

# **Vietnam Inequality Report 2005: Assessment and Policy Choices**

Mekong Economics Ltd. Synthesis Paper of the “DFID Drivers of Inequality in Vietnam” Project

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The opinions expressed in this paper are those of the authors; they do not imply endorsement by the sponsors of the research.

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## Acronyms and Abbreviations

ABE	Alternative Basic Education
BMI	Body-Mass Index
CIEM	Central Institute for Economic Management
CPV	Communist Party of Vietnam
DFID	Department for International Development
DPI	Department of Planning and Investment
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FES	Friedrich Ebert Stiftungking
GDP	Gross Domestic Product
GSO	General Statistics Office
ICT	Information Communication Technology
ILO	International Labor Organization
IMF	International Monetary Fund
IPM	Integrated Pest Management
LSMS	Living Standard Measurement Survey
MoLISA	Ministry of Labor, Invalids and Social Affairs
NCFAW	National Committee for the Advancement of Women
NCSSH	National Centre for Social Sciences and Humanities
MDG	Millennium Development Goal
SIDA	Swedish International Development Agency
SOE	State-Owned Enterprise
UNDP	United National Development Program
VBSP	Vietnam Bank for Social Policies
VHLSS	Vietnam Household Living Standard Survey
VLSS	Vietnam Living Standard Survey
WTO	World Trade Organization

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## EXECUTIVE SUMMARY

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*We are not afraid of shortage, only of distributing what we have unequally.*

President Ho Chi Minh

This paper explores the tensions and opportunities surrounding Vietnam's attempt to reach the goals of rapid economic growth while also being a Socialist "fair society." It does so by looking at the phenomenon of *inequality* in the process of economic transition and development. The ultimate goal of this paper is to inform government policy *choices* – to examine how the actions of the government can have an impact, in a market economy context, on the achievement of equitable, balanced development.

### **The historical record and the state of inequality in Vietnam**

There is inequality in every society, just as there is corruption in every society, and the policy challenge is how to *minimize* these negative phenomena whilst also *maximizing* economic development and modernization. The development experience of East Asia in recent decades has shown that this is possible. South Korea, Taiwan and even Indonesia have experienced rapid growth without a significant rise in social and economic inequalities. Yet inequality is high in the Philippines and has risen rapidly in China in recent years. Which way will Vietnam go?

It is difficult to predict trends in inequality. The historical record shows that there is no 'natural' or necessary tendency for aggregate economic inequality to increase rapidly for countries at Vietnam's level of development. Inequality is not strongly correlated across the globe to rates of economic growth or to levels of per capita wealth. There are, for example, rich countries with relative economic equality, and others with high inequality.

The current level of aggregate economic inequality in Vietnam is moderate is one uses international comparisons. Decollectivization in the early phase of *doi moi* had an important positive impact on broadly based growth and equity. Vietnam's most recent Gini coefficient (the most common measure of income inequality) places it 51<sup>st</sup> out of 123 countries for which Gini coefficients are reported by the World Bank. Inequality is, however, rising, and the speed of the increase is as yet difficult to predict. But current levels and rates of increase of inequality are consistent with those experienced by China in the early 1990s, at the beginning of a period of sustained and pronounced "unequal development" which is seen by many analysts and policymakers to underlie much of China's increasing rural unrest. It is plausible that current trends could vault Vietnam (like China before it) into the group of Asian countries with relatively high inequality over the next 10-15 years.

In Vietnam, the measured increase in inequality during 1993-1998 was due to a widening gap between rural and urban areas. During 1998-2002, however, inequalities *within* urban areas and *within* rural areas explained most of the ongoing increase. This change in the cause of inequality reflects the process of socioeconomic differentiation based on access to human capital – which is still highly unequally distributed at the higher levels of the education system. It also underscores the variability in the quality of local governance, which ongoing decentralization is likely to exacerbate.

Within the overall picture of rising inequalities in Vietnam some problems stand out as particularly alarming. Some groups, particularly ethnic minorities, are being “left behind” as the rest of the country develops – despite the efforts of targeted assistance by the Government. The data shows that the poverty gap measure – a reflection of how far from the poverty line poor minorities remain – has barely moved between 1998 and 2002. This means that poor minorities are on average not getting any closer to the poverty line; they are stuck in a cycle of structural poverty, with the gap between them and both poor and non-poor Kinh continuing to rise.

Another concern is that a significant elite class in urban and some rural areas has emerged in recent years. Most Vietnamese want to be wealthy, and this is certainly not a crime. But if wealth often comes – or even is *perceived* to often come – from networks of patronage and corruption, then it can lead to social instability. Only proper and transparent implementation of the “rule by law” can solve this problem and make growing rich ‘legitimate’.

## Drivers of inequality in Vietnam

Every policy has some impact on inequality. We identify and examine seven of the most “drivers of inequality” in the Vietnamese context.

