach towards delegation of authority to the local level. One such province is Tuyen Quang.

A thorough evaluation of HEPR, including Program 135, is underway. In waiting for its results, data from the 2002 VHLSS can be used to assess whether poorer households tend to live in communes targeted by Program 135. The results are shown in the last row of Table 7.1. It appears that 28 percent of all the poor in Vietnam (based on the expenditure method used by GSO) and 41 percent of the food-poor, live in communes benefiting from Program 135. This is a remarkably high coverage by international standards. But leakage is considerable too, as almost 45 percent of the beneficiary households are not poor.

The Impact of Targeted Programs

It is unfortunately too early to assess the impacts of Program 135, as most beneficiary communes are still in the process of making their choices or implementing the first phase of their investment program. But it is in principle possible to evaluate whether the household benefits provided by HEPR do make a difference. The evaluation reviewed here relies on a statistical method identifying, for each beneficiary of the program, the most similar non-beneficiary household (or "closest match" in the jargon). Data are from the 2002 VHLSS. The impact of HEPR benefits is estimated as the average difference in an outcome variable (say, school enrolment) between beneficiaries and their closest matches. The results are shown in Table 7.2.

Based on this approach, the exemption of education fees and other school contributions has a significant impact on school enrollment among the children of the beneficiaries. School attendance is roughly 11 percentage point higher than among similar households who do not receive the exemptions, and the difference is statistically significant. But note that the level of exemptions differs among communes. If only households who receive exemptions of more than 50 percent of education fees are considered, the increase in the enrolment rate is 16.5 percent. It also appears that beneficiary households have a lower level of education expenditures per pupil. At more than 200 thousand VND, the gap in expenditures is particularly large for households with children in upper secondary school.

Results are more mixed regarding other household benefits under HEPR. Reductions in health care payments can be obtained if the treated person has a health insurance card or a poor-household certificate. Access to health care cards and certificates appears to be associated with both more frequent use of hospital facilities and higher expenditures in health. Both results go in the expected direction. As discussed in Chapter 5, the increasingly higher cost of health is associated with increased self-treatment and lower health

Table 7.2: The Impact of HEPR Benefits

HEPR benefit	Household outcome	Level among beneficiaries	Level among similar households	Estimated impact
Health care card	Treatment in hospital (in percent of care sought)	28	26	2
	Health expenditures ('000 VND)	246	190	56
	Household per capita expenditure (000 VND)	530	460	70
Access to subsidized credit	Have a cow, buffalo or horse (percent)	35	26	8 *
	Household per capita expenditure (000 VND)	1744	1676	68
	Children's school enrollment (percent)	81	70	11 *
Exemption of education fees	Education expenditure per pupil (000 VND)	185	242	-57 *
	Household per capita expenditure (000 VND)	1842	1816	26

Note: Constructed using data from GSO. Estimates are based on propensity score matching, using closest match only. Results for exemption of education fees are for households with children of school age. Results for health care expenditures are only for households who sought health care. Statistically significant impacts are indicated with one asterisk.

Source: Cuong Viet Nguyen (2003).

expenditures. A program that succeeds in reducing the cost of treatment can be expected to lead to more frequent seeking of health care and thus a higher total expenditure on health care. However, both the higher utilization of hospital facilities and the higher spending on health are small in magnitude, and not significant in statistical terms.

At least two reasons can be advanced to explain the limited impact of health care cards. Based on the PPAs, the process of distributing the health care cards took place quite late in the year and was often patchy, an issue already discussed in Chapter 5. The other reason could be the level of the maximum exemption of health costs, sometimes set as low as 30,000 VND. This is a relatively minor amount compared to the non-treatment costs the poor have to incur, such as traveling costs and medicine. But it could also be that the actual operation of health care cards needs improvement.

The subsidized credit for program of HEPR provides loans without collateral to households which are classified as poor. While there is no visible impact of this program expenditure per capita, beneficiary households are more likely to have a cow, a buffalo or a horse.

Dealing with Adverse Shocks

While most of this report deals with how to lift out of poverty those who are currently poor, an equally important concern is how to prevent those who currently are not poor from falling into poverty. This concern was partially addressed when assessing

vulnerability, in Chapter 2. At that point the focus was on households who had limited assets and were likely to be affected by shocks such as natural disasters or illnesses.

Private transfers are an important mechanism to cope with adverse shocks of this sort. Income from remittances, usually money sent by family members working elsewhere, is common in Vietnam. In 2002, 80 percent of the population received at least some income of this sort, largely from domestic sources. Only 6 percent reported remittances from overseas. The average amount of domestic remittances per household in 2002 was VND 289,000, with the highest amount received in the South East (VND 479,000) followed by the Red River Delta (VND 335,000). Overseas remittances followed a similar pattern.

From a policy perspective, a focus on adverse shocks created by economic reforms is warranted. The policies needed to increase economic efficiency, hence to reduce poverty at an aggregate level, can sometimes have a dramatically adverse impact on the livelihoods of specific groups of the population. Put differently, economic restructuring creates winners and losers. If well designed, the gains far outweigh the losses. But protecting the well-being of the losers is an understandable concern. After all, if society as a whole prospers from restructuring, it should also be able to compensate those who stand to suffer from it.

At least three potential groups of losers from economic reforms can be identified in the case of Vietnam. First, the gradual liberalization of foreign trade could lead to job destruction in currently protected sectors of activity, and also affect the livelihood of suppliers to those sectors, including workers in cottage industries. Second, the restructuring of SOEs trading in agricultural commodities, such as coffee, could lead to a change in the supply contracts linking farmers to those SOEs. Those contracts currently have an insurance component embedded, as they stabilize prices in "bad" times. Getting the domestic prices of commodities closer to the international prices, which would be good for efficiency, could affect the livelihoods of rural households. And third, the process of restructuring and divesting SOEs is expected to lead to considerable labor retrenchment, given their considerable over-staffing. It is worth noting the considerable overlap between the first and the third groups of potential losers, as many of the enterprises operating in currently protected sectors are actually SOEs.

An assessment of the poverty and social impacts of trade liberalization on rural households has just been launched, and it is too early to report any results. But considerable analytical work went into predicting the social impacts of labor retrenchment in the SOE sector (see Patrick Belser & Martin Rama, 2001; Martin Rama, 2002). Partly based on that work, the Government set up a special Social Safety Net Fund for redundant SOE workers, run by the MOF. Workers who are either separated from their jobs or volunteer to leave are offered two months of basic salary per year of service, plus a training allowance equivalent to six months of salary, plus six months of salary to support their job seeking process, plus a lump-sum of 5 million VND. The design of this compensation package was aimed at minimizing the expected welfare loss of separated workers, with a special focus on women, as they are one of the groups who stand to lose more from retrenchment. The Social Safety Net Fund Fund has been in operation since mid-2002. It has assisted 14,500 separated workers from 374 SOEs, paying an average compensation package of 28.8 million VND. A tracer survey of 2,600 workers, randomly selected among those assisted by the Fund, was completed in the Summer of 2003. Its findings can be used to assess whether SOE restructuring could become a source of increased poverty in Vietnam (Nga Nguyet Nguyen & Martin Rama, 2003b).

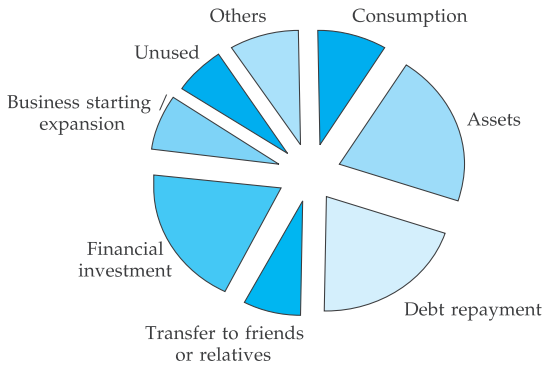
The survey reveals that separated workers

made a sound use of the relatively large amount of money they received. It is often feared that workers who are not used to investment decisions could simply waste their package, and be destitute some time down the road. Figure 7.1 dispels those fears. On average, only a minor fraction of the package was devoted to current consumption. Most of it was used for physical or financial investments, including housing, starting or expanding a household business, and repayment of debts. Moreover, the rates of return on these investments appear to be quite high: 10 percent per year for housing and other physical assets, 8 percent for financial placements, and 11 percent from reduced interest payments due to the cancellation of debts. At 33 percent per year, the rate of return on starting or expanding a household business appears to be extremely high. However, it is not strictly comparable to the other rates, as in this case the returns also result from the labor input of the household, and not just from the capital invested. Still, there is no evidence to think that compensation was wasted or grossly misallocated.

The findings of the tracer survey are also encouraging regarding the labor market insertion of separated SOE workers. Figure 7.2 shows their activity status in each of the nine months following separation. The activity rate gradually climbs to 60 percent, which is less than the average for the Vietnamese population, but is still quite high. More importantly, the share of the separated workers who remain unemployed declines over time. Among those employed, there is also a gradual change in the nature of the jobs. A fraction of the separated workers still had some contractual relationship with the public sector right after separation (probably related to their former SOE job), but that fraction almost vanishes after nine months. On the other hand, the fraction in self-employment increases steadily, as does the fraction working as salaried employees in the private sector.

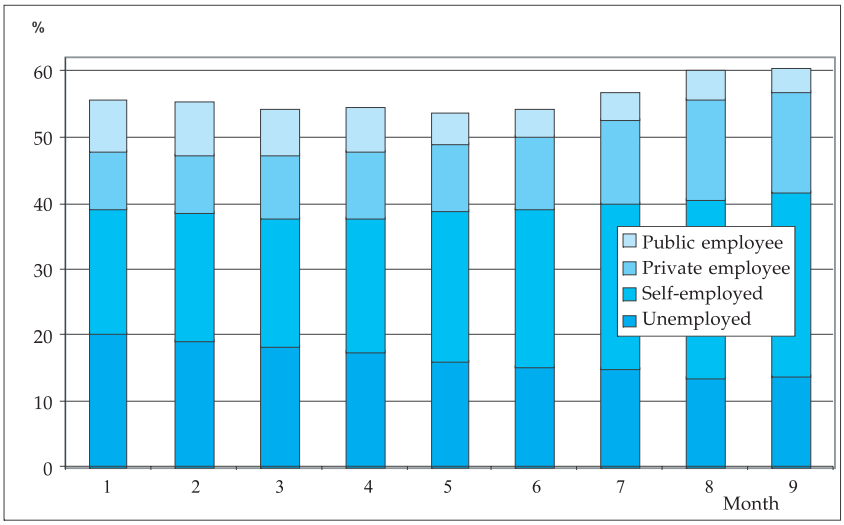
Last but not least, the tracer survey shows that separated SOE workers did not experience, on average, a decline in their well-being. "Before versus after" welfare comparisons have a very strong subjective dimension, which goes beyond returns on investments or employment status. The value attached to free time, or to the nature of the jobs found after separation, are very difficult to capture through a detailed questionnaire. Instead, the tracer survey asked separated SOE workers to do the comparison by themselves. The results are shown in Figure 7.3. More than two thirds of those interviewed consider that their well-being did not decline as a result of job

Figure 7.1: How Was the Compensation Package Used?



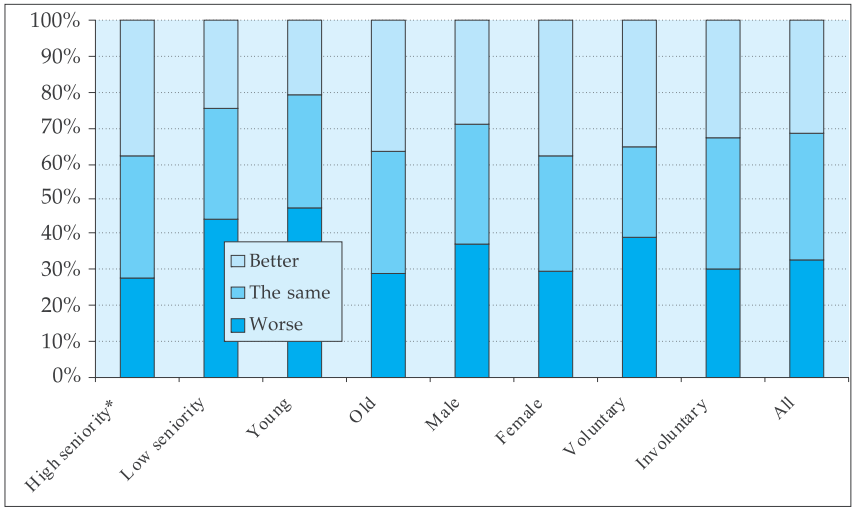
Source: Nga Nguyet Nguyen and Martin Rama (2003b).

Figure 7.2: Economic Activity after Job Separation



Source: Nga Nguyet Nguyen and Martin Rama (2003b).

Figure 7.3: Subjective Well-Being after Job Separation



Source: Nga Nguyet Nguyen and Martin Rama (2003b).

separation. Reassuringly, some of the most upbeat groups are those who, in principle, seemed more vulnerable to SOE restructuring. Women, those with more seniority and the old report the highest rate of satisfaction. Further analysis of the data from this tracer survey will try to uncover more systematic relationships between worker characteristics and the degree of satisfaction. Based on the findings it will be possible to make recommendations for further improvements of the Social Safety Net Fund.

III. TOWARDS A STRONGER POVERTY FOCUS IN PUBLIC POLICIES

8. IMPLEMENTING AND MONITORING CPRGS

Rapid, pro-poor growth was the key to the remarkable reduction in poverty experienced by Vietnam over the last decade. Growth can be expected to continue at a fast pace. However, some of the increase in output could be lost at a later stage if the need arises to rescue a financial system strained by non-performing loans (NPLs) to ailing SOEs. The experience of other countries in East Asia, not to mention Latin America, shows how damaging the impact of financial crises can be to the poor. Completing the transition to a market economy, and especially hardening the budget constraint faced by SOEs, is thus key for poverty reduction to be sustainable in the long run. But structural reform only may not be enough. In the absence of further efforts, growth cannot be expected to be as pro-poor as in the past. The distributive impact from land reform is fading away by now. The introduction of market forces in education and health, the trend towards increased decentralization and the widening regional disparities associated with the integration with the world economy, will all play in the direction of increased inequality. Keeping growth inclusive will require a substantial improvement of policies in the social sectors as well as progress in governance and transparency. The strategy to grow and reduce poverty is clearly charted by CPRGS. Implementing and monitoring that strategy is the main challenge now.

The Policy Reforms Ahead

At the risk of simplifying, the policy actions considered by CPRGS can be classified in three main groups. One set of actions aims at completing the transition to a market economy, fostering competition in the production of goods and services, and leveling the playing field between private enterprises and SOEs. A second set is focused on keeping development socially inclusive, and environmentally sustainable. The third group of policy actions is related to the building of modern governance, and covers areas such as public financial management, public administration reform (PAR) and legal reform. While this is a sensible approach to promote economic growth and poverty reduction, it also represents a tall order. Even when considering a relatively long time-horizon, success in the implementation of CPRGS cannot be taken for granted.

Because poverty analyses are grounded on a household perspective, they tend to focus on the policy reforms belonging to the last two groups of policy actions considered by CPRGS, and to neglect the more “structural” ones. Household surveys allow to assess how much households get in terms of education, health or sanitation, and also how much they pay for these services. PPAs emphasize dealings with local authorities and participation in decisions at the community level (or lack thereof). From this perspective, it is only natural to derive policy implications related to the social sectors, or to governance, while somewhat disregarding the structural area. And still, good policies in this area can foster economic growth and job creation, whereas bad policies can lead to financial crises and economic havoc. Something similar happens with infrastructure. The household perspective makes rural roads very “visible”, but sometimes leads to a neglect of policies related to large-scale infrastructure. This is despite the fact that rural roads need to connect to networks.

And also despite the fact that the resources wasted in "white elephants" can vastly exceed the budget of targeted poverty alleviation programs.

Before discussing in more detail the policy reforms that are needed in the social and governance areas to further reduce poverty, it is worth revisiting the structural reform agenda of Vietnam. Completing the transition to a market economy will require increased integration with the world economy, the restructuring or divestiture of numerous SOEs, a strengthening of the capacity of the financial sector to allocate credit on a sound basis, a hardening of the budget constraint faced by the SOE sector, and the establishment of a level playing field allowing the development of a vibrant domestic private sector. Accomplishments in some of these fronts are solid, and increasingly "locked in" through international agreements. But progress in others is slow, and could eventually jeopardize economic growth.

The policy area where structural reforms are most advanced is the integration with the world economy. By the end of the period covered by CPRGS, it is expected that the average tariff rate under the Effective Preferential Tariff Scheme will be about 9.3 percent. It is also expected that Vietnam will have completed all of its commitments under the ASEAN Free Trade Area, will have achieved the key milestones of the US BTA, and will be entitled to become a member of the WTO. Accession to the WTO will be key to foster competition in service sectors which are still dominated by General Corporations. It will also lead to a revamping of the legal framework. But it will not happen without comprehensive reforms, supported by a well thought-out integration roadmap. Making such a roadmap available, including a specific list of actions and a timetable for their implementation, is arguably the action with the highest priority in the reform agenda of Vietnam.

At the other end, reform is proceeding at a worryingly slow pace in the related areas of SOE reform and financial sector reform. Substantial progress is still needed regarding the divestiture of SOEs that do not play a strategic role, the hardening of the budget constraint faced by SOEs bound to remain in Government hands, and the close supervision of SOE debts and other financial indicators. The recently adopted strategy for divestiture rests on 104 separate SOE reform plans, issued by the line ministries, provinces and General Corporations, and approved by the Prime Minister. These plans identify enterprises by name, and indicate the date for their transformation. Over a three-year period about 2700 SOEs, out of roughly 5000, are bound to be equitized, sold, liquidated, merged, or converted into administrative units. However, because of the administrative complexity of the process, and the potential resistance of vested interests, abiding by these ambitious plans will be difficult. SOEs have also been requested to submit detailed financial information to authorized Government agencies on an annual basis, as part of an effort to monitor their performance. But how fast they will comply with this requirement remains to be seen.

One of the most difficult challenges in this process concerns the large stock of loans from State-Owned Commercial Banks (SOCBs) to SOEs which are not performing. Due to differences between Vietnamese and international accounting standards regarding loan classification, the true volume of NPLs remains controversial. A plan exists to restructure and re-capitalize the SOCBs. It extends until the end of the period covered by CPRGS. But the milestones of this plan are still relatively vague. Also, future progress towards the resolution of NPLs requires the development of an effective approach that could be implemented on a systematic basis over the coming years. An important step in this direction is the establishment of a central Debt and Assets Trading Company (DATC), primarily focused on the resolution on NPLs for which the Government has assumed responsibility. Links between the activities of the central DATC and the operational and financial restructuring of the concerned SOEs would

need to be firmly established, which is not the case so far. There is also a clear commitment to separate policy lending to SOE-dominated sectors such as sugar, from commercial lending. This commitment was reflected in the creation of VBSP (see Chapter 3) and the Development Assistance Fund (DAF). But these institutions still need a transparent legal framework to function in a prudent manner.

As for private sector development, the reform agenda in this area focuses on facilitating access to land, leveling the playing field, and further implementing the Enterprise Law. Encouragingly, the Government has drawn up an Action Plan to implement the Party resolutions on promoting private sector development and issued a decree to intensify the implementation of the Enterprise Law. Private sector access to land, through improving land-use planning and removing restrictions on allocating agricultural land for industrial activities, and allowing private enterprises to transfer land-use-right certificates, could have a major impact on private sector development. Also, enterprises in Vietnam currently operate under various legal and regulatory regimes. The reform program features the amendment of the Enterprise Law to cover all corporate sectors (foreign, private domestic and state-owned) accompanied by a clear timetable for compliance by large SOEs. Equal access to the significant market opportunities represented by the Government's PIP is another key element of the reform agenda.

Aligning Resources to Policies

More than a detailed list of policy actions, CPRGS represents a process, whereby clear development goals are spelled out, evidence and consultation are used to identify the most appropriate policies to attain those goals, and resources are aligned towards the implementation of the selected policies. The long-term objective of the reform program is to incorporate the CPRGS approach into planning process at all levels, in order to foster economic growth and accelerate poverty reduction.

To attain this objective, modern budget planning approaches will need to be established in key Government units, such as MOF, MPI and key sectoral ministries, including education, health, transport and rural development. In practice, MOF can be expected to consolidate its status as the leading agency in budget preparation, through the development of better partnership arrangements with MPI, line ministries and provinces. MTEFs should become part of each budget cycle, including economic classification and projections of expenditure aggregates by ministry or province. The establishment of sector-level MTEFs will be a vehicle for forward-looking expenditure planning and policy management in line ministries and provinces.

A measure of success will be the integration of capital and recurrent expenditures, leading to disaggregated expenditure plans which are consistent with a forward-looking fiscal framework, and including a modest number of indicative performance goals related to the CPRGS. Tangible improvements on financial accountability in the public sector will also be necessary. They should include increased transparency of the budget process and off-budget accounts, improved timeliness, reliability, consistency and accessibility of budget information, greater independence and improved effectiveness of the State Audit of Vietnam, and increased public access to audit reports.

The "expansion" of CPRGS in late 2003, under the form of a new chapter on large-scale infrastructure, is another encouraging development. It opens the prospect of rethinking public investment priorities from the perspective of economic growth and poverty reduction. Despite representing a claim on almost one fifth of Vietnam's GDP, the PIP remains basically a compilation of projects submitted by line ministries, provincial governments and General Corporations. The criteria used to select the projects to be undertaken, and the link between spending on investment and recurrent expenditures are weak at best.

The new chapter of the CPRGS offers the prospect of rethinking the PIP, and its place in the overall planning and budgeting process. Possible ways to strengthen it, so as to better align capital expenditures with growth and poverty reduction goals are reviewed in Box 8.1.

