A Rural Social Development Strategy
## Contents

- **Foreword**
- **Abbreviation**
- **Summary**

### 1 Introduction
- Conceptual framework

### 2 Overall Situation Analysis
- Accomplishments, strengths, opportunities
- Problems and weaknesses
- Risks

### 3 How to Maximize the Rate of Poverty Reduction while Mitigating Growing Inequalities?
- Situation analysis and international experience
- Vision to year 2010
- Strategies

### 4 How to Strengthen Social Safety Nets for Vulnerable Rural Populations?
- Concept
- Situation analysis
- Vision to 2010
- Strategies

### 5 How to Improve the Quality and Coverage of Basic Social Services?
- Situation analysis
- International experiences
- Vision to 2010
- Strategies
- Other sectoral strategies

### 6 How to Develop Rural Institutions which are Capable, Democratic and Participatory?
- Concept and international experiences
- Situation analysis
- Vision to 2010
- Strategies
Contents

7 Conclusions, Feasibility Considerations and Further Research ..................... 99
   The six most important "breakthrough" measures .................................... 99
   Feasibility analysis ............................................................................... 100
   Suggested further research .................................................................... 102

Boxes
   Box 2.1 Landmarks in Viet Nam's gender-related legal framework ................. 7
   Box 3.1 Continued gender inequality ....................................................... 10
   Box 3.2 Growth and equity: the Chinese, East Asian and Latin American
      experiences ........................................................................................ 15
   Box 3.3 Summary characteristics of the poor and implications
      for the strategy ...................................................................................... 17
   Box 3.4 Targeted area-based development programmes: international experiences ................................................ 20
   Box 3.5 Lessons from Korea's "New Community Movement" ....................... 22
   Box 3.6 Urban poverty ........................................................................... 24
   Box 3.7 A different perspective on regional policy ..................................... 26
   Box 3.8 Productive assets and gender: The importance of equal formal rights .. 30
   Box 4.1 United Nations and Vietnamese definitions of basic social services .... 36
   Box 4.2 A tale of two consumption subsidies .......................................... 39
   Box 4.3 Social protection policies in China's transition ............................... 41
   Box 4.4 Unemployment insurance .............................................................. 45
   Box 5.1 An emerging issue: Son preference and sex-selective abortion ......... 58
   Box 5.2 Societal "demand" for basic education .......................................... 65
   Box 5.3 Grassroots health service delivery from a gender perspective ......... 65
   Box 5.4 Example of an "unfunded mandate" in a fiscally weak province ........ 68
   Box 5.5 Expanding child care through combined State- and non-State provision ................................................................. 70
   Box 6.1 The principles underlying administrative reform .............................. 80
   Box 6.2 Administrative reform concepts, past and present ......................... 81
   Box 6.3 A World Bank perspective on Vietnamese decentralization .......... 83
   Box 6.4 The benefits and challenges of administrative decentralization:
      The Viet Nam national programme of action for children .................... 92

Tables
   Table 2.1 Ethnic minority and Kinh enrollment data .................................. 4
   Table 2.2 Viet Nam and the human and gender development indices,
      1995 and 1999 .................................................................................... 5
   Table 3.1 Poverty incidence (total and food poverty lines), 1993-1998 .......... 9
   Table 3.2 Selected regional poverty indicators, 1993-1998 ......................... 10
   Table 3.3 Some international comparisons of inequality ........................... 10
   Table 3.4 Relationship between growth and poverty reduction
      for selected countries ........................................................................... 15
Table 3.5 Extrapolated regional poverty rates at 1993-1998 rate of decline (1998-2023) .......................................................... 23
Table 3.6 Strategic directions for targeted poverty reduction  .................................................. 25
Table 3.7 Level and incidence of taxes, fees and contributions (TFC) paid by rural households in 1998 ........................................ 28
Table 3.8 Summary strategies: Poverty reduction and inequality mitigation ............................ 33
Table 4.1 Incidence of social welfare income, 1998 ................................................................. 37
Table 4.2 Broad estimates of workers and the elderly enrolled in any formal social security programmes, selected regions and Viet Nam ................................. 40
Table 4.3 Available data on safety net programmes, 1998 ........................................................ 42
Table 4.4 Strategic directions in safety net policy ............................................................ 43
Table 4.5 Summary strategies: Social safety nets ................................................................. 49
Table 5.1 Selected social service coverage and outcome indicators, 1993-1998 .......................... 52
Table 5.2 Distribution of selected social indicators, by expenditure quintile ................................ 53
Table 5.3 Strategic directions for basic social services .......................................................... 61
Table 5.4 Summary strategies for basic health and education ................................................ 77
Table 6.1 A typology of participation: How people participate in development programmes and projects ................................. 84
Table 6.2 Strategic directions: Institutional reform .............................................................. 86
Table 6.3 Selected strategies for promoting good governance ................................................ 98

Figures

Figure 1.1 Conceptual framework ................................................................. 2
Figure 2.1 Combined gross enrollment rates (1994) plotted against GDP per capita ................ 4
Figure 3.1 Gender differentials in educational achievement, 1998 ........................................ 11
Figure 3.2 Income ratio of top to bottom 20% in population, Viet Nam and comparator countries (panel a) [1990-1994], and for regions within Viet Nam (panel b) [1994] ........................................ 12
Figure 3.3 Population distribution of the poor, by maximum educational attainment and principal occupation .................................................. 18
Figure 3.4 Extrapolated majority Kinh and ethnic minority poverty rates at current (1993-1998) rates decline (1998-2028) ....................... 23
Figure 5.1 Percentage of pregnant women receiving no pre-natal care, average for period 1984-1994, and 1998 .............................. 54
Figure 5.2 Net enrollment rates, poorest and richest quintiles (1998) (panel a) and percentage of households paying all school fees (primary and lower secondary levels) (1998) (panel b) .............. 55
Figure 5.3 Expenditure proposed on rural and urban water supply projects in 1996-2000 public investment programme .......................... 64
Figure 6.1 Participation rates of women and men in legislative bodies, 1998 ............................ 91

References ................................................................. 104
**Foreword**

In April 1999 the Government requested UNDP assistance in the preparation of strategic policy-based research for Viet Nam’s new Ten Year Socio-Economic Development Strategy 2001-2010. A Technical Assistance project agreement with MPI was signed in September 1999.

The Project subsequently undertook and synthesized policy-based research aimed at offering international perspectives in four key areas central to the new ten year socio-economic development strategy:

- The Role of the State and the Market
- International Economic and Financial Integration
- Rural Economic and Social Development
- Science, Technology and Industrial Development

In addition, the Project offered advice on the long-term socio-economic objectives to 2010 and provided practical principles and recommendations for the coherent implementation of the proposed strategies.

The Project also organized a series of technical workshops on the draft research papers as well as two high level Round Table Consultations between senior officials from the Government and the donor community. The first of these Round Tables was held in June 2000 and focused on the various draft research papers and related recommendations. The second high level Round Table was organized in November 2000 with a focus on the Government’s draft of the new ten year socio-economic strategy.

MPI has been the national executing agency responsible to the Government and UNDP for the achievement of the Project’s objectives, and DSI - the Development Strategy Institute - has carried implementation responsibility. Throughout, the research and consultation process was directed jointly by DSI and UNDP. In addition, the Governments of Australia and Sweden, as well as UNIDO contributed financing as well as technical support for the Project.

In the course of the project, twelve research reports and two Round Table Proceedings Reports were produced jointly by international and local experts.

The foreign experts who participated in the Project included Bob Warner, Keith Bezanson, James Riedel, Lars Holmstrom, Rebecca Dahele, Scott Fritzen, Garry Smith, Frank Flatters, Mia Huyn, David Dapice, Borje Lunggren, Suiwah Leung and Ari Kokko.

Local experts contributing to the Project’s work included Dao Le Minh, Vu Van Toan, Vu Quang Minh, Nguyen Van Chi, Bui Tat Thang, Nguyen Van Phuc, Pham Dinh Lan,
Le Viet Hoa, Tran Ngoc Ca, Tran Thi Thanh Hong, Bui Thien Son, Dang Kim Son, Bui Van, Phan Minh Ha, Nguyen The Hien, Nguyen Van Thanh, Nguyen Xuan Thu, Le Thi Kim Dung, Luu Duc Hai, Le Anh Son, Hoang Minh Hai, Ta Thi Thu, Nguyen Quang Thai and Pham Quang Ham.

The research and consultation process benefited greatly from the guidance and substantive advice provided by Dr. Luu Bich Ho, President of DSI/National Project Director, Nguyen Van Vinh, National Project Manager, Bui Bich Hoa, Assistant to Project Management Board as well as by officials from UNDP Viet Nam including Robert Glofcheski, Vu Quoc Huy, Johan Fredriksson, Eliane Darbellay, Ernst van Koesveld, Michael Zuyderduyn and Klaus Greifenstein.

A listing of the reports produced by this unique initiative is provided below:

- The Role of the State and the Market in the Economy of Viet Nam
- Non-State Business Sector Development and Job Creation
- Globalization and International Economic Integration
- International Financial Integration
- Further Perspectives on the Challenges of Integration
- Agriculture and Rural Development
- Rural Development and Off Farm Employment
- A Rural Social Development Strategy
- Science, Technology and Industry Strategy for Viet Nam
- Strategic New Generic Technologies
- Choices and Opportunities
- The Synthesized Report of the Research Project

The views expressed in this research report do not necessarily reflect the official views or policies of MPI or UNDP.

H.E Tran Xuan Gia
Minister
MPI

Edouard A. Wattez
Resident Representative
UNDP

Foreword
## Abbreviation

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABE</td>
<td>Alternative Basic Education</td>
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<tr>
<td>CHC</td>
<td>Commune Health Center</td>
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<td>GDI</td>
<td>Gender Development Index</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<tr>
<td>IDD</td>
<td>Iodine Deficiency Disorder</td>
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<tr>
<td>IDG</td>
<td>International Development Goals</td>
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<tr>
<td>NIS</td>
<td>Nutrition Information System</td>
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<td>NPA</td>
<td>National programme of Action for Children</td>
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<td>PEM</td>
<td>Protein and Energy Malnutrition</td>
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<tr>
<td>PHC</td>
<td>Primary Health Care</td>
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<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
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<td>VLSS</td>
<td>Viet Nam Living Standards Survey</td>
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<td>VND</td>
<td>Vietnamese Dong</td>
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<td>VWU</td>
<td>Viet Nam Women’s Union</td>
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1. Introduction

The Government of Viet Nam is currently preparing a Socio-Economic Development Strategy for the years 2001-2010. At the Government’s request, the UNDP has recruited a small team of international and local consultants to provide input into for several sections of the strategy, of which one is “Rural Social Development”.

This draft presents the initial analysis of the social development team. The analysis and strategies proposed are, by intention, synthetic: drawn extensively and freely from the best available work by Government agencies and donors.

Social development is a broad concept. In this paper it is broken down into four thematic areas: i) poverty reduction and inequality; ii) social safety nets; iii) basic social services; and iv) rural institutions and participation. Each of these areas can be formulated as a broad question for the year 2010. Viet Nam confronts qualitatively different future scenarios depending on how it addresses these questions:

a. Will society be polarized into the ‘haves’ and ‘have-nots’? What can Viet Nam do to accelerate poverty reduction in slow-growing regions and thus mitigate growing socio-economic inequalities?

b. Will social safety nets exist to help provide social stability amidst rapid economic transformation? The degree to which the living standards of disadvantaged are protected will help determine what type of society Viet Nam will have in the year 2010.

c. Will social indicators which are high relative to Viet Nam’s economic development continue to propel economic growth and equitable social outcomes? In the absence of greater reform momentum in the social sectors in the coming ten years, Viet Nam’s social indicators will probably still be good “for a low-income country”, but increasing disparities will work against, rather than for, broadly based growth and poverty reduction – quite the opposite of the positive experience to date.

d. Will institutions which are capable, democratic, and open to the participation of civil society underpin rural society? The recent democratization decree has generated much interest, both nationally and within the donor community. The question centers on strategic momentum for the process of reform and the degree to which it presages further openings to civil society.

2. Overall situation analysis

Viet Nam has made impressive strides in the social sectors over the past decade. The rate of poverty reduction places it among the top performing countries in any period. It has also achieved medium human development despite being extremely poor. Unlike
most transition countries, Viet Nam has been able to avoid precipitous decline in social indicators and coverage of services; to the contrary, several key indicators – such as primary school enrollment rates – have remained very high for a country of its income class. Viet Nam now has an excellent opportunity to build on these past successes; the basic infrastructure in many places exists for Viet Nam to now concentrate on improving the quality of, and access to, basic services.

Some danger signs have also become increasingly apparent over the past few years. Regional/geographical disparities are growing for most economic indicators, while gaps in social indicators remain large (despite clear progress in some areas, such as enrollments). It is increasingly clear that existing mechanisms to ensure access by the poor to basic social services and social safety nets are not working well. Formal social safety nets are poorly targeted and have low coverage, limiting government ability to cushion the blow on the poorest as the economy slows. The quality (as opposed to coverage) of basic services is low. For example, drop-out and grade repetition rates in primary school are very high. From another angle, one finds high child survival coupled with continuing high incidence of child malnutrition. And the basic fact is that many households remain precariously clustered just above the poverty line, and are thus at high risk of falling back into poverty (particularly given the current economic slowdown).

These weaknesses are to some extent exacerbated by misguided policies. Public investment is focused disproportionately on better-off areas through a “growth pole” strategy, while continued support to SOE-led industrialization reduces overall resources available for rural and agricultural-sector development, and promotes inefficient, capital-intensive development. Basic social services are in some cases underfunded relative to non-basic services. Administrative capacity in poorer areas is extremely weak, as seen in poor intersectoral and intergovernmental coordination and an unstable implementation base at the commune level. The system of administrative support and fiscal transfers between levels of government is not succeeding in shoring up the dykes of administration where these face the greatest pressures. Community participation in the delivery of services and in rural institutions generally is uneven. And a legal framework which would facilitate the contribution of civil society towards meeting social goals is lacking.

Meanwhile, the necessity of deepening structural reforms within the social sectors is highlighted by several new challenges. Competing priorities and stagnant growth may hamper progress on reforms aimed at making government expenditure and investment patterns more pro-social. And several new social challenges – such as the possibility of a rapidly accelerating HIV epidemic – may strain the capacity of State institutions in the coming years to respond.

Thus, the “first generation” of social and economic reforms have largely petered out; serious organizational reform is necessary to revive the pace of poverty reduction and social development (and perhaps even to avoid decline). All indications point towards the need for a deepening of the “đoi mới” agenda in the social (as in the economic) sectors.
3. How to maximize the rate of poverty reduction while mitigating growing inequalities?

Vietnamese inequality (whether regional, rural-urban or socio-economic) is moderate by international standards. What is worrying is less the current state of inequality and more the social strains which might be caused by an acceleration of inequality generation over the next 10 years, easy to imagine particularly if macroeconomic and sectoral reforms do not deepen. Strong evidence from the region suggests that long run growth rates increase with equity, and that lower inequality directly contributes to socio-economic stability, which in turn positively impacts on reform sustainability.

Proactive Government policies and strategies will help sustain Viet Nam’s broadly-based, rapid poverty reduction in the decade ahead. A best case scenario would see poverty rates for ethnic Kinh roughly halved by 2010, to about 15%. For minority populations, prospects hinge on an acceleration of the relatively slow rate of poverty reduction experienced over the previous five years, without which it is likely that by 2010 still over 50% of Viet Nam’s ethnic minorities will live in poverty.

The most important strategy for reducing poverty in Viet Nam is to revive the reform momentum, implementing structural reforms to generate employment; these reforms are described in detail in other parts of the strategy. Three other types of reforms are necessary: i) a rethinking of regional policy to help create conditions for the poorest regions to accelerate development; ii) sectoral policies to promote patterns of growth in which relatively poor households can participate; and iii) a pro-poor policy framework.

Follow-up on recent policy shift towards rural development with substantive action. The most important steps include: reforming public finances, by increasing allocations through the Public Investment programme to rural development and sector, where 80% of the population lives; and reforming interprovincial finances, towards increased redistribution to fiscally weak provinces, coupled with better intra-provincial targeting onto more disadvantaged districts and communes. In addition, reducing economic rents and corruption resulting from tight and often opaque linkages between Party, State and economy will discourage “ill-gotten gains” and promote transparency in economic and political decision-making.

Strengthen HEPR policy framework and implementation of National Target programme for poorest communes. This can be done by:

- Integrating HEPR with overall macroeconomic and sectoral policies.
- Promoting flexible, adaptive administration and different development models for upland areas.
- Employing selectivity in subsidies: away from credit, towards social and economic services.
- Balancing the goals of equity, sustainability and efficiency within the HEPR framework, instead of overemphasis on equity (reaching the poorest) alone.
Moving from 1,715 communes in the period 1999-2003 to an expanded regional programme over the rest of the decade.

Moving towards performance-based planning reform, strengthening the “dual accountability” of lower levels of government towards: a) upper levels, to meet overall minimum standards in areas of high national priority; and b) towards grassroots constituents.

The remaining items of the strategy each relate to broadly based sectoral policies to promote poverty reduction and inequality mitigation.

4. How to strengthen social safety nets for vulnerable populations?

There has been much talk in Government and the donor community about developing “a reinforced social safety net during times of crisis to protect the poorest and most vulnerable in society,” which would “better preserve stability, equity and the conditions for future growth and development.”

Yet existing data suggests current safety nets are minimal at best. Recent survey data suggest that only 2.2% of the population lives in households that have received a payment from any of the poverty programmes. Where cash support is provided, it is very limited; even adding the additional 40% which community contributions form on average within safety net expenditure, overall expenditure constitutes only some 5% of household income for recipients, on average. Coverage of these transfers is not only low, but for many programmes also generally not effectively targeted towards relatively poor groups (except for specifically anti-poverty programmes).

Thus, the uncomfortable truth is that formal safety nets at present do not offer significant coverage or protection to reduce the vulnerability of rural populations. These programmes are not equipped to handle any major acceleration in the number of vulnerable households which may ensue in an economic downturn.

The overall vision to the year 2010 in the field of safety nets is for limited government assistance to be as focused as possible onto groups facing the greatest immediate needs, combined with increasing presence and effectiveness of non-State welfare provision. It is moving from a situation in which safety net coverage essentially is not functioning to put a consumption floor under vulnerable groups, to one in which the State effectively leverages the contribution of both civil society and itself provides substantial assistance for the most vulnerable groups.

The formidable challenge facing Government in trying to reach this vision is how to improve cost-effectiveness given limited fund availability. The only realistic way of doing this is through a combination of the following:

2 VLSS-2 data presented in World Bank and others, 1999a, p. 125.
Shifting expenditure towards programmes with the greatest impact on poor and vulnerable populations (such as the HEPR-related programmes and contingency fund) as well as towards provinces and communities in greatest need.

Targeting coverage within broadly vulnerable groups onto sub-groups most in need.

Boosting administrative capacity at both central and local levels to do this.

Encouraging non-State involvement in welfare and social service provision.

Creating mechanisms to mitigate social costs of industrial reforms, such as transitional assistance to unemployed formal-sector workers and unemployment insurance.

Reducing community-wide vulnerabilities, through an expanded and decentralized contingency fund and better disaster preparedness.

Reducing household-level risks and vulnerabilities, through an expanded programme of self-targeting, work-based employment generation schemes; food stamp programmes; extension services; promotion of sustainable savings and credit facilities; and actuarially sound insurance schemes.

5. How to improve the quality and coverage of basic social services?

Viet Nam can gain from the experience of other low-income countries which were nevertheless successful (as has been Viet Nam to date) in providing basic services to its population. High performing countries emphasized basic education and primary health care, exploited synergies gained from coordinated interventions in nutrition, health, education, fertility and income; and paid special attention to the access of the poor to basic services, striving to keep the cost share borne by poor households low for services with high social and economic externalities.

This last point is particularly important for Viet Nam at present. Despite overall progress in the social sectors over the past ten years, current mechanisms for exempting the poor from service charges for basic services (which have high social returns) are at present failing. As an urgent priority, it is necessary to achieve better access for the poor, without which poverty reduction and overall human capital formation are threatened.

The following strategies are crucial to improving the quality and coverage of basic services:

- Refocus role of State onto, and boost absolute expenditures on, basic social services. In a context of stagnant growth in State revenue, this will likely only be accomplished given substantial intra-sectoral shifts in public expenditure, away from non-basic services (such as most hospital-based care) towards basic services.

- Improve service coverage and quality in poorest regions. Several strategies for a concerted approach to improving the quality of services in poor and remote areas are shared across the social sectors. Increasing fiscal support to relatively poor provinces, one of the cross-cutting strategies suggested in this paper, is one of them.
In addition, investing in the quality and coverage of the human resource base – grassroots workers, whether teachers, midwives or village health workers – is one of the core approaches.

- Address the “crisis of affordability” of basic services to the poor. One should first re-emphasize a point made earlier: that expenditure on basic services will result in increased access by the poor, since these are the services most heavily utilized by, and most relevant to, the poor. Other key strategies include: beefing up expenditure on exemptions to the poor, coupled with developing new approaches to expand coverage to special groups, such as unregistered migrants to urban areas, and the disabled.

- Improve training and motivation of grassroots providers. While several steps (such as curriculum reform and in-service training) may be effective, any long-term improvements in the quality of grassroots providers will be driven by reform in salary levels.

- Encourage, while regulating, non-State participation in service provision. Improving the environment for non-State actors to provide services will both diversify choices available and allow the State to free up resources for improved coverage and quality of basic services. These would be increasingly focused on relatively poor areas.

- Encourage community participation, identifying specific avenues for the involvement of mass organizations and the community in all stages of social service delivery, and promoting better quality control and the accountability of local service providers to the communities they serve.

- Improve planning, management and information systems (including donor coordination).

In addition, the paper reviews the need to address potentially explosive new health challenges, such as the HIV-epidemic and development of dangerous levels of antibiotic resistance in the population due to irrational use of drugs.

6. How to develop rural institutions which are capable, democratic and participatory?

Building rural institutions which are democratic and participatory is a goal in itself, that of building “an equitable and civilized society”. Without strong rural institutions, households will not gain broad, equitable access to productive and social services. Ultimately, opening to civil society and boosting people’s participation is likely to be the most effective way to enhance the capabilities of the State.

While Viet Nam has strong traditions of effective rural organization, three basic problems have been widely publicized in Party and mass publications: limited participation by the poor; weak development of civil society; and the uneven quality of rural public administration. To overcome these constraints requires a multi-pronged strategy:

- Continue to institutionalize democratization decree. This might be done by: i) taking
direct steps to improve communication decree guidelines and intent to communities and local administration; ii) encouraging, over the longer term, a cultural shift towards among local government officials, underpinned by incentives; iii) and establishing mechanisms for poorer households, or the quieter members within households, to communicate their concerns and priorities back up through the system.

- Establish a supportive legal framework for civil society to emerge as key partner in social service and welfare provision, by: i) revitalizing the role of mass organizations; ii) encouraging the provision of social services and welfare assistance through small-scale, non-governmental, often informal groupings; iii) clarifying the legal framework for civil society; and iv) deepening the existing consultative processes with new partners in the field of developing laws and decrees.

- Strengthen local government dynamism and responsiveness. The challenge is to address these root causes and thus reform intergovernmental relations through administrative decentralization combined with capacity building, a topic brought up below under cross-cutting strategies.

- Deepen administrative reforms aiming to make the civil service more results-oriented, ethical, and participatory. The paper highlights the importance of changing hiring systems, supervisory relations, organizational culture, planning frameworks and pay scales as interlinked aspects of administrative reform.

- Develop cross-cutting strategies which promote gender equality in both productive and social relations. The paper presents several specific proposals in each item for doing so, and argues that the social and economic pay-offs to cross-sectoral interventions that raise the status, voice and social indicators of women are enormous. Boosting educational coverage and quality for girls in minority areas is flagged as a particularly effective and urgent strategy.

7. Setting priorities

Some strategies presented in this paper stand out as particularly important across components. Rapid progress in social development and poverty reduction depends primarily on making significant progress on the following six reform areas. Expressed differently, without progress in these reform areas, continued gains in social development will at best be incremental in the coming years, and may in fact be reversed.

The six measures, and the items in which they are covered, are:

1. Continuing reform momentum for economic growth (item three). International experiences presented in item three make clear that without recovering high growth rates seen over the early and mid-1990’s, Viet Nam is not likely to make headline-style progress in income poverty reduction. Moreover, this growth is vital to shore up lagging state revenues, a likely prerequisite for the enhanced funding of basic services recommended in the strategy.

2. Reorienting macroeconomic and investment policy substantively towards rural development
There is a need to reconsider the predominance within public investment given to focal point economic zones. Freeing up resources for rural-sector investments by phasing out remaining subsidies to State-Owned Enterprises (SOE) is also essential.

3. Prioritizing basic social services within the State budget through increased allocations and intrasectoral reallocations (item five). To accomplish this will require difficult structural changes in public expenditure (e.g. moving away from hospital and university subsidies). A high-profile commitment to achieving the 20/20 initiative by 2005 (particularly one based on the international definition of basic services) is necessary to achieve this goal.

4. Ensuring access of poor to basic services through a concerted, multi-pronged effort, paying particular attention to expanding basic education coverage and quality as the overriding priority (item five). This requires a large-scale effort to identify sustainable means to finance services that do not block access of the poor, as well as planning and implementation arrangements which will effectively address diverse local constraints on progress in this regard. This effort would need to be actively monitored at all levels of government and given sustained attention by the national and local leadership.

5. Reform intergovernmental finance and boost weak capacity in poor areas (item six). Fiscal transfers to poor provinces need to be boosted, so that they may meet basic, nationally set standards in key areas (such as the attainment of Universal Lower Secondary Education). At the same time, pursue administrative decentralization and governance reforms tailored to the requirements and capabilities of different regions.

6. Adjusting relationship between State and non-State actors in service and welfare provision (cross-cutting recommendation). In every field, research and pilot mechanisms for working with private actors and mass organizations. Facilitate the contribution of non-State sectors and communities towards the achievement of social development objectives.

**Feasibility analysis**

From a financial point of view, the strategy calls for increased investments in a number of high-impact areas. The feasibility of doing so rests on two factors. The first is a resumption of high economic growth rates, which would shore up currently declining State budget balances. The second, related prerequisite is sustained political will to boost expenditure on basic services, by pursuing intrasectoral reallocations (from non-basic to highly cost-effective basic services) as well as protecting existing expenditure on amid competing priorities.

The strategy scores well on most criteria of institutional feasibility. Though the issues of civil society and equity need careful interpretation within the Vietnamese context, the reforms are conceptually and practically consistent with the basic institutions and commitments of the Vietnamese system. The reforms are also clearly politically desirable to the leadership and its constituencies: political benefits - to the national and local leadership, who by adopting and implementing the strategy reaffirm commitment to
broadly-based, equitable growth as a defining element of Vietnamese socialism – outweigh potential costs. Yet potential resistance to selected parts of the strategy might be anticipated:

- from some elements of the State-owned enterprise sector, who would face increased competition and fewer subsidies;
- from certain elements in the Party / State who stand to lose from greater transparency in resource allocation and reduced direct State control over markets; and
- from major revenue generating centers, who will resist further interprovincial fiscal redistribution (to the extent that this becomes necessary to shore up the position of fiscally weak provinces, as recommended in the strategy).

