

# **Vietnam poverty analysis**

Prepared for the

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# Acronyms

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
CDF	Comprehensive Development Framework
CEMMA	Committee for Ethnic Minorities in Mountainous Areas
CG	Consultative Group
CPIA	Country Policy and Institutional Assessment
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPS	Country Program Strategy
DFID	Department of International Development, UK
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GSO	General Statistics Office
HEPR	Hunger Eradication and Poverty Reduction
IDA	International Development Association
IFAD	International Fund for Agriculture Development
I-PRSP	Interim Poverty Reduction Strategy Paper
MOLISA	Ministry of Labour, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
NGO	Non-government Organisation

ODA	Official Development Assistance
PAR	Public Administration Reform
PPA	Participatory Poverty Assessment
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PTF	Poverty Task Force
SEDS	Socio-economic Development Strategy
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
UNDP	United Nations Development Programme
VND	Vietnamese dong
VLSS	Vietnam Living Standards Survey
WB	World Bank





# 1 Introduction

This poverty analysis is an important first step in the development of a new five-year country strategy for Vietnam. Its aim is to inform the process of identifying appropriate objectives, areas of focus, delivery mechanisms and performance indicators. To this end, the analysis draws on existing data and research to identify who the poor are, where they are located, and why they are poor. It discusses the Government of Vietnam's poverty reduction policies and the relevant programs of other donors. Drawing on all this, it suggests some elements of an analytical framework that can guide the choice of donor activities to support poverty reduction, and offers some ideas on directions and issues for the new strategy.

This chapter spells out how poverty is measured in this analysis. Since it is useful to place Vietnam's current situation in perspective, the chapter also examines how Vietnam compares with other low and medium income countries and, where possible, with other leading countries in Australia's development cooperation program.

## Defining poverty

Poverty is a multi-dimensional problem. The definition of poverty extends beyond material deprivation. The Australian Agency for International Development (AusAID) defines poverty as a level of deprivation such that a person is unable to meet minimum standards of well being with well being defined as:

- adequate resources for attaining the basic necessities of food, water, shelter and clothing;
- access to acceptable levels of health and education;
- accountability from state institutions and civil society; and
- freedom from excessive vulnerability to adverse shocks (AusAID 2001).

This analysis adopts this broad definition of poverty. However, the focus of the quantitative analysis will be on income poverty (material deprivation) and other indicators of human development, which are more readily quantifiable. Where possible the analysis will discuss accountability and vulnerability drawing on

more qualitative research such as the Participatory Poverty Assessments (PPA) conducted by the Poverty Task Force (PTF) in 1999.

### **Monitoring poverty in Vietnam**

Vietnam is well served in terms of the monitoring and analysis of poverty. There are two main sources of information on poverty – the General Statistics Office (GSO) and the Ministry of Labour, Invalids and Social Affairs (MOLISA). Box 1.1 describes the key differences between the two approaches.

This analysis uses the GSO definition and estimates of poverty. The GSO estimates are preferred for a number of reasons. Firstly, they are based upon an internationally accepted methodology, which is transparent and well defined. In particular, it is clear what the GSO poverty line is measuring – that is, a minimum level of expenditure required to satisfy basic nutritional and other needs (for example, housing, clothing etc). A second advantage is that the Vietnam Living Standards Survey (VLSS) data sets are the public domain and have been used extensively to examine the characteristics of the poor. This allows this poverty analysis to draw upon a range of existing analyses that have used the VLSS. A third reason to use the VLSS/GSO approach is that we can compare estimates consistently across time. MOLISA has changed its definition of poverty and so its estimates of poverty are not comparable over time.

### **Putting Vietnam's situation in perspective**

#### **A historical perspective**

The 1998 VLSS found that approximately 37 per cent of Vietnamese – some 28.4 million people – are living in poverty. While this rate is unacceptably high, it represents a significant improvement from early 1990s. The rapid growth that was triggered by the *doi moi* reforms of the late eighties and early nineties helped reduce the rate of poverty from 58 per cent in 1993 and around 75 per cent in 1990. Even by the standards of the more demanding food poverty line, there has been a decline from 25 per cent to 15 per cent (see chart 1.1). This indicates that even the very poorest segments of the population have experienced significant improvements in living standards between 1993 and 1998.

**Box 1.1 Estimating poverty in Vietnam**

There are currently two approaches to the measurement of poverty in Vietnam — one calculated by the GSO (with technical assistance from the World Bank) and one calculated by MOLISA (often referred to as the official or national poverty line).

The GSO calculates two poverty lines for Vietnam — the food poverty line and a general poverty line. The food poverty line is based upon minimum requirements for calories that ensure good nutritional status. The food poverty line is calculated, as the expenditure required, given Vietnamese food consumption patterns, to deliver 2100 calories per person per day. The general poverty line is based upon the food poverty line but allows for minimum non-food expenditure. These measures are absolute poverty lines and are constant in real terms over time. The basket of goods used to calculate the poverty lines is the same from year to year with adjustments only made to the prices used to estimate the expenditure required to purchase that basket.

GSO estimates the rate of poverty using a national representative household survey (the Vietnam Living Standards Survey (VLSS)) that has been conducted twice — in 1992-93 and in 1997-98. GSO is planning to combine the VLSS with its Multi-Purpose Household Survey and starting in 2002 will be administered every two years to a sample of 30 000 households. The poverty lines estimated for the 1998 VLSS are (in 1998 prices):

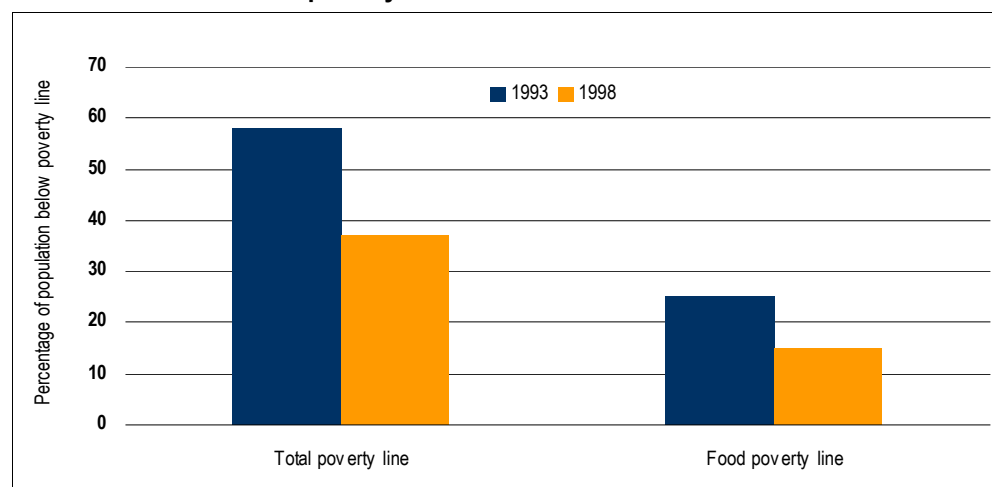
- food poverty line — VND 1 286 833 per person per year; and
- general poverty line — VND 1 789 871 per person per year.

The GSO approach is commonly referred to as the international poverty line (since it is based upon an internationally accepted methodology).

The poverty lines used by MOLISA are more in the nature of a relative poverty line. Its level tends to be influenced by the amount of resources that MOLISA has available for special assistance programs for the poor. MOLISA surveys poor households at the commune level and is able to produce a detailed picture of where the poor live and what their needs are. The current MOLISA (national) poverty line is:

- VND 80 000 per month in rural mountainous and island regions (VND 960 000 per year);
- VND 100 000 per month in rural plain areas (VND 1.2 million per year); and
- VND 150 000 per month in urban areas (VND 1.8 million per year).

Chart 1.1 Incidence of poverty in Vietnam 1993–98



Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

The reduction in poverty has been reflected in other measures of welfare: indicators of human development, infrastructure access and ownership of consumer durables.

- Primary school enrolment rates increased from 87 to 91 per cent for girls and from 86 to 92 for boys.
- Lower secondary enrolment rates have doubled for both girls and boys.
- Upper secondary enrolment rates have increased dramatically — 6 to 27 per cent for girls and 8 to 30 per cent for boys.
- Malnutrition of boys and girls below the age 5 years remains high but has declined from about half the population to a third.
- Access to infrastructure — such as public health centres, clean water and electricity have all increased.
- Ownership of consumer durables — radios, televisions and bicycles has increased.

Labour market indicators also improved — between 1993 and 1998 the annual average increase in employment was 1.8 per cent. The employment growth rates varied across the three sectors of the economy. The agricultural sector experienced the smallest average annual increase at 0.4 per cent, while the industrial and service sectors had growth rates of 4 and 5.7 per cent over the same period. As a result the service sector made the largest contribution to the creation of new jobs bringing about a change in the structure of employment. The share of

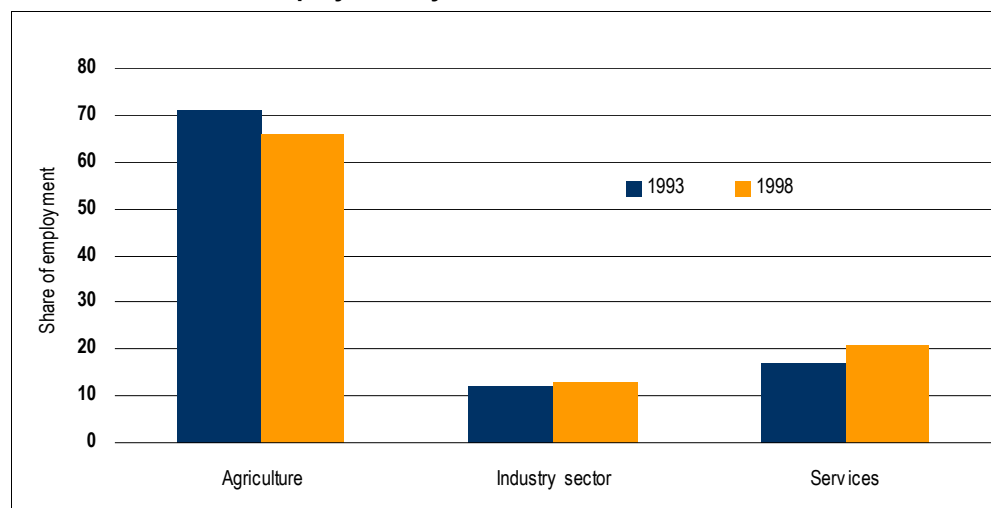
employment from agricultural has declined from 71 per cent to 66 per cent and the share from industry and the service sector has increased (see chart 1.2).

However, employment growth fails to reflect the changes in demand for labour in Vietnam. Most people are involved in some kind of work so unemployment is rarely exposed – except in urban areas. Unemployment data provide little insight into the extent of under-utilised labour resources, and reported employment usually follows the growth in the working age population and this was the case between 1993 and 1998. Therefore wage employment and underemployment data provides greater insight into changes in the labour market.

Wage employment grew by an average of 3.5 per cent per cent (see table 1.1). This compares to growth in non-farm household employment – businesses organised and managed by households such as retailing, food processing and fisheries – of 5.4 per cent. And the growth in rural areas was particularly strong.

Underemployment is defined as working less than 40 hours per week. Between 1993 and 1998 underemployment declined (see chart 1.3). However, underemployment remains large in rural areas, highlighting the need to generate more opportunities for the labour of the rural poor.

Chart 1.2 **Share of employment by sector**



Data source: GSO World Bank estimates based on VLSS93 and VLSS98

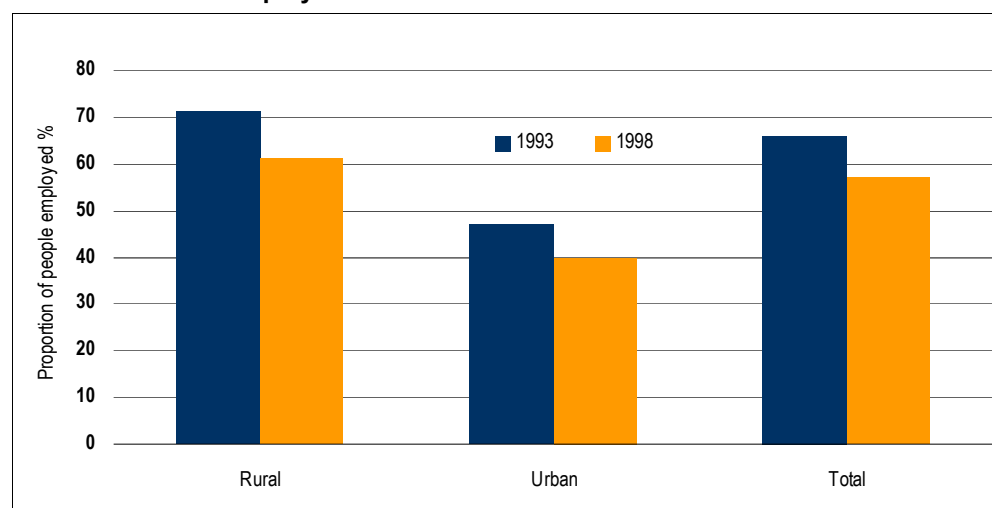
## Vietnam poverty analysis

Table 1.1 Employment growth rates by main employment 1993–99

	Type of main employment			
	Household farm employment	Household non-farm employment	Wage employment	Total employment
	Annual average per cent			
Rural	0.8	6.7	3.3	1.7
Urban	-8.7	3.9	3.7	2.0
Male	-0.3	8.3	4.6	2.1
Female	0.9	3.2	2.0	1.5
All Vietnam	0.4	5.4	3.5	1.8

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

Chart 1.3 Underemployment in Vietnam



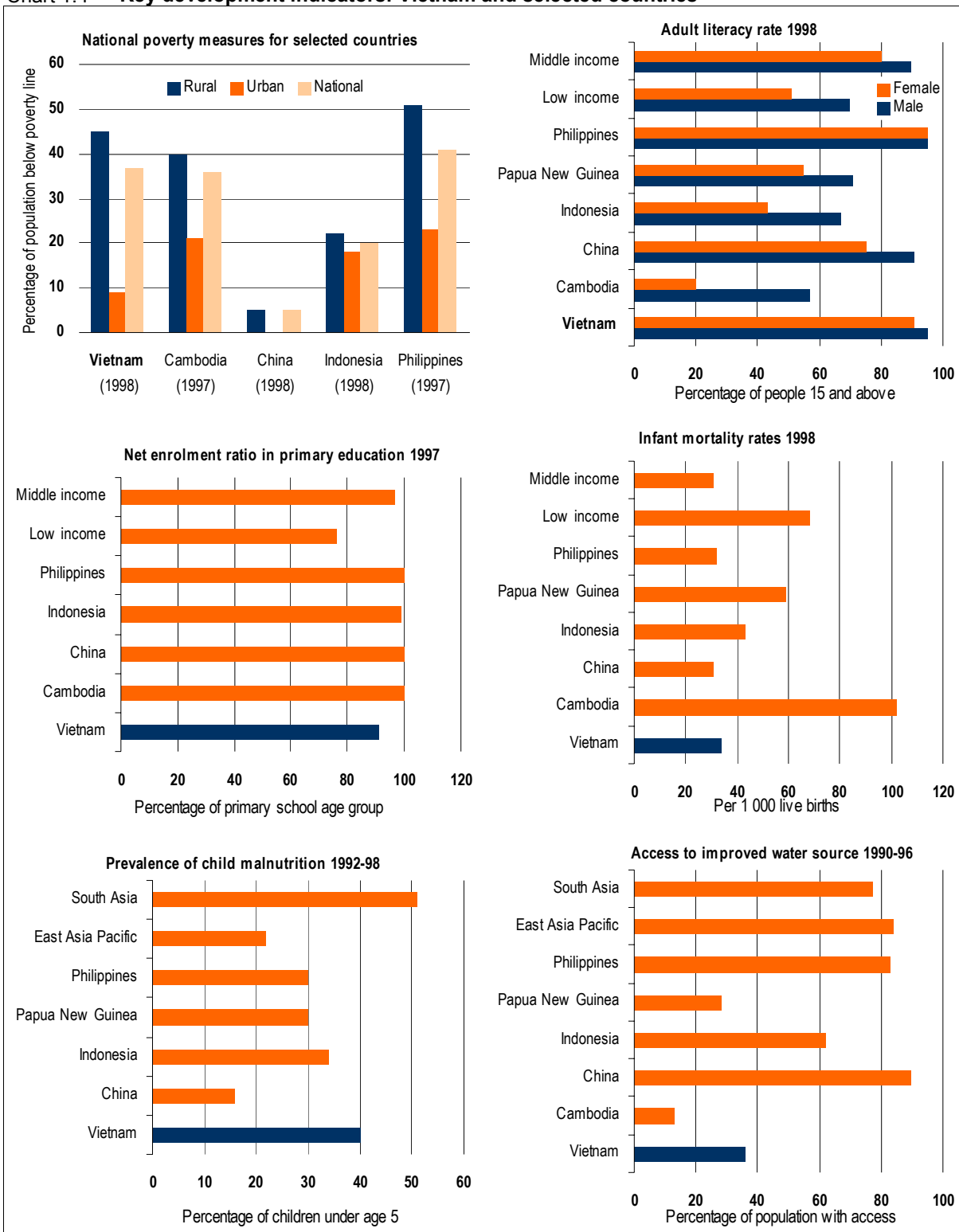
Data source: GSO World Bank estimates based on VLSS93 and VLSS98

### An international perspective

These gains in poverty reduction have been extremely impressive but poverty in Vietnam remains high. How does it compare with other countries in Australia's development cooperation program and low and middle income countries generally? Chart 1.4 shows for a range of development indicators (that broadly reflect the key Millennium Development Goals), how Vietnam compares with low and medium country averages and with other top ranking recipients of Australian development assistance.

Overall Vietnam compares favourably across a number of key development objectives.

Chart 1.4 Key development indicators: Vietnam and selected countries



Data source: World Development Report 2000/2001, ADB (2001).

### *High material deprivation*

Traditional measures of poverty – quantified by income and consumption – show that Vietnam is one of the poorest countries in the world. In 1999, Vietnam's gross national product (GNP) per capita was US\$370 compared with US\$1020 for the Philippines, US\$580 for Indonesia and US\$780 for China and the average for low income countries at US\$410.

Vietnam's poverty headcount is also high compared with other countries receiving funding from AusAID – only the Philippines has a larger proportion of its population below the poverty line. However, Vietnam's urban poverty headcount is relatively low. It is its share of rural population below the poverty that contributes substantially to its high poverty rate.

### *High education levels*

Vietnam's adult literacy rate is well above the average of low income countries for both males and females. Inequality between male and female literacy rates is also relatively low. The ratio of the female and male literacy is 96 per cent in Vietnam compared to 73 per cent in low-income countries and 89 per cent in middle income countries. The *World Development Indicators* reported that Vietnam had also achieved a 100 per cent net enrolment ratio in primary education in 1997 and this was above the average for both low and middle-income countries. There appears to be some doubt over the reliability of these numbers as the 1998 VLSS reported a lower 91 per cent net enrolment rate. Even at this level, Vietnam would be above the low income country average.

High enrolment rates do not necessarily imply that all children receive a standard primary education. Many children in Vietnam do not stay in school to reach grade five – approximately one third of children do not complete primary education. This is considerably higher than the average for East Asia and the Pacific of 10 per cent.

However, even completion of primary school does not necessarily ensure that children receive a 'primary education of good quality'. The Vietnamese school year of thirty-three weeks is very short by international standards and only around 10 per cent of children in Vietnam receive full day schooling. Others receive half-day schooling or even less for children in triple-shift schools.



Therefore most primary students receive little more than half of the international norm for annual teaching time (ADB 2001).

### **Low infant mortality but high malnutrition**

Vietnam's infant mortality rate is relatively low compared to other poor countries. In 1998 it was 34 per 1000 live births – well below the average for low-income countries of 68 deaths for each 1000 live births. Mortality statistics for children under the age of five in Vietnam are also significantly better than the low-income country average. However, this is offset by the prevalence of child malnutrition. In Vietnam 40 per cent of children under five are malnourished compared to an average 22 per cent for East Asia and the Pacific. The high incidence of malnutrition is reflected in the proportion of Vietnam's children that are underweight. In the period 1990–99 46 per cent of children were underweight compared with 28 per cent for the world and 22 per cent for the East Asia and Pacific region.

### **Poor access to water and sanitation**

There is a large variation in the proportion of people that have access to improved water sources – ranging from 13 per cent in Cambodia to 90 per cent in China. Vietnam lies towards the bottom of this range with only 36 per cent of the population having access to an improved water source compared with the average for the East Asia and Pacific region of 84 per cent (chart 1.4). Access to sanitation is also low in Vietnam compared to other countries. These indicators provide information on the environment, health and infrastructure.

## 2 Characteristics of Vietnam's poor

Understanding the characteristics of the poor is an important part of working out how to help reduce poverty. Knowing the nature, extent and location of poverty will help AusAID allocate resources and develop effective programs to assist the Vietnamese government to reduce poverty in Vietnam. This chapter draws on a variety of sources, especially the Vietnam Development Report 2000 '*Attacking Poverty*,' (World Bank 1999a), to build a picture of poverty in Vietnam. It also looks at how poverty has changed over the last decade. The *Attacking Poverty* report is a comprehensive analysis of the dimensions and trends in poverty reduction based upon the 1993 and 1998 VLSS.

As in other countries, the poor in Vietnam are not a homogenous group. However, some key characteristics have emerged from the various studies of poverty (see box 2.1).

### Box 2.1 Key characteristics of the poor in Vietnam

- The head of the household is most likely to be a farmer: in 1998 almost 80 per cent of the poor worked in agriculture.
- Most live in rural, isolated or disaster prone areas, where physical and social infrastructure is relatively undeveloped.
- Most typically have small landholdings or are landless.
- They have limited access to credit.
- Households are more than likely to have many children or few labourers .
- The poor are disproportionately likely to be from an ethnic minority.
- The poor are disproportionately likely to be children.
- The poor have limited education: people who have not completed primary education make up the highest incidence of poverty.

Poverty is a multi-dimensional problem that extends beyond income or consumption poverty. There are other indicators of poverty such as low levels of education, social exclusion and high exposure to risk (vulnerability). These characteristics are interrelated. For example, the poor – those below the poverty line – are typically most vulnerable to further declines in well being because they have fewer assets and mechanisms for managing shocks. Examining these

characteristics of poverty provides a fuller understanding of its causes, allowing better targeting of poverty reduction programs.

### **Regional distribution of poverty**

Poverty in Vietnam varies substantially across regions. The latest VLSS shows that regional poverty headcount ratios (the poverty rate) vary between 8 per cent and 59 per cent (chart 2.1).

#### **The three poorest regions — Northern Uplands, North Central and the Central Highlands**

The Northern Uplands, North Central and the Central Highlands are the three poorest regions in Vietnam — having both the highest incidences of poverty and the deepest poverty (charts 2.2 and 2.3). These same three regions were also the poorest in 1993. However, the Northern Central region has seen the greatest reduction in poverty and the Northern Uplands the least.

The persistence of poverty in the Northern Uplands and the Central Highland regions reflects the constraints these regions face in participating in the growth process. The major constraints are a difficult physical environment, which limits agricultural development and restricts access to infrastructure and markets. The PPAs in Lao Cai province in the Northern Uplands region reported that many households living in the highland areas were simply too remote and deprived of land and capital to take advantage of opportunities. These households were also found to lack information on markets (World Bank 1999a).

Three regions account for almost 70 per cent of Vietnam's poor — Northern Uplands (28 per cent), Mekong Delta (21 per cent) and North Central (18 per cent). Even though the Central Highlands region is one of the poorest regions, it has a small population and so makes only a small contribution to total poverty in Vietnam (chart 2.4).