Box 8.1: Improving the Public Investment Program

At present, the PIP lacks a policy focus. This is in sharp contrast with the CPRGS approach, with is based on clearly spelling out development goals, combining empirical evidence with consultation to identify the policies that seem best suited to attain those goals, and aligning resources accordingly. To reconcile the project focus of the PIP with the strategic vision of CPRGS, improvements in several areas could be considered:

- *Master plans.* They are the backbone for infrastructure development, but their coordination is problematic at present. A regional perspective, integrating investments in transport, energy, irrigation, and water and sanitation, with appropriate land zoning and provision of social services to accommodate the ensuing economic and social transformations, would be welcome.
- *The role of the State.* Not all the development of infrastructure needs to be done by the State, or with public funds. Scarce resources should not be diverted towards investments that could be undertaken by the private sector. Even when State intervention is warranted, it might not involve direct funding, but rather rely on guarantees or on regulation (e.g. mandates for universal service).
- *Prioritization.* Investment projects of different types might have different impacts on economic growth and poverty reduction. Guidelines to assess those impacts, even if only crudely, could be issued. Projects proposed by ministries and provincial governments would then be classified based on those guidelines, making trade-offs (e.g. lower growth impact but higher poverty impact) explicit.
- *Funding.* At present, infrastructure projects can be financed in a variety of ways, including resources from ODA, the budget or the issuance of public debt. Clear criteria to identify the appropriate funding for projects of different types could be discussed. The appropriate extent of cost recovery, and the pricing policy for infrastructure services of different types, deserve consideration too.
- *Safeguards.* The implementation of large-scale infrastructure projects can have social and environmental implications. A review of current safeguards policies for resettlement would be welcome. Also, the introduction of environmental impact assessments for large projects would be an important step in the direction of environmental sustainability.
- *Implementation.* The implementation of some projects, especially those funded through ODA, is slow. It could be useful to review the reasons for the delays. Decentralized implementation of projects is likely to become more common. But it raises important coordination issues between central and provincial governments. Mechanisms to improve that coordination should be discussed.
- *Maintenance.* One of the main weaknesses of the current PIP is the disconnect between capital expenditures and recurrent expenditures. The integration of these two components of State spending would be a key step towards improved planning. Fully taking into account the maintenance implications of infrastructure projects would be a step in the right direction.
- *Services.* In some key areas, the provision of infrastructure services is as important for efficiency as the physical infrastructure itself. Inefficiencies in the operation of port services, or bus stations, can be as damaging as poor facilities. The regulation of competition and pricing in the provision of infrastructure services might need to be considered as part of the overall approach to large-scale infrastructure.
- *Information.* The PIP involves a few hundred very large projects. It is technically feasible to have a live database of these projects, allowing the monitoring of their implementation as well as the empirical evaluation of their impacts at sectoral and provincial levels. A proper information system could be seen as part of the broader move towards evidence-based policy making.

Spelling Out Development Goals

Evidence-based policy making has sometimes been hampered by lack of consensus on the appropriate indicators to set targets and to benchmark progress. However, Vietnam has made remarkable efforts in this respect over the last few years. In addition to poverty and inequality indicators, it has also succeeded in quantifying other measures of social and economic progress, sometimes at sub-national levels. Two outstanding examples are the provincial Human Development Index (HDI) and the VDGs. The starting point is, in both cases, an approach that has been endorsed at the international level: the HDI computed by UNDP across countries over several decades now, and the MDGs adopted by the international community in 2000. But in both cases there was a very deliberate effort to adapt that approach to the circumstances of Vietnam. These localized indicators provide a valuable tool to identify the appropriate policies to implement, and to measure progress accomplished towards attaining their objectives.

The HDI combines GDP per capita, life expectancy, and adult literacy (see Chapter 1). This index can be interpreted as a measure of deprivation across a variety of areas, ranging from material well-being to the ability to fully engage in social life. Progress in raising the HDI over time can be seen as an indicator of success in the implementation of the reform agenda.

The estimated level of the HDI across Vietnamese provinces is shown in Figure 8.1. It appears in this figure that the regions with the highest index are the Red River Delta, the South East, and Khanh Hoa province. At the other end, the lowest index corresponds to the Northern Mountains and the Central Highlands. In this respect, there is a similarity with rankings based on poverty rates. This similarity is highlighted by Figure 8.2, which shows the relationship between the two indicators across the 61 provinces of Vietnam (the poverty rates in this figure are computed based on the household expenditure method). But there are differences as well. Some provinces have a much higher HDI than their poverty rates would lead to expect. Hanoi is a case in point. At the other end, provinces such as Lai Chau and Ha Giang display a even lower HDI than their very high poverty rates would suggest.

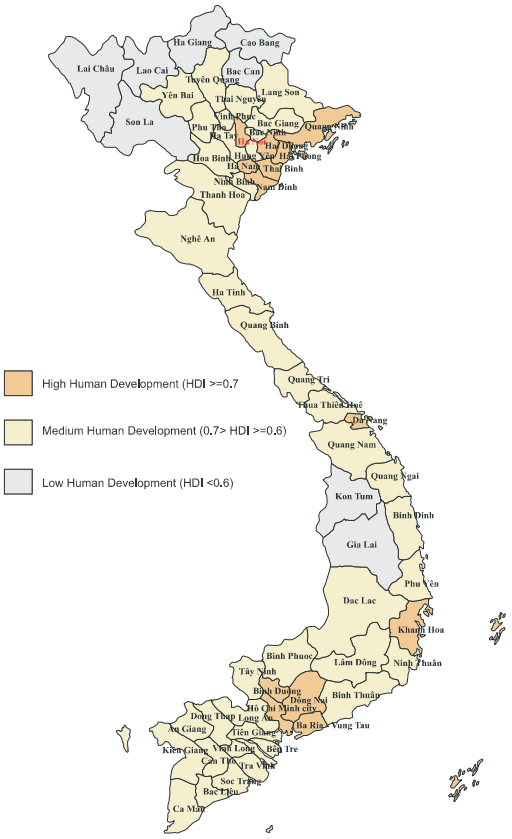
As for the VDGs, some of them are directly based on the MDGs endorsed by the international community, while others are specific to Vietnam. And in all cases, the targets associated with each of the VDGs are tailored to the circumstances of the country. In all, there are 11 goals with 32 targets and 136 indicators. A very brief summary of the VDGs can be found in Table 8.1. This table also reports the available indicators on each of the targets, thus allowing to measure the progress accomplished over time. However, the blanks in the table highlight the difficulty in transforming development goals into clearly spelled-out indicators. This is, more generally, the difficulty when it comes to implementing and monitoring a reform program as comprehensive and ambitious as the one embodied in CPRGS.

Indicators for CPRGS Monitoring

The approval of the CPRGS in 2002 has set a platform for strengthening the monitoring and evaluation system in Vietnam. There is a clear change in the perception of the importance of reliable data for policy making, and this is reflected in several ways. Self-reporting is increasingly complemented by assessments based on administrative records or survey data. The CPRGS has a comprehensive list of monitoring indicators covering a wide range of social, poverty and governance indicators, in addition to indicators of macroeconomic performance.

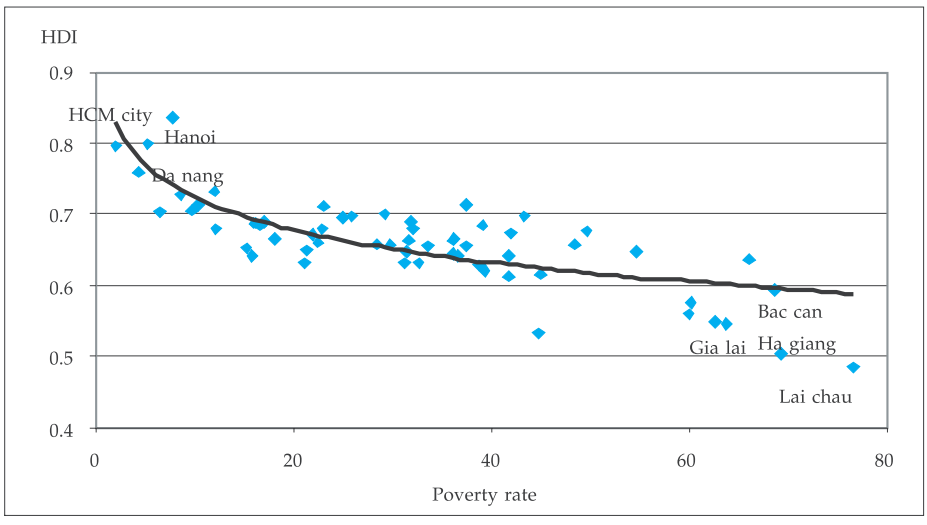
Strengthening this monitoring and evaluation system, and developing an appropriate set of indicators is an important task ahead. The so-called Inter-Ministerial

Figure 8.1: The Human Development Index in 2001



Source: NCSSH (2001).

Figure 8.2: Human Development Index and Poverty



Source: Constructed using data from GSO and from NCSSH (2001).

Table 8.1: The Vietnam Development Goals

Goals and targets directly based on the MDGs	Indicators	
Goal 1: Reduce the percentage of poor and hungry households	1998	2002
Target 1: Reduce by 40 percent the proportion of people living below the internationally accepted poverty line by 2010	37.4	28.9
Target 2: Reduce by 75 percent the proportion of people living under the internationally accepted food poverty line by 2010	15.0	10.9
Goal 2: Universalize education and improve education quality	1998	2002
Target 1: Increase the net enrolment in primary school to 97 percent in 2005 and to 99 percent in 2010	91.4	90.1
Target 2: Increase net enrolment rate in junior secondary school to 80 percent in 2005 and 90 percent by 2010	61.7	72.1
Target 3: Eliminate the gender gap in primary and secondary education by 2005, and the gap with ethnic minorities in 2010	99 88.2	99 86.8
Target 4: Increase the literacy rate to 95 percent of under-40-year-old women by 2005 and 100 percent by 2010	93.2	94.3
Target 5: By 2010 improve the quality of education and increase full-day schooling at primary level	n.a.	n.a.
Goal 3: Ensure gender equality and women empowerment	1992	2002
Target 1: Increase the percentage of women in elective bodies at all levels.	18	27
Target 2: Increase the participation of women in ministries, central agencies and enterprises at all levels by 3 to 5 percent in the next 10 years.	n.a.	n.a.
Target 3: Ensure that the names of both husband and wife appear on all land-use right certificates by 2005	n.a.	2.5
Target 4: Reduce the vulnerability of women to domestic violence.	n.a.	n.a.
Goal 4: Reduce child mortality, child malnutrition and the birth rate	1998	2002
Target 1: Reduce the infant mortality rate to 30 per 1000 live births by 2005 and 25 by 2010 and at a more rapid rate in disadvantaged regions	36.7	31
Target 2: Reduce the under-5 mortality rate to 36 per 1000 live births by 2005 and 32 by 2010	48.4	38
Target 3: Reduce under five malnutrition to 25 percent by 2005 and 20 percent by 2010	37	30
Goal 5: Improve maternal health	1998	2002
Target 1: Reduce the maternal mortality rate to 80 per 100,000 live births by 2005 and 70 by 2010	200	165

(continued)

Table 8.1: The Vietnam Development Goals (continued)

Goal 6: Reduce HIV/AIDS infection and other major diseases	1998	2002
Target 1: Slow the increase in the spread of HIV/AIDS by 2005 and halve the rate of increase by 2010.	12,500	70,000
Goal 7: Ensure environmental sustainability	**1998**	**2002**
Target 1: Extend forest cover to 43 percent by 2010 (from 33 percent in 1999)	30	36 (2000)
Target 2: Ensure that 60 percent of the rural population (80 percent of urban population) has access to clean and safe water by 2005 and 85 percent in 2010.	48	56
Target 3: Ensure there are no slums and temporary houses in all towns and cities by 2010	13.6%	12.2%
Target 4: Ensure that all waste-water in towns and cities is treated by 2010	n.a.	n.a.
Target 5: Ensure that all solid waste is collected and disposed of safely in all towns and cities by 2010	n.a.	15%
Target 6: Air and water pollution must attain national standards by 2005	59% (1999)	64% (2001)
Goals and targets not directly based on the MDGs	**Indicators**	
Goal 8: Reduce vulnerability	**1998**	**2002**
Target 1: Increase the average income of the lowest expenditure quintile to 140 percent of that in 2000 and 190 percent in 2010	29% (1993-98)	8.9% (1998-02)
Target 2: Reduce by half the rate of poor people falling back into poverty due to natural disasters and other risks by 2010	n.a.	n.a.
Goal 9: Improve governance for poverty reduction	**1998**	**2002**
Target 1: Effectively implement grass-roots democracy	n.a.	n.a.
Target 2: Ensure budget transparency	n.a.	n.a.
Target 3: Implement legal reform agenda		
Goal 10: Reduce ethnic inequality	**1998**	**2002**
Target 1: Preserve and develop the reading and writing ability of ethnic languages (literacy rates of ethnic minorities aged 15-24)	n.a.	n.a.
Target 2: Ensure entitlement of individual and collective land-use rights for a large percentage of the population in ethnic minority and mountainous areas	n.a.	n.a.
Target 3: Increase the participation of ethnic minority people in authority bodies at various levels	n.a.	n.a.
Goal 11: Ensure pro-poor infrastructure development	**1998**	**2002**
Target 1: Provide basic infrastructure to 80 percent of poor communes by 2005 and 100 percent by 2010	n.a.	n.a.

Note: This table summarizes a fuller set of VDGs outlined in the CPRGS; n.a. means not available.
Source: Based on Socialist Republic of Vietnam (2002), United Nations Country Team (forthcoming) and GSO data.

Working Group, GSO and other related agencies and line ministries are in charge of it. With a long-term view, an effective monitoring and evaluation system should serve not only to assess progress in implementing CPRGS, but also in implementing Government plans and strategies at all levels. Incorporating the CPRGS goals, targets and indicators into local and sector plans is underway, as an important component in the process of rolling out CPRGS to sub-national levels (see Chapter 9). However, this does not mean to simply take all goals, targets, and indicators from the CPRGS and insert them into local plans. Given capacity constraints, being selective will be key to minimize the burden on local staff.

Identifying an appropriate system of indicators is needed at three levels: central, sectioral and local. At the central level, GSO is taking the lead, in collaboration with other ministries and Government agencies, to conduct an assessment of existing monitoring and evaluation systems, data sources, methodologies and indicators. The objective is to identify a well-defined set of variables, with a timetable for their production and a frequency for the monitoring task. At the sectoral and local levels, an appropriate system of indicators still needs to be developed. The criteria to decide what makes an "appropriate" indicator have been subject to debate at all levels. The current consensus is that the selected indicators need to be adapted to the specific context and be simple.

In May 2003, the National Assembly passed a revision to the National Statistics Law, which governs the GSO. The new law puts strong emphasis on data reliability and transparency, as well as on public access to information. A strategy for collecting high-quality household living standard data has been adopted, and GSO is designing similar strategies for enterprise surveys and other data collection endeavors. Further efforts are needed to ensure that more relevant and better-quality data are collected and made available. Access to data is limited at present, even for Vietnamese researchers and Government officers.

More generally, the institutional infrastructure and human resources needed to put in place a comprehensive and reliable set of indicators, tracking resource mobilization, allocation decisions and development outcomes, are not available yet. There is also a need to clearly determine which Government agencies should gather which data, especially in relation to governance. A pilot of the CPRGS data gathering exercise in the provinces and workshops involving GSO national and provincial offices revealed significant variation in the capacity of local statistical offices to collect and process data.

More attention should also be paid to institutionalizing consultation and participation mechanisms at all levels. One possibility would be to build on the work undertaken in the PPAs and the community-level consultations to develop a participatory monitoring methodology in chosen sites around Vietnam. It would be equally important to further develop the capacity to conduct regular assessments of the poverty situation and to evaluate the impact of public policies and programs.

9. ROLLING OUT CPRGS TO THE PROVINCES

The availability of high-quality information on the extent and determinants of poverty at sub-national levels will become increasingly important to policy makers due to the gradual decentralization of decision authority to provinces, districts and communes. In addition to statistical indicators like those mentioned in the previous Chapter, planning and budgeting processes need to take into account the specificities of poverty in each particular region. Understanding regional specificities is key for the success of the recently launched process to "roll out" CPRGS to the provinces. This process entails identifying policy goals that are appropriate in each context, defining appropriate monitoring indicators to measure progress in the attainment of those goals, and aligning policies and resources accordingly. The RPAs that complement this report will hopefully represent an important input in the process of rolling out CPRGS to the provinces. While it is beyond the scope of this report to convey the wealth of information accumulated in each of them, this chapter briefly summarizes what appear to be the distinctive features of poverty in each of the regions of Vietnam.

Localized Goals for Planning

Following CPRGS approval, initial steps have been taken to implement the strategy at all levels: national, sectoral, and provincial. Because the strategy is so encompassing, it is necessary to prioritize the activities to be included in each annual plan. At the national level, guidance is provided by the CPRGS Policy Matrix, implying that efforts can be focused on sequencing policy actions and monitoring their impact (see Chapter 8). But there is clearly more that needs to be done at the sectoral and provincial levels. All line ministries will have to incorporate sectoral components of the national CPRGS into their plans. The trend towards increased decentralization in Vietnam, makes the allocation of resources key to the improvement of service delivery. A plan has been put in place to develop MTEFs in sectors that play a direct role in reducing poverty and keeping development inclusive: education, health, agriculture and transport. These MTEFs should lead to a better integration of capital and current expenditures, with a forward-looking perspective. They are part of a broader effort to improve transparency and efficiency in the management of the budget.

In a country as decentralized as Vietnam, resources from the central budget only represent a fraction (sometimes minor) of total public expenditure at the local level. While CPRGS sets national objectives, policy making at the provincial level needs to take into account the local dimensions of economic growth and poverty reduction. Such alignment of planning and budgeting processes to localized development targets is still new to many local officials, who are not yet used to the idea of decision making based on evidence and consultation. A major effort is thus needed to roll-out CPRGS to the provinces. Several activities already been undertaken in this respect. Workshops involving policy makers from all 61 provinces were organized during the Spring of 2003 to discuss the CPRGS approach. In parallel, seven RPAs which complement this report are being finalized and will be released in early 2004. The

discussions, and the new information emerging from the RPAs, are expected to inform the preparation of the next provincial budgets.

More will be needed, however, for the CPRGS approach to become a reality at the provincial level. The current goal of MPI is to accomplish this transformation by 2008. For this goal to be attained, about a dozen provinces should go through this transformation every year. MOF, in turn, will support the development of provincial MTEFs, starting with four provinces in 2004. Coordinating these efforts will be essential for the success of the roll out process. This is an area where the donor community could play a very important role, supporting every year a dozen provinces as they go through this transformation. This would not necessarily require the development of a "provincial CPRGS". It would rather imply the adoption of a comprehensive approach, going from a lucid analysis of the provincial situation, to the setting of a vision, the identification of development targets, the formulation of policies, the corresponding allocation of resources, the monitoring and evaluation of results, and the systematic use of feedback from consultation with the population. The first step in this approach is to understand what is specific about poverty at the local level.

Northern Mountains

Enormous poverty reduction gains have been made in the Northern Mountains over the last decade. The fraction of the population living in poverty has come down from 82 percent in 1993 to 44 percent in 2002. The PPAs confirm the trend towards reduced poverty and enhanced food security. However, there has been less progress in the North West (which includes the provinces of Hoa Binh, Son La and Lai Chau) where the poverty rate stands at 68 percent. This sparsely populated area, comprising only about 2.8 million people, mostly from ethnic minorities, is thus the poorest one in Vietnam.

Like in most other regions, the majority of the population in the Northern Mountains depends on their own farms for their livelihood. But household survey data from GSO show that rural income sources are more diverse than in any of the other regions, even among the poorest groups (IFPRI & JBIC, 2003). Farmers increasingly grow crops for the market, such as maize, cassava, tea and litchi; staple crops such as rice have become less important (Table 9.1). The PPA discussions in Lao Cai revealed that crop diversification is partly driven by high demand from the lowlands and from China. Other reported causes of diversification were increased access to subsidized inputs, improved infrastructure, and better education and health conditions.

Rural households in this region often hold considerable amounts of forest land; on average, 0.6 hectares in the North East, and 0.3 hectares in the North West. Still, forestry contributes only 8 percent of total rural income (IFPRI & JBIC, 2003) and farmers

Table 9.1: Allocation of Crop Area in the Rural Northern Mountains

Crop	1993	1998	2002
Rice	53	49	44
Maize	17	13	26
Cassava	7	7	9
Tea	1	1	7
Litchi, longan, rambuttan	1	2	3

Source : IFPRI & JBIC (2003).

claim to have benefited very little from forestry land allocation and tree plantation efforts such as Program 327. On the other hand, villagers report increasing soil erosion and land slides caused by the cultivation of annual crops on sloping land. This trend highlights the need to help farmers access agro-forestry technologies allowing them to intensify land use while at the same time conserving the soil. The growing markets for wood also suggest that there are opportunities to create village tree nurseries and support tree-growing initiatives at the local level.

Red River Delta

Poverty in the Red River Delta has also fallen extremely rapidly in the last decade. While the proportion of the overall Vietnamese population living in poverty was halved between 1993 and 2002, poverty in the provinces around Hanoi in the Red River Delta fell by nearly two thirds. Hunger has fallen even more dramatically. In 2002 approximately 5 percent of the population of the Red River Delta had expenditures below the food poverty line, compared to nearly one quarter of the population ten years ago. Households interviewed during the PPAs in Ha Tay and Hai Duong Provinces confirmed this reduction in hunger, reporting striking improvements in food security over recent years.

The main force behind this dramatic reduction in poverty has been the rise in off-farm activities. In 1998, roughly two thirds of household heads were working on their own farm (Table 9.2). Four years later, the proportion had fallen to 40 percent. At the same time there was a near-doubling of the fraction reporting wage employment as their main activity and an increase by about half of the fraction primarily engaged in household non-farm enterprises.

In the PPAs, people described the importance of unskilled jobs to their improved welfare. In a District close to Hanoi, interviewees explained that most families would have some members day-labouring in Hanoi, typically in construction, where they would earn between VND 8,000 to 20,000 per day. They also emphasized the role played by off-farm self-employment and household enterprises. Petty trading, food processing and services were mentioned as important sources of household income, and were often described as being responsible for a family's escape from poverty. The PPA teams also noticed differences between the villages included in the research. Proximity to Hanoi and to main roads were important in determining the access to off- farm income sources.

Another motivator of positive change was the presence in the villages of retired officials and well-connected people, who brought with them knowledge, information and contacts. But this was also seen as one of the causes behind the increased inequality observed in the region. In the PPAs, one woman noted how better-off families were well-placed to take maximum

Table 9.2: Main Job of Household Heads in the Red River Delta

	Red River Delta		Vietnam	
Share in total employment (percent)	1998	2002	1998	2002
Wage employment	16	32	19	29
Own farm	64	41	63	47
Own household non-farm business	20	27	18	24

Source: GSO.

advantage of the new opportunities that had opened up over recent years: "*yes, I have not seen people getting poorer. But some people have become dramatically richer. If our income increased by one or two blocks, the rich would have increased their income tenfold*."

North Central Coast

Although poverty has come down in the North Central Coast, this is one of the regions where progress has been much slower than at the national level. Recently, poverty has been falling by the equivalent of one percent of the population every year, compared to two percent nationally. With 44 percent of the population classified as poor based on their expenditures, poverty in the North Central Coast is now as prevalent as in the Northern Mountains taken altogether.

The educational attainment of the population stands in stark contrast with such a high prevalence of poverty. The proportion of people who have completed lower secondary school is 6 percent higher than the national figure. The proportion who have not completed any education is 6 percent lower. And even the ethnic minorities are better educated. About 55 percent of the ethnic minority people in the North Central Coast have some education, compared to 39 percent of all ethnic minority people in Vietnam (Table 9.3).

How come, then, that people in the North Central Coast have not been able to obtain higher returns on their higher educational assets? The answer is related to another key asset for the poor, namely land. While the size of annual cropland held by households in this region is about the same as in the rest of Vietnam, the rural population of the North Central Coast has a much smaller size of perennial cropland than any other region. Only 0.03 hectares on average, compared to 0.3 hectares of forestry land. It thus appears that the persistence of poverty is related to the inability to turn forestry land into more productive uses. One reason that emerged from earlier discussions with the poor is that local State Forest Enterprises often give strong land-use directions to local farmers, and these directions are not always based on a good analysis of market opportunities (Plan in Vietnam, 2002).