The most difficult elements of the strategy – such as decentralization, strengthening local capacity and changing patterns of public investment towards basic services – can be pursued gradually, within the framework of currently expressed policy intentions.

The stakes are undeniably high. While certain aspects of the strategy involve difficult choices, the alternative is probably relative stagnation in both economic and social terms, which would be inimical to long-term socio-economic stability. As in the economic sectors, the sooner reform begins and deepens, the sooner significant benefits will accrue, particularly given the synergies between social and economic investments noted throughout the strategy.
1. Introduction

Conceptual framework

Social development is a broad concept. Figure 1.1 below presents the overall conceptual framework for social development as applied in this strategy paper. The overarching concern is with the interaction between: i) the national policy framework; and ii) the grassroots reality – the latter expressed in the triangular interaction between local governments, civil society and markets. Interaction between the two plays out in two four thematic areas investigated in four items: i) poverty reduction and inequality; ii) social safety nets; iii) basic social services; and iv) rural institutions and participation. Each of these areas can be formulated as a broad question for the year 2010. The central message of this paper is that Viet Nam confronts qualitatively different future scenarios depending on how it addresses these questions:

a. Will society be polarized into the ‘haves’ and ‘have-nots’? While poverty reduction has been very rapid in Viet Nam (dropping from an estimated 70% around the start of the doi moi reforms to somewhere between 30-45% at present, using an internationally comparable total poverty line), gains for different regions as well as ethnic groups have been uneven. In particular, the rate of poverty reduction for ethnic minorities is only about one-third that for ethnic Kinh. Even if the (very high) rate of poverty reduction experienced from 1993-1998 were maintained, it would still take minorities until approximately 2030 to reach poverty levels existing in 2000 for ethnic Kinh. What can Viet Nam do to accelerate poverty reduction in slow-growing regions and thus mitigate growing socio-economic inequalities?

b. Will social safety nets exist to help provide social stability amidst rapid economic transformation? Some groups are better enabled to take advantage of the opportunities posed by a market economy than others. And international experience suggests that rapid economic growth can co-exist with a variety of more, or less, equitable or desirable social outcomes. The degree to which the living standards of disadvantaged are protected will help determine what type of society Viet Nam will have in the year 2010.

c. Will social indicators which are high relative to Viet Nam’s economic development continue to propel economic growth and equitable social outcomes? Viet Nam’s social indicators in this area have been excellent for a very poor country. But constraints on continued improvement remain. The quality of most social services is low; current efforts to ensure access for the poor are generally falling; and the next round of improvements may be more difficult than the experience to date. It is not difficult to imagine scenarios in which social indicators would see only marginal aggregate improvement in the next 10 years, coupled with widening geographical and socio-economic disparities in coverage and quality. In such a case, Viet Nam’s social indicators will probably still be good “for a low-income country”, but increasing disparities will work against, rather than for, broadly based growth and poverty reduction – quite the opposite of the positive experience to date.
d. Will institutions which are capable, democratic, and open to the participation of civil society underpin rural society? Improving rural institutions is a goal in itself and well as a means to achieving rural economic development. Poor local institutional performance would hamper socio-economic stability as well as reducing the pace of poverty reduction. On the positive side, the democpatization decree has generated much interest, both nationally and within the donor community. The question centers on strategic momentum for the process of reform and the degree to which it presages further openings to civil society.

Item two presents a brief strategic situation analysis for Viet Nam’s social sectors. Items three to six analyse each of the four questions above and summarize strategies most likely to lead to sustainable improvements. The final item presents summarizes the most important “breakthrough” steps and reflects on the fiscal and institutional feasibility of the recommended strategy.
2. Overall Situation Analysis

Accomplishments, strengths, opportunities

Viet Nam enters the 21st century with several important social accomplishments behind it:

Achievement of medium human development. Even as the transition to a market economy began in earnest in the late 1980’s, Viet Nam had already achieved social indicators more typical of moderately developed countries. In 1999, Viet Nam ranked 110 of 174 countries in terms of the UNDP’s Human Development Index, which combines income, literacy and longevity into a summary score. This placed it in the ranks of medium human development countries, such as Thailand, China and Indonesia, despite the fact that it remains one of the poorest countries in the world (in terms of per capita GDP). Taking a mid-point year in the transition, 1994, figure 2.1 shows gross enrollment rates in Viet Nam and other countries, plotted against GDP per capita; Viet Nam’s performance has been significantly better than several countries at a similar level of economic development. (See also item five for several specific social indicators.) This achievement – even more remarkable set against the background of several recent decades of devastating war – is the result of Viet Nam’s high degree of social organization and policy commitment to the social sectors.

Avoiding decline in social indicators over the transition. Unlike most countries undergoing a radical transition to a multi-sectoral economy, Viet Nam has been able to avoid decline in overall social indicators (such as infant mortality rates or school enrollment). The earlier transition period (roughly 1987-1991) did take a toll primarily on social sector delivery systems, which fell into some disarray; their institutional and economic basis – cooperatives and subsidies – had rapidly declined. Yet most social indicators themselves experienced only relative stagnation – rather than outright decline – from the early 1980’s to early 1990’s.

Throughout the 1990’s, Viet Nam then made consistent, often rapid, improvements over a range of social indicators\(^3\) (see table 5.2 in item five for more details). Educational enrollment data show particularly broad strides, and these gains have extended to minority populations (see table 2.1). While continuing to build on high primary school enrollment rates, overall enrollment rates for the lower secondary level have doubled, and for upper secondary rates, quadrupled, over the five year period between 1993-1998.

\(^3\) Key human development indicators – life expectancy, infant mortality, and literacy – do not paint a compelling picture of either unqualified advance or decline during the early transition. Indeed, it is the pre-transition period that stands out for exceptionally rapid advances in these indicators. Adult literacy hardly budged (from already relatively high levels) between 1980 to 1993. While mean years of schooling went up by over one year during the 1980’s, the sex differential on this indicator widened. However, by the early to mid-1990’s, clear progress was being made. While infant mortality rates fluctuated greatly during the 1980’s, by the mid-1990’s they were at their lowest level ever.
Rapid poverty reduction. The most outstanding of Viet Nam’s achievements has been its rapid rate of poverty reduction through the 1990’s. The basic figures for the period 1993-1998, for which quality data in the form of the round two Viet Nam Living Standards Survey (VLSS-2) exist, are given in tables 3.2 and 3.3 below (in item three). The national incidence of an internationally comparable “total poverty” line has dropped from 58% to 37% over this period. All regions have experienced significant decreases in poverty rates, whether measured by the incidence or depth (severity) of poverty. Item three goes into greater detail regarding the reasons underlying and patterns of this poverty reduction.

Table 2.1 Ethnic minority and Kinh enrollment data

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school: Kinh</td>
<td>90.4</td>
<td>93.3</td>
</tr>
<tr>
<td>Primary school: Minorities</td>
<td>63.8</td>
<td>82.2</td>
</tr>
<tr>
<td>Lower secondary: Kinh</td>
<td>33.6</td>
<td>66.2</td>
</tr>
<tr>
<td>Lower secondary: Minorities</td>
<td>6.6</td>
<td>36.5</td>
</tr>
<tr>
<td>Upper secondary: Kinh</td>
<td>7.9</td>
<td>31.9</td>
</tr>
<tr>
<td>Upper secondary: Minorities</td>
<td>2.1</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Source: SRVN, 1999c.
High policy commitment to social development. One of the most important resources Viet Nam has for pursuing social development is the high political importance assigned by national and, in many cases, local leadership to the achievement of social objectives. A key principle underpinning Viet Nam’s overall development strategy is that social and economic progress must go hand-in-hand, supporting each other. As the following items show, Viet Nam can also gain benefits by learning from international experience in social sector reform; the benefits of an open orientation extend to the social in addition to the economic sectors. And the donor community itself is attempting to boost investments with a more poverty and rural development orientation.

Commitment to gender equality. It has often been commented that Viet Nam has an impressive record of gender equality in both absolute and relative terms. According to the UNDP Human Development Reports from 1995 and 1999, Viet Nam’s Gender Development Index (GDI) rank was considerably higher than its Human Development Index (HDI) rank, indicating a high level of gender equality in health, education, and income indicators (see table 2.2).

Table 2.2 Viet Nam and the human and gender development indices, 1995 and 1999

<table>
<thead>
<tr>
<th>Year</th>
<th>HDI value</th>
<th>HDI rank</th>
<th>GDI value</th>
<th>GDI rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>0.539</td>
<td>120/174</td>
<td>0.537</td>
<td>74/130</td>
</tr>
<tr>
<td>1999</td>
<td>0.664</td>
<td>110/174</td>
<td>0.662</td>
<td>91/174</td>
</tr>
</tbody>
</table>


Problems and weaknesses

Accelerating socio-economic differentiation and geographical disparities. Poverty reduction in urban areas was exactly twice the rate as that experienced in rural areas generally (64% compared with 32% reduction); it same figure was only 13% for ethnic minorities, concentrated in mountainous provinces (see figure 3.4 in item three). Some indicators of disparity reduction exist, e.g. boosting minority net enrollment rates; yet already large gaps in coverage for many other social services are widening for those poor concentrated in rural and mountainous areas. Mechanisms to ensure access by the poor to basic social services and social safety nets are not working well. Several sections of the strategy below focus on this problem and possible solutions to it – none of them easy.

In this context, the issue of ethnic minorities lagging behind so remarkably deserves special attention. Increasing ethnic disparities reflect objective constraints - geographical remoteness, low human capital formation, poor infrastructure, variable natural resource base coming under increasing population pressure – but also institutional weaknesses - such as a tendency towards top-down planning and ‘social mobilization’ as opposed to culturally-sensitive, flexible participatory approaches to administration in minority areas.

4 UNDP, 1999b; World Bank, 1999c.
Weak safety nets. As item four makes clear, formal safety nets are poorly targeted and are highly limited in coverage. Only a small percentage of people eligible for assistance receive any. Weak formal safety nets limit government ability to cushion the blow on the poorest as the economy slows.

Low quality of social services. The quality of the basic social services, so necessary to continued progress in social development, is in many cases unacceptably low, and has been slower to improve compared with overall coverage levels. This issue, explored in item five, demands a multi-faceted approach in some ways qualitatively different than strategies pursued in the past to boost coverage.

Several weaknesses inherent in Viet Nam’s current institutions and growth path are among the root causes of the problems noted above.

Imbalances in the growth path Viet Nam is taking. Public investment is focused disproportionately on better-off areas through a regional “growth pole” strategy. And continued support to SOE-led industrialization reduces overall resources available for rural and agricultural-sector development, and promotes inefficient, capital-intensive development. These policies significantly accelerate the geographical and socio-economic disparities which disturb long-valued Vietnamese notions of equity.

Underfunding of basic services in both absolute as well as relative terms. As shown in numerous examples in the following items, the existing structure of public expenditure often does not match the priority given to basic services in policy pronouncements.

A wide policy-implementation gap. There are clear signs that Viet Nam has the capacity and desire to augment and reform its national policy framework underlying social development; the development of the HEPR framework, formulation of an area-based, poverty-focused development programmes such as the 1,715 poorest commune initiative, and the promulgation of the grassroots democratization decree are examples highlighted below. But implementation of these reforms is often weak, and always uneven, at the grassroots. While high policy commitment behind social development forms one of Viet Nam’s core strengths, to capitalize on it requires a combination of two things: i) willingness to promote innovative policy reforms at the central level; and ii) careful, sustained attention to implementation modalities at the grassroots.

Uneven community participation in the delivery of services and in rural institutions generally. In rural Viet Nam, “social mobilization” behind decisions reached elsewhere, rather than genuine community “participation” in decision making, often is the norm, despite formal policies and a political philosophy meant to encourage participation in its broadest sense. One reason for often inadequate community participation is that a legal framework which would facilitate the contribution of civil society – broadly conceived as voluntary, non-State-based organizations – is still incomplete.
Risks

Several factors make it increasingly difficult for Viet Nam to continue enjoy success it has had over the past decade in rapid poverty reduction, and pose a risk to continued social progress.

Slow economic growth in coming years. In part stemming from slow progress in introducing key economic reforms, slow economic growth would jeopardize poverty reduction and social development in two ways. First, it would “demote” many newly non-poor households, which are currently positioned just above the poverty line, back into poverty. And second, competing priorities and stagnant growth may hamper progress on politically difficult reforms aimed at making government expenditure and investment patterns more pro-social.

Slowness in making important conceptual shifts. The conceptual and practical shift to an ‘enabling’ state role vis-à-vis non-State providers of social services and civil society is one of the most important planks in the strategy below. Yet this shift goes against the grain of much “old-style” thinking regarding the potential roles of civil society. It remains to be seen to what extent key decision-makers at central and local level will be willing and able to take innovative steps in the direction of further involvement of civil society.

Emergence of new social challenges. There are several social ills in the offing which are very serious and for which it is difficult to predict the exact magnitude of the future challenge they pose. These need to be closely watched so that policy-makers can respond flexibly and, above all, quickly should they begin to accelerate dangerously. Warning signals that are already evident and may increase precipitously in the next ten years include:

- the probability of a rapidly accelerating HIV epidemic;
- possible emergence of a sizeable population of urban poor (particularly unregistered migrants; see box 3.5); and
- the growing (though at present still small in national terms) ranks of rural landless.
These challenges will strain the capacity of State institutions in the coming years and pose a serious risk to continued progress in social development.

**Summary**: Despite Viet Nam’s impressive accomplishments in social development to date, its policy makers confront complex challenges. Some problems cited above may be worsening in recent years. Weaknesses such as widening regional and socio-economic disparities and continued implementation weakness at the grassroots in poorer localities will task Viet Nam’s ability to continue to improve human development indicators. The “first generation” of social and economic reforms have largely petered out; serious organizational reform is necessary to revive the pace of poverty reduction and social development (and perhaps even to avoid decline). All indications point towards the need for a deepening of the ‘đoì mới’ agenda in the social (as in the economic) sectors.
3. How to Maximize the Rate of Poverty Reduction while Mitigating Growing Inequalities?

Situation analysis and international experience

This section analyzes Viet Nam’s growing inequalities from an international perspective; the one following then looks in greater detail at the HEPR policy framework, which represents one of the governments most important strategies to reduce poverty.

Rapid, but uneven, poverty reduction

As noted above, poverty reduction has been rapid; achievements include a 20.8% point decline in the head-count index of poverty (1993-1998). Viet Nam’s poverty reduction experience over the 1990’s may place it among the fastest ever recorded. The growth experience to date has also been relatively broadly-based; virtually all regions and sub-populations have seen absolute incomes rise and well-being increase.

<table>
<thead>
<tr>
<th></th>
<th>Total poverty line</th>
<th>Food poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>58</td>
<td>37</td>
</tr>
<tr>
<td>Rural</td>
<td>66</td>
<td>45</td>
</tr>
<tr>
<td>Urban</td>
<td>25</td>
<td>9</td>
</tr>
</tbody>
</table>


A closer look at socio-economic and regional disparities. The less positive side of the poverty reduction story is shown with respect to widening socio-economic and regional disparities and the persistence of vulnerable populations who have yet to fully take part in it. Poverty is becoming increasingly concentrated; the Northern Uplands, Mekong Delta and North Central Coast regions now hold over 70% of Viet Nam’s poor. The ratio of urban to rural household income has increased from 1.8:1 to 2.2:1 over the same period. And the ratio of the top to bottom expenditure quintile of the population has increased from 4.9 to 5.5 over the period. In addition to some evidence of continued gender inequality (see box 3.1), these figures clearly point out one of the weaknesses of the Vietnamese growth record to date: it is clearly accentuating regional and socio-economic inequalities.

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5 World Bank and others, 1999a.
Table 3.2 Selected regional poverty indicators, 1993-1998

<table>
<thead>
<tr>
<th>Region</th>
<th>Pop. (millions)</th>
<th>Pop. share (%)</th>
<th>Contribution to total poverty (%)</th>
<th>Incidence of poverty (total poverty line) (%)</th>
<th>Poverty gap index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viet Nam (total)</td>
<td>75.8</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Northern Uplands</td>
<td>13.5</td>
<td>18</td>
<td>100</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>Red River Delta</td>
<td>14.9</td>
<td>20</td>
<td>23</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>North Central</td>
<td>10.5</td>
<td>14</td>
<td>16</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Central Coast</td>
<td>8.1</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>2.8</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>South East</td>
<td>9.7</td>
<td>13</td>
<td>7</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>16.3</td>
<td>21</td>
<td>18</td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>


Box 3.1 Continued gender inequality

There is evidence of intra-household gender inequality in access to resources and benefits. This type of inequality is not itself a consequence of the doi moi reforms, but forms a special challenge since it will interact in complicated ways with economic and social reforms. Although statistically there appears to be relative equality in terms of basic education, literacy, health, and employment indicators, recent research carried out by the Joint Government Donor Poverty Working Group (Attacking Poverty, Viet Nam Development Report 2000) indicates that there are still a number of gender inequities which need to be addressed and which are not necessarily captured by quantitative analysis.

This hidden inequality is often difficult to quantify, and therefore difficult to address. Gender gaps in education imply that within the family unit girls have less access to education opportunities than boys (see figure 3.1). Likewise, according to the recent Viet Nam Living Standards Survey (VLSS), there are increasing gender gaps in the rate of adult malnutrition, for which analysts identify two possible causes: women either have less access to adequate nutrition (particularly during childbearing years) and/or they are overburdened with physical labor, both of which are highly probable. According to the National Nutrition Institute, 38% of women of childbearing age suffer from malnutrition, consuming only 70% of the required daily caloric intake. (UNDP, 1998).


Table 3.3 Some international comparisons of inequality

<table>
<thead>
<tr>
<th>Country</th>
<th>Survey Year</th>
<th>Expenditure Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>1995/6</td>
<td>.34</td>
</tr>
<tr>
<td>India</td>
<td>1996</td>
<td>.33</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1996</td>
<td>.37</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1996/7</td>
<td>.31</td>
</tr>
<tr>
<td>Thailand</td>
<td>1998</td>
<td>.41</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>1998</td>
<td>.35</td>
</tr>
</tbody>
</table>

Source: Reproduced from Table 4.1 in World Bank and others, 1999a, p. 70.
As suggested by figure 3.2 (for 1994) and table 3.3, Vietnamese inequality (whether regional, rural-urban or socio-economic) is still moderate by international standards. What is more worrying is the rapid pace at which inequality has been growing. Vietnam's increase in inequality, while still lower than that experienced over the 1980's by the extreme cases of Thailand or China, is roughly at the same high pace as that experienced in Russia or Brazil from 1980-1993. It is not difficult to imagine scenarios – e.g. in which macroeconomic and sectoral reforms stall – in which this already rapid pace of inequality generation actually accelerates over the next 10 years. In such a case, within 10-15 years Vietnam's Gini coefficient (as a summary of inequality in a country) might be higher than that of Indonesia at present; at about the level of Thailand at present; and significantly higher than that of Taiwan. Indeed, achievements to date in terms of both the level and broadly-based nature of growth are currently under threat. “During the crisis years of 1998 and 1999, Vietnam's growth rate has already fallen by half (to around 4 percent). And in the future, the past relationship between the level of growth and the impact on poverty might not hold, as Vietnam might not be able to replicate the land-based, agricultural diversification success story of the last five year period, which is now reaching its constraints.”

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6 World Bank, 1997.
7 Of course, this says nothing about the direction inequality is likely to take in other countries over the same period.
8 World Bank and others, 1999a, p. 138.
Figure 3.2 Income ratio of top to bottom 20% in population, Viet Nam and comparator countries (panel a) [1990-1994], and for regions within Viet Nam (panel b) [1994]

Panel A

Panel B

Why should we care about inequality generation?

There are several reasons why it is desirable to try to reduce the pace of inequality generation.

First, higher inequality means slower poverty reduction. The World Bank estimates that between 1993 and 1998 poverty (using the total poverty line) would have been reduced an additional seven percentage points in Viet Nam had growth been evenly distributed throughout the country. Although some countries such as Thailand and China have also gone through periods in which growth was regionally very unbalanced, others have during some periods (in contrast to Viet Nam to date) been able to make the regional distribution of growth actually complement the effect of growth in poverty reduction. These include Malaysia in the period 1973-1989, Indonesia from 1978-1984, and Taiwan over most of its period of extremely rapid industrialization (1950-1985).

Second, lower inequality directly contributes to socio-economic stability, which in turn positively impacts on reform sustainability. “An inequitable distribution of the benefits and costs of development can eventually compromise social stability,” as shown by the case of Indonesia. In Viet Nam, slow growth in mountainous areas is hampering the pace of poverty reduction among ethnic minorities, raising concerns from the perspective of socio-economic stability and inter-ethnic solidarity.

Third, supporting equality (i.e. maintaining inequality within certain boundaries while simultaneously trying to expand the economic ‘pie’ for all) can be a goal in itself, not just increasing absolute incomes. Such reasoning – captured in the slogan “an equitable society” (xa hoi cong bang) – may be particularly important in Viet Nam, given its socialist orientation.

Finally, mitigating inequalities has some support in the literature as a means to increase growth in the long-run. Many analysts posit a reciprocal relationship in which growth generally leads to income-poverty reduction, while attempts to increase the incomes of the poor positively impact on growth in the medium to long run. Vietnamese policymakers generally recognize the importance of sustainable growth in the long-term and the “virtuous circle” effect. Its report to the 1995 conference on social development in Copenhagen states clearly that “all economic policies must include social development aims, and all social policies must be economically justifiable – either directly or indirectly, in the immediate or long-term.”

In any case, it is increasing clear within the academic literature on the topic that it is not the case that the poor necessarily catch up with the newly emerging rich over time as the

9 Ibid.
10 Source for Malaysia and Indonesia: World Bank and others, 1999a, p. xiii; Taiwan data from Haggard, 1990, p. 226.
12 Solimano, 1999.
13 Mehrota, 1997a.
country develops. The degree to which the poor participate in economic growth, both in the short and long run, depends on specific policies, institutions and evolving social structures. For that reason, most analysts feel there is a role for specific policy interventions, a factor returned to in the next two sections.\(^{15}\)

**Is there a growth / equity trade-off in promoting poverty reduction?**

The question posed in the heading of this item really boils down to looking at the connection between two questions: Which policies will boost the pace poverty reduction? And which will mitigate inequality generation? To answer these questions requires examining the relationship between growth and poverty, and between growth and inequality generation.

1. Necessary relationship between growth and poverty reduction. Sustained economic growth is in general the main antidote to absolute poverty, particularly in an extremely low-income country such as Viet Nam. Few government interventions can reduce poverty without growth; the attempt to do so would probably necessitate radical methods of income redistribution which are not only politically infeasible but also highly inefficient.\(^{16}\) "Even large investments in human development leading to a very healthy and highly educated society will not be able to fight poverty if economic management is poor and there is no growth and no income-generating opportunities that will ensure higher incomes."\(^{17}\) Consider the case of China. Gains in per capita national income have fallen into three distinct periods over the 1980's and 1990's with markedly different effects on the pace of poverty reduction, including a period (1985-1991) in which inequality generation was large enough for the absolute poverty headcount to actually increase despite rapid economic growth. But overall economic growth has been the driving force behind poverty reduction; without economic growth, the World Bank estimates that absolute poverty incidence would have climbed to 27% by 1995, compared with the actually observed 7%.\(^{18}\)

2. Need for "high-quality" growth to maximize poverty reduction. But there can be large differences between countries in the extent to which growth reduces absolute poverty. While the impact of growth on poverty reduction is almost always positive, the speed and depth of the impact varies significantly. A range of policy measures, summarized below, are available to governments to accelerate poverty reduction.

3. Relationship between growth and equity. The preceding section suggested that socio-economic disparities are growing in Viet Nam despite rapid growth and poverty reduction. While this may seem counterintuitive, international experience suggests that there

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\(^{15}\) Adelman and Morris (1973): “Declines in inequality as incomes rose (the pattern Kuznets found in the industrialized countries between the 1930’s and 1960’s) did not come about automatically and needed to be supported by appropriate policy.” P. 437.

\(^{16}\) de Janvry, 1993, p. 2.

\(^{17}\) World Bank and others, 1999a, p. 124.

is no necessary connection between rapid growth and inequality generation. Country experience varies dramatically; in a study of 44 countries over the period 1981-1992, inequality was found to slightly rise with greater rates of economic growth in about half of the countries, and in half it actually fell.  

Table 3.4 Relationship between growth and poverty reduction for selected countries

<table>
<thead>
<tr>
<th>Economic growth</th>
<th>Poverty reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low or negative</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sri Lanka (1965-1992)</td>
</tr>
<tr>
<td></td>
<td>Zimbabwe (1965-1992)</td>
</tr>
<tr>
<td></td>
<td>Sub-Saharan Africa (1965-1992)</td>
</tr>
<tr>
<td></td>
<td>Bangladesh (1965-1992)</td>
</tr>
<tr>
<td></td>
<td>India (1965-1992)</td>
</tr>
<tr>
<td></td>
<td>Viet Nam (1970-1980's)</td>
</tr>
</tbody>
</table>


Box 3.2 Growth and equity: the Chinese, East Asian and Latin American experiences

It is widely known that successful East Asian economies have been able to combine comprehensive economic transformation with relative social equity, while Latin American countries, many of whom have also experienced substantial economic growth, have made far less social progress. Several studies suggest the success of the “Tigers” in this regard rests on three important factors: i) higher levels of initial equality and equal distribution of assets (in part this took place in the aftermath of major socio-economic traumas, such as World War II, the Korean War etc.); and ii) egalitarian, high-quality educational systems; and iii) a labor-intensive growth strategy which contributed to employment creation and growth in real wages. These three factors worked to Latin America’s detriment. It has been plagued by continued economic and social inequalities which actually predate its period of rapid industrialization. Its income distribution has been further skewed by educational systems and social expenditure biased heavily against basic services (e.g. favoring university education). And its import substitution industrial strategy was decidedly less successful in creating flexible labour markets with low unemployment and growing wages.

Viet Nam’s experience appears to parallel that of China more than the polar opposite “Tiger” and Latin American country examples. Through its reforms, which began roughly ten years earlier than in Viet Nam, China has experienced a degree of inequality generation (as measured, for instance, by a Gini

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A coefficient which increased from 28.8 in 1981 to 38.8 in 1995) which is “highly unusual and signals deep structural transformation in the distribution of assets and their returns”. As in Viet Nam, the poor have benefited greatly from Chinese growth over this period in general, but gains have been extremely varied. Regional disparities have grown tremendously: between the coast and the interior, but even more between rural and urban regions throughout the country. As in Viet Nam, such disparities have gone hand in hand with widening gaps in access to basic services, which reflect purchasing power to a greater degree than in the past.