Chart 2.1 **Regional poverty**

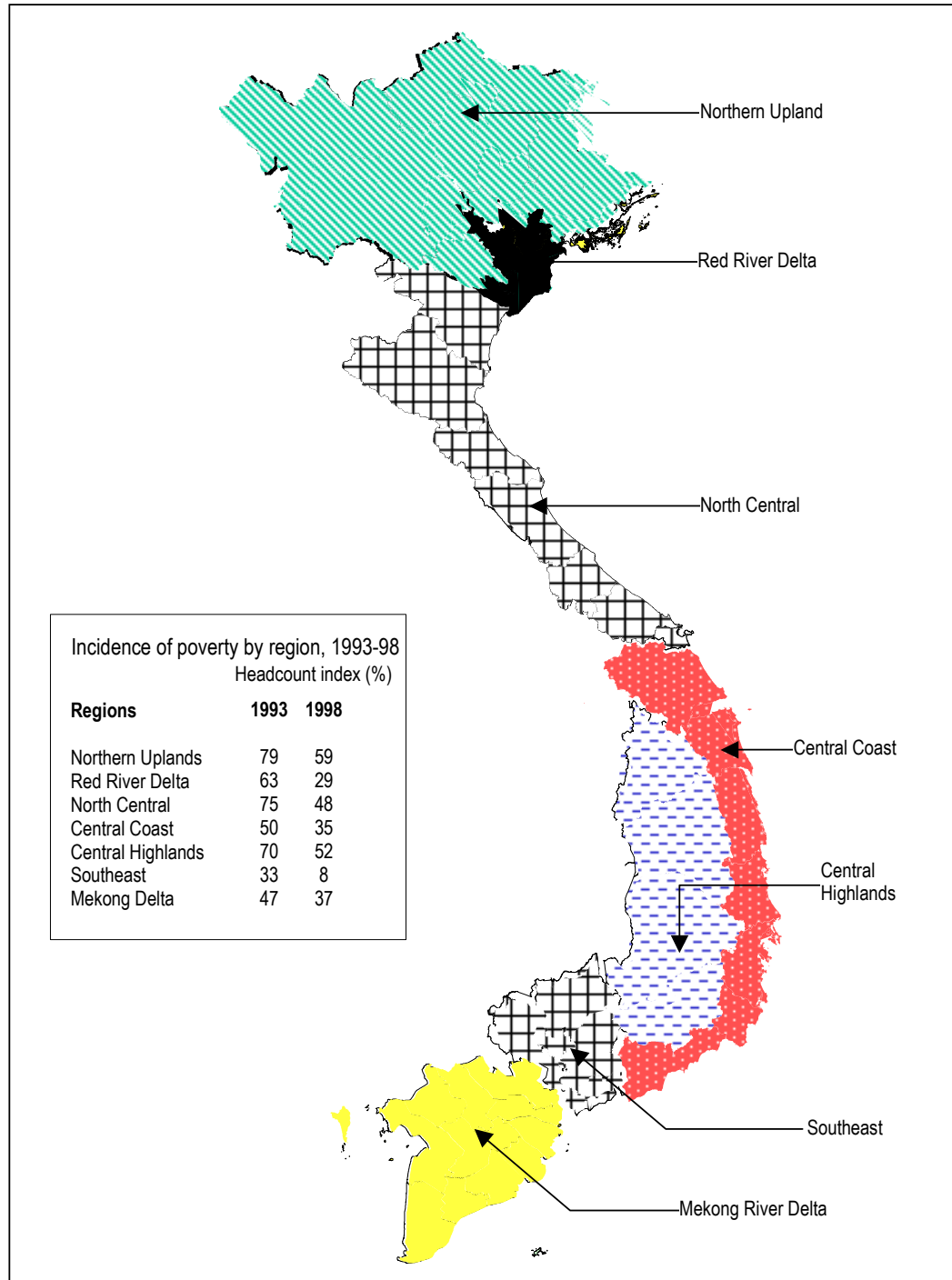
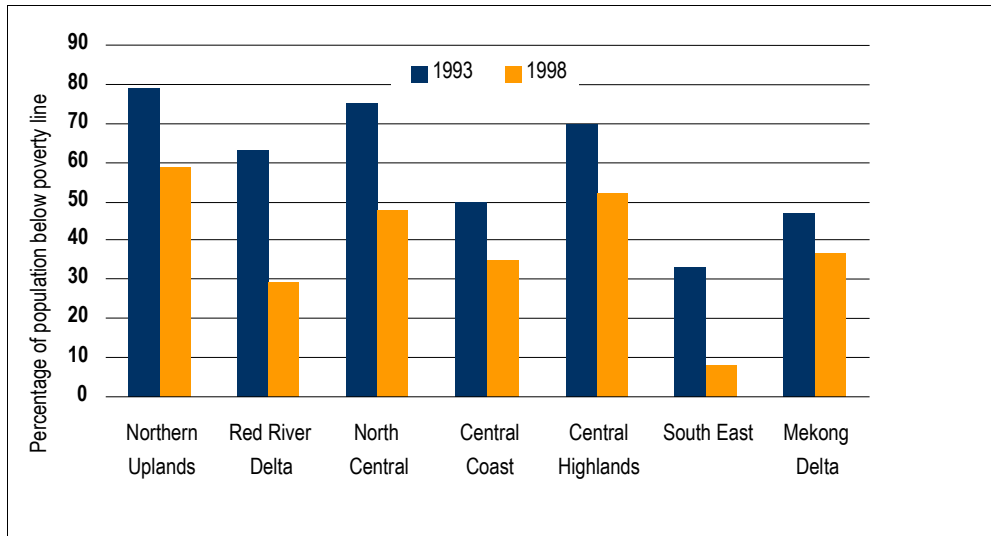
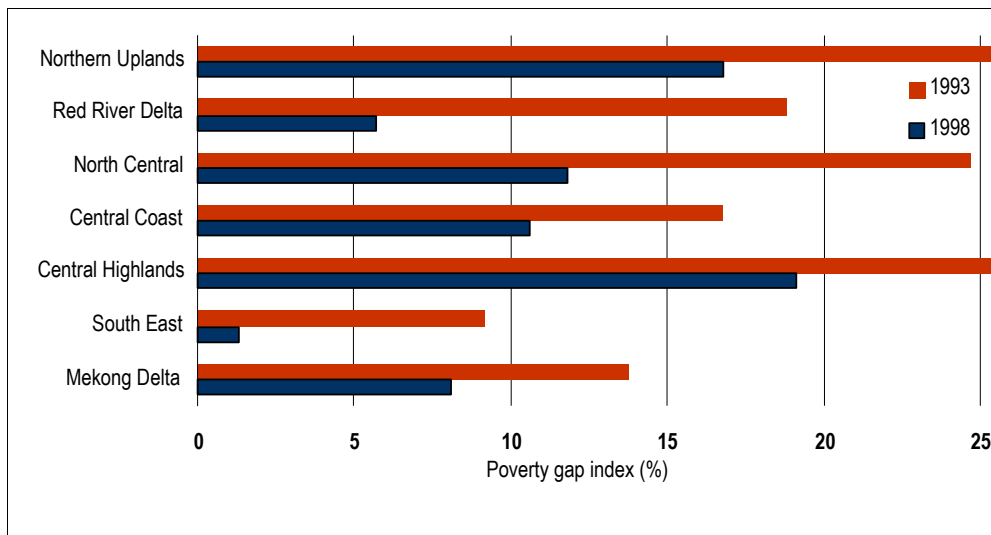


Chart 2.2 Regional poverty headcounts



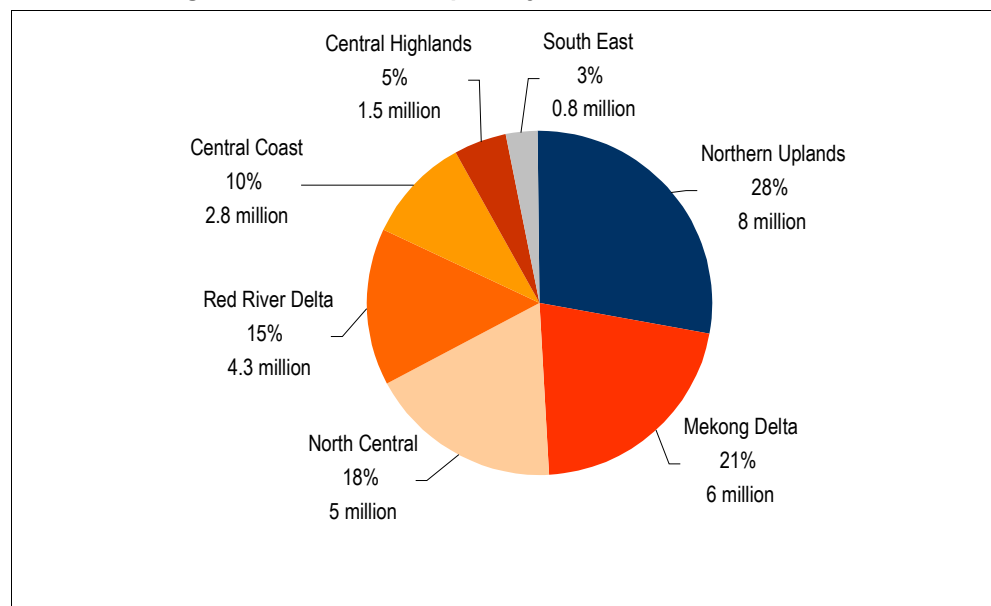
Note: The poverty headcount is the proportion of the population living below the specified poverty line.  
 Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

Chart 2.3 Depth of poverty in the regions 1998



Note: The poverty gap index measures the depth of poverty and reflects the average distance that poor people are from the poverty line.  
 Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

**Chart 2.4 Regional contribution to poverty 1998**



Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

The structure of the VLSS questionnaire and survey sample is such that it only allows analysis of poverty characteristics at a broad regional level. However, using innovative statistical techniques, Minot and Baulch (2001) are able to identify poverty headcounts ratios at the provincial level. Box 2.2 explains the approach. The provincial data is included in the appendix to this document. The data is also presented in the form of a poverty map for Vietnam. What is apparent from this poverty analysis is that, aside from a small number of individual cases, the pattern of poverty across provinces is reflected in poverty data at the regional level. That is, the incidence of poverty is clustered.

**Box 2.2 Beyond the regions — provincial poverty**

The sample size of the VLSS is too small for data below the regional level to be accurately derived. To overcome this problem, Minot and Baulch (2001) combined the data collected by the 1998 VLSS with the most recent census to estimate poverty at the provincial level. This methodology uses VLSS data to identify how different household characteristics affects poverty. It then takes this estimated relationship and generates estimates of poverty for the provinces based upon census data on household characteristics.

(Continued on next page)

### Box 2.2 Beyond the regions — provincial poverty (Continued)

The results from the estimated relationship between poverty and household characteristics confirm many of the established characteristics of the poor and also provide new insights to sharpen the focus of aid programs. For example the analysis found that:

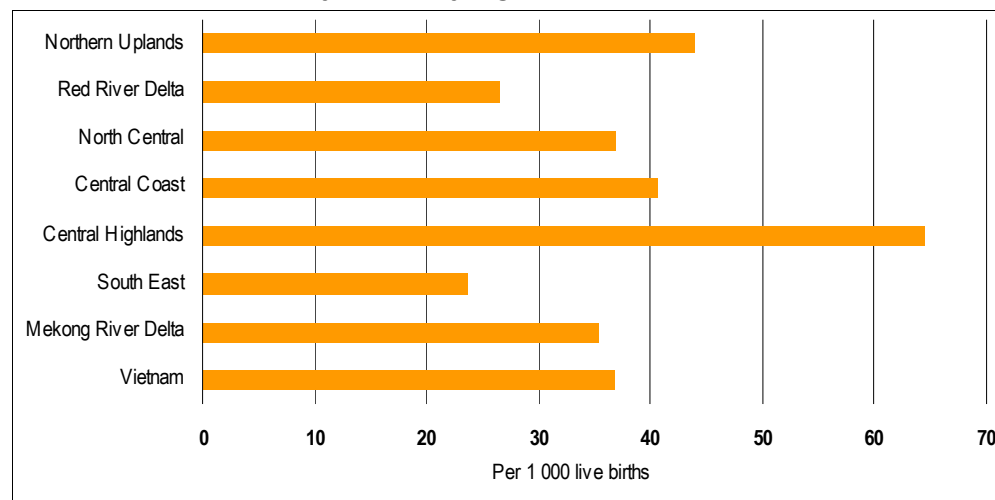
- household composition is a stronger predictor of poverty in rural areas than urban areas;
- household size is one of the strongest predictors of per person household expenditure;
- households with a large proportion of elderly members are likely to be poor;
- the level of education completed by household heads (and to a lesser extent their spouses) are good predictors of poverty;
- electrification is a statistically significant predictor of household welfare in rural areas;
- household's main source of water is also useful in distinguishing poor households;
- sanitation facilities can be used to separate poor from non-poor households;

The results from Minot and Baulchs' work (appendix A) show that poverty is concentrated in Vietnam's Northern Uplands in particular in the six provinces that border China and Laos. Lai Chau is the poorest province, with over three-quarters of the population living below the poverty line. Hai Giang and Son La also have overall poverty headcounts of over 70 per cent. Four other provinces have headcounts between 60 and 68 per cent: Cao Bang, Lao Cai, Lang Son and Bac Kan. Thirteen other provinces have poverty headcounts between 45 and 60 per cent.

### Other indicators tell the same regional story

Other indicators of well-being are consistent with the regional characteristics of poverty. In the Central Highlands infant mortality is over two and half times that in the Red River Delta and South East regions (chart 2.5). Education indicators are also low in these regions. The net enrolment primary school rates for Northern Uplands (89 per cent), the Central Highlands (87 per cent) and Mekong Delta (87 per cent) were below the national average of 91 per cent, as reported in the 1998 VLSS (DFID 2001).

Chart 2.5 Infant mortality decline by region 1998



Data source: ADB (2001).

## Rural versus urban poverty

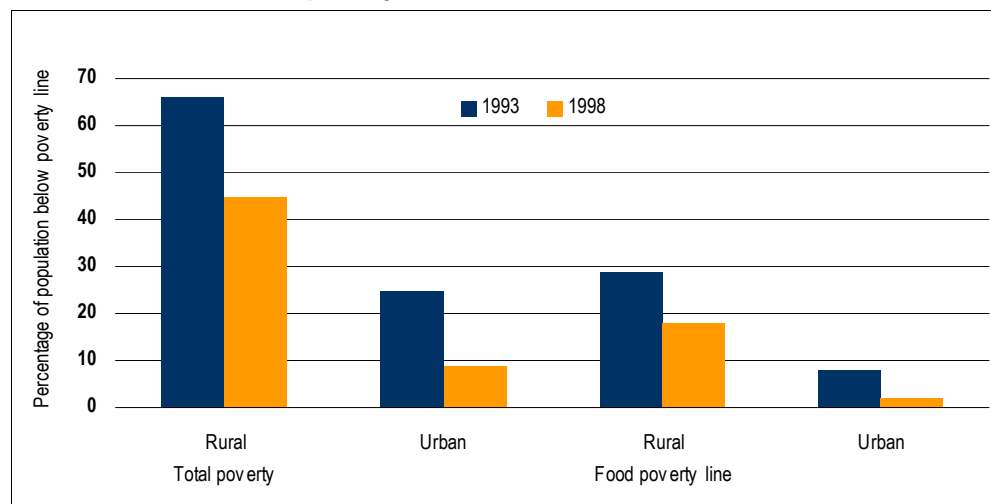
### Rural poverty dominates

Poverty in Vietnam is highly concentrated in rural areas – with around 90 per cent of the poor living in rural areas. Therefore a higher proportion of the population lives below the poverty line in rural areas than in urban areas – 45 compared with 9 per cent (chart 2.6).

Although poverty declined in both rural and urban areas between 1993 and 1998, the decline was greater in urban areas – declining at nearly twice the rate of rural areas. The poverty reduction across both urban and rural areas has coincided with improvements in access to education and infrastructure. For example, access to clean water supplies and sanitation facilities has improved in both urban and rural areas. Households in rural areas are now less dependent on river and lake water and more people are drinking water from drilled wells (World Bank 1999a).



Chart 2.6 Incidence of poverty in rural and urban Vietnam



Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

The poverty gap index indicates that the poor in rural areas are further below the poverty line than in urban areas (chart 2.7). However, in both rural and urban areas the depth of poverty has declined between 1993 and 1998.

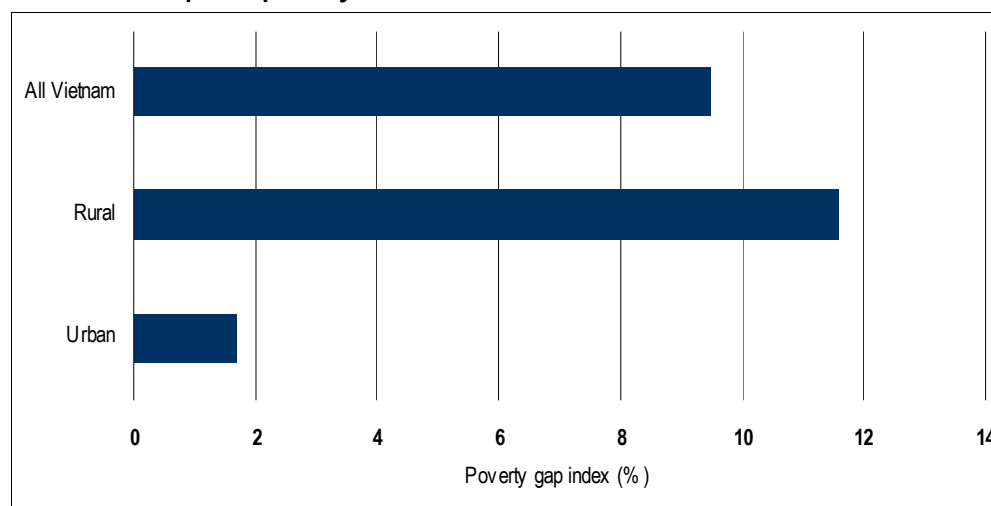
### Characteristics of the rural and urban poor

The rural poor tend to mainly work in agriculture or have unstable jobs, and have limited off-farm employment opportunities available. They generally have a low level of education, limited professional and business skills, poor access to credit, physical infrastructure and social services.

In urban areas, most poor people are new immigrants who are unemployed or do not have stable jobs, and whose income is low and generally irregular. They also have difficulties accessing social services. This is likely to be in part a result of the labour registration system that discriminates against new migrants to a region.

There is a stronger relationship between household composition and poverty in rural areas than in urban areas. This is partly because households are smaller and more homogenous in urban areas. It may be that the proportion of children, women and elderly in a household has less effect on household income in urban areas because income-earning capacity in the cities and town is less dependent on physical strength (Minot and Baulch 2001).

Chart 2.7 Depth of poverty in rural and urban Vietnam 1998



Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

### Vulnerability of the rural poor

Many of the rural poor have a greater exposure to risks than poor households in urban areas, because their income is more dependent on agricultural activities. Agricultural production carries a high risk for poor households because of vulnerability to climatic conditions or events, such as floods, droughts and storms.

The PPAs reported that failure of crops due to climatic conditions and pest infections was a particular problem in Lao Cai and Ha Tinh. Poor farmers lack the resources to take protective measures against such events. Livestock death and disease are considered to be one of the main factors contributing to poverty in nearly all the villages covered by the PPA in Lao Cai and was also mentioned in other studies. This is because the loss of livestock can have serious consequences on the household economy because of the importance of livestock as a store of wealth and the pivotal role played by livestock in Vietnam's farming systems (World Bank 1999a).

### Rural poverty in the provinces

Rural poverty is the greatest in the northeast and northwest border provinces and in the central highland provinces of Gia Lai and Kon Tum. However, the third central highland province, Dak Lak, has a rural poverty headcount of 45 per cent, around the national rate. The relative prosperity of Dak Lak is probably due

to the strong growth in coffee production in this province, as well as its proximity to Ho Chi Minh City (Minot and Baulch 2001).

Rural poverty in the Red River Delta is markedly less than in the Northeast and Northwest. However, this region has several provinces with relatively high incidences of rural poverty. Hay Tay, Ninh Binh and Hung Yen have rural poverty headcounts over 40 per cent, even though they are close to Hanoi.

### **Women and poverty**

#### **Rural women are particularly poor**

The VLSS, like most household surveys, collects information on income and expenditure at the household level. Therefore poverty measures cannot be calculated separately for females and males. The data from the surveys does however show that people living in female-headed households are usually materially better off than in male-headed households. However, female-headed households have a lower mean household expenditure than male headed households. This is because female-headed households have fewer members. In contrast female-headed households were routinely described as being poor and vulnerable in the PPAs (World Bank 1999a).

Minot and Baulch's poverty mapping work found that households in rural areas with a large number of females are more likely to be poor but that this is not the case in urban areas. Rural households consisting of only women and children are particularly vulnerable to poverty and land loss, because the number of dependents is relatively high compared with the available labour force (Minot and Baulch 2001).

#### **Gender wage gap persists**

Employed mainly in agriculture, light industry – especially textiles and garments, government and social services, women make up half of the employed labour force. However, they earn only 40 per cent of the total wages. Women's wages are on average 72 per cent of men's, and are only 62 per cent of men's in agriculture.

Women are more likely to have casual, seasonal and self-employed work than men, and also be in positions of lower authority. Therefore women are more likely to be effected by downturns in the economy and other negative shocks.

### **Unequal access to decision-making power**

One of the major problems facing women is the lack of power they have within the household. The PPAs identified that this lack of power stems from:

- unequal decision making power
- disproportionably heavy work loads for women
- domestic violence
- women's autonomy being sacrificed in household coping strategies.

The inequality in decision-making within households came through as a major issue in the PPAs. Even where women are the nominal money managers they do not actually have the power to make decisions on expenditure. Women may also be being disenfranchised of their land use rights because of a strong tradition for land to be inherited by sons and because of the practise of having men registered on land certificates as land holders. This contributes to their limited decision making power.

The lack of power experienced by women goes beyond the household. It is also reflected in their limited influence in wider community decisions. The ratio of female leaders to male leaders is low across all levels but is lowest at the grassroots level (see table 2.1).

Table 2.1 **Women in politics in Vietnam**

<b>Political body</b>	<b>Percent of women members, 1994–99</b>
National Assembly	26.2
Provincial People's Council	20.4
District People's Council	18.1
Commune People's Council	14.4

Source: UN System, 1999 — cited in the 1999 Vietnam Development Report Attacking Poverty.

Women bear a disproportionately heavy workload – women work on average 6 to 8 hours more a day than men because they do the majority of the housework. This can:

- contribute to health problems;
- limit the scope for informal learning from participation in social activities;

- preclude participation in literacy classes; and
- restrict participation in village meetings and therefore limit involvement in decision making (World Bank 1999a).

In addition to domestic violence the PPA's also identified several examples of women being used – in various forms – as a coping strategy during times of hardship. For example households might respond to a lack of labour by marrying off their sons to bring a daughter-in-law into the family so she can work for them. In Ho Chi Minh City, there were several cases of women being sold to foreigners to provide money for their families (World Bank 1999a)

### **Health and education issues**

Access to health services remains a serious problem for women in some areas. For example, antenatal and postnatal services are almost non-existent in many of the remote villages.

Women's health problems are caused or exacerbated by their heavy workloads. This is particularly so in agriculture, as studies of the intensity and heaviness of agricultural labour demanded of women have shown that the number of accidents is high compared with most other countries (World Bank 1999a).

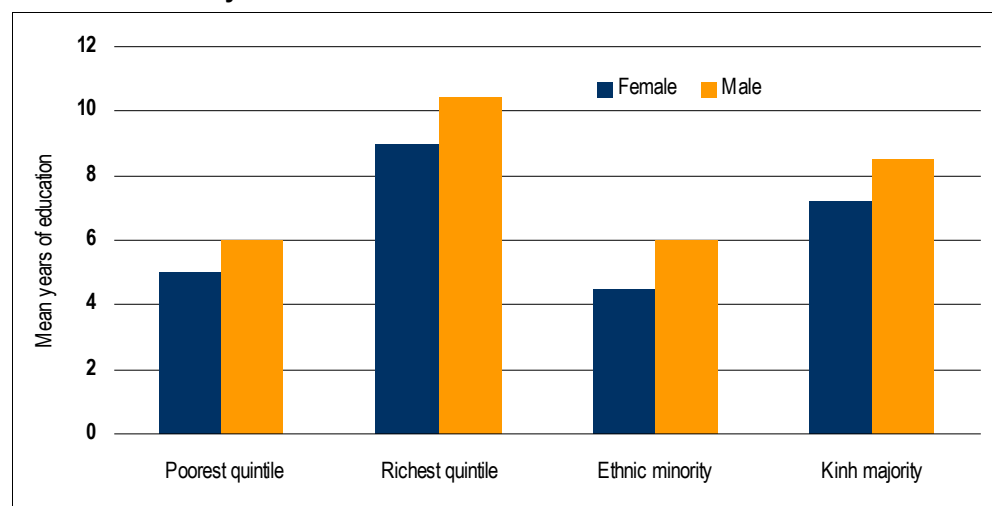
The lack of free time associated with women's heavy workloads also restricts access to education and as a result educational attainment of women is generally lower than that of men (chart 2.8). In remote rural areas women have even less likelihood of accessing education. This is reflected in the literacy rates from the Lao Cai PPA – none of the adult women were literate in two of the most remote villages.

### **Ethnic minority groups are also vulnerable**

#### **Ethnic minority people are amongst the poorest people in Vietnam**

Ethnic minority people are amongst the poorest in Vietnam. Ethnic minorities make up 14 per cent of the population but account for 29 per cent of poor people in Vietnam.

Chart 2.8 Mean years of education 1998



Data source: Fahey et al. (2000).

The incidence of poverty among ethnic minorities has come down from 86 per cent in 1993 to 75 per cent in 1998. This compares to the poverty rate for the Kinh majority of 31 per cent down from 54 per cent. Therefore, although ethnic minority poverty is declining, it is falling at a slower rate than for the Kinh population and remains very high (chart 2.9). In 12 out of 13 of the poorest provinces – those with more than 60 per cent of the population below the poverty line – ethnic minorities represent at least half of the population (Minot and Baulch 2001).

