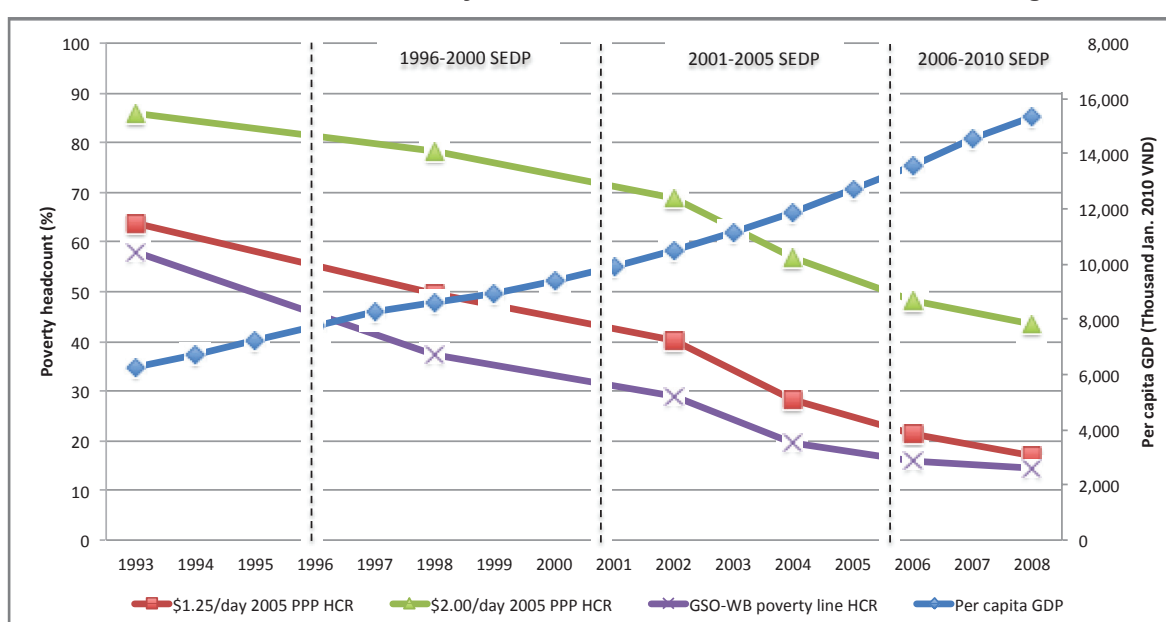


EXECUTIVE SUMMARY

Well Begun but Not Yet Done

Vietnam's record on economic growth and poverty reduction over the last two decades has been remarkable. Using a "basic needs" poverty line initially agreed in the early 1990s, the poverty headcount fell from 58 percent in the early 1990s to 14.5 percent by 2008, and by these standards was estimated to be well below 10 percent by 2010. Similar progress in the face of steadily rising incomes is evident when assessed by international standards of \$1.25 and \$2.00 person/day (2005 PPP). Progress has also been substantial in other dimensions of well-being, ranging from high primary and secondary enrolments to improvements in health status and reduced morbidity and mortality. Vietnam has achieved and in some cases surpassed many of the Millennium Development Goals (MDGs).

Economic Growth and Poverty Reduction in Vietnam: Two Decades of Progress



Market-based reforms to promote high and sustained economic growth were critical to Vietnam's success, buttressed by egalitarian policies in the provision of basic services, access to land, and investments in infrastructure to ensure widespread access to opportunities for the poor. But Vietnam is still in the midst of economic and social transformation, from a low-income subsistence economy in the 1990s to a diversified middle-income economy; from a traditional agrarian culture with family and community systems of support to one that is rapidly urbanizing and becoming more socially diversified. The rate of economic growth has slowed, in part due to external factors, but also as result of persistent high inflation and macro instability beginning in late 2007. Vietnam started to articulate a series of structural reforms in 2011 that aim to get the economy back on a path of rapid, sustainable, and poverty-reducing growth.