Regional disparities in China have grown for several reasons. The advantages of better infrastructure, proximity to world markets and harbors etc. have increased with the reforms, so better-endowed areas have benefited from them to a greater extent. Yet several reasons relate more to particular policy choices, making the pace of inequality generation perhaps less “inevitable” than many may think. First, regional policies have favored coastal areas by designating them for preferential treatment in foreign trade and investment. Second, the interprovincial distribution of public finance has become more regressive and has led to inability to maintain basic expenditures on public services in poorer areas. Third (and partly as a result of these three policy-related shifts), interior regions have generated significantly less human capital, with pre-existing gaps in literacy, school attendance and infant mortality actually widening since the advent of the reforms. The government has failed to uphold minimum standards in these areas. Fourth, coastal regions have benefited from investment levels two and a half times higher than those in the interior, leading to differential economic growth rates, with coastal growth powered by fast growing export industries.

As in Viet Nam, the merits of the alternative argument – that without letting some areas “get rich sooner” the overall pace of growth in China would have been slower – warrant caution in calling for fundamental reforms. Since massive redistribution (which would indeed have slowed aggregate growth) is undesirable, the real challenge facing Vietnamese and Chinese policy makers lies in creating comprehensive enabling conditions in all areas and for all strata of the population. It lies, in short, in finding ways to boost rural economic growth as the only sustainable solution to poverty. To do this, in China as in Viet Nam, requires measures to: safeguard and augment poor people’s assets (land and human capital); target geographically poor areas and vulnerable groups for compensatory support; accelerate formation of human capital in poor areas; facilitate access to productive assets and markets; and enhance labour mobility.

Sources: Haggard, 1990; World Bank, 1997; Wei, 1996.

Box 3.3 Summary characteristics of the poor and implications for the strategy

The following table summarizes the main findings of a recent review of poverty in Viet Nam (WB and others, 1999a, item two), based on both survey and qualitative sources, with some implications for the strategy proposed in this paper:

<table>
<thead>
<tr>
<th>Demographic and other characteristics of the poor in Viet Nam</th>
<th>Main implications for socio-economic strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominantly farmers (nearly four-fifth of the poor worked in agriculture) with low levels of educational attainment (see figure 3.3) and limited access to information and functional skills. Many have small landholdings or among growing landless population (e.g. in Mekong Delta)</td>
<td>Urgent need for reforms which will stimulate greater off-farm employment (primarily subject of rural economic development strategy)</td>
</tr>
<tr>
<td>Physically isolated; often ethnic minorities, with considerably higher percentage of poor (75% compared with ethnic majority 35% in 1998).</td>
<td>Special area development programmes and other measures to induce geographically balanced growth (item three)</td>
</tr>
<tr>
<td>Vulnerable to seasonal hardship and household-specific and community-wide shocks.</td>
<td>Provision of safety nets in the form of flexible, targeted transfers and employment generation schemes for public works (item four)</td>
</tr>
<tr>
<td>Have many children or few laborers (high dependency ratio). (e.g. mean number of children for poorest expenditure quintile: 2.8; richest: 1.2)</td>
<td>More even provision of basic social services and bringing down variable health and education costs: support continued family planning and social development to decrease birth rate (item five)</td>
</tr>
<tr>
<td>Migrants to urban areas who are poor and who have not secured permanent registration.</td>
<td>Need better mechanisms to promote social integration and identify those in need of subsidies. Further research called for.</td>
</tr>
<tr>
<td>Poor, uneducated rural women - often but not limited to minorities - face by far the lowest social indicators and biggest hurdles for improvement (see figure 3.3) Children over-represented in poor population (47% for under 15 year olds compared with 37% average).</td>
<td>Targeted area-based programmes, special approaches in social services, increased institutionalization of participatory approaches in remote areas (cross-cutting) Continued progress institutionalizing the National programme of Action for Children (see box 6.4) and prioritizing basic services which benefit children most.</td>
</tr>
</tbody>
</table>
Whether growth leads to more or less inequality depends on a number of specific factors and mechanisms. Most importantly, it depends on initial conditions. The greater the initial equality in asset and human capital distribution, the more growth is likely both to reduce poverty and to result in broadly based growth. This in fact corresponds to the experience in Asian ‘miracle’ economies generally (see box 3.2). It also helps explain why poverty reduction in Viet Nam has been rapid: Viet Nam started with a relatively equal distribution of assets and income when it launched into the doi moi reforms.

More specifically, the impact of growth on inequality generation depends on socio-economic and demographic characteristics of the poor: their human capital and asset bases. It is obvious that areas and households with greater endowments respond more strongly to market opportunities. Thus one way to understand how inequality is growing is to focus on these characteristics – the subject of box 3.3, which reviews a recent collaborative donor-Government summary of the characteristics of the poor, and implications these hold for strategies proposed in this paper.

The impact of growth on equity also depends on specific government policies and strategies pursued, the subject of the next section.

In summary, since it is possible to grow in ways that either reduce or accentuate inequalities, Vietnamese policy-makers should not pose the question as one of a “trade-
off” between the two. In particular, there is no basis for accepting a lower growth rate “for the sake of” equity considerations in the Vietnamese context, or, on the other hand, accepting a continued acceleration of inequality as the inevitable “price” of rapid growth and poverty reduction. Instead, it is important to look at specific policies which will promote both growth and equity.

**Policy impacts on poverty reduction and inequality generation: International and Vietnamese experiences**

Given that there is no necessary relationship between growth and inequality, what space is there for policy makers to choose development strategies which maximize growth, poverty reduction and equity? Do the policies involved substantially conflict? International experience suggests that they do not. Policies and conditions which are found in international experience to lead to equitable growth outcomes, combine the following elements:

- Relatively initial equality in asset and human capital distribution (itself in part the result of past policies).
- Policies, not biased against rural sector, to promote labor-intensive economic growth.
- Universal access to basic social services. Providing social services reduces poverty in a thoroughly direct way, due to the multidimensional nature of poverty.
- Provision of public goods that raise the productivity of the assets controlled by the poor. The two primary means to do this are to make public-expenditure pro-poor and to strengthen institutions which provide public goods (including opening to civil society groups).
- Compensatory programmes to lesson the isolation of isolated, slow-growing areas or vulnerable social groups (such as area development programmes and safety net policies). Most countries with favorable income distributions have attempted some regional development policies for slow-growing regions, as well as fiscal redistribution towards poorer provinces. China has experimented with a number of policy instruments, described in box 3.4 below.

Viet Nam has been able to translate high growth into high poverty reduction in part because of its relatively equal initial income distribution, and it has also made progress in terms of the wide provision of public goods. But, as shown above, it has also seen growing inequalities. In addition to the characteristics of the poor, inequality is also being reinforced by some current government policies:

- Support to the SOE sector is concentrated onto urban areas and more developed

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21 “Equitable growth in the context of rapid industrialization thus requires a quick restructuring of the institutional organization of civil society and a redefinition of the roles of the state, not simply market liberalization which constitutes the “easy” part of the transition”. de Janvry, 1993, p. 5 “Poor governance has meant that past progress on poverty reduction is not being sustained, but reversed.” Glofcheski, 1998, 485).
Public investment is concentrated to a disproportionate extent (certainly relative to population) onto economic focal point zones.

- The system of intergovernmental finance is biased towards better-off provinces. Though some redistribution is taking place, it is insufficient to meet minimum standards of service delivery.

- Disproportionate public investment allocated to non-basic rather than basic services; investments in agricultural extension remain very low.

Addressing these policy-related causes of inequality generation is a crucial part of the strategy proposed in the following pages.

*Source:* World Bank, 1997; Ravallion and Wodon, 1997; Ravallion, 1997; Grady, 2000.

**Box 3.4 Targeted area-based development programmes: international experiences**

Recognizing that China’s poor are increasingly concentrated in “remote” areas of the country, China has since 1986 defined a number (596 in 1996) “national poor counties” as eligible for the central government’s Poor Area Development programme on the basis of rural income and production data collected by the Ministry of Agriculture, using a combination of average annual rural per capita income, grain production and political considerations (whether a province was an early revolutionary base). Viet Nam’s own 1,715 poorest communes programme to some extent mirrors the general aim of the poorest counties programme.

Literature on poor area development programmes generally affirms the necessity and usefulness of such programmes, if well targeted. The basic theoretical justification is that both in developing and developed countries, there are always regions that are poorer, due poorer natural resource endowments, remoteness, low education levels of the population etc., and thus in need of fiscal transfers. Moreover, “poor areas are not poor just because households with readily observable attributes that foster poverty are geographically concentrated. There appear to be sizable spatial differences in the returns to given household characteristics.” (Ravallion and Wodon, 1997) One study of Chinese programme found that it “had a significant impact on rural living standards” despite the fact that comparing the growth rates of consumption in targeted areas versus others showed that the programme areas were growing more slowly. Poor areas grew more slowly than non-poor areas because of their poverty and also because of the fact that the more clustered poverty becomes, the more obnoxious and hard to alleviate it is. These areas suffer from “spatial poverty traps”. This reinforces the need to take a long-term view of the economic rationale of poor areas programmes.

**A closer look at Viet Nam’s Hunger Eradication and Poverty Reduction (HEPR) policy framework and 1,000 target programme**

Hunger Eradication and Poverty Reduction (HEPR) in Viet Nam is a loosely-coordinated policy framework which tries to mobilize investments through special allocations and financial monitoring. The “National Target programme (NTP) for 1,715 poorest...
communes” within HEPR functions as a community-based infrastructure programme, while encouraging related intersectoral investments in the target area.

The HEPR framework and the National Target programme for the poorest communes have several strengths. They serve as the expression of high-level political commitment to poverty reduction. And, the express, at least in theory, a number of principles which have been found to be closely linked with targeted poverty reduction in other countries, such as: i) greater decentralization; ii) reinforcement of intersectoral coordination and integration; and iii) promotion of community participation and decision-making, e.g. regarding small-scale infrastructure projects.

Yet, several weaknesses in the current approach are also evident. First, several management problems need to be resolved in order to improve overall programme performance. Intersectoral coordination is in practice weak – both at central level and in poorer localities where the programme is concentrated. Programme components are more often linked “conceptually” rather than operationally – an important distinction considering that many inputs – nutrition, clean water and educational assistance – must be linked at the level of the household for synergistic effects to obtain.

Second, some analysts find an overemphasis on the goal of ‘equity’ (i.e. directing resources to the poorest) relative to ‘efficiency’ and ‘sustainability’. Only 8.3% of the country’s poor live in the 1,000 communes, yet 83% of the funds are concentrated there. And the organization of project financing of the NTP – with each commune allocated a particular sum of money each year, depending on aggregate resource availability – may reinforce well-known problems of “passive waiting” (nà n y là i) for upper levels to fund the developmental problems of lower levels (in the absence of which lower levels will do nothing) – the “ask-give” syndrome (ào cho xin – cho) within public finance. These problems become especially damaging where community participation in the selection of projects – models for which are still being developed – has been weak.

Third, allocations to HEPR-related activities, though increasing, are still modest within the overall State capital budget. Resource constraints have meant there is a wide distance between goals and accomplishments. This may not be so damaging – after all, there is a need to first develop workable models for the programme’s long-term expansion.

Finally, the NTP has not yet developed a strong monitoring and evaluation framework. There is a limited focus on relationship between investments and results (see box 3.5).


22 This section draws on Nguyen The Dzung, 1998.
The most outstanding fact in Viet Nam is that those policies that will lead to rapid economic growth are also the ones that will promote rapid poverty reduction as well as reducing inequalities. Some targeted aspects of a poverty / inequality approach proposed below – such as targeting poorer areas with an area-based development programme; increasing fiscal redistribution towards poorer provinces; and boosting absolute spending levels on basic services – are mildly redistributive; these need to be well integrated into the general policy framework and in keeping with overall fiscal and monetary discipline. But they are not the types of interventions which are in danger of slowing aggregate economic growth (e.g. by siphoning major resources away from productive investments or distorting tax frameworks). Quite the contrary: these measures are fully consistent with macroeconomic and sectoral reforms necessary to accelerate economic growth.

With proactive Government policies and strategies described below, the pace of broadly-based poverty reduction may remain rapid, and there may be opportunities to encourage a more even geographical balance. Maintaining the rate of poverty reduction for ethnic Kinh (as measured from 1993 to 1998) would result in poverty dropping to well-under 10% by the year 2010 (although developments in urban poverty warrant caution). Yet, to put things in perspective, it would take a doubling of the rate of poverty reduction for ethnic minorities (to 25% per year, from the 1993-1998 level of 12.7%) in order to achieve, by 2010, the 31% poverty rate experienced by Kinh in 1998. Since this is highly unlikely, any reduction to approximately 40% by 2010 for minorities would represent a major acceleration and accomplishment (see figure 3.4).
Method: Extrapolated based on percentage decline observed in 1993-1998 period for each region, calculated from VLSS-

<table>
<thead>
<tr>
<th></th>
<th>Extrapolated from regional poverty reduction rates observed 1993-1998</th>
<th>Extrapolated with poverty reduction rates observed 1993-1998 reduced by 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Uplands</td>
<td>79  59  44  33  25  18  14</td>
<td>79  59  52  45  39  34  30</td>
</tr>
<tr>
<td>Red River Delta</td>
<td>63  29  13  6   3   1   1</td>
<td>63  29  21  15  11  8   6</td>
</tr>
<tr>
<td>North Central</td>
<td>75  48  31  20  13  8   5</td>
<td>75  48  39  32  26  22  18</td>
</tr>
<tr>
<td>Central Coast</td>
<td>50  35  25  17  12  8   6</td>
<td>50  35  30  25  21  18  16</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>70  52  39  29  21  16  12</td>
<td>70  52  45  39  34  30  26</td>
</tr>
<tr>
<td>South East</td>
<td>33  8   2   0   0   0   0</td>
<td>33  8   5   3   2   1   1</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>47  37  29  23  18  14  11</td>
<td>47  37  33  30  26  24  21</td>
</tr>
</tbody>
</table>

2 data presented in Figure 1.4, World Bank and others (1999a), p. 15.

Figure 3.4 Extrapolated majority Kinh and ethnic minority poverty rates at current (1993-1998) rates decline (1998-2028)

Whether poverty reduction is slow or rapid, it is highly likely that regional disparities

Method: Extrapolated based on percentage decline observed in 1993-1998 period: for majority Kinh: 42.6% decline; for non-Chinese minorities: 12.8% (based on VLSS-2 data in World Bank and others, 1999a, Figure 2.1 (p. 32).
will continue to grow over the coming ten years. For example, if current trends continue, the ratio of per capita income in the Southeast to that of the Northern Uplands would climb from 2.6:1 in 1998 to over 5:1 in 2010.

However, given the Government’s current reorientation towards rural development, it is possible to boost growth rates in poorer regions for accelerated poverty reduction there, and thus to slow (though not reverse) the pace of regional inequality generation. The experience of the North Central Coast, one of the poorest of Viet Nam’s regions, shows what is possible. The VLSS suggests that this region has seen per capita household expenditure gains of some 46% over the 1993-1998 period, third highest among all regions. From a regional perspective, then, the single fastest way to accelerate poverty reduction in the next ten years would thus be for the North Central Coast to maintain, and the Mekong Delta and Northern Uplands regions to achieve, this high rate of per capita expenditure growth (given that these three regions account for 70 per cent of Viet Nam’s poor).

Poverty reduction will also depend on progress in deepening the Hunger Eradication and Poverty Reduction policy framework, as well as expansion of the targeted poverty reduction programme. Special challenges – such as how to deal with urban poverty – will also impact on the picture in 2010.


**Box 3.6 Urban poverty**

Viet Nam is approximately 25% urbanized, but that percentage is growing fairly rapidly. The very low poverty rates recorded in the VLSS may be underreported by as much as 50%, since that survey did not include unregistered migrants who form an increasing portion of urban populations. Analyses, such as the present paper, which focus on rural poverty and relative deprivation often seem to imply that urban poverty will waste away to nothing in the course of development. This is unlikely to happen; indeed, urban poverty is likely to become an increasingly visible and important phenomenon, in some ways “a more complex and…brutal” than rural poverty, involving “high levels of vulnerability.” Viet Nam will require a specific anti-urban poverty strategy in the coming years.

Several aspects of the vision related to poverty are summarized in table 3.6 below.
**Table 3.6 Strategic directions for targeted poverty reduction**

<table>
<thead>
<tr>
<th><strong>Sub-goals</strong></th>
<th><strong>“Vision to 2010”</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>from...</td>
</tr>
<tr>
<td><strong>Rapid reductions in poverty, elimination of hunger</strong></td>
<td>31% for ethnic Kinh 75% for ethnic minorities</td>
</tr>
<tr>
<td><strong>Geographically balanced growth</strong></td>
<td>- Growing urban-rural disparities - Poverty concentrated in four regions: Northern Uplands, North Central Coast, Central Highlands, and Mekong River Delta. - Slow growth rates in Northern Uplands, Central Highlands, and Mekong Delta.</td>
</tr>
<tr>
<td><strong>Inclusive growth</strong></td>
<td>Limited effectiveness of current programmes to ensure basic social service access and direct economic services.</td>
</tr>
<tr>
<td><strong>A more effective policy framework for poverty reduction</strong></td>
<td>- HEPR framework has limited sustainability and efficiency, heavy emphasis on infrastructure, undercut by weak administrative capacity and local institutions - limited or uneven community participation in selecting public investments</td>
</tr>
</tbody>
</table>

**Strategies**

Poverty reduction is an overarching goal of the Vietnamese government. The three other focal points of this paper – social safety nets, basic social services and rural governance – are themselves the primary ‘sectoral’ strategies for reducing poverty; thus, most of the following strategies are covered in greater detail in the rest of the paper. The value of this section lies in emphasizing that each of these are linked to the dynamic of poverty reduction.

Poverty reduction is also a major explicit or implicit goal of the other sectoral papers
produced for the overall Socio-Economic Development Strategy as well. Thus, the following section does not go into detail regarding the productive sectors. But the main message is fully consistent with the view presented in the other papers. The overall key to continuing rapid gains in poverty reduction is to accelerate employment creation and boost the competitiveness of a family labor-based system of production. To do this requires, first, ensuring broad distribution of productive assets (including human assets built up through education).

Second, it requires progressively lowering the transaction costs incurred by the poor in accessing and using markets and basic social services – information, credit, insurance, agricultural inputs, marketing etc. – which determine the productivity and value of their assets. Three kinds of policies support such goals, covered below: i) a substantive macroeconomic and public investment focus on rural development; ii) specific policies to promote household access to productive and social services; and iii) targeted support for poverty reduction in the poorest regions of the country.

**Follow-up on recent policy shift towards rural development with substantive action**

- Rethink regional policy. The “economic focal point” model currently being pursued has major weaknesses; hoped-for linkages between growth zones and surrounding rural areas have been slow to materialize. In practice, it is unclear whether the focal point strategy is consistent with the Government’s stated emphasis on rural development; it certainly is not consistent to the extent that these focal point regions absorb significantly greater shares of scarce public investment than their shares in national population, as at present. Government policy would be better focused on trying to create overall enabling conditions rather than picking or creating “winning” regions and economic sectors. At the same time, it should be recognized that regional policy is a controversial issue; see box 3.7 for a perspective by a senior Government planning official.

- Expedite industrial reforms for rapid employment generation, covering both medium/low skills in the modern sectors of the economy; and reforms to promote rural off-farm employment generation (a topic covered in depth in the other rural develop-

**Box 3.7 A different perspective on regional policy**

“Currently, major industrial zones as HCMC, Dong Nai, Ba Ria Vung Tau, Da Nang, Ha Noi, Hai Phong and Quang Ninh are making large contributions to state revenue. The Government has stipulated a higher growth rate for these zones than the national average; in part this is to support poorer areas through fiscal transfers. Improving growth requires improving overall levels of investment in economic and social development, with particular emphasis placed on the latter if growth is to be sustainable. If public investment is provided equally to each region, it is much less likely to generate a major impetus for economic growth.

“The issue concerning wealth regions is where and how unnecessary subsidies need to be phased out. Better-off regions should provide both financing and in-kind support (including capital, equipment, technology transfer and training etc.) to poorer areas – a currently underimplemented strategy.”
opment paper being produced by the current project).

Source: Comments from Ministry of Planning and Investment reviewer of first draft report.

Reform public finances (see also items six and seven)

- Increase allocations through the Public Investment programme to rural development and sector, where 80% of the population lives.

- Reform interprovincial finances, towards increased enhanced financing of fiscally weak provinces. Currently, while the central government transfers funds from richer to poorer provinces, local finances in poorer localities are commonly found to be insufficient to ensure basic standards of service delivery. Boosting fiscal capacity in poor provinces will likely necessitate increases in interprovincial fiscal redistribution, but such increases should be consistent with aggregate fiscal discipline and should avoid distortionary effects on local fiscal effort.

- At the same time, greater efforts are also needed to spread investments more equitably intra-provincially, taking into consideration the rural-urban distribution of expenditure. Large investments made in provincial town infrastructure can at times be out of proportion with provincial population structures, let alone the distribution of poverty. A concerted focus is necessary on rural areas within provinces, and particularly on relatively more remote districts and communes within these. The “poorest commune” programme (135) offers a promising framework for doing this (see next section).

- Undertake more complete analysis of the social impact of alternative public investments, in particular the impact on direct and indirect employment generation, prior to making any large public investments. The decision-making with regard to large public investments should require analysis of alternative options and be open to public scrutiny and potential criticism. This is especially important with regard to industrial zones – many of which have remained largely empty of investments and have had limited generation of employment, with the exception of the Hochiminh City area. But the need for social impact assessment and improved public consultation applies equally to other major infrastructure investments, such as road placement decisions, irrigation projects, reservoirs, ports etc.23

- Research and consider reforms to current tax structure. The burden of income tax and fees may be disproportionately borne by the rural population (see table 3.7). The


24 “It is very possible that tax rates for rural households may be somewhat underestimated – qualitative research has indicated that total household taxes, fees, and contributions are considerably more than the 3-6% of household expenditure mentioned in table 9. If households really spend this amount, then logically speaking, there would be no problem for them to cover these expenses.

“For example, a recent poverty assessment undertaken by Action Aid in Ha Tinh province indicated that taxes and fees accounted for an average of 28% of the income of a “rich” family, 35% of income for a “middle” family, and 39% of income for a “poor” family. While these figures are not as quantitatively grounded as those in the VLSS, the vast difference in figures (data from the VLSS-2 indicates that North Central households pay an average of 5.4% of expenditures for all taxes and fees) between the VLSS and other research data should give the authors pause. The implications arising from very high tax rates include

- Households have reached the end of their ability to finance more local services from contributions.
- Government strategies relying upon even richer households to pick up a larger share of the cost of local services are likely to run into resistance.” (Nachuk, 2000).
average incidence of the various taxes, fees, and contributions (TFC) to which rural populations are subject does not appear in the aggregate to be overly high (although this is subject to dispute in some recent studies24); what is certain is that the distribution of these fees between provinces appears to be highly uneven, and even regressive; for example, the highest TFC incidence is in Thanh Hoa (9.2 percent) and the lowest in two of the richest provinces in the country, Hochiminh City and Tay Ninh (1.8 percent). Another issue concerns the use of unpaid, mandatory labour (lao dong cong ich), typically on small-scale rural infrastructure projects. By some estimates, better-off urbanites may “buy” their way out of this requirement for significantly less (certainly as a percentage of household income) than the ‘market’ value of the rural households’ labour contribution. This may mark the lao dong cong ich contributions as one of the most regressive public finance instruments in Viet Nam.25

<table>
<thead>
<tr>
<th>Location</th>
<th>Location</th>
<th>Taxes fees &amp; contributions (VND,000 per household)</th>
<th>TFC as % of household expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Viet Nam</td>
<td></td>
<td>473</td>
<td>4.8</td>
</tr>
<tr>
<td>Northern Uplands</td>
<td></td>
<td>329</td>
<td>3.8</td>
</tr>
<tr>
<td>Red River Delta</td>
<td></td>
<td>563</td>
<td>6.6</td>
</tr>
<tr>
<td>Northern Central</td>
<td></td>
<td>436</td>
<td>5.4</td>
</tr>
<tr>
<td>Central Coast</td>
<td></td>
<td>543</td>
<td>4.9</td>
</tr>
<tr>
<td>Central Highlands</td>
<td></td>
<td>399</td>
<td>3.4</td>
</tr>
<tr>
<td>South East</td>
<td></td>
<td>453</td>
<td>2.6</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td></td>
<td>518</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Table 3.7 Level and incidence of taxes, fees and contributions (TFC) paid by rural households in 1998

Source: Reproduced from Table 4.10 in World Bank and others, 1999a based on VLSS-2 data.

- Reduce economic rents and corruption resulting from tight and often opaque linkages between certain opportunistic elements in the Party and State, and the economy. It is undeniable that these lead to “ill-gotten gains”, undercut transparency and distort both economic and political decision-making.

**Strengthen sectoral policies to promote broadly based growth**

- Reduce transaction costs for households to access productive assets and economic services (agricultural and forest land, credit, agricultural extension) and social services (education, health, nutrition, family planning etc.):
  - Identify integrated strategies for poorest areas (see next line, “Strengthen HEPR...”)

25 Grady (2000) notes that salaried Hanoians are required to contribute 60,000 VND per year in lieu of the labour contribution.
- Reform social service provision for greater equity and efficiency (see item five)
- Strengthen both rural physical and institutional infrastructure. Rural institutions, via the public goods provided through them, help determine the productivity levels of the resources controlled by the poor (rural infrastructure, agricultural technology, extension services etc.). The Government can help lower high existing transaction costs through the development of a solid network of agrarian institutions, social services and infrastructure. This leads to issues of governance (item six).
  - Reduce household-level and community-wide vulnerability to shocks (via provision of social safety nets: item four).
  - Invest in human resource development as a priority strategy (via investing in basic social services: item five).

Address gender inequalities through targeted interventions

As shown in box 3.1 above, some gender discrimination at the intra-household level persists, and threaten to undermine efforts to reduce poverty generally despite Viet Nam's past achievements in this area. There is a case here for developing specific strategies to address these inequalities through a targeted approach. Strategies to address this include the following:

- Improve access by women to productive resources such as land, labor, capital, extension services and information which will help increase women's income by increasing their productivity and / or access to waged employment.
- Concentrate public investments and policy attention on creating jobs in rural areas, thereby reducing the burden of domestic work. Priority given within public expenditure to education and basic infrastructure, such as clean water supply, electricity, transport, markets, and public health programmes, will also help reduce the amount of time women currently spend on simple tasks related to social reproduction. Thus, given that women's mobility is more restricted than men's, the recommended reorientation of public investments towards rural areas can also be expected to reduce gender inequalities.
- Strengthen the formal banking structure and ensure that facilities accommodate, and to the degree possible encourage, households and household enterprises to open joint bank accounts (i.e. in both husband and wife's names). Raise awareness among women about their rights with regard to that formal banking structure. Strengthen and expand community-based savings schemes targeting women, currently operating through mass organizations such as the Women's Union (WU). Such schemes could be linked to the formal banking system, thus mobilizing domestic savings through the WU while ensuring that women still maintain access and control over their own savings (see box 3.6).
Encourage a greater role for the Women’s Union in HEPR planning and implementation. The Women’s Union at the national level would welcome the opportunity to participate, with formal responsibilities and a higher profile, to a greater degree than at present. As they represent the most effective organizational vehicle for advocating women’s interests and participation in the Vietnamese political system, such an expanded role should be seriously considered.26

**Strengthen HEPR policy framework and implementation of National Target programme for poorest communes**

The National Target programme for the poorest communes is a positive policy development. Its effectiveness will be determined by:

- sustained political commitment;
- expanding overall allocations to the programme;
- improvements in intersectoral and intergovernmental coordination; and
- the adoption of an adaptive, flexible, learning-based approach to implementation and upscaling over a multi-year period.