### Explanations for the high poverty amongst ethnic minorities

Most of the 53 ethnic groups in Vietnam – except the Chinese who are largely urban-based – are located in the upland areas. These mountainous areas generally have the worst access to public services and lack basic infrastructure. The PPAs identified a number of factors associated with the persistent high levels of poverty amongst ethnic minority groups:

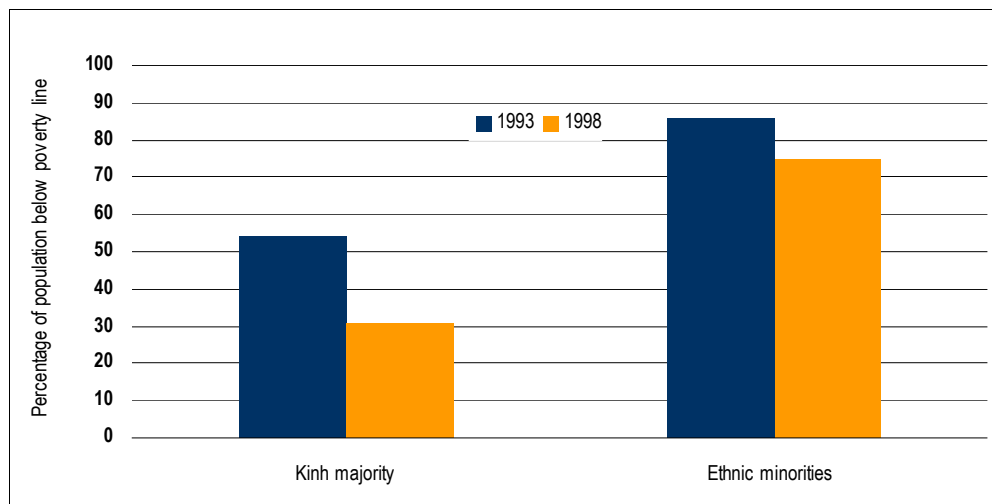
- access to land;
- poor quality of land;
- access to water;
- access to information and markets;
- lack of basic supplies, such as mosquito nets and warm clothes;
- difficulties in covering health treatment costs; and

- limited education – including limited Vietnamese language and literacy skills.

Many of these problems also stem from the tendency for ethnic minorities to live in remote areas with inadequate infrastructure. However, the disparity between the ethnic minority and Kinh population's poverty rates is not solely due to geography. Van de Walle and Gunewardena (2000) found large differences still exist within geographical areas even after accounting for different household characteristics. This led them to conclude that each ethnic group has different livelihood and income characteristics. Ethnic minorities were found to have a lower return from education. However van de Walle and Gunewardena also found evidence of compensating behaviour – ethnic minorities were able to generate higher returns to land and labour.

Van de Walle's and Gunewardena's results suggest that it is not sufficient simply to target programs to poor areas. Specific programs – within poor area programs – need to be appropriately tailored to, and narrowly focused on, the problems and needs of minority households. Development programs should also recognise the compensating behaviour identified. Options need to be expanded for minority groups to ensure that the conditions that have caused their isolation and social exclusion are broken.

Chart 2.9 Incidence of poverty by ethnicity



Data source: Data source: GSO — World Bank estimates based on VLSS93 and VLSS98.

## **3 Poverty projections**

Reducing poverty is primarily about increasing incomes of the poor. The very rapid reductions in poverty that Vietnam has experienced have been brought about by the high growth that was generated by the doi moi reforms of the late eighties and early nineties. The Government as part of its 10 year Socio-economic Development Strategy (SEDS) is targeting a similarly high level of growth between 7 and 7.5 per cent a year on average. This growth rate would see a doubling of real gross domestic product (GDP) over the decade. If this were achieved then poverty in Vietnam would be expected to continue its dramatic decline over the decade.

The rate at which poverty declines over the decade will depend on both the level of growth (that is, whether the Government's targets are achieved) and the pattern of growth (that is, the extent to which the poor are able to participate in the economic opportunities created by the growing economy). By making some assumptions about the level and pattern of future growth, possible future reductions in poverty can be projected.

### **Projecting reductions in poverty**

The most recent estimate of poverty was obtained from the 1998 VLSS. Since then, growth has averaged around 5 per cent in real terms suggesting that the rate of poverty has fallen further. By applying the estimated growth rate since 1998, it is possible to project what the poverty rate might currently be. Based upon the methodology outlined in box 3.1, the poverty rate is likely to be in the order of 33 per cent in 2000.

Over the next ten years the level and pattern of growth are uncertain. This means that the future impacts on poverty are difficult to predict. However, it is possible to identify some likely orders of magnitude by considering possible representative scenarios. This analysis considers four possibilities. First, the level and pattern of growth does not differ significantly from the past (chart 3.1 shows the pattern of growth during the 1990s was relatively uneven, favouring urban areas and regions such as South East, the Red River Delta and the North Coast). Second, the rate of growth increases in line with the Government's target but the pattern of growth remains the same. Third, the pattern of growth improves with



greater participation of the poor in future growth. Finally, the pattern of growth worsens when growth is more concentrated in a few key areas.

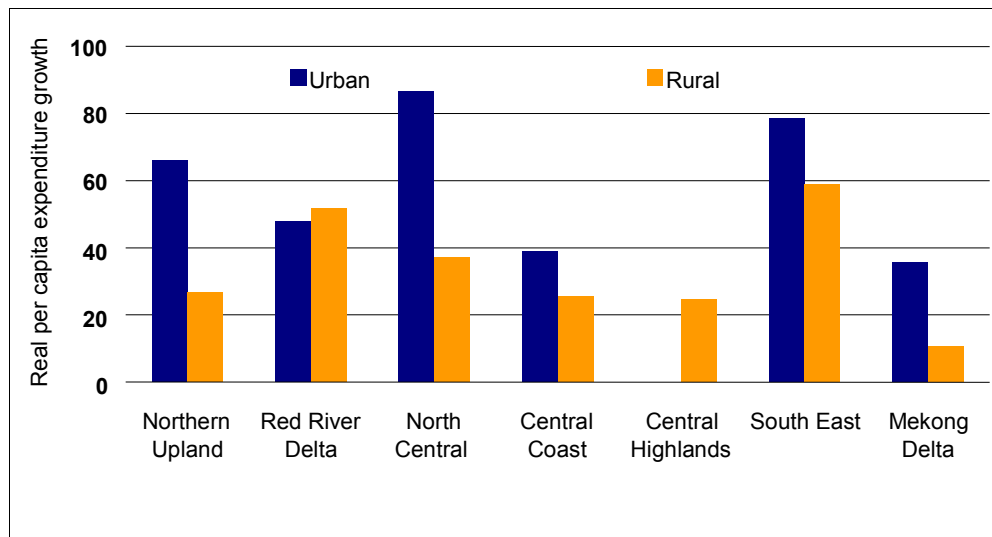
**Box 3.1 Methodology underlying poverty projections**

The projections described in this chapter are based upon the VLSS98 database. Real per capita expenditure is projected by an assumed growth rate, which is differentiated by region and whether the household is classified as rural or urban. The projected real per capita expenditure is then compared with the relevant poverty line to estimate the projected poverty headcount ratio.

The projections assume:

- an overall real GDP growth that is distributed across rural and urban areas in the seven regions (at assumed relative growth rates);
- population growth of 1.5 per cent each year; and
- real expenditure grows in line with real per capita GDP growth.

**Chart 3.1 Real per capita expenditure change 1993–98**



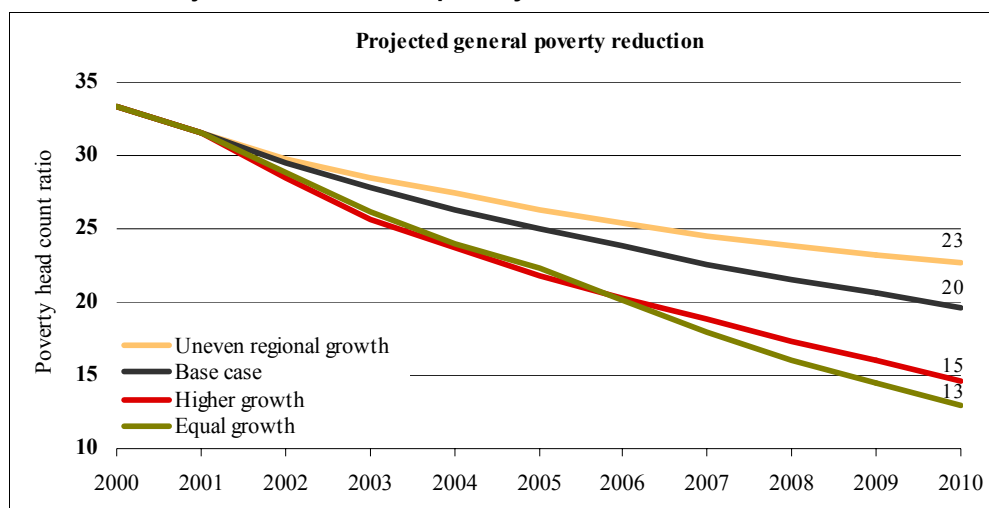
Data source: World Bank (1999).

Chart 3.2 illustrates the projected reductions in poverty under four scenarios:

- a base case of 5 per cent real GDP growth and the same historical pattern of growth (as defined by the relative rates of growth in chart 3.1);
- a higher rate of real GDP growth consistent with the government’s target of doubling real GDP of the decade and the same historical pattern of growth;

- a base case growth rate combined with a (hypothetical) uniform distribution of growth with each region (urban and rural) growing at the same rate; and
- a more uneven regional growth rate (with 5 per cent overall growth), where the South East and Red River Delta grow at the same rate, Central Coast grows at half the rate of the leading two, and the remaining regions grow at one fifth of the leading two.

**Chart 3.2 Projected reductions in poverty**



Data source: Beard and Agrawal (2001).

Under the base case scenario, the rate of poverty would be reduced to 20 per cent by 2010. Not surprisingly, achieving a higher growth rate will lift more people out of poverty. The importance of ensuring that the benefits of growth are distributed widely are highlighted with the even growth scenario – 5 per cent real GDP growth distributed evenly across the population can achieve greater reductions in poverty than a higher growth rate (7 per cent) distributed unevenly across the population. In contrast to the even growth rate scenario, a more uneven pattern of regional growth results in a higher level of poverty than in the base case. It is roughly equivalent to a reduction in the overall GDP growth rate of around 1.5 percentage points.

### **What will the pattern of poverty look like in the future?**

The previous analysis showed that different levels and patterns of growth will have different effects on the level of poverty in Vietnam over the next ten years.

Table 3.1 shows how the regional and ethnic breakdown of poverty in 2010 is affected by the different assumptions about the level and pattern of growth.

Under base case assumptions, nearly 65 percent of the poor will be concentrated in just two regions – Northern Uplands and Mekong Delta. These two regions consistently account for the majority of poor under all four scenarios. The importance of generating economic opportunities in the Mekong Delta is highlighted under the uniform growth scenario where the share of the Mekong Delta in poverty falls to around 17 per cent. This is an important reason why the overall poverty fell from 20 per cent in the base case to around 13 per cent.

Another interesting outcome is that ethnic minorities continue to account for a disproportionate share of poverty. The primary reason for this is location, with 90 percent of ethnic minorities located in the Northern Uplands, Mekong Delta, Central Coast and Central Highlands – the slowest growing areas in Vietnam.

Table 3.1 **The shape of poverty in 2010**

	1998	Base case	High growth	Even growth	Uneven regional growth
	%	%	%	%	%
<b>Break down by region</b>					
Northern Uplands	28.1	34.1	34.1	36.5	34.5
Red River Delta	15.0	3.8	1.9	7.1	2.0
North Central	17.8	13.0	8.9	16.0	19.8
Central Coast	10.1	11.7	12.2	14.0	10.0
Central Highlands	5.1	7.0	7.9	8.4	6.4
South East	2.6	0.2	0.0	0.8	0.2
Mekong Delta	21.2	30.2	35.1	17.2	27.1
<b>Break down by ethnicity</b>					
Kinh majority and Chinese minority	71.5	63.2	60.1	58.2	64.3
Minorities	28.5	36.8	39.9	41.8	35.7

Source: CIE estimates based upon VLSS98.

## 4 Why are people poor?

Answering the question ‘why are people poor?’ is an important step in the design of a country strategy. Knowing the causes of poverty allows identification of relevant interventions that will improve the well-being of the poor. In Vietnam, a large proportion of current poverty is attributable to the legacy of past policies and national experience, rather than distinctive and selective impediments to lifting people out of poverty. Vietnam commenced its transition from a command economy in 1987 with around three out of every four people living in poverty. This extremely high poverty rate was the result of a very poor policy and institutional environment associated with the command economy in Vietnam that followed on from a devastating, protracted period of war.

Since 1987, Vietnam’s market oriented reforms have generated very high rates of growth that have benefited the poor, cutting the poverty rate to around one in every three by 2000. The fact that the poverty rate remains very high even after such high growth reflects the enormous depth and breadth of poverty in Vietnam at the start of its transition period. A longer period of sustained growth is required to further raise the incomes of the poor and lift more people out of poverty. The previous chapter has already shown that if this were to be achieved then further dramatic reductions in poverty would be achieved over the next decade. Against this background, the relevant questions in the development of a country strategy for Vietnam are:

- what are the impediments to generating high levels of growth over the next decade; and
- what are the barriers that might prevent the poor from participating in the opportunities generated by this growth over the next decade?

This chapter focuses on these two issues.

### **What are the impediments to generating high levels of growth**

The *doi moi* reforms (see box 4.1) of the late eighties and early nineties did much to create a supportive policy and institutional environment for growth and poverty reduction in Vietnam. Pursuing agricultural land reform, relaxing restrictions on private sector activity, increasing openness to trade and

### Box 4.1 Elements of doi moi

Key elements of Vietnam's reform process:

- agricultural land reform allowed individuals and families long term rights to use land;
- price liberalisation to eliminate the 'two price' system and the removal of barriers to internal trade;
- facilitation of a modern banking system;
- liberalisation of foreign investment and international trade;
- shift towards a market determined exchange system;
- reform of the State Owned Enterprise system – changing the relationship between SOEs and the budget, reforming ownership structures;
- creation of a legal framework for the corporate sector; and
- government budget reform.

investment and allowing a greater role for market determined prices were among important policy reforms that stimulated high levels of domestic and foreign investment to fuel growth that averaged over 7 per cent in real terms between 1990 and 2000.

The Government is targeting a similar level of growth for the next decade. This will require substantial increases in investment over current levels and increases in productivity and efficiency in the economy (World Bank 1999a). Generating these investment and productivity improvements will require a policy and institutional environment that facilitates competition, creates opportunities for all domestic and foreign firms and allows production and investment decisions to be determined by what is profitable at world prices.

A key question is whether the current policy and institutional regime is up to the challenge of supporting a further decade of high growth?

The World Bank's Country Policy and Institutional Assessment (CPIA) allows an assessment of how supportive a country's policy and institutional framework is to growth and poverty reduction. The CPIA examines the framework in terms of:

- whether it is conducive to generating high growth (looking at aspects of economic management, structural policy, and governance); and
- whether the framework ensures that the benefits of growth are widespread and lead to broad based accumulation of human capital (looking at aspects of

## Vietnam poverty analysis

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gender equity, equity of resource use, human resource development, labour regulation, social protection and poverty monitoring).

Chart 4.1 shows how well Vietnam compares relative to average and top performing International Development Association (IDA) countries. The assessment shows that Vietnam rates very well in:

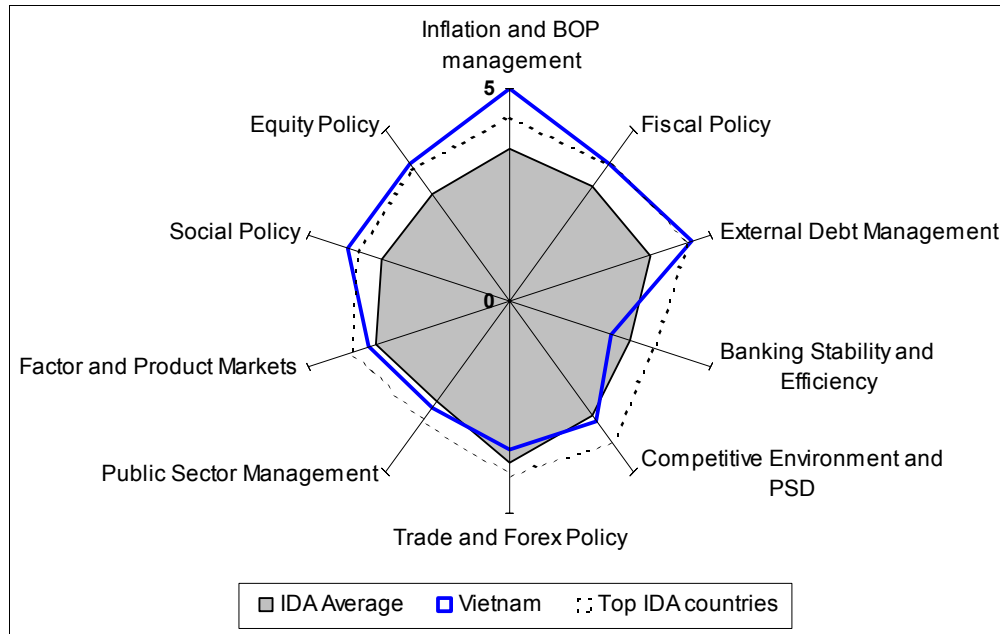
- inflation and balance of payment management;
- fiscal policy
- social inclusion policy;
- external debt management; and
- equity policy.

Vietnam is among the top ranking IDA countries in these areas. However, it scores significantly lower in the following areas:

- trade and foreign exchange policy;
- stability and efficiency in the banking sector;
- factor product and markets;
- environment for private sector development; and
- public sector management and institutions (property rights and governance, budgetary and financial management, and public administration).

While recent improvements in the policy and institutional framework have lifted Vietnam closer to the IDA average, it is well behind top performing IDA countries.

Chart 4.1 Comparison of Vietnam policy and institutional framework



Data source: World Bank (2001c).

### The policy and institutional successes — economic management and social policy

Prudent monetary policy that has kept inflation at low levels, maintenance of fiscal balance, external debt that is current and serviceable given prospective foreign exchange receipts and political support for a well defined reform program and widely distributed socioeconomic development strategy have all contributed to strong economic management in Vietnam. There is, however, room for improvement. The CPIA suggests improvements to economic management in Vietnam that include reversing the trend of declining non-oil budget revenues, improving debt-management and debt-monitoring and reporting, and strengthening institutional capacities within central and local government for implementation of the current three year reform program.

Vietnam's policies toward gender, equity of public resource use, human resource development, social protection, labour and identifying poverty generally establish an environment that promotes a cohesive society. The CPIA suggests the following improvements for improving the social policy framework in Vietnam: allowing registration of women's names on land titles; introducing equality in the retirement age between men and women; increasing representation of women in the decision making roles in the political structure;

improving the targeting and equity of social spending, especially toward the poor; rationalising funding arrangements for health and education that have a heavy impact on the poor; and eliminating wage differentials between men and women.

### **The problem areas — structural policy and public sector management**

There is a range of problems with current structural policies that if not addressed will encourage the persistence of poverty. These include:

- Distorting quantitative trade restrictions and a tariff schedule that is widely dispersed with too many tariff bands.
- A weak finance and banking sector with high levels of non-performing loans, inadequate capitalisation and lending policies that are not commercially oriented.
- Regulation that limits competition between domestic and foreign banks and imposes interest rate caps on lending in local currency.
- A private sector that is disadvantaged relative to state enterprises, especially in terms of access to land and capital.
- The need to establish land registration offices supported by a national data system to facilitate the use of land rights as collateral for borrowing.
- A segmented labour market and a labour registration system that hinders internal labour migration.
- Limited involvement from sectoral ministries and provinces in prioritising and balancing recurrent and capital spending in their sectors.
- Weak budget data recording and monitoring with limited flexibility in the allocation of expenditures within the budget.
- Poorly defined property rights and difficulties in contract enforcement.
- Unpredictable and selective application of laws and regulations and high business costs associated with negotiating with bureaucrats for ‘unofficial payments’.
- Public administration that is weak with overstaffing and inadequate wages, limited coordination between agencies, limited independent or legislative oversight of public accounts and limited public accountability.

Progress in improving these aspects of the policy and institutional environment will be required for sustained high growth and poverty reduction.



### **The scores reflect the difficult reforms that lie ahead**

The poor rating in terms of structural policy and public sector management reflect the difficult reforms and institutional building that Vietnam's transition economy now faces. Building a comprehensive legal system that provides a clear, consistent and stable legal framework, reforming the state enterprise sector, encouraging private sector development and placing private firms on an equal footing as state enterprises, strengthening the banking sector and increasing regulatory capacity, improving price signals in markets by reducing protection and further integrating with the world economy and improving public administration are some of the important reforms that are immediate priorities for the Government of Vietnam. These reforms will require a considerable amount of resources, place significant technical demands on the Vietnamese public service and will require resolving the positions of a number of important vested interests. They will also require dealing with long-standing ideological perspectives on the role of the state and communist party. For these reasons, the current round of reforms will be much more difficult to implement than the initial round of *doi moi* reforms that focused on removing a number of obvious constraints to growth.

### **Impact of reforms on the poor**

It is unlikely that the *doi moi* reforms had anything but a positive impact on the poor. As discussed already, Vietnam's new wave of reforms are intended to set up a policy and institutional environment that will generate further growth and support further reductions in poverty. The overall effect on poverty is expected to be positive. However, the reforms will lead to structural change in Vietnam's economy that will mean that some sectors will expand and some will contract. This opens up the possibility that some people who lose jobs or income sources in the contracting sectors could fall back below the poverty line.

Reforms to state enterprises and trade policy are the most likely to have direct implications for the level of poverty in Vietnam. State enterprise reforms are likely to involve reductions in enterprise employment. The adverse effects of these lay-offs will be mitigated by a safety net that provides funding for retraining and severance pay. A growing private sector will also provide opportunities for displaced state enterprise workers. Retraining and an ability to relocate to fast growing areas will assist displaced workers to take advantage of expected opportunities generated by the reform program.

Research on the impacts of trade reform indicates that it will be pro-poor. Lowering protection will likely lead to contractions in import competing sectors but also to expansions in labour intensive and export oriented sectors. The overall impact of trade reform on poor (and other) households is likely to be positive as these households are more able to supply unskilled labour to expanding sectors, benefit from removal of implicit taxes on agriculture and face lower prices for the kinds of products they consume (Huong 2000).

### **What are the barriers that might prevent the poor from participating?**

The policy and institutional assessment gives a clear picture of where progress in reform needs to be made in order to create an environment that will support high growth over the next decade. This growth will have a lower impact on poverty reduction if the poor are unable to take advantage of the economic opportunities that this growth creates. The key question then is what are the barriers that might prevent the poor from participating in growth and rising out of poverty?

The research to date does not provide a complete understanding of what constraints the poor in Vietnam face in terms of taking up opportunities created by the reform-led growth. Therefore the barriers cannot be *ranked* at this stage – and even if they could, they are likely to be different for different groups. However, the literature does identify a number of factors that prevent the poor from participating in growth.

#### **Market access barriers**

Markets matter for the poor because poor households rely on markets to sell their labour, their products and to finance investment (World Bank 2000a). Vietnam's reforms have removed many barriers to trade but barriers do exist that prevent some people from participating in markets.

##### *Physical access*

A large number of the poor do not have access to markets because of their physical location. In the absence of policies that support more balanced growth, economic growth is likely to be concentrated in urban areas – where market infrastructure already exists. As the majority of Vietnam's poor live in rural areas it will be more difficult for them to access these markets. Around 20 per cent of

the poorest communes are not linked by motorised road to elsewhere. These communes are mainly situated in the Mekong Delta, the Central region and the Northern mountainous areas. Even for those communes that do have roads, these roads are often not suitable for use in all types of weather – making it impossible to travel these routes during the rainy season (PTF 2001a).

In rural areas a smaller number of employment opportunities exist than in urban areas. In rural areas employment is generally restricted to agricultural labouring while in urban areas there is a range of industrial and service sector markets for the poor to participate in. Rural industrialisation and development of rural service activities will play an important role in increasing income opportunities for the rural poor. This will require, among other things, efforts to remove impediments to the development of small and medium private enterprises. However, the future for many farm and rural-based families is likely to lie in urban and peri-urban areas. Although the barriers inhibiting urban migration are not fully understood one key issue is the immense difficulties associated with only having temporary residency status. Poor migrant households without permanent residential permits are excluded from accessing social services. In the Ho Chi Minh City PPA migrants reported difficulties in accessing education services, in applying for jobs and in securing help under the Government's HEPR program. The PPA also reported that certain policy changes have constrained livelihoods for the poor: street vendors are no longer allowed to trade on the pavement as a result of Decree 36 .

In addition, there was considerable anxiety amongst all groups in the community about the increase in social deviance – drug abuse, alcoholism, gambling, prostitution and crime (World Bank 1999b).

The regions where poverty is the most prevalent and deepest – the Northern Uplands and Central Highland regions – have difficult physical environments and poor infrastructure, which place serious constraints on residents being able to transport their production to larger market places or to access inputs to improve the quality of their production. As discussed in chapter two the PPAs in Lao Cai province in the Northern Upland region reported that many households living in the highland areas were simply too remote and deprived of land and capital to take advantage of opportunities (World Bank 1999a).

There is less incentive for firms to create jobs in these regions by purchasing labour and produce from the poor if the coordination and transport costs diminish their returns. But is remoteness the key factor? Other factors may also

contribute. For example, in some regions the land use rights of each household may be too small to provide the scale of production required. The vulnerability of a region to climatic shocks may also deter investors from establishing a market in these areas. Further regional investigations are required to determine which of these factors is the most significant barrier to accessing markets.

### *Information deficiencies*

Geographical location is not likely to be the only explanation for the difficulty poor people face in accessing markets. Lack of information is also a significant factor. Many of the poor lack technical and market information required to effectively participate in markets – the PPAs provided evidence of this (World Bank 1999a). Poor households will not be able to produce the type or quantity of goods demanded if they do not know the most efficient production methods. This limits their ability to take advantage of market opportunities created by growing incomes, expanding markets and changing consumer tastes. As discussed in Vietnam Development Report for 2001 (World Bank 2000a) there is a need for a more efficient agricultural extension service that can facilitate information flows to farmers.