Despite remarkable progress, the task of poverty reduction is not complete, and in some respects it has become more difficult. Vietnam's "basic needs" poverty line, agreed in the early 1990s, is very low by international standards, and the methods used to monitor poverty since the early 1990s are outdated. The standards that applied to low-income Vietnam in the 1990s are no longer relevant to modern day, rising middle-income Vietnam. Although tens of millions of Vietnamese households have risen out of poverty, many have incomes very near the poverty line and remain vulnerable to falling back into poverty as a result of idiosyncratic shocks, (such as job loss, accidents, or death or illness of a household member), or related economy-wide shocks, (such as the effects of climate change on rainfall and temperatures, human and animal influenza pandemics, and impacts of the

2008–09 global financial crisis). Citizen aspirations are rising, and Vietnam's development policies must reflect both new economic realities and rising aspirations for shared prosperity and greater economic security.

Vietnam's success has created new challenges. The remaining poor are harder to reach; they face difficult challenges—of isolation, limited assets, low levels of education, poor health status—and poverty reduction has become less responsive to economic growth. Ethnic minority poverty is a persistent challenge. Although Vietnam's 53 ethnic minority groups make up less than 15 percent of the population, they accounted for 47 percent of the poor in 2010, compared to 29 percent in 1998. Using an updated poverty line that reflects living conditions in 2010, 66.3 percent of minorities are poor compared to only 12.9 percent of the Kinh majority population.

Rapid structural transformation and Vietnam's ongoing transition to a market economy have given rise to new patterns of development that bring additional challenges for poverty reduction. Inequality in incomes and opportunities are rising, underpinned by continuing disparities in human development between urban and rural areas and widening disparities within rural areas and across different socioeconomic groups. Poorer areas are not well connected to markets. While there is good coverage of local infrastructure and basic services in most regions of the country, reliability (for example, of electricity) and quality of services is uneven. Urbanization is accelerating and a growing number of workers from rural areas are migrating to the cities to work in private industry and services. Many of these jobs are informal and lack the benefits historically provided by the public sector and state-owned enterprises. There is a growing demand for young, skilled workers; many older workers do not, however, have the training or skills to compete for jobs in the expanding modern economy.

Context of the Report

Vietnam has a strong track record of monitoring poverty and undertaking poverty assessments.¹ The first report, ***Vietnam Poverty Assessment and Strategy*** was prepared in the mid-1990s when Vietnam was still a very low-income country (with GDP per capita of less than US\$200) but transitioning rapidly toward a market economy building on economic reforms initiated in 1986. The first poverty profile was developed based on the 1993 Vietnam Living Standards Survey (VLSS). A second report, the ***Vietnam Country Economic Memorandum Attacking Poverty***, was launched in 2000. It was prepared by a joint government-donor-nongovernmental organization (NGO) Poverty Working Group, and drew extensively on the 1993 and 1998 VLSS surveys, combined with four in-depth participatory poverty assessments. The report documented the rapid progress achieved over the course of the 1990s in creating economic opportunities for poor men and women, promoting measures to ensure that growth and access to services is fair and equitable, and reducing the vulnerability of the poor. Vietnam's third Poverty Assessment, the ***Vietnam Development Report: Poverty***, was produced in 2003, again based on a new round of Vietnam Household Living Standards Surveys (VHLSS) data (2002) and nine new Participatory Poverty Assessments led by local NGOs and think tanks. The report again documented sound progress and highlighted several continuing concerns, such as about spending and investment priorities and the role of voice and participation, and contributed substantially to the design of Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS).