*State-sector bias.* Reducing poverty in Vietnam is inextricably linked to policies that promote extensive use of the primary asset owned by the poor – their labor. Yet the significant levels of protection afforded the sector under an import-substitution industrialization policy, coupled with preferential access to state credit, have arguably hurt sectors with the potential for more rapid employment growth.

*Urban bias.* Despite the existence of targeted, anti-poverty programs, the overall pattern of public expenditure has been biased towards selected urban and their immediate hinterlands. Direct income taxes like personal income tax and real-estate taxes – primarily borne by higher income individuals – contribute an abnormally small share to budget revenue (3%), while the combined incidence of various taxes, fees and contributions in rural areas varies widely across provinces and appears to constitute a significant burden for many low-income households.

*The secondary education bottleneck.* Even as the demand for a more diversified workforce have increased, the supply of university graduates – though growing – is still very limited in Vietnam, particularly in comparative international perspective. The relatively few graduates are therefore able to establish substantial wage premia, driving up inequalities.

*Limited access to safety nets.* Formal safety nets cover only a small portion of Vietnam's population, and are poorly targeted. The level of population coverage is rising, but at a very slow pace.

*Gender bias.* Signs of a remaining gender gap are evident. Representation of women at *local* government level in Vietnam is low and, by some reports, declining over the transition period. Significant variations in the ratio of female to male earned income for similar work are observed in some sectors. School attendance for females aged 15-17 is decreasing compared to males, primarily due to girls seeking wage employment in greater numbers than boys.

*Multiple, reinforcing vulnerabilities of ethnic minorities.* Despite the economic successes of Vietnam as a whole, ethnic minority communities show signs of considerable distress. Roughly 75% of ethnic minority people fall below an international poverty line, compared to 31% of the Kinh majority. The gap in living standards has been widening across some 'leading indicators' of future inequality, such as school attendance above the primary school level.

*Corruption.* Corruption, and the limited effectiveness of current accountability mechanisms, constrain Vietnam's efforts to build a society based on the rule of law. They may also affect citizen perceptions of the legitimacy of Vietnam's current distribution of economic opportunities and outcomes, and by extension may negatively influence sociopolitical stability itself. There is little evidence to suggest that current policy measures are capable of bringing the corruption problem under control.

## **What can be done?**

In the short term it may be difficult to halt or reverse the rise of economic inequality in Vietnam. But international experience shows that rapid growth does not *require* high inequality: growth and equity can go together. Many countries have been able to sustain high levels of economic growth without seeing the rising inequality that China is experiencing. There are policy interventions that promote equity and are also fully consistent with the further development of a market economy. These include (among others discussed in the report):

- ❖ A more rapid downscaling of the SOE sector. Among the most important policy instruments for doing this are the removal of biases (e.g. in the allocation of scarce credit) towards capital-intensive, import-substituting industries, primarily those in the SOE sector.
- ❖ Facilitation of private-sector investment and small- and medium-scale enterprises.
- ❖ Public finance reforms. Expenditure reforms such as increasing allocations to the rural development sector and enhancing financing of fiscally weak provinces and districts are essential. On the revenue side, the current tax structure should be reformed so as to tax at predictable, enforceable rates the incomes of the better-off while monitoring closely the burden of taxes, fees and contributions on low-income households.
- ❖ Measures to address the 'crisis of affordability' of basic services to the poor, particularly in education and in health care. Use of the 'socialization' approach should be accompanied in



each case by careful investigation of the potential impact on poor households. (Such impacts are often greater than anticipated.)

- ❖ Development of an integrated national system of social security. Expansion of social insurance coverage should focus in the short- to medium-term on addressing household vulnerabilities to infirmity and old age. Non-contributory social pensions and the distribution of health insurance cards to poor households are two measures that show promise.
- ❖ Development of special models for service delivery in minority areas. Such models need to be articulated for all important sectors. For example, the special challenges of boosting educational attainment of minority girl children should be diagnosed and addressed. Attention to issues of 'voice' and political representation in minority communities may also be increasingly important as such communities continue to fall behind the pace of development in the rest of the country.

Some reforms highlighted in the report, such as more rapid state enterprise reform and the further removal of impediments to private sector development can be expected to promote more sustainable *and* more rapid growth. These, of course, are familiar pro-growth recommendations, but we repeat them in the context of also being pro-equity recommendations. Other reforms, such as strengthening the administrative capacities for decentralization in poor regions, and boosting overall expenditure on (and more equitable access to) education, will need to be balanced against other demands for public resources. Yet others, such as a more externally-oriented approach to Vietnam's anti-corruption strategy, are propositions that are already being actively debated among Vietnamese academics and policymakers. A gradual move from a reliance on internal oversight systems (the Party policing itself) to external and horizontal systems of transparency and accountability (strengthening an independent judiciary and the involvement of civil society) would strengthen the equality of opportunity and protection that are so important in the current context.