Lack of information in the agricultural sector also limits the scope for the poor to access markets. Without marketing information and an understanding of the linkages between suppliers and processors, the potential for adopting profitable agricultural and agro-based activities is limited – and this prevents employment opportunities from emerging. Private trading firms often provide the bridge between producers and final consumers. These firms will often identify the types of products that are required by consumers, provide technical assistance on how to produce these products and handle transportation to the market. It is expected that such firms would play a greater role in Vietnam in filling the information gaps in the future.

There is also a need for more general information on Government policies and laws. The Government's introduction of Decree 29/CP on the Regulation of the Exercise of Democracy in Communes (the Grass Roots Democracy decree) in 1998 offers a crucial framework for increasing community participation at the local level. However, awareness of the decree needs to be promoted through media and information campaigns.

### *Access to capital*

Limited access to capital can also prevent the poor from participating in markets. The PPAs and other studies show that most rural households rely on informal credit sources. The poorest households and most upland people have no access to formal credit and rely on loans from relatives, friends and traders/money lenders. Without access to credit, households are not able to invest in the equipment and supplies required to be active in markets. A critical determinant of these constraints on access to finance lies in the limited nature and transferability of land use rights.

Access to credit is not only a barrier at the household level. Very few private sector agro-processing enterprises have access to loans of any significant size from formal institutions – preventing the establishment of businesses or the expansion of existing ones. This in part reflects current bias in lending in the banking sector toward state enterprises.

### **Access to social infrastructure**

Where people live also influences their access to social services. It also affects the quality of the service they receive. The deficiency of adequate road networks in the remote areas of Vietnam referred to above also impacts on ability to access these services.

### *Education*

Education is fundamental to development and is critical for the eradication of poverty. If investment in education can be effectively targeted there will be a sustained improvement in poverty. In particular, substantial international research documents the direct relationship between the education of women and girls and the reduction of poverty, illiteracy and disease (Fahey et al. 2000). However, many of Vietnam's poor – especially women, rural people and ethnic minority groups – are not able to access educational opportunities.

Many of the very remote areas where large numbers of the rural poor live do not have schools – 88 per cent of northern mountainous communes are estimated to have no local primary school or satellite school. If schools are available they are often difficult to get to. For example, in the Northern Uplands, North Central, and Mekong Delta regions, it takes most students 40 to 50 minutes to walk to school (National Committee for the Advancement of Women 2000). In the

Mekong Delta region, the main transport is by waterway – which is usually more expensive than land transport – and it is often very difficult and sometimes impossible, for children to go to school during the rainy season (DFID 2001).

The schools available for rural children tend to provide a lower quality of education than in urban areas. There are several different curricula in primary schools and each is associated with attendance for a different number of days per year. There is a 160-week curriculum for most pupils, a 120-week program for ethnic minority pupils, and a 100-week program for pupils in remote areas (Fahey et al. 2000). School supplies such as textbooks are also limited in more remote areas.

Although teachers in remote areas receive salaries of up to twice that of teachers in other areas, there is still a preference for urban areas. This also contributes to the quality problem and this is exacerbated further by inequitable expenditures amongst provinces. Central funds are allocated per head of population rather than by pupil – disadvantaging poor areas with higher birth rates. Private funding by province also varies significantly. As a result, the expenditure per pupil can vary by up to 30 times across provinces (Fahey et al. 2000).

Because ethnic minority groups are concentrated in extremely remote areas they also face many of these access and quality problems. However, in addition the ‘kinh-centric’ schooling is likely to be inappropriate to their culture and teaching in a non-native language is also likely to lower the quality of the education they receive (Van de Walle and Gunewardena 2000).

Ethnic minorities are also likely to be excluded from receiving education more generally because language barriers tend to isolate them from mass media.

However, it is not only poor people living in remote areas who find it difficult to access education. Research suggests that urban migrant children are either unable, or find it very difficult, to register in government schools. These schools require a registration book – which the migrant households can rarely or never obtain – to enrol in government schools. Without a registration book, urban migrants have no choice but to pay high unofficial fees to enrol, or be excluded from education (DFID 2001).

Women in all areas are often excluded from educational opportunities – such as attending classes and community meetings – because of their heavy workloads.

This barrier is particularly important given the direct relationship between the education of women and the reduction of poverty.

Another barrier to education is Vietnam's policy of socialisation – that is, households contributing to the cost of schooling. A recent study reported that this policy – as it currently operates – is a key factor in excluding the poorest children from education. The policy makes it difficult for poor families to afford the cost of schooling, even when they are granted exemption from tuition fees (DFID 2001).

#### *Health services*

Infectious diseases are still prevalent in Vietnam especially in rural and remote areas and remain a major concern. In 1998 diarrhoea, dengue fever, malaria and respiratory tuberculosis were among the ten leading causes of admissions at public hospitals. The disease pattern is strongly related to geography, climate and socioeconomic characteristics:

- malaria is most serious in the remote disadvantages areas in the Central Highlands and mountains areas of the Central Coast region;
- dengue fever is most prevalent in the Mekong River Delta;
- bubonic plague is frequent in the Central provinces and Central Highlands; and
- Japanese encephalitis mainly occurs in the North during the wet season.

Although the implementation of malaria control measures have been very successful – the fatality rate for malaria has dropped to nearly one-tenth of what it was in 1991 – it is still a major health problem in the mountainous and ethnic minority areas. In recent years epidemic outbreaks have occurred in Dak Lak and Tuyen Quang owing to migration of the Hmong ethnic people from the North. Also in areas where malaria has decreased, immunity to the disease has also declined, so epidemic outbreaks and resurgence of malaria are possible if preventive measures are not sustained (World Bank 2001b).

The recent increase in acute respiratory infections puts them ahead of malaria as the leading cause of morbidity in Vietnam. Their increase is a direct result of increased air pollution and unhealthy living conditions in poor urban areas (World Bank 2001b).

These diseases are both a symptom and a cause of poverty. The poor tend to have a lower health status than the non-poor. For example the 1997 VLSS reported that in the poorest quintile of the population 42.3 per cent of children were under weight compared to 16.1 per cent in the richest quintile. Studies show that once a household loses an adult member to sickness or disability, income levels suddenly drop and the household falls into poverty (ADB 2001). As discussed in chapter two the majority of the poor are self-employed in small businesses or agriculture or work for a daily wage. Therefore the consequence of illness on their income is significant.

Although Vietnam has an extensive health care delivery network with a large supply of health workers and well-organised national public health programs, the quality and use of service in poor and remote areas is low (ADB 2001). As a large majority of hospitals are located in urban centres, geographical access to hospitals is much better for better-off urban dwellers than for poorer rural residents. The large private costs associated with hospital care also prevent many poor people from accessing hospital services. The remoteness of many poor households makes it difficult for them to access even basic health services and supplies.

Households are influenced by prices, quality, accessibility and availability of health services in their decisions to use health services. The cost of transport and accommodation for accompanying relatives involved in accessing health services imposes a substantial cost on households in remote areas. This cost may prevent them from obtaining health services – such as immunisations and other primary health care measures. Ethnic minorities face the additional difficulty of language and cultural barriers in accessing these services.

The link between women's education and health is important. Women with low levels of education are less likely to make use of available reproductive health services and are at greater mortality risk from birth and pregnancy related complications. Women with lower secondary schooling have an infant mortality rate that is 46 per cent lower and a child mortality rate that is 75 per cent lower than for women with no schooling (World Bank 2001b). However, as previously discussed, the heavy workloads of women from poor households often prevent them from receiving education. Therefore improving access to reproductive health service in under serviced areas will require special emphasis on increasing female education. The services would need to be targeted to disadvantaged areas where women's levels of education are lower and programs will need to be



designed in a way that they effectively reach women with low levels or no education (ADB 2001).

### **External factors**

Environmental shocks are the most relevant external factors affecting the poor in Vietnam. On average, four to six typhoons strike the coastline of Vietnam each year, with the central and northern provinces most commonly affected. The central coast is especially vulnerable to natural disasters, as climate and topography combine to create quick on-set floods. Floods also affect the Mekong Delta, although here there is generally more warning as river waters rise upstream in Laos and Cambodia before reaching Vietnam. Steep slopes and heavy rainfall in mountainous regions result in landslides (Conway et al. 2001). These shocks can inflict substantial damage – between 1971 and 1994 more than 6 million tons of rice production was lost as a result of flood and typhoon damage (World Bank 1999a).

### *Environmental sustainability*

In all regions the risk of extreme floods has been exacerbated by the decline in environmental resources. Forest cover in Vietnam is about two-thirds of what it was 50 years ago and groundwater is decreasing in both quality and quantity. These environmental problems tend to affect the poor disproportionately because the majority of the poor are often totally dependent on natural resources for income and sustenance through agricultural production. This makes them particularly vulnerable to climatic conditions or events, such as floods, droughts and storms, because these external factors can destroy their crops and livestock leaving them without food or income.

Community empowerment, enforcement of laws and decrees, access to knowledge and the provision of information provide incentives to induce behavioural changes necessary for environmental protection. For example the Five Million Hectare Reforestation Program provides for long-term land use rights to be granted to households and communities (World Bank 2000a). Further incentives for sustainable forest management will be created by the Forest Certification Program and the State Forestry Enterprises reform process.

Farmers require support services for technology and income improvement so that pressure on natural resources can be reduced. This sort of investment and research would particularly assist ethnic minority groups. For these groups the

Government has followed a sedentarisation policy to address what are seen as environmentally damaging practices, and also to make services more accessible. However, a recent UNDP (2001a) report argues in favour of increased research and extension for mountainous agriculture to help intensify cultivation on slopes in a sustainable manner. However, the report notes that farmers only invest in land when user rights are defined – land use rights are important for environmental protection as well as access to credit.

### *Coping with shocks*

Although everyone is affected by shocks, poor households and those just above the poverty line are more vulnerable because any drop in income can push them further into poverty. In Vietnam, where a large proportion of households is clustered around the poverty line, protection from external shocks is essential for poverty reduction. When exposure to risks is high and the consequences of those risks are very serious, people will be inclined to adopt strategies which aim to guarantee a minimum, subsistence income, but which also reduce the chances of escaping from poverty (Conway et al. 2001).

The Social Security system includes a contingency fund for pre-harvest starvation and natural disaster. However, a recent study (van de Walle 2001a) found that social security funds show little sign of targeting poor people or poorer communes in terms of their levels of living measured by consumption. Therefore the existing system is not effective in protecting households that are vulnerable to falling living standards. The study also notes that the current system suffers from:

- a lack of national standards for identifying the poor consistently across regions;
- a lack of survey and other instruments with which to consistently measure and monitor local needs and program performance;
- a lack of integration and coordination between sub-programs with well-defined and universal rules for implementation at the local level;
- insufficient welfare-maximising redistribution of resources across space so that everyone is treated equally regardless of where they reside; and
- a lack of resources and attention to helping households and communities deal with risk.

Progress in these areas could lead to significant improvement in social protection for Vietnam's poor and vulnerable households.

Private transfers also provide social protection. A recent study found that private transfers are the main means of income redistribution in Vietnam – they are more than double the size of public transfers. These private transfers flow mostly from adult children to their parents. Most transfers do not cross urban-rural boundaries. However, among those that do, about three transfers flow from the city to rural areas for each one flowing in the opposite direction.

The high social capital in rural areas also helps mitigate the effects of shocks. Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of social interactions. In all four of the PPA studies, the first point of assistance for most households is the family, then friends, then the community and finally commune or district programs. Most households would be able to get some form of support from within their community. This may include access to small cash or food loans, access to common property, the ability to exchange labour for food, cash or land, and the ability to borrow labour (World Bank 1999a).

# 5 The Government's poverty reduction policy framework

## The Government's poverty reduction targets

The Government of Vietnam has clear objectives for poverty reduction and hunger alleviation. The Socio-economic Development Strategy (SEDS) for 2001–2010, speaks of the intention to:

‘eliminate the category of hungry households and to reduce quickly the number of poor households’ (SEDS, p.6)

The Government's Interim Poverty Reduction Strategy Paper (I-PRSP) notes that ‘[a]t present, hunger eradication and poverty reduction is regarded as the focal political, social and economic task of the entire Party and people’.

Specific targets for poverty reduction are set out in the Hunger Eradication and Poverty Reduction (HEPR) Strategy 2001–10. These are:

- by 2005, to eliminate chronic hunger and to reduce the level of poverty to below 10 per cent according to the national poverty line; and
- by 2010, reduce the level of poverty to below 5 per cent according to the national poverty line.

The Government is in the process of expanding on these targets to encompass more dimensions of poverty and deprivation. Work is currently being undertaken jointly by government, donor and non-government organisation (NGO) members of the PTF to specify locally relevant versions of the International Development Targets and Millennium Development Goals. Once agreement has been reached on an appropriate set of goals and targets (as well as monitorable indicators), they will be factored into the Government policy (see below). The current set of goals, targets and indicators, to be reported in the forthcoming World Bank Vietnam Development Report cover the key dimensions of broadly defined poverty. While they are yet to be adopted by the Government, they provide a clear idea of the way in which the broad development and poverty reduction goals are likely to be specified for operational purposes, and are reported in table 5.1.

## 5 The Government's poverty reduction policy framework

Table 5.1 Vietnam's development targets

Goal	Targets
<b>Eradicate poverty and hunger</b>	<ul style="list-style-type: none"> <li>▫ Reduce by 40 per cent the proportion of people living below the international poverty line between 2001 and 2010</li> <li>▫ Reduce by 75 per cent the number of people living under the international food poverty line by 2010</li> <li>▫ Address vulnerability by reducing the proportion of households falling by two quintiles or more to less than 10 per cent between two survey dates</li> </ul>
<b>Achieve better education for all</b>	<ul style="list-style-type: none"> <li>▫ Provide 100 per cent enrolment in primary school (80 per cent in junior secondary by 2005 and quality education basic education for all by 2010, with an emphasis on full day primary education</li> <li>▫ Eliminate gender disparities in primary and secondary education by 2005 and ethnic disparities in primary and secondary education by 2010</li> </ul>
<b>Reach gender equality and empower women</b>	<ul style="list-style-type: none"> <li>▫ Increase women's participation in political and business life by increasing the number of women in elected bodies and the government machinery at all levels (national, provincial, district and commune) so that by 2005, 15 per cent of the positions in the Party Committees are women, 30 per cent of deputies in the National Assembly are women; 20 per cent of the representatives in elected bodies are women</li> <li>▫ Improve women's access to assets by ensuring that by 2005 100 per cent of land use certificates include women's names as well as their husbands</li> <li>▫ Improve women's physical security by attacking domestic and gender-based violence</li> <li>▫ Target public investments into areas that reduce the burdens on women's time.</li> </ul>
<b>Eradicate poverty and preserve the culture and diversity of ethnic minorities</b>	<ul style="list-style-type: none"> <li>▫ Preserve and develop literacy in the local language</li> <li>▫ Ensure individual and collective land use rights for all land-use types have been allocated to the majority of ethnic mountainous people</li> <li>▫ Increase proportion of government personnel of ethnic origin closer to its proportion in the national population</li> </ul>
<b>Reduce child mortality</b>	<ul style="list-style-type: none"> <li>▫ Reduce the infant mortality rate to 30 by 2005 and 25 by 2010 and at a more rapid rate in disadvantaged areas</li> <li>▫ Reduce the under-5 mortality rate to 39 by 2005 and 32 by 2010</li> <li>▫ Reduce the under-5 malnutrition rate to 25 per cent by 2005 and 20 per cent by 2010</li> </ul>
<b>Improve maternal health</b>	<ul style="list-style-type: none"> <li>▫ Reduce the maternal mortality rate to 80 by 2005 and 70 by 2010 with particular attention to disadvantaged areas</li> <li>▫ Provide universal access to safe and reliable reproductive health care services by 2010</li> </ul>

(Continued on next page)

Table 5.1 **Vietnam's development targets** (Continued)

<b>Goal</b>	<b>Targets</b>
<b>Combat HIV/AIDS and communicable disease</b>	<ul style="list-style-type: none"> <li>▫ Slow the increase in the spread of HIV/AIDS by 2005 and halt the increase by 2010</li> </ul>
<b>Ensure environmental sustainability</b>	<ul style="list-style-type: none"> <li>▫ Extend forest cover to 43 per cent by 2010 (from 33 per cent in 1999)</li> </ul>
<b>Provide essential infrastructure to the specially disadvantaged poor</b>	<ul style="list-style-type: none"> <li>▫ Provide essential infrastructure services to 75 per cent of poor communes by 2005</li> <li>▫ Improve long term access to safe water from 52 per cent in 2000 to 68 per cent by 2010</li> </ul>
<b>Ensure good governance for poverty reduction</b>	<ul style="list-style-type: none"> <li>▫ Build a democratic, clean strong professional modernised, effective and efficient public administration system</li> </ul>

## **The policy framework**

The Government's policy stance with respect to economic growth, hunger eradication and poverty reduction will be outlined in the forthcoming Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The Government has chosen to use this title for its Poverty Reduction Strategy Paper (PRSP) in order to highlight the importance of maintaining high economic growth to underpin further rapid reductions in poverty.) The paper is to be released around April 2002 (table 5.2 present the expected timetable). A detailed outline is to be tabled at the Consultative Group (CG) meeting in December.

Box 5.1 summarises an early skeletal outline that was presented to a PTF meeting in August by the Ministry of Planning and Investment (MPI) – the agency that is tasked with developing the CPRGS.

The final six months of the drafting period for the strategy includes an active consultation process including village-level discussions on the draft strategy.

The main thrusts of the CPRGS are foreshadowed in the I-PRSP, which outlines a number of strategies that support different aspects of poverty reduction and hunger eradication:

- macroeconomic policies to promote economic growth and generate resources for poverty alleviation; and
- structural policies to create opportunities, reduce vulnerability and support the poor.

**Table 5.2 Time schedule for the comprehensive paper on growth and poverty reduction strategy process**

Date	Strategy
July 2001	Identify specific studies to supplement the document. Propose technical support to edit the document
August–September 2001	Carry out those studies and organise workshops on topics such as studies
September 2001	Draft the first outline of the Comprehensive Paper on Poverty Reduction and Growth Strategy
November 2001	Draft the full detailed outline of the Comprehensive Paper on Poverty Reduction and Growth Strategy to CG conference
December 2001 – March 2002	Organise workshops for comments on this document
April 2002	Submit the Comprehensive Paper on Poverty Reduction and Growth Strategy to higher levels

Source: MPI.

### Promoting growth

The significant reduction in poverty that occurred during the 1990s was the direct result of the over 7 per cent real GDP growth that was stimulated by the *doi moi* suite of reforms. The strategy recognises that achieving similar levels of sustained growth in the future will require reforms that correct a number of the deficiencies in the policy environment identified in Chapter 4. The I-PRSP envisages a policy environment that:

- establishes a level playing field that allows enterprises of all types to compete in input and output markets on equal terms;
- encourages greater competition in the economy both from domestic enterprises and also from foreign producers through increased openness to trade and investment;
- facilitates improvements in the efficiency of domestic enterprises, especially state enterprises;
- encourages investment, particularly by private small and medium enterprises (SMEs) and foreign investors;
- maintains macroeconomic stability (fiscal policy, monetary policy);
- supports a pro-poor public expenditures; and
- improves the efficiency of government administration.

**Box 5.1 Outline of the CPRGS**

**Chapter 1: Introduction and general assessment**

1. Introduction
2. General assessment on poverty in Vietnam

**Chapter 2: Create environment for growth, maintain economic stability and poverty reduction**

1. Economic growth targets
2. Viewpoints, tasks and targets of poverty reduction
3. Create economic environment and maintain macro-economic stability to promote growth

**Chapter 3: Sectoral policies and resolutions to create opportunities, reduce vulnerability and support to the poor**

1. Create opportunities for the poor families
2. Develop social safety nets for the poor and for victims of natural disasters

**Chapter 4: Resource mobilisation and allocation for poverty reduction strategy**

1. Mobilisation of domestic and external resources
2. Resource allocation
3. Organisation and implementation of the poverty reduction strategy

**Chapter 5: Poverty monitoring and assessment strategy**

1. Targets and intermediate indicators of poverty reduction
2. Poverty monitoring and assessment strategy
3. Risk assessment of the strategy

Source: MPI.

The Government has announced a range of specific reforms measures to achieve these outcomes. These reforms are support by the funding from the World Bank's Poverty Reduction Support Credit and the IMF's Poverty Reduction and Growth Facility.

**Structural policies**

The I-PRSP also identifies a number of more targeted measures which seek to directly improve opportunities for the poor. These include:



- investing in essential infrastructure for poor communes and areas;
- improving productivity in agriculture and diversifying the rural economy;
- protecting the environment by strengthening natural resource management;
- improving access to credit, particularly by women;
- investing in education and training focussing on conducting businesses and developing production;
- raising the living standards of ethnic minorities;
- improving access of the poor, especially women and children to social, education and health care services; and
- the development of social safety nets for the poor and victims of natural disasters.

The majority of these measures are covered by the national HEPR program.

### **National HEPR program**

The HEPR program (sometimes referred to as Program 133) was established in 1996 to integrate a range of anti-poverty programs within an overall HEPR framework. The Government has prepared a HEPR Strategy Document for 2001–2010. To a large degree, the HEPR Strategy and the I-PRSP documents overlap. A useful element of the CPRGS process would be a clarification of how the various Government documents/strategies/programs relating to poverty reduction all fit together.

The Strategy outlines similar macroeconomic policies required to stimulate growth as described by the I-PRSP. The Strategy also identifies 11 specific direct targeting policy areas:

- credit for the poor;
- health care;
- education and vocational training;
- support of ethnic minorities having especially difficult circumstances;
- social security;
- legal assistance for the poor;
- support of the poor in housing and production;
- basic infrastructure works in poor communes;

- training of the poor on business skills, extension services;
- sedentarisation and migration to new economic zones; and
- support of the poor in culture and information.

While there are a number of components to the HEPR, the majority of HEPR funds have been devoted to credit and infrastructure development.

Eligible poor households are determined by MOLISA officials at a district or commune/district level. The communes covered by the HEPR program are largely lowland and coastal areas.

PTF (2000c) highlights a problem with the HEPR in that there is little in the way of analysis of the HEPR program effectiveness. There is a need to identify which components of the program are successful and should be expanded or replicated and which are not succeeding and need to be adjusted.

### **More targeted programs**

#### *Program 135 – Program on Socio-economic Development in Especially Disadvantaged Communes in Mountainous, Isolated and Remote Areas*

The main focus of Program 135 is on providing essential basic infrastructure to poor communes in mountainous and isolated areas. The program provides funding for roads, small-scale irrigation works, clean water, electric power, school, health clinics and markets (that is, physical locations for trading). Other aspects of the program include

- creating employment and improving livelihoods through promoting the sustainable use of natural resources and product processing in remote areas;
- training the leadership at the commune, village and hamlet levels to manage better the economic and social development of their localities; and
- relocating people from areas of extreme hardship to locations with more favourable conditions.

World Bank et al. (2000b) in the 2000 *Partnerships for Development* report notes that additional steps that might be needed to achieve the objectives of the program include:

- closer integration of Programs 133 and 135;

- more transparent selection of eligible communes, funds allocation and procurement;
- provision of infrastructure through labour-intensive works at the commune level; and
- budgetary support to ensure effective project operations and maintenance.

The Committee for Ethnic Minorities in Mountainous Areas (CEMMA) is responsible for identifying eligible communes. Currently, there are 2325 poor communes in which basic infrastructure works will be funded. (The judgement about whether a commune is poor is based upon the following criteria: (a) distance from trading/industrial areas, (b) production conditions, (c) literacy rate, (d) availability of basic infrastructure, (e) living standard (more than 60 per cent living below poverty line PTF (2001b)). The PTF estimates that the communes covered by the program are home to 46–53 per cent of the rural poor households (PTF 2001b). The PTF also notes that the Government is considering the inclusion of an additional 700 communes located in coastal areas within the program.

Several donors, including Australia (Quang Nam and Quang Ngai), are supporting Program 135 in several parts of Vietnam. The 2000 *Partnerships for Development* report notes that government and donors are not yet working within a common framework for key program elements. It suggests the following adjustments might be required.

- For donors:
  - a long term commitment to the improvement of poor communes;
  - a path from project- to program-based support for the Government should be sought;
  - some agency 'identity' may need to be sacrificed for the sake of effectiveness;
  - donor cooperation should be sought based on flexibility and comparative advantage; and
  - procedures and levels of financial support should be standardised.
- For government:
  - budgetary processes must become more transparent and accountable;
  - capacity building should become as important as provision of infrastructure;

- poverty targeting should be improved, including targeting within communes;
- program monitoring and progress reporting should be standardised and coordinated (World Bank et al. 2000b).

### *National Target Program on Employment Generation*

This program was established in 1992 with a view to alleviating the negative impact of restructuring state enterprises. It aims to promote employment opportunities through provision of severance payments, subsidised credit and training.

### *Program 661 – Project on 5 Million Ha Reforestation*

This project replaced an earlier project (Project 327 – Re-greening the Barren Hills) that provided direct payments to households in exchange for protecting specific tracts of forest and also paid State Forest enterprises to plant areas of forest. Program 661 expanded the scope of the earlier program.