South Central Coast

The poverty statistics and social indicators of the South Central Coast have generally been better than the national average. This remains true even if the city of Danang is excluded, as the rural poverty rate (31 percent) is also below the national average (36 percent). At 42 percent, the proportion of the population that depends mainly on farm household production is also lower than in Vietnam as a whole, where it stands

Table 9.3: Educational Attainment in the North Central Coast in 2002

	North Central Coast			Vietnam		
In percent of the population	All	Kinh and Chinese	Ethnic minorities	All	Kinh and Chinese	Ethnic minorities
Not completed any education	33.5	32.6	45	39.1	35.9	61
Completed primary school	26.0	25.2	36	27.0	27.4	24
Completed lower secondary	26.9	27.9	15	20.5	22.0	11
Completed upper secondary	8.6	8.9	4	7.9	8.6	3
Has vocational education	3.2	3.4	0.8	3.1	3.4	1.3
Has college or university	1.9	2.0	0.4	2.5	2.6	0.5

Source: GSO.

at 47 percent. And those households who stayed in farm production have made considerable progress in integrating into the market. In 2002, 73 percent of total farm production in the South Central Coast was sold, compared to 39 percent in 1993. This progress has been achieved despite the fact that this region is frequently affected by natural disasters such as droughts and floods.

Progress can be at least partially explained as the result of better infrastructure. During the PPA discussions, villagers mentioned that access to roads and electricity had improved, and more schools had been built. However, these discussions also revealed the problems this region faces. Some of them are related to difficult physical conditions and improper management of natural resources. An example is the relatively low access to clean drinking water in this region: 32 percent compared to 48.5 percent for all of Vietnam. Many people also believe that there is a need for more small-scale irrigation systems to raise farm productivity, especially during the dry season (Vietnam Solutions Co. & ADB, 2003).

Aquaculture has expanded rapidly in this region, and in many coastal villages the Government's off-shore fishing program has helped to reduce poverty. However, participants of the PPA discussions in these coastal areas were concerned about the rapid increase in the number of fishing vessels and the use of destructive fishing methods.

Another challenge for further poverty reduction is the small and decreasing size of farms. Of all regions, the South Central Coast has the smallest amount of land per household after the Red River Delta. Sizes of perennial land are among the lowest in the country, while the amount of forestry land per household has dropped dramatically, in particular for the poorest population. Poor people in fact reported that the area under forest cover is increasing, but that they now have less access to the forest land. They claimed that they had not been able to participate in the process of allocating forest land and that they were now excluded from areas that were previously common property.

Central Highlands

Taken together, the four provinces in the Central Highlands now have the highest incidence of poverty of any region in the country. In 2002, more than half the population in this region was living in poverty, and 30 percent had expenditures below the food poverty line. While the fraction of the poor was declining everywhere else, there was almost no improvement in the Central Highlands over the last four years. Moreover, poverty has a strong ethnic dimension in this region, which accounts for almost a fifth of Vietnam's ethnic minority population. Four out of five of the ethnic minority people in the Central Highlands live in poverty, and the fraction has slightly increased since 1998. Other social indicators are a source of concern too. Enrolment rates at all levels of education are below the average for rural areas nationwide, and child nutrition and reproductive health outcomes also lag behind national averages.

Farmers in the Central Highlands invested heavily in coffee over the mid to late 1990s and the subsequent fall in coffee prices left many of them struggling. (Table 9.4). About 40 percent of households in the central highlands have coffee trees. This proportion does not vary across the population, except for the richest fifth who was much less involved in coffee tree growing. The number of trees planted, on the other hand, varies substantially. Coffee farmers in the poorest population quintile have 6500 trees on average. Those in the second-richest quintile have nearly double this number. Net income from coffee sales is equivalent to 72 percent of total household expenditures for coffee-farming households in the lowest quintile and 87 percent of total household expenditures for the second-poorest quintile.

Table 9.4: Coffee Farming in the Central Highlands in 2002

	Expenditure quintile					
	Poorest	Near poorest	Middle	Near richest	Richest	Central Highlands
Households growing coffee (in percent)	38	43	40	44	24	39
Average number of trees per household	6539	9499	9184	12820	11487	8881
Net income from coffee (in percent of household expenditure)	73	87	73	90	54	78

Source: Based on data from GSO.

The PPA in Dak Lak records the vulnerability of poor farmers to movements in the price of coffee and documents the absence of substantive assistance in developing more diversified livelihood strategies. Exposure to fluctuating commodity price movements was described as an important factor behind indebtedness, distress land sales and regression into poverty or hunger following relative prosperity (Box 9.1).

Development efforts in the Central Highlands have also been complicated by population movements. The region has become an important destination for migrants since 1975, with the population of Dak Lak increasing from 35,000 people to more than 2 million in 2003. According to provincial statistical authorities, sixty percent of them are migrants. This influx has been associated with pressure on natural resources. The Dak Lak PPA indicates that one million hectares of forest land have been converted to other uses (especially coffee) since 1975. It also reports many complaints on how land use has been determined, how boundaries has been established, and how land allocation has been administered. The PPA also

Box 9.1: The Impact of Falling Coffee Prices on Smallholder Farmers

Mr. An, at 27-year old from the Tay ethnic minority, settled in the village 7C of Ea'Hiao commune in 1996. As a poor migrant, he could only afford to buy some small pieces of land, totaling 5,000 square meters in area. Life in his native place, in the remoteness of Cao Bang province in the Northern Mountains, was much harder. Though having to work hard to establish himself in the new village, he was happy to be able to produce enough food for his family.

In late 1996, coffee prices in the market started climbing and reached more than 20,000 VND per kilogram. Most villagers, including Mr An, decided to invest in the coffee sector. He borrowed more than 5 million VND for the necessary inputs. Unfortunately, by the time his coffee was ready to sell, three years later, coffee prices had dropped to 7,000 VND. They eventually reached less than 5,000 VND in 2001. He is now in debt and unable to afford enough food for his family. He has had to sell one piece of land to partly repay an outstanding loan. He described himself as becoming worse off. His was not a unique case. Several households in the village went through the same experience.

Source: ActionAid Vietnam & ADB (2003).

describes a process whereby migrants have bought up some of the most fertile and valuable land from the indigenous population, who have subsequently retreated into more marginal areas. There has been a number of land conflicts between indigenous groups and more recent migrants, and between migrants and the forestry enterprises.

South East

The South East region includes the rapidly growing provinces of Dong Nai and Binh Duong and the country's largest urban agglomeration, Ho Chi Minh City. This region has consistently had poverty levels below the national average. The share of the population living in poverty in 2002 was 11 percent, compared to 29 percent for Vietnam as a whole. Success in poverty reduction has been associated with a very strong growth performance. Recorded levels of urban poverty are extremely low: only 3 percent of the population has expenditures below the poverty line. At 18 percent, rural poverty is much higher. Some predominantly rural provinces in this region show high levels of deprivation. Ninh Thuan province, for example, ranks 52nd out of the 61 provinces in terms of the Human Development Index. Such a diversity of fortunes within the region is reflected in the measures of inequality, which are the highest in the country (see Chapter 1).

Migration into the South East has been significant. A survey of workers in 150 textile and garment factories showed that nearly 70 percent of those in Binh Duong had migrated from other provinces. It also showed that the migrant workers in Binh Duong, Dong Nai and Ho Chi Minh City originated from a total of 36 different provinces (Nguyen Thang, 2001). The PPAs confirm that people from all around the country, even those living far away from this region, see Binh Duong, Dong Nai, Ho Chi Minh City and Ba Ria-Vung Tau as the preferred destinations for job seeking. The 2002 VHLSS suggests that about one third of all people moving between provinces over the last year have chosen this region as their destination (see Chapter 2).

Though urban poverty levels are reportedly low, the PPA in Ho Chi Minh City and a range of other studies of marginalized urban residents suggest that the urban poor subsist with unstable livelihoods, high levels of vulnerability to household shocks such as ill health or accidents and constrained access to quality social services. The absence of some migrant groups from the sample in household surveys raises the possibility that urban poverty could be underreported. It will become increasingly important for areas that receive large numbers of migrants to have access to reliable data for planning, budgeting and policy-making purposes that reflect the reality of population movements and to track the situation of the most vulnerable groups.

People living in the South East rely on wage earnings more than those in any other region. Nearly 50 percent of employment is wage employment, well ahead of the 30 percent national average. The PPA shows that poor people generally view wage employment as an escape route from poverty and the trends in the South East confirm the importance of jobs to poverty reduction. The shift into dependence is not without risks, however, and issues associated with conditions of work remain important in regions experiencing rapid economic growth. At the same time, several large enterprises (especially in this region) are adopting voluntary codes of conduct leading to improved conditions of work (MOLISA, 2003).

Success in reducing poverty through enterprise development and job creation should not overshadow the challenges of rural development for the significant numbers of people who remain dependent

on agricultural incomes. The South East includes some of the driest provinces in the country, where rural incomes are very fragile and pockets of extreme poverty are not uncommon. The Ninh Thuan PPA showed that the rapid economic growth of the region as a whole was not yet generating significant benefits for those dependent on poor-quality land for a living. Relevant and well-resourced extension services, and improved access to markets, were seen as key to poverty reduction by PPA interviewees.

Mekong River Delta

This is the only major region in the country that has seen poverty come down faster in recent years than during the early 1990s. Between 1998 and 2002, the fraction of the population classified as poor declined by 3.4 percentage points per year, compared to the national annual average of 2 percentage points. As a consequence, the poverty rate in the Mekong Delta is now 23.4 percent, much lower than for Vietnam as a whole. Real per capita expenditure grew particularly fast in rural areas, and is now a quarter higher than four years ago. Quite remarkably, the rural poverty rate in the Mekong Delta is now the same as in the Red River Delta.

Several reasons for such rapid progress emerged from the PPA discussions:

- Improvements in transport facilities (roads and bridges) and other infrastructure (classrooms, electricity, dykes and irrigation facilities).
- General economic development in Ho Chi Minh City and Binh Duong, providing work opportunities for young people who then send remittances home.
- Fewer natural disasters (in fact, the damage caused by typhoon Linda, which struck the region in 1997, could explain the relatively high poverty rate estimated based on the 1998 VLSS).
- Improved access to rural credit, especially for better-off groups.
- Relatively stable prices of important cash crops such as rice.

Progress is also likely to be related to the high degree of commercialization of agriculture. In this region, 85 percent of farm population is sold compared to 70 percent nationally.

Important problems remain, however. The Mekong River Delta has the largest proportion of population which has not completed primary school. At 52 percent, this proportion is lower than four years ago (it was 61 percent then) but still strikingly high. Only 5 percent of the poor in the region report an educational attainment above primary school, compared to 20 percent at the national level. Low levels of education could be one reason why enterprise registration numbers and FDI levels are below the national average, creating few off-farm employment opportunities for the poor (AusAID, 2003a). Jobs in the industrial centers of the South East are an alternative, and remittances from family members working there are important, although they still account for less than 8 percent of the expenditures of the bottom two quintiles of the population.

Landlessness is another increasingly important problem. In 2002, 29 percent of the population of the region had no land, but the proportion was 39 percent among the poorest quintile. Landless people are dependent on working for wages, but this is more difficult in a region where off-farm employment has not picked up yet. Data from the 2002 VHLSS show that wage employment is the main source of income for a third of the population in the Mekong Delta (more than in any other region except the South East), but local wages are usually low and work is highly seasonal. During the PPA discussions in Dong Thap people

complained that they only had stable employment for 110 to 150 days per year, with their average income being about VND 70,000 and 90,000 per month.

Fishing and aquaculture have considerably contributed to poverty reduction in the Mekong River Delta. It is estimated that income from these activities amounts to roughly 10 percent of household expenditures in the region (UNDP & AusAID, 2003). However, natural fish stocks in some areas have been exhausted due to irresponsible and destructive fishing methods. Also, uncontrolled expansion of tiger prawn raising, which requires brackish water, has led to frequent salinity problems in surrounding areas.

10. IMPROVING TARGETING MECHANISMS

Vietnam's spectacular success in reducing poverty took place in the absence of a mechanism to measure poverty or target the poor based on international standards. The distribution of agricultural land to rural households in the early 1990s, a process eminently vulnerable to capture by local elites, was remarkably egalitarian. The delivery of social services to the poor was also effective, as shown by the fact that Vietnam's social indicators are substantially above those of other countries at a similar development level. Yet, the very idea of identifying the poor based on reliable expenditure or income data has not been fully endorsed at all levels of government yet. It remains largely extraneous to local authorities. Keeping growth pro-poor in the new phase of development Vietnam is entering will require an improvement in measurement and targeting methods. Progress in decentralization will increasingly need budget transfers from rich to poor provinces, hence a reliable way to measure poverty at the provincial level. The ever-growing role of market forces and out-of-pocket payments in the social sectors will make school fee exemptions and health care cards essential to the well-being of the poor. Making sure that the neediest communes receive the resources to cover the cost of these benefits also requires reliable poverty measurement methods. Last but not least, an effective mechanism to identify the poorest households within each commune is necessary for the local allocation of benefits such as school fee exemptions and health care cards at the local levels. At present, a variety of methods to measure poverty (and, on occasion, to target the poor) coexist in Vietnam. They rank from household expenditure surveys to poverty maps to the local classification that takes place at the level of each village, or *thon*. Lack of consensus on their merits and demerits could become an obstacle to further poverty reduction. This chapter compares the performance of the methods used in Vietnam and makes specific recommendations to improve targeting mechanisms building on existing institutions and practices.

Current Targeting Methods

The methods used to measure poverty and target the poor which have been used at one point or another in Vietnam can be classified in the following categories: 1) household expenditure, 2) poverty mapping, 3) income-based, 4) local classification, 5) self-reporting and 6) wealth ranking. The main features of these methods are described below.

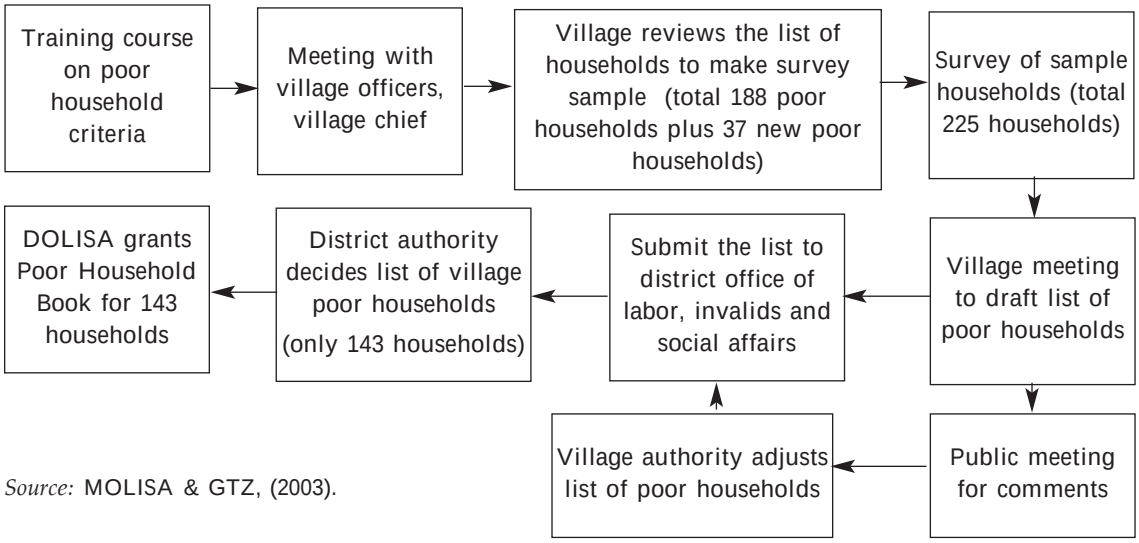
Household expenditure. This method has been extensively used in this report and more details about it can be found in Chapter 1. It relies on household expenditure surveys such as the 1993 and 1998 VLSS, or the 2002 VHLSS. These surveys contain detailed information on households' expenditures. This information can be used to generate a poverty line, measuring the level of expenditure per capita that is necessary to secure an intake of 2100 calories per day, given the way households allocate their spending between food and non-food items. Households whose expenditure per capita is lower than the poverty line are counted as poor. Poverty rates are computed as the fraction of the population whose expenditure level

is below the poverty line. The main limitation of this method is that household expenditure surveys are expensive, implying that their samples are small, and poverty estimates subject to error. With the 1993 and 1998 VLSS, it was not possible to compute reliable poverty rates at sub-national levels. The 2002 VHLSS allows us to compute reliable rates at the regional level and, possibly, at the provincial level. But the household expenditure method cannot be used at the district level, not to mention communes or households.

Poverty mapping This method combines the depth of household surveys with the wide coverage of population censuses. Household surveys like the VHLSS gather information not only on household expenditures but also on a range of other variables, such as the size and composition of the household, the educational attainment of its members, their occupations, their assets, and so on and so forth. Population censuses, on the other hand, do not ask about expenditures, but do include information on many of the variables listed above. The poverty mapping method links these two statistical tools through three main steps. The first one involves identifying a set of variables which are common to a detailed household survey and a more-or-less contemporaneous population census. Second, a statistical analysis is conducted to assess the relationship between the level of expenditures per capita and this common set of variables. The third step uses the findings from this statistical analysis to "predict" the expenditure level of each of the households covered by the population census. This predicted expenditure can then be used to assess whether the household is poor. In this respect, poverty mapping is still part of the expenditure method, but it is based on predicted rather actual household expenditures. The poverty mapping method makes it possible to compute poverty rates at disaggregated levels, as the fraction of the households covered by the census who are poor in each province, district or even commune. But this method is not perfect either, as predicted expenditures can only be estimated with errors.

Income-based. A strict application of the methodology developed by MOLISA to measure poverty would fall into this category. In principle, the MOLISA methodology relies on a survey including questions on assets and on income from a variety of sources. Income over all these sources is added up, divided by the household size, and compared to one of three poverty lines, depending on the where the commune is located. In urban areas, the poverty line is currently 150,000 VND per month. It falls to 100,000 VND in rural lowland areas, and to 80,000 VND in mountain and remote areas, as well as in distant islands. Households with a monthly income per capita below 50,000 VND are labeled as "hungry" in all areas. Poverty rates can be obtained by counting the fraction of the population below the poverty line in a commune, district or province. This methodology has been criticized, for two main reasons. At a conceptual level, the income benchmarks used to classify a household as poor in different types of communes appear to be quite arbitrary, and not necessary comparable. An urban household with an income of 150,000 VND per person per month could be poorer or richer than a household with an income of 80,000 VND per person living in remote or mountainous areas. At a practical level, however, the MOLISA methodology is not applied consistently across localities. (Figure 10.1 describes the process followed in one village in Quang Tri province). Typically, only a fraction of households are surveyed: those who already have a poor-household certificate and a few others who are deemed to be close to poverty. The results of the survey are often ignored by local authorities when they have to allocate benefits such as school fee exemptions or health care cards. And these authorities usually "set" the poverty rate without giving much consideration to the MOLISA method, much in the spirit of the targets set

Figure 10.1: Indentifying Poor Households in Linh Thuong Village



Source: MOLISA & GTZ, (2003).

under central planning. The example of Nam Trung commune, in the Red River Delta, is revealing. PPA participants explained that in 2003, their village was allowed to have 6 poor households, and those who were nominated were indeed among the poorest. But the community would have proposed a list of 25 percent of households in the village who would meet the criterion of earning less than VND 100,000 per person per month.

Local classification. The main strength of what MOLISA does at the local level could actually result from the fact that is does not follow its income-based method by the book. As described in Chapter 7, the key to the targeting of poor households and the allocation of benefits at the local level is, in practice, the operation of a customary institution: the *thon*. Each commune includes several villages, here identified for brevity as *thon* despite the fact that they can have different names in different parts of the country. Each *thon* is led by a village chief who is often elected and tends to carry respect among his or her peers. Village chiefs' main task is to know the situation of the households in their *thon*. While this knowledge also serves control purposes, such as identifying newcomers and reporting suspicious activities, it also includes the targeting of poor households for the allocation of whichever benefits are available. Each *thon* thus compiles a list of "poor" and "hungry" households, with the latter being a sub-set of the former. This list is updated once or twice a year, when benefits such as education fee exemptions fees and health care cards are distributed. Households who are perceived as not poor may not participate in these assemblies, as they are unlikely to receive any benefit. Quite often, resources available do not allow to allocate the benefits to all those classified as poor. Discussions thus focus on who should be entitled to the benefits, and involve subjective assessments by other households more than income figures. MOLISA's income-based methodology tends to be considered only when failing to reach consensus on whether this or that particular household should get the marginal benefit. As an illustration, Box 10.1 describes the process followed, using "village judgment", to identify poor households in the PPA research sites in Ninh Thuan province. A potential weakness of the local classification methodology is its lack of a rigorous protocol to pinpoint poor households. Whether the discussions at the village level actually succeed at identifying

Box 10.1: Issuing Poor Household Certificates in Ninh Tuan Province

The process of household ranking, for the purpose of listing and issuance of poor household certificates, is as follows:

Step 1: Under the guideline of the province, in August of every year the Labor and Social Division of the District categorizes households to issue the relief book set for the ensuing year. Social and Cultural Officers at the Communal Level disseminate this information to the village level.

Step 2: The Village Management Board names poor households for the list using "village judgment." Village authorities consider what households should be ranked as "below the poverty line" as well as those who should be listed as new poor.

Step 3: The Village Management Board holds a public opinion meeting. It is normal for a few villagers to participate in this.

Step 4: The Village Management Board submits this plan to the Commune People's Committee. A civil servant in charge of social issues reviews the contested cases.

Step 5: The Commune People's Committee submits the poverty list to the District People's Committee. District Authorities examine and revise the list pending sudden changes to the poverty status of certain households. After getting approval by DOLISA, the District issues poor household certificates.

The whole process often takes three to four months.

Source: CRP & World Bank (2003).

those who need the benefits the most is an open question. Another weakness is the systematic exclusion of some households from the classification. Those who are not considered hard-working, or socially responsible, seldom receive any benefit and may not even be listed as poor. This is despite the fact that exclusion from benefits might penalize their children, who cannot be blamed for the alcoholism or poor working habits of their parents. In Quang Tri, village officials explained that they would not grant certificates to those households known to be in debt (MOLISA & GTZ, 2003). Unregistered migrants are not entitled to benefits either, and generally do not participate in *thon* meetings (see Box 10.2).

Self-assessment. In this case, households are simply asked to declare their poverty status. No guidance is offered on the criteria on which this declaration should be based, thus ensuring that it is entirely subjective. While respondents should know about their income, expenditures, or vulnerability more than anyone else, their response is unlikely to involve a common poverty line or benchmark. Of all the methods considered, this is the most sensitive to the relative position of the household in a commune. Of two identical households, one located in a poor commune and the other one in a rich commune, the latter should be more inclined to declare itself poor than the former. And it is clear that the subjective well-being of the latter is likely to be lower too. Therefore, the self-assessment method cannot be dismissed on the grounds that it includes a dose of subjectivity, because that dose clearly establishes a link with welfare, and poverty measurement basically aims at quantifying household welfare. One weakness of this methodology is its inability to produce comparable poverty rates across communes, districts or provinces. An even more important problem is its vulnerability to manipulation by respondents. If benefits

were provided to those who declare themselves poor, there would be a strong incentive for everybody to do so. Therefore, self-assessment is a useful research tool, but not an effective mechanism to measure poverty or target the poor.