Vietnam's fourth Poverty Assessment, ***Poverty Reduction in Vietnam: Achievements and Challenges*** (2010), was led by the Vietnam Academy of Social Sciences. While similar to earlier reports in highlighting Vietnam's impressive achievements over the last two decades, the 2012 report

¹ Vietnam's poverty monitoring system is based on a series of nationally representative household Living Standards Surveys carried out by the General Statistics Office (GSO) in 1993, 1998, 2002, 2004, 2006, 2008, and 2010. Successive rounds of the Vietnam Household Living Standards Surveys (VHLSS), combined with data from special purpose surveys, and supplemented by participatory poverty assessments (in 1998, 2003, and 2008) have been used to document progress.

raised concerns—for the first time—about a slowdown in progress. Beginning in 2008, Vietnam struggled with rising macro instability and bouts of high inflation, and the impacts of exogenous shocks (for example, the financial crisis in 2008–09). The report notes that both economic opportunities and risks have been heightened since Vietnam joined the World Trade Organization in late 2007, and macro and financial risks need to be carefully managed. Moreover, the report raised concerns about rising income inequality, that poverty reduction may be becoming less responsive to economic growth, and again raised questions about voice and participation.

This new report—***Well Begun, Not Yet Done: Vietnam’s Remarkable Progress on Poverty Reduction and the Emerging Challenges***—takes a fresh look at the lives of poor men, women, and children and explores the constraints and opportunities they face today in rising out of poverty. It builds on a rich body of poverty analysis and an excellent base of knowledge from previous reports and aims to do three things. First, it proposes revisions to Vietnam’s poverty monitoring system—via better data, updated welfare aggregates, and new poverty lines—to bring these more in line with economic and social conditions in present-day Vietnam. Second, it revisits the stylized facts about deprivation and poverty in Vietnam, and develops an updated profile of poverty using data from the 2010 VHLSS and new qualitative field studies. Third, it analyzes some of the key challenges for poverty reduction in the next decade, including changing regional patterns of poverty and wealth, high and persistent poverty among ethnic minorities, and rising inequality in outcomes and opportunities.

Updating Systems for Poverty Monitoring

Vietnam has a robust system for monitoring poverty, based on a long-running system of nationally representative, comparable living standards surveys (the Vietnam Household Living Standards Surveys, or VHLSS), consistent estimates of household welfare, and a poverty line that has been kept constant in real purchasing power since 1993. Consistency in methodology and comparability over time are two of the great strengths of Vietnam’s poverty monitoring system. However, by 2008, it was clear that key aspects of Vietnam’s poverty monitoring system had become outdated. The methods used to measure household welfare and construct the original poverty line ² were based on economic conditions and the consumption patterns of poor households in the early 1990s. Conditions have changed and Vietnam today is very different from Vietnam in the 1990s. In particular, the consumption patterns of poor households in 2010 were substantially different from consumption patterns in 1993, the reference period used to calculate the original poverty line.

Beginning in 2009, a team of World Bank staff and consultants worked in collaboration with the GSO to revise and update Vietnam’s poverty monitoring system. The design of the 2010 VHLSS (and subsequent rounds) was improved and a new sample framework developed on the basis of the 2009 Population and Housing Census. The welfare aggregate (per capita consumption) was revised to make it a more comprehensive measure of well-being, and new spatial cost-of-living indexes were calculated using a new survey of consumer prices carried out in conjunction with the 2010 VHLSS. A new poverty line was constructed using a cost-of-basic-needs approach similar to that of the original line, but based on new information on consumption patterns from the 2010 VHLSS. The new 2010 poverty line is VND 653,000 per person per month, which is substantially higher than the original GSO-WB poverty line. The increase reflects improvements in the quality of the food reference basket (fewer calories from rice, more consumption of proteins, vegetables, and fats) and a higher allocation for basic nonfood spending, including housing and durables.

The poverty rate in 2010 based on the new poverty line applied to the 2010 VHLSS is 20.7 percent, which compares to a poverty rate of 14.2 percent using official urban and rural poverty lines (VND

2 Referred to as the GSO-WB poverty line, developed jointly by the General Statistics Office and the World Bank in the mid-1990s.