The Program has a vision for an environmentally sustainable rural economy comprising:

- forests covering 43 per cent of the country with (i) soil erosion in vulnerable watersheds, flooding and siltation rates of reservoirs substantially reduced, (ii) better all year round water storage for hydro-power generation, household and productive use and (iii) valuable bio-diversity preserved; and
- a Hill and Mountain economy free of hunger, with substantially reduced poverty and secure and resilient livelihoods.

The Program is built upon a number of sub-programs:

- land use planning, forestland classification, allocation and tenure;
- improving the social status of the forest-dependent farmer;
- sustainable farmer support services for technology and farm income improvement;
- farmer financing and investment support;
- State Forest Enterprise restructuring; and
- institutional capacity building from province to commune level.

### *Grassroots democracy*

The SEDS recognises the importance of improving the voice of the poor, improving their access to information and increasing awareness of legal rights and obligations. The Government's 'Grassroots Democracy Decree' (Decree 29/CP on the Regulation of the Exercise of Democracy in Communes) sets up the legal framework for increasing community participation at the local level. The Decree governs democracy and information transparency as it relates to commune plans, budgets, expenditure reviews, and reviews of Commune People's Councils' and Committees' activities. World Bank et al. (2000b) also reports that the Government is stepping up programs for legal aid and dissemination of legal information to citizens and is integrating community participation approaches in targeted poverty programs (for example, 133 and 135)

The I-PRSP and CPRGS processes have involved extensive consultation throughout the country. The concept of consultation is strongly embedded in the socialist legacy that identifies the people as masters. However, this consultation often involves more in the nature of top-down briefing and education sessions channelled through Party and government organisations. Genuine consultations often only occur in the context of crises where local population rebel against continued poor performance by local government and party officials.

World Bank et al. (2000b) identify a number of challenges for improving the strength of civil society and community participation in the future. These include:

- clarifying that community participation means more than contribution of local resources – that is, it includes actual involvement in decision making;
- increasing information about awareness of rights, opportunities and obligations of citizens and local officials;
- strengthening the role of associations and NGOs; and
- strengthening the capacities of civil society and communities in terms of human capital, physical capital and financial resources.

### **Institutional framework**

The institutional framework for poverty reduction in Vietnam can be assessed at a number of levels. At one level is the framework and allocation of responsibilities for implementation of existing poverty reduction and social welfare

programs. But another, in some ways more important, level concerns the institutional dimensions of the transition to a market economy and the changing role of the state. This is particularly the case since the sustained and inclusive growth that is critical to further reductions in poverty depends critically on the country's ability to reorient the role of the state and create the institutional underpinnings of a market economy.

### **Poverty reduction and social welfare programs**

Vietnam's poverty and social welfare programs are determined and mandated at the central government level but are implemented by local authorities according to local norms, local poverty standards, and in large part, local financing (van de Walle 2001b). At the Central level, the Ministry of Labor, Invalids and Social Affairs (MOLISA) has primary responsibility for the development and implementation of the HEPR Strategy. The HEPR assigns responsibilities for different aspects of the Strategy to various central and local government agencies. Table 5.3 describes the breakdown of responsibilities.

**Table 5.3 Responsibilities of central ministries and other agencies under HEPR**

<b>Organisation</b>	<b>Tasks</b>
MPI	Guide the localities to integrate other programs, projects into the poverty alleviation task; collaborate with the Ministry of Finance to identify the annual resources for strategy implementation.
Ministry of Finance	Collaborate with the MPI to identify capital resources, annual government budget for implementation of the poverty alleviation strategy for the period 2001–10; lead the budget formulation process, determine budget allocations consistent with approved objectives, and oversee public financial management.
Ministry of Agriculture and Rural Development	Formulate policies, mechanisms and plans on: sedentarisation, migration to new economic zones; rural infrastructure, support for product and business development, and extension of services.
Ministry of Aquaculture	Provide guidance in business skills, deliver aquacultural extension services, and formulate models of rearing and catching aquatic products related to poverty alleviation activities.
National Committee on Ethnic and Mountainous areas	Formulate policies, mechanisms and plans to support ethnic minorities facing especially difficult circumstances, and formulate other policies regarding ethnic and mountainous areas.
Vietnam State Bank	Formulate mechanisms and plans to implement the policy on credit for the poor.

(Continued on next page)

## 5 The Government's poverty reduction policy framework

Table 5.3 **Responsibilities of central ministries and other agencies under HEPR**  
(Continued)

Organisation	Tasks
Ministry of Trade	Formulate policies, mechanisms and plans to assist poor areas, poor communes and poor households in product consumption.
Ministry of Justice	Formulate policies, mechanisms and plans to provide free-of-charge legal advice for the poor.
Ministry of Health	Formulate policies and mechanisms to assist the poor in medical treatment and health care.
Ministry of Education and Training	Formulate policies and mechanisms to assist the poor in access to education and training.
Ministry of Culture and Information	Formulate policies, mechanisms and plans of assisting the poor in cultural activities.
Ministry of Science, Technology and Environment	Collaborate with the National Centre of Natural Science and Technology to formulate policies, mechanisms and plans for transfer of technologies suitable to poor areas and poor households.
Government personnel department	Formulate plans to complete the network of poverty alleviation staff and to mobilise staff for poor communes; complete the system of policies and conditions of employment for poverty alleviation staff at different levels.
National Committee on Population and Family Planning	Formulate policies and mechanisms for implementing the: Population–Family Planning Program integrated into the poverty alleviation program; credit program for family economic development; program of improving life quality, population quality; and other policies to assist poor households, and poor areas in Population–Family Planning activities.
Ministry of Transportation	Work with the Central Youth Union to formulate and implement the policy of replacing bamboo bridges with concrete bridges in the Mekong Delta area.
MOLISA	As a standing agency, collaborate with other Ministries, mass organisations and localities to formulate and organise implementation of the HEPR strategy, identify prioritised beneficiaries and localities, demands for resources; train poverty alleviation staff; and formulate policies and mechanisms on the social security system.
Thanh Dan (The People) Newspaper, Vietnam Television, Voice or Vietnam Radio Station	Collaborate with other Ministries, mass organisations and localities in dissemination of policies of the Communist Party and the Government on poverty alleviation; find and disseminate effective local poverty alleviation models; publish features and special columns on poverty alleviation; and organise dissemination campaigns based on the tasks of the Program.
The People's Council in the localities	At the provincial, district and, commune level, take responsibility for: planning the implementation of poverty alleviation policies, programs and projects; strengthening poverty alleviation systems, increasing the capacity and qualifications of local staff or their better implementation of tasks. Receive and make effective use of external resources for poverty alleviation.

Source: HEPR.

The I-PRSP identifies the importance of domestic social and non-governmental organisations in the process of building and implementing social safety nets. The HEPR identifies roles for NGOs. For example, it seeks to encourage mass organisations and NGOs such as the Women's Union and the Farmers Union to participate in the formulation and implementation of the poverty alleviation strategy.

Van de Walle (2001b) identifies a critical problem with local implementation of HEPR relating to funding. To a large extent, local resources are required to fulfil the centrally mandated programs. This leads to heavy taxation of the rural population through locally levied fees and charges, many of which are extremely regressive. It also leads to the emergence of different standards of 'poverty' across locations as local authorities determine poverty levels with view to the level of resources at their disposal. This is part of the larger problem with respect to the structure of fiscal relationships between different levels of government discussed below.

### **Institutions and the transition**

The policy and program agenda laid out in the I-PRSP, which is certain to be reinforced in the CPRGS, is very broad ranging. This reflects not only the many dimensions of poverty that need to be addressed, but also the nature of the challenge of achieving sustainable broad-based growth.

In a transition economy like Vietnam, the institutional challenges are large. State organisations are being restructured as the role of the state is recast. At the same time the state must foster and provide room for development of the formal and informal institutions needed to support a market economy.

In Vietnam, the legal and judicial framework for economic transaction is still evolving. Markets for many services are underdeveloped or constrained by antagonistic laws or inimical administrative practices. At the same time, civil society institutions that are genuinely independent of the state are still in their infancy, their development limited by the central role of the Communist Party and the aversion of its members to the development of political pluralism.

In this context, there are few aspects of the institutional framework for poverty reduction that are not in need of change and development – or where donor support for capacity building and reform would not be beneficial. One area that is critical to effective delivery of poverty reduction programs – as well as creating



an enabling environment for sustained economic growth — is public administration, and the related dimensions of public finance.

### *Public administration*

The Master Programme for Public Administration Reform (PAR), approved by the Prime Minister in September 2001, is extremely critical of the public administration system.

... the current public administration system, which is still heavily influenced by the former centralized and subsidized bureaucratic management mechanism, has not yet met the requirements of the new management mechanisms as well as the needs to serve people in the new conditions. Efficiency and effectiveness of management are still limited.

- The State management functions and responsibilities of the public administration system in a market-oriented economy with socialist orientation remain to be defined clearly and properly. Task assignment between sectors and levels is still ambiguous.
- The system of administrative institutions is unsynchronized, overlapping and inconsistent; administrative procedures are still cumbersome and complex in many areas of activity; administrative order and discipline are loose.
- The organizational structure of public administration is cumbersome; there are many layers; its operating modalities are both centralized and compartmentalized as well as not smooth; there are not yet appropriate financial mechanisms and policies for the operation of public administration and public service delivery agencies.
- Cadres and civil servants still have weaknesses and shortcomings in terms of quality, sense of responsibility, professional capacities and administrative skills; their working styles have been slowly improved; bureaucracy, corruption and harassment for bribes remain rather serious among a section of the cadres and civil servants.
- Administrative machinery at local levels is not really responsive to people, not well informed of critical problems in their localities, confused and reactive when handling complex situations.

A key structural problem affecting the efficiency and effectiveness of public administration concerns the structure of relationships and allocation of powers and responsibilities between different levels of the administration. The current system involves complex matrix management relationships, with a mixture of horizontal and vertical channels of authority. In addition, provincial authorities

can exercise considerable de facto autonomy with respect to policies as well as implementation. As discussed below, this has important implications for public finance and the allocation of resources to pro-poor programs.

The PAR Master Plan is built on four pillars – organisational restructuring, human resource reforms, public finance reform and institutional development – around which seven programs have been proposed (box 5.2). The PAR process has been moving fairly slowly, reflecting in part the decentralisation of administrative power within the Vietnamese system, which makes it difficult to deal with some of the vested interests threatened by change. It also reflects the fact that the administration is at the same time required to develop and implement far-reaching reforms of institutions with which it has close historical linkages – for example, the state enterprise and banking sectors.

### Box 5.2 PAR Master Plan 2001–10

#### **Organisational restructuring**

1. Redefinition of roles, functions, and organisational structures of the agencies in the public administration system (Lead Agency: GCOP and the Office of the Government).
2. Modernisation of the public administration system (Lead agency: Office of the Government).

#### **Human resource reforms**

3. Downsizing (Lead agency: GCOP).
4. Human resource development (Lead agency: GCOP and the National Academy of Public administration (NAPA)).
5. Salary reforms (Lead agency: GCOP).

#### **Public financial reforms**

6. Reform of financial management mechanisms in the public sector (Lead agency: Ministry of Finance).

#### **Institutional development**

7. Improve the process of law-making and of developing and issuing legal documents (Lead agency: Ministry of Justice).

### *Public finance*

Of the areas covered by the PAR Master Plan, public finance reform will play a pivotal role in pursuit of poverty reduction targets. This is because of its linkages

with both the broader growth promotion and the social service delivery dimensions of the Government's poverty reduction plan.

There have been some important improvements in public expenditure management and budgetary systems in recent years. The Budget Law enacted in 1997 established a clearer definition of expenditure responsibilities and revenue powers between central and local administrations, and budget transparency was introduced for the first time when budget information ceased to be a state secret in 1999. Following a joint government - donor public expenditure review in 2000, and building on a joint IMF - World Bank report on fiscal transparency, a program of reform in public finance has been developed.

Some of the deficiencies in public finance that need to be addressed include the following.

- Inappropriate fiscal relations between central and local administration, which reflect the de-concentrated rather than decentralised system of government, and lead to inefficiencies and inequities and perpetuate failings in accountability, performance management and overall financial discipline. (While aggregate fiscal discipline is tight, there is excessive recourse to forced lending and issuance of state credit to bail out bad commercial investments.)
- Weak public investment planning and decision making processes which lead to over investment in unviable commercial activities by state enterprises, at the expense of physical and social infrastructure.
- Legislative and institutional preferences for investment over recurrent spending which leads to under funding of key social programs, under-utilisation of infrastructure resources and recourse to regressive user pays regimes in areas with high justification for public funding.
- Limited expenditure planning and management capabilities in lower levels of administration.

Major reforms in the system of transfers between central and local administration, and between lower levels of the system are needed if public spending is to be more effectively targeted at poverty reduction. Changes in transfer arrangements also need to be accompanied by initiatives to increase accountability of local administrations to their constituencies. (Under the current system, recurrent budget allocations are made to provinces on the basis of sector-specific norms, but there is no requirement for actual spending to reflect these allocations nor for central monitoring of spending outcomes. Because allocations are not trans-

parent, provincial stakeholders have limited capacity to hold Peoples' Committees and Councils to effective account.)

### *Organisational capacity*

Beyond these broader systemic issues, implementation of the Government's poverty reduction strategy is also affected by issues of capacity within key ministries and agencies. AusAID's governance strategy for Vietnam (AusAID 2000) identified a set of issues regarding the ability of Vietnamese administrative structures and processes to manage social and economic development. These included the following.

- Ministries and agencies appear to be structured around notions of self-sufficiency and ability to work independently of other parts of the system. As a result, there is much duplication and redundancy in ministerial structures, and inter-agency coordination and information flows are very limited. The idea of a unified civil service is in its infancy, and there is little movement of officials between agencies. Recruitment and promotion is frequently based on criteria other than merit and professional performance.
- Decision making processes reflect the socialist concern that the people are masters and make decisions, so much attention is devoted to maintaining an appearance of consensus building across lower level policies as well as strategic directions. These processes are very time consuming, and appear to outsiders to be rather inefficient, since long learning processes are involved when complex technical issues are being considered.
- Partly because of the diffuse and political nature of decision making processes, analytical inputs are often quite limited. Generally, the quality of policy research and analysis is quite low and by international standards, lacks independence and rigour. This situation is compounded by weaknesses in statistical and information systems that feed into management, the limited dissemination of information, and constrained access to international sources.
- High policy documents often leave considerable scope for discretion by implementing agencies. At the same time, implementation structures are often diffuse and fragmented, delegation is imprecise and specialisation in implementation is limited, while accountability systems are poorly developed.

In addition to these process capacity issues, ministries and agencies still face institutional deficiencies due to the legacy of past human resource development policies and the resultant lack of skills pertinent to the challenge of public admin-

istration in a market economy. Policy and approaches to service delivery are increasingly being required to meet international norms and standards, as Vietnam enters international agreements (such as the bilateral trade agreement with the United States) or as donors – with their complex and often inconsistent procedural requirements – finance an increasing share of development spending. Reskilling key ministries, as well as addressing some ingrained staffing biases that reduce understanding of key issues – such as gender and the needs of ethnic minorities, may realistically depend on generational change. However, comprehensive but targeted programs of technical assistance can also help. (AusAID's proposed program of assistance to help the Ministry of Agriculture and Rural Development build capacity to deal with the implications of integration is a case in point.)

### **Lessons learnt from past Government programs**

Chapter 2 has documented the extensive reductions in poverty achieved in Vietnam in the last decade. The rapid reduction in income poverty and improvements in other indicators of human development has been a result of a combination of policies that have supported high growth and of more targeted interventions such as those supported by the HEPR. Given Vietnam's considerable success in reducing poverty, are there any lessons that can be drawn from the activities of the last decade that could help shape future directions for poverty reduction in Vietnam?

One of the main lessons to be drawn from the past decade is the importance of growth to poverty reduction efforts. One of the key messages that came out of the PTF's *Attacking Poverty* report was that the gains in poverty reduction have largely been due to rapid growth and agricultural diversification as opposed to social welfare and safety net policies. This message seems to have been recognised by the Government in Vietnam with strong emphasis on policies supporting growth likely in the CPRGS.

In terms of specific poverty programs, there has been limited assessment of the effectiveness of the Government's poverty programs. The consultation draft IDT paper *Reducing Vulnerability and Providing Social Protection* observes 'there is little in the way of analysis of HEPR programme effectiveness by which to reach definitive conclusions regarding what elements are successful, and should be expanded and replicated, and which are not succeeding, and should be substantially adjusted' (Conway et al. 2001 p. 19). Without this kind of

assessment it is difficult to draw lessons about the kind of specific activities that have high payoffs in terms of poverty reduction and which do not.

The absence of effective processes for monitoring and evaluating government programs and projects is a pervasive problem. The Ministry of Planning and Investment has observed that it is unable to monitor inputs into public investment projects, let alone outputs or outcomes. Linked with general deficiencies in financial management systems, this poses large problems for donors who might consider funding government programs. (There is general agreement that the preconditions for sector wide approaches are a long way from being in place.)

This deficiency also limits the capacity of the poor to influence recalibration of programs and to hold agencies accountable for the effective delivery of anti-poverty programs. Poor systems of financial and program control are evident in the problems of corruption and waste experienced in certain programs and agencies involved in poverty programs. (The Government and the Party have made the fight against corruption a priority – but the perceptions are that there is a long way to go.)

At a broader level, MOLISA has identified a number of lessons concerning the management, implementation and funding of the Government's targeted poverty program. These include:

- the need for both responsibility for and a strong commitment to poverty reduction by different levels of Party committees and administrations, mass organisations and the poor themselves;
- diversifying the resource base for poverty reduction with priority given to mobilising local resources and at the same time focussing resources on the achieving the major objectives such as chronic hunger eradication, building infrastructure, credit, health and education – especially in areas with high poverty incidence and many extremely difficult communes;
- clarifying the responsibility for leadership of Communist Party committees at all levels;
- ensuring effective two-way information flow between the central and local levels and with international organisations;
- properly organising poverty surveys and correctly identifying causes of poverty to accurately target programs;

- developing concrete plans and specific measures for poverty reduction and regularly monitor implementation;
- strengthening the contingent of knowledgeable and committed poverty reduction workers for extremely difficult communes; and
- expanding cooperation with the international community in poverty reduction to make the best use of experience, technical assistance, resources and information.

The VDR 2001 also acknowledge some of these lessons. In particular, it highlights that poverty reduction must involve all parties – from the Government to civil society and donors, from central to local Government and people themselves. However, it is essential that the roles and responsibilities of the various stakeholders be clear. Greater clarity of their roles will result in a more effective and greater coherence between them. The VDR (2001) suggests a way of addressing this by making a clear division of responsibility between central and local Government, the role of Poverty Reduction staff at local levels, and of other stakeholders, for the management and delivery of poverty reduction services.

Another lesson emerging from recent experience is the importance of a strong statistical base for assessing performance and guiding policy choices. Donor support for the VLSS has helped create a powerful tool to inform policy development and outcome monitoring. Unfortunately, a comparable effort has not been made with respect to basic economic statistics, so that donors and the Government operate in the dark with respect to key measures of economic performance.

AusAID's first annual review of the current program strategy for Vietnam also highlighted a number of lessons that will be relevant for future program implementation. In particular:

- The need for baselines and specific performance indicators in order to monitor and evaluate future project and program performance against the objectives of the new strategy.
- The importance of counterpart as well as beneficiary ownership of projects at each stage of design and implementation;
- The need to recognise the sensitive and high risk nature of governance activities and that changes in thinking occurred when linked to concrete problems which were resolved and led to clear benefits.

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- The mixed priority given to cross cutting issues of environmental sustainability and gender equity in Vietnam due to competing economic priorities and traditional cultural practices.
- Reporting requirements for Australian management consultants should be determined in relation to project risk assessments; reports should contain analytical information on issues affecting project performance in a pro-active way and should be more focused and to the point;
- The increased efficiency and effectiveness of projects and overall program through geographic concentration.



# 6 Donor programs for poverty reduction

## The ODA Environment

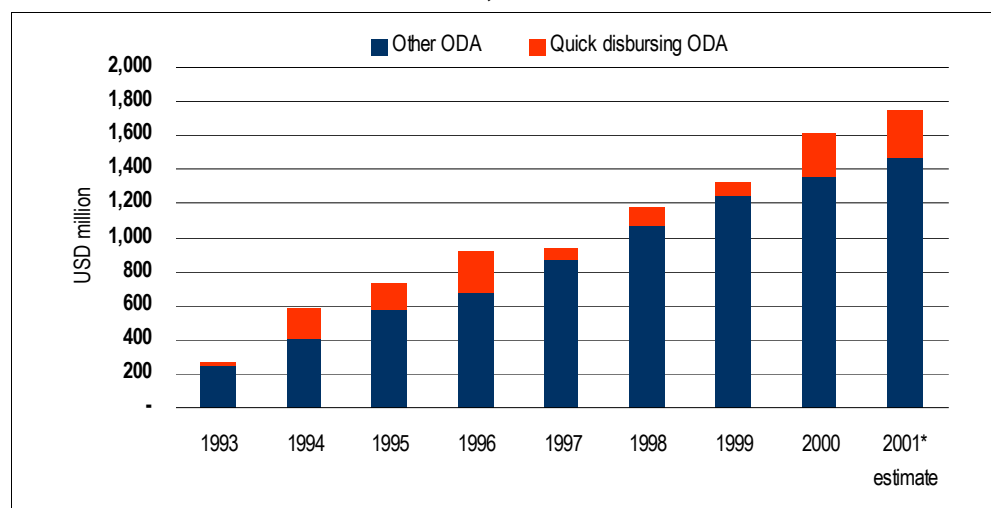
The SEDS envisages that Official Development Assistance (ODA) will continue to play a key role as a source of external financing and technical assistance in the decade to 2010. The Government's ODA disbursement target for 2001–2005 as set out in the Five-Year Socio-economic Development Plan 2001–2005 is US\$10–11 billion. In comparison, Foreign Direct Investment (FDI) targeted over the same period amounts to US\$9–10 billion.

During 1993–2001 a total of US\$17.5 billion was pledged to the Government of Vietnam, with annual pledges remaining at a constant level in the order of US\$2.2 billion each year. From this amount, the total value of signed ODA is around US\$14 billion with actual disbursements estimated to be US\$9 billion. The remaining US\$5 billion of funds is to date undisbursed. At the CG Meeting in December 2001 a further US\$2.4 billion was pledged for 2002 (see Appendix B for charts and tables on ODA).

ODA disbursement rates have risen each year since 1993 and are estimated to have reached US\$1.75 billion in 2001 (chart 6.1). This improvement is largely as a result of better management and coordination of ODA by the Government of Vietnam together with donors gaining more experience operating in Vietnam. However, the Government and the donor community are aware that further progressive actions from both sides will be required if the targeted annual ODA disbursement rate for the period 2001–2005 of over US\$2 billion per year is to be reached.

A number of initiatives and trends have impacted on the ODA environment in Vietnam have occurred in recent years. Most noticeably, the level of partnership between the Government and the donor community has greatly improved. The formulation of the I-PRGS and the forthcoming CPRGS has been a collaborative effort between the donor community and the Government. As a reflection of this greater level of cooperation, over twenty government-donor partnership groups have been established since 1998 in various sectors and areas of interest (table 6.1).

**Chart 6.1 Annual ODA disbursements, 1993 to 2001**



Data source: UNDP (2001b).

**Table 6.1 Partnership Groups 2001**

Poverty	Trade Reform	Natural Disasters
Gender	Public Financial Management	Water Resources
Environment	Education	Transport
Civil Society and Community Participation	Health	HCM City ODA Partnership
Urban Forum	Forestry	Legal Needs
SOE Reform and Equitisation	Partnership to Support the Poorest Communes	
Banking Reform	Food Security	

The partnership groups have taken many different forms and objectives but all promote a shared understanding between the Government and donor community and ultimately will enable more effective and efficient aid delivery to take place in Vietnam. The important role of the Poverty Task Force/Poverty Working Group in focusing attention on poverty and supporting the Government in its formulation of the I-PRSP and the forthcoming CPRGS is a case in point. (The Poverty Task Force consists of the 'core' members of the Poverty Working Group. From the donor side, it contains only those who have made a commitment to undertaking or funding specific tasks in support of the Poverty Working Group agenda.). Appendix C lists the major achievements of partnership groups in 2001.

The piloting of the World Bank Comprehensive Development Framework (CDF) approach in Vietnam, which has led to the formulation of the CPRGS by the Government of Vietnam, also reflects a more general shift in thinking regarding the interrelationship between Government policy, ODA, and the alleviation of poverty. Government sectoral programs and ODA are likely to become increasingly anchored into a CPRGS-type fixture to ensure that both are integrated within the Government's overall poverty reduction strategy and provide support for the necessary policy reforms. Before this point is reached however, and in line with the Government's more coordinated and integrated approach to ODA mobilisation, the Government has begun calling for donor assistance to support a number Government poverty reduction and sectoral reform programs under the umbrella of the Socio-economic Development Strategy for 2001-2010. Results in terms of higher impact of programs, minimizing of gaps and duplications, and improving the efficiency of aid are already beginning to emerge.