Wealth-ranking. This methodology, most often used in the context of PPAs, involves a collective judgment on the status of all households in a community. In Vietnam, the community typically overlaps with a *thon*. A substantial fraction of the households in the community gather to rank, or more often to classify, all the households in it. In the PPAs undertaken for this report, participants were selected to as to include a balance of men and women, young and old, and poor and non-poor. Representatives from local authorities, often including the village chief, participated as well. Social workers from NGOs or local research institutions who are familiar with the commune and the main issues affecting the livelihoods of the households in it served as facilitators. The classification of households was typically preceded by a group discussion aimed at identifying the characteristics of the poor. Subsequently, cards with the names of all the households in the *thon* were distributed to all participants, who were then requested to classify them in a series of groups. In the final stage, the case of households classified differently by at least two participants were discussed by the entire group. The discussion aimed at understanding the reasons for the discrepancy and at seeking consensus regarding the appropriate classification in

Box 10.2: The Local Classification and Unregistered Migrants

The foremost criterion for being categorized as a poor household is low income. However, the PPAs revealed departures with respect to MOLISA's income-based methodology when deciding the income threshold to be considered poor. In a rural district like Binh Chanh, in Ho Chi Minh City, the benchmark was 2.5 million VND per year. In the urban District 8, also in Ho Chi Minh City, it was set at 3 million VND. Moreover, low income is only a necessary condition. To be eligible, household members must be capable and industrious, and not be involved in alcoholism, gambling, or drugs. Migrants are considered eligible if they have bought a house, obtained KT3 status, and have stable employment.

Consider the case of Mr. Mai Ni, 53, and Mrs. Nguyen Thi Lap, 50, who moved from Binh Dinh province to settle in Luong Son commune, Ninh Thuan Province, 10 years ago. They came with their three children and, using money from the sale of their land in their home village, they bought a piece of land of 15 meters in frontage along the national road. In 2002 their business went bad and their children became sick. They had to sell this piece of land to buy a smaller piece at the edge of the village, at a lower price.

For ten years, Mr. Mai Ni and his family have lived in Luong Son Commune as law abiding citizens. Registered as temporary residents, they contributed to all local funds. However, they are not officially registered as permanent residents. As a result, they are not allowed to join such mass organizations as the local Farmers' Association or Women's Union. Their youngest child was born in Luong Son Commune but they had to go back to their village in Binh Dinh Province to register her birth. They have to pay full fees for her primary education. They do not receive any emergency relief in the event of drought or flood. Further, they are not eligible for subsidized loans. In early July, 2003, their thatched-roofed house was completely destroyed by a violent whirlwind. When the PPA team came to interview the family, they were using 3 sheets of canvas to form a tent as a shelter. They do not have enough money for another house.

Source: SCUK and Poverty Task Force (2003); CRP & World Bank (2003).

each case. Wealth-ranking exercises are thus more comprehensive than methods based on expenditures or income only, and more objective than self-assessments and classification by local authorities. One important shortcoming of wealth-ranking exercises is of course their cost.

An Assessment across 39 Communes

By combining detailed analysis of household survey data with PPAs conducted over dozens of communes scattered across the entire country, this report provided an opportunity to evaluate the methods described above.

Wealth-ranking exercises were conducted in all PPA sites, following a common methodological framework. These exercises led to a classification of all households in one or two *thon* in each of 47 communes. Hoseholds were classified into one of three main categories: poor, average and better-off. In several opportunities there was further disaggregation within each of these categories, and in a few cases all households were literally ranked, from richest to poorest. Special attention was devoted to including unregistered migrants in the wealth ranking exercises. Subsequently, a random sample of all households in the *thon* was drawn, leading to a follow up survey which could be successfully completed in 39 of the 47 communes. A total of 942 households participated in the follow-up survey. Those households were asked whether they had been classified as poor by local authorities, and whether they perceived themselves as poor. They were also asked about their income, defined in the same terms as in the MOLISA questionnaire. Finally, the survey gathered data on the household characteristics used to construct the poverty map of Vietnam described in Chapter 1. A statistical analysis of the 2002 VHLSS allowed to assess the current relationship between those characteristics and the level of expenditures per capita, hence to "predict" those expenditures for all the households included in the follow-up survey.

The only method that could not be directly applied was the one based on the measurement of actual household expenditures. This is despite the fact that the PPAs were designed so as to maximize the overlap between their research sites and the communes covered by the 2002 VHLSS. In the end, 25 of the communes included in the PPA were VHLSS communes. However, the confidentiality of 2002 VHLSS data makes it impossible to match the respondent households to those participating in the wealth-ranking exercises, or in the follow-up surveys. Therefore, the household expenditure method cannot be used to evaluate the poverty status of the 942 households considered in the analysis this paper. It can be used, however, to estimate the poverty headcount in 25 out of the 39 communes included in the analysis.

The benchmark against which alternative methods were compared was the classification of households by poverty status resulting from the wealth-ranking exercises. Admittedly, the six methods considered focus on different dimensions of poverty, and the mere idea that any one of them is "better" than the others is questionable. From this perspective, a comparison across methods would tell whether they yield different results, not which one should be used in practice for poverty measurement and targeting purposes. However, with the exception of wealth-ranking exercises, some of the methods considered have obvious shortcomings or are still untested. Actual data on household expenditures were not available for any of the 942 households included in the comparison. Self-perception is intrinsically subjective, which limits the possibility to meaningfully make inter-personal comparisons, and it is also subject to manipulation. The reliability of poverty mapping at a very "low" levels of geographical disaggregation, such as a *thon*, is controversial at best. As for MOLISA's income-based and local classification, they certainly have the potential to identify poor households, but whether they succeed in doing so needs to be assessed in practice.

By comparison, wealth-ranking exercises, while not being perfect, combine households' self-perceptions with assessment by peers, and are conducted under guidance from social workers with a trajectory working in the field, using a common framework across all communes. It can therefore be argued that wealth-ranking provide the best poverty "metric", and use them as the reference to assess all other methods.

In this respect, and all proportions respected, the approach in this chapter can be seen as an attempt to scale up the Palanpur experiment. Palanpur is a village in Northern India where statistical analysis was combined with first-hand knowledge about almost all households to gain a better understanding of the determinants and dynamics of poverty (Peter Lanjouw and Nicholas Stern, 1989, 1991). This first-hand knowledge, gained through researchers living for months in the village over several years, was used to assess the quality of the standard statistical analyses used to measure poverty. The depth of the knowledge gained by the researchers who lived in Palanpur is, of course, difficult to match. But the NGOs and research institutes involved in the PPAs in Vietnam were chosen because of their familiarity with local conditions. And a significant effort was devoted to ensuring that they all used the same methodological approach, including in their wealth-ranking exercise components (Carolyn Turk, 2003).

Identifying the Poor in a Commune

The poverty status of each of the 942 households covered by the follow-up survey conducted after the PPAs could be assessed based on five methods: poverty mapping, income-based, local classification, self-assessment and wealth ranking. The extent to which the five resulting assessments yield similar results is shown in Table 10.1. This table reports the correlation coefficients between poverty classifications across households. A correlation close to zero between any two methods indicates that they yield radically different classifications. A correlation close to one means that they yield almost identical results.

According to Table 10.1, the method whose outcomes are most closely correlated to those from wealth ranking exercises is the self-assessment of the poverty status. But as mentioned before, this method is useful for research purposes only. If it were actually relied upon to allocate benefits it would almost certainly be manipulated by respondents so as to access those benefits. The second highest correlation with wealth ranking corresponds to the local classification. Thus, the current practice of local officials at the *thon* level is effective

Table 10.1: Correlation between Poverty Classifications at the Household Level

	Poverty mapping	Income-based	Local classification	Self-assessment	Wealth ranking
Poverty mapping	1				
Income-based	0.455 *	1			
Local classification	0.285 *	0.314 *	1		
Self-assessment	0.320 *	0.433 *	0.591 *	1	
Wealth ranking	0.290 *	0.376 *	0.604 *	0.630 *	1

Note: Correlations in this table refer to poverty status, which is equal to one if the household is classified as poor and equal to zero otherwise. An asterisk is used to denote that the correlation coefficient is significant at the 5 percent level.

Source: Nga Nguyet Nguyen and Martin Rama (2003a).

at identifying the poor. It must be noted, however, that the correlation is quite far from one. The exclusion of unregistered migrants and non-deserving households (those whose heads are alcoholic, or gamblers, or lazy...) could partially account for a less-than-perfect correlation with the classification resulting from wealth ranking exercises.

At the other end, the lowest correlation coefficient is with poverty mapping. This result is not surprising. While controversy surrounds the use of poverty mapping at very disaggregated levels, such as a district or a commune, nobody has ever advocated its use at the household level. A strict application of the MOLISA's income-based method also yields a classification of households which bears little relationship with that resulting from wealth ranking exercises. The correlation is even lower lower between MOLISA's income-based method and the local classification. And this is despite the fact that the latter is in principle based on the former. Which confirms that one of the main virtues of the income-based method is that it is not actually applied by the book by local authorities.

Measuring Poverty in a Commune

By counting the fraction of the population classified as poor in each case, it is possible to compute poverty rates at the commune level with each of the five methods considered in the previous section. In addition, for 25 of the communes, it is also possible to compute poverty rates based on the household expenditure data collected by the 2002 VHLSS. Admittedly, poverty rates based on the household expenditure method are in the end computed on a very small number of households. About 10 households per commune on average, compared to about 24 households per commune with the five other methods. Still, a comparison of the poverty rates obtained with all six methods is informative. Table 10.2 reports the correlation coefficients between the rates obtained with any two methods. As before, a coefficient close to one indicates a very strong similarity of the poverty rates, and a coefficient close to zero a very strong dissimilarity.

The poverty rates most similar to those derived from wealth ranking exercises are those based on local classifications and self-assessments. As already mentioned, the latter method is subject to manipulation when used for resource allocation, as opposed to research. Local classification is not, as long as it is used to allocate a given amount of resources among the population. But it would become subject to manipulation if this amount of resources were dependent on the outcome of the classification. There would then be an incentive for households in a *thon*, and to

Table 10.2: Correlation between Poverty Rates at the Commune Level

	Household expenditures	Poverty mapping	Income-based	Local classification	Self-assessment	Wealth ranking
Household expenditures	1					
Poverty mapping	0.607 *	1				
Income-based	0.406 *	0.643 *	1			
Local classification	0.403 *	0.415 *	0.215	1		
Self-assessment	0.378	0.708 *	0.605 *	0.573 *	1	
Wealth ranking	0.462 *	0.532 *	0.280	0.777 *	0.618 *	1

Note: Correlations refer to poverty rates measured at the commune level. An asterisk is used to denote that the correlation coefficient is significant at the 5 percent level.

Source: Nga Nguyet Nguyen and Martin Rama (2003a).

local authorities, to over-state poverty in order to secure a higher transfer of resources.

The next highest correlation coefficient is for poverty mapping. The coefficient is not overwhelmingly high, which means that poverty mapping yields imperfect results at such low level of disaggregation as the *thon*. But it is still higher than the alternatives. And it is much higher than the correlation coefficient with MOLISA's income-based method, when the latter is applied by the book. MOLISA's method proves so unreliable that the correlation coefficients between the poverty rates it yields and both those resulting from wealth ranking exercises and from local classifications are not even statistically significant. This means that a zero correlation between MOLISA's poverty rates and those derived from those other two methods cannot be ruled out. But this a criticism of what MOLISA says it does, not of what it actually does. As mentioned at the beginning of this section, the actual classification of households conducted at the *thon* level, with the involvement of MOLISA's local officials, is the one which yields the highest correlation with poverty rates resulting from wealth ranking exercises.

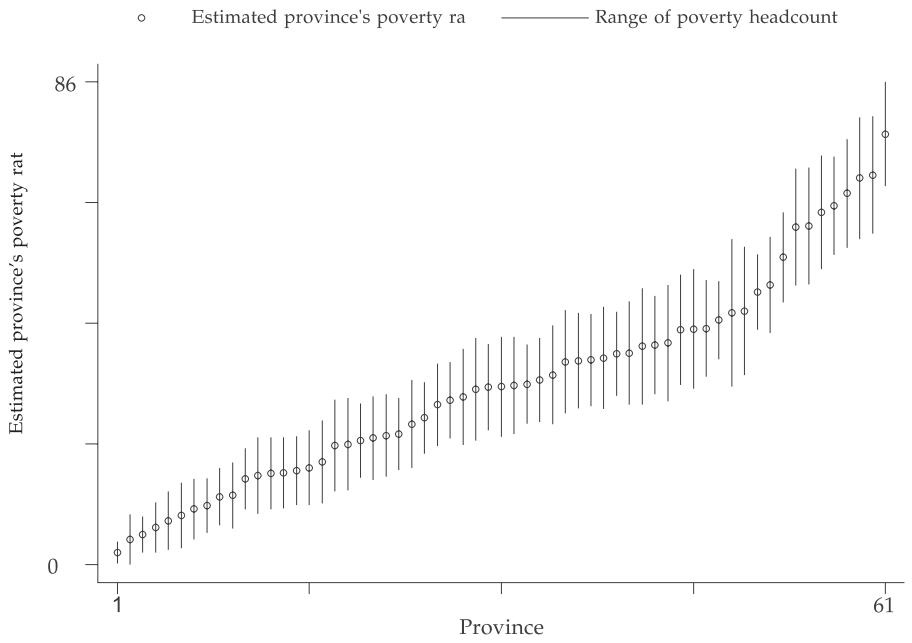
A Practical Proposal

In a nutshell, both GSO and MOLISA do a remarkable job at measuring poverty and identifying the poor in Vietnam. But each of these Government agencies specializes in one end of the "size" spectrum. GSO's main strength is in estimating poverty rates at very aggregate levels. MOLISA's strength is in identifying the poor at the local level. An effective way to improve targeting methods in Vietnam would be to combine the strengths of these two institutions. In the process, it would also be necessary to accept the wide gap between what MOLISA does (which is good) and what it says it does (which is not). But this combination still leaves an intermediate range that none of these two agencies covers at present. Further development of poverty mapping techniques could be an effective way to generate reliable poverty rates for that middle ground.

GSO's surveys make it possible to compute the poverty rate based on the household expenditure method, which is internationally recognized as one of the most reliable ways to measure poverty. The resulting estimate is precise as long as it refers to the entire country, or to large sub-groups of the population, such as regions, or ethnic minorities, or the urban or rural population. Whether it is precise enough at the provincial level very much depends on the size of its sample of households in each of the provinces. The 2002 VHLSS, with a detailed expenditure module applied to 30,000 households, provides relatively accurate provincial poverty rates, as shown in Figure 10.2. All 61 provinces of Vietnam are classified in this figure from lowest to highest poverty rates, with their poverty rates (based on the household expenditure method) reported in the vertical axis. The range surrounding each provincial rate indicates the corresponding standard error. While some of those errors are considerable, there is little room to confuse the poorest provinces with their richer counterparts. If the household expenditure module were applied to a larger sample, the results would of course become precise. But as long as the sample is not reduced, the provincial poverty rates estimated based on the VHLSS can be confidently used for policy purposes.

The local classification of households conducted in each *thon* with participation of local authorities, including MOLISA's officers, makes it possible to identify quite precisely the poorest households, hence to allocate whichever benefits are available in a way that favors the neediest. If anything, the exclusion of migrant households from the classification should be reconsidered. Not allocating benefits to migrants whose families remained in their places of origin is sensible, to avoid situations where the same

Figure 10.2: Provincial Poverty Rates and their Ranges in 2002



Source: Constructed based on data from GSO.

household receives a transfer in two different places. But not counting them in if they have settled in, and pay their dues as law-abiding citizens, is questionable. A similar problem arises with the exclusion of the non-deserving poor, namely those with members who do not work hard, or drink too much, or are involved in gambling. While these are socially reprehensible behaviors, it is not clear that children and spouses should be penalized as well. With a longer-term perspective in mind, it would also be important to strengthen the institution of the village chief, which seems so essential to the proper operation of the local classification (see Box 7.1). At present, the main reward associated with this position is the respect and recognition it commands among neighbors. But this reward might prove insufficient as *thon* become more urban, and relations among neighbors more impersonal. How to maintain the prestige of the village chief position and attract committed and honest citizens to apply for it remains an open question.

Between the province and the *thon*, what is the most appropriate method to measure poverty at the commune and district levels? In a context of increased decentralization, the answer to this question is key to allocate scarce budget resources where they are most needed. Household expenditure surveys would need to have too large a sample to generate credible poverty estimates at the level of the district, not to mention the commune. And the local classification, which relies on the very good knowledge neighbors have of each other, would become ineffective if it involved hundreds of households, as opposed to a few dozen.

The most natural candidate to fill in this gap is poverty mapping. However, in the case of Vietnam, where roughly one million people will be moving to urban areas every year, the validity of a method based on rather infrequent population censuses is questionable. The population of some urban and semi-urban districts and communes

could change dramatically in the meantime, and with it the true poverty rate of those districts and communes. From this perspective, the best hope could be construct poverty maps which not only take advantage of the most recent household surveys and population census, but also on administrative records on migrants, especially on the population with KT3 and KT4 registration (see Box 10.3).

Box 10.3: Poverty Mapping in a Context of Mass Migration

The last population census took place in 1999. Since then, some 4 million people, or one in 20 Vietnamese, might have moved into more urbanized areas. The "size" of this mass migration is actually comparable to the effect of natural population growth. But the latter expands the population in somewhat similar proportions across the country, whereas the former has a very concentrated geographical impact. Migration might not change much the size and composition of the population in the originating areas, but it can very rapidly modify the size and composition of population in the recipient communes and districts. The ability to understand the resulting changes, and to provide social services and targeted transfers accordingly, will be essential to continue reducing the poverty rate at a rapid pace.

The next population census will take place in 2009. In the meantime, a practical mechanism to update information on the population in the communes at the receiving end of the migration phenomenon is essential. A possible way to conduct these updates is for poverty mapping to rely on administrative records, in addition to a population census and a household survey.

In-migrants can be expected to be quite different from long term residents. They would typically differ in the size and composition of their households, as well as on their assets. In Vietnam, they could also differ in their entitlement to social benefits, such as school fee exemptions and health care cards. Whether these differences actually translate into different levels of poverty is something that could be tested if the VHLSS questionnaire included information on household registration status, which it currently does not do.

The poverty rate of a commune or district can be seen as a weighted average between the poverty rates of these two diverse groups of the population: in-migrants and long-term residents, with the weights given by their respective shares of the population. Administrative records on the number of in-migrants in a commune or district could be used to modify those weights over time. This would amount to adjusting the population census, so as to keep it up to date with reality. The poverty mapping method would then combine data from an "adjusted" population census and a household survey, with the adjustment based on data from administrative records.

11. INCREASED VOICE AND PARTICIPATION

Reliable statistical data evidence on the impact of specific programs and investments is one of the pillars of pro-poor policy making. The other pillar is consultation. If data analysis alone is not sufficient to fully understand the nature and determinants of poverty, it cannot be sufficient to inform all policy decisions either. In the terms of an often-repeated phrase by Ho Chi Minh: "the people know, the people discuss, the people do, and the people monitor" Consultation is likely to become more important over time, as Vietnam moves towards increased decentralization, shifting an ever-growing number of decisions to provinces, districts, communes and villages. The PPAs conducted during the Summer of 2003 across all Vietnamese regions paid special attention to governance issues at the local level, with a common research framework being used by all of them. In addition to the more traditional wealth-ranking exercises, focus-group discussions and in-depth interviews, meetings were conducted with local authorities in each of the participating communes. Consultation was also one of the themes of the focus-group discussions. A better understanding of voice and participation at the local level (or lack thereof) emerged out of this effort. This chapter reports the citizens' feedback on the delivery of public administrative services to people and enterprises at local levels, assesses the progress made towards the CPRGS target of "accelerating PAR, and providing the poor with knowledge of the law", and draws the implications for further administrative reform.

Progress in PAR

When confronted with Government bureaucracy, poor people are socially and politically the weakest group in terms of their ability to handle rent seeking or cut through red tape. Undesirable arbitrary behavior by Government officials most directly hinders their social and economic endeavors. The poor and deprived segments of society are thus, potentially, the greatest beneficiaries of administrative reforms. But these reforms work better where policy makers and implementers take into account local realities at local levels, including the characteristics of poor people, the institutional capacity of Government agencies, community values, and the existence of self-help organizations.

In the CPRGS, an accelerated PAR is considered as one of the main policy initiatives to strike a balance between economic growth and social development. The PAR Master Program envisages increasing the sense of voice and accountability, re-orienting the working styles of civil servants and local cadres to provide the people and the enterprises with better access to public services, and ensuring social equity. It recognizes the importance of publicity, participation and transparency in planning, decision-making and implementation processes at the local level.

After piloting reform initiatives for several years in specific cities and provinces, in 2001 the Government embarked upon a comprehensive, ten-year PAR Master Program. Its focus is on institutional reform, organizational reform, civil service reform (particularly, improving the quality of civil servants) and financial management reform. The key expected outcomes of the program can be summarized as reduced

transaction costs, improved service delivery to people and enterprises, increased voice and accountability at the local level, and more effective resource allocation and project implementation.

During 2003, the Government has undertaken several measures to accelerate the pace of the implementation of the PAR Master Program. Among them were the piloting of simplified administrative procedures, and the introduction of the "one-door" or "one-stop-shop" (OSS) model to major cities and ports. As of September 2003, 35 out of 61 provinces had adopted this approach, resulting in a varying extent of simplification. It is generally believed that these initiatives have resulted in time and cost savings for households and enterprises. In June 2003 it was decided to extend the one-stop-shop approach nationwide. In parallel, enterprise registration and licensing were decentralized, for both domestic and foreign investors.

Views on PAR

In the context of the PPAs conducted during the Summer of 2003, Government officials and local people were asked to provide their views on administrative issues at the local level. This was done both through focus groups discussions and through interviews with village leaders. The issues debated centered around their knowledge on the PAR, their opinions regarding its effectiveness to improve service delivery and the attitude of civil servants, their experience with newly issued regulations on OSSs, the Enterprise Law, and the new Civil Servants Law, their assessment of public administrative service delivery and attitude of civil servants, and their opinions on the the new regulation on the exercise of democracy in communes. The assessment by officials and local people focused on general administration services such as registration of births, deaths and marriages, residential permits, business licenses, certification and notary services, the issuance of identification (ID) cards, citizens' advice and information, and the administration of social assistance programs.

Through these exercises, it appeared that provincial and district level officials in the area were aware of the PAR. On the other hand the majority of local people, as well as commune- and village-level officials, knew little about it. Ignorance was more common among poor people, ethnic minorities, women and youth. Despite this limited knowledge, the simplification of administrative procedures through the OSS or one-door model were generally recognized as an improvement. Yet, as revealed by the citizens' feedback, several problems still remain. Local people reported complicated procedures and abuse of power by local officials in the case of residential permits, house registration, land allocation, and forestation. They also mentioned that the attitude and public relations of officials have not changed in many cases. Government officials complained that PAR had not reached commune level, inter-agency coordination remained weak, there was confusion about roles and responsibilities, and capacity constraints existed at all levels due to lack of required skills.