500,000 per person per month and VND 400,000 per person per month, respectively). The GSO-WB poverty rate is substantially higher in rural areas, in part due to differences between official poverty lines and the new GSO-WB poverty line, but also due to differences in the overall methodological approach. For example, the GSO-WB poverty rate is calculated on the basis of the VHLSS but official poverty rates are calculated at the commune level using a short-form questionnaire and local consultations, then aggregated up to province and national levels.

Poverty Estimates for 2010 by Region and Urban/Rural Areas

	GSO-WB Poverty Rate		Official Poverty Rate	
	Incidence (%)	Contribution to total (%)	Incidence (%)	Contribution to total (%)
All Vietnam (national)	20.7	100	14.2	100
Urban	6.0	9	6.9	14
Rural	27.0	91	17.4	86
Red River Delta (Hanoi)	11.4	12	8.4	13
East Northern Mountains	37.7	21	24.2	20
West Northern Mountains	60.1	9	39.4	9
North Central Coast	28.4	16	24.0	20
South Central Coast	18.1	7	16.9	10
Central Highlands	32.8	10	22.2	9
Southeast (HCMC)	8.6	7	3.4	4
Mekong Delta	18.7	17	12.6	17

Neither set of poverty lines is inherently better than the other; they are designed to serve different and equally valid objectives. The strength of the GSO-WB approach lies in consistent measurement over time and its independence from budgetary or political considerations. It serves an important monitoring function. In contrast, Vietnam's official poverty lines are primarily intended to help set targets and determine resource allocations for the government's poverty reduction programs and policies. In this sense, they are administrative lines, constrained by resource availability. The official poverty lines are updated each time Vietnam develops a new five-year Socio-Economic Development Plan.

Revisiting the Facts about Poverty and the Poor

The new GSO-WB poverty line was used to construct an updated profile of poverty based on the 2010 VHLSS, complemented by new information collected through participatory poverty assessments (PPAs) and qualitative field studies. The poverty rate—defined as the proportion of the population living below the poverty line—is a widely understood and frequently reported measure of poverty. But it ignores the fact that all poor people are not the same; some have incomes or consumption levels very close to the poverty line, while others live in much poorer conditions, well below the standards captured in the poverty line. The poverty profile discriminates between the total poor (individuals living below the GSO-WB poverty line) and the extreme poor (individuals whose per-capita expenditures are less than two-thirds the poverty line). In 2010, 20.7 percent of the population lived in poverty and 8 percent lived in extreme poverty.

3 The official lines were last updated in 2010 as part of the preparation for the 2011-2015 Socio-Economic Development Plan (SEDP)

The updated poverty profile shows that many of the factors that characterized the poor in the 1990s still characterize the poor today: low education achievement and limited job skills, heavy dependence on subsistence agriculture, physical and social isolation, specific disadvantages linked to ethnic identity, and exposure to natural disasters and risks. Over the past decade, rising levels of education and diversification into off-farm activities have been powerful forces for poverty reduction in Vietnam. The remaining poor still predominately reside in rural areas and their livelihoods depend on agriculture and related activities.

But some of the stylized facts have changed. Ethnic minority poverty was only emerging as a concern in the late 1990s, but it has become a much greater concern today as the gap continues to widen between minority populations and the Kinh majority is not narrowing. The report documents wide diversity across Vietnam's 53 ethnic minority groups, and there are encouraging signs of progress for some groups and in some regions. But the concentration of minorities among the poor is rising; in 1993, poverty was widespread and minorities comprised only 20 percent of all poor households. By 1998, the share of minorities among the poor had increased to 29 percent, and by 2010 minorities accounted for 47 percent of the total poor and a resounding 68 percent of the extreme poor. 66.3 percent of minorities were poor in 2010 compared to only 12.9 percent of the Kinh majority.

Many ethnic minorities continue to live in more isolated and less productive upland regions of Vietnam, and three-quarters of their total income comes from agriculture and allied activities. In contrast, poor Kinh have more diversified labor and earnings portfolios and live in coastal and delta regions.