The donor community has also become more active at looking at ways to harmonise the operating procedures of the some fifty donors in Vietnam in order to increase aid effectiveness, lower transaction costs, and reduce the burden on the Government's administrative apparatus. Six bilateral donors (the Utstein Group - Finland, the Netherlands, Norway, Sweden, Switzerland, United Kingdom - agreed in October 2001 to carry out a range of concrete steps in harmonising ODA procedures in Vietnam. Various other initiatives to promote the harmonisation process are continuing in partnership with the Government. (For example the European Commission produced a report in June 2001 setting out guidelines for the financing of local costs in development cooperation with Vietnam.)

ODA itself has undergone a significant change in recent years as the need for greater accountability has caused a shift towards a more results-based approach. Measurable outcomes and performance indicators for ODA are now utilised more widely. The preparation of localised Millennium Development Goals and International Development Targets as part of the preparation of the CPRGS is an example of this trend. Of significance is that the operationalisation of this approach has only been possible in recent years due to the improvement in the quality of poverty indicators as derived from the Government's living standards surveys and more qualitative research (for example, Participatory Poverty Assessments (PPA)). This access to poverty data is expected to have a profound

effect on the way in which ODA directed at poverty alleviation will be designed and monitored in Vietnam.

An important initiative from the Government has been its improvement of the regulatory framework for ODA. A Government decree concerning the management and utilisation of ODA was enacted on 19 May 2001 (17/2001/ND-CP). The scope of the decree covers the complete aid cycle from aid mobilisation to project implementation, monitoring and evaluation (See box 6.1).

### Box 6.1 The Main implications of ODA Decree 17

- The highest priority for use of ODA is now to focus on poverty reduction, agriculture and rural development, especially in rural, isolated and remote areas.
- Increased decentralisation in project approval process.
- Well-defined responsibilities and obligations of ODA project preparation units (PPU) and project management units (PMU).
- Synchronisation with other legal regulations.
- Supplementary provisions on different kinds of ODA funding.
- Additional instructing and supporting responsibilities assigned to state management authorities.
- ODA monitoring and evaluation responsibilities defined.

## Recent trends in ODA flows

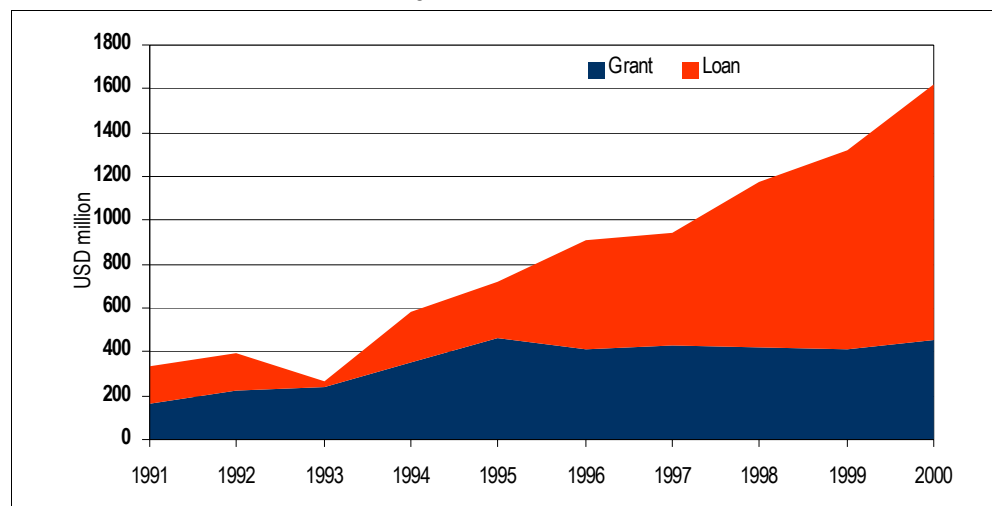
### Type and form

In Vietnam, concessional loan-based ODA as opposed to grant-based ODA has increased from a low of 10 per cent of total ODA in 1993 to 72 per cent in 2000 (Chart 6.2). This ratio is expected to further increase in the medium-term with the coming on-line of quick disbursement loans from the World Bank (WB) and the International Monetary Fund (IMF). Grant-based aid is almost entirely in the form of 'free-standing' technical assistance predominantly in the areas of education and training, economic management and public administration, and health.

### Sectoral

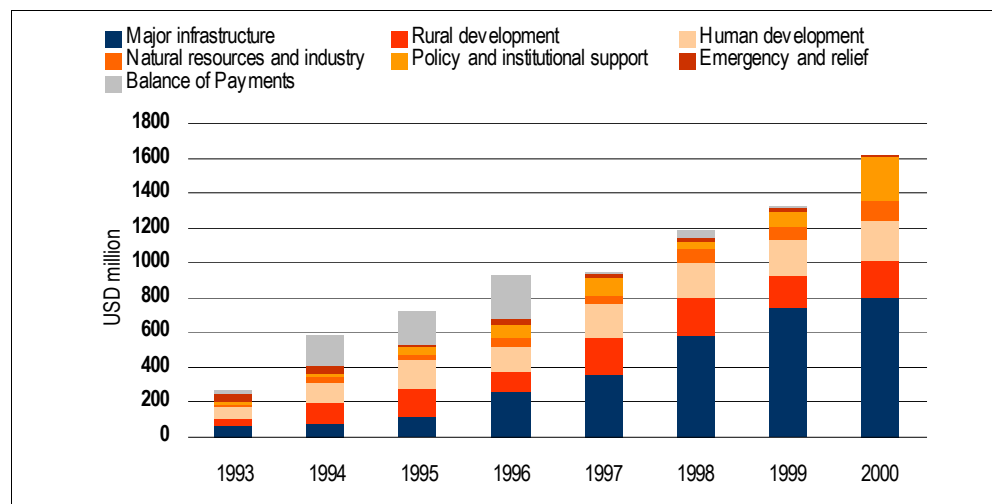
(Chart 6.3 shows changes in the sectoral composition of ODA in recent times. The data uses the UNDP sectoral classification – for more detail see UNDP 2001a.

Chart 6.2 ODA disbursements by terms, 1991 to 2000



Data source: UNDP, 2001b

Chart 6.3 Sectoral composition of ODA, 1993 to 2000



Data source: UNDP (2001b).

'Infrastructure' based ODA makes up over half of ODA disbursements in 2000 having increased rapidly in recent years. Energy and transport sector loans account for a large part of this increase. The level of ODA in the area of water and sanitation remains largely unchanged.

'Policy and institutional support' has risen quickly to 15 per cent of total disbursements in 2000 largely as a result of the ongoing Japanese US\$174 million Miyazawa Initiative loan to assist economic governance and private sector development.

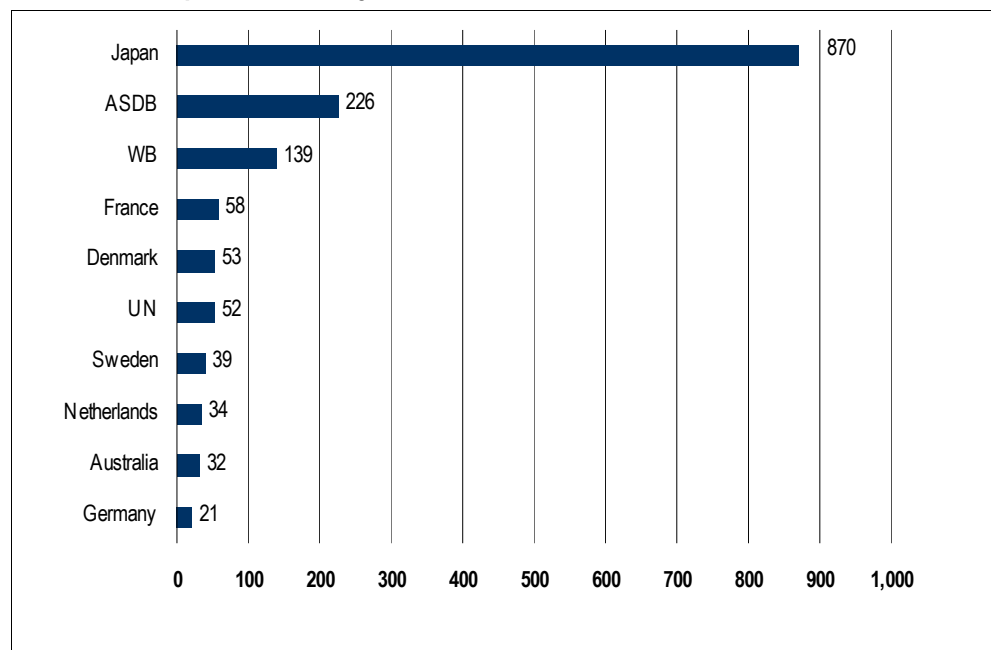
'Human development' makes up 14 per cent of total ODA largely in education and training, and health. Large increases in funding to the education and training sector has occurred at all levels except for tertiary education. ODA disbursement in the health sector has dropped slightly in recent years.

'Rural development' directed ODA makes up 13 per cent of total disbursements which reverses a recent downward trend. This increase is largely due to ODA in the rural development sub-sector. A large proportion of the funds for rural development are related to multilateral loans for rural finance and credit, infrastructure, and transport. In terms of grant assistance, there are a number of multilateral and bilateral donors which have specific poverty reduction projects with implicit or explicit linkages to Government programs. The agriculture sub-sector has the next highest disbursement rate largely as a result of loans for irrigation and flood protection.

### **Donor**

In 2000, the top ten donors accounted for over 93 per cent of all ODA disbursed in Vietnam, with the top three disburseurs, Japan, the Asian Development Bank (ADB), and the World Bank accounting for 76 per cent of the total (see chart 6.4). Bilateral donors as a group provided around 73 per cent of ODA disbursements with Japan accounting for 54 per cent. In terms of grant aid disbursements, the largest bilateral donor in the year 2000 was Denmark, with disbursements of US\$50 million, followed by Sweden, the Netherlands and Australia.

Chart 6.4 Top ten donors by disbursements in 2000



Data source: UNDP (2001b).

### Geographic

Central/national and nationwide directed ODA constituted around 70 per cent of all ODA disbursements in 1995. 'Central/national' is defined as ODA spent by the central Government but with benefits that are, in principle, national (for example, general purpose balance of payments lending). 'Nationwide' refers to ODA disbursed across the country, which cannot be attributed to any specific province (for example national immunisation campaigns). 'Provincial' ODA is that allocated to specific provinces, including the three urban authorities of Hanoi, HCM and Hai Phong.) By the year 2000 this had fallen to 34 per cent. This illustrates a decentralisation of ODA disbursed funds with ODA becoming increasingly directed to initiatives at the provincial level. The distribution of ODA to some of Vietnam's poorest regions appears to have fallen back over the past two years following a number of years of gradual increases (table 6.2). The three regions where over two-thirds of the country's poor live - the Northern Uplands, the Mekong Delta, and the North Central Coast - all received less ODA per capita per person than the national average (chart 6.5).

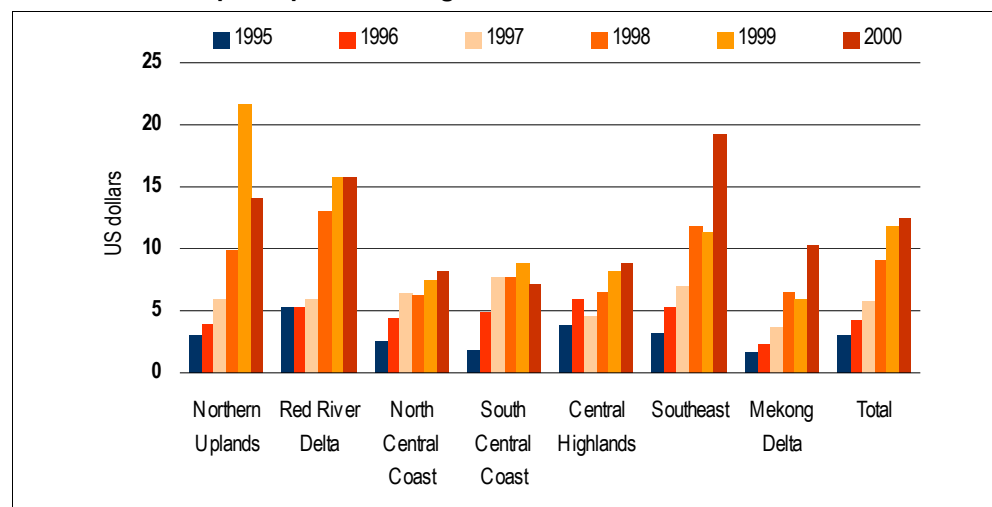
## Vietnam poverty analysis

Table 6.2 **ODA allocated to specific regions and urban authorities**  
(Millions of US Dollars)

	1995	1996	1997	1998	1999	2000	1995-2000
Northern Uplands	38.8	51.3	78.0	128.0	284.2	185.3	765.6
Red River Delta	78.4	78.4	88.5	191.9	233.0	232.2	902.4
of which							
Ha Noi	41.2	29.6	31.4	71.8	89.4	83.7	347.1
North Central Coast	27.0	43.9	63.2	61.9	73.6	82.1	351.7
South Central Coast	14.3	39.2	62.0	63.0	70.8	57.1	306.4
Central Highlands	12.8	23.8	18.3	26.4	33.4	35.6	150.3
South-east	31.9	54.2	70.1	119.5	115.3	194.7	585.7
of which							
HCMC	11.2	24.3	37.8	50.9	50.9	49.6	224.7
Mekong Delta	27.0	36.1	58.0	105.9	94.3	166.8	488.1
Total	230.2	326.9	438.2	696.9	904.8	954.1	4122.0

Source: UNDP (2001b).

Chart 6.5 **ODA per capita in the regions**



Data source: UNDP (2001b).

## Main donor programs

The main features of the ODA programs of the top ten donors by disbursements in 2000 are described below. The total disbursement level for each donor in 2000 is stated together with the grant component in brackets. The focus here is on the poverty alleviation programs of each donor where this is appropriate.



**Japan — US\$870 million (US\$140 million)**

Japan pursues the twin goals of supporting economic growth and poverty reduction in Vietnam with the emphasis on the former. Priority sectors for assistance are: human resource development; socio-economic infrastructure development; agricultural and rural development; education and health; and environment protection. The majority of disbursements have been for infrastructure with transport and power projects absorbing over half of the aid budget in 2000. In recent years, a greater proportion of funds have been disbursed in the health and education sector. Of note is the ongoing Miyazawa Initiative loan to assist private sector development, audits of state-owned enterprises, and the shift from non-tariff trade barriers to more visible tariffs. Japan has also begun to consider the use of more co-financing arrangements.

**Asian Development Bank — US\$226 million (US\$7 million)**

A five-year country strategy for the ADB (2001-2005) which is to be approved in early 2002 is expected to contain three main strategic priorities:

- economic growth and private sector development through policy reform in the financial and agriculture sectors, and improved governance;
- improved human social capital by investment in secondary education, health and urban development in provincial and district towns;
- geographic and socio-economic targeting by concentrating a third of ADB operations in the central region, particularly in the North Central and the Central Highlands through a combination of area-based livelihood improvement projects and sector based interventions aimed at providing key physical infrastructure.

The ADB is also looking at ways to improve the policy environment for microfinance which has hindered ODA support in this area to date. The Central Region Livelihood Improvement Project is a key plank in the ADB's new targeted approach to poverty alleviation and is also an example of a co-financing arrangement. The ADB has been increasingly entering funding arrangements with bilateral donors and is looking to pursue further this approach under the new country strategy.

### **The World Bank — US\$139 million (\$0 million)**

The World Bank strategy is aimed at restoring the momentum of growth and deepening the quality and sustainability of development. There is a continued emphasis on sustainable poverty reduction; support for the transition towards a market-oriented economy; and on improving governance for growth and poverty reduction. The World Bank is also moving to re-orient lending to rural areas and increase lending for decentralized, participatory projects targeted to poorest areas - or example, the Community Based Rural Infrastructure Project which will provide grants to poor communes to build small-scale infrastructure in central Vietnam and the Northern Mountains Poverty Reduction Project (see box 6.2). The World Bank has also been active in looking for development partners among the donor community to provide technical assistance within project loan frameworks.

Following the adoption by the Government of the Socio-economic Development Strategy and completion of the its Interim Poverty Reduction Strategy Paper (I-PRSP), Vietnam reached agreement with the World Bank and IMF on a three year program of specific actions concerning banking and state-owned enterprise reform, trade policy, improving the climate for private enterprise, and public expenditure management. The resultant World Bank Poverty Reduction Support Credit (PRSC) and the IMF Poverty Reduction and Growth Facility (PRGF) are expected to disburse a total of US\$250 million and US\$370 million respectively. The United Kingdom, Denmark, the Netherlands, and Sweden are providing co-financing in the form of grants and loans to the PRSC program.

### **France — US\$58 million (US\$23 million)**

France has a disparate set of program objectives and priorities in Vietnam one of which is to contribute to poverty reduction and social welfare through income generating rural activities and assistance to the health sector. Support in this area is largely though loan-based stand-alone projects. France has become more involved in co-financing with the ADB and World Bank as well as some other bilateral donors.

### Box 6.2 The World Bank — Northern Mountains Poverty Reduction Project

This multi-sectoral, decentralised project will help about one million rural poor — 85 per cent of whom are ethnic minorities — in the poorest region of Vietnam through investments in rural roads and markets, irrigation and water supply, basic education and health, and community development. By improving physical infrastructure and social services in a participatory manner, the project supports both the Government's targeted poverty reduction program and its recent Decree on Grassroots Democracy which provides a well-defined framework for transparency, participation, and accountability at local government levels. The project is co-financed by the British Department for International Development (DFID), and Japan and Denmark provided important support in the design stages. The project contains the following components.

- **Rural Roads and Markets:** to improve local access to transport and the marketing of products and inputs, this component will build new and upgrade existing rural roads from districts to communes, between communes, and from communes to villages; construct paths for motorbikes and horses from communes to villages; construct a small number of small suspension bridges; and construct rural markets.
- **Irrigation, Water Supply and Agriculture:** to increase agricultural productivity and reduce the variability of production, the component will build and repair micro irrigation schemes; construct new village and household water supply systems and repair existing systems; provide training and extension to farmer groups for improvement of staple food crops, animal husbandry, trees, forestry, and household based handicraft production and agro-processing; and support an upland agriculture 'on-site' research program focused on four priority research needs.
- **Basic Education and Health:** to improve access to and quality of basic education, health, and other social services, this component will build and repair commune and village classrooms and health stations; train village ethnic minority teachers and health workers; instruct village women in functional literacy; and provide assistance to enrol minority girls in school.
- **Community Development Budget:** the community fund will allow villages and communes to select and manage a variety of subprojects. It will target women and disadvantaged ethnic minorities.
- **Planning and Management:** to improve institutional capacity and fund decentralized and community based planning and management and monitoring, this component will support community consultations, village and commune development plans; fund management costs and equipment for central, provincial and lower level project management units; provide training for project staff and commune and village officials in participatory planning and management and project implementation; undertake participatory monitoring; and support a program of community level information, education and communication.

**Denmark — US\$53 million (US\$50 million)**

The Danish program focuses on the support of Government programs in the sectors of fisheries, water resources, and agriculture. In recent years, Denmark has also expanded into the areas of economic and judicial reform. Its program approach to delivery involves the placement of long-term technical advisors (2-5 years) at the central and provincial level of government and at present 30 advisors are operational in Vietnam. Denmark also provides technical support to the World Bank PRSC program.

**United Nations — US\$52 million (grant component not available)**

The majority of UN funds in Vietnam are grant based, but the total grant component is not available.

The United Nations Development Programme (UNDP) is the largest of the UN agencies operating in Vietnam (US\$17 million disbursed in grants in 2000) and has entered a new Country Cooperation Framework (CCF) for 2001-2005. The core principle of the new CCF is for UNDP to move further upstream and provide more policy advisory services whilst promoting its role as a 'neutral knowledge broker' and donor aid coordinator. In terms of design, it has embarked on a more programmatic results-based approach encouraging joint funding partnerships with other development partners. The CCF has three thematic clusters within which are eight program areas:

- Economic reform for poverty alleviation:
  - Equitable management of globalisation
  - Promoting an enabling business environment
  - Partnerships to fight poverty
- Administrative reform for poverty alleviation:
  - Sustainable financing for development
  - Public service delivery and PA reform
  - Rule of law: Justice for all
- Environmental management and disaster management:
  - Disaster mitigation
  - Environment

The design of a number of the programs has been agreed to with the Government and will commence implementation in early 2002. The funding projection for the CCF 2001–2005 is US\$62.5 million with approximately half the funds from core resources and the remainder from third-party cost-sharing sources and trust funds. Of note is that currently AusAID is UNDP's largest cost sharing partner in Vietnam.

The United Nations Children's Fund (UNICEF) program disbursed US\$11 million in grants in 2000. The current country program of support (2001-2005) promotes nutritional efforts to advance the rights of children and women through among other priorities reducing child and maternal death and improving the nutritional status of children. UNICEF has an area-focused approach in Vietnam concentrating activities in sixty-six districts, many of which are classified as most vulnerable to poverty.

The International Fund for Agricultural Development (IFAD) disbursed US\$6 million in loans in 2000. IFAD applies an integrated approach to rural development and its program loans are based on three selection criteria: geographical focus (northern, north-central, central highlands); sectoral focus (micro-finance, on-farm and off-farm activities); and target group focus (ethnic minorities, upland farmers, underemployed and unemployed, and women headed households). Approved loans have supported a participatory resource management project in northern uplands and an agriculture research and conservation project on the north central coast. Co-financing grant support from UNDP and the Swedish International Development Agency (SIDA) has occurred. IFAD is in the process of finalising a new country strategy.

### **Sweden — US\$39 million (US\$34 million)**

The current focus of Sweden's development cooperation with Vietnam is on:

- supporting capacity building and institutional development for poverty reduction; and
- promoting increased openness, a democratic development and increased respect for human rights.

The sector-wide or program approach is being gradually applied on a wider scale in Vietnam. A lengthy process is to begin soon for the development of the new country assistance program to commence in 2004. The country assistance

program is expected to fully support the CPRGS and it will also incorporate a new SIDA poverty framework to be completed in the second half of 2002.

### **Netherlands — US\$34 million (US\$34 million)**

Since 1999 the Dutch program has concentrated in three sectors: water management; forestry and biodiversity; and health. In addition, governance projects have supported the public administration reform (PAR) process. The Dutch program is looking at ways to move towards more sub-sector and sector-wide approaches in order to link the programs more closely to Government policy.

### **Australia — US\$32 (US\$32 million)**

(Based on official AusAID figures, the total ODA disbursed in Vietnam in 2000 was US\$36 million.)

### **Germany — US\$21 million (US\$17 million)**

The German program covers seven areas: support of reform policies; promotion of private enterprises; vocational training; sustainable use of natural resources including forestry; waste management; health; and HIV/AIDS prevention. Of note is the large number of long-term technical consultants based in Vietnam to support delivery of the program (fifty based in northern Vietnam alone).

The programs of a number of other important donors in Vietnam are now described.

### **European Commission — US\$14 million (US\$14 million)**

The European Commission (EC) is to approve a new five-year country strategy in early 2002. The new strategy will have two main focus areas, the first being in the rural development sector through two integrated rural development projects located in the Northern Uplands. The second focus area is in governance reform in those areas in which the EC has particular expertise - economic integration, standards, intellectual property and customs.

**Canada — US\$12 million (US\$12 million)**

Canada is to wait until the finalisation of CPRGS before developing its new country strategy. The country strategy is expected to be closely aligned to the CPRGS, however the focus of the program is not likely to change significantly from the current areas of support: rural poverty, governance, and the private sector. The main component of the poverty program, which is directed at increasing economic opportunities, is a five-year, US\$30 million program of rural poverty reduction activities recently established in the provinces of Thanh Hoa and Soc Trang. Canada is also co-financing a sub-sector wide World Bank program on primary education schooling for disadvantaged children together with AusAID.

**United Kingdom — US\$11 million (US\$11 million)**

The United Kingdom's development goal in Vietnam is to promote pro-poor growth in order to reduce poverty in line with International Development Targets. Its specific objectives are:

- more effective collaboration between governments and donors in poverty elimination;
- greater understanding of the causes, characteristics and consequences of poverty;
- improved capacity of government to implement reforms; and
- improved income opportunities and human development for the poor.

Upon the finalisation of the CPRGS, the UK's Department for International Development (DFID) will prepare a country assistance program to support the CPRGS. However, the specific objectives of the program of support are not likely to change in the medium term. Since 1997 DFID has not financed any purely bilateral projects in Vietnam, rather it has been working in partnership with other donors, particularly the World Bank. Of note, is its co-financing of the World Bank Northern Mountains Poverty Reduction Project and the ADB's Central Region Livelihood Improvement Project. It has also set up a Poverty Analysis and Policy Advice trust fund at the World Bank.

**Norway — US\$6 million (\$US6 million)**

The main objective of the Norwegian program is to strengthen economic and social development through support to the productive sector, with special

emphasis on fisheries, energy and resource management. Programs and projects have also been established with regard to new legislation, primary education, capacity building, institutional development and public administration reform to support the Government's poverty reduction efforts.

### **United States — US\$6 million (\$US6 million)**

The United States has only in the last fifteen months established a development cooperation office in Hanoi and is yet to adopt a bilateral development cooperation framework in place to guide its operations. Its program focuses on three areas:

- enhancing the environment for trade and investment
- improve access for services for disadvantaged groups
- environmental protection.