Vietnam has left behind an egalitarian age when it was expedient to pursue, whether in practice or rhetoric, equality of outcomes. Regional development outcomes in Vietnam will never be equalized; household incomes will never be equal; minorities are unlikely in any scenario to achieve income parity with the majority – if only because of the *geographical* challenges posed by upland environments. This is well understood by policymakers and, one senses, Vietnam's citizens. But the challenge of progressively improving, step by step, the *equality of opportunity* for all Vietnamese to better themselves – however vaguely defined this must be at the aggregate level – is of profound social and political significance to the Vietnamese polity. This, we argue, is not only a question of whether, on average, livelihoods continue to improve in Vietnam. It is at least as much an issue of whether the *rules of the economic, political and social game* are perceived to be fairly applied to all, regardless of who one is or knows. The lived experiences of social inequality will revolve around everyday questions: whether school fees block access to a university place, jobs are available following graduation or corruption and red-tape plague the new entrepreneur.

In that sense, inequality is a much broader concern than just slowing or reversing the rise in aggregate income inequality. It also has sociological and political dimensions. Aggregate measures

of inequality do not capture the significance of the issue to Vietnamese citizens. They do not resent wealth as such, but “unfair wealth”. They do not resent government officials as such, but the few officials who abuse their position of public trust. The rural poor do not resent urban growth, but obstacles and policies that stop them moving to urban areas and sharing in the development. The ethnic minorities do not resent the Kinh being richer, but rather the huge problems they face in getting good health, education and improving their lives.

Much remains to be done to promote equity and address the core drivers of inequality in Vietnam at present, and much *can* be done. Vietnam can achieve rapid development with equality, but in doing so needs to evaluate policies with both objectives in mind.

## Introduction

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In the context of a country ravaged by war, Ho Chi Minh once said, “we are not afraid of shortage, only of distributing what we have unequally.” Two decades of economic transformation have brought Vietnam far from the days of chronic shortages and shared sacrifice that motivated that eloquent statement. Yet the question of what makes any given distribution of income or life chances just has itself never lost relevance. The vision of a “fair and civilized society” has represented a fundamental commitment of the Vietnamese Communist Party since its endorsement of this program in 1991. And the fundamental question of who gains and who loses – even in relative terms – is still a powerful one in the minds of both policymakers and citizens. Indeed, perceptions of social and economic equity still lay at the core of the legitimacy of this “Socialist Republic”.

But what is the problem of fairness when applied to a period of rapid economic growth and poverty reduction, such as Vietnam has experienced over the past decade? This paper explores the tensions and opportunities surrounding Vietnam’s attempt to reach the goal of being a “fair society.” It does so by looking at the phenomenon of *inequality* in the process of economic transition. The ultimate goal of this paper is to inform government policy *choices* – to examine how the actions of the government can have an impact, in a market economy context, on the achievement of equitable, balanced development.

The paper has two parts. Part I provides a brief, descriptive overview of unequal development in Vietnam. It places the question of how fast economic and social inequalities are rising in Vietnam against an international backdrop. We find that Vietnam’s inequalities are rising moderately, not dramatically; its growth experience has been broadly shared. However, there are signs that the pace of inequality generation is accelerating. A hard core group of poor – especially ethnic minorities – coexists uneasily with a newly arising class of the superrich, and this may threaten sociopolitical stability, particularly given the perception of endemic corruption frequently described on the pages of Vietnamese newspapers. The question may not be how fast inequalities are growing, but what is the growing economic, social and political significance of these inequalities.

The paper then moves in Part II to some key *drivers* of these inequalities. Root causes of inequality are those that:

- Determine the economic opportunities that some groups or individuals can take advantage of;
- Make some groups more resilient to shocks and economic fluctuations than others; and
- Weight the interests of some groups in national and local decision-making more heavily than those of others.

Some sources of inequality relate to how individuals with different bundles of assets and capabilities, located in areas with vastly different levels of market-serving infrastructure, interact with new economic conditions and opportunities brought by the shift to a market economy. The

role of the state in this process is complex. Governments do not control all of these “drivers of inequality”. For example, social norms determining gender roles and ethnic relations are only partially amenable to government influence. Some factors lie almost entirely outside of government control in the short run (such as natural resource endowments and international economic fluctuations). But some inequalities are created or reinforced by the effect of public institutions, and are thus potentially amenable to policy reform.

After exploring each driver, Part II considers potential policy and institutional reform *choices*. A common misunderstanding is that inequality is natural, even necessary in a market economy and that the costs of intervention to reduce inequality would be prohibitively high in terms of economic growth. This section asks the question, are there areas of government policy that if reformed would benefit *both growth and equity*? The answer is decidedly ‘yes’. That does not mean that reforms would be painless. But the primary costs of the policy choices would be measured in terms of the political will necessary to overcome inertia and vested interests rather than in monetary or ‘growth’ costs.

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## Part I. A profile of rising inequality

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Inequality is a controversial subject in Vietnam’s context. To some observers, it is rising quickly; to others, rather slowly.<sup>1</sup> This section reviews available evidence on inequality levels and trends in Vietnam from both an economic and social perspective.