Our analysis suggests that agriculture will continue to be an important source of income for many of the poor, including but not limited to the ethnic minority poor. Compared to many other countries, agriculture land is equitably distributed in Vietnam. However the relationship between landlessness and poverty has increased, particularly for households living in the Mekong Delta, despite the rapid expansion in opportunities for off-farm employment and concomitant income diversification over the last decade.

Vietnamese today are far better educated than they were a decade ago. Primary school completion rates were high already by the end of the 1990s. Since then, there has been a rapid increase in enrolments at lower and upper secondary levels, leading to an increase in the number of students who attend colleges and universities. Lack of education continues to be an important determinate of poverty: 46 percent of poor households and 58 percent of extreme poor households were headed by persons who had not completed primary school. Gaps in enrolments between children from poor and better-off households persist. Most primary-school-aged children—rich and poor, minority and majority—are enrolled in school. But enrolments among (poor) minorities drop off at the lower secondary level, and children from lower-income households are much less likely to be enrolled in upper secondary schools than children from better-off households, perpetuating the intergenerational transmission of poverty in Vietnam. Differential enrolments also contribute to rising inequality. According to the 2010 VHLSS, 40 percent of persons 21 years and older in the richest quintile had completed a university degree; in contrast, less than 2 percent in the poorest quintile were university graduates. In fact, more than a quarter of those in the poorest quintile had not even completed primary school by 2010.

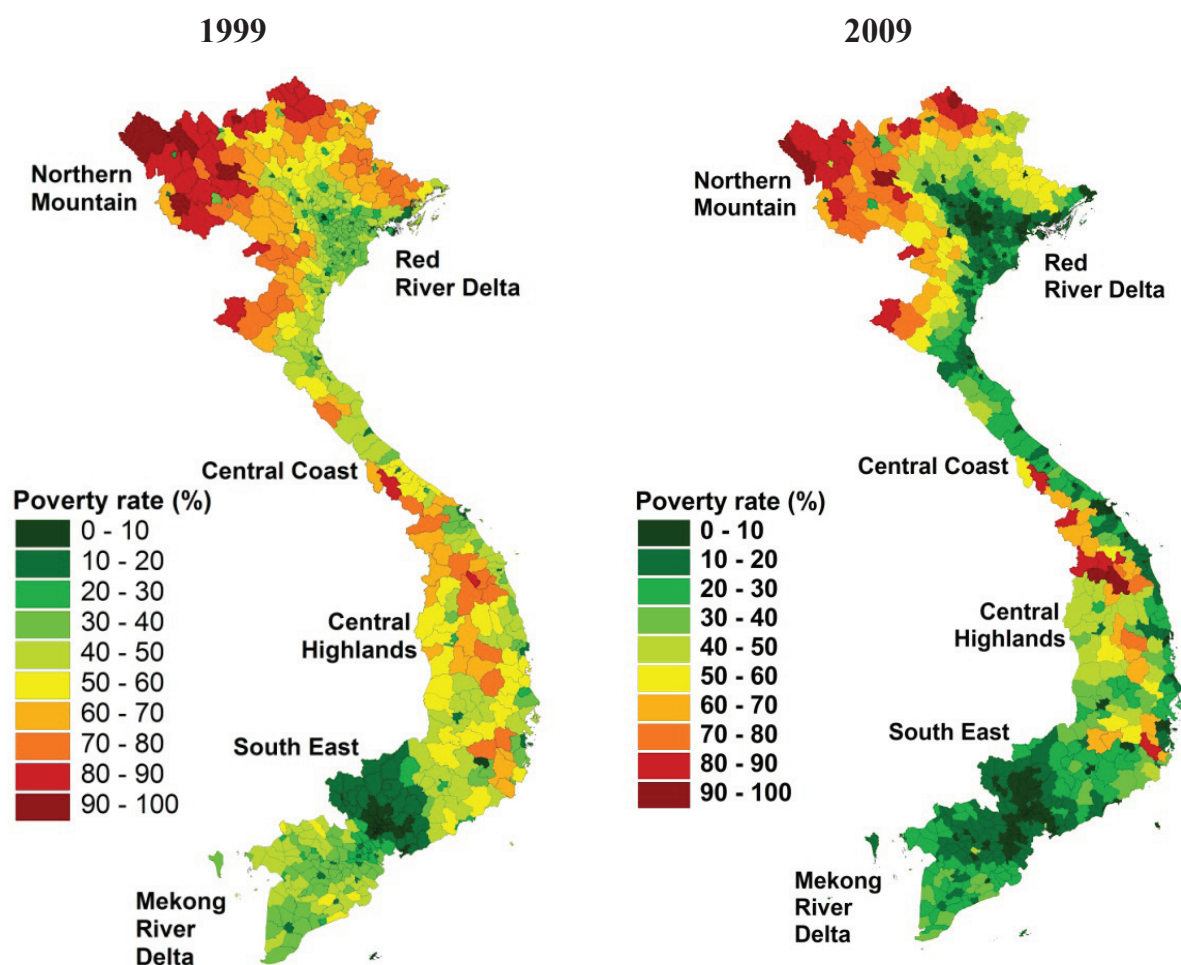
The impacts of demographic factors on poverty have changed since the late 1990s. Child poverty continues to be a concern, although less so than in the 1990s, when poor rural households frequently had many children and struggled to feed and educate them. As a result of family planning policies initiated in the early 1990s, most households now have only one or two children, and the adult children from the erstwhile large families in the 1990s often help to support their parents and siblings. Aging is a new demographic risk; Vietnam's population is aging and new analysis suggests that the elderly, particularly those who live alone, may be increasingly at risk of poverty in the future.