The progress and impact of the PAR implementation has been uneven depending on location, socio-economic conditions and resource availability. More endowed and prosperous local governments have tended to benefit more from the PAR process. Among local people, ethnic minorities and women have benefited less than other groups due, among others, to their low level of education. In the Mekong Delta, for instance, the poor and the non-poor have different access to various basic services (Box 11.1).

Officials at all levels underscored the importance of more decentralization to the commune level to benefit the poor, but with accompanying measures to improve efficiency and effectiveness. Among the proposed measures were the rationalization of responsibilities, improved information

Box 11.1: Access to Government Services in the Mekong Delta

Services	The poor	The non-poor
Micro credit	Receive small loans from the HEPR program, not enough for investment	Take larger loans with collateral from banks.
Agricultural extension	Difficult to benefit from because of limited means of production	Relatively easy to access and to take advantage of
Irrigation	Limited direct benefits for those with little land, but large indirect benefits through more hired labor by better-off households.	Direct benefits, larger the more land the household has.
Infrastructure development	Few have the money to get water and electricity meters installed; at the same time have less in terms of equipment and activities requiring an intensive use of electricity or water	More direct benefits in terms of entertainment, clean water use, business and production development
Small- business projects	Limited benefits because of ineffective implementation	Do not benefit because they already have stable production activities
Agricultural tax exemptions	Little benefit for those with no land or little land	Considerable direct benefit
Health support	Health insurance cards make a considerable difference	No sizeable benefits
Education support	Support with textbooks appreciated, but secondary-level exemptions not considered useful as the poor rarely get to that level.	No major benefit but it is still possible to send children to school
Housing support	A few people resettled to residential clusters or receiving support for house repairs	No benefit
Culture and information support	Benefited, but with little interest	Benefited
Relief assistance programs	Being prioritized for relief assistance in flooding seasons	Able to cope with floods and make use of imprroved soil fertility
Emergency relief for risk reduction	Prioritized	Not prioritized
Welfare programs for migrants and women	Prioritized	Not applicable

Source: UNDP, AusAid &Long An Community Health Centre (2003).

flows, improved coordination, increased transparency and simplicity of regulations and procedures and more local monitoring. Requests for the revision of financial and human resource allocations to reflect local realities, including rapid development and population growth in some villages and communes, were voiced as well.

Despite the Government's recent legislative efforts, the planning process is still to a large extent top-down. Participation of local people in planning, decision-making and implementation process is limited. Poor people cannot afford to pay for registration of birth, death and marriage, which cost VND 4,000, or for an ID card, which costs VND 12,000. Many ethnic people also suffer from language barriers, as public information is not made available in local languages.

The implementation of the new Enterprise Law greatly facilitated the registration of new domestic firms at provincial and district levels. However, there is no mechanism in place to monitor their establishment and operations. It is claimed that a substantial number of newly registered firms are not in operation, or are not performing the intended purposes. For small businesses, it is still costly to register, both in terms of time and expenses. This is because registration facilities at the village or commune levels are not available yet, making it necessary to process the paperwork at district or province levels.

There is still a lack of information in Vietnam about the prevalence and nature of systemic corruption. Diagnostic work is underway to fill this gap in understanding, but it is unlikely to be conclusive for some time. The PPAs add some information about how corruption is seen from the point of view of the poor. In most of the sites there was some discussion of how informal payments were adding to the living expenses of the poor. Access to health, education, formal sector loans, social assistance benefits and various administrative services all required payments of one sort or another. Some of them were made as people were trying to follow various application procedures while lacking transparent information about the required official payments. Many of these payments seem to fall in an unclear, gray area between official fees and unofficial incentives.

Participation at the Commune Level

The PPAs asked about the influence poor people felt they had over decisions and plans which affected their livelihoods. In particular, research teams conducted discussions around the implementation of the Grassroots Democracy Decree. Originally introduced in May 1998 as Decree 29, and recently updated as Decree 79, it buids upon Ho Chi Minh's saying "the people know, the people discuss, the people do, and the people monitor" and specifies which activities of commune-level authorities falls under each of these categories. It also indicates ways of carrying out this consultation: through large meetings, through direct contact, and by soliciting written comments. Specific tasks are identified for commune officials. They include discussing the draft annual socioeconomic plan with villagers and seeking their feedback; disseminating government policies to villagers; providing information to villagers on projects and programs being implemented at the local level; holding biannual meetings between the electorate and elected members of the People's Council; holding meetings to review their work in the presence of villagers, listening to their criticism; and planning and implementing village infrastructure works.

The village chief has a key role to play in the implementation of grassroots democracy. Decree 79 specifies a daunting list of responsibilities of the village chief in convening meetings, developing and applying village codes, ensuring security and reporting to communes. This is confirmed by the PPAs, with people in every site commenting on this key role of the village chief. The PPAs also suggest that this is a role under some stress. The workload for an enthusiastic, diligent

village chief is very high and the standard payment (approximately VND100,000 per month) was described as symbolic for what seems to amount in some places to a serious job. It is clear from the PPAs that the capacity, skills, diligence and integrity of the village chief can be important in accessing information from outside the village, lobbying for development initiatives and improved services, and representing people's concerns to the commune level. Across the many villages included in the PPAs there were examples of how this function could work very well and examples of how it could work less well. In these instances, the village chief was sometimes referred to as a "bottleneck", preventing a good flow of necessary information into and out of the village. As decentralized development activities place more demands on village chiefs to carry out regular functions and sit on a range of project supervision boards, there will be a need to consider whether the right incentives are set in place to encourage effective implementation of this village chief function.

Local people generally described a partial implementation of the Grassroots Democracy Decree. In Ho Chi Minh City, respondents noted a number of positive improvements. Officials and local people agreed that progress had been made in many areas. The Grassroots Democracy Decree itself and other policies were being disseminated. People felt more welcome in government offices. They were voting for People's Councils. And they were contributing to local funds and local infrastructure development. In Quang Ngai, respondents discussed a number of areas where positive changes were brought about by greater openness on the part of officials. These included a clearer understanding of their rights and obligations, greater self-confidence in dealing with officials, an increase in common activities and enthusiasm at meetings, a greater proximity between officials and villagers, and improved access to information on government policies. Findings in other sites often repeated some or all of the same successes. In Dak Lak, participants described a number of areas where participation was taking place, but they also highlighted a number of gaps (Box 11.2).

Box 11.2: Participation in Decision-Making in Dak Lak

A women's group of Buzara village and a men's group of village 7C reported the following:

Villagers participate in:

- Mobilizing local contributions to local projects in the form of labor and financial resources.
- Ranking priorities for poverty reduction programs.
- Identifying poorest households for issuing the poor-household cards.
- Nominating village-level cadres.
- Developing village customary regulations and practices.

Villagers do not have opportunities for participating in:

- Managing and supervising projects constructed or implemented at their villages.
- Monitoring plans and budgets at village level.
- Developing, or even knowing about, the commune's annual plan and budget.
- Having a say in community affairs (in the case of women)
- Representing the rights of women and ethnic minorities in the administration system.

Source: ActionAid Vietnam & ADB, (2003).

In most places, there was some difference of views between local officials and members of the local community. In Ho Chi Minh City, for example, where officials stated that budget transparency was the only remaining deficiency in implementing the Grassroots Democracy Decree, local people indicated several more areas for improvement. They pointed out that poor migrants were much less involved than other local people; that cell leaders (who are the focal points for consultation) varied in consultation skills; that People's Councils representatives were often the same as local officials; and that Parents' Associations were failing to consult on non-tuition costs. Box 11.3 presents a

Box 11.3: Assessments of Participation in Decision-Making in Ninh Thuan

Assessment of Local Officials	Assessment of Local People
The decision making process at Communal Level runs as such: a) People's Committee raises an issue; b) local people discuss the issues during village meetings; c) resulting comments and recommendations are submitted back to the People's Committee; d) the Peoples' Committee makes a decision.	Many people are too busy making a living and cannot afford to take the time to attend meetings. Illiterate people rarely attend village meetings. Those who do may not understand the issues being discussed. Attendance is on invitation basis; those invited are known to be "nodders." When recommendations have been proposed, the changes do not ensue.
All policies, socio-economic development plans are diffused at every village.	People only care about issues that directly influence their lives. They know family planning well, but not necessarily development planning.
Participation in village meetings is high: about 80 to 90 percent of the population.	Attendance level is high (70 to 80 percent) for Youth or Women Union's meetings or on issues as sanitation, cultivation, animal husbandry and rice relief.
People's contribution to socio-economic development plans is made through dialogues with voters.	Meeting hall capacity is up to 100 seats, most of which are reserved for officials and representatives of mass organizations; few are available for people.
People make their comments on local authority activities through their elected deputies on the People's Council.	Incompetent elected deputies do not have the ability to reflect the peoples' opinions and demands.
Information is publicized at communal office or through village speaker system.	People get information though their village heads only. It is impossible to hear what is said via headwind speakers. People do not know the communal budget.
Public "question and answer" meetings are held in the village.	People only ask about what influences their lives and about conflicts such as the current shrimp aquaculture land dispute.
The motto, "People know, People discuss, People do and People supervise" is active.	There are no opportunities for people to supervise Central, Provincial or District-managed construction.

Source: CRP & World Bank, (2003).

comparison of official and community perspectives in Ninh Thuan. Many of these areas of difference are repeated across the twelve research sites.

A number of reasons were given for this limited progress in the implementation of the Grassroots Democracy Decree. They included practical issues relating to skills, capacity, resources and incentives at the commune and village levels. Officials said that they often had limited understanding of the policies that they were required to disseminate, and this was particularly acute in ethnic minority areas. They also felt a need for more guidance on the Decree. Much of the burden for conducting consultative exercises falls on the village chief, who is often well-respected and liked, but busy and poorly paid. Officials argued that villagers were often uninterested in issues that were not of immediate concern to their daily life and that this explained low attendance at meetings. This was sometimes confirmed by poorer villagers, who were preoccupied with their livelihoods. However, some also added that they felt it unlikely that their voices would be heard and, therefore, could not see the point in attending. Some teams commented that, in the absence of any systemic monitoring by the district of whether commune officials were meeting their obligations under the Grassroots Democracy Decree, there was little pressure on the local officials to take on this extra work. In several research sites, corruption was seen to be reason why local officials were reluctant to be more transparent in their operations.

There was also a question about the commune's room for maneuver in drawing up its own plan and budget, and its constrained ability to respond to any consultative process. Box 11.4 outlines the steps that the CPC in one commune in Quang Ngai followed in preparing its annual plan and budget. But the CPC only has scope for defining activities when revenue is being generated locally.

Representation

The National Assembly has recently approved amended Laws on People's Councils and People's Committees. They detail the supervisory powers of People's Councils, empowering them to dismiss the chairperson, the deputy chairperson and members of a People's Committee of the same level. This may go some way in addressing concerns expressed by respondents in the PPAs about the role of their elected representatives. Discussions about relationships with local councilors suggested that people felt they were somewhat remote from reality. In the absence of regular, meaningful communication with the electorate, their ability to hold People's Committees accountable for delivering development outcomes in line with the expressed needs of the local population was described as quite constrained.

The Government of Vietnam has a policy of encouraging representation of ethnic minorities in decision-making processes. Currently 17 percent of National Assembly members are from ethnic minority groups, which is higher than their share in the total population. Data on representation of ethnic groups in People's Councils and People's Committees at sub-national levels of Government have been hard to verify. One source suggests that 14 percent of People's Council and People's Committee members at the provincial level were from ethnic minorities. This increases at District level to 17 percent and at Commune level to 19 percent (quoted by Grick Friberg, 2001). In several of the PPA sites with high ethnic minority populations, in Lao Cai, Ha Giang and Quang Ngai, teams reported that there were high levels of representation by local ethnic minority groups in the CPCs and People's Councils.

This was not the case everywhere, however. Officials explained that under-representation was temporary until local capacity was raised to leadership standards.

Box 11.4: The Commune Planning Process in Quang Ngai

Step 1. At the end of each year, each district in the province invites the chairmen of the CPCs to participate in the allocation of the annual budget and other norms for the socio-economic development plan for each commune.

Step 2. The chief of the CPC secretariat makes the year-end summary and prepares the annual socio-economic development plan for the commune based on the allocated budget and norms already approved by district.

Step 3. This plan is presented at the commune joint meeting in the presence of the leaders of the commune Party Committee, the CPC, the commune People's Council and the Fatherland Front for comments and discussion. The chief of the CPC secretariat is responsible for incorporating feedback into the revised plan.

Step 4. The revised plan is then presented at the meeting of the commune People's Council in the presence of district planning officials, representatives of different mass organizations and commune officials involved in the plan. The commune People's Council is responsible for deciding which comment from the meeting are incorporated. It approves the plan in the form of a formal document (a commune People's Council's Resolution) which is then passed to the CPC for implementation.

Step 5. Village chiefs, with the support of the mass organizations (Women's Union, Youth league, Farmers' Association, War Veterans' Association and Fatherland Front) hold village meetings to inform villagers about the plan and are responsible for implementation of the plan in their villages. At these meetings villagers are informed about the plan.

The plan is reviewed twice a year by the CPC secretariat which is responsible for the whole process: planning, the half-year plan revision and year-end evaluation of implementation of the plan.

Source: Vietnam Solutions Co. & ADB, (2003).

There are clear challenges to ensuring that sub-groups of the population are adequately represented in decision-making processes in areas where the population is shifting in composition and where capacity gaps constrain certain groups from participating fully.

The Way Forward

The implementation of the Government's PAR, particularly relating to the delivery of public administrative services to the people and enterprises, has started paying dividends. The decision regarding a nation-wide replication of administrative simplification and service delivery through OSS is a move in the right direction. But it is not a panacea for all administrative service delivery problems. While all this is encouraging and provides incentive for furthering the PAR, the process and the ensuing benefits seem to have been uneven, geographically and demographically. PAR should be continued and expanded actively to districts and communes. This would therefore call for the preparation of time-bound and budgeted PAR action plans with effective monitoring mechanisms at all levels.

There are other key factors for the success of the PAR implementation at the local level. One of them is capacity building and training. Officials and cadres at the local level should possess the required skills, but equally important is to educate people at the local level on the Government's PAR

program, policies, and procedures. This can be done through the available media, and in local languages. Education can also involve the use of visual leaflets targeted at illiterate people in general and ethnic minorities in particular. Increased capacity would help empower people at the local level, thus minimizing possible capture by local elites. Small but fundamental administrative services, like registration of births, deaths and marriages, identification card, and resident permit, could be fully subsidized, particularly for those with poor household certificate.

CONCLUSIONS AND RECOMMENDATIONS

Vietnam continues to reduce poverty considerably faster than other countries at a similar development level. Admittedly, there is no unique definition of poverty, and therefore no perfect indicator to measure its change over time. Poverty is a state of deprivation involving multiple dimensions, from limited income to vulnerability in the face of shocks to few possibilities to participate in collective decision making. But the expenditure approach to the measurement of poverty provides a reasonable first cut, and one that allows comparisons across localities and over time. Based on this approach, and using a poverty line computed according to international standards, the success of Vietnam is simply remarkable. As recently as 1993, 58 percent of the population lived in poverty, compared to 37 percent in 1998 and 29 percent in 2002. This amounts to halving the share of poverty in less than a decade. Progress has also been substantial when other dimensions of poverty, apart from expenditures, are considered. The broader VDGs, which are a localized version of the MDGs, show a consistent improvement of social indicators, from education enrollment to infant mortality. While some regions and some population groups gained more than others, overall Vietnam's performance in poverty reduction over the last decade can be considered a success.

The "story" behind the reduction in poverty is less straightforward than in the early 1990s, but it also reveals a more developed economy. Earlier gains in poverty reduction had been associated with the distribution of agricultural land to rural households, in a context where economic reform provided the right incentives for increased production. But those gains have been mainly reaped by now. In more recent years, one of the driving forces behind poverty reduction was job creation by the private sector. In 2002, 30 percent of those at work earned a wage, compared to 19 percent four years earlier. Among wage employees, 69 percent worked for the private sector, compared to 58 percent in 1998. Improved infrastructure, the diversification of agricultural production, and increased commercialization of crops also account for the reduction in poverty. Roughly 70 percent of all agricultural output was commercialized in 2002, compared to 48 percent in 1993.

Looking forward, the reform strategy of Vietnam is bound to lead to further poverty reduction. This strategy, embodied chiefly in the CPRGS, combines the completion of the transition to a market economy, with social policies aimed at keeping development inclusive, with an effort to build modern governance.

Implementing CPRGS will not be without difficulties. On the structural front, slow progress in the twin agenda of SOE restructuring and financial sector reform could build up a considerable liability for the Vietnamese society. Inability to harden the budget constraint faced by SOEs would imply that a portion of today's economic growth will have to be devoted, sooner or later, to clearing bad debts and protecting the solvability of financial institutions. On the governance front, the abuse of public office for private gain risks making everyday life miserable, when it happens at low levels, and leading to resource

misallocation and waste, when it affects collective decision-making. Tackling these two main difficulties is key for Vietnam to remain a success story in the longer term. Failure to address them could lead to the emergence of a crony variant of capitalism already seen elsewhere, not to the development of a vibrant private sector operating in the broader context of a socialist orientation.

In the medium term the Vietnamese economy will keep growing at a fast pace, however, and growth will be associated with further poverty reduction. But will this be enough to eradicate poverty? Probably not. The experience of the last decade, and especially of the last few years, has revealed that progress in poverty reduction is uneven. Standard inequality indicators, such as the Gini index, have remained relatively stable. But a closer look at the gap between the richest and the poorest quintiles of the population, especially when taking into account the increasing under-reporting of expenditures as the country grows wealthier, shows a sustained increase in inequality. Integration with the world economy has also been associated with a bigger gap in earnings between the skilled and the unskilled. And there are clear signs that regional disparities are widening as well. The poverty alleviation impact of economic growth is smaller when inequality increases, and Vietnam is bound to see slower gains in poverty reduction over the next few years.

Ethnic minorities are among the groups that risk being left behind. The Kinh and Chinese majority has handsomely benefited from growth. Ethnic minorities, especially in the Central Highlands, have made much less progress. If current trends were to continue, the poverty rate could reach 15 or 16 percent by 2010. However, a forward-looking estimate suggests a considerably higher rate, possibly in the order of 21 percent. Around 37 percent of those living in poverty by then would be ethnic minority people, about twice their share of the poor in 1993, and almost three times their share of the Vietnamese population. By 2010, roughly half of those living in hunger (with expenditures below the food poverty line) could be ethnic minority people. While poverty has fallen steadily among the ethnic groups of the Mekong River Delta and the Northern Mountains, it has only declined marginally in the North and South Central Coasts, and has actually increased in the Central Highlands. This latter trend can be partly attributed to the collapse in the price of coffee. But overall, it is fair to say that in the case of ethnic minorities growth will not be enough. Specific policies targeted to them will be needed. They range from the improvement of local infrastructure, to the redistribution of land currently held by SFEs, to the legal recognition of communal agricultural practices, to the development of social services in local languages. They also include measures to improve the representation of ethnic minorities in local decision-making processes and build good governance in the most remote areas of the country.

Rural-urban migrants are another group potentially at risk. On the surface, members of this group have done well. Other things equal, the expenditures of those living in urban areas are 78 percent higher than those of their rural counterparts. This gap creates a huge incentive to migrate, and most migrants are likely to gain in terms of well-being. However, the insufficient development of urban infrastructure and the current administrative mechanisms to limit the mobility of the population may keep many migrants in poverty too. A polluted environment, restricted access to social services in the case of unregistered migrants, the absence of the strong social networks characteristic of villages (or *thon*), are drawbacks that increased expenditures may not compensate. Even if only a fraction of the rural-urban migrants were to fail, the absolute numbers could be large, given that almost one million people will be migrating to the cities every year. Squarely recognizing the problem, through the assessment of the situation of rural-urban

migrants groups (registered and unregistered), would be a key first step. It could pave the way to appropriate planning of public actions, from land zoning policies to the accelerated development of urban infrastructure and social services.

At a broader level, the trend towards increased inequality requires a deep reconsideration of public expenditure and public investment programs. Budget transfers already favor poorer provinces, but the rules and norms on which these transfers are based are still ad hoc. Analyses like those in this report could be used to design more equitable allocation mechanisms, especially in the social sectors. Developments like the creation of the provincial HCFPs are an important step in the right direction. State investment, on the other hand, favors richer provinces. This choice can be justified on the grounds that investment is more productive in densely populated regions, and budget transfers can then be used to redistribute the increased wealth. However, the long-term sustainability of such a scheme is not guaranteed. As the gap between rich and poor provinces increases, the size of budget transfers will have to increase as well. Whether richer provinces will be willing to sustain year after year their poorer counterparts, as their relative backwardness makes them more expensive, remains an open question.

The quality of public spending needs to be reconsidered as well. At present, public investment and recurrent expenditures are to a large extent disconnected, resulting in poor maintenance and operation of infrastructure. A forward-looking approach in public spending needs to be supported though the development of MTEFs, especially in sectors that are key for poverty reduction, such as education, health, agriculture and transport. The PIP, in turn, is basically a compilation of projects from authorities at different levels, without a careful screening of their potential to support economic growth and lead to poverty reduction. Return rates for large-scale projects should be computed, and their potential poverty alleviation impacts assessed beforehand. Available evidence already points out to large differences in impact across sectors, from low in the case of irrigation infrastructure to high in the case of roads. Poverty alleviation impacts are also likely to differ across provinces. Given that the PIP represents a claim on almost a fifth of Vietnam's GDP, a more efficient and poverty-oriented investment program could do more to reduce the number of poor than any targeted program or safety net.

This said, targeted poverty alleviation programs are not irrelevant, and in Vietnam some of them have proven effective. This is the case, in particular, of exemptions of education fees. Increased reliance on local resources as the country decentralizes, and the irruption of market forces in the social sectors (both officially and unofficially) have led to a dramatic increase of out-of-pocket payments. As a result, professional health care services and school attendance have become increasingly burdensome to the poor, when they are not simply out of reach. Among the mechanisms to offset this trend are education fee exemptions, which currently reach almost one seventh of the poor. These exemptions are associated with a 10-point increase in school enrollment among the children of the beneficiaries, and substantially lower educational expenditures. Health care cards, allowing access to health services at a reduced cost, also appear to have a positive impact. Improvement of delivery mechanisms, through the HCFPs, could increase their effectiveness. Results are more mixed for access to subsidized credit, which reaches less than 6 percent of the poor. But again, the recent creation of the VBSP could expand its coverage and lead over time to a better credit culture. Taken together, these encouraging findings suggest that HEPR should focus on a limited number of transfer programs whose effectiveness has been proved. Programs should also be designed in a way that broadens their coverage of the poor, and facilitates

monitoring and evaluation, especially through the development of appropriate baselines.