**Economic perspectives.** The growth and poverty reduction figures from Table I tell a familiar story: on both scores Vietnam has placed among the top performers in the world since the advent of the *doi moi* reforms. Growth has ranged above 6% for 9 of the past 11 years, and has had a strong impact on poverty; the Vietnam Living Standard Survey<sup>2</sup> traces a decline in the poverty headcount from 58% in 1993 to 29% in 2002%. Inequality of household expenditure has also increased over this period, but slowly. Vietnam’s expenditure Gini increased from .34 to .35 in the five years following 1993 – a relatively modest rise, and another .02 from 1998 to 2002, suggesting an accelerating pace of increase.<sup>3</sup>

The current level of aggregate economic inequality is moderate in international perspective. Vietnam’s Gini placed it 51<sup>st</sup> out of 123 countries for which Gini coefficients are reported for recent years in a statistical compendium. Taking another common measure of economic inequality – the ratio of the top to bottom 10% of earners – Vietnam’s ratio of 8.4 stands out as roughly in the lower range of a pack of regional and international comparison countries, even given the recent increases.

**Table 1. Poverty reduction, growth and inequality in Vietnam 1993-2003**

	Poverty Rate	GDP Growth Rate	Ratio top-bottom 10%	Gini Index
1993	58.1	8.1	8.07	0.34
1994		8.8		
1995		9.5		
1996		9.3		
1997		8.2		
1998	37.4	5.8	8.58	0.35
1999		4.8		
2000		6.8		
2001		6.9		
2002	28.9	7.1	9.42	0.37
2003		7.3		
2004	Figures to be released in late 2005			

Source: Vietnam Development Report, various editions

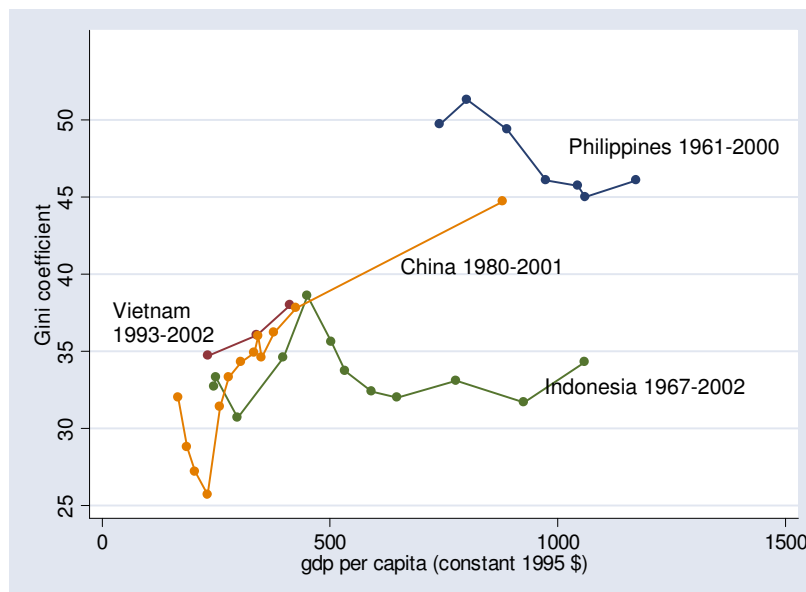
How are we to assess Vietnam's *rate of increase* of economic equality against the yardstick of other countries' development experience? International economic theory puts Vietnam's *rate of increase of economic inequality* into perspective. The influential "Kuznet's inverted-U theory" in early development writing held that over the course of a poor country's economic ascent, inequality would first rise considerably as a natural outcome of the shifting composition of employment, before eventually, at mid-income levels, beginning to subside.<sup>4</sup> Many observers drew the conclusion that there was that there is an equity-growth trade-off, which made high levels of inequality in the early stages of economic development unavoidable. This debate matters because Vietnam remains a very poor country in economic terms; thus, if the earlier theory is accepted, significant rises in measures of Vietnam's economic inequality could be considered unavoidable and, in the long run, reversible. They would be nothing to lose sleep over, at least from the perspective of economic theory.

Most comparative international studies suggest there is no systematic relationship between growth and inequality, or, to be more precise, between the growth in GDP per capita and aggregate measures of expenditure or income inequality such as the Gini coefficient.<sup>5</sup> For some countries, a Kuznets-type pattern is observed, but when a large number of countries are analyzed, a country's per capita income does not explain much of the variation in inequality across countries or over time.

Figure 1 provides some perspective by examining the manner in which the Gini measure of inequality changed in several countries over the course of their economic development. In a broad sense, the development trajectory of each country shown has to be understood in terms of its own context, against a historical, political and social background. But the figure is

suggestive of the lack of correlation between inequality and economic development levels or pathways found in much larger sample. China's rapid rise in inequality since the mid-1980s stands out as somewhat unusual in this sample; other countries shown have seen a narrower range of fluctuation and actual declines in inequality over periods of otherwise significant growth. While the time-series data available are incomplete, for Indonesia at least a period of sustained reduction in the Gini coefficient began at approximately the same level of per capita income as found in Vietnam at present, and which marked the meteoric growth in China's Gini.