The focus of its trade and investment program is to support the Government in its trade acceleration and restructuring process as a result of the recently signed bilateral trade agreement between Vietnam and the United States.

### **Issues arising from review of donor programs**

The foregoing review of the ODA environment, recent ODA trends, and the strategies and programs of other donors operating in Vietnam leads to a number of observations concerning some of the choices that need to be made when the AusAID's new country strategy is formulated. It also suggests some possible directions for this strategy. (A summary of issues raised in consultation with donors carried out for this report is given in appendix D).

### **Government policies and ODA**

The integration of donor programs into the support of Government policy is becoming more prevalent in Vietnam. There are hopes within the donor community that the forthcoming CPRGS will usher in a new strategic poverty reduction framework for donors to work in that will increase ODA effectiveness. While there is general agreement amongst donors of the benefit of an overarching strategy, where opinions differ is what implications the CPRGS will have on aid delivery.



On the one extreme are those donors who believe ODA delivery needs to become more programmatic, be based on Government-led sectoral approaches underpinned by the CPRGS, and make use of the Government budget system. On the other hand are those donors who believe a multiplicity of aid projects and forms of delivery should continue and what is important for aid effectiveness is that projects support a coherent Government strategy. Despite the differences there is a consensus that sector-wide approaches are not yet feasible because of the lack of transparency of Vietnamese budgetary processes. All major donors have indicated that they will be examining closely the finalised CPRGS and will consider carefully its implications for their own programs in support of poverty reduction.

### **Forming funding partnerships**

Bilateral donors are becoming more actively involved in funding partnerships with the multilateral donors, in particular the World Bank and ADB. In the most common type of arrangement, a grant for technical assistance is provided by the bilateral donor to support a multilateral loan. The case for this approach is that: it allows the bilateral donor to participate in a very substantive project with potentially significant developmental outcomes; it potentially allows the donor to have some leverage over the direction of the project (for example ensure a greater poverty focus); and it might impose only a moderate administrative burden. With the shift to a greater poverty emphasis from the multilateral donors there are likely be further opportunities arising with both the World Bank and ADB. The opportunities of forming an alliance with the ADB, for example, whose new country strategy focuses heavily on the central coast in the areas of rural development and agriculture, could be considered under the new country strategy.

The World Bank is the lead player amongst the donor community in Vietnam. It has formed a strong relationship with the Government and is in a position to actively debate and influence Government policy direction. As a result, a number of bilateral donors have looked at innovative ways to raise their profile within the Bank. These include: co-financing of projects (see above); provision of loan support and technical assistance under the Poverty Reduction Support Credit (PRSC); funding of staff positions at the Hanoi office (the development assistance program of the UK (DFID) funds a number of staff at the World Bank office who are given the implicit task of mainstreaming poverty within the Bank's operations); actively supporting the I-PRSP and CPRGS processes; and

establishing trust funds at the WB. For relatively small amounts of funding, each of these measures has raised the profile of the bilateral donor, allowed a direct view into the Bank's operations, and provided an avenue of strategic engagement with both the WB and the Government.

### **Moving upstream**

The quality of research on poverty by both the Government and the donor community has been significant. It is an area in which AusAID has carried out its own analytical work at both the desk and post. Some donors may choose to become more involved in such research by supporting UNDP's forthcoming Partnership to Fight Poverty program which is assisting Vietnam in consolidating the lessons learned from the Government's poverty reduction and social protection programs and applying them to future policy and programs. Another means available to donors is through greater involvement in the Poverty Working Group by, for example, supporting the funding of specific tasks identified by the group. More direct engagement in poverty policy dialogue can benefit existing projects as well as assist in future project identification.

### **Forging the link between governance and rural development**

A number of donors are choosing to pursue a poverty alleviation strategy which supports projects in the fields of rural development at the provincial level and governance at the central level of government. There are significant advantages if downstream and upstream linkages between the two program areas can be created and become mutually reinforcing. For example, with land ownership a crucial determinant of poverty, the Swedish development program is integrating its targeted rural development projects in the Northern Uplands with support for the General Department of Land Administration in its nationwide land reform process.

### **A possible niche in rural development**

Of the three regions which account for almost 70 per cent of Vietnam's poor - the Northern Uplands, Mekong Delta and the North Central Coast, only the Mekong Delta is not the recipient of any large scale integrated rural development projects. There is scope for interested donors to provide rural development assistance to this region. In addition, it may be possible to include within this assistance the provision of basic infrastructure in the form of concrete bridges to replace the

bamboo bridges used at the poor commune level throughout the Mekong Delta. The Government's HEPR strategy lists this as an urgent need for which donor assistance is being actively sought.

### **Dialogue, partnerships and harmonisation**

There is an emerging trend towards dialogue, partnerships and harmonisation among donors. There are now over twenty partnership groups in operation. A number of European bilaterals are pursuing harmonisation of ODA management procedures. Some donors have formed collaborative frameworks for operations in specific locations. (For example, SIDA, UNDP and IFAD have done this for their rural development projects in the Northern Uplands Province of Ha Giang.

## 7 Directions and issues for the next country strategy

The purpose of this paper is to inform the process of developing a new Country Program Strategy (CPS) to guide AusAID's engagement with Vietnam. This strategy will be influenced by a number of factors, including:

- AusAID's overall approach to poverty reduction, focusing on the four pillars of growth, productivity, vulnerability and accountability;
- the Government of Vietnam's poverty reduction strategies, policies and programs;
- the scope for complementarity and synergy with the programs of other donors;
- the legacy of past AusAID programs and the lessons learnt from them; and
- agreements with the Government in certain sectors and regarding geographical emphasis.

It will also be influenced by the continuing emphasis within AusAID on achieving greater strategic focus in country programs and on measuring the impact of these programs.

The analysis and assessments presented in this paper help to address some of these factors. The analysis of poverty is a necessary element for formulating a CPS targeted at poverty reduction. But what is also required is an analytical framework that provides a conceptual basis for identification and selection of activities that are likely to have the highest possible impact on poverty. The framework has to be based on a clear specification of what a donor can most usefully do to help remove impediments that prevent poor people from improving their standards of living. Among other things, this means that it has to be firmly embedded in a rationale for public sector involvement in the development process.

Such a framework is particularly important in a transition economy like Vietnam, where the central development challenges are intertwined with the task of recasting the role of the state. It is also an important consideration because broad ranging institutional under-development and the legacy of the centrally planned subsidy economy mean that the environment for project interventions is

distorted. Considerations of effectiveness and sustainability require that such interventions must take account of the prospect of institutional and policy change, and in many cases be undertaken only if parallel systemic change is under way.

### **Issues and areas for consideration**

The following paragraphs present some issues arising from the foregoing analysis of poverty and government and donor programs. Some relate to possible areas of focus for the strategy and AusAID's future program in Vietnam. Others are concerned with questions of program management and resource allocation.

#### **Sectoral and geographical focus**

The size of AusAID's program in Vietnam, and the need to improve effectiveness implies the need to focus assistance in a limited range of activities. One way of focusing is to target assistance in particular sectors with strong linkages to poverty reduction. Another is to target assistance on classes of poor people with common characteristics.

##### *Sectoral focus*

The most recent review of the current strategy foreshadowed a narrowing of focus towards rural development. Such a focus would appear to be consistent with the analysis of poverty presented in chapter 2, which shows that most poor people live in rural areas. However, progress in rural development hinges on success in addressing broader institutional, policy and service delivery challenges. While the program can fruitfully concentrate on activities with strong linkages to rural development, it should be fully informed about, take account of, and where appropriate, support broader systemic change.

So, for example, activities that deal with access to credit in rural areas must be consistent with the broad thrust of financial sector reform and development. Similarly, rural development is not synonymous with expanding agricultural production. Increased agricultural productivity will be an essential part of improvements in rural living standards, but rural development (and increased agricultural productivity) will involve development of rural industry and services. This will in turn hinge on national level reforms in the enabling environment, especially those relating to the development of private SMEs. And support

for rural health and education services may be difficult to implement effectively unless undertaken in the context of sectoral development and reform.

This is one reason why a wider-ranging role in governance should continue to become an important part of AusAID's program. The Capacity Building for Effective Governance (CEG) Facility will enable AusAID to make constructive contributions to the broader processes of policy reform and institutional development. The CEG – and other initiatives – can usefully complement the activity of the multilateral institutions, especially in areas where Australian inputs are seen as being more easily digestible and less burdened by perceptions of concealed agendas. In addition, the CEG can provide a valuable vehicle for AusAID to learn and be informed about the Government's transition and institutional change programs, and the activities of other donors.

### *Geographical focus*

With rural development a sectoral focus, the question of location becomes relevant. The poverty analysis presented in chapter 2 shows that the most intense poverty is in the mountainous areas of the Northern Uplands. But poverty is also intense in central parts of the country, and there are very many poor people in the Mekong Delta. One factor that could shape locational choice is the distribution of assistance provided by other donors. Another is the legacy of past and current AusAID programs, which should provide valuable experience.

Of the three regions that account for almost 70 per cent of Vietnam's poor – the Northern Uplands, North Central and the Mekong Delta, only the latter is not the recipient of any large scale integrated rural development projects. AusAID could consider the scope to replicate its rural development assistance in the central regions in the Mekong.

### **Rural infrastructure**

Under the rubric of rural development, the strategy could also emphasise rural infrastructure. Vietnam's infrastructure deficit is a major factor constraining the ability of poor households to rise out of poverty. The Poverty Taskforce has chosen to treat the provision of essential infrastructure as a goal in its own right, even though infrastructure services are usually considered to be an input to, rather than an outcome of, development (PTF 2001a). Recent analysis has shown that there is a strong link between provision of commune roads and reduction in rural poverty (Deolalikar 2001). The PTF is developing targets and provisional

costings for provision of seven classes of infrastructure included in Program 135 – basic road access, schools, health centres, clean drinking water systems, electrification, markets and irrigation – and also for post and telecommunications services.

The key question is going to be what form support for infrastructure should take, given the size of the program and the institutional constraints (especially in public financial management) that jeopardise sustainability of public infrastructure investments. There is for example, a major problem concerning lack of integration of capital and recurrent budgets. In addition, donor willingness to fund infrastructure investments often erodes what limited incentives exist for governments – especially local administrations – to properly fund operation and maintenance expenditure. Support for infrastructure provision would therefore need to be linked to public finance reforms, and AusAID might need to consider the desirability of funding recurrent costs in poor localities.

### **Access to information**

Constraints on access to information are seen as one reason for continued poverty in rural areas. The World Bank has identified the parlous state of the agricultural extension system as one reason why farmers are not achieving yield and productivity improvements that are accessible with existing technologies. Australia has expertise in extension, and there may be scope for support in this area. However, the development of activities addressing defects in the transmission of information about agricultural technology and processes would need to take careful account of the reasons why the current extension system is not delivering.

In some areas, public sector promotion of extension services is part of the continuing mechanism of state control over land use and agricultural production decision-making. Without changes to the regulatory system and arrangements concerning land ownership and use, efforts to improve extension services may not be very effective. In a broader sense, the continued ‘hands-on’ role of the state in agriculture stands in the way of a genuinely demand-driven provision of agricultural services. It may be that the most useful thing that donors can do to improve access to information by farmers is to help remove impediments to a greater role by private suppliers of information and technology.

### **Women's education**

Again under the banner of rural development, the strategy could consider providing more attention to education for women and girls in rural areas, by addressing some of the access and other factors impeding female school enrolment, and through the provision of special programs with a particular emphasis on ethnic minorities. One reason for proposing support in this area is the impact that women's education may have on child and maternal health, and AusAID's reluctance to fund significant direct involvement with the health system without prior evidence of significant systemic and policy reform.

### **Local public finance and administrative reform**

AusAID has been sensibly cautious about engagement with Vietnam's public administrative reform process in the absence of a well-articulated plan for addressing this large challenge. The PAR Master Plan is still a long way short of filling this need, but it sends strong signals of the Government's intention to undertake meaningful reform activities, and there is now evidence of more concerted donor support.

The CEG Facility provides a vehicle for responding to requests for support on PAR issues, but may initially concentrate on central level issues. Past donor experience with provincial level PAR activities has not been happy. However, AusAID might contemplate providing support for local PAR activities either through extension from project activities (for example water supply projects) or by working with a central Ministry (for example, MARD) to address capacity issues in provincial departments reporting to that Ministry. Experience suggests that a vertical approach to capacity building, which enlists the support of central ministries, may be more successful than horizontal efforts targeting all departments in a particular provincial administration. Such an approach may also ensure that support for capacity building and structural reform move in step with the overall PAR process.

### **Aid implementation, harmonisation and delivery issues**

AusAID, as with most other donors, has considerable interests in efforts to improve the effectiveness of aid. Recent procedural and regulatory changes introduced with Decree 17 should help to speed up preparation of aid financed projects. Part of the problem lies of course, in the administrative challenges faced by the Government in dealing with a multiplicity of donor systems. AusAID



should consider possible participation in the current harmonisation initiative being promoted by the Utstein group, especially given its linkages with AusAID's work on monitoring and evaluation of ODA.

On a related issue, as discussed in chapter 6, most donors intend to closely examine the finalised CPRGS and consider its implications for their own programs: some intend to use it as the guiding framework for their assistance. AusAID may wish to include an early review of the new CPS for this purpose.

Similarly, AusAID should consider greater involvement in current partnership processes, particularly where this could help provide information on program possibilities and ways of targeting assistance. The quality of research on poverty carried out by both the Government and donors in recent years has been very high. AusAID may benefit from greater participation in this work, perhaps through support to UNDP's forthcoming Partnership to Fight Poverty program which is assisting the Government to consolidate the lessons learned from poverty reduction and social protection programs and applying them to future policies and programs. Another option would be a greater involvement in the Poverty Working Group by, for example, supporting the funding of specific tasks identified by the Group. The benefits that would result from becoming more directly engaged in the poverty policy dialogue would flow through to all projects in AusAID's current portfolio, through, for example, improved monitoring and evaluation of poverty indicators, as well as assisting in future project identification.

Other opportunities for useful cooperation would be the establishment of collaborative frameworks with other donors in working in the same regions or provinces as AusAID. (UNDP, the Swedes and IFAD have formed such a framework for their rural development projects Ha Giang province.

### **Resource implications of a program approach**

One other issue that the new strategy will need to address is the internal resourcing implications of adopting a strategic program approach to assistance in Vietnam. Even if the program becomes more narrowly focused – or perhaps especially if this is the case – AusAID will need to be very well informed about the overall direction of policy and institutional change going on in Vietnam, as well as developments within the focal areas.

## **Vietnam poverty analysis**

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The creation of sector technical advisory groups provides AusAID with one vehicle for injecting relevant knowledge into program development and refinement. The adoption of a program monitoring and evaluation framework also establishes a basis for gathering and assimilating information on program performance which can also be used to guide ongoing refinement of the strategy. But AusAID may need to formalise and resource processes that operationalise learning within the organisation.

# **Appendixes**



## A Provincial poverty estimates

The following table is from Minot and Baulch (2001) and presents the provincial headcount indices upon which the poverty map in chart A.1 is based.

Table A.1 Provincial poverty headcounts and populations

Province	Poverty headcount			Population	
	Rural	Urban	Total	Total	Number of poor
	% of population			Thousand persons	
Đai Châu	85.7	22.1	77.7	594.6	462.0
Đà Nẵng	77.0	19.5	72.2	302.7	218.5
Đông Lào	79.5	15.3	71.4	881.4	629.3
Đào Bằng	73.9	14.2	67.5	490.7	331.2
Đào Cai	74.7	19.7	65.2	594.6	387.6
Đảng Sơn	72.4	14.1	61.7	704.7	434.7
Đắk Lắk	67.6	18.9	60.9	275.3	167.6
Đắk Bình	65.5	15.5	58.6	757.3	443.7
Đuyên Quang	63.5	16.1	58.3	675.1	393.5
Đền Bái	64.4	16.5	55.0	679.7	373.8
Đăk Lăk	65.0	19.4	53.8	971.9	522.8
Đĩnh Thuận	61.8	21.4	52.5	505.2	265.2
Đông Thuận	67.0	22.1	52.2	314.0	163.9
Đông Triều	61.8	19.2	52.0	573.3	298.1
Đông Bình	53.2	13.2	49.1	793.9	389.8
Đông An	51.5	14.0	47.7	2858.3	1363.4
Đông Ngãi	51.3	15.3	47.4	1190.0	564.0
Đông Thiên – Huế	57.9	18.5	47.2	1045.1	493.2
Đông Giang	49.4	16.4	47.0	1492.2	701.3
Đông Hòa	49.2	13.5	46.0	3467.6	1595.0
Đông Tĩnh	47.4	15.1	44.5	1269.0	564.7
Đĩnh Phúc	47.0	19.9	44.2	1092.0	482.6
Đĩnh Thuận	49.8	23.5	43.5	1047.0	455.4
Đông Thọ	48.2	13.2	43.1	1261.5	543.7
Đông Trang	46.3	24.4	42.4	1173.8	497.6
Đông Nghệ An	49.5	12.6	41.9	1046.2	435.2
Đông Vinh	45.2	19.1	41.8	965.7	403.6
Đông Yên	46.9	18.8	41.6	787.0	327.3
Đông Nam	44.3	19.1	40.8	1372.4	559.9
Đông Giang	45.4	19.6	40.6	2049.0	831.8
Đông Lạc	45.1	17.6	39.5	1776.3	701.6

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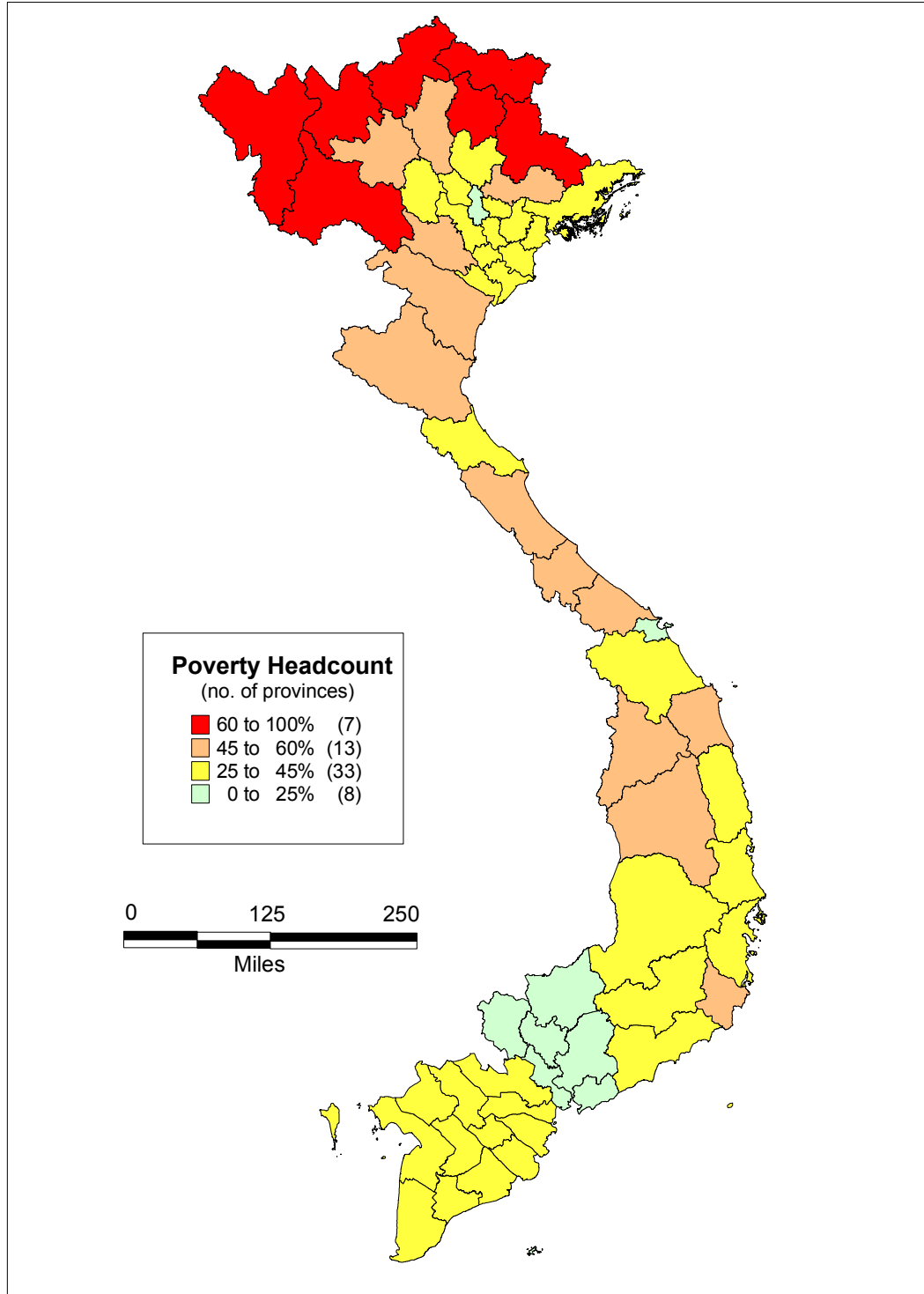
## Vietnam poverty analysis

Table A.1 Provincial poverty headcounts (continued)

Province	Poverty headcount			Population	
	Rural	Urban	Total	Total	Number of poor
	% of population			Thousand persons	
Ha Tay	41.7	12.5	39.5	2386.8	942.7
Dong Thap	42.4	19.5	39.1	1565.0	611.9
Binh Dinh	46.0	17.9	39.1	1461.1	571.2
Ninh Binh	42.4	10.9	38.5	884.1	340.3
Bac Ninh	40.5	16.6	38.3	941.4	360.5
Hung Yen	40.3	16.3	38.3	1068.7	409.3
Kien Giang	42.8	21.0	38.0	1494.4	567.8
Bac Lieu	43.0	20.7	37.7	736.3	277.5
Ha Nam	39.1	14.3	37.6	791.6	297.6
Quang Ninh	51.9	15.5	35.7	1004.5	358.6
Nam Dinh	38.5	11.0	35.1	1888.4	662.8
Can Tho	40.2	15.6	34.9	1811.1	632.0
Da Mau	38.8	15.2	34.5	1999.3	689.7
Sam Dong	45.8	14.4	33.7	996.2	335.7
Hinh Long	36.0	14.8	33.0	1010.5	333.4
Thai Binh	34.5	7.5	33.0	1785.6	589.2
Ben Tre	34.2	13.7	32.5	1296.9	421.4
Hai Duong	35.3	10.6	31.9	1649.8	526.2
Khanh Hoa	41.6	12.6	31.1	1031.3	320.7
Long An	33.5	15.1	30.5	1306.2	398.3
Hai Phong	39.5	7.4	28.6	1673.0	478.4
Tien Giang	30.1	10.5	27.6	1605.1	443.0
Binh Phuoc	19.7	7.6	17.9	653.6	116.9
Da Nang	34.6	10.6	15.6	684.1	106.7
Ha Noi	30.6	3.7	15.2	2672.1	406.1
Gay Ninh	13.0	8.1	12.4	956.2	118.5
Dong Nai	13.7	4.8	11.1	1989.5	220.8
Ba Ria-Vung Tau	10.9	6.2	9.0	800.6	720.5
Binh Duong	9.2	5.1	7.9	716.4	565.9
TP Ho Chi Minh	8.2	3.6	4.4	5037.2	2216.3
Total	44.1	11.1	36.5	76904.9	31041.9

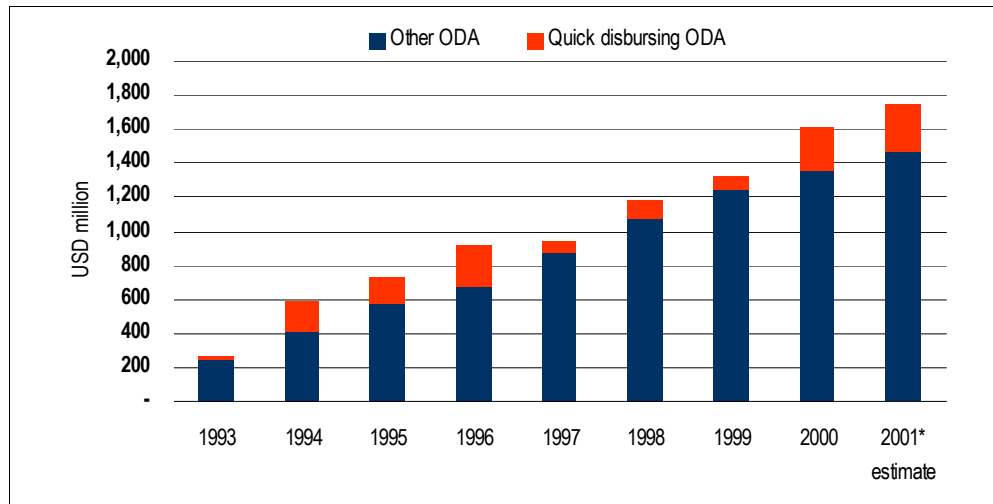
A map showing the distribution of poverty graphically is attached on the following page.