Equally important is to ensure that both targeted programs and, more broadly, budget transfers, reach those in need. This requires consensus on the measurement of poverty and the identification of the poor. At present, a variety of methods are used in Vietnam. A careful comparison of their performance suggests a way forward, based on a combination of statistical data and participation at the local level. On the statistical front, enormous progress has been made in Vietnam in terms of using household surveys to measure poverty based on expenditure or income data. A first poverty map, able to generate consistent poverty rates at the district and commune levels, was released recently. This approach is not without limitations, and its application in a context of massive rural-urban migration, where the population censuses behind the maps get easily outdated, raises important challenges. But they could be overcome with appropriate use of administrative data on migration. And in spite of these limitations, maps based on rigorously computed income or expenditure measures of poverty can produce much more reliable results than the official poverty figures currently used in Vietnam.

But the authority of the statistician stops at the gate of the village, or *thon*. The actual classification of households produced by village assemblies, under the leadership of elected village chiefs and with assistance from local authorities, produces remarkably accurate results. At the village level, people know who is poor without having to compute income or expenditure measures. Moreover, the *thon* provides a solid foundation for grassroots democracy initiatives. A mechanism whereby household surveys and the associated poverty maps are used to allocate resources all the way down to the communes where they are most needed, and the distribution of these resources is decided in a participatory way in the villages in each commune, has the potential to keep development inclusive in Vietnam. The potential of this mechanism would be enhanced if the resources transferred took the form of very visible benefits, such as a number of education fee exemptions and health care cards, depending on the poverty rate of each commune. Visibility would create an incentive for popular participation in the allocation of benefits, thus reducing the potential for waste and misuse.

Consensus on the best mechanisms to measure poverty and identify the poor is only one (admittedly very important) step in the process of developing a set of indicators to monitor and evaluate CPRGS. The VDGs, the localized version of the MDGs, represent the next key layer of indicators. But the CPRGS is even more ambitious, as it includes a comprehensive list of monitoring indicators covering a wider range of social and institutional outcomes, in addition to indicators of macroeconomic performance. Identifying the appropriate way to measure those ou fromes, the frequency of the measurement, and the agency in charge, will provide a foundation for policy making that is more strongly rooted in evidence. Currently the biggest gaps are in tracking progress towards governance objectives. Developing the appropriate set of indicators to be used at sectoral and provincial levels is another important task. Given capacity constraints at the provincial level, being selective will be key to minimize the burden on local staff.

Provincial-level indicators of social and economic development are an important input in the process of rolling out CPRGS to the provinces. An ever increasing decentralization implies that local resources are a bigger fraction of public expenditures at the local level. The ability of provincial governments to promote economic growth and reduce poverty very much depends on the effective use of those local resources. Alignment of planning and budgeting processes to localized development targets

is certainly a new concept for many provincial officials. A major effort is thus needed to roll out the CPRGS approach to sub-national levels. This does not necessarily mean developing regional or provincial versions of the CPRGS. It rather implies the setting of a vision, the identification of the corresponding targets, the formulation of policies, the alignment of resources, the monitoring and evaluation of results, and the systematic use of popular consultation. This process, which the Government expects to complete by 2008, could boost poverty reduction in the less-developed provinces.

The Public Administration Reform Master Program has established a framework to improve service delivery to the poor. The OSS model, which has already reached 35 out of 61 provinces, is particularly appreciated. As PAR activities intensify and decentralization increases, sound monitoring of institutional change will become important. Mechanisms are needed to monitor improvements in information flows and transparency and knowledge about entitlements and obligations. Citizen feedback on the delivery of public services is important to keep PAR initiatives on track. But there is still some way to go in generating full participation of the poor in local decision-making. Initiatives to encourage greater grassroots democracy rely heavily on commune and village level officials. As more responsibilities are transferred to the commune level (as is now happening, for example, through decentralized infrastructure programs) it will be important to ensure that incentives are structured to encourage village chiefs and commune officials to operate in a transparent and consultative manner.

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PARTNERSHIPS

The preparation of this report and its complementary RPAs was rooted in the Poverty Task Force (PTF), a working group through which donors and NGOs support the Government with initiatives in pro-poor policymaking. Issues discussed at the PTF are subsequently shared with the broader donor and NGO community. The PTF has been an effective governance structure for previous support to the Government as it developed the CPRGS. It was also the partnership group used in 2001 to localize the MDGs under the form of VDGs. In that opportunity, studies dealing with the localization of the MDGs were released as PTF Working Papers. The same format will be used to release the RPAs.

Eight donors contributed financial and human resources to the PPAs underlying the preparation of this report and its complementary RPAs. These are the ADB, AusAID, DFID, GTZ, JICA, SCUK, UNDP and the World Bank. Each of the donors played a leading role in one of the regions of Vietnam. The distribution of regions among donors, summarized in Table A.1, was based on the donors' trajectory in the field. By choosing regions where they are well-implanted, through projects and technical assistance activities, donors could take full advantage of the insights accumulated while working there.

Several teams conducted the PPA work in 47 communes scattered across the entire country. Among them were two international NGOs (Action Aid and SCUK) and various local NGOs and research institutes, including CRP, the Institute of Sociology (IOS), the Long An Primary Health Care Center, the Rural Development Service Center (RDSC) and Vietnam Solutions. In addition, two of the donors carried out the research by setting up teams of local researchers under their direct management. The local knowledge and expertise of teams these NGOs and research institutes and teams was key to the quality of the exercise. A coordinating mechanism was set up for the PPAs. Members of most of the research teams were involved in drawing up the research framework and establishing a common understanding of what was to be achieved from the field research. The latter was piloted by several of the teams and the research outline was modified to reflect the lessons learned. The geographical distribution of the 47 communes is shown in Figure A.1.

The donors supporting the PPAs were also involved in the writing of this report. A Steering Committee was set up to discuss and review its contents. The Steering Committee comprises one representative from each of the eight donors who contributed financial and human resources to the PPAs. While the World Bank took the lead in drafting the report, the Steering Committee provided comments and suggestions at several key stages in the process, including the discussion of the concept note, the review of the draft report, and the review of its final version, submitted as joint donor report to the Consultative Group meeting of December 2003.

The Government of Vietnam also participated in various ways in the preparation of this report. Given how much the report relies on VHLSS data, GSO was a key player. The role of GSO was not limited to producing the survey, as it was also in charge of many of the underlying statistical analyses, including estimating consumption per capita at the household level, computing a poverty line, classifying households in poor and non-poor, and developing a poverty profile. In parallel, GSO processed a set of regional poverty tabulations, based on the 2002 VHLSS, as an input for the RPAs. It also evaluated progress in meeting the VDGs.

Vietnamese researchers affiliated with local universities and think tanks were involved as well. Their contribution focused on evaluating targeting mechanisms and assessing the extent to which public spending on various social programs actually benefits the poor. Their names and affiliations can be found in the Acknowledgments section of this report.

Local support to the preparation of this report was coordinated through a Reviewing Committee comprising two representatives from GSO, two from MOLISA, two from MPI, two from NCSSH and one from RDSC. All of them are senior policy makers or renowned researchers (their names are listed in the Acknowledgements section of this report). The Reviewing Committee provided comments and suggestions at the same points in time as the Steering Committee. The members of the Reviewing Committee represent the agencies which are most likely to take over the preparation of future poverty assessments in Vietnam, starting with the poverty update of 2005, when data from the 2004 VHLSS become available.

Figure A.1: Communes Covered by Participatory Poverty Assessments

STATISTICAL APPENDIX

STATISTICAL APPENDIX

Table 1.1: POPULATION

Year	Population (mid-year) (000 persons)	Growth Rate (%)	By Sex		By Area	
			Male	Female	Urban	Rural
			(000 persons)			
1975	48,030	-	-	-	-	-
1976	49,160	2.35	23,597	25,563	10,127	39,033
1977	50,237	2.19	24,197	26,039	10,116	40,114
1978	51,337	2.19	24,813	26,524	10,105	41,226
1979	52,462	2.19	25,444	27,018	10,094	42,368
1980	53,630	2.23	26,047	27,583	10,295	43,335
1981	54,824	2.23	26,665	28,159	10,499	44,324
1982	56,045	2.23	27,297	28,747	10,708	45,336
1983	57,292	2.23	27,944	29,348	10,921	46,371
1984	58,568	2.23	28,607	29,961	11,138	47,429
1985	59,872	2.23	29,285	30,587	11,360	48,512
1986	61,109	2.07	29,912	31,197	11,817	49,292
1987	62,452	2.20	30,611	31,841	12,271	50,181
1988	63,727	2.04	31,450	32,277	12,662	51,065
1989	64,774	1.64	31,589	33,185	12,919	50,801
1990	66,017	1.92	32,203	33,814	12,880	53,136
1991	67,242	1.86	32,814	34,428	13,228	54,015
1992	68,450	1.80	33,242	35,208	13,588	54,863
1993	69,645	1.74	34,028	35,616	13,961	55,683
1994	70,825	1.69	34,633	36,191	14,426	56,399
1995	71,996	1.65	35,237	36,758	16,938	55,057
1996	73,157	1.61	35,857	37,299	15,420	57,737
1997	74,037	1.20	36,473	37,564	16,835	57,202
1998	75,456	1.92	37,090	38,367	17,465	57,992
1999	76,597	1.51	37,662	38,935	18,082	58,515
2000	77,635	1.36	38,166	39,469	18,772	58,864
2001	78,686	1.35	38,684	40,002	19,469	59,217
2002e	79,727	1.32	39,197	40,530	20,022	59,705

Note: Population by sex and by area may not add to the grand total due to the possible exclusion of the armed force and migrant worke

***Source**:* General Statistical Office, Statistical Yearbook 2003

Table 1.2: POPULATION BY LOCALITY

Region/Province	2002 Population (000 Persons) Total	Male	Female	Urban	Rural
Ha Noi - Hai Phong:					
Ha Noi	2,931	1,467	1,465	1,721	1,210
Hai Phong	1,727	855	872	630	1,097
Sub-Total	4,658	2,321	2,337	2,351	2,307
Northern Mountains:			0		
Ha Giang	638	316	322	69	569
Tuyen Quang	703	248	455	68	635
Cao Bang	506	247	259	69	437
Lang Son	719	357	363	139	581
Lai Chau	629	318	311	79	550
Lao Cai	629	314	315	111	517
Yen Bai	707	353	355	143	564
Bac Can	286	143	143	43	243
Thai nguyen	1,073	535	538	241	831
Son La	939	471	468	109	830
Hoa Binh	783	388	394	113	670
Vinh Phuc	1,128	549	578	126	1,001
Phu Tho	1,301	639	663	196	1,106
Bac ninh	971	472	500	100	871
Bac Giang	1,535	759	776	130	1,405
Quang Ninh	1,040	531	509	489	551
Sub-Total	13,586	6,637	6,949	2,226	11,360
Red River Delta:			0		
Ha Tay	2,453	1,195	1,258	205	2,248
Hai Duong	1,684	814	870	249	1,435
Hung Yen	1,101	532	570	111	991
Thai Binh	1,829	874	955	111	1,718
Nam Dinh	1,932	940	992	256	1,676
Ha Nam	806	391	415	67	738
Ninh Binh	894	438	457	123	771
Sub-Total	10,699	5,183	5,516	1,122	9,577
North Central Coast:			0		
Thanh Hoa	3,534	1,727	1,807	347	3,187
Nghe An	2,952	1,453	1,498	320	2,632
Ha Tinh	1,300	638	662	128	1,172
Quang Binh	826	408	417	107	718
Quang Tri	597	294	303	141	456
Sub-Total	9,208	4,520	4,688	1,042	8,165
South Central Coast:			0		
Thua Thien - Hue	1,092	538	553	339	753
Quang Nam	1,421	687	734	220	1,201
Da Nang	724	355	369	594	130
Quang Ngai	1,224	596	627	161	1,063
Binh Dinh	1,513	735	779	366	1,147
Phu Yen	824	408	416	158	665
Khanh Hoa	1,081	535	546	431	650
Ninh Thuan	543	268	275	155	388
Binh Thuan	1,097	547	550	351	745
Sub-Total	9,517	4,669	4,848	2,775	6,742
Central Highlands:			0		
Gia Lai	1,065	538	527	271	793
Kon Tum	340	171	169	112	227
Dac Lac	1,939	985	954	403	1,536
Lam Dong	1,064	537	527	428	636
Sub-Total	4,407	2,231	2,177	1,215	3,193
Ho Chi Minh City and Environs			0		0
Ho Chi Minh City	5,479	2,637	2,842	4,623	856
Binh Duong	788	381	407	262	526
Tay Ninh	1,002	492	510	165	837
Binh Phuoc	719	367	353	112	607
Dong Nai	2,096	1,046	1,050	669	1,427
Baria - Vung Tau	856	428	428	372	484
Sub-Total	10,939	5,350	5,589	6,203	4,736
Mekong Delta:			0		
Long An	1,364	668	695	235	1,129
Dong Thap	1,608	789	819	240	1,367
An Giang	2,129	1,047	1,082	474	1,654
Tien Giang	1,649	799	851	231	1,418
Ben Tre	1,319	638	681	124	1,195
Vinh Long	1,033	502	532	159	875
Tra Vinh	1,002	500	503	137	865
Can Tho	1,868	917	951	458	1,410
Soc Trang	1,231	600	631	232	999
Kien Giang	1,566	772	794	366	1,200
Bac Lieu	768	376	392	200	569
Ca Mau	1,176	580	596	231	945
Sub-Total	16,714	8,187	8,527	3,089	13,625
Grand Total	**79,727**	**39,097**	**40,630**	**20,022**	**59,706**

Note: Population by sex and by area may not add to the grand total due to the possible exclusion of the armed force and migrant worker

Source: General Statistical Office, Statistical Yearbook 2003

Table 1.3: TOTAL EMPLOYMENT BY SECTOR

(in thousand of persons)	1997	1998	1999	2000	2001	Prel. 2002
Total Employed Labor Force	34,493	35,233	35,976	36,702	37,676	38,282
State	3,267	3,383	3,433	3,501	3,604	3,611
Non-state	31,226	31,850	32,543	33,201	34,073	34,672
State Sector Employment	3,267	3,383	3,433	3,501	3,604	3,611
Central	1,359	1,404	1,422	1,442	1,499	1500.7
Local	1,908	1,979	2,011	2,059	2,105	2,110
Employment by Sector						
Agriculture, forestry & fisheries	24,196	24,504	24,792	25,045	25,305	--
Industry and Construction	4,021	4,157	4,300	4,445	4,712	--
Services	6,276	6,572	6,884	7,212	7,659	--

Note: Figures are rounded.
Source: General Statistical Office, Statistical Yearbook 2003

Table 2.1: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR IN CURRENT PRICES

(Billions of Dong)

	1997	1998	1999	2000	Rev 2001	Prel 2002
Total	313,623	361,016	399,942	441,646	481,295	536,098
State	126,970	144,406	154,927	170,141	184,836	205,379
Non-State	186,653	216,610	245,015	271,505	296,459	330,719
Agri, Forestry and Fishery	80,826	93,072	101,723	108,356	111,858	123,268
Agriculture	65,883	76,170	83,335	87,537	87,861	96,428
Forestry	4,813	5,304	5,737	5,913	6,093	6,500
Fisheries	10,130	11,598	12,651	14,906	17,904	20,340
Industry and Construction	100,594	117,299	137,959	162,220	183,515	206,648
Mining	19,768	24,196	33,703	42,606	44,345	46,554
Manufacturing	51,700	61,906	70,767	81,979	95,211	110,284
Electricity and water	8,604	10,339	11,725	13,993	16,028	18,251
Construction	20,522	20,858	21,764	23,642	27,931	31,559
Services	132,203	150,645	160,260	171,070	185,922	206,182
Trade	48,914	55,783	59,384	62,836	67,788	75,617
Hotel & Restaurant	11,307	12,404	13,412	14,343	15,412	17,154
Transportation & Telecom	12,418	14,076	15,546	17,341	19,431	21,095
Finance, Banking & Insurance	5,444	6,274	7,488	8,148	8,762	9,763
Science and Technology	1,774	2,026	1,902	2,345	2,646	3,009
Real Estate and renting	15,355	17,683	18,260	19,173	21,589	24,452
Public Administration	10,460	11,849	11,683	12,066	12,784	13,829
Education & Training	11,274	13,202	14,004	14,841	16,245	18,125
Healthcare and social welfare	4,381	4,979	5,401	5,999	6,417	7,021
Culture and recreation	1,844	2,068	2,378	2,558	2,800	2,957
Party and Association	443	577	584	614	651	712
Community and social service	7,855	8,874	9,323	9,853	10,412	11,412
Private household employment	734	850	895	953	985	1,036

Source: General Statistical Office, Statistical Yearbook 2003

Table 2.2A: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR IN CONSTANT 1994 PRICES

(Billions of Dong)

	1997	1998	1999	2000	Rev 2001	Prel 2002
Total	231,264	244,596	256,272	273,666	292,535	313,135
State	95,638	100,953	103,531	111,522	119,824	128,068
Non-State	135,626	143,643	152,741	162,144	172,711	185,067
Agri, Forestry and Fishery	55,895	57,866	60,895	63,717	65,618	68,283
Agriculture	47,915	49,639	52,372	54,493	55,613	57,843
Forestry	2,450	2,459	2,535	2,544	2,556	2,568
Fisheries	5,530	5,768	5,988	6,680	7,449	7,872
Industry and Construction	75,474	81,764	88,047	96,913	106,986	117,082
Mining	13,304	15,173	17,200	18,430	19,185	19,396
Manufacturing	38,743	42,694	46,105	51,492	57,335	63,983
Electricity and water	4,572	5,136	5,531	6,337	7,173	7,949
Construction	18,855	18,761	19,211	20,654	23,293	25,754
Services	99,895	104,966	107,330	113,036	119,931	127,770
Trade	39,422	41,170	41,994	44,644	47,779	51,245
Hotel & Restaurant	7,949	8,307	8,517	8,863	9,458	10,125
Transportation & Telecom	9,178	9,536	10,141	10,729	11,441	12,252
Finance, Banking & Insurance	4,578	4,843	5,327	5,650	6,005	6,424
Science and Technology	1,315	1,392	1,267	1,571	1,749	1,908
Real Estate and renting	11,071	11,682	11,926	12,231	12,631	13,105
Public Administration	7,860	8,174	7,723	8,021	8,439	8,777
Education & Training	8,062	8,614	8,809	9,162	9,687	10,507
Healthcare and social welfare	3,348	3,566	3,707	3,946	4,151	4,442
Culture and recreation	1,309	1,412	1,505	1,601	1,648	1,689
Party and Association	249	297	300	317	334	352
Community and social service	5,063	5,431	5,564	5,734	6,026	6,355
Private household employment	491	542	550	567	583	589

Source: General Statistical Office, Statistical Yearbook 2003

Table 2.2B: GDP BY INDUSTRIAL ORIGIN -- GROWTH RATE

	1997	1998	1999	2000	Rev 2001	Prel 2002
Total	8.2	5.8	4.8	6.8	6.9	7.0
State	9.7	5.6	2.6	7.7	7.4	6.9
Non-State	7.1	5.9	6.3	6.2	6.5	7.2
Agri, Forestry and Fishery	4.3	3.5	5.2	4.6	3.0	4.1
Agriculture	5.0	3.6	5.5	4.0	2.1	4.0
Forestry	0.1	0.4	3.1	0.4	0.5	0.5
Fisheries	1.0	4.3	3.8	11.6	11.5	5.7
Industry and Construction	12.6	8.3	7.7	10.1	10.4	9.4
Mining	13.2	14.0	13.4	7.2	4.1	1.1
Manufacturing	12.8	10.2	8.0	11.7	11.3	11.6
Electricity and water	14.7	12.3	7.7	14.6	13.2	10.8
Construction	11.3	-0.5	2.4	7.5	12.8	10.6
Services	7.1	5.1	2.3	5.3	6.1	6.5
Trade	6.9	4.4	2.0	6.3	7.0	7.3
Hotel & Restaurant	7.0	4.5	2.5	4.1	6.7	7.1
Transportation & Telecom	8.9	3.9	6.3	5.8	6.6	7.1
Finance, Banking & Insurance	4.3	5.8	10.0	6.1	6.3	7.0
Science and Technology	3.4	5.9	-9.0	24.0	11.3	9.1
Real Estate and renting	7.1	5.5	2.1	2.6	3.3	3.8
Public Administration	4.0	4.0	-5.5	3.9	5.2	4.0
Education & Training	7.1	6.8	2.3	4.0	5.7	8.5
Healthcare and social welfare	4.0	6.5	4.0	6.4	5.2	7.0
Culture and recreation	9.9	7.9	6.6	6.4	2.9	2.5
Party and Association	23.3	19.3	1.0	5.7	5.4	5.4
Community and social service	16.2	7.3	2.4	3.1	5.1	5.5
Private household employment	5.1	10.4	1.5	3.1	2.8	1.0

Source: General Statistical Office, Statistical Yearbook 2003

Table 2.3A: GDP DEFLATOR

	1997	1998	1999	2000	Rev 2001	Prel 2002
Total	135.6	147.6	156.1	161.4	164.5	171.2
State	132.8	143.0	149.6	152.6	154.3	160.4
Non-State	137.6	150.8	160.4	167.4	171.7	178.7
Agri, Forestry and Fishery	144.6	160.8	167.0	170.1	170.5	180.5
Agriculture	137.5	153.4	159.1	160.6	158.0	166.7
Forestry	196.4	215.7	226.3	232.4	238.4	253.1
Fisheries	183.2	201.1	211.3	223.1	240.4	258.4
Industry and Construction	133.3	143.5	156.7	167.4	171.5	176.5
Mining	148.6	159.5	195.9	231.2	231.1	240.0
Manufacturing	133.4	145.0	153.5	159.2	166.1	172.4
Electricity and water	188.2	201.3	212.0	220.8	223.4	229.6
Construction	108.8	111.2	113.3	114.5	119.9	122.5
Services	132.3	143.5	149.3	151.3	155.0	161.4
Trade	124.1	135.5	141.4	140.7	141.9	147.6
Hotel & Restaurant	142.2	149.3	157.5	161.8	163.0	169.4
Transportation & Telecom	135.3	147.6	153.3	161.6	169.8	172.2
Finance, Banking & Insurance	118.9	129.5	140.6	144.2	145.9	152.0
Science and Technology	134.9	145.5	150.1	149.3	151.3	157.7
Real Estate and renting	138.7	151.4	153.1	156.8	170.9	186.6
Public Administration	133.1	145.0	151.3	150.4	151.5	157.6
Education & Training	139.8	153.3	159.0	162.0	167.7	172.5
Healthcare and social welfare	130.9	139.6	145.7	152.0	154.6	158.1
Culture and recreation	140.9	146.5	158.0	159.8	169.9	175.1
Party and Association	177.9	194.3	194.7	193.7	194.9	202.3
Community and social service	155.1	163.4	167.6	171.8	172.8	179.6
Private household employment	149.5	156.8	162.7	168.1	169.0	175.9

Source: General Statistical Office, Statistical Yearbook 2003

Table 2.3B: CHANGE IN GDP DEFLATOR

(1995=100)