Although targeting is good, existing poverty and social protection programs provide only partial coverage and limited benefits to poor and at-risk individuals. In 2010, only half of the extreme poor were eligible for benefits under the Ministry of Labor, War Invalids, and Social Affairs (MOLISA)

Emerging Challenges: Changing Spatial Patterns of Poverty and Rising Inequality

New poverty maps⁴ (see below) were developed based on the 2009 Housing and Population Census and the 2010 VHLSS. The maps indicate that poverty is becoming more concentrated in upland regions of Vietnam, including the North East and North West Mountains and parts of the Central Highlands. In contrast, household wealth is heavily concentrated in the Red River Delta (near Hanoi) and Southeast (near Ho Chi Minh City) and in urban centers along the coast. Although poverty rates are low in urban areas, urban residents struggle to cope with the rising cost of living (including increases in electricity and water tariffs and rising fuel prices), and many work in the informal sector without social protection or employment benefits. Urban poverty is most prevalent in Vietnam's small cities and towns, which lag behind Vietnam's larger cities in terms of basic infrastructure and public services.

Poverty Rates (percent poor) in 1999 and 2009



⁴ 2009 poverty maps were estimated using the 2009 Population and Housing Census and the 2010 VHLSS; 1999 poverty rates are obtained from Minot, Baulch, and Epprecht (2003). See chapter 4 for a more detailed description.

The report looks at inequality through two lenses-- a qualitative field study in sites throughout Vietnam of “perceptions of inequality” and empirical analysis based on various rounds of the VHLSS. The chapter documents widespread concerns across the population about rising inequality. The perceptions study draws on a number of rich focus group discussions that describe which inequalities are viewed as unacceptable in the eyes of Vietnamese people, and also captures less easily measured inequalities, such as inequalities in connections, voice, and influence. The quantitative analysis examines the factors driving the rise in inequality, including geographic variations in growth processes, growth in the non-agricultural sector, and disparities in education and ethnic identity. The rise in income inequality is in part a reflection of growth processes that have altered the relative returns to assets, such as education and productive capital in the economy. Growth has interacted with existing inequalities in opportunities—inequalities in education, access to good jobs, patterns of social exclusion, geographic disparities—to increase income inequality and welfare gaps between rich and poor households. The persistent and rising gap between the welfare of ethnic minorities and Kinh majorities also contributes to rising inequality: inequality is particularly high in regions with a high concentration of ethnic minorities.