**Figure 1. Gini Coefficient and GDP per capita over time, selected countries**



Sources: Denniger and Squire's 'high-quality' dataset until 1995 and World Development Indicators

Vietnam's relatively low income and moderate inequality both stand out in the few data points shown in Figure 1. But overlaying Vietnam's three points next to China's is at least evocative, suggesting it is on the same general 'unequal development' path that China has experienced, and which is seen by many analysts and policymakers to underlie much of that country's increasing rural unrest and fears of sociopolitical instability. The pace and direction of inequality generation in Vietnam, while too early to pin down, could vault the country into the relatively high-inequality group of Southeast Asian comparators.

The countries listed in Figure 1 have clearly followed very different trajectories in their Gini coefficients as they developed, and this underlines the findings of a number of comprehensive surveys of the issue.<sup>6</sup> *There is no 'natural' or necessary tendency for aggregate economic inequality to increase rapidly for countries at Vietnam's level of development.* It is also important to keep in mind one of Kuznets main contributions that is still relevant (and often forgotten) today: the biggest problem in linking inequality to the level of development is the poor quality of the available data. Despite some recent improvements that are reflected in Figure 1,<sup>7</sup> many estimates of aggregate inequality are based on very small, non-systematic samples. In addition, some analysts mistakenly

compare Gini estimates based on expenditure and those based on income -- a without noting that the latter tend to be systematically higher by construction.

The reality is that no one figure can adequately capture inequality levels or trends in a country, nor their significance for political and social stability and welfare. For example, inequality in many settings may be more politically explosive when it involves substantial *polarization* – significant changes at the top and bottom ends of the welfare spectrum – even when these result in apparently modest movements in “average” inequality (as expressed in the Gini). We now turn to more disaggregated and contextualized figures.

**Measures of human development inequality.** Human development indicators in Vietnam are generally better than expected given its income level. And Vietnam has continued to make progress on these human development measures through its economic ascent, unlike some other transition countries (primarily in Eastern Europe and the former Soviet Union) which saw reversals in social indicators over the 1990s.

But substantial variations in human development outcomes are also evident. One type of variation is regional. Infant mortality, for instance, varies in provinces from 85 per 1000 infants – as bad as most least developed countries, for instance – to below 20 for several cities and delta provinces, on par with some of the most economically advanced states in Asia. Differential access to social services and infrastructure account for much of this variation. For instance, access to improved sanitation facilities is both an important goal in itself and a key determinant of long-term health outcomes; it too varies dramatically by province, from less than 25% in some mountainous and coastal provinces to over 95% in several cities and delta provinces. This scale of disparity is found across many types of social indicators.

Other measures examine the breakdown of economic inequality within a country. One is the Theil index, used to assess both overall levels of inequality as well as factors that have contributed to changes in the expenditure Gini. Figure 2 shows two ways in which the Theil divides contributions to inequality:

- between and within rural and urban areas, and
- between and within regions.

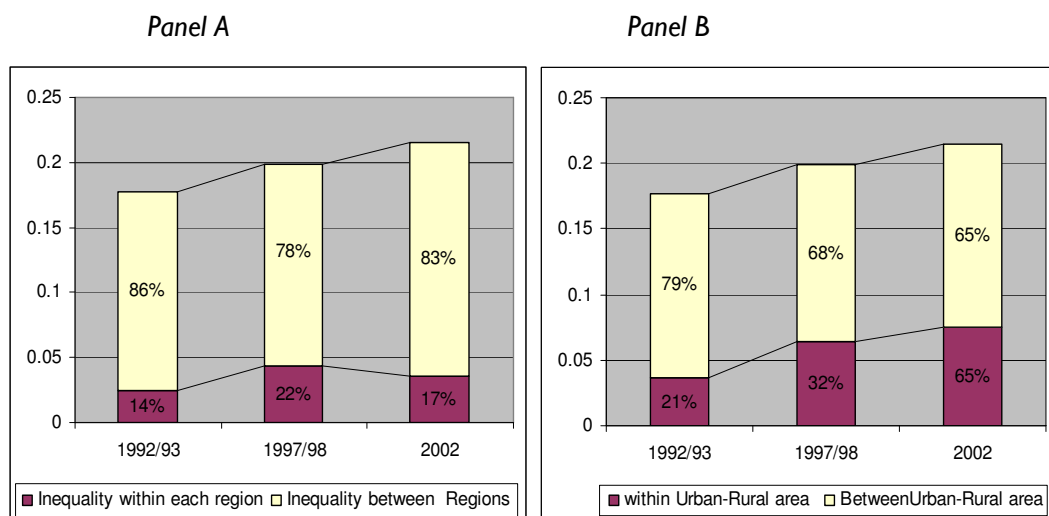
Much of the recent increase in inequality in Vietnam is due to a rise in inequality between regions and within urban and rural areas. The economic development performance of regions is diverging over this period. But within these regions, greater levels of inequality are observed between similarly situated rural and urban areas. This may represent a change from the early years of the transition. In 2000, a donor report suggested that:

this period [1993-1998], which followed some very significant policy changes in Vietnam...has seen no increase in inequality within rural areas. In fact, inequality within rural areas has actually declined somewhat during this period. While concern has been raised that the policy reforms initiated in agriculture would lead to rising inequalities, there is no evidence to indicate that this is the case.<sup>8</sup>