	1997	1998	Rev 1999	Prel 2000	Prel 2001	Prel 2001
Total	135.6	147.6	156.1	161.4	164.5	171.2
State	113.0	121.7	127.3	129.8	131.3	136.5
Non-State	151.4	165.9	176.5	184.2	188.8	196.6
Agri, Forestry and Fishery	119.3	132.7	137.8	140.3	140.6	148.9
Agriculture	113.9	127.1	131.8	133.0	130.8	138.1
Forestry	165.8	182.1	191.0	196.2	201.2	213.7
Fisheries						
Industry and Construction	118.6	127.6	139.4	148.9	152.6	157.0
Mining	139.6	149.8	184.1	217.2	217.2	225.5
Manufacturing	117.6	127.7	135.2	140.2	146.3	151.8
Electricity and water	135.5	144.9	152.6	159.0	160.8	165.3
Construction	100.6	102.7	104.7	105.8	110.8	113.2
Services	112.5	122.0	126.9	128.7	131.8	137.2
Trade	111.2	121.4	126.7	126.1	127.1	132.2
Hotel & Restaurant	111.2	116.7	123.1	126.5	127.4	132.4
Transportation & Telecom	116.5	127.1	132.0	139.2	146.3	148.3
Finance, Banking & Insurance	101.8	110.9	120.3	123.4	124.9	130.1
Science and Technology	114.4	123.4	127.3	126.5	128.2	133.7
Real Estate and renting	109.0	119.0	120.3	123.2	134.3	146.6
Public Administration	113.5	123.7	129.1	128.4	129.3	134.4
Education & Training	117.5	128.8	133.6	136.1	140.9	144.9
Healthcare and social welfare	108.1	115.4	120.4	125.6	127.7	130.6
Culture and recreation	123.1	128.0	138.1	139.6	148.4	153.0
Party and Association	140.4	153.3	153.6	152.9	153.8	159.6
Community and social service	121.5	128.0	131.2	134.6	135.3	140.6
Private household employment	129.5	135.8	140.9	145.6	146.3	152.3

Source: General Statistical Office, Statistical Yearbook 2003

Table 2.4/a: NATIONAL ACCOUNTS: SOURCES AND USES
(in current price)

	1997	1998	1999	2000	Rev 2001	Prel 2002
Sources	339,149	387,388	411,360	452,524	492,277	557,569
GDP	313,623	361,017	399,942	441,646	481,295	536,098
Trade Balance	25,526	26,371	11,418	10,878	10,982	21,471
Uses	339,149	387,387	411,360	452,524	492,277	557,569
Total Consumption	250,584	283,444	301,690	321,853	342,607	381,450
Gross Capital Formation	88,754	104,875	110,503	130,771	150,033	171,995
Statistical Discrepancy	-189	-932	-833	-100	-363	4,124

Source: General Statistical Office, Statistical Yearbook 2003

Table 2.4/b: NATIONAL ACCOUNTS: SOURCES AND USES
(in 1994 constant price)

	1997	1998	1999	2000	Rev 2001	Prel 2002
Sources	249,016	265,126	269,429	283,751	304,230	330,238
GDP	231,264	244,596	256,272	273,666	292,535	313,135
Trade Balance	17,752	20,530	13,157	10,085	11,695	17,103
Uses	249,016	265,126	269,429	283,751	304,232	330,238
Total Consumption	182,975	190,923	194,350	200,665	210,029	224,609
Gross Capital Formation	66,529	74,931	75,830	83,496	92,487	102,256
Statistical Discrepancy	-488	-728	-751	-410	1,716	3,373

Source: General Statistical Office, Statistical Yearbook 2003

Table 3.1: BALANCE OF PAYMENTS

(US$ million)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Exports (fob)	9,145	9,365	11,540	14,449	15,027	16,076	18,056	19,614	21,173
Imports (fob)	10,461	10,346	10,460	14,072	14,401	17,581	18,024	19,492	20,960
Trade Balance	-1,316	-981	1,080	378	627	-875	451	632	812
Non-Factor Services	-625	-540	-547	-615	-573	-650	-621	-629	-638
Services (net)	-614	-668	-429	-597	-634	-745	-687	-708	-728
- o/w: Interest	478	558	550	530	345	330	325	285	245
Transfers (net)	890	1,122	1,185	1,477	1,251	1,900	1,877	2,041	2,205
Official Transfers	175	172	130	136	150	130	120	112	104
Private Transfers (net)	715	950	1,055	1,341	1,101	1,770	1,757	1,929	2,101
Current Account Balance	-1,664	-1,066	1,288	643	670	-370	1,020	1,335	1,651
Capital Account	1,681	580	-337	-391	-476	835	-430	-643	-855
Medium and Long-Term	218	70	-423	305	383	962	791	945	1,099
Disbursements	1,022	1,120	944	1,237	1,172	1,786	1,640	1,762	1,884
- o/w: IDA	181	254	157	174	279	262	267	281	296
Amortization/Principlas	804	1,050	1,367	932	789	824	849	817	785
Short-term	-612	-290	-614	-1,496	-1,759	-1,227	-1,836	-2,075	-2,314
Direct Investment	2,074	800	700	800	900	1,100	615	488	360
Errors and Omissions	-20	-47	-183	-136	0	0	-36	-27	-19
Overall Balance	**-4**	**-534**	**768**	**116**	**194**	**465**	**555**	**666**	**776**
Financing	4	524	-768	-116	-194	-465	-554	-664	-774
Change in Foreign Reserves	-265	63	-1,290	-116	-194	-465	-438	-455	-472
IMF (Net)	-54	-78	-26	-21	56	-14	38	55	73
Arrears	323	126	548	-9,691	0	0	-2,672	-3,022	-3,371
Rescheduling	0	413	0	9,691	0	0	2,529	2,771	3,012

Note: Figures are rounded.

Source: Vietnamese authorities, IMF and World Bank staff estimates.

Table 3.2: MERCHANDISE EXPORTS BY COMMODITY

(US$ million)

	1997	1998	1999	2000	Rev 2001	Pre 2002
Total Exports	9,145	9,365	11,540	14,448	15,027	16,706
Rice	870	1,024	1,025	667	625	726
Quantity (000 tons)	3,553	3,749	4,508	3,477	3,729	3,241
Unit Value (US$/ton)	245	273	227	192	168	224
Petroleum	1,413	1,232	2,092	3,503	3,126	3,270
Quantity (000 tons)	9,574	12,145	14,882	15,424	16,732	16,879
Unit Value (US$/ton)	148	101	141	227	187	194
Coal	111	102	96	94	113	156
Quantity (000 tons)	3,449	3,161	3,260	3,251	4,290	6,049
Unit Value (US$/ton)	32	32	29	29	26	26
Rubber	191	127	147	166	166	268
Quantity (000 tons)	195	191	265	273	308	449
Unit Value (US$/ton)	981	665	555	607	539	597
Tea	48	51	45	70	78	83
Quantity (000 tons)	32	33	36	56	68	75
Unit Value (US$/ton)	1,506	1,545	1,250	1,250	1,150	1,103
Coffee	491	594	585	501	391	322
Quantity (000 tons)	389	382	482	734	931	719
Unit Value (US$/ton)	1,261	1,555	1,214	683	420	449
Cashew Nut	133	117	110	167	152	209
Quantity (000 tons)	33	16	18	34	44	62
Unit Value (US$/ton)	4,100	7,313	5,978	4,892	3,474	3,358
Black Pepper	63	64	137	146	91	107
Quantity (000 tons)	23	15	35	37	57	77
Unit Value (US$/ton)	2,727	4,267	3,914	3,943	1,601	1,399
Marine Products	781	858	971	1,479	1,778	2,023
Vegetable & Fruits	68	53	105	214	330	201
Textiles and Garments	1,349	1,450	1,747	1,892	1,975	2,752
Footwear	965	1,032	1,392	1,465	1,559	1,867
Handicraft	121	111	168	237	235	331

Source: General Statistical Office, Statistical Yearbook 2003, and General Department of Customs

Table 3.3: MAJOR IMPORTS BY COMMODITY

(US$ millions)

	1997	1998	1999	2000	Rev 2001	Pre 2002
Total Imports (c.i.f.)	11,592	11,500	11,742	15,637	16,162	19,733
Petroleum products	1,094	827	1,054	2,058	1,828	2,017
Quantity (000 tons)	5,947	6,830	7,403	8,777	8,998	9,966
Unit Value (US$/ton)	184	121	142	234	203	202
Fertilizers	425	477	464	509	404	477
Quantity (000 tons)	2,458	3,554	3,782	3,973	3,189	3,824
Unit Value (US$/ton)	173	134	123	128	127	125
Steel	484	524	587	812	965	1,334
Quantity (000 tons)	1,320	1,735	2,264	2,868	3,938	4,951
Unit Value (US$/ton)	367	302	259	283	245	269
Machines and Spare Parts	1,777	2,052	2,005	2,571	2,741	3,793
Others						
Textile Fiber	159	175	194	231	247	314
Quantity (000 tons)	77	130	160	176	211	263
Raw Cotton	110	92	91	101	132	97
Quantity (000 tons)	74	68	77	84	113	97
Wheat	48	67	29	16	11	11
Quantity (000 tons)	166	271	143	86	62	60
Cars and Trucks	136	130	89	134	427	427
Quantity (000 units)	14.0	17.2	17.2	15.7	49.6	49.6
Sugar	-	32	7	22	21	0
Quantity (000 tons)	-	123	43	65	81	1
MSG	27	15	7	11	9	7
Quantity (000 tons)	20	12	9	14	12	8
Motorbikes	243	351	399	787	670	422
Quantity (000 units)	247	368	509	1,807	2,503	1,480
Pharmaceuticals	66	52	57	62	69	83

Source: General Statistical Office, Statistical Yearbook 2003, and General Department of Customs

Table 4.1: MONETARY SURVEY

ACCOUNT	1997	1998	1999	2000	2001				2002			
					Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	(in trillion of dong, end of period)											
Net Foreign Assets	21.0	31.4	61.2	95.7	101.3	108.7	114.7	117.6	116.9	120.8	120.3	117.5
Foreign assets	37.9	47.9	77.7	112.7	118.5	126.5	133.0	135.9	135.4	139.3	139.3	135.9
Foreign liabilities	-16.9	-16.5	-16.5	-17.0	-17.2	-17.8	-18.3	-18.3	-18.5	-18.5	-19.0	-18.4
Net Domestic Assets	60.6	69.7	99.2	127.2	137.1	140.2	148.7	162.2	173.0	182.0	194.7	211.7
Domestic credit	66.8	79.3	115.7	155.2	163.6	167.6	177.1	191.2	201.4	211.4	224.6	239.9
Net claims on government	4.4	6.7	3.0	-0.5	-0.7	-4.5	-3.5	2.1	2.8	2.2	5.3	8.8
Claims to the economy*	62.4	72.7	112.7	155.7	164.3	172.1	180.6	189.1	198.6	209.2	219.3	231.1
Claims on state enterprises	31.0	37.7	54.3	69.9	73.1	75.1	76.9	79.7	81.7	84.1	86.9	89.5
Claims on other sectors	31.4	34.9	58.4	85.8	91.2	97.0	103.6	109.4	116.9	125.1	132.4	141.6
Other items net	-6.2	-9.6	-16.5	-28.0	-26.5	-27.4	-28.4	-29.0	-28.4	-29.4	-29.9	-28.2
Broad money (M2)	81.6	101.1	160.5	222.9	238.5	249.0	263.4	279.8	289.9	302.7	315.0	329.1
Dong liquidity	62.9	76.2	116.5	152.5	160.7	164.7	174.8	191.1	202.7	209.2	219.3	235.5
Foreign currency deposits	18.7	24.9	43.8	70.4	77.8	84.3	88.6	88.7	87.2	93.5	95.7	93.6
	(Change in percent since the beginning of the year)											
Net Foreign Assets	47.3	49.5	97.8	56.4	5.9	13.6	19.9	22.9	-0.6	2.7	2.3	-0.1
Net Domestic Assets	20.1	15.0	13.7	28.2	7.8	10.2	16.9	27.5	-16.5	-14.1	-14.1	-16.2
Credit to the economy	22.6	16.5	19.3	38.1	5.5	10.5	16.0	21.4	5.0	10.6	16.0	22.2
Claims on state enterprises	15.6	21.6	9.7	28.7	4.5	7.5	10.0	14.1	2.5	5.4	9.0	12.2
Claims on other sectors	30.5	11.1	29.8	46.9	6.3	13.1	20.8	27.5	6.9	14.4	21.0	29.5
Total liquidity	26.1	23.9	39.1	39.0	7.0	11.7	18.2	25.5	3.6	8.2	12.6	17.6
	(Yearly change in percent)											
Net Foreign Assets	47.3	49.5	97.8	10.9	5.9	7.3	5.5	2.5	(0.6)	3.3	(0.4)	(2.3)
Net Domestic Assets	20.1	15.0	13.7	14.0	7.8	2.3	6.1	9.1	6.7	5.2	7.0	8.7
Credit to the economy	22.6	16.4	19.3	10.7	5.5	4.7	4.9	4.7	5.0	5.3	4.8	5.4
Claims on state enterprises	15.6	21.7	9.7	7.9	4.6	2.7	2.4	3.6	2.5	2.9	3.3	3.0
Claims on other sectors	30.5	11.2	29.8	13.2	6.3	6.4	6.8	5.6	6.9	7.0	5.8	6.9
Total liquidity	26.1	24.0	39.1	12.5	7.0	4.4	5.8	6.2	3.6	4.4	4.1	4.5

a/ Data for 1997-1998 comprise the SBV, four state-owned commercial banks and 24 non-state banks

b/ Data from 1999 onwards comprise the SBV, six state-owned commercial banks and 83 non-state banks

Source: State Bank of Vietnam, IMF and WB

Table 5.1: SUMMARY OF BUDGETARY OPERATIONS

	1997	1998	1999	2000	2001	2002 Estimate
Revenue and Grants	65,352	72,965	78,489	90,794	103,888	119,018
Tax Revenue (non-SOEs)	27,574	31,388	35,802	34,523	40,055	51,502
Transfers from SOEs a/	27,149	28,911	32,114	45,195	51,878	53,531
Other Non-Tax Revenue	8,043	10,523	8,212	9,003	9,944	11,974
Grants	2,586	2,143	2,361	2,028	2,011	2,011
Total Expenditure	70,749	74,761	84,817	103,151	119,430	133,387
Current Expenditure (exc. Interest)	49,351	52,197	52,793	66,613	72,564	78,896
Wages and Salaries	21,580	22,389	23,275	29,523	35,930	37,050
Other	27,771	29,808	29,518	37,090	38,810	41,846
Capital Expenditure	19,482	20,514	29,697	29,624	40,236	44,032
Overall Balance (before Interest)	-3,481	254	-4,001	-8,888	-11,057	-8,361
Interest paid	1,916	2,050	2,327	3,514	4,485	6,008
Overall Balance	-5,397	-1,796	-6,328	-12,402	-15,542	-14,369
Financing	5,397	1,796	6,328	12,402	15,542	14,369
Foreign Loans (Net)	192	2,005	4,837	6,292	4,810	5,307
Utilization	3,370	4,813	7,787	8,667	6,848	7,526
Amortization	3,178	2,808	2,950	2,375	2,038	2,219
Domestic Loans (Net)	5,205	-209	1,491	6,110	7,333	6,918
Government Securities (Net)	5,205	-209	-509	6,110	7,333	6,918
Gross Issue	9,334	7,332	8,825	12,077	13,552	17,417
Amortization	4,129	7,541	9,334	5,967	6,219	10,499
Others c/					3,400	2,145
			in percent of GDP			
Revenue and Grants	20.8	20.2	19.6	20.6	21.6	22.2
Tax Revenue (non-SOEs)	8.8	8.7	9.0	7.8	8.3	9.6
Transfers from SOEs a/	8.7	8.0	8.0	10.2	10.8	10.0
Other Non-Tax Revenue	2.6	2.9	2.1	2.0	2.1	2.2
Grants	0.8	0.6	0.6	0.5	0.4	0.4
Total Expenditure	22.6	20.7	21.2	23.4	24.8	24.9
Current Expenditure (exc. Interest)	15.7	14.5	13.2	15.1	15.1	14.7
Wages and Salaries	6.9	6.2	5.8	6.7	7.5	6.9
Other	8.9	8.3	7.4	8.4	8.1	7.8
Capital Expenditure	6.2	5.7	7.4	6.7	8.4	8.2
Overall Balance (before Interest)	-1.1	0.1	-1.0	-2.0	-2.3	-1.6
Interest paid	0.6	0.6	0.6	0.8	0.9	1.1
Overall Balance	-1.7	-0.5	-1.6	-2.8	-3.2	-2.7
Financing	1.7	0.5	1.6	2.8	3.2	2.7
Foreign Loans (Net)	0.1	0.6	1.2	1.4	1.0	1.0
Utilization	1.1	1.3	1.9	2.0	1.4	1.4
Amortization	1.0	0.8	0.7	0.5	0.4	0.4
Domestic Loans (Net)	1.7	-0.1	0.4	1.4	1.5	1.3
Government Securities (Net)	1.7	-0.1	-0.1	1.4	1.5	1.3
Gross Issue	3.0	2.0	2.2	2.7	2.8	3.2
Amortization	1.3	2.1	2.3	1.4	1.3	2.0
Others c/					0.7	0.4
Memo Item: GDP (VND bn)	*313,623*	*361,016*	*399,942*	*441,646*	*481,295*	*536,098*

Source: Ministry of Finance.

Table 5.2A: GOVERNMENT REVENUE

in VND billion	1997	1998	1999	2000	2001	2002 Estimate
State Enterprises:	27,149	28,911	32,114	45,195	51,878	53,531
Taxes	27,149	28,911	32,114	45,195	51,878	53,531
Profit Tax	8,818	9,878	11,384	18,334	20,926	22,696
Turnover Tax a/	7,110	7,245	7,367	7,080	8,525	9,870
Special Consumption Tax (Excises)	3,567	4,201	3,362	3,903	4,699	5,260
Natural Resources Tax	3,375	3,248	4,499	7,441	8,369	8,277
License Tax	17	21	18	19	20	19
Capital User Charge	1,450	1,724	1,543	1,642	1,702	0
Other Taxes	2,812	2,594	3,941	6,776	7,637	7,409
Non-State Sector:	10,229	10,825	11,115	10,834	11,404	12,752
Agricultural Tax	1,697	1,956	1,973	1,776	814	722
Non-Agricultural Tax	8,532	8,869	9,142	9,058	10,590	12,030
Turnover Tax a/	2,891	2,653	2,695	2,601	3,173	3,688
Profits Tax	1,999	2,381	2,433	2,664	3,063	3,504
Personal Income Tax	1,482	1,782	1,856	1,831	2,058	2,338
License Tax	340	314	341	360	378	402
Land Tax	333	307	342	366	330	336
Other	1,373	1,432	1,475	1,236	1,588	1,762
External Trade:	13,546	16,323	20,813	18,954	22,949	31,512
Import and Export Duties	13,546	14,873	14,441	13,437	17,458	21,856
VAT of Import			5,422	5,386	5,375	9,488
Surtaxes on Import		1,450	950	131	116	168
Joint Ventures	3,799	4,240	3,874	4,735	5,702	7,238
Other Revenue	8,043	10,523	8,212	9,003	9,944	11,974
Grants	2,586	2,143	2,361	2,028	2,011	2,011
Total Revenue (inc. Grants)	65,352	72,965	78,489	90,749	103,888	119,018

Note: a/ from 1999 VAT

Source: Ministry of Finance.

Table 5.2B: GOVERNMENT REVENUE - PERCENTAGE SHARE

	1997	1998	1999	2000	2001	2002 Estimate
	in percent of GDP					
State Enterprises:	8.7	8.0	8.0	10.2	10.8	10.0
Taxes	8.7	8.0	8.0	10.2	10.8	10.0
Profit Tax	2.8	2.7	2.8	4.2	4.3	4.2
Turnover Tax a/	2.3	2.0	1.8	1.6	1.8	1.8
Special Consumption Tax (Excises)	1.1	1.2	0.8	0.9	1.0	1.0
Natural Resources Tax	1.1	0.9	1.1	1.7	1.7	1.5
License Tax	0.0	0.0	0.0	0.0	0.0	0.0
Capital User Charge	0.5	0.5	0.4	0.4	0.4	0.0
Other Taxes	0.9	0.7	1.0	1.5	1.6	1.4
Non-State Sector:	3.3	3.0	2.8	2.5	2.4	2.4
Agricultural Tax	0.5	0.5	0.5	0.4	0.2	0.1
Non-Agricultural Tax	2.7	2.5	2.3	2.1	2.2	2.2
External Trade:	4.3	4.5	5.2	4.3	4.8	5.9
Import and Export Duties	4.3	4.1	3.6	3.0	3.6	4.1
VAT of Import			1.4	1.2	1.1	1.8
Surtaxes on Import		0.4	0.2	0.0	0.0	0.0
Joint Ventures	1.2	1.2	1.0	1.1	1.2	1.4
Other Revenue	2.6	2.9	2.1	2.0	2.1	2.2
Grants	0.8	0.6	0.6	0.5	0.4	0.4
Total Revenue (inc. Grants)	20.8	20.2	19.6	20.5	21.6	22.2
	in percent of total revenue					
State Enterprises:	41.5	39.6	40.9	49.8	49.9	45.0
Taxes	41.5	39.6	40.9	49.8	49.9	45.0
Profit Tax	13.5	13.5	14.5	20.2	20.1	19.1
Turnover Tax a/	10.9	9.9	9.4	7.8	8.2	8.3
Special Consumption Tax (Excises)	5.5	5.8	4.3	4.3	4.5	4.4
Natural Resources Tax	5.2	4.5	5.7	8.2	8.1	7.0
License Tax	0.0	0.0	0.0	0.0	0.0	0.0
Capital User Charge	2.2	2.4	2.0	1.8	1.6	0.0
Other Taxes	4.3	3.6	5.0	7.5	7.4	6.2
Non-State Sector:	15.7	14.8	14.2	11.9	11.0	10.7
Agricultural Tax	2.6	2.7	2.5	2.0	0.8	0.6
Non-Agricultural Tax	13.1	12.2	11.6	10.0	10.2	10.1
External Trade:	20.7	22.4	26.5	20.9	22.1	26.5
Import and Export Duties	20.7	20.4	18.4	14.8	16.8	18.4
VAT of Import		0.0	6.9	5.9	5.2	8.0
Surtaxes on Import		2.0	1.2	0.1	0.1	0.1
Joint Ventures	5.8	5.8	4.9	5.2	5.5	6.1
Other Revenue	12.3	14.4	10.5	9.9	9.6	10.1
Grants	4.0	2.9	3.0	2.2	1.9	1.7
Total Revenue (inc. Grants)	100.0	100.0	100.0	100.0	100.0	100.0
Memo Item: GDP (VND bn)	*313,623*	*361,016*	*399,942*	*441,646*	*481,295*	*536,098*

Source: Ministry of Finance.