Chart A.1 **Geographical distribution of poverty**



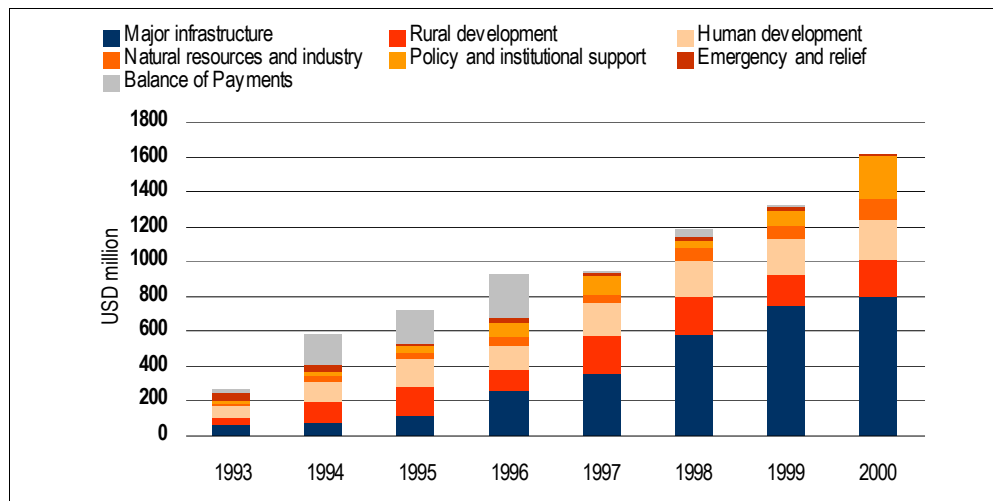
## B Data on recent developments in ODA

Chart B.1 Annual ODA disbursements, 1993 to 2001



Data source: UNDP (2001b).

Chart B.2 Sectoral composition of ODA, 1993 to 2000

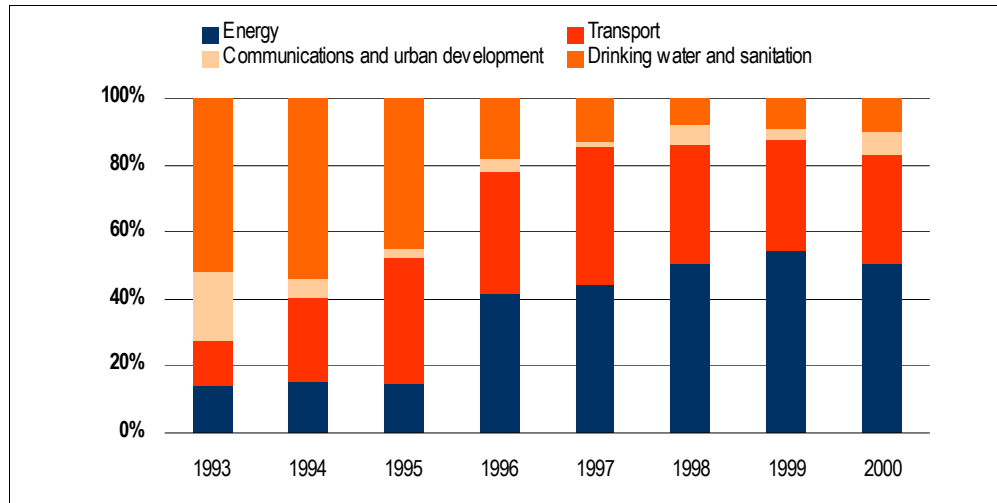


Data source: UNDP (2001b).



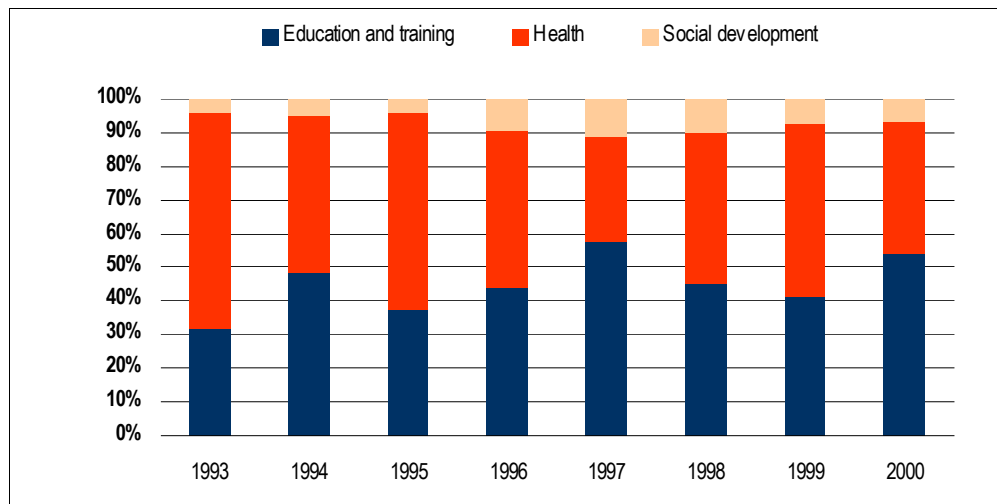
**B Data on recent developments in ODA**

**Chart B.3 ODA disbursements to major infrastructure, 1993 to 2000**



Data source: UNDP (2001b).

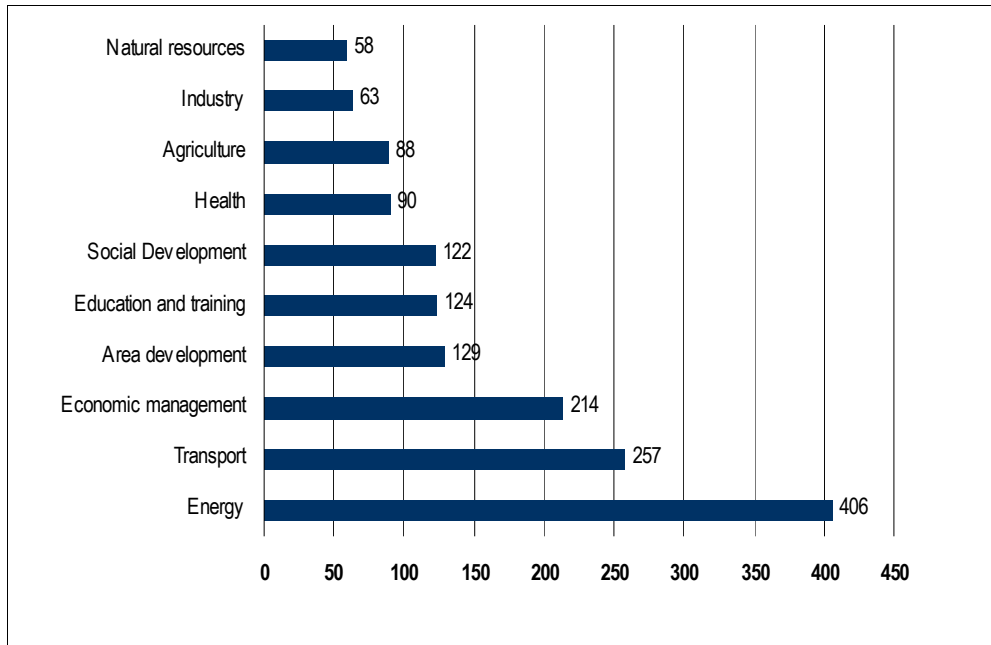
**Chart B.4 ODA disbursements for human development, 1993 to 2000**



Data source: UNDP (2001b).

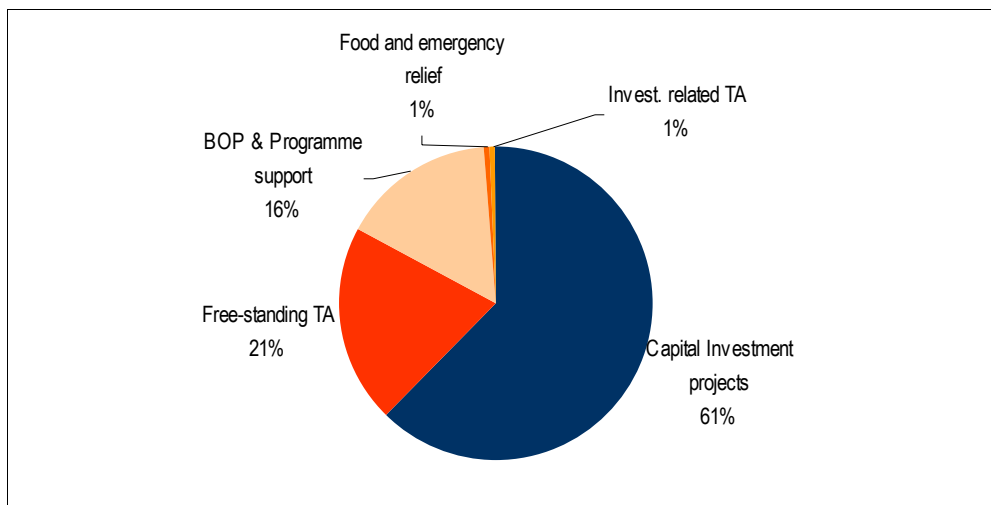
## Vietnam poverty analysis

Chart B.5 Top 10 ODA sectors in 2001



Data source: UNDP (2001b).

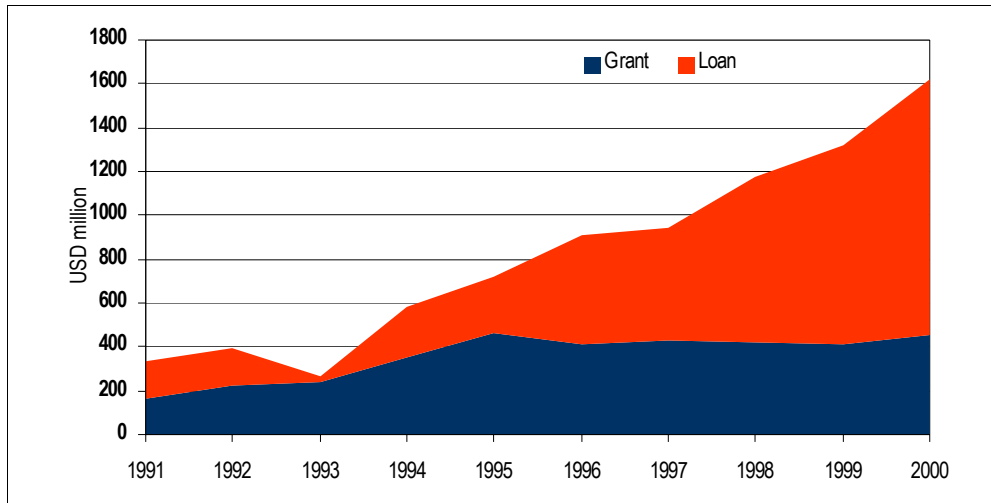
Chart B.6 ODA disbursements by type, 2000



Data source: UNDP (2001b).

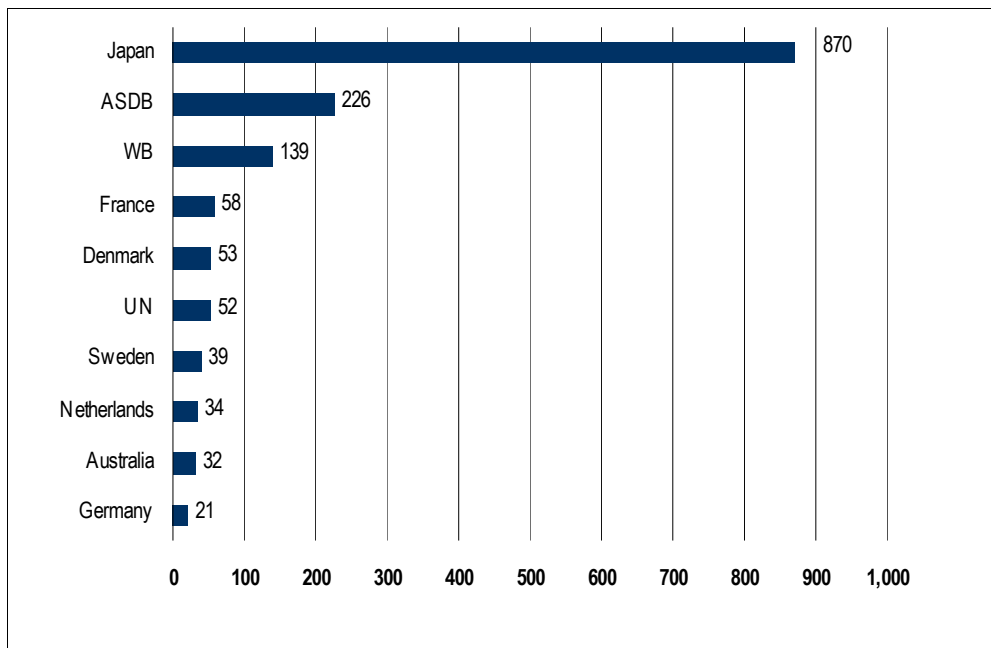
## B Data on recent developments in ODA

Chart B.7 ODA disbursements by terms, 1991 to 2000



Data source:

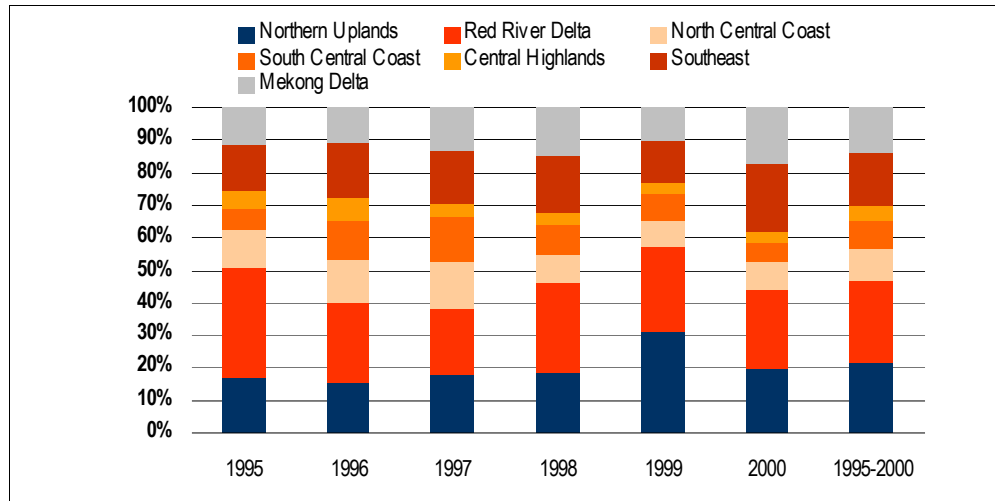
Chart B.8 Top ten donors by disbursements in 2000



Data source: UNDP (2001b).

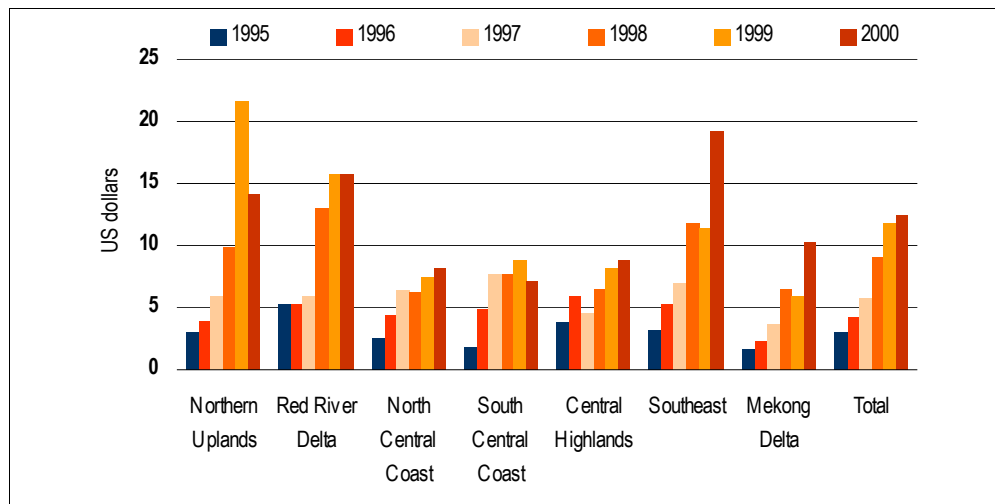
## Vietnam poverty analysis

Chart B.9 Regional shares of ODA in 1995–2000



Data source: UNDP (2001b).

Chart B.10 ODA per capita in the regions



Data source: UNDP (2001b).

## **C Partnership group highlights in 2001**

### **Poverty**

- HEPR strategy finalised.
- I-PRSP completed.
- Localisation of the Millennium Development Goals.
- CPRGS production ongoing.

### **Gender**

- Joint Government-Donor Gender Framework completed and disseminated.
- 10 years national strategy and Program of Action (POA2) drafted.
- National Committee for the Advancement of Women in Vietnam (NCAFAW) restructured and expanded.

### **Environment**

- Decrees issued on establishment of International Support Group for the Environment (ISGE) and Executive Board.
- ISGE MOU expected to be formally signed in late 2001.

### **Civil society and community participation**

- Donor support focused on implementation of Grassroots Democracy Decree; including establishment of GRDD intranet.
- Inventory of donor support for civil society and community development.
- Dialogue with Government agencies, mass organisations and NGOs.

### **Urban Forum**

- First urban forum meeting held in May 2001.
- Database established on urban stakeholders, and on urban programs and activities.

- Technical proposals for small-town water supply, urban upgrading and city strategies discussed at Forum meetings, and financing proposed.

### **SOE reform and equitisation**

- Group mobilised grant technical assistance - TA grants from member bilaterals were key to diagnostic audits of 50 large SOEs.
- Overall implementation capacity of National Steering Committee for Enterprise Reform and Development (NSCERD) strengthened.
- Social safety net scheme developed by Government made possible by funding mobilised by the group.

### **Banking reform**

- Overall technical assistance plan for implementing the Banking Reform program developed.
- Assistance quickly mobilised for International Accounting Standards audits for two state-owned commercial banks (SOCBs); because of this all SOCBs committed to annual IAS audits over the next three years.
- Several donors "adopting" individual SOCB to provide twinning-type support.

### **Trade reform**

- Much greater involvement of Ministry of Trade representatives in the group.
- Systematic sharing of information on studies and technical work that are being undertaken in Vietnam.
- Use of the group to launch major initiatives in the trade area, including a recent e-commerce initiative.

### **Public financial management**

- Creation and operation of permanent working group on the Public Expenditure Review.
- Government's Action Plan to improve Public Financial Management presented; donors agree to work within this matrix.
- Multi-donor Trust Fund Created, to support the implementation of the Government's Plan.

## **Education**

- Ownership and involvement of the Education Forum on the part of the Ministry of Education and Training and its specialised institutes significantly increased.
- Forum now used to debate, discuss and collaboratively prepare new documents, including on the Vietnam Development Targets (VDTs).
- Mechanisms being put in place under the Education for All umbrella to make the VDT's a reality.

## **Health**

- Regular contact between donors and Ministry of Health facilitated, with a better understanding of strategies, problems and constraints achieved by partners.
- Hepatitis B successfully integrated into the Expanded Programme of Immunisation for Vietnam thanks to rapid responses from member of the Health International Support Group.
- Technical sub-groups made important contributions to several vertical health programs.

## **Forestry**

- Partnership has facilitated an intensive dialogue between Ministry of Agriculture and Rural Development and donors to develop a strategy for the forest sector.
- Agreement reached on Memorandum of Agreement among all partners; MoA signed in November 2001.
- Donors started to adjust their ways of working and planning to a more coherent sector wide approach.

## **Partnership to Support the Poorest Communes (PAC)**

- Agreement reached to restructure the Partnership.
- Funding sought, and awarded, to establish a formal PAC office in Ministry of Planning and Investment.

- Planning started for developing a formal, two-year work program based around an accessible computer based monitoring system based in MPI.

### **Food security**

- Collection and dissemination of food security information enhanced.
- Vulnerability profiles now under preparation.
- Group contributed to build the perception that poverty alleviation alone will not guarantee food security for all.

### **Natural disasters**

- Memorandum of Agreement signed in June 2001 formally establishing the partnership.

### **Water resources**

- Management information database and website in Ministry of Agriculture and Rural Development / International Support Group improved and updated with details of programs and projects.
- Office of National Water Resources Council commenced work.

### **Transport**

- Group focused on information sharing and consolidation.
- Topics of mutual concern were, for the first time, discussed jointly by donors and the Ministry of Transport at the partnership meeting in August 2001.
- Agreement reached for donors to use the group to pave the way for new projects/programs.

### **HCM City ODA Partnership (ODAP)**

- ODAP pilot training for ODA Project Management Units (PMU) in HCMC arranged.
- Workshop on Urban Public Transport organised; coordination improved.
- ODA database now serving as a tool for ODA project management and monitoring.



- PMU Forum established enabling PMUs to share experience and training on Project Management skills; and to recommend changes to legal framework/procedures. HCMC ODAP has now been asked to share this approach with PMUs throughout Vietnam.

### **Public administration reform**

- PAR Master Program developed and completed; signed by the Prime Minister in September 2001.
- Seven action programs identified.
- Mobilisation of donor assistance and funding mechanisms discussed at Ha Long Bay workshop in September 2001.

### **Legal needs**

- Partnership formally established in March 2001.
- Five national expert teams established, mechanism for donor input and identification of legal development needs set up; and four draft individual reports highlighting the results of the assessment of the current situation, needs and strategic solutions presented.
- Overall report on legal development needs assessments, and a draft development strategy for 2001-2010 produced and discussed at the Legal Needs Assessment (LNA) Workshop in November 2001.

## D Main points of interest at donor review meetings<sup>1</sup>

Table C.1 Summary table

Country	Programs of special interest		Partnership Groups	Harmonisation	Other issues		
	Strategy	Sectors of interest				Delivery	
ADB	Strategy for 2001-2006. Poverty focus on central VN.	Rural development Governance-microfinance.	Central Region Livelihood Improvement Red River Basin.	More cost sharing arrangements with bilaterals.	To be involved in 6-7 groups	Supports process. Working with WB, JBIC.	Looking for bilateral to fund staff position?
Canada (CIDA)	Forthcoming strategy to closely support CPRGS.	Rural development Governance, private sector.	Rural development projects Thanh Hoa, Soc Trang. Legal needs.	Not much cofinancing (WB primary education).	Environment, civil society, poverty, trade. Suffers from split mandates.	Intend to join Utstein group.	More donor only dialogue required.
Denmark (DANIDA)	Support for reform process and the environment.	Water and sanitation, agriculture, governance	Economic/judicial reform — state attorney, high court.	Program approach — long-term advisors. WB PRSC/PER.	No time to attend.	Process needs to be led by the Government	Wants to set up 'poverty secretariat' at MPI.
European Commission (EC)	Forthcoming strategy for 2002-2006.	Rural development governance	Rural development Northern Uplands. Economic integration.	To work more with UN agencies.	Mixed bag. Health — not impressed.	Watching in support.	Produced guidelines on counterpart costs.

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<sup>1</sup> The material in this section reflects the discussions held at meetings with donors in Hanoi over the period 2-14 January 2002. The material should not be taken as being officially representative.

## D Main points of interest at donor review meetings

Table C.1 **Summary table** Continued

Country	Strategy	Sectors of interest	Programs of special interest	Delivery	Partnership Groups	Harmonisation	Other issues
France (ADF)	Disparate strategy.	Investment/ infrastructure in rural sector		Significant cofinancing with ADB – Red River, WB.	Seven partnership groups.	Support process.	ODA delivery is now slower.
German	Strategy to 2015	Agriculture, education.		Long-term advisors.		Forestry. Critical at CG.	
Japan (JICA)	Economic growth (and poverty reduction)	Infrastructure education and health	Transport infrastructure	Cofinancing with WB and ADB.	Poverty, HMC ODAP	Prepared report — head office considering. Critical at CG.	Donors have too much focus on poverty.
Netherlands	To support Government programs.	Forestry, health, water management governance	Support for banking system.	WB PRSC/PER	Forestry, water	Utstein Group	PRSC first untied support.
Norway	Sectoral based	Fisheries, rural development	Rural development project Quang Tri	WB PER, UNICEF	Fisheries, education — not impressed.	Utstein Group	Admits too hands off.
Sweden (SIDA)	CPRGS assistance program.	Rural development governance	Mountain Rural Dev. Program. Land admin. reform program.	WB PRSC/PER trust funds. ADB, IFAD. SWAPs.	Poverty Task Force, Poor communes.	Utstein Group	Promotes MARD ISG Support group.
United Kingdom (DFID)	Business strategy to support CPRGS	Rural access/ livelihood. Economic reforms.		No bilateral. WB PRSC trust funds. ADB. SWAPs	Poverty Task Force, poor communes	Utstein Group	Funds staff positions at WB.
United Nations Development Programme (UNDP)	New country program 2001-2005	Economic development PAR. Environment.	Partnership for Poverty; Equitable globalisation.	Looking for cofinancing partners.		Supports process.	Looking for funds.

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## Vietnam poverty analysis

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Table C.1 **Summary table** Continued

<b>Country</b>	<b>Strategy</b>	<b>Sectors of interest</b>	<b>Programs of special interest</b>	<b>Delivery</b>	<b>Partnership Groups</b>	<b>Harmonisation</b>	<b>Other issues</b>
United States (USAID)	No change. Supporting BTA	Governance — trade and investment	Trade acceleration and restructuring.	Small level of cofinancing.	Mixed bag.	Supports but not able to do much.	
World Bank (WB)	New Country Assistance Support after CPRGS.		Nth. Uplands, Community Based Rural Infrastructure	Looking for co financiers	Work well. Greater collaborative ness	Supports. Aligns procurement with ADB.	CPRGS process more important than result.

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