The recent evidence suggests that at the macro level, the above statement is no longer accurate. One interpretation for the pattern observed in Figure 2 is that the process of

economic differentiation between households in similarly situated areas is accelerating due to increasing returns to human capital, regular wage employment and, perhaps, access to economic rents and corruption. A complementary perspective is that the different degree to which local governments succeed in creating an enabling policy and regulatory environment, even in similarly situated localities, is taking on greater importance under conditions of administrative decentralization in Vietnam. Both of these views are explored further below.

**Figure 2. Theil decompositions of inequality by region (panel a) and rural/urban (panel b)**



Source: VLSS calculations

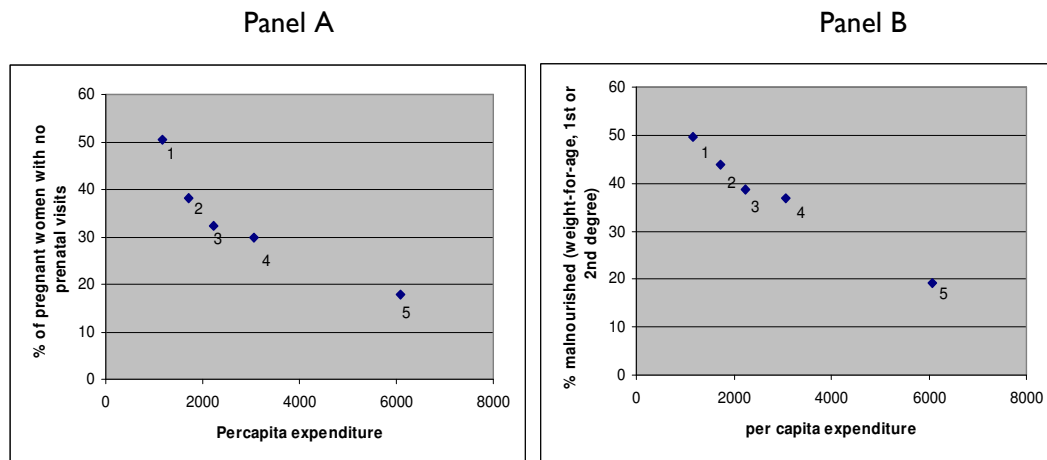
Another way of disaggregating human development is by household expenditure quintile, highlighting the differential outcomes of economically better-off and poorer households. In Figure 3, the *outcome* of interest is malnutrition in Panel A, while Panel B presents a related *service coverage* indicator, access to prenatal care. Substantial disparities mark both; astonishingly (given the near universal coverage of health centers in the countryside), over half of pregnant women in the poorest expenditure quintile still fail to access prenatal care. Causation is complex in these cases,<sup>9</sup> but the figures side by side emphasize that some classes with greater expenditure levels have greater access to critical services that drive differential human development outcomes.

By highlighting an important social service affecting women, Figure 3 also indirectly raises the issue of gender. Women’s legal and constitutional rights are strong in Vietnam, and economic disparities between men and women remain. Yet some social aspects of gender inequalities appear to be growing – such as the vulnerability of women to domestic violence – while their political representation has also been gradually declining at all levels of government. These complex issues are explored in greater depth below.



Another source of variation is by ethnicity. It has sometimes been stated that all regions and ethnic groups are gaining from *doi moi*, simply at different rates. Minorities have clearly benefited from improved coverage of social infrastructure, particularly where coverage is measured by physical accessibility. For example, virtually all communes now have at least one primary school and a public health clinic, and coverage of the electricity network in minority-dominated households has also improved, from 7% in 1993 to 43% in 2004. Yet especially in terms of the *utilization* of services, minority coverage gaps continue to loom very large. Although minority students have gained better access to education at all non-tertiary levels over the past 15 years, the absolute gap in educational attainment between them and Kinh students has remained constant at lower secondary education and grown at the upper secondary level.<sup>10</sup> And as noted below, the pace of their poverty decline seems to have largely frozen between 1998 and 2002; the poverty gap measure, for instance – a reflection of how far from the poverty line poor minorities remain – has barely moved in this period (Figure 5 below). The question of ethnic minorities is one to which we return to several times in this report.