Table 5.3: FUNCTIONAL CLASSIFICATION OF CURRENT EXPENDITURE

	1997	1998	1999	2000	2001	Est 2002
General Administrative Service	7,138	6,741	6,793	8,089	8,733	9,056
Economic Service	4,473	4,849	4,772	5,796	6,288	7,762
Social Service	23,708	24,420	25,576	30,691	37,369	39,603
Education	7,150	7,653	7,994	9,910	12,006	13,831
Health	3,033	3,064	3,117	3,457	3,426	4,013
Pensions, social relief	9,179	8,710	9,002	10,739	13,425	12,466
Other	4,346	4,993	5,463	6,585	8,512	9,293
Interest paid	1,916	2,050	2,327	3,514	4,485	6,008
Others	14,032	16,187	15,652	22,034	20,173	22,475
Total Current Expenditure:						
Cash Basis, incl. Interest	51,267	54,247	55,120	70,127	77,049	84,904
Cash Basis, excl. Interest	49,351	52,197	52,793	66,613	72,564	78,896
	(percent of GDP)					
General Administrative Service	2.3	1.9	1.7	1.8	1.8	1.7
Economic Service	1.4	1.3	1.2	1.3	1.3	1.4
Social Service	7.6	6.8	6.4	6.9	7.8	7.4
Education	2.3	2.1	2.0	2.2	2.5	2.6
Health	1.0	0.8	0.8	0.8	0.7	0.7
Interest paid	0.6	0.6	0.6	0.8	0.9	1.1
Others	4.5	4.5	3.9	5.0	4.2	4.2
Total Current Expenditure						
incl. Interest	16.3	15.0	13.8	15.9	16.0	15.8
exc. Interest	15.7	14.5	13.2	15.1	15.1	14.7
Memo Item: GDP (VND bn)	*313,623*	*361,016*	*399,942*	*441,646*	*481,295*	*536,098*

Source: Ministry of Finance and General Statistical Office

Table 5.4: FUNCTIONAL CLASSIFICATION OF CAPITAL EXPENDITURE

	1996	1997	1998	1999	2000	2001
Agriculuture, Forestry& Irrigation b/	2,161	2,701	3,493	4,067	4,436	5,893
Fishery		61	453	230	106	112
Transportation	4,650	6,150	6,959	9,969	10,055	12,900
Industry, of which	1,468	2,387	2,708	3,409	3,703	3,897
Energy	658	498	394	606	782	801
Water	349	604	604	618	1,219	674
Education & Training	2,266	2,212	3,551	3,440	4,124	5,327
Health	808	925	1,342	2,109	1,717	2,178
Social Subsidies and Relief	120	206	203	217	210	214
Culture and Sport	1,123	1,374	1,448	1,588	1,963	2,134
Science, Technology and Environment	285	238	353	350	482	523
Others	5,764	5,670	2,911	7,887	8,311	13,174
Total Capital Expenditure a/	18,645	21,924	23,421	33,266	35,107	46,352
		(percent of GDP)				
Agriculuture, Forestry& Irrigation b/	0.8	0.9	1.0	1.0	1.0	1.2
Fishery	0.0	0.0	0.1	0.1	0.0	0.0
Transportation	1.7	2.0	1.9	2.5	2.3	2.7
Industry, of which	0.5	0.8	0.8	0.9	0.8	0.8
Energy	0.2	0.2	0.1	0.2	0.2	0.2
Water	0.1	0.2	0.2	0.2	0.3	0.1
Education & Training	0.8	0.7	1.0	0.9	0.9	1.1
Health	0.3	0.3	0.4	0.5	0.4	0.5
Social Subsidies and Relief	0.0	0.1	0.1	0.1	0.0	0.0
Culture and Sport	0.4	0.4	0.4	0.4	0.4	0.4
Science, Technology and Environment	0.1	0.1	0.1	0.1	0.1	0.1
Others	2.1	1.8	0.8	2.0	1.9	2.7
Total Capital Expenditure a/	6.9	7.0	6.5	8.3	7.9	9.6
Memo Item: GDP (VND bn)	*272,036*	*313,623*	*361,016*	*399,942*	*441,646*	*481,295*

Source: Ministry of Finance and General Statistical Office

Table 5.5. DEBT STOCK AND DEBT SERVICES

(US$ million, unless otherwise indicated)

	1997	1998	1999	2000/rev	2001/rev	2002/rev
DEBT OUTSTANDING (LDOD)	18,982	19,874	20,481	11,581	11,433	12,165
Public and publicly guaranteed	18,982	19,874	20,481	11,581	11,433	12,156
Official creditors	14,241	15,446	16,818	8,679	9,170	10,503
Multilateral	827	1,270	1,606	1,895	2,210	2,868
Concessional	819	1,252	1,584	1,846	2,156	2,794
Bilateral (1)	13,413	14,176	15,212	6,784	6,960	7,635
Private creditors	4,742	4,428	3,663	2,902	2,263	1,662
Bonds	560	560	560	560	560	560
Commercial banks	3,484	3,136	2,323	1,685	1,102	552
Other private	698	733	781	657	602	550
Memorandum item						
IDA	569	851	939	1,113	1,344	1,715
Debt services						
Public Debt Service/XGS	7.8	9.2	10.1	7.6	*6.8*	*6.0*
Public Debt Service/GDP	3.4	4.0	4.9	4.2	*3.7*	*3.3*

Note: Figures are rounded.

(1) From 2000 onwards, data reflects the rescheduling of non-convertible Russian debt.

Source: Ministry of Finance and World Bank

Table 6.1A: MONTHLY CHANGE IN CONSUMER RETAIL PRICES

Month/Year	1997	1998	1999	2000	2001	2002
January	0.8	1.6	1.7	0.4	0.3	1.1
February	1.8	2.2	1.9	1.6	0.4	2.2
March	-0.5	-0.8	-0.7	-1.1	-0.7	-0.8
April	-0.6	1.6	-0.6	-0.7	-0.5	0.0
May	-0.5	1.5	-0.4	-0.6	-0.2	0.3
June	0.1	0.0	-0.3	-0.5	0.0	0.1
July	0.2	-0.5	-0.4	-0.6	-0.2	-0.1
August	0.1	1.1	-0.4	0.1	0.0	0.0
September	0.6	1.0	-0.6	-0.2	0.5	0.2
October	0.3	0.3	-1.0	0.1	0.0	0.3
November	0.3	0.1	0.4	0.9	0.2	0.3
December	1.0	0.8	0.5	0.1	1.0	0.3

Source: General Statistical Office, Statistical Yearbooks 2003

Table 6.1B: MONTHLY CONSUMER RETAIL PRICE INDEX (Jan 1995=100)

Month/Year	1997	1998	1999	2000	2001	2002
January	114.5	119.6	130.7	129.1	128.3	130.4
February	116.6	122.2	133.2	131.2	128.8	133.2
March	116.0	121.2	132.3	129.8	127.9	132.2
April	115.3	123.2	131.5	128.9	127.3	132.2
May	114.7	125.0	131.0	128.1	127.0	132.6
June	114.8	125.0	130.6	127.4	127.0	132.7
July	115.0	124.4	130.1	126.7	126.8	132.6
August	115.2	125.8	129.5	126.8	126.8	132.6
September	115.8	127.0	128.8	126.6	127.4	132.8
October	116.2	127.4	127.5	126.7	127.4	133.2
November	116.5	127.5	128.0	127.8	127.7	133.7
December	117.7	128.6	128.6	127.9	129.0	134.1
Annual Index: (Jan 1995=100)	115.7	124.8	130.2	128.1	127.6	132.7
Annual Growth Rate	3.2	7.8	4.3	-1.6	-0.4	4.0
Dec/Dec Growth Rate	3.6	9.2	0.1	-0.5	0.8	4.0

Source: General Statistical Office, Statistical Yearbook 2003 and Bank staff calculation.

Table 6.2A: PRICE INDEX BY COMMODITY GROUPS --- Monthly Change

GOODS and SERVICES	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
General Index	1.1	2.2	-0.8	0.0	0.3	0.1	-0.1	0.1	0.2	0.3	0.3	0.3
Food & foodstuff	1.9	4	-1.1	0.0	0.7	0.2	-0.4	0.0	0.3	-0.2	0.0	0.3
of which: Food	*4.0*	*2.7*	*-1.1*	*-0.8*	*-0.5*	*-2.5*	*-0.4*	*-0.1*	*0.6*	*0.2*	*1.1*	*1.6*
Foodstuff	*0.1*	*1.3*	*-1.6*	*-0.3*	*0.3*	*0.4*	*0.1*	*0.0*	*0.1*	*-0.4*	*-0.5*	*-0.2*
Beverage & tobacco	0.4	1.4	-0.8	-0.2	0.4	0.1	0.2	0.2	0.3	0.3	0.3	0.7
Garment, hats, footwear	0.6	0.5	-0.3	-0.1	-0.2	0.0	-0.1	0.1	0.4	0.0	0.1	0.1
Housing & construction materials	0.0	0.2	-0.2	-0.1	0.3	0.5	0.2	0.2	0.4	3.1	1.9	0.5
Household appliancies	0.4	0.3	-0.3	0.1	0.0	0.0	0.0	0.1	0.1	-0.1	0.0	0.2
Healthcare, pharmaceutical items	0.2	0.1	-0.1	0.0	0.2	0.0	0.1	-0.2	-0.1	0.0	0.1	0.2
Transport & Telecommunication	0.1	1	-0.9	-0.1	-0.1	0.0	0.0	0.1	0.0	1.0	0.6	0.0
Educational items	0.0	0.2	-0.2	0.0	-0.1	0.3	0.8	-0.6	0.4	0.6	0.5	0.3
Cultural and recreation items	0.2	1.4	-0.2	-0.5	-0.2	0.0	-1.0	0.4	0.0	-0.2	0.2	-0.1
Goods and other services	0.9	1.3	-1.0	-0.1	-0.2	0.0	-0.3	0.3	0.1	0.6	0.1	0.3
Gold	1.5	1.5	1.8	3.7	2.6	3.9	-0.2	-0.2	0.4	1.8	-0.2	1.2
US Dollar	0.1	0.2	0.2	0.3	0.2	0.3	0.1	0.2	0.1	0.2	0.1	0.1

Source: General Statistical Office, Statistical Yearbooks 2003

Table 6.2B: PRICE INDEX BY COMMODITY GROUPS --- Jan 2002=100

GOODS and SERVICES	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
General Index	100.0	102.2	101.4	101.4	101.7	101.8	101.7	101.8	102.0	102.3	102.6	102.9
Food & foodstuff	100.0	104.0	102.9	102.9	103.6	103.8	103.4	103.4	103.7	103.5	103.5	103.8
of which: Food	100.0	102.7	101.6	100.8	100.3	97.7	97.4	97.3	97.8	98.0	99.1	100.7
Foodstuff	100.0	101.3	99.7	99.4	99.7	100.1	100.2	100.2	100.3	99.9	99.4	99.2
Beverage & tobacco	100.0	101.4	100.6	100.4	100.8	100.9	101.1	101.3	101.6	101.9	102.2	102.3
Garment, hats, footwear	100.0	100.5	100.2	100.1	99.9	99.9	99.8	99.9	100.3	100.3	100.4	100.9
Housing & construction materials	100.0	100.2	100.0	99.9	100.2	100.7	100.9	101.1	101.5	104.7	106.6	106.9
Household appliancies	100.0	100.3	100.0	100.1	100.1	100.1	100.1	100.2	100.3	100.2	100.2	100.4
Healthcare, pharmaceutical items	100.0	100.1	100.0	100.0	100.2	100.2	100.3	100.1	100.0	100.0	100.1	100.1
Transport & Telecommunication	100.0	101.0	100.1	100.0	99.9	99.9	99.9	100.0	100.0	101.0	101.6	101.9
Educational items	100.0	100.2	100.0	100.0	99.9	100.2	101.0	100.4	100.8	101.4	101.9	101.8
Cultural and recreation items	100.0	101.4	101.2	100.7	100.5	100.5	99.5	99.9	99.9	99.7	99.9	100.2
Goods and other services	100.0	101.3	100.3	100.2	100.0	100.0	99.7	100.0	100.1	100.7	100.8	100.8
Gold	100.0	101.5	103.3	107.2	109.9	114.2	114.0	113.8	114.2	116.3	116.0	117.4
US Dollar	100.0	100.2	100.4	100.7	100.9	101.2	101.3	101.5	101.6	101.8	101.9	102.0

Source: General Statistical Office, Statistical Yearbooks 2003

Table 7.1: AGRICULTURAL PRODUCTION

(current prices)

	1997	1998	1999	2000	Rev 2001	Prel 2002
Gross Output	99,352	114,418	128,416	129,141	130,178	150,282
Crop cultivation	77,358	91,226	101,648	101,044	101,403	114,934
Livestock	19,287	20,365	23,773	24,960	25,501	31,936
Services	2,707	2,826	2,995	3,137	3,273	3,412
			Share in percent			
Gross Output	100.0	100.0	100.0	100.0	100.0	100.0
Crop cultivation	77.9	79.7	79.2	78.2	77.9	76.5
Livestock	19.4	17.8	18.5	19.3	19.6	21.3
Services	2.7	2.5	2.3	2.4	2.5	2.3

Source: General Statistical Office, Statistical Yearbooks 2003

Table 7.2: AGRICULTURAL PRODUCTION

(constant 1994 prices)

	1997	1998	1999	2000	Rev 2001	Prel 2002
Gross Output	93,783	99,096	106,368	112,112	118,990	121,011
Crop Cultivation	75,746	80,292	86,309	90,858	92,907	96,921
Food crops	46,953	49,060	52,720	55,163	55,066	58,687
Industrial crops	15,804	18,035	19,906	21,782	23,109	22,234
Livestock	15,465	16,204	17,337	18,505	19,283	21,200
Services	2,572	2,600	2,650	2,748	2,800	2,890
			Growth in percent			
Gross Output	7.0	5.7	7.3	5.4	6.1	1.7
Crop Cultivation	7.0	6.0	7.5	5.3	2.3	4.3
Food crops	5.1	4.5	7.5	4.6	-0.2	6.6
Industrial crops	13.2	14.1	10.4	9.4	6.1	-3.8
Livestock	7.8	4.8	7.0	6.7	4.2	9.9
Services	2.0	1.1	1.9	3.7	1.9	3.2
Memorandum Items:						
Paddy Ouput (000 tons)	27,524	29,146	31,394	32,530	32,108	34,064
Cultivated Area (000 ha)	7,100	7,363	7,654	7,666	7,493	7,485
Yield (ton/ha)	3.9	4.0	4.1	4.2	4.3	4.6

Source: General Statistical Office, Statistical Yearbooks 2003

Table 7.3: INDUSTRIAL CROP PRODUCTION AND YIELDS

	1997	1998	1999	2000	Rev 2001	Prel 2002
Production (000 metric tons)						
Cotton	14.0	22.0	22.2	18.8	33.6	37.2
Jute	22.3	14.6	9.4	11.3	14.6	20.5
Rush	80.9	69.9	72.5	61.4	64.5	85.0
Sugar cane	11,428	13,844	17,760	15,044	14,657	16,824
Peanuts	352.9	386.0	318.1	355.3	363.1	397.0
Soybeans	113.0	146.7	147.2	149.3	173.7	201.4
Tobacco	27.2	33.3	35.6	27.1	32.0	34.4
Tea	52.2	56.6	70.3	69.9	75.7	89.6
Coffee	420.5	427.4	553.2	802.5	840.6	688.7
Rubber	186.5	193.5	248.7	290.9	312.6	331.4
Black pepper	13.0	15.9	31.0	39.2	44.4	51.1
Coconut	1,317.6	1,105.6	1,104.2	884.8	892.0	838.0
Area Cultivated (000 ha)						
Cotton	15.2	23.8	21.2	18.6	27.7	34.8
Jute	12.4	6.7	4.1	5.5	7.8	9.8
Rush	11.1	9.8	10.9	9.3	9.7	11.6
Sugarcane	257.0	283.0	344.2	302.3	290.7	317.4
Peanuts	254.0	269.0	247.6	244.9	244.6	246.8
Soybeans	106.4	129.4	129.1	124.1	140.3	158.1
Tobacco	26.3	32.4	32.5	24.4	24.4	26.9
Tea	78.6	77.4	84.8	87.7	98.3	106.8
Coffee	340.3	370.6	477.7	561.9	565.3	531.3
Rubber	347.5	382.0	394.9	412.1	415.8	429.0
Black pepper	9.8	12.8	17.6	27.9	36.1	43.5
Coconut	169.9	163.4	163.5	161.3	155.8	147.1
Average Yield (metric ton/ha)						
Cotton	0.9	0.9	1.0	1.0	1.2	1.1
Jute	1.8	2.2	2.3	2.1	1.9	2.1
Rush	7.3	7.1	6.7	6.6	6.6	7.3
Sugarcane	44.5	48.9	51.6	49.8	50.4	53.0
Peanuts	1.4	1.4	1.3	1.5	1.5	1.6
Soybeans	1.1	1.1	1.1	1.2	1.2	1.3
Tobacco	1.0	1.0	1.1	1.1	1.3	1.3
Tea	0.7	0.7	0.8	0.8	0.8	0.8
Coffee	1.2	1.2	1.2	1.4	1.5	1.3
Rubber	0.5	0.5	0.6	0.7	0.8	0.8
Black pepper	1.3	1.2	1.8	1.4	1.2	1.2
Coconut	7.8	6.8	6.8	5.5	5.7	5.7

Source: General Statistical Office, Statistical Yearbook 2003

Table 8.1: INDUSTRIAL PRODUCTION AND NUMBER OF INDUSTRIAL ENTERPRISES

At constant 1994 prices, VND billion	1997	1998	1999	2000	Rev 2001	Prel. 2002
Gross Industrial Production	134,420	151,223	168,749	198,326	227,342	260,202
State sector	64,474	69,463	73,208	82,897	93,434	104,348
Central	42,216	45,677	48,395	54,962	62,119	69,964
Local	22,258	23,785	24,813	27,935	31,316	34,384
Non-state sector	31,068	33,402	37,027	44,144	53,647	63,948
Collectives	751	859	1,076	1,334	1,575	1,874
Private, Households and Mixed	30,317	32,544	35,951	42,810	52,072	62,074
Foreign-Invested sector	38,878	48,359	58,515	71,285	80,261	91,906
Key Industries						
Coal	2,229	2,138	2,048	2,366	2,695	3,100
Oil and Gas	14,329	16,869	20,582	22,746	23,766	23,714
Mining and metal ores	172	200	191	209	239	269
Stones and other mining	1,674	1,911	1,759	2,015	2,398	2,788
Food and beverage	34,015	36,496	37,744	43,634	50,373	57,930
Cigarettes and tobacco	4,400	4,895	4,796	5,744	6,690	7,380
Textile products	7,261	8,366	8,388	10,046	10,641	11,429
Garment/apparel	4,325	1,667	5,218	6,042	6,862	8,024
Lether tanning and processing	6,614	7,083	7,725	8,851	9,529	10,253
Wood and wood products	3,146	2,956	3,180	3,598	3,903	4,289
Paper and paper products	2,644	3,178	3,470	3,930	4,562	5,139
Printing and publishing	1,621	1,868	2,012	2,274	2,453	2,583
Chemicals	7,223	8,144	9,682	11,123	12,852	14,585
Rubber products and plastic	3,528	4,418	5,427	6,456	8,128	9,882
Non-Metallic products	12,223	13,745	14,785	18,259	21,625	25,935
Metalic production	4,000	4,080	5,000	5,914	6,842	7,877
Metallic products	3,559	4,210	5,036	5,768	7,063	8,467
Machinery and equipment	1,674	2,050	2,163	2,761	3,421	4,166
Computer and office equipment	38	228	1,703	1,295	977	782
Electric and electronic equipments	1,650	2,308	2,944	3,622	5,172	7,595
Radio, TV and telecom	3,278	3,478	3,993	4,395	5,407	6,424
Production & repairing motor vehicles	1,629	1,668	1,846	3,232	4,265	5,801
Production & repairing other transport means	1,815	3,379	4,574	6,414	7,090	8,234
Furnitures	2,564	2,815	3,395	3,931	4,759	5,757
Recycles products	133	161	127	150	151	155
Electricity and gas	7,597	8,520	9,496	11,828	13,551	15,374
Water supply	847	920	971	1,066	1,152	1,248
Number of Industrial Enterprises						
Total	617,805	592,948	618,198	654,968	685,320	729,707
State owned	1,843	1,821	1,786	1,633	1,541	
Domestic non-state	615,296	590,246	615,453	652,272	682,330	
Foreign invested	666	881	959	1,063	1,449	

Source: General Statistical Office, Statistical Yearbook 2003

Table 8.2: MAJOR INDUSTRIAL PRODUCTS

Product	Unit	1997	1998	1999	2000	Rev 2001	Prel 2002
Electricity	Mil. kWh.	19,253	21,694	23,599	26,682	30,801	30,801
- State		19,182	21,681	23,584	24,972	28,643	28,643
- Non-State		5	13	15	1,711	2,158	2,158
Coal	Mil. Tons	11	12	10	12	13	16
- State		11	12	9	11	13	15
- Non-State		0	0	0.2	0.5	0.4	0.5
Crude Oil	Mil. Tons	10	12.5	15	16	17	17
- State		0	0	0	0	0	0
- Non-State (JV)		10	13	15	16	17	17
Steel	000 Tons	978	1,077	1,375	1,583	1,914	2,429
- State		486	504	502	567	694	782
- Non-State		492	573	873	1,016	1,220	1,647
Assembled Tivi sets	1,000	533	921	903	1,013	1,126	1,618
- State		166	162	156	158	177	194
- Non-State		367	759	747	856	949	1,425
Chemical Fertilizers	000 Tons	982	978	1,143	1,210	1,065	1,176
- State		981	972	1,121	1,204	1,056	1,168
- Non-State		1	6	22	5	9	8
Insecticides	000 Tons	19.1	20.2	21.9	20.1	20.0	17.2
- State		18.0	18.7	20.3	18.4	18.5	14.2
- Non-State		1.0	1.6	1.6	1.8	1.6	3.0
Cement	000 Tons	8,019	9,738	10,489	13,298	16,073	19,481
- State		7,139	7,735	7,890	9,560	9,931	9,931
- Non-State		44	2,003	2,599	3,738	6,142	9,550
Paper and Paper Products	000 Tons	263	311	349	408	445	468
- State		193	222	238	250	258	250
- Non-State		70	89	111	159	187	218
Salt	000 Tons	743	867	653	590	699	755
- State		148	200	108	82	119	150
- Non-State		595	667	545	508	580	605
Sugar	000 Tons	649	736	947	1,209	1,067	1,078
- State		221	257	412	495	388	413
- Non-State		428	479	536	714	679	665
Tea	000 Tons	45	53	64	70	82	85
- State		24	26	32	26	27	27
- Non-State		21	27	31	44	55	58
Textile Fibers	000 Tons	68	69	79	130	162	166
- State		62	64	73	78	97	89
- Non-State		6	5	7	51	65	77
Fabrics of all kinds	Mil. Meters	298	315	322	356	410	441
- State		153	148	147	165	166	180
- Non-State		145	167	175	191	244	260

Source: General Statistical Office, Statistical Yearbooks 2003

Asian Development Bank (ADB)
Australian Government's Overseas Aid Program (AusAID)
UK Department for International Development (DFID)
German Agency for Technical Cooperation (GTZ)
Japan International Cooperation Agency (JICA)
Save the Children UK
United Nations Development Programme (UNDP)
The World Bank

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