Overarching principles to be applied as HEPR framework is reviewed and expanded in the coming years include the following:

1. Further integrate HEPR into overall macroeconomic and sectoral policies. Poverty rates (and other poverty-related indicators) should become a high-profile progress indicator at all levels of government, incorporated into both annual and multi-year provincial Socio-Economic Development Plans. The policy environment can be made more pro-poor by building closer linkages between HEPR and macroeconomic policies.

2. Promote flexible, adaptive administration and different development models for upland areas. For example, there is a need to identify more cost-effective technology better suited to the needs of the poor and community institutions in the field of community-based infrastructure provision. Doing so would in turn demand flexibility in centrally-managed programmes, which is often lacking at present. Greater attention should be paid to con-

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26 Grady, 2000.
solidating local experiences into appropriate models and sectoral policies. In particular, the poorest commune programme’s implementation should be seen as experimental, in a pilot phase during the first several years of implementation. A major effort to learn from experience is necessary, requiring investment in information systems.

3. Integrated approaches that combine investments in human and social development, physical infrastructure, agricultural and financial services, and better governance have the best chance of succeeding. The current focus within the poorest commune programme on community-based infrastructure is appropriate; however, as the programme expands, it will become increasingly important to emphasize multi-sectoral interventions (including social and economic services).

4. Employ selectivity in subsidies: away from credit, towards social and economic services. Subsidize access (particularly by the poor) to basic social services, while expanding sustainable (not necessarily subsidized) access to formal credit markets where the local demand and economic integration permits. A concerted effort is needed to expand economic services – agricultural extension and veterinary services; possibly marketing services as well – to poorer areas since this will determine the effective market demand for non-subsidized credit.

5. Balance the goals of equity, sustainability and efficiency within the HEPR framework, instead of overemphasis on equity (reaching the poorest) alone. The efficiency of the funds in terms of having the biggest impact on sustainable poverty reduction for the largest numbers of people should be considered when weighing investments. In so doing, it should be kept in mind that the greater the amount of budgetary support concentrated in fewer places, the less sustainability and more community passivity may ensue.

6. Move from 1,715 communes in the period 1999-2003 to an expanded regional programme over the rest of the decade. This approach, which would focus on 3-4 regions – the Northern Uplands; North Central Coast; Central Highlands; and Mekong River Delta – and identify distinct strategies for poverty reduction for each of these. The emphasis would be less on a standard package of infrastructure for each commune, and more on support for decentralized, community-wide schemes (such as safety net programmes described in item four). Higher community contributions – and in any case less per capita inputs from the central government – will be embedded in such a regional strategy.

7. Redefine the central government role in HEPR. An important principle for the HEPR framework is already being seen in current policy shifts is that of providing greater central-level support in poorer provinces. In better-off provinces, then, the challenge for the central government is to establish implementation guidelines, minimum standards, and to help disseminate successful approaches across provinces.

8. Decentralize as priority approach combined with capacity building (see item six). Decentralization below the provincial level will be increasingly important.

9. Move towards performance-based administrative reform in major poverty-focused national...
programmes. The Vietnamese public system has been particularly successful at delivering basic services to a large percentage of the population, but deepening and widening service provision will become increasingly difficult given the use of current administrative methods. It may be possible to create “poverty czars” (high-level officials accountable for coordinating among many agencies to achieve specific outcomes) at local, provincial, and central levels who would have a strong personal stake (and authority for) in better service provision and poverty reduction. Currently, responsibility is diffused enough that it is often difficult to identify individuals who have responsibility for specific policy implementation. Therefore, if individuals are given extensive authority and responsibility (with real positive benefits for good results—such as rapid promotion), one could link personal objectives to organizational and policy goals. This is a
### Table 3.8 Summary strategies: Poverty reduction and inequality mitigation

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Specific recommendations</th>
<th>Milestones / Indicators</th>
<th>Risks</th>
<th>Difficulty</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remove urban bias to growth; substantive reorientation towards rural development and more balanced regional growth.</strong></td>
<td>in fiscal policy: shifting public investment towards rural areas; reforming intergovernmental finance: greater transfers towards poorer provinces; structural reforms for rapid employment generation in private sector; reducing economic rents and corruption resulting from tight linkages between Party, State and economy; expanding programme to target poorest communes and regions (see line “policy framework” below)</td>
<td>Short-term: share of public investment programme increases; progress on structural economic reform detailed in other sections</td>
<td>vested interests in current patterns of growth and difficult macro-environment; low investment rates; slow overall growth; limited growth in State revenues; reallocations difficult amidst many competing priorities; policy drift; practical difficulties in reorienting investment, though political commitment “in theory” is high</td>
<td>moderate</td>
</tr>
<tr>
<td><strong>Sectoral policies to promote broadly based growth</strong></td>
<td>reduce transaction costs for households to access productive assets and economic services: i) identify integrated strategies for poorest areas; ii) reform social service provision for greater equity and efficiency; iii) strengthen rural institutions which provide public goods; reduce vulnerability (via provision of social safety nets); invest in human resource development as a priority strategy, strengthening the family planning programme in the four regions with high poverty rates, improving the quality of primary education and expanding vocational education.</td>
<td>Short-term: provision of savings and credit activities at market-bearing interest rates increased; research and pilot activities initiated</td>
<td>limited resource availability, particularly in absence of politically difficult sectoral reallocations towards basic social services and/or limited overall economic growth; difficulties in developing alternative, integrated models of service delivery for geographically remote and minority areas; difficulties in administrative coordination</td>
<td>moderate</td>
</tr>
<tr>
<td><strong>Strengthen policy framework and administrative capacity for poverty-related interventions</strong></td>
<td>make poverty reduction key goal and indicator of progress in socio-economic development strategy; improve definitional and monitoring systems for poverty; expanded implementation of poorest communes programme, in which attention shifts over 10-year period from infrastructure to services and local institution building, and from poorest communes to province-wide efforts; accelerated effort to decentralize while building intergovernmental administrative and fiscal capacity; attract the participation of civil society in the implementation of HEPR. Raise the capacity of social organizations to operate effectively and autonomously.</td>
<td>Short-term: inclusion of poverty and rural-sector indicators, consistently defined, as key national indicator in assessments of progress; clarification of HEPR management mechanisms and improved intersectoral coordination; increasing allocations to NTP for poorest communes</td>
<td>poor intersectoral coordination; poor link to macro-policies, greatly reducing effectiveness; complexity of administrative capacity development and fiscal strengthening of poor governments, particularly during period of stagnant State budget growth.</td>
<td>moderate</td>
</tr>
</tbody>
</table>
simplified form of Management By Objective, but it may well be relevant in the current context. (See item six for further detail on suggested administrative reforms.)

4. How to Strengthen Social Safety Nets for Vulnerable Rural Populations?

Concept

There has been much talk in Government and the donor community about developing “a reinforced social safety net during times of crisis to protect the poorest and most vulnerable in society,” which would “better preserve stability, equity and the conditions for future growth and development.”

Who is “vulnerable,” and what would such a social safety net entail? There are many ways to delineate vulnerable groups, generally designating those whose ability to participate in social and economic life is compromised to some extent. Social vulnerability has been broadly defined as “the inability of an individual, for certain specified reasons, to exploit opportunities presented by society for their self-betterment.” The term could also designate groups which, without support, would experience hardship going beyond what a “civilized society” would tolerate. In a narrow sense, safety nets can be defined as “those instruments aimed at mitigating possible adverse effects of reform measures on the poor.” This is an important part of the meaning of safety nets in Viet Nam, where concern over potentially adverse short-term impacts of continued economic reform may be one reason for slow progress being made on economic restructuring. More broadly, however, a safety net refers to the quest for social security – broadly defined as “the avoidance of poverty by social means” (cite).

There are two primary means for attaining social security. The first is promotion of the poor out of poverty, by enhancing general living standards and expanding basic human capabilities. Promotion out of poverty is the main approach explored items three and five of this paper. The present item is concerned with the second sense in which social security is often talked about – policies that aim directly to reduce the vulnerability of the poor to shocks, i.e. protecting the poor. These two aims may involve separate policy instruments, but in the long-term, they are mutually reinforcing: “Promoting the poor facilitates their protection, by both private and social means, while protecting the poor facilitates their longer-term promotion.” In that sense, it is important to see safety nets as an important part of a pro-poor strategy, not just as a separate measure to compensate the short-term losers in the process of economic reform in order to secure sociopo-

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In analyzing safety nets, it is important to recognize connections with other items:

1. Link to sustainable poverty reduction (item three): An important question first raised in the introduction is whether poverty reduction is sustainable, given that so many are precariously balanced right at the line; the clustering of the poor near the poverty line means that strategies for risk reduction for the “nearly poor” are an essential means of consolidating the poverty reduction gains of recent years.

2. Link to HEPR framework (item three): The “strong association between physical isolations and vulnerability, partly because the inaccessibility to markets acts as a disincentive to diversifying livelihoods.” This suggests that policies targeted on regional development themselves function as a kind of safety net.

3. Link to basic services (item five): An important rationale for expanding coverage of basic services is to replace ‘negative’ coping mechanisms households are forced to adopt when facing sudden livelihood shocks – such as withdrawing children from school or not getting treated for illness – with more formal mechanisms. Moreover, some safety

Box 4.1 United Nations and Vietnamese definitions of basic social services

Participants in the 1995 World Summit for Social Development (held in Copenhagen) developed a list of basic social services; these would serve as benchmarks for assessing the adequacy of public investment to these sectors. Viet Nam, following a long tradition of seeing basic social services as a means of promoting national development, agrees with this classification, and extends it to some additional services held to be basic within the context of its national history and development needs. The UN and Vietnamese lists differ only in Viet Nam’s broader inclusion of expenditure specifically earmarked vulnerable social groups in Viet Nam. The following are services considered basic in the Vietnamese, but not United Nations, definitions:

- welfare for the poor;
- cash transfers to war contributors (war retirees, invalids and veterans, families of martyrs, hero-mothers);
- services for orphans and street children;
- services for the disabled (cash support and residential);
- employment training centers; and
- rehabilitation of drug addicts and prostitutes.

Implications for the strategy: 1) The strategy proposed below proposes better targeting of safety net expenditure, i.e. focusing it onto particularly vulnerable social groups. Considering Viet Nam’s expansive definition of “basic services”, this recommendation should be taken to imply that such enhanced funding should not be at the expense of spending on any other type of expenditure classified as “basic”, i.e. resources should be made available through a combination of intrasectoral reallocation (from non-basic to basic) or from outside the sector. 2) Both definitions may be usefully employed, side-by-side, for purposes of monitoring the adequacy of budgetary allocations; the UN definition will more useful for comparing expenditure across countries.

31 World Bank and others, 1999a, p. 95.
Nations and Vietnamese definitions for basic services vary on some points (see box 3.7).

Source: UNDP and Ministry of Labour, Invalids and Social Affairs, 1999a.

4. Link to governance (item six): As shown below, informal transfers and mutually assistance are far more important coping mechanisms than access to formal assistance. Clearing the way for a more proactive contribution of civil society to welfare provision is probably the most effective means available to strengthen household resilience to shocks. Effective means for government to accomplish this have yet to be carefully researched.

**Situation analysis**

Table 4.4 sums up available data on government safety net programmes for a number of vulnerable groups. Though much information is sketchy, the basic conclusion is unmistakable: formal safety nets cover only a small portion of Viet Nam’s population. For example, according to the World Bank (based on figures from the 1998 VLSS), “only 2.2% of the population lives in households that have received a payment from any of the poverty programmes.” Where cash support is provided, it is very limited; even adding the additional 40% which community contributions form on average within safety net expenditure, overall expenditure constitutes only some 5% of household income for recipients, on average.32

Coverage of social transfers is also generally not effectively targeted towards relatively poor groups (except for specifically anti-poverty programmes). The VLSS data suggest that social subsidies and the social insurance fund both benefit better-off households more than poor households. Various programmes within the HEPR framework are somewhat better targeted: some 60% of HEPR assistance received by households goes

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Income received from the following programmes (VND per annum per capita)</th>
<th>Total receipts as % of household income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Social Insurance Fund</td>
<td>Social Subsidies</td>
</tr>
<tr>
<td>Quintile 1 (poorest)</td>
<td>15,961</td>
<td>11,282</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>42,020</td>
<td>15,597</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>77,120</td>
<td>24,500</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>153,840</td>
<td>23,535</td>
</tr>
<tr>
<td>Quintile 5 (richest)</td>
<td>207,654</td>
<td>21,776</td>
</tr>
<tr>
<td>Total</td>
<td>99,325</td>
<td>19,339</td>
</tr>
</tbody>
</table>

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32 Ibid.
33 Ibid., p. 125.
How to Strengthen Social Safety Nets for Vulnerable Rural Populations?

to the poorest 40% of households (see table 4.1).33

Table 4.1  Incidence of social welfare income, 1998

Programmes designated as social assistance (including the social insurance fund) already comprise roughly 15% of total government expenditure. There are a number of reasons why coverage, despite significant expenditure, is so low. For many programmes, there are no reliable means for monitoring eligibility for, and receipt of, entitlements. Many people within the target groups may not even know they are entitled to certain assistance by law. And definitions for target group eligibility (the handicapped, street-children etc.) may be unclear. In addition, the system of intergovernmental finance is failing to provide sufficient resources where they are needed the most – the poorest provinces. Since an estimated 43% of the outlays are financed from non-budget resources, including mandatory and voluntary contributions, social assistance programmes in poorer localities, which may have a higher percentage of vulnerable populations, are underfunded.

For these reasons, formal safety nets at present do not offer significant coverage or protection to reduce the vulnerability of rural populations. These programmes are not equipped to handle any major acceleration in the numbers of vulnerable households which may ensue in an economic downturn.

If the poor cannot rely much on formal safety nets, informal, family- and neighborhood-based ones are in fact highly active. Largely as a result of these informal transfers, a major recent review found that the situation of many individuals and households classified as “vulnerable” is in many cases not dire relative to non-vulnerable households.34 The important issue is one of preparing for the future and targeting the poorest groups better.

International experience with safety nets

Formal and informal nets. Safety nets have fallen into two categories for most developing countries. In the East Asian ‘miracle’ economies, safety nets were primarily family based; countries relied primarily on localized kinship networks and their own dynamic economic growth to serve in this capacity. Countries such as South Korea, Taiwan and Malaysia did not have extensive formal safety nets in place as their economies began their ascent. The broadest generalization is that as economies develop, they shift gradually to more formal systems. However, this is extremely difficult to accomplish in the early stages, due to competing pressures in the budget (not least from other social sector components, such as on human capital formation) and administrative capacity developed. The primary implication is that Viet Nam should not try to rely primarily on a system based on extensive regular cash transfers. That is important because as shown above, many existing forms of support are broadly based entitlement pro-

34 Socialist Republic of Viet Nam, 1998a.
grammes which are not working. In addition, these country experiences suggest that to the extent that private, family-based welfare provision exists, it should be encouraged. Doing this may require modifications to the legal and administrative framework underlying State-civil society relations. In Indonesia, Malaysia and Thailand, for example, religious organizations have been active participants in safety nets.

Major policy options relating to social safety nets. A huge range of social policies have been introduced in developed and developing policies. Programme effectiveness will depend greatly on specific conditions, and some are more relevant than others to Viet Nam’s developmental situation than others. The challenge is to design safety nets that are targeted to those in greatest need, and to do so cost-effectively and sustainably. Below some of the major types of instruments are introduced.35

1. Consumer subsidies. Governments often subsidize the consumption of specific goods deemed to be important for securing welfare and security. Ideally, to reduce inefficiency, commodities to be subsidized would be those consumed only by the poor, but few goods fit this description. The stylized fact about consumer subsidies is that they should be limited in time and targeted so as to avoid excessive public expenditure.

The most interesting possible application of consumer subsidies in Viet Nam lies in food stamps. Food stamps might directly improve food security of the poor, for whom (in the case of the poorest income quintile in rural Viet Nam in 1998) expenditure on food constitutes nearly 65% of total expenditure. Three types of food-related subsidies programmes are common: 1) A national food subsidy, e.g. used in the Philippines, operates on the principle of subsidizing (small-scale) producers and consumers of basic commodities; such systems have typically been found to be very costly and to provide extremely limited benefits to the poor (see box 3.8). 2) Rations with a public distribution system would typically have to be more limited (a more general one failed in the former

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Box 4.2 A tale of two consumption subsidies

A comparison of the recent experiences of the Philippines and Jamaica in attempting to put a floor under the consumption of food staples for the poor is revealing. The Philippine National Food Authority provides, from Government revenues, a subsidy for producing rice and corn at higher-than-market prices, and subsides to consumers by selling rice at lower than market price. In part because of its failure to target, a World bank study found the subsidy boosted the poor’s total income by less than .8%, and thus that “eliminating this consumer subsidy will have a negligible effect on the poor’s food consumption and nutrition, and entail considerable savings from government.”

Jamaica introduced its Food Stamp programme (FSP) in 1984 in order to mitigate the adverse short-run impacts of macroeconomic stabilization measures. It was targeted to two main categories of people who were considered at nutritional risk: i) pregnant and lactating women and children under 5 years of age; and ii) the poor, elderly and handicapped. A different World Bank review concluded that “in the absence of the FSP, the poverty gap in Jamaica would have been much higher” in its economic programmes, and contributed directly towards a reduction in poverty, at acceptable overall cost. Thus a targeted approach proved more effective in this case.

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Soviet Union), but could be effective e.g. in providing milk and preventive health care through schools. 3) Quantity food stamps might be a better option. Selected beneficiaries (which might vary regionally) are provided stamps which can be redeemed at local traders for basic consumption staples (rice etc.); the retailers then can be reimbursed in-kind (plus a handling charge), or in cash by the state.


2. Formal social insurance (pensions and unemployment). Social insurance refers to the financing of benefits by compulsory contributions or pay-roll taxes, and differs from private insurance in that contributions need not fully cover benefits for certain groups – such as the elderly – who are considered too weak to purchase insurance in the marketplace. A further characteristic is that there may be an element of public subsidy: “including the poor and bad-risk individuals implies an element of redistribution inherent in social insurance.”

In theory, social insurance performs a preventive function whereby present and former economically active persons build up entitlements to receive protection in the event of contingencies such as unemployment, sickness, maternity, old-age, invalidity and death.

<table>
<thead>
<tr>
<th>OECD countries</th>
<th>90-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern European transition economies</td>
<td>70-80%</td>
</tr>
<tr>
<td>Middle-income countries of South America</td>
<td>50-60%</td>
</tr>
<tr>
<td>Most of East Asia</td>
<td>Less than 30%</td>
</tr>
<tr>
<td>Sub-Saharan Africa and South Asia</td>
<td>Less than 10%</td>
</tr>
<tr>
<td>Viet Nam (estimate)</td>
<td>10-20%</td>
</tr>
</tbody>
</table>

The most outstanding fact regarding social insurance is that coverage is typically limited to a minority of formal-sector workers (see table 4.3). Since “economic development is the major determinant of coverage rate,” formal coverage will rise with income. How long, then, will substantial expansion of such programmes take? Most of the countries which have operating social insurance schemes are well into the middle-income range. “As of 1998, only China, the Republic of Korea and Mongolia had some form of unemployment benefit scheme among Asian countries. Even in the Republic of Korea, where coverage has been expanded in response to the massive increase in retrenched workers, merely half of all employees are receiving coverage. Elsewhere coverage extends only to a minority of formal sector employees.”

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37 James, 1999.
38 Drouin, 1999.
39 Ibid.
There are two basic reasons for this low coverage. First, it is almost always impossible for fiscal reasons for developing countries to provide universal coverage (one of the few recent attempts to do this – in Bolivia – was abandoned within three years). Second, the costs of enforcing collection from a stable group of workers are only sufficiently low in the formal sector – lowest of all for government employees. Indeed, an ILO review in the wake of the Asian financial crisis failed to identify any reliable mechanisms to extend coverage of social insurance.39

These factors suggest that expectations regarding the expansion of formal insurance schemes in Viet Nam should remain modest in the medium-term, and efforts should focus more on targeted public works as employment safety net (covered below), and on improving non-contributory (social) transfers to the uninsured.

3. Direct transfers to uninsured vulnerable social groups. The bulk of Viet Nam’s current social assistance falls into this category, reviewed briefly above (in table 14). International experience suggests that the extent to which such transfers actually assist in protecting the poor depends on four variables: 1) administrative capacity; 2) practical constraints and transaction costs; 3) political will for means testing; and 4) overall fiscal outlays. Delivery mechanisms can take place through government, or NGO’s and other community groups. Mechanisms for means testing vary considerably: from computerized models which select recipient villages of households based on a fixed formula computing need; self-selection mechanisms (waiting in lines, or providing only in-kind transfers, so that in either case only those in substantial specific need will apply); to village elders identifying recipients.40

Box 4.3 Social protection policies in China’s transition

China’s experience in social protection has points of similarity and contrast with Viet Nam. The biggest similarity lies in the combination of low formal coverage for safety nets with extended kinship-based (informal) networks.

China has a much higher percentage of workers who are still dependent on their enterprises for basic welfare and social services. As of 1992, over one hundred million workers – some 10% of the population – were employed in the state sector of specifically urban areas; these were areas which, unlike rural areas, had actually enjoyed formal safety net coverage prior to the reforms. Enterprises had provided such protections as: guaranteed job security; guaranteed housing; pension benefits; social services such as day care and schools; often some subsidized food and other consumer goods. Resistance to their removal has served as a major brake on enterprise- and social welfare reform in China.

In conjunction with industrial measures such as wage policy reforms, greater flexibility in hiring and firing, and the introduction of a bankruptcy law, the Chinese authorities introduced several social sector reforms. Unemployment insurance was introduced in 1986 and is administrated at the city and county-government level (not through enterprises themselves). Though limited to formal sector workers, the programme has been successful, providing coverage to 200,000 SOE workers in 1992, though this is quite small relative to total workforce in sector. The programme suggests what Viet Nam might accomplish given a significantly smaller population to cover.

40 James, 1999.
41 ILO, 1999; Chu and Gupta, 1998.
4. Targeted employment creation on public works. If formal mechanisms for unemployment insurance are unlikely to substantially assist the very poorest, particularly in rural areas,

<table>
<thead>
<tr>
<th><strong>Beneficiaries</strong></th>
<th><strong>Estimated numbers</strong>*</th>
<th><strong>Programs to assist</strong></th>
<th><strong>% of social safety net budget spent on programme#</strong></th>
<th><strong>Coverage level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployed</td>
<td>6.85%</td>
<td>Proposals exist to introduce to formal sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sick</td>
<td></td>
<td>Health insurance:</td>
<td>6 mill. have health insurance of which about 62.2% are mandatory, and 37.8% are voluntary, of which 3.4 mill. are students**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>exemptions</td>
<td>About 3 millions of the poor received formal exemptions**</td>
<td></td>
</tr>
<tr>
<td>Retired state employee</td>
<td>about 1.2 million</td>
<td>Social insurance</td>
<td>38%</td>
<td>11.2% of all households (Mainly State sector)*</td>
</tr>
<tr>
<td>War affected</td>
<td></td>
<td>Special transfers</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Affected by disasters or crop losses</td>
<td>crop losses: 2.9 mil</td>
<td>Contingency Fund for Natural Disasters and Pre-Harvest</td>
<td>73 bill.VND Less than .5%*</td>
<td>49% (of those affected by crop losses)</td>
</tr>
<tr>
<td></td>
<td>disasters: 1.400 (incl. deaths and wounded) persons</td>
<td>Starvation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor (general)</td>
<td>15.7% (approximately 2 million households)</td>
<td>HEPR-related programmes</td>
<td>20%</td>
<td>2.2% of overall populati$</td>
</tr>
<tr>
<td>Social subsidies group</td>
<td>Social subsidies</td>
<td></td>
<td>1-4%</td>
<td></td>
</tr>
<tr>
<td>(also includes drug addicts and prostitutes):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Orphans</td>
<td>155,757</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>19,047</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- displaced children</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.3 million</td>
<td></td>
<td></td>
<td>39% of target group*</td>
</tr>
<tr>
<td>- Old people living by themselves</td>
<td>133,829</td>
<td></td>
<td></td>
<td>46% receive social benefits regularly*</td>
</tr>
</tbody>
</table>

Other reforms included the following:
* housing reform (moving towards private provision through a facilitative regulatory framework);
* encouraging the development of the service sector to absorb surplus labor;
* relaxation of restrictions on migration; and
* relieving individual enterprises of full, direct responsibility for their workers’ retirement pensions by establishing funds that pool resources and risks among enterprises and across regions.

Viet Nam’s position is more fortunate; it has a far smaller percentage of workers in these sectors, and thus can better target them for transitional assistance in a way that China may have greater difficulty doing.
How to Strengthen Social Safety Nets for Vulnerable Rural Populations?

“self-targeting”).

Table 4.3 Available data on safety net programmes, 1998
# Source: UNDP and MOLISA, 1999a.
** Source: World Bank, Health Sector Review, 1999 (draft).

Vision to 2010

The strategy presented below calls for moving from a situation in which safety net coverage essentially is not functioning to put a consumption floor under vulnerable groups, to one in which the State effectively leverages the contribution of both civil society and itself provides substantial assistance for the most vulnerable groups. Limited government assistance should be as focused as possible onto groups facing the greatest immediate needs, combined with the increasing presence and effectiveness of non-State welfare provision.

The formidable challenge facing Government in trying to reach this vision is how to boost effective coverage and better targeting, to get the biggest effect for its limited fund availability. The only realistic way of doing this is through a combination of the following:

- Shifting expenditure towards programmes with the greatest impact on poor and vulnerable populations (such as the HEPR-related programmes and contingency fund) as well as towards provinces and communities in greatest need;

<table>
<thead>
<tr>
<th>Sub-goal / strategy</th>
<th>“Vision to 2010”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From...</td>
</tr>
<tr>
<td>Target very vulnerable groups with higher formal coverage</td>
<td>Low and untargeted coverage of general groups (e.g. 30% target group coverage)</td>
</tr>
<tr>
<td>Encourage non-state provided social services</td>
<td>Little State acknowledgement or direct support of role</td>
</tr>
<tr>
<td>Create unemployment insurance</td>
<td>Little or no benefit coverage even in formal sector</td>
</tr>
<tr>
<td>Address household-level &quot;covariate risk&quot; (community-wide risks) better</td>
<td>Limited funding available in natural disasters pre-harvest starvation fund inflexible and small-scale</td>
</tr>
<tr>
<td>Address household-level (non-covariate) risks better</td>
<td>limited use of work-based, self-targeting schemes, emphasis on credit provision very weak coverage of extension and veterinary services in poor area</td>
</tr>
</tbody>
</table>
How to Strengthen Social Safety Nets for Vulnerable Rural Populations?