The report identifies many new avenues for future research and policy analysis. For example, more work is needed to better understand old and new sources of vulnerability, including urbanization and changing patterns of employment, and new research is needed on aging and health shocks. In addition, a more in-depth analysis of Vietnam’s targeted poverty reduction policies and programs is needed, with particular focus on policies designed to reduce poverty among ethnic minorities. Although Vietnam has successfully eradicated extreme poverty and hunger in all but a few isolated regions, there are widespread concerns about rising inequality in opportunities and outcomes. New work is needed to better understand various sources of inequality and, more importantly, to understand what is the role of public policy in addressing rising inequality.

Emerging Policy and Program Implications

The report is primarily focused on poverty and inequality diagnostics, and as such aims to support a better informed debate on policy and program responses with key stakeholders in Vietnam (government ministries, the National Assembly, local researchers and research institutes, INGOs and NGOs, and international partners).

The findings of the report suggest four emerging areas of policy focus.

- First, it is essential for Vietnam to reduce volatility and macro instability, and undertake complementary structural reforms—restructuring state owned enterprises, reforming the financial sector, raising the effectiveness of public investments and moving to a more transparent and open development process—necessary to put Vietnam back on the path of high and sustained rates of economic growth. But the quality of growth matters as much of the rate of growth.
- Second, measures are needed to make Vietnam’s economic growth more inclusive, for example by supporting productivity and growth in the rural sector through improving connectivity, strengthening skills, improving the investment climate, expanding access to basic services, also better targeting agriculture support measures (e.g. credit, agriculture extension, and market information) to the needs of poor and ethnic minority farmers. Support for labor intensive industries and SMEs in both formal and informal sectors will also contribute to inclusive growth, including better access to credit and training, expanded vocational training for youth in poor and ethnic minority areas, and incentives for local enterprise development to provide more diversified employment options in local communities. The occupational and geographic mobility of labor should be enhanced: migration of rural workers into Vietnam’s rapidly growing cities and towns as well as to foreign countries such as South Korea, Japan and Malaysia has been a powerful force for inclusive growth and poverty reduction in the past. It is important to reduce inequality of opportunities, including improving the quality of education and promoting skills development, particularly in rural areas. Improving governance through greater

transparency and accountability will help to increase local participation and prevent a rise in the inequalities that undermine inclusive growth.

- Third, policies to promote high and inclusive growth must be complemented by effective social insurance and social assistance policies. Vietnam should protect social spending and social assistance in the process of economic restructuring. To put in place automatic stabilizers to effectively protect the poor in challenging times of economic instability, social benefits and official poverty lines should be inflation-indexed, also adjusted to capture differences in the spatial cost of living, including between rural and urban areas, and to properly take into account the basket of goods and services specific to the poor. Better measures are needed to protect poor and vulnerable households from the rising cost of basic services, particularly rising electricity costs in the context of the planned energy subsidy phase-out . Migrant workers have been hard hit by the rising cost of living in urban areas; they should have equal access to basic services, portable benefits (including health insurance), and better access to social protection programs.
- Finally, continuing improvements are needed in Vietnam's poverty monitoring system so that it provides a reliable source of information for policy making in a rapidly changing economy. To this effect, objective resource-independent poverty lines should be used in parallel with resource-linked targeting lines, and the source and appropriate application of the two types of poverty lines should be communicated clearly to policy makers, practitioners, and the public. Furthermore, the construction of future poverty profiles and poverty estimates should be done in a transparent way to facilitate monitoring of progress by independent experts and the public at large.