**Figure 3. Expenditure quintile as predictor of the access to prenatal care (Panel A) and malnourished children (Panel B) (1998)**



Source: VLSS, 1998

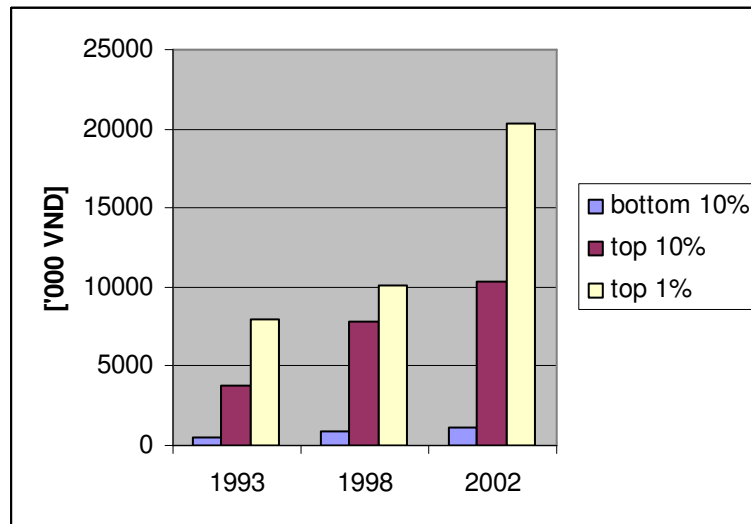
**Social and political perspectives.** Figure 4 shows the improvements in economic conditions – quite modest in absolute terms for the poorest 10% of households<sup>11</sup>, and dramatic for the richest. Consider now the social tensions suggested by such the polarization depicted, as the consumption patterns and preferences of that richest group diverge from a segment of the population that, despite gains, is being left way behind on the road to prosperity.

There are several ways to explore the political and social *significance* of Vietnam’s rising inequalities. The pursuit of social fairness has always played an important role in political rhetoric and policies, but emphasis and interpretation have changed over time. The pre-*doi moi* focus was on *egalitarianism*, or fairness understood as ‘equality of outcomes’. This focus fit well

with the need to cement social solidarity during decades of shared sacrifice. It was reflected in various land reform programs and the promotion of peasants within the Party apparatus.<sup>12</sup> The transition to a market economy has brought some conceptual tensions to the fore. Greater economic differentiation is to be tolerated so long as it is part of an overall process of economic development benefiting the majority of the population. Equality in this sense may have more to do with *equality of opportunity* for everyone to participate in the market economy and to raise their standard of living. Yet two conditions are essential to this vision: that initial conditions not be so grossly unequal so as to preclude class mobility and that the ‘rules of the economic game’ be applied fairly to all. We examine the evidence on each score briefly below.

*Economic mobility.* The degree to which households or individuals can rise up the economic ladder – including in relative, not just absolute, terms – is an important indicator of how “structural” poverty is in a country. It is also an important determinant of how *accepting* the population will be of any given level of inequality.

**Figure 4. Per capita expenditure of top 1% and top/bottom 10% of households, 1993-2002**



Source: VLSS

Two pieces of information on economic mobility in Vietnam are both rather troubling. The first is the *poverty gap* measure for minorities, which gives a sense of how far from the poverty line those households in poverty remain.<sup>13</sup> As Figure 5 suggests, this indicator has stayed persistently high for ethnic minorities, even as it has dropped for other households. One interpretation is that poverty for minorities is more structural and persistent than that for other groups, and that the relationship between growth and poverty reduction may operate differently for minorities than for other groups (a point explored further below).

A more general indicator would be to examine household mobility from one expenditure quintile to another over the three VLSS rounds. Early analysis based on the VLSS 1993 and 1998 rounds suggested that mobility up and down the economic ladder was considerable, with some