- Targeting coverage within broadly vulnerable groups onto sub-groups most in need;
- Boosting administrative capacity at both central and local levels to do this; and
- Encouraging non-State involvement in welfare and social service provision.

### Table 4.4 Strategic directions in safety net policy

**Strategies**

Priority strategies to strengthen safety nets can be divided into two main categories: directing support towards those who are already vulnerable, and strengthening risk-reducing mechanisms that help prevent households from falling into that trap to begin with.

**Target vulnerable sub-groups with higher formal safety net coverage and support**

Such targeting involves directing increasing support to sub-groups of currently identified beneficiaries that are more vulnerable than others. Financing such increasing support could be achieved by allocating new resources to the sector, though this option is limited by their already high percentage within the State budget. More feasible is to hold the line on existing benefits which are not well-targeted onto the poor, and to clarify target group definitions so there is greater transparency in benefit distribution.

**Encourage non-state-sector participation in welfare service provision**

Given the predominance of informal transfers, the large role played by civil society in several other neighbouring countries and budgetary limitations, probably the single most effective step the government could take is to create facilitative environment for private transfers and civil society organizations to get involved in welfare provision. The conceptual basis for doing this is already widely acknowledged via the concept of socialization, in which the State shares responsibility with the communities and mass organizations for the financing and provision of social services. This needs extending to embrace the concept of civil society as well, since much welfare provision will take place through non-State groupings altogether (whereby mass organizations are still considered parts of the State apparatus). One way to think of involving civil society in welfare provision is to see it as analogous to the active encouragement of the private sector in economic reform, which is being voiced by high-level political leaders in Viet Nam at present.

While informal safety net assistance is currently being supplied by many community groups, family members and neighbours, there is also evidence of “community failure” or ”family failure” as well – instances in which cultural norms of mutual assistance appear to be disregarded in practice.\(^{42}\) Mechanisms for local government to help motivate or leverage community involvement in protecting vulnerable groups may have a

\(^{42}\) Socialist Republic of Viet Nam, 1998a.
large impact in such a context, though concrete measures have yet to be identified. Tax or other incentives, or direct public subsidies for civil-society-based care-giving arrangements, might be considered and researched in the coming years.

Capacity building. It is important to recognize that to accomplish this in practice requires increasing the capacity of both local governments (to interact with civil society and even mass organizations in a more constructive way) and civil society groups themselves. Sequencing. The most urgent step in the short-term is to conduct more formal research into safety nets, including the role currently played by various informal, non-State groups, and to review the legal framework for civil society which exists at present. Ultimately, this research could lead to the establishment of a monitoring and regulatory framework and public database. Then, methods of civil society – local government cooperation in service provision, planning, monitoring and evaluation, information and education campaigns etc., could be piloted, followed by possible expansion and upscaling. In the medium-term, one would expect to see increasing diversity of State-civil society interaction in welfare and social service provision.

Create mechanisms to mitigate social costs of industrial reforms

Viet Nam is preparing to deepen structural reforms to the economy. In the medium term, these will have a profound effect on generating employment in the modern sectors of the economy. There may be short-term costs, however, in terms of transitional unemployment, which the Government can help alleviate.

There are two main policy levers available. The first is transitional assistance to unemployed formal-sector workers, including various employment relocation programmes, vocational education and credit provision. The second is unemployment insurance (see box 4.2). For both, it should be recognized that the main beneficiaries of these programmes are a relatively small group of workers in the formal sector. These are groups

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**Box 4.4 Unemployment insurance**

Establishment of unemployment insurance in Viet Nam faces a number of challenges, particularly in the current context of slower economic growth. Given the magnitude of its unemployment programme, Viet Nam needs a clear legal framework underpinning attempts to create unemployment insurance. While the strategy above suggests that it will be difficult to introduce unemployment insurance quickly, Viet Nam should introduce it step-by-step, aiming for increasing expanding coverage on an actuarially sound basis.

The unemployment insurance scheme currently under consideration is expected to be mandatory for all labors working under fixed- and non-fixed term contracts in the following categories:

* for enterprises using 10 laborers or above in all economic sectors and under all types of ownership;
* administrative bodies;
* foreign offices and foreign-invested companies (but not including expatriate workers in Viet Nam).

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43 Bales, 2000.
How to Strengthen Social Safety Nets for Vulnerable Rural Populations?

which (compared with the rural poor, for instance), tend to have more resources for dealing with vulnerability. To the extent possible, unemployment insurance programmes should be funded by worker contributions and should minimize the level of government subsidies provided. The best unemployment insurance is, of course, greater job creation in the private sector. Changes in the labour law and enterprise law and their implementation, as well as continued macroeconomic and structural reforms, will be required for this.43

Reduce community-wide vulnerabilities

The overall objective is to reinforce a safety net system that serves an insurance function for vulnerable communities and households. Some recent analysts44 have suggested that existing safety nets are failing to adequately shield households from co-variate risk, defined as risks that tend to strike neighboring households or communities simultaneously. Two policy levers hold promise for addressing this:

- Expanded independent contingency fund for community-wide problems. A contingency fund for natural disasters and “pre-harvest starvation” exists at present, but is underfunded and has poorly specified management mechanisms at present. To remedy this, the Government should consider establishment of an independent contingency fund, funded in poorest provinces by central transfers and with fully decentralized decision-making for fund use within central guidelines (down to district level).
- Better disaster preparedness and support. Increase the effectiveness of disaster management in VN through capacity building (including monitoring and evaluation capacity) for all concerned agencies. Provincial capacity to assess damage and requirements for assistance should be upgraded. Coordination with international agencies should be improved to ensure the timely delivery of adequate levels of assistance.

Reduce household-level risks and vulnerabilities

An ambitious agenda for reducing household risks can be mapped out, whereby the primary limits are, predictably, fund availability and administrative capacity. To address these constraints, each of the programmes below should apply two principles: i) resources should be targeted to poor areas; and ii) schemes should employ self-targeting—“whereby conditions are built into programme design such that only the poor choose to participate”45—wherever possible.

1. Expand work-based, self-targeted employment generation schemes, linked to public infrastructure creation. The increased availability of publicly provided employment on infrastructure projects (self-targeted to poor via low daily wage rates) as a key element of regional development plans could have a significant impact on seasonal rural underemployment. At present these schemes are implemented by a number of different agen-

44 van de Walle, 1999.
45 World Bank and others, 1999a, p. 127.
cies and levels of government; scope exists for systematizing the contribution of such schemes to formal safety net functions. Two “best practice” principles from international experience which should be respected in doing so include: a) keeping wages paid relatively low, so that schemes by design attract mostly poorer households to participate; and b) building in mechanisms for meaningful community and local government participation in deciding on which local infrastructure works are funded, and in playing a vital quality control function.

2. Research and pilot food stamps programme. Food stamps are a specific means of reducing both household and, at times, community vulnerabilities which have been employed successfully by a number of countries in the region. Stamps which can be used as payment for food items are issued to households falling into a specific target group, such as the ‘hungry’ category, or households with nutritionally deficient children; the regional distribution of stamps can similarly reflect the distribution of poverty or malnutrition. The main drawback associated with such schemes is their demand for relatively high administrative capacity associated with identifying eligible households; but this may be considered a comparative strength of Viet Nam’s administrative apparatus. Research and pilot activities may help determine the scope for introducing such a scheme.

(To avoid misunderstanding: it should be emphasized that the type of food stamp programme envisioned here has nothing to do with the food ration practice in pre-doι niо Viet Nam. That system was primarily urban based and included extensive State involvement in price-setting and food procurement – two features completely absent from poverty-focused food stamp programmes which flexibly utilize existing private distribution networks to deliver the goods.)

3. Explore mechanisms to increase household access to (non-subsidized) credit and savings facilities. In doing so it will be important to lessen emphasis on subsidized credit since it “limit(s) the overall reach of the programmes and tend(s) to direct credit at more dynamic and better informed households.” Accessible facilities for the poor to contribute savings are currently lacking in rural areas and could make a positive contribution to reducing vulnerability to shocks (as well as promoting self-reliance).

4. Expand agricultural and veterinary extension services in poorest areas. Redesigning these extension models to make them appropriate to upland-based household production strategies (including systems appropriate for relatively poor households) is a special priority. Over the decade, the availability of these services – currently extremely thin in upland localities – should see substantial improvement.

5. Actuarially sound voluntary health and social insurance should be expanded over this period. However, while it is certainly an important strategy, policy-makers should realize that effective coverage will probably expand only incrementally, that much trial and pilot work must be done to find appropriate models for expansion to the rural population, and that it is unlikely to be a major crutch for poor populations over this period. Few, if any, countries have succeeded in quickly expanding such insurance coverage to a large rural population at Viet Nam’s level of socio-economic development. Despite

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these difficulties, it makes sense to continue efforts made over the past five years in expanding health insurance.

6. While health and social insurance is unlikely to form the core of the strategy to ensure better access of the poor to health services over the first half of the decade, improving the current system of fee exemptions for basic services for the poor will be extremely urgent task (see also item five). The challenge is to ensure that basic services are in practice affordable to the poor, so that they do not have to do without these services when shocks to household livelihoods occur.

**Address gender aspects of social safety nets**

Strategies to address gender aspects of safety nets include:

- Emphasize provision of in-kind payments which will provide direct benefit to the family such as food stamps and school lunch programmes. Such programmes might be more effective in reaching their goals than cash transfers in many cases, since they target specific needs (malnutrition). These are more likely to reach poor women, as a particularly vulnerable population, than programmes targeted at formal sector workers.

- Payments (e.g. pension-related), when made in cash, should be issued in both the women’s and men’s name rather than to a particular individual.

- Strengthen the legal framework to protect women’s control over assets and property by developing gender sensitive property laws: for example, a clearer delineation of joint vs. individual property ownership in the Marriage and Family Law.

- Research methods to reach target populations who are not covered under official government programmes such as women working in the informal sector negatively affected by changes in macroeconomic policy.

- Collect sex-disaggregated data on beneficiaries of social safety nets.

- Increase awareness of the general public and women in particular of their rights and entitlements (i.e. legal and policy ‘literacy’).

**Boost administrative and fiscal capacity for safety nets**

The current low coverage of services, and low targeting on the poor, is related not only to low resource availability, but to poor administrative capacity. Several steps need to be taken to improve such capacity:

1. Improving information and planning systems. It is currently impossible to say with an acceptable degree of precision what per cent of target groups are being covered by formal social assistance. Improving information systems such that resources can be rationally allocated to achieve specific coverage levels for service outreach is therefore a priority. Improved information systems will also assist in another strategy: better programme coordination and integration across related sub-programs, at present identified as a weak point.
### Table 4.5 Summary strategies: Social safety nets

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Specific recommendations</th>
<th>Milestones / Indicators</th>
<th>Risks</th>
<th>Difficulty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target very vulnerable groups with higher formal coverage</td>
<td>- boost allocations particularly via local budgets&lt;br&gt; - intra-sectoral reallocation towards most vulnerable sub-groups&lt;br&gt; - boost administrative capacity for safety nets&lt;br&gt; - planning and monitoring framework revision</td>
<td>Short-term: within each category of beneficiaries, clear coverage guidelines developed and yearly coverage targets increased&lt;br&gt; Longer term: share of beneficiaries who are classified as &quot;poor&quot; rises</td>
<td>- administrative difficulty of identifying poor and consistently raising coverage&lt;br&gt; - limited fund availability</td>
<td>- high</td>
</tr>
<tr>
<td>Encourage non-state provided social services</td>
<td>- research needed on existing civil society roles&lt;br&gt; - establishment of monitoring and regulatory framework and public database&lt;br&gt; - pilot methods of civil society - local government cooperation in service provision, planning, monitoring and evaluation, information and education campaigns etc., followed by possible expansion&lt;br&gt; - consider tax and other incentives, or direct public subsidies towards end of ten-year period.</td>
<td>Short-term: research and pilot activities carried out, while legal and monitoring framework reviewed&lt;br&gt; Longer term: increasing diversity of State-civil society interaction in welfare and social service provision</td>
<td>- requires change of attitude on the part of officials&lt;br&gt; - requires increasing capacity of both civil society groups as well as local governments</td>
<td>- moderate&lt;br&gt; - high</td>
</tr>
<tr>
<td>Mitigate social costs of industrial reform</td>
<td>- expansion of various employment relocation programmes, vocational education and credit availability to assist in transitional employment generation for unemployed formal sector workers&lt;br&gt; - unemployment insurance piloted and gradually expanded</td>
<td>Short-term: State outlays to transitional employment assistance programmes increased&lt;br&gt; Longer term: unemployment coverage of formal sector workers reaches 75%</td>
<td>- limited fund availability&lt;br&gt; - models for unemployment coverage on actuarially sound basis may be difficult to develop</td>
<td>- moderate</td>
</tr>
<tr>
<td>Reduce community-wide vulnerabilities</td>
<td>- Expanded independent contingency fund for community-wide problems; funded in poorest provinces by central transfers.&lt;br&gt; - research and pilot food stamps programme targetted to: geographically poor areas; poor households; or households with nutritionally deficient children&lt;br&gt; - better disaster preparedness and support</td>
<td>Short-term: research and pilot contingency fund reorganization and methods of community decision-making within it&lt;br&gt; Longer term: increased absolute funding for contingency fund, coupled with existence of effective decentralized community decision-making&lt;br&gt; - expansion of food stamp programme</td>
<td>- potential sources of funding unclear</td>
<td>- moderate</td>
</tr>
<tr>
<td>Address household-level (non-covariate) risks better</td>
<td>- expand work-based, self-targeted employment generation schemes, linked to public infrastructure creation&lt;br&gt; - explore mechanisms to increase household access to (non-subsidized) credit and savings facilities&lt;br&gt; - expand agricultural and veterinary extension services in poorest areas&lt;br&gt; - expand voluntary health and social insurance&lt;br&gt; - better exemptions for poor for basic services</td>
<td>- increased availability of publicly provided employment on infrastructure projects (self-targeted to poor) as a key element of regional development plans&lt;br&gt; - loan disbursements on economically sustainable basis increase; savings mobilization improved&lt;br&gt; - extension models appropriate to mountainous localities developed and expanded; effective coverage vastly improved over current period</td>
<td>- coordination problems&lt;br&gt; - current policy emphasis on subsidized credit threatens sustainability and improved coverage&lt;br&gt; - difficulty of developing upland extension models; low funding availability</td>
<td>- moderate&lt;br&gt; - high</td>
</tr>
</tbody>
</table>
2. Move towards decentralized, flexible, community-based implementation of at least a substantial component of funds allocated for safety nets.

3. Fiscal reforms should aim at mobilizing a higher share of revenue for safety net programmes from better-off localities, while concentrating central-level funds onto relatively poor areas. As a general proposition, localities should devote some 5-10% of their budget (3-5 times existing percentage) to social protection services. At the same time, poorer localities must receive a higher proportion of central funds for the system to work.

5. How to Improve the Quality and Coverage of Basic Social Services?

Situation analysis

Viet Nam’s social sectors have emerged from the severe organizational disruption inflicted upon them through the transition in fairly good form, but with numerous challenges confronting them. This review attempts to capture characteristics and trends common to across several important social services.

Major strength: Continued progress in expanding coverage

Viet Nam has successfully maintained and, in many cases, boosted, service coverage levels, and has made together with continued progress on many outcome indicators such as infant mortality or adult literacy. Table 5.2 provides indicators from several sectors to justify this claim.

One reason for this positive performance is that budgetary outlays to the social sectors as a whole have not only been protected, but have expanded as a percentage of a rapidly growing GDP. At the aggregate level, using the United Nations definition of social services, the percentage of state resources spend on basic social services increased from 6.1 per cent in 1990 to 8.5 per cent in 1997. Using the national definition, the proportion rose from 12.7 to 17.1 per cent.47

47 UNDP, 1999a.
Table 5.1 Selected social service coverage and outcome indicators, 1993-1998

<table>
<thead>
<tr>
<th>Service</th>
<th>1993</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage fully immunized</td>
<td>87 (1990)</td>
<td>95.1 (1991)</td>
</tr>
<tr>
<td>Annualized health service contact rate per capita (total)</td>
<td>1.23</td>
<td>3.55</td>
</tr>
<tr>
<td>Of which: (note: p. 37)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commune health center</td>
<td>.19</td>
<td>.57</td>
</tr>
<tr>
<td>Public hospital</td>
<td>.32</td>
<td>.60</td>
</tr>
<tr>
<td>Private clinic or doctor</td>
<td>.66</td>
<td>1.76</td>
</tr>
<tr>
<td>Public as % of all providers</td>
<td>16.0</td>
<td>13.8</td>
</tr>
<tr>
<td>Contraceptive prevalence rate</td>
<td>65 (1994)</td>
<td>75</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enrollment rate in kindergarten for children 3-5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>28.3</td>
<td>40.8</td>
</tr>
<tr>
<td>Male</td>
<td>23.4</td>
<td>39.9</td>
</tr>
<tr>
<td>Primary enrollment rate (net)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>87.1</td>
<td>90.7</td>
</tr>
<tr>
<td>Male</td>
<td>86.1</td>
<td>92.1</td>
</tr>
<tr>
<td>Lower secondary enrollment rate (net)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>29.0</td>
<td>62.1</td>
</tr>
<tr>
<td>Male</td>
<td>31.2</td>
<td>61.3</td>
</tr>
<tr>
<td>Upper secondary enrollment rate (net)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>6.1</td>
<td>27.4</td>
</tr>
<tr>
<td>Male</td>
<td>8.4</td>
<td>30.0</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>86.6</td>
<td>89.5</td>
</tr>
<tr>
<td><strong>Child nutrition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidence of stunting among children 0-59 months</td>
<td>51</td>
<td>34</td>
</tr>
<tr>
<td><strong>Adult nutrition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidence of moderate and severe malnutrition in adults</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Body mass index less than 18.5)</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>Female (non-pregnant)</td>
<td>32</td>
<td>30</td>
</tr>
<tr>
<td>Male</td>
<td>32</td>
<td>25</td>
</tr>
<tr>
<td>Access to infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of rural population with public health centre within commune</td>
<td>93</td>
<td>97</td>
</tr>
<tr>
<td>% of rural population with access to clean water**</td>
<td>17</td>
<td>29</td>
</tr>
<tr>
<td>% of urban population with access to clean water**</td>
<td>60</td>
<td>75</td>
</tr>
<tr>
<td>% of population using electricity as a main source of lighting</td>
<td>48</td>
<td>77</td>
</tr>
<tr>
<td>Ownership rates of consumer durables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of households owning a radio</td>
<td>40</td>
<td>47</td>
</tr>
<tr>
<td>% of households owning a television</td>
<td>25</td>
<td>58</td>
</tr>
<tr>
<td>% of households owning a bicycle</td>
<td>67</td>
<td>76</td>
</tr>
</tbody>
</table>

Footnotes:
* The rapid increase in secondary enrollment rates reverses a decline in enrollments in the 1987-1992 period.
** Clean water is defined to include piped water, deep wells with pumps and rainwater.

Source: World Bank and others, 1999a, page 7; SRVN, 1999c.
Major weaknesses: Access and quality

Two problems predominate across nearly all social sectors.

Uneven access to services and significant disparities in outcome indicators. Coverage for basic services has certainly not been secured for the poorest part of the population, slowing progress in reducing poverty while increasing socio-economic and regional inequalities. Table 5.2 and figure 5.1 provide snapshots of differential coverage and outcome indicators for selected basic services. For some outcome indicators (e.g. literacy) and coverage indicators (e.g. contact rate, public hospitals), the gap between the better-off and the poorest is either unmoving or widening.

<p>| Table 5.2 Distribution of selected social indicators, by expenditure quintile |
|-----------------------------|----------------|--------|--------|--------|--------|--------|</p>
<table>
<thead>
<tr>
<th></th>
<th>year</th>
<th>poorest</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>richest</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>77.05</td>
<td>85.53</td>
<td>86.96</td>
<td>88.32</td>
<td>93.03</td>
<td>86.60</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>78.40</td>
<td>88.06</td>
<td>91.46</td>
<td>92.03</td>
<td>95.20</td>
<td>89.43</td>
<td></td>
</tr>
<tr>
<td>Contact rate - public hospital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>.16</td>
<td>.22</td>
<td>.30</td>
<td>.35</td>
<td>.56</td>
<td>.32</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>.25</td>
<td>.39</td>
<td>.52</td>
<td>.76</td>
<td>1.09</td>
<td>.60</td>
<td></td>
</tr>
<tr>
<td>Affordability ratios for public hospitals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>41</td>
<td>21</td>
<td>32</td>
<td>20</td>
<td>8</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>65</td>
<td>41</td>
<td>27</td>
<td>18</td>
<td>7</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Percentage of malnourished children aged 0-155 months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>49.33</td>
<td>43.92</td>
<td>38.49</td>
<td>36.91</td>
<td>19.13</td>
<td>40.09</td>
<td></td>
</tr>
</tbody>
</table>


The affordability of basic services for the poor remains low and may in fact be decreasing. The introduction of user fees is the main reason in the health sector. As shown in table 5.3, the affordability ratio of services in public hospitals actually declined for the poor between 1993 and 1998 in the wake of substantial increases in user fees. The strategy proposed below recommends that user fee mobilization should remain part of the sector’s development, but will have to be complemented by reliable mechanisms for exempting the poor. In education, direct and indirect costs of schooling have kept wide the large gaps in access (particularly at lower-secondary level and above). This is what figure 8 depicts. In panel a, it is clear that significant gaps in net enrollment rates remain between economic quintiles, which perpetuates the cycle of poverty. One small, 48 but demonstrative, part of the reason for this is found in panel b, which depicts the extremely low (and untargeted) coverage, across expenditure quintiles, of the school fee exemption programme.

48 Small because school fees constitute only a small part of the cost borne by parents. See Oxfam GB and others, 1998.
Figure 5.1  Percentage of pregnant women receiving no pre-natal care, average for period 1984-1994, and 1998

Source: SRVN, 1995; SRVN, 1999c.
Figure 5.2  Net enrollment rates, poorest and richest quintiles (1998) (panel a) and percentage of households paying all school fees (primary and lower secondary levels) (1998) (panel b)

Panel A

Panel B

Low quality of social services. Despite significantly improved enrollment rates, drop-out and grade repetition rates in primary school remain very high; despite nearly universal existence of Commune Health Centers, fewer than 20% of commune health centers (CHC) have a doctor, and the majority have no assistant doctor specializing in maternal and child services (y si san nhi) employed. From another angle, one finds high child survival rates coupled with continuing high incidence of child malnutrition. Examples such as these have led to a growing consensus among both government and donor officials (and service users themselves) that the quality of social services is in many cases unacceptably low, and has been slower to improve as compared with overall coverage levels. This makes sense in the context of the daunting reorientations of service delivery systems necessitated by sweeping social and economic changes in doi moi Viet Nam.

Key variables for future success or failure

Policy emphasis and financing patterns. The overall policy framework for the social sectors has benefited from considerable renovation in the past ten years, but much work remains. Clear commitments to improving the position of basic social services, and extending these to poorer areas, have been set out in high-priority national programmes (such as the National programme of Action for Children; see box 5.4), but difficult to put into practice.

The most important reason for this is that the pattern of financing social services is not yet equitable. This is true in two senses. First, while overall the share of state expenditure going for basic services has increased, there are clear and worrying signs of reversal amidst the recent declines in the position of the overall budget.\(^49\) Moreover, expenditure on basic services is considerably decentralized in Viet Nam with provinces playing a key role. Aggregate positive trends in resource availability hide significant disparities at the provincial level, and there is a dearth of budgetary monitoring at the central level to track such an important indicator. Second, a clear policy consensus and operational guidelines on the role and scope of user fees, and mechanisms to offset their impact on the poor, have not yet emerged.

Grassroots network in flux. The collapse of the cooperatives early in the transition hit grassroots service delivery networks hard, and responses have fallen into several stages. While analysts report encouraging progress in some areas,\(^50\) much remains to be done to even out the availability of services. An important factor in boosting quality and access will be investments in administrative and fiscal capacities – including human resources – available to grassroots service delivery networks, across the social sectors.

Diversity of service providers emerging, but not fully tapped. In health, family planning and education, private-sector service providers are playing an increasing role in meeting service needs. As shown in table 5.2, public providers of health services capture a surprisingly small – and declining – percentage of overall expenditure on health, on the order

\(^{49}\) World Bank and others, 1999a.

\(^{50}\) Fritzen, 1999.
of 10%. In education, private schools at the upper secondary and technical training levels are playing an increasing role as well. However, the legal and policy framework for private-sector roles has yet to emerge. Moreover, it is clear that this emergent private sector is not focused on rural areas, which implies that government role will need to increasingly differentiate among regions in the coming years.

International experiences

General commonalities

Low-income countries which succeeded in achieving relatively high levels of social development (which in turn contributed to economic development) had several commonalities.\textsuperscript{51}

In all major services, there was a major push to achieve universal coverage for basic social services, typically financed primarily by government. When faced with fiscal stringency, some, like Sri Lanka and Cuba, have shifted towards targeting services to the most disadvantaged, but both this shift and growing use of the private sector were seen as complementary to the basic mandate of the State to ensure broad access to basic services.

Cross-sectoral interventions which favored the status of women, such as raising the age of marriage and improvements in legal rights, played a major role in several countries. Social returns to relative gender equality (e.g. in educational attainment) were large, as seen in improved overall human development indicators. Numerous studies and country experiences emphasize the links between women’s level of education and their economic status, and how this directly impacts on their fertility and their family’s health, nutrition and education. Women who are educated and employed tend to have fewer children, and can make proportionately higher levels of investments in their children’s education, health and nutrition. On an aggregate level, concentrating investments on a smaller number of children increases the quality of human capital, and contributes to the development of more productive future labour force.

Particularly successful countries pay attention additionally to the distributional impact of public expenditure. Malaysia is an example, following a pro-poor policy since the 1970s, with the lowest income groups receiving a larger share of public subsidies on health than the middle-class and above. In Viet Nam, despite high political commitment behind the social sectors, the situation is still quite the opposite; current patterns of public expenditure primarily benefit better-off groups, as shown clearly in the two VLSS rounds.

Health sector

The health sector in successful countries emphasized the development of Primary Health Care systems. “For the vast majority of the population a universally available and

\textsuperscript{51} draws on Mehrota, 1997a.
affordable system, financed out of government revenues, functional at the lowest level, made effective by allocating resources at the lower end of the health system pyramid—these were the keys to health status.” Maternal and child health interventions figured prominently, for instance by ensuring deliveries supported by good health-referral systems as priority intervention. Immunization rates were sustained at high levels. Significant organization attention went to ensuring a strong presence of grassroots service providers, both by mechanisms to ensure public subsidies for the training of Primary Health Care staff (particularly nurses and midwives) and by requiring doctors graduating from public medical colleges to serve in rural areas for a some time, reinforcing the referral network.

Some non-direct health interventions were also extremely important in achieving high health indicators. In most countries, major impetus was given to basic education systems either prior to, or simultaneous with, health systems expansion; higher educational status ensured higher effective utilization for the expanded health services. Provision of a nutritional floor, often linked to safety net programmes such as food stamps, was an effective mechanism of reducing malnutrition. And non-family planning interventions such as mortality decline, increasing education, higher age at marriage and increasing economic participation of women, resulted in the greatest declines in fertility, which itself had far-reaching affects on social indicators.

From a gender perspective, refocusing onto basic services has been shown through international experiences also to be more beneficial to women, as they are held primarily responsible for addressing daily health care issues in the family. Improving access to and quality of health care services at the commune level would alleviate some of the additional burden and loss of productivity women experience when caring for sick family members.

Box 5.1 An emerging issue: Son preference and sex-selective abortion

Development economist Amartya Sen raised the issue of the ‘missing women’ in reference to the estimated 100 million women who, due to various forms of gender discrimination, do not exist.

In South Korea, China and South Asia, strong son preference coupled with access to medical technology which determines the sex of the unborn fetus and socially sanctioned abortion, have led to widespread sex-selective abortion. Viet Nam has in place a number of ingredients for potentially supporting similar trends: strong son preference; the two-child policy; and legalized and widespread abortion (at one of the highest rates in the world; the abortion rate is twice the fertility rate) (UNDP, 1998). All that is missing is access to the medical technology to determine the sex of the unborn child, which could potentially become widely available in Viet Nam in the near future (Haughton, 1999).

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52 Ibid.
54 This has been substantiated by research which confirmed that son preference is very strong in Viet Nam: household that do not yet have a son are more likely to have another child, and to continue having children until a son is born. In the absence of son preference the fertility rate would decrease by 10% (Haughton et al, 1999).
How to Improve the Quality and Coverage of Basic Social Services?

A RURAL SOCIAL DEVELOPMENT STRATE-


Experience in India shows that well-meaning policies aimed at preventing medical staff from disclosing the sex of the fetus have limited effect, and can be overcome by bribery. In the worst cases, female babies are disposed of immediately following birth (a practice well-documented in the case of China as well).

There is a need to tackle the underlying cause of son preference, if this issue is to be addressed in a sustainable way. In Viet Nam, son preference is based on the traditional role of sons in ancestor worship, and more pragmatically, on parents’ reliance on sons to support them in old age. The first cause can only be addressed by changing deeply entrenched cultural values, which may be beyond the scope of government policy. The second cause can to a certain extent be alleviated by increasing women’s economic status and income earning potential, which is currently perceived by parents to be too low to count as ‘old age insurance’. This factor is compounded by cultural norms which encourage married women to develop stronger economic ties with their husband’s family than with their own.

A strategy to reduce the current reliance on male children’s informal contribution to old-age pensions and benefits, could include the following:

- improving women’s economic opportunities, by reducing gender discrimination in employment practices; and
- increasing women’s control over their income after marriage, possibly through encouraging the establishment of their own savings accounts.

These measures would give women more control over their economic status, increase their ability to provide for their own parents, and thereby increase their perceived value as offspring, which may


Education sector

The overall “formula” for success in raising educational indicators is clear enough across a range of countries, and is highly relevant to Viet Nam. It involved, first of all, a strategy initially focused on primary education, which shifted over some time to secondary education – a strategy which generates huge social returns. Funding for primary education was substantial. In countries which largely failed to translate economic development into broadly based social development, such as Brazil, the opposite was the case: university education was heavily emphasized to the detriment of primary and secondary education.

The cost of education to parents was kept low through a variety of mechanisms, but primary through substantial State investment combined with efficient intrasectoral allocation of funds to primary levels of the system. China presents some of the dangers in the path Viet Nam is currently taking: “Greater dependence on cost recovery from households in China has led to greater rural-urban disparities, with rural families spending a greater proportion of their income on education but receiving a lower quality and more limited education. Regional disparities have emerged between poor and rich provinces. This pattern is also emerging in Viet Nam.”

Various means of raising the quality and relevance of basic education were employed, despite limited fund availability. School feeding programmes to ensure a low drop-out rate were successfully introduced by many countries even while very poor. Particularly important for countries with significant ethnic minority populations was the commitment to use the student’s mother tongue as the medium of instruction. Recruitment of a high proportion of female teachers from the rural areas themselves was another widely employed strategy. Some countries, such as Cuba or, within India, Kerala state, emphasized adult literacy via volunteers from secondary schools drafted to run well-organized literacy campaigns.

**Effects of regional crisis**

The regional financial crisis has had a significant impact on social sectors of the affected countries, with consequences (such as lower educational indicators for a sub-set of the population) lasting far longer than the financing impacts. The implication for Vietnam is that social gains can be reversible and demand careful monitoring.

**Vision to 2010**

Three overall principles should be kept in mind. First, as shown above, experience from other countries suggests there are great synergies to coordinated interventions in nutrition, health, education, fertility and income; the vision is one of a coordinated approach to quality and coverage improvements over the next ten years.

Second, despite significant budgetary gains in the 1990’s, most analysts (including the World Bank) conclude there is a need for higher levels of absolute funding on basic social services; this can be done achieved by refocusing the structure of expenditure onto such services.

Finally, despite overall progress in the social sectors over the past ten years, it is vital for policy makers to realize that current mechanisms for exempting the poor from service charges for basic services (which have high social returns) are at present failing. As an urgent priority, it is necessary to achieve better access for the poor, many of whom currently experiencing a “crisis of affordability” in terms of access to basic services.

The table below fills in the vision in several specific areas.
Strategies

Refocus role of State onto, and boost expenditures on, basic social services

Substantially greater fiscal allocations to basic social services, combined with a range of quality improvements, is the best example of a “breakthrough” measure for the social sectors – one that would significantly reduce poverty reduction and accelerate human capital formation. Given limited fiscal and organizational resources, both of these things – increased fiscal allocations as well as organizational capacity building – are only realistic given a refocusing of State roles onto basic social services.

Currently, the percentage of budget allocated to social sectors generally places Viet Nam on par with other countries at a similar level of development.\textsuperscript{56} However, absolute expenditure levels on basic services are low, for two reasons. First, overall State spending on the social sectors is proportional to Viet Nam’s low level of overall development. Second, the proportion of this expenditure spent on basic services is low (amounting to well under half of all expenditure).\textsuperscript{57} A strategy to address this would involve intrasectoral budgetary reform combined with protecting overall allocations to the basic social services. Large increases in expenditure, fiscally difficult given the current stagnation of the State budget, can be avoided if the political will exists to deepen structural reforms to refocus role of the State onto basic services.

Health sector. The World Bank, in World Development Report 1997, estimated the resource requirements necessary for a relatively complete package of minimal services in less developed countries. One way to conceive of the overall resource requirements necessary in Viet Nam’s health sector is what would be required to bridge the shortfall observed between current public health expenditure and the World Bank’s estimate. At present that shortfall stands at an astounding USD 750 million per year over 1998 spending levels.\textsuperscript{58}

While bridging this gap may be impossible in the short run, two basic strategies are available to move at least incrementally towards enhanced funding in the health sector. The first is to push for expansion of the health insurance programme. The second strategy is to continue the current trend (which itself has been striking) of reducing budget subsidies to central level and provincial hospitals, using the resources freed up this way to boost allocations to basic and public health services. This would involve introduction of a time-bound plan to reduce public subsidies to many provincial and central hospitals, perhaps leading to several of them being reconstituted as independent or semi-independent entities.

Feasibility and impacts of reducing subsidies to public hospitals. Who would be most affected by a decrease in subsidies to public hospitals? Would decreasing public support lead to

\textsuperscript{56} Health Sector Strategy (draft).
\textsuperscript{57} UNDP 1999a.
\textsuperscript{58} Health Sector Strategy (draft).
precipitous declines in utilization of these hospitals and a standard of care even poorer than that at present? Several considerations should be kept in mind.

First, there is no doubt that it is primarily better-off households who are using these hospitals at present, as indicators from the second-round VLSS clearly show (e.g. see table 5.3). User fees for these households would have to rise to cover some of the subsidy loss.

Second, there is currently a huge gap in the user fees actually accessed and utilized and reported by hospitals, on the one hand, and those which households report paying, on the other. This suggests that it may be possible to capture current user fees for hospital use to a higher extent.

Third, accessibility of hospital care to the poor may decline even further with declining subsidies if fee exemption mechanisms for them are not strengthened (as argued in the next section). It will be important to introduce these changes over several years and to monitor the impact on access of the poor.

Education sector. How can increases in spending on basic education be accomplished?

One method is to gradually reduce subsidies to tertiary education together with expanded support to primary and lower secondary education. Another approach is to target existing expenditure to a greater extent. Even within primary education, shifting funding towards first few years could have an appreciable impact on drop-out rates. And targeting increases in public expenditure to the weakest links in the service delivery chain—minority areas and, within such areas, to girls in particular – is important.

Three other areas deserve special attention for increased expenditure (relative to current expenditure levels):

1. Child nutrition. Viet Nam is an “underperformer” by regional standards in terms of declining malnutrition, which suggests the sector needs increased attention (see below).

2. Maternal and child health / reproductive health services. As suggested by figure 8 above, a large proportion of women do not have access to adequate pre- and ante-natal services. According to a UNFPA report, 44% births in Viet Nam occur at home, only 36% deliveries are attended by a trained health worker. Maternal and child health services are highly cost-effective, but are widely thought to be underfunded, particularly in the poorest areas, where maternal and infant mortality rates are still high. Expenditures on family planning services have been static in recent years, despite continuing high birth rates in mountainous areas.

3. Water and sanitation. Progress has been relatively slow to date in boosting coverage, and year 2000 goals in the rural sector will apparently not be achievable. Figure 5.3 (though not based on updated budget figures) presents one reason for slow progress, in

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the form of underfunding of rural relative to urban water supply projects, as proposed in the previous Public Investment Strategy (1996-2000). This figures provides another example of competing rural / urban fiscal allocations, and suggests that small reallocations away from urban water projects might boost rural water projects substantially.

Figure 5.3 Expenditure proposed on rural and urban water supply projects in 1996-2000 public investment programme


**Improve service coverage and quality in poorest regions**

As a basic principle, poor and remote regions face special challenges, and need both increased resources as well as different models. Very rapid improvements in human development indicators, which urban and delta areas began seeing several decades ago, are only now being extended to these areas, and this pace can still quicken. Social gains to rapid progress in female education in minority areas, for instance, will be particularly large.

Several strategies for a concerted approach to improving the quality of services in poor and remote areas are shared across the social sectors. Increasing fiscal support to relatively poor provinces, one of the cross-cutting strategies suggested in this paper, is one of them. In addition, investing in the quality and coverage of the human resource base – grassroots workers, whether teachers, midwives or village health workers – is one of the core approaches. The several initiatives underway to boost the recruitment of minority teachers, and to establish a system of village health workers in poor provinces, are highly appropriate and need to be expanded in the next ten years. And there is a need to improve budget monitoring not only functionally, but in terms of the geographical distribution of central support. While increasing the supply of appropriately designed and well-delivered services in these ways is vital, it is conceptually important to focus on the demand side as well (box 5.2).
How to Improve the Quality and Coverage of Basic Social Services?

**Box 5.2 Societal “demand” for basic education**

Hard-to-reach groups — ethnic minorities in mountainous areas, for instance — will fully avail themselves of basic education only when they see real returns to their children and their families. The fact is that many children graduating as literate from Grade 3 cannot read or write Kinh, and their parents recognize this fact (some can barely converse). The solution lies in increasing parent and community interaction with schools (through more active Parent-Teacher Associations, for example); improving the quality of teaching, with less focus on reaching numerical targets and more on producing truly capable graduates; and providing means (e.g. relevant written materials) for students to retain their school-learned capabilities. These principles apply equally to adult literacy campaigns.

Source: Grady, 2000.

**Health sector.** Several strategies may be pursued to enhance performance in remote areas. These include: i) expanding village health worker programme, ensuring central-level funding in poor provinces; ii) reallocating some public subsidies for training health workers away from doctors, and towards nurses, midwives and pharmacists; and iii) supporting programme of free or subsidized essential drugs in the poorest communes, incorporating mechanisms to make this as financially sustainable as possible (e.g. through an expansion of the revolving drug programme).

In addition, changes to the current health insurance programme can help improve coverage levels for the poor. Recent decrees to increase coverage rely on funding from provincial budgets rather than central level funds, which limits effectiveness in fiscally weak provinces. Allowing health insurance to cover services provided at the commune level would have an additional benefit of helping to increase the demand for health insurance, and could increase utilization of primary rather than secondary health facilities.60

**Box 5.3 Grassroots health service delivery from a gender perspective**

Strategies to improve service provision at the grassroots, and in more remote areas, will disproportionately benefit women, who are held primarily responsible for addressing daily health care issues in the family. Studies show that in 85% of cases it is mothers rather than fathers who care for sick children. Women constitute 66% of those taking care of sick people (e.g. buying drugs for them and bringing them to hospital). Two-thirds of those who stop work to care for sick people are women. Improving access to and quality of health care services at the commune level would alleviate some of the additional burden and loss of productivity women experience when caring for sick family members.

Source: Haughton 1999.

**Education sector.** Strategies for improving basic education in the poorest areas of the country include both fiscal and non-fiscal elements:

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60 Bales, 2000.
Refocusing onto basic education, as recommended above, is crucial to overcoming gender gaps in secondary level education, since it will prepare girls better to enter the secondary level.

Curriculum reform is needed as major initiative, particularly in (but not limited to) ethnic minority areas.

Increased expenditure on teaching aids and textbooks as compared with teacher salaries.

Raising teacher quality and availability, ensuring that 100% of teachers achieve minimum national standards and certification. In terms of human resource development in the education sector, it is well-known that this is a sector which employs mostly women, particularly at the lower levels of the professional hierarchy. It is also widely recognized that one of the weaknesses of the education sector is due to the poor remuneration and academic preparation of teaching staff. This directly affects the quality of education provided. Strengthening investments in the education sector’s human resources (in terms of remuneration and training) would both improve the quality of education as well as contribute to reducing gender gaps in human resource development.

Expansion of Alternative Basic Education (ABE) curriculum, together with gradually raising current standards to reach eventual integration with the normal curriculum. (In other words, this curriculum should not serve, for difficult-to-reach sub-groups, as a permanent sub-standard alternative to the normal one.)

Expanded programme of adult literacy, particularly focused on commune and village officials (including of mass-organizations, cooperatives etc.).

Several analysts point to a need for increased capital expenditure in poorer areas, which may be partially addressed by expanded implementation of the education component within the poorest communes National Target programme. The idea behind this is to reduce non-fiscal costs of attending school, of which geographical proximity to the school is an important factor.61

Above all, there is an urgent need (in light of the limited improvements in their access to education reported by the VLSS-2) for a special approaches to mobilize minority girls in particular to go to school. This may include direct subsidies or ‘bursaries’ for girl students at lower secondary level. Focusing on pre-school as a priority intervention will have major pay-offs as well, for two reasons: a) it provides girls a chance to practice the Vietnamese language before starting Grade 1 textbooks (which are written in that language), and b) it reduces dependence on older daughters’ caring for younger siblings.62

Address the “crisis of affordability” of basic services to the poor

As shown in the situation analysis above, the poor are experiencing significantly lower access to basic services than the better-off, and current mechanisms for improving this

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access are essentially failing. Worse, for several indicators – including aggregate utilization of public-sector health services for the bottom quintile of the population, as well as minority girls’ education – the situation appears to be stagnant; the last five years, despite rapid economic growth, have not translated into substantial improvements in these areas. Amidst rapid economic growth and poverty reduction, to call the situation a “crisis” may seem exaggerated, but for the bottom 20% of households struggling to escape from poverty, crisis is exactly what is experienced when serious illnesses go untreated, or when children are kept out of school in order to contribute to the family income.

Thus, a much-expanded effort is necessary to reduce disparities in access. One can think of this as a shift from the concept of “socialization” in its resource mobilization aims (communities contributing towards provision of services) to socialization as ‘collective responsibility for ensuring access of the poor’. One should also first re-emphasize a point made earlier: that expenditure on basic services will result in increased access by the poor, and by women and children, since these are the services typically heavily utilized by, and most relevant to, these groups.

Health sector. Two strategies include:

- purchasing (from State budget) health insurance free or at subsidized cost to a significant number of poorest households. This should be considered a priority area for budget expansion at central level, linked to the progressive reduction in subsidies to central and provincial hospitals; and

- expanding capital and recurrent expenditure on grassroots health facilities (in particular, Commune Health Centers). One way of doing this is to encourage the share of services covered by insurance performed at CHC level to increase. The share of CHC’s in overall health-sector expenditure should increase significantly over the course of the decade.

Within the education sector, encouraging a shift in expenditure, towards primary and lower secondary education, is the best means of increasing access by the poor. A particularly strategic gap to be filled is that marking the richest from the poorest quintile in lower secondary education. The basic strategy is thus to increase central-level transfers for funding lower levels in the educational system, particularly in poor areas: less “socialization” of fees for primary and lower secondary education, replaced by greater budget transfers for these levels.

Efforts to reduce or eliminate user fees for basic services should be rooted in overall fiscal reforms aimed at strengthening the hand of local governments as service providers. Demanding exemptions as an “unfunded mandate” imposed by the central government on local service providers is likely to hurt the quality of services and fail to boost access substantially (see box 5.4).
Cross-cutting strategies. In addition to funding basic health and education to a greater extent, more attention needs to be paid to the system of exemptions from several types of fees currently levied for basic health and education services. For both health and education, loss of fees as a source of revenue needs to be compensated by central transfers to poor localities (mentioned earlier as part of the strategy for boosting service quality in these areas). Improving the exemption system will rely on improvements in identifying, and prioritizing for assistance, poor and vulnerable households for exemptions based on clear criteria consistently applied across localities.

Finally, in particular for basic education (but possibly for other services as well), there is a need to develop new approaches to expanding coverage to special groups, such as unregistered migrants to urban areas, and the disabled. Such groups at present have special administrative constraints, needing review, on their ability to access basic services.

**Improve training and motivation of grassroots providers**

Across the social sectors, there is a need to address both poor motivation and capacity among grassroots service providers. Several steps may help manage human resources more effectively. The first is to rethink methods and curriculum which are employed in the training of these workers. Methods should be more practical than at present. Increased emphasis on in-service training as opposed to long periods of formal training is advisable. Supervisory systems which at present are both focused on ‘command-and-control’ and weak at the field level must be reoriented towards supportive services, the assurance of minimum standards and communication of the lower-level requirements to upper-levels.

Finally, any long-term improvements in the quality of grassroots providers will be driven by reform in salary levels. These are generally felt to be too low relative to average incomes in society. It is recognized, though, that improvements in the salary structure will be long-term given current constraints on the State budget as well as the need to maintain and in some cases expand expenditure on non-salary components.

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68 Mehrota, 1997b.
Encourage, while regulating, non-State participation in service provision

As noted in the situation analysis, non-State actors – local and international NGO’s; informal neighborhood associations; private companies and individual providers among others – are participating to an increasing extent in service provision, once basically the reserve of the State. In some cases – as with private provision of health services by moonlighting or retired public-sector providers – the distinction between public and private activities is blurred. The degree to which the government has actively acknowledged, encouraged and effectively regulated non-State provision varies; barely acknowledged in their role as welfare providers for vulnerable populations, non-State service providers are encouraged in such areas as private schools (trường dân lập). Most private services are focused on urban and better-off rural areas.

There is increasing recognition that improvements in the effectiveness of government-provided social services, and overall ‘management’ of the social sectors, relies in large part on improving mechanisms for facilitating and regulating the non-State sectors. For health, the necessity of doing this is obvious: a very large percentage (by regional standards) of all expenditure on health is by households. In education, private households bear a heavy share of the cost, and non-State groups are also involved in provision of education to some degree. For example, communities organize and finance pre-school services with little direct support from the education service. The market is playing the dominant role in providing family planning services in urban areas as well.

Improving the environment for non-State actors to provide services will both diversify choices available and allow the State to free up resources for improved coverage and quality of basic services. These would be increasingly focused on relatively poor areas. In the health sector, three strategic steps will be crucial over the next 10 years:

- Improve regulation of privately provided services. An independent regulatory agency with substantially increased manpower and resources should be established.
- Strengthen public-private cross-referral and information systems by having public database of providers and areas of expertise.
- Provide a facilitative legal and administrative framework for the further expansion of private hospitals.

Steps in the education sector include the following:

- Involve mass organizations and civil society to a far greater extent in provision of pre-school services. Fund subsidies for diverse pre-school providers in some poor areas from the central budget.
- Expand the role of the private sector in providing educational services at secondary, post-secondary and vocational levels. Encourage the continued establishment of

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64 Health Sector Strategy (draft).
privately funded (dan lap) schools, and research constraints on the expansion of private involvement in these sectors.

For all social services, it is necessary to review the legal framework under which private providers operate, removing unnecessary impediments as a part of administrative reform programme.

**Box 5.5 Expanding child care through combined State- and non-State provision**

Child care represents another area where it will be important to encourage non-State provision through an adequate legal framework. Previously child care was considered a public good (social service) provided by the State. One of the (few) negative impacts of economic reforms to date has been the elimination of this service for many women, resulting in increased workload for women, who due to the traditional gender division of labor, are expected to take primary responsibility for child care.

In order to compete effectively in the market economy, women need access to competent, reliable, affordable childcare facilities. Childcare is an essential ingredient for the effective functioning of the current labour force, as well as for the development of the future labour force. Wide availability of such services will also create a more level playing field between men and women, rich and poor, in terms of accessing market opportunities. Yet the State is not the only possible provider. Particularly in urban areas, where women are more active in the formal labour markets, the government can encourage private actors to get involved. In other areas, it may be necessary and possible for the State to play a more active organizing role, in part working through mass organizations. The point is that the mix of State and private roles and financing will vary.

**Improve planning, management and information systems (including donor coordination)**

Several tasks are essential to improving these systems at present, as a major means of raising the efficiency of spending in the public sector.

1. **Improve central-level tracking of local budget expenditures.** The central government has at present only limited knowledge of local level budget supplementation in the social sectors. This makes it difficult to ensure interprovincial fiscal equity.

2. **Improve information systems for tracking various performance indicators in the social sectors:**
   - A major initiative is needed to increase the effectiveness with which data are collected and used at lower levels of government. This implies substantially increased expenditure on, and training in, local government statistical services.
   - Strengthen central- and local-level policy analysis skills within the social sectors, including research, evaluation, and monitoring skills. Donor assistance for strengthening such systems has been weak to date. This needs to take place both at the level of sectoral systems (such as a health information system) as well as intersectoral information systems that will inform executive-level policy decisions at each level of government.
How to Improve the Quality and Coverage of Basic Social Services?

- Improve use of disaggregation in data collection, such that a profile of user groups (women, children, the elderly, ethnic minorities etc.) can be established and interventions structured accordingly.

Within the health sector, for instance, data on facility-level expenditures are not routinely reported. Also, data are typically not disaggregated. Use of data for policy and planning purposes is also poor. Important information is typically not utilized at the lower administrative levels, but is simply reported to upper levels. And evaluation and research functions - particularly for intersectoral programmes and initiatives such as in HEPR or the National programme of Action for the Advancement of Women - are weakly developed.

3. Strengthen horizontal, intersectoral planning and monitoring systems. The Government has been experimenting with new approaches, such as the creation of intersectoral programmes of Action in a number of intersectoral fields (child-related sectors; water and sanitation; women; and most of all HEPR-related activities). These systems have often been successful in strengthening intersectoral and horizontal coordination in better-off provinces, while poorer provinces have generally have made much weaker progress. But they stand as an important initiative to improve the effectiveness of local coordinating functions of local government. Local intersectoral coordination functions are particularly important because they provide the necessary balance to the centrally-funded, vertically implemented national programmes.

4. For all the social sectors, there is a need to monitor public spending functionally to track expenditure on basic services. This is needed not only at the central level. Local expenditure figures prominently in social service expenditure, and is not tracked well at present. This situation makes it hard to direct central support for basic services to where it is most needed.

5. Improve donor coordination. One mechanism for doing this is to move towards a Sector Investment programme or Sector-Wide Approach programme as an option in selected areas, such as the health sector. Such a step would take some years of preparation. In the interim, it is necessary to focus on building government capacity to organize and coordinate donor contributions, in large measure by setting priorities for external assistance and developing strong information systems.

**Other sectoral strategies**

**Quickly move to address potentially explosive health problems**

Four health problems have the potential to spiral out of control and lead to consequences which could be quite destabilizing in terms of Viet Nam’s aggregate health indicators. They are: excessive use of drugs; the HIV pandemic; inadequate food safety and hygiene; and extremely high tobacco use. The Government needs to develop strong measures to address these dangers to prevent deterioration over the next ten years.
1. Control excessive and irrational use of drugs. Misuse of drugs – e.g. overuse, irrational use or under-use (short courses) – is a serious potential threat to aggregate health indicators. Viet Nam is at risk of losing the ability to control and prevent the spread of many infectious diseases, due to rapidly increasing antibiotic resistance levels reaching epidemic levels. The problem is compounded by “low levels of competence in clinical pharmacology” and the tendency towards self-prescription as the dominant health behavior. Several steps are necessary:

- Boost implementation of, and organizational priority given to, the Viet Nam National Drug Policy, which is currently being piloted in several provinces for implementation during the period 2001-2015.
- Formulate a new Drug Law (currently under development) which should include “detailed regulations on prescribing, over-the-counter sales, and division of medical and pharmaceutical practice.”
- Develop strong information, education and communication (IEC) programme “to warn private drug vendors and the public of the many dangers of self-medication and the sale of drugs without a prescription.”

2. Upscale effort to address the AIDS epidemic. UNICEF has estimated that by the year 2000 as many as 5% of children under 16 could be infected with the virus which causes AIDS; in reality, the exact scale of the problem is unknown. A significant upscaling of attention to the issue is necessary; overall costs, in terms of human lives and social and economic disruption, of delay will increase over time. Several elements in the strategy include:

- Better information and surveillance system.
- Much expanded information and education campaign.
- Review of mechanisms for preventing the social isolation and stigmatization of the HIV-infected.
- More innovative means of reaching high-risk groups such as prostitutes and drug-users. Move from coercive programmes aimed to “stamp out” the offending groups to a combined services-and-education approach.

3. Address food safety and hygiene.

- Strengthen coordination mechanisms between ministries and sectors charged with monitoring food safety. Establish clearly the roles and responsibilities of each sector

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65 "One of the highest priorities in the health sector should be the safe and rational use of drugs. The easier availability of drugs and a decline in the real prices of drugs over the last six years have resulted in an increase in the practice of self-medication. Self-medication has been associated with the overuse (i.e., unnecessary consumption), irrational use (broad instead of narrow spectrum) and under-use (short courses) of antibiotic drugs by the population. This in turn has caused antibiotic resistance levels in Viet Nam to reach epidemic levels. This is an extremely serious problem that threatens to derail the significant achievements in the health sector, as Viet Nam loses the ability to control and prevent the spread of many infectious diseases.” Health Sector Strategy, p. 215-216 (draft).

66 Quotes are from Health Sector Strategy.
involved. At present five ministries have management responsibilities, leading to overlap in regulations, lack of an integrated approach and inefficient implementation of new measures developed.

- Create a clear and concrete legal framework regarding food safety and hygiene. The Ministry of Health and Ministry of Science, Technology and the Environment should coordinate with each other to create a Food Safety Law covering all relevant decrees. A central problem in this sector is that many regulations are ill-defined, hard to enforce and thus ignored in practice.
- Strengthen the role of education and communication for officials and the community, raising the sense of responsibility and awareness regarding food safety, particularly in rural areas. The negative effects of overuse of pesticides and other chemicals need to be addressed.

4. Address smoking as an emerging health problem. Viet Nam has one of the highest prevalences of smoking in the world, and in terms of years of life lost to illness, smoking ranks as one of the biggest underlying causes of mortality. While average smoking levels are relatively low and the incidence of smoking is not at present rising, the possibility exists for smoking to become a major drain on Viet Nam’s impressive achievements in the health sector. The main way in which the Government can help control the problem is to regulate the production and marketing of tobacco products:
  - Production: Regulate nicotine levels and prohibit further expansions in joint ventures or new production facilities.
  - Marketing: Further develop regulations restricting the advertising of cigarettes.

Expand vocational education

Viet Nam is a country with rich, yet insufficiently tapped, human resources. While Viet Nam’s labour force is in general young, hard-working, and relatively well-educated – and therefore quite capable of quickly adapting to new technologies – most workers are ill-trained in practice and have a low level of vocational proficiency; this has a negative effect on investment as well. To meet increasing societal demand for skilled labor, it is vital to increase investment for vocational education, making it both more accessible and of a higher quality. The following are important first steps:

- Make a master plan for the system of vocational institutions, to achieve an integrated approach by region and economic sector and to boost coverage for post-lower secondary and secondary school students.
- Boost social awareness of vocational education opportunities; diversify the types of training provided; and consider policies to increase the incentives of individuals to pursue skilled training.
- Strengthen market information systems to link vocational training effectively with labour demand. Individual training plans should be established based on concrete market needs and an analysis of the anticipated need for skilled labour by sector and
How to Improve the Quality and Coverage of Basic Social Services?

Fortify and upgrade vocational education at the district level to boost coverage of these services. In rural areas, vocational centers must adopt methods appropriate to local economic conditions, in which non-agricultural employment is often limited.

The government should establish a facilitative legal and regulatory environment for vocational services, and adopt policies to encourage their expansion, which might include various types of tax exemptions.

Include adult technical education in vocational education expansion plans. The formal system of technical/vocational schools and universities have strict entry requirements which limit the number of people able to attend and which focus primarily on those just completing general education. A large number of people not eligible for training in formal institutions could nevertheless utilize and might even be willing to pay for training in basic business skills such as marketing and management. Promoting small business growth in this way could help to create more employment, find markets for agricultural produce and raise incomes of the poor.67

Population programme reorientation

The population programme has helped to bring birth rates down to a moderate or relatively low level for its income class. Nevertheless, certain weaknesses (noted above) are apparent. Fertility reduction strategies have disproportionately relied on methods which have had significant negative side effects on women’s health: namely IUDs and abortion. Forty per cent of IUD users report suffering from side effects, the health repercussions of which are exacerbated when applied in a context of insufficient information and less than optimal sanitary conditions.68 The abortion rate in Viet Nam is one of the highest recorded in the world. Family planning strategies have to date not sufficiently addressed the area of male responsibility and associated alternative methods of birth/STD control.

Birth rates are falling fastest in delta and urban areas, and with increasing education and socio-economic development will continue to do so.

Major strategic orientations of the sector include the following:

Continue to institute incentives to reduce birth rates. At the same time, the family planning programme should increasingly focus on raising the quality of human resources, above all by ensuring better access to maternal and child health services.

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68 Haughton and others, 1999.
Strive for greater choice and diversity in the current contraceptive method mix (particularly in poorer areas where at present use of the IUD predominates). Strive for better incorporation of gender analysis and a concern for gender equity into the programme.

Improve intersectoral coordination, particularly between the family planning programme and the health service, as a means of raising the quality of service provision.

Focus investment increasingly on poorer regions and social groups, particularly mountainous regions, where the birthrate is still high and alternatives to the family planning programme most limited.

Initiate an expanded programme of information, education and communication, including programmes targeting men’s attitudes towards contraceptive responsibility. Sex/lifestyle education for youth is another priority area. Link communication messages regarding family planning to health and nutritional education, poverty reduction and employment creation. The basic strategy in the sector should be to lower the effective societal demand, expressed at the household level, for a high number of children.

Greater attention and resources to rural water and sanitation

Key strategies include the following:

- Boost allocations to the sector, which are almost certainly underfunded relative to the national targets and the high intersectoral impact of clean water supply on rural health.

- Include water and sanitation investments in the National Target programme for the poorest communes (infrastructure component) as one possible investment which may be selected by communities.

- Boost percentage of spending on sanitation spending relative to water. Intrasectoral analysis of expenditure suggests sanitation is significantly underfunded.69

- Emphasize low-cost, technologically appropriate models for upland areas, paying particular attention to community maintenance requirements.

- Track water and sanitation indicators more consistently. At present measuring actual coverage is difficult due to different indicator definitions.

Concerted effort to bring down child malnutrition

As noted earlier, malnutrition is one of Viet Nam’s greatest challenges. Stunting declined significantly over the 1990’s, and xerophtalmia was eliminated. Yet several areas saw little progress. The number of underweight children was stable and the prevalence of wasting actually rose. Iodine Deficiency Disorders (IDD) still affect a

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69 UNDP, 1999a.
majority of school-aged children in some form. And iron deficiency anemia affects 53% of pregnant women and 40% of non-pregnant women of child-bearing age.

Some key strategic directions include the following:

- Address inadequate care for children and women in key areas as the major focus of the strategy. Address deficiencies in child breastfeeding and knowledge related to best care and feeding practices during the first months of life.
- Support analysis of the conditions and causes of malnutrition at the community level; catalyze greater community ownership in the process leading to the choice of the most appropriate set of convergent actions.
- Improve intersectoral coordination among the large number of nutrition-related interventions.
- Strengthen human resources by improving the skills and knowledge of facilitators (commune health workers) and mobilizers (village-based volunteers).
- Strengthen the Nutrition Information System (NIS), in which mobilizers record essential child nutrition and care information and submit monthly reports to facilitators, and fund its introduction on a wide scale.
- Concentrate resources onto the poorest communes, using the National Target programme as an initial framework, followed by expansion, by 2005, to the some 6,000 communes presently uncovered by the national Protein and Energy Malnutrition (PEM) control programme.
- Boost overall allocations to nutrition-related programmes, in light of high cost-effectiveness and positive socio-economic externalities related to expenditure in this sector.**

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70 Based primarily on Socialist Republic of Viet Nam, 1998c.
71 “An analysis of the benefit-cost ratio using PROFILES [a computer programme] suggested that the rate of return for each dollar invested for nutrition will be over eight dollars.” Ibid., p. ix.
How to Improve the Quality and Coverage of Basic Social Services?
How to Improve the Quality and Coverage of Basic Social Services?
6. How to Develop Rural Institutions which are Capable, Democratic and Participatory?

Concept and international experiences

Developing broadly-based, participatory and democratic rural institutions, both State- and non-State-based, must be an integral part of any social development strategy. This is a goal in itself: that of building “an equitable and civilized society”. And without strong rural institutions, households will not gain broad, equitable access to productive and social services. Most countries which have been successful in rural development – e.g. to differing extents Taiwan, Korea, Malaysia and Sri Lanka – did so partly on the basis of participatory rural institutions which mediated relatively equitable access to productive and social services. And ultimately, opening to civil society and boosting people’s participation is likely to be the most effective way to enhance the capabilities of the State to effect poverty reduction and other social goals.

Over the past decade, governance – defined by the World Bank as “the manner in which power is exercised in the management of a country’s economic and social resources for development” – has become one of the central conceptual nodes in the development debate. Governance has been related to everything from social sector development to financial sector reform. Indeed, one of the key lessons from the East Asian financial crisis was the need to introduce to the financial sector what has been called “augmented fundamentals” – the need for better corporate governance, regulatory capacity and cooperation between countries and levels of government; these are all aspects that have corollaries in social sector reform as well.

Under the broad heading of governance, three terms dominate thinking about institutional development in developing countries at present: administrative reform, decentralization, and participation. This section examines some key concepts within the governance debate, so that its relevance to Viet Nam can be assessed.

Governance

While governance (also called “good government” in some contexts) is a broad concept with no universally accepted definition, the following seven aspects often highlighted by analysts:

72 In Hirshman, 1999. A different World Bank formulation sees governance as the “exercise of political power to manage a nation’s affairs ... and encompasses the state’s institutional and structural arrangements, decision-making processes, and implementation capacity, and the relationships between government officials and the public” (Landell-Mills et al., 1992 in Litvack, 1999, quote at p. 15).
73 Soesastro, 1998.
74 World Bank and others, 1999a; Minogue, 1998; Minogue and others, 1998; Quotes are from World Bank and others, 1999a.
transparency “ entails the low-cost access to relevant economic and financial information as well as the workings of government at different levels.”

accountability “ refers to the capacity of citizens to call public officials to account for their actions.”

predictability, particularly of legal and regulatory policy-making, involves processes of rule creation that are open and enforcement which is uniformly.

competence within professional policy and management capability, closely linked to the concept of administrative capacity.

community participation of people becomes an important part of the picture, allowing reliable information to be funneled into the public sector and checking abuses of government power; often this takes the form of promoting a strong, participatory civil society, operating clearly within the rule of law.

effective use of resources to achieve improved levels of social and economic development; this takes place primarily at the level of overall socio-economic strategies and policies and their effective implementation.

Three aspects of governance which are often highlighted in the Vietnamese context, and which form central elements of the present strategy, include administrative reform, decentralization and participation.

Administrative reform

Administrative reform within a transitional context finds its rationale in the need for ‘old-style’ Socialist administration to be adapted to a new set of tasks in a multi-sectoral economy. It also has roots in a wave of new thinking about public management that began in developed countries under the label “New Public Management”75 and subsequently applied in a number of developing country settings. One way of viewing the basic set of ideas underlying administrative reform is shown in box 5.1.

Box 6.1 The principles underlying administrative reform

1. Steer the ship, rather than row it. That is, government should focus on setting the overall direction in which development is to proceed – the overall legal framework and guiding strategy – and then let a diverse combination of government and non-government and market forces do the work.

2. Empower communities, rather than simply deliver services.

3. Encourage competition rather than monopoly.


5. Fund outcomes rather than inputs. That is, make plans based on the outcomes desired rather than focusing attention onto administrative rationing.

6. Meet the needs of customers rather than the bureaucracy.

75 Hirschman, 1999.
The ideas above grew out of a confluence of influences and pressures within the public sectors of developed countries. One is finance: in OECD countries, government expenditure per capita had almost doubled between 1980 and 1990, while performance of bureaucracies had been poorer than expected. The principles thus emphasized expenditure reform and cost reduction. Another is increasing calls by citizens, increasingly defining themselves as active customers of government services rather than passive recipients76 – for greater control over the quality of services.

These ideas went through a number of filters when applied to developing countries. In many countries (particularly those dominated by post-socialist regimes), and for many sectors (particularly the social sectors), the market orientation approach for governmental reform has been less pronounced. Rather, the primary issues surround the promotion of innovation and a learning orientation for local governments (see box 5.2).

Whatever their origin, these points obviously have broad relevance to Viet Nam’s social development strategy. Allowing – encouraging – a greater role for non-State forces (e.g. communities and markets), while central-level “steering” (policy making and information processing) capabilities are strengthened, is critical to both the productive and the social sectors. And points two, six and eight are key underlying principles of the current grassroots democratization drive, shown below.

**Box 6.2 Administrative reform concepts, past and present**

Administrative reform as a concepts has roots in earlier thinking about development administration. Development administration as a field of study began against the backdrop of postcolonial independence movements in the post-WWII period. Its first two decades were marked by a highly optimistic view of what bureaucracies in developing countries could achieve. Not surprisingly, actual experience led to disillusionment and various efforts to ‘transform’ bureaucracies, ranging from de-bureaucratization, privatization and pressure via NGO’s. Many aspects of prior reform attempts are not dissimilar from the “new” administrative reforms. The ‘de-bureaucratization’ movement of the late 1950’s and early 1960’s, for instance, aimed “for bureaucratic change in kind, not merely in degree; proposals included a drastic flattening of the civil service hierarchy; a very different relationship with the public; flexible task force approaches; and an emphasis on field offices rather than headquarters.”


76 Montgomery, 1996.
Decentralization

The third influence on administrative reform also provides the underlying motivation for decentralization: changing ideologies in the public sector. Administrative reform is partially a response to pressures to both improve the functioning of the state while reducing its overall size and presence. As one observer put it, “if ‘rolling back the frontiers of the state’ was the policy mantra of the 1980s, then the creed of the 1990s is to roll them downwards.”

Decentralization comes in many varieties. Administrative decentralization or ‘deconcentration’ is the type most discussed in the Vietnamese context. It involves the transfer of increasing discretion and resources regarding implementation arrangements to lower level field offices of various line ministries. The aim is primarily to improve implementation, making it more appropriate to local conditions. The second main type is political decentralization, in which broad powers (i.e. to develop local development strategies with reference to local, not nationally-set, priorities) are actually devolved to lower levels of government. The main goal of political decentralization is greater democracy and accountability of local governments to the people. Fiscal decentralization may be a component part of either strategy of decentralization, and involves the apportionment of national resources between central and local levels so as to achieve an ideal balance between local fiscal effort, macroeconomic stability, minimum required resources to meet major needs across localities, and equity between different regions of the country.

While both donors and a large number of country leaders have been enthusiastic advocates, careful analysis suggests that decentralization, to be successful, must meet a number of context-specific conditions. Specifically regarding administrative decentralization, several such conditions emerging from international experience include the following:

- The role of the national government (or provinces vis-à-vis lower administrative levels) should be maintained and even strengthened in some areas. Higher levels in decentralized systems play an increasing role in setting and supervising, through better information systems and legal instruments, minimum standards in strategic areas such as primary education.

- Local fiscal resources must be adequate to meet the minimum standards set by the central government. If not, local leaders will only have an incentive to avoid accountability and distort information flows. An inadequate local resource base will also heighten regional disparities in coverage of social and other services.

- Local administrative capacity should be consistent with the responsibilities decentralized. Since it is widely known that administrative capacity varies greatly between localities, it is important to strengthen administration in the weakest areas of the country.

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But capacity should not be understood only in terms of the number of personnel, their training, fiscal resources etc. It also relates to the efficient use of existing resources. And this depends on the incentive structure under which local governments and service providers operate. Allowing local governments leaders greater discretion to affect intersectoral resource allocations and local implementation strategies is often necessary to draw out the best in all local governments.

Greater flexibility should then be accompanied by an administrative and political environment that holds local leaders accountable (both to upper levels and to grassroots constituents) to meet minimum standards of efficiency and transparency, while allowing more flexibility in planning and implementation. One general principal is that for most expenditures, more flexibility should be given to local governments, while for basic services, less flexibility should be given in terms of meeting mandates given for minimum expenditure and quality standards (see box 5.3).79

Box 6.3  A World Bank perspective on Vietnamese decentralization

Giving local administrations greater flexibility to determine most expenditures (including many social services delivered at the provincial and district levels and most types of infrastructure) would allow them to respond better to local needs, improve efficiency, and decrease their incentive to distort information provided to higher levels. On the other hand, less flexibility for basic social services of national importance (e.g. basic health care, primary education and social relief) could earmark resources and guarantee these services regardless of the budget negotiation process. Greater ability to target public expenditures can ensure adequate funding for those subsectors that provide basic services with high externalities.

Source: World Bank, 1996; p. 68.

In a country with large internal disparities and diverse conditions, it is often advisable to decentralized to different degrees in different areas of the country (called asymmetrical decentralization). Viet Nam’s largest cities, for instance, are not lacking in administrative capacity relative to the central government. What they need is greater discretion to pursue local strategies, and a more facilitative legal framework for intersectoral coordination, often hampered by central ministerial rules and assertions of control. This is a point well understood in Viet Nam, where creative implementation initiatives - such as the Hunger Eradication and Poverty Reduction programme itself - were often developed first by local governments before attracting attention by the national government for replication. The poorest parts of the country - typically mountainous areas - are in an entirely different position. Such areas need a comprehensive programme addressing their multiple deficiencies in fiscal and administrative capacity, and their often unique implementation environments.

79 See World Bank, 1996.
Participation

Major points in the literature bearing on participation, a final key concept under governance, include the following:

First, participation is both a means and an end; it both serves as a prerequisite for democracy as well as an excellent tool to improve implementation. But to be meaningful, participation needs to be tailored to specific circumstances as they affect people's lives and local administration.

Second, participation is a continuum; there are many different levels on which it can and does operate. Some – e.g. participation as being “informed” what has already been decided – may be frankly undemocratic in their implementation, so that not everything that calls itself participatory is worthy of the name. One way of conceiving of such a continuum is shown in table 6.3. The grassroots democratization decree (covered below) will have very different types of outcomes depending on how far down this continuum local governments can get. And since it is likely that some will get farther than others, here too the central and provincial levels have an important “quality control” function to perform.

Table 6.1 A typology of participation: How people participate in development programmes and projects

<table>
<thead>
<tr>
<th>Typology</th>
<th>Characteristics of each type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Passive participation</td>
<td>People 'participate' by being told what is going to happen. It is a unilateral announcement by programme management without any listening to people's responses.</td>
</tr>
<tr>
<td>2. Participation as information giving</td>
<td>People participate by answering questions posed by extractive researchers using questionnaire surveys or similar approaches. People do not have the opportunity to influence proceedings, as the findings are neither shared nor checked for accuracy.</td>
</tr>
<tr>
<td>3. Participation by consultation</td>
<td>People participate by being consulted and external agents listen to views. These outsiders define both the problems and the solutions. While people may contribute their views, no decision-making power is shared with them - the outsiders make all important decisions.</td>
</tr>
<tr>
<td>4. Participation for incentives</td>
<td>People participate by providing resources, for example labor, in return for material incentives. People have no interest in prolonging activities when the incentives end.</td>
</tr>
<tr>
<td>5. Functional participation</td>
<td>People participate by forming groups to meet predetermined objectives related to the project, which can involve the development or promotion of externally initiated social organization. This happens usually after major decisions about the programme have been made. These groups are not self-dependent, but may become so under the right conditions.</td>
</tr>
<tr>
<td>6. Interactive participation</td>
<td>People participate in joint analysis, which leads to action plans and the formation of new local institutions or the strengthening of existing ones. These groups take control over local decisions and can continue without external support.</td>
</tr>
<tr>
<td>7 Self-mobilization</td>
<td>People participate by taking initiatives independent of external institutions to change systems. They develop contacts with external institutions for resources and technical advice they need, but retain control over how resources are used.</td>
</tr>
</tbody>
</table>

More interactive forms of participation depend on a range of factors, such as:

- At what stage in the planning process people’s views are solicited;
- Behavioral patterns and attitudes of those who hold power and set the parameters of debate;
- Practical training and administrative procedures which are clear and facilitative of community input; and
- A supportive and clear legal and procedural framework.

Third, participation depends on the degree of organization within a community. Specifically, a strong, well-developed civil society facilitates people’s meaningful, interactive participation.

All of these elements of governance – administrative reform, decentralization and participation – must be carefully understood and applied within a specifically Vietnamese frame of reference, to which the paper now turns.

**Situation analysis**

Mass organizations in transition. Mass organizations – such as the Viet Nam Women’s Union, Farmer’s Union or Youth Union – represent a tremendous asset in the Vietnamese development equation, serving as a link between community preferences, and local and central administrative and political structures operating on a national scale. Where they operate effectively, these organizations have some characteristics of civil society groups – active voluntary community participation and the ability to reflect and represent group preferences and interests in wider sociopolitical arenas. Yet in practice, the quality and scope of mass organizations’ work varies greatly, both between mass organizations and from locality to locality. One reason for this is that local branches may often become bureaucratic and administrative in their focus. This may be a fate difficult to avoid entirely, since mass organizations are, in fact, formally incorporated into the Vietnamese state and have among their formal duties the propagation of government policies, regulations and laws. Another problem which partly stems from their mixed position – neither a fully-funded government agency nor fully independent – is the uneven, often precarious, funding base for their activities at both central level and the grassroots.

As a result of the uneven quality of mass and other existing rural organizations, the poor often lack access to information and effective channels of participation.

Civil society (non-state-based organizations) is weak and its further development blocked to some extent. Though Viet Nam is said to be experiencing a revival of civil society, there is a

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80 While ‘new’ cooperatives represent “a genuine attempt to enhance the capacity of local communities to work more effectively”, most “remain ineffective, with little farmer participation in management. Their competitive position is often weak and based on some form of monopoly power.” Fforde 1998 in UNDP and others, 1999b p. 70.
lack of clear legal underpinning for independent local organizations which could serve members interests. “Viet Nam is still in need of a more comprehensive, clear and enabling legal framework to provide the basis for the emergence and development of a healthy and stronger private sector and civil society with which the Government can finally, in all confidence, share the responsibility for the country’s development.” At the same time, there have been some promising recent initiatives. A 1999 decree provided a legislative framework for ‘funds’ (quy) and for the first time mentioned “NGOs” (to chuc phi chinh phu) in the Vietnamese context – a limited but useful underpinning for the basis of Vietnamese philanthropic activities.

Basic unevenness in the quality of local public administration. Local government administrative and fiscal capacity is very uneven; in poorer areas, it is extremely weak, as seen in poor intersectoral and intergovernmental coordination and an unstable implementation base at the commune level. The system of administrative support and fiscal transfers between levels of government is not succeeding in shoring up the dykes of administration where these face the greatest pressures. In addition, the central level is weak at providing a consistent legal framework for intersectoral coordination and at clarifying management mechanisms; in practice, local governments often face contradictions programmes and mandates from above. This situation results in a gap, often wide, between central policy and local implementation.

### Vision to 2010

**Table 6.2 Strategic directions: Institutional reform**

<table>
<thead>
<tr>
<th>Sub-goal / strategy</th>
<th>“Vision to 2010”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continue momentum of democratization decree</strong></td>
<td></td>
</tr>
<tr>
<td>Uneven implementation in initial phases; lack of clear focus as to how it will develop</td>
<td>More facilitative attitudes of local officials, underpinned by incentives</td>
</tr>
<tr>
<td></td>
<td>Better participation of women and poorer members of community</td>
</tr>
<tr>
<td></td>
<td>greater transparency in public investments</td>
</tr>
<tr>
<td><strong>Effective legal framework for civil society to emerge as key partner in social service and welfare provision</strong></td>
<td></td>
</tr>
<tr>
<td>Informal role</td>
<td>Mass organizations vigorous voluntarism and increasing ability to act independently in members’ interests</td>
</tr>
<tr>
<td>Lacking recognition</td>
<td>More formal acknowledgement as alternative channels for social service and welfare provision, including possibility of direct State funding at later date.</td>
</tr>
<tr>
<td>Difficulties in registration</td>
<td></td>
</tr>
<tr>
<td>Seen by some as poor alternative to State as mass provider</td>
<td></td>
</tr>
</tbody>
</table>

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81 UNDP and others, 1999b, p. 28.
82 mentioned in Grady, 2000. The specific decree number could not be located while drafting this paper.
How to Develop Rural Institutions which are Capable, Democratic...

Strategies

Reinforce national policy and legal framework for social sectors...

- Integrate poverty dimensions – opportunity, ensuring equity, reducing vulnerability – into all sectoral and economic programmes.
- Set basic standards and goals for the most priority areas within a national framework. Do this in the context of the International Development Goals (IDG), modified to fit Viet Nam’s profile through the development of intersectoral National programmes of Action.
- Strengthen the legal and policy framework for basic social services. As shown in the situation analysis above, Viet Nam has made impressive progress in linking social-sector programming to its international commitments under various United Nations conventions. The Convention on the Rights of the Child serves as one example. The challenge at present is to translate good policy into good results on the ground, via effective levels and composition of expenditure and the reform of local government implementation systems. In other words, the challenge is to overcome the policy-implementation gap.

Encourage community participation in service delivery

- Identify specific avenues for the involvement of mass organizations and the community in all stages of social service delivery. Currently, what community participation exists focuses on the implementation stage. Further involvement is possible in planning, monitoring and evaluation as well.
- Link the idea of community participation in social services to administrative reform agenda, including implementation of the democratization decree.

<table>
<thead>
<tr>
<th>Sub-goal / strategy</th>
<th>“Vision to 2010”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pursue decentralization while simultaneously building administrative and fiscal capacity in poorer areas</strong></td>
<td><strong>from...</strong></td>
</tr>
<tr>
<td>- uneven system of intergovernmental transfers</td>
<td>- extensive participation of stakeholders in design and implementation of public services.</td>
</tr>
<tr>
<td>- administrative capacity very weak in poor areas</td>
<td></td>
</tr>
<tr>
<td>- administrative culture passive, dependent</td>
<td></td>
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<tr>
<td>- development interventions often inappropriate in poorer areas</td>
<td></td>
</tr>
<tr>
<td><strong>to...</strong></td>
<td></td>
</tr>
<tr>
<td>- central government involved in effective redistribution towards poorer</td>
<td></td>
</tr>
<tr>
<td>- marked growth in capacity in poorer areas as administration becomes driving force for change</td>
<td></td>
</tr>
</tbody>
</table>
How to Develop Rural Institutions which are Capable, Democratic...  

Promote better quality control and the accountability of local service providers to the communities they serve. One avenue for doing this is the continued refinement of formal procedures for lodging citizen protests over unfair treatment, e.g. via the “Petitions and Denunciations” law (luat khieu nai to cao). Another is via the establishment of such mechanisms as neighborhood or local-control boards to supervise activities and fee application within local hospitals or schools.

Continue to institutionalize democratization decree

Take direct steps to improve communication decree guidelines and intent to communities and local administration. Some practical steps might include: dissemination campaigns for the democratization decree (using local languages where necessary); and investing “in media and communication at the local level, for example through support for community-based media and local language newspapers, in order to promote community participation in governance.”

Encourage, over the longer term, a cultural shift towards among local government officials, underpinned by incentives. “Boost willingness and ability of the institutions and authorities at commune level to change, which in turn will be dependent upon the ability of district and provincial authorities to listen to - and offer flexibility to - commune level institutions and authorities.” Such cultural shifts would require marshalling of particular incentives to be effective.

Establish mechanisms for “poorer households, or the quieter members within households, to communicate their concerns and priorities back up through the system.” Continue to look for mechanisms to attract the focused participation of women, ethnic minority groups, and poorest people who are less likely to be heard. The extent to which this decree will translate into increasing women’s voice in local level administration will depend to a large extent on which mechanisms are used to implement this decree.

Establish a supportive legal framework for civil society to emerge as key partner in social service and welfare provision

Mass organizations will continue to play an important developmental role over the next ten years. But to maximize their effectiveness requires them to reestablish or further deepen a sense of vigorous voluntarism at the grassroots. Mass organizations need an expanded area of independence: they should not be considered mere organs of the state. Ideally they will often be empowered to effectively represent the economic and other interests of members in disputes with other branches of the state, or other organizations.

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83 Ibid., p. 35.
84 World Bank and others, 1999a.
85 Ibid.
A strategy to strengthen the role and capacity of the mass organizations should include the following:

- The Women’s Union’s role and capacity should be broadened from that of service delivery (micro credit, information/education/communication on maternal and child health, etc) to include more strategic activities such as:
  
  - Policy research and advocacy regarding the implications of mainstream policies and programmes. Key concerns may include Land Allocation and the five rights associated with the Land Use Certificates, as well as how women can actively participate in the Grassroots Democratization Initiative.
  
  - Linking marginalized women to extension and outreach activities of other mass organizations such as the Farmers’ Union, the Youth Union and the Trade Union, and helping these organizations integrate a gender perspective into their work.

- Encourage the provision of social services and welfare assistance through small-scale, non-government, often informal groupings. These should be considered, not mere temporary expedients given limited State budgetary means, but rather often the best, most efficient, way to achieving social policy goals, such as ensuring vulnerable groups are provided with some kind of safety net.86

- Clarify the legal framework for civil society. As a priority, Viet Nam should “move ahead with Draft Law on Associations to provide a supportive legal environment for such groups to emerge and operate effectively. Groups need formal registrations, recognition and capacity strengthening not only so they can generate and manage funds and resources but also for them to work in support of the grassroots democratic process promoted by the State.”87

- Deepen and extend the existing consultative processes with new partners in the field of developing laws and decrees. In areas in which public and private interests coincide to a very high extent – as in the social sectors – some level of public-private deliberation is not just desirable but in fact critical to success. Promoting participation by stakeholders in the design and implementation of public services will also increase the economic efficiency and the sustainability of these services.88

- Open up certain important social programmes – such as HEPR – to joint evaluation by State and non-State stakeholders, as a means of promoting both transparency and ‘learning by doing’.

Pursue administrative decentralization...

- Decentralize planning of targets and goal setting within a national framework for greater accountability. In so doing, there is a need to strengthen local ‘ownership’ –

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86 This role of civil society has recently been supported by the United Nations in Viet Nam, which advocates a “partnership dialogue and agreements between the State and civil society, in particular in the area of socialization of basic social services.” (UNDP and others, 1999b, p. 35)

87 World Bank and others, 1999a, p. 90.

Intersectoral and horizontal coordination is the most promising means of raising the efficiency of service delivery. Improved coordination requires:

- increased local responsibility for goal setting and implementation mechanisms; and
- an improved legal and regulatory framework, including facilitative guidelines or interministerial circulars issued from the central level on how intersectoral cooperation is to be achieved in specific implementation contexts.

Enhance the accountability of service providers towards the end-users of social and welfare services by reviewing incentives for good performance, community oversight, and mechanisms to ensure minimum standards are upheld.

Develop a capable corps of local government officials while eliminating corruption and misuse of office.

... while developing an integrated regional policy towards the poorest areas...

Constraints on local government administrative and fiscal capacity (particularly in poor areas) are widely noted, and the government has some programmes to address this. One positive development is the inclusion of training for local officials as a key component of the National Target programme for the poorest communes. But these steps arguably do not go far enough, nor do they address structural roots and problems. The root causes of uneven government capacity relate more to the system of intergovernmental fiscal assignments and to the limitations these place on local government discretion and goal-setting, particularly in poorer areas. The challenge is to address these root causes and thus reform intergovernmental relations through administrative decentralization combined with capacity building, focusing on the weakest localities and regions.

- Build administrative and fiscal capacity in poorest areas as a matter of high national priority. Strengthen mechanisms for facilitative upper-level supervision, monitoring and evaluation of local administration.

- Ensure adequate local resources for achieving goals while still maintaining incentives to mobilize locally. In practice, there is an urgent need to improve interprovincial fiscal system, to ensure greater fiscal transfers to poor provinces. One way of doing this would be to move from a population-based system towards a more needs-based system for calculating the public expenditure norms, which form the baseline for fiscal transfers.

- Strengthen the implementation network at the grassroots, paying attention to the poorest areas.

- Continue and build on initiative to target poor geographical areas, moving eventually towards an approach which is more regionally-based.
Recommend an expanded effort – perhaps in the form of an “Ethnic Minority Development programme” – to address specific disadvantages of minority populations.

... and dealing with gender disparities in power and participation.

Given that in Viet Nam women's representation in political bodies steadily decreases as one moves from the central to the commune level (see figure 6.1), promoting decentralization will not automatically translate into increasing women's voice in decision making processes. Several specific effects can help ensure that it does so:

- Increase women's representation in the appropriate institutions and levels.
- Provide a set of 'gender equality guidelines' to these local level institutions, to ensure that decentralized decision making and grassroots democracy is representative of the needs and priorities of both men and women.
- Strengthen institutional (for both male and female officials) capacity for gender analysis to ensure that the policies and programmes reflect a gender perspective. Decentralization should go hand in hand with gender sensitive capacity building in areas such as local level decision making on infrastructure investments. For example, the fact that women may prioritize specific types of infrastructure needs (e.g. water and sanitation) should be taken into consideration when planning rural infrastructure.
- A strategy to improve central-level tracking of local budget expenditures should include strengthening capacity to collect and analysesex-disaggregated data. This would allow central and local government to measure some aspects of the equity dimension of their public expenditure, by illustrating for example to what extent men and women benefit from public expenditure. This would be a critical first step towards reducing gender gaps in access to social services and social safety nets.

**Figure 6.1 Participation rates of women and men in legislative bodies, 1998**

![Graph](image)

Box 6.4 The benefits and challenges of administrative decentralization: The Viet Nam national programme of action for children

The Viet Nam National programme of Action for Children (NPA) provides a good illustration of several trends affecting the social sectors. In 1990 Viet Nam became the second country in the world to ratify the United Nations Convention on the Rights of the Child, demonstrating the government’s high commitment to the concept of child rights. Viet Nam then operationalized its commitments under this Convention by drafting a National programme of Action for Children (for the period 1991-2000), which lays out specific, time-bound outcomes to be attained – such as the reduction of infant mortality – together with requisite resource and programme implementation requirements necessary to achieve those goals. The Government signed the NPA in 1991. It then took the step to decentralize the plan by encouraging the creation of plans at provincial, district and commune levels – a process nearly completed to the district level by 1998. It was hoped that local plans would corresponded better to local circumstances and conditions, and would encourage community participation.

The NPA experience, examined in a recent 7-province study of the achievements and constraints of NPA decentralization to date, reflects a number of strengths of Vietnamese social sector reform. It demonstrates the Government’s commitment to creating a progressive legal framework for the social sectors, in line with international norms. The programme also highlights Viet Nam’s ongoing administrative reform efforts, in which programme emphasis has shifted to “funding outcomes” – e.g. setting time-bound goals for such things as attaining literacy and attempting to allocate resources based on that goal – from a prior emphasis on “funding inputs” – e.g. budgeting based on the number of hospital beds. The plans have succeeded best in provinces where dynamic and capable local leaders have used them as a tool for better social-sector coordination.

Yet a number of weaknesses are also apparent. The quality of local plans and intersectoral coordination to achieve local goals are very weak in mountainous and poor localities. The process of local plan creation and implementation is largely failing in the poorest provinces, for several reasons.

The plans were unfunded – creation of a local programme of Action did not result in greater resources being funneled to a province – so poorer provinces lacked both the means and incentives to institutionalize the intersectoral approach at the grassroots. For example, Hochiminh City was able to fund additional staff to coordinate annual plan creation in every one of its communes, while poorer provinces such as Lai Chau and Tra Vinh struggled to establish effective grassroots implementation of local plans. The ability of the plans to serve as platforms for improving community knowledge and participation in social sector planning was thus severely curtailed in poorer areas, while better organized provinces like Thai Binh were able to do well.

The central government largely failed to provide an adequate regulatory framework for NPA decentralization, e.g. one that specifically outlined how ministries were to cooperate in the creation, funding and implementation of these intersectoral plans. As a result, provinces which already had stronger horizontal coordination – like Thua Thien Hue or Hochiminh City – were able to develop provincial initiatives, while others did little or nothing.

Without more consistent central-government direction, in terms of providing a legal framework for intersectoral coordination and transferring sufficient resources to improve the incentives and ability of poorer provinces to use locally created plans, NPA decentralization will probably see little deepening in poorer provinces. In better-off provinces, leaders will continue to use local plans, but will also be hampered by the lack of a detailed legal framework facilitating intersectoral work.

Administrative decentralization as found in the NPA process is likely to widen already large disparities between high- and low-performing provincial administrations. This highlights the need for a special, multi-faceted capacity building programme for poorer provinces as well as a stronger central level role in establishing a more supportive legal framework for effective decentralization.

Continue work on administrative reform to make public management more efficient

The substantive changes outlined in this item (and this strategy) are predicated on fundamental improvements in administrative performance. Future demands placed upon administrators will be much higher; they will be working in a much more complex environment, and will have more difficult duties placed on them by supervisors and higher levels of accountability demanded from clients. Progress on administrative reform has been substantial, but much remains to be done. Based on the experience of other developing countries, the following are areas which may warrant consideration in the context of Vietnamese administrative reform:

- Develop more transparent hiring systems to ensure that high quality graduates are attracted to the civil service. In an ongoing research initiative⁸⁹, many local educators could not explain clearly how people are hired, though they all agreed that the system is better than it used to be. The first line of monitoring is fair hiring, aimed at attracting top graduates. In this sense, rural government organizations are in a relatively strong position in Viet Nam, as they offer competitive wages and working conditions in local areas. Open and competitive recruitment procedures are clearly linked to employee performance. “Without exception, the organizations that were best able to recruit appropriate talent were those that had public announcements and competitions for applicants; rigorous examinations or interviews, or both; and some kind of review board to ensure objectivity.”⁹⁰

- Encourage key service delivery organizations to develop “citizens charters”, in which public organizations are encouraged to draw up, publish, and then work to a clear set of operating standards. These standards might establish a number of principles: “the setting of standards for service delivery and the assessment of actual performance against those standards; openness as to how the services are run; consultation with service users; choice as to the services which are available; value for money; and remedies when things go wrong.”⁹¹

- Introduce competition into public services where possible. This could take place between local governments, e.g. through continued use of such mechanisms as thi dua, or friendly competition, in achieving nationally specified goals such as Universal Primary Education in the 1990-2000 period, or Universal Lower Secondary Education in the coming ten years. It could also be introduced through increased development of private sector services (combined with better regulation), providing better choice of service provision to the end-users of these services.

- Better worker pay in the public sector will be crucial to improving overall performance. Improved pay and benefits should be linked to qualifications and performance ratings. Recent work with local cadres has underlined the fact that most feel

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⁸⁹ Forthcoming by Stefan Nachuk; contact Oxfam Great Britain, Viet Nam office, for details.
⁹⁰ Hilderbrand and Grindle, 1997, p. 53.
that formal material incentives for good performance are extremely limited, which has a negative effect upon their desire to produce high quality outputs.\textsuperscript{92}

While pay is undoubtedly important, recent research\textsuperscript{93} emphasizes organizational culture – the structure of work, authority relationships, communications and behavioral norms – as a decisive influence on performance in public-sector organizations, “at times independent of salary levels.” In this review, high-performing organizations in developing countries had several characteristics in common, such as:

- An organizational culture that stressed commitment to a mission and results-oriented performance;
- Management styles that emphasized equity, participation, and flexibility; and
- Links to international communities/organizations which enhanced commitment to high performance standards.

More facilitative supervisory patterns need to be introduced, away from hierarchical systems towards flexible technical support and the establishment and monitoring of concrete standards. Supervision within bureaus often appears to be related to the performance of specific tasks, which is in one respect very positive, as it holds cadres responsible for quantitative outputs. On the other hand, many cadres have indicated that they work with extremely little supervision (and the young teacher in a remote school, for example, has almost no supervision), and are responsible for reporting results to their superiors.

Develop a system of coaching, in-service training, mentoring, and rotations to other provinces to ensure that local cadres receive the support that they need to undertake their missions. Much official training is currently undertaken in classroom settings at the provincial or central level. Many cadres could benefit from long-term coaching from more experienced/skilled colleagues, and this would be especially true for cadres working in more remote areas of the country.

Introduce clear, transparent sanctions for poor performance. Sanctions that used to be widely used in the government system included public criticism sessions. However, sanctions in this case imply the use of monitoring systems to catch and punish those who perform poorly or neglect their duties in a timely fashion. In recent research, some cadres complained that even if they worked hard, some of their colleagues who worked much less received the same salary and benefits, and were not punished in any way. For example, sanctions are widely used in group lending schemes to punish borrowers who do not repay on time - sending a positive message to those who do repay on time.

Flexibility in implementation and institutional creativity should be stressed. To do this, high-level officials should cultivate a willingness to consider “new hybrid forms of public-private organization, through contracts and partnerships, and mutually supportive relations with non-governmental and community bodies which are an

\textsuperscript{92} Nachuk, 2000.
\textsuperscript{93} Hilderbrand and Grindle, 1997, p. 48-51.
important link between government and grassroots. Both efficiency and accountability gains are possible.\textsuperscript{94}

- Strengthening the use of data for decision-making and justification of public decisions will help with improving transparency, especially in public investment. This requires greater capacity to understand how to analyse data, and requires that data be made available not only to government agencies, but to other institutions and civil society, so that all sides may consider recommendations with a strong factual basis.\textsuperscript{95}

- Promote ethical administration, and behavioral modes: democratic values which give value to accountability and efficiency. Consider the development of an independent commission against corruption, which would report directly to the Prime Minister’s office, and make positions in this organization sought after by placing members on a fast track for future promotions. This model exists in Hong Kong and Singapore, and has been quite successful. While Viet Nam may not copy this model completely, it can experiment with quasi-independent bodies. The Party is very concerned with corruption, and has led numerous campaigns against it. However, one of the greatest difficulties is that local people and cadres who are honest do not always know where to turn. A body that is impartial, and not connected with other local people (thus diffusing fear of retribution), might embolden honest people to speak out more forcefully. Instead of party inspection bodies attempting to ferret out corruption, an independent commission could use citizens as its most effective inspectors. If corrupt people felt that they were being watched all the time, then it might be possible to turn the tide against corruption; the ‘corrupt would fear the honest.’

**Use market mechanisms and “socialization”, where appropriate, to maximum advantage**

- For non-basic services, diversify provision and reduce subsidies, setting up legal framework for private sector role. Where the State does still provide non-basic services, initiate better cost-recovery and improve the system of exemptions for the poor.

- Use market mechanism for resource mobilization and investments in quality, particularly for non-basic services. However, it is urgently important at present to find mechanisms to exempt the very poor from user fees for essential services.

- Allow the degree to which private services develop to vary by region, but strengthen information systems and State regulatory control over private providers within a facilitative policy framework.

**Promote social integration**

Social integration has long been viewed by the Vietnamese authorities as an integral part of the country’s social development strategy. Its objective, as committed by the

\textsuperscript{94} Ibid.

\textsuperscript{95} Bales, 2000.
Government, is to “gradually create equal opportunities for all people to enjoy their political and economic rights, to gain access to social services such as education, health care, recreation and care for the elderly.”

Some priority strategies include (but are not limited to) the following:

Women:

- Strengthen the framework for monitoring gender issues through the National programme of Action for the Advancement of Women.
- Strengthen the capacity of the Viet Nam Women’s Union to represent women’s interests.
- Adopt measures to ensure employment creation, income generation and poverty alleviation targeted towards women, including “full and equal access to education and training, health care ... and science and technology.”
- Enhancing the role of women in leadership and decision-making processes, particularly taking care to boost the (currently declining) percentage of women participating in deliberative and executive bodies of local governments.
- Protection of the rights, interests and dignity of women; elimination of any form of discrimination and violence against women and children.

Children:

- Continue to institutionalize intersectoral planning, implementation and monitoring of child rights and basic social services for children. This effort should continue to be linked to international commitments under the Convention on the Rights of the Child through the decentralization of the National programme of Action for Children.
- Continue to enhance the legal framework underpinning child rights, and strengthen the capacity of local governments to understand and implement these rights.
- Emphasize basic social services - such as primary health care and nutrition, primary education, clean water and sanitation - which overwhelmingly benefit children and contribute to long-term human capital formation.

Minorities:

- Conduct a comprehensive review of the curriculum in minority education. In particular consider making adopting methods of instruction in which Vietnamese is learned as a second language in some contexts. Adapt the content of the curriculum to better include culturally relevant material in minority areas.

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96 World Bank and others, 1999a, p. 22.
97 Ibid, p. 23.
Expand the number of scholarships at minority boarding schools, particularly targeting girls. Mobilize the population in a concerted campaign, backed by a substantial scholarship fund, to raise the enrollment rates of minority girls at each level. This is a cross-cutting issue affecting gender, child and minority concerns at once, and promises large socio-economic payoffs.

HIV-positive:

- Develop a strong legal framework for protecting HIV-infected from social alienation, and which ensures their equitable access to health services.

Disabled:

- Develop special approaches to ensure the disabled have equal access to public education and health care.
- Prioritize the disabled to the extent possible for increases in the social safety net expenditure.

Unregistered migrants to urban areas:

- Ensure the children of unregistered migrants have equal access to public education and health care.
- Take steps towards gradually liberalizing residency requirements while lowering administrative barriers faced by migrants in accessing economic and social services.

**Strengthen research, monitoring and information systems for the social sectors**

- Facilitate the short-term monitoring of poverty so that “faster action can be taken to reach the poor during times of hardship.”
- Strengthen information and feedback mechanisms for use at both national and local levels (disaggregated socio-economic monitoring and evaluation).
- Pilot decentralized approaches followed by active means of dissemination.
- Further develop mechanisms for international and local NGO’s, as well as other donors, to engage the government in meaningful dialogue over strategic direction Viet Nam is taking in the social sectors.

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98 Ibid., p. xii.
The six most important “breakthrough” measures

This strategy paper has presented a large number of recommendations, principles, approaches and indicators. But some stand out as particularly important across components. Rapid progress in social development and poverty reduction depends primarily on making significant progress on the following six reform areas. Expressed differently, without progress in these reform areas, continued gains in social development will at best be incremental in the coming years, and may in fact be reversed.

The six measures, and the items in which were presented, are:

1. Continuing reform momentum for economic growth (item three). International experiences presented in item three make clear that without recovering high growth rates seen over the early and mid-1990’s, Viet Nam is not likely to make headline-style progress in income poverty reduction. Moreover, this growth is vital to shore up lagging state revenues, a likely prerequisite for the enhanced funding of basic services recommended in the strategy.

2. Reorienting macroeconomic and investment policy substantively towards rural development (item three). There is a need to reconsider the predominance within public investment given to focal point economic zones. Freeing up resources for rural-sector investments by phasing out remaining subsidies to State-Owned Enterprises (SOE) is also essential.

3. Prioritizing basic social services within the State budget through increased allocations and intra-sectoral reallocations (item five). To accomplish this will require difficult structural changes in public expenditure (e.g. moving away from hospital and university subsidies). A high-profile commitment to achieving the 20/20 initiative by 2005 (particularly one based on the international definition of basic services) is necessary to achieve this goal.

4. Ensuring access of poor to basic services through a concerted, multi-pronged effort, paying particular attention to expanding basic education coverage and quality as the overriding priority (item five). This requires a large-scale effort to identify sustainable means to finance services that do not block access of the poor, as well as planning and implementation arrangements which will effectively address diverse local constraints on progress in this regard. This effort would need to be actively monitored at all levels of government and given sustained attention by the national and local leadership.

5. Reform intergovernmental finance and boost weak capacity in poor areas (item six). Fiscal transfers to poor provinces need to be boosted, so that they may meet basic, nationally set standards in key areas (such as the attainment of Universal Lower Secondary Education). At the same time, pursue administrative decentralization and governance reforms tailored to the requirements and capabilities of different regions.
6. Adjusting relationship between State and non-State actors in service and welfare provision (cross-cutting recommendation). In every field, research and pilot mechanisms for working with private actors and mass organizations. Facilitate the contribution of non-State sectors and communities towards the achievement of social development objectives.

Feasibility analysis

How feasible is the strategy proposed in this paper? From a financial point of view, the strategy calls for increased investments in a number of high-impact areas. The feasibility of doing so rests on two factors. The first is a resumption of high economic growth rates, which would shore up currently declining State budget balances. The second, related prerequisite is sustained political leadership to boost expenditure on basic services, by pursuing intrasectoral reallocations (from non-basic to highly cost-effective basic services) as well as protecting existing expenditure on amid competing priorities.

Below, three often used criteria for the institutional feasibility of development policy reforms are assessed.99

Criterion 1. The reforms should be conceptually and practically consistent with the basic institutions and commitments of the Vietnamese system.

The strategy proposed clearly builds on Viet Nam’s commitment to social sector development, poverty reduction, inequality mitigation and rural development, and is thus fully consistent with nationally-expressed priorities.

However, several ideas expressed in this paper are complex and demand careful interpretation:

- The contribution of ‘civil society’ within this strategy needs more careful consideration and delineation, as the term itself is still new, and its connotations diverse, within the Vietnamese political lexicon.100
- It should be clear that measures proposed to mitigate inequalities are not advanced as a substitute for economic reform, nor as a justification for proceeding slowly on important structural reforms. Quite the contrary. It bears repeating that structural reforms to economic policy (such as policies to boost employment creation by creating a level playing field for all economic sectors101) are themselves long-term measures to enhance equity and poverty reduction. Economic policy reform is essential to boosting aggregate growth rates, a pre-requisite for rapid improvements in social development.

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100 Marr, 1994.
101 Such policies are covered in detail in the other papers of the strategy.
Conclusions, Feasibility Considerations and Further Research

Criterion 2. Reform must be politically desirable to the leadership and its constituencies: political benefits must outweigh political costs.

The strategy proposed herein, if adopted, would bring significant benefits to several important stakeholders:

- The majority of Vietnamese who live in rural areas, particularly the relatively poor and the vulnerable.
- The national leadership, who by adopting and implementing the strategy reaffirm commitment to broadly-based, equitable growth as a defining element of Vietnamese socialism.
- Rural local leaders who visibly “deliver the goods” and are perceived by their constituents (at higher levels of government as well as the grassroots) to progressively pursue social welfare.
- The urban poor and underemployed, who benefit in several ways: from a more rapidly growing economy; from increased choice and competition among service providers; and from better exemption mechanisms from user fees (though the last depends on actual success in identifying and implementing such mechanisms, no easy task).
- Mass organizations and civil society generally, who benefit from an improved legal framework facilitating their activities and contributions to social development.

The strategy thus scores well on this second feasibility criterion; yet the strategy has its costs. Potential resistance to selected parts of the strategy might be anticipated from:

- Some elements of the State-owned enterprise sector, who would face increased competition and fewer subsidies.
- Certain elements in the Party / State who stand to lose from greater transparency in resource allocation and reduced direct State control over markets.
- Major revenue generating centers, who will resist further interprovincial fiscal redistribution (to the extent that this becomes necessary to shore up the position of fiscally weak provinces, as recommended in the strategy);
- More affluent urban constituents and their political representatives, who would face higher user fees for non-basic services;

How the major central line ministries would respond to calls for increased decentralization and horizontal coordination is an open question. On the positive side, they would benefit from a clearer framework for the accountability of lower governments regarding minimum service delivery standards, and from improved strategic direction within their sectors. On the other hand, direct upper-level control over some fiscal allocations and implementation arrangements would be delegated to local governments and communities, involving a delicate reorientation of roles and responsibilities. Strong leadership from central-level coordinating ministries and the national leadership would be necessary to make decentralization work, but these also may face conflicting pres-
sures and interests. Administrative decentralization, to be coupled with a major capacity building effort in poorer localities, remains one of the most complex, though promising, planks in the strategy proposed.

Criterion 3. Reform must be politically and organizationally feasible to implement.

Feasibility on this score is difficult to fully assess, depending as it does on the political reception to the proposed strategy. But the stakes are undeniably high. While certain aspects of the strategy involve difficult choices, the alternative is probably relative stagnation in both economic and social terms, which would be inimical to long-term socio-economic stability. As in the economic sectors, the sooner reform begins and deepens, the sooner significant benefits will accrue, particularly given the synergies between social and economic investments discussed in item five.

On balance, the strategy proposed should be feasible. Its most difficult elements – such as decentralization, strengthening local capacity and changing patterns of public investment towards basic services – can be pursued gradually, within the framework of currently expressed policy intentions.

**Suggested further research**

This strategy has been prepared under tight time constraints. It, and the strategic planning process leading up to 9th Party Congress in 2001 generally, could benefit from further research into several areas:

Scenario development linked to public expenditure review. One of the shortcomings of the current paper is its lack of detailed public expenditure analysis, showing what levels of resources would be necessary to achieve stated objectives, and assessing the feasibility of expenditure shifts proposed herein (e.g. from basic to non-basic services; from urban to rural investments etc.). Development of specific scenarios for a range of indicators – both social welfare and programme coverage – linked to various expenditure and economic growth scenarios, might assist policy-makers in drawing conclusions about the longer-term ramifications of decisions made today. Linking this strategy paper to the ongoing Public Expenditure Review undertaken by the Government would be a very useful exercise.

Assessment of current sectoral long-term strategies. Strategy papers stretching beyond the year 2000 exist for most major social sectors, like health and education. The current review could evaluate in detail their consistency with this paper, e.g. regarding the proposed expenditure shift towards basic services. Such a comparison and cross-critique of sectoral strategies would be a useful service as policy-makers attempt a unified approach to social policy development.

Conceptual and organizational options for targeted, area-based poverty programmes such as HEPR. These represent a major plank in the Government's rural development strategy, and at present are undergoing some fundamental changes – towards decentralization,
enhanced community participation and greater targeting onto the poorest geographical areas. Further work is needed to compare Viet Nam’s evolving approach with international experiences and to develop specific recommendations for organizational reforms which would underpin improved HEPR programme performance. Item three only scratched the surface in this regard.

Concretizing proposed institutional reforms. Item six proposed a number of challenges for institutional development, including increased openness to civil society, carefully designed decentralization and administrative reforms. In some cases, despite widespread agreement on the goals of institutional development, clear “reform roadmaps” do not exist for how to get there. In addition, there is a dire shortage of research examining the issue of civil society in Viet Nam and what specific actions the government might undertake in the next decade to better facilitate its contribution to development. Feasibility of strategy. This concluding item has identified a number of powerful stakeholders related to the proposed strategy. Given how important the issue of institutional feasibility is, it would certainly be useful to more thoroughly develop a stakeholder and analysis, based on interviews with a wider range of ministerial, Party and local government officials and other stakeholders.
reduce some of the economic causes of son preference.
References