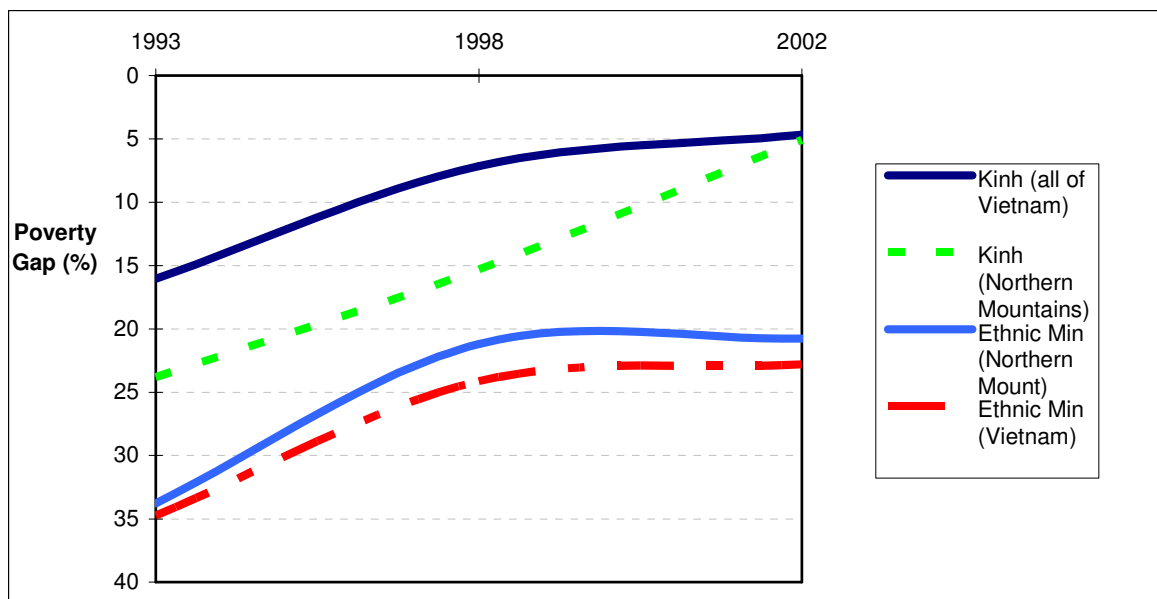
40% of households moving upwards one or two quintiles, and 19% moving downwards; only half of the population that was in the poorest quintile in 1993 remained there by 1998. More recent analysis has cast methodological doubt on these estimates:

Almost one half, and perhaps even more, of economic mobility is an artifact of measurement error and is thus illusory. This implies that Vietnam's worries about increasing inequality cannot be dismissed by pointing to high economic mobility, because such mobility is much lower than simple calculations suggest.<sup>14</sup>

*Fair rules of the game.* A significant elite class in urban and some rural areas has emerged in recent years. Analysis of the top 1% of households sampled in each of the VLSS suggests the geographic distribution of the new elite. Over half is concentrated in Hochiminh City, up from one-third in 1993; this marks its emergence as the economic engine absorbing a significant share of Vietnam's GDP growth.<sup>15</sup> Fully 96% is urban. Other signs of the new elite are frequently observed but as yet untabulated<sup>16</sup>, for example:

- Some ten thousands of Vietnamese studying abroad on the basis of self-financing, starting from primary school to post graduate education;
- The number of Vietnamese tourists going abroad, likely to have increased exponentially in recent years, as has the sale of private cars to Vietnamese, including luxury models.
- Great wealth in the form of fixed assets such as land and housing has been built up by a minority of households, typically based on their favorable 'bureaucratic insider' access to information regarding land sales or urban plans affecting land value. This wealth is typically untaxed and unrecorded (and hence not fully captured in the Gini measures earlier).

**Figure 5. Poverty gap for ethnic Kinh and minorities, 1993-2002**



Source: reproduced from Swinkels and Turk, 2004 based on VLSS

Some of what is interesting about the elite concerns the ways in which they exercise political and social influence, and their overlap and interactions with officialdom. The pattern of this influence goes directly to an important political economy issue: how do urban-based elites with disproportionate access to decision-makers shape policies and, to the extent that corruption is endemic in a given political system, distort governance mechanisms in ways that may contribute to unbalanced and inequitable development? To the extent that corruption is endemic in any polity, it is likely to benefit such urban elites, and in this way to undermine overall confidence of non-elites in the legitimacy of social, economic and political institutions.

We know relatively little about these issues in the Vietnamese context. For example, it is only this year that the country's first systematic study of corruption, which was carried out with technical assistance by SIDA, is to be published. And we can learn relatively little about the elites from survey sources. Both income and expenditure are almost certainly systematically underreported for rich households in the VLSS. The rich have highly diversified asset holdings and sources of income as well as a tangible motivation, given a tax regime that can be unpredictable, to hide their assets from view. It seems plausible from anecdotal evidence – such as the level of press attention devoted to the issue – that the *perception* of many citizens is that the level of corruption in Vietnam is high and possibly rising throughout the transition period; this appears to be true for many external analysts and foreign investors as well.<sup>17</sup>

Inequality is a dynamic phenomenon in the Vietnamese context. While for some areas (such as the extent to which corruption is a differentiating factor) we lack data, some points are clear after almost two decades of reform and one decade of detailed socioeconomic studies. Poverty continues to decline from high initial levels. Social service delivery systems have not broken down during Vietnam's economic transformation, and indeed human development outcomes have generally improved. However, as this review has shown, the gains have been unevenly shared across regions and socioeconomic groups; in particular, the gap for minorities has widened even as an economic elite, as yet poorly understood, continues to rise. The next section examines some of the forces shaping these outcomes.

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## Part II. Drivers of Inequality and Policy Choices

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A large number of factors could be seen as related to inequality: almost all interventions and market factors have differential impacts on social groups. The challenge is to focus on those most likely to be fundamental in a given socioeconomic setting. Here, seven such factors are considered in the Vietnamese context. They were selected based on two factors: the leverage they exert throughout the chain of causes and effects in the system of inequality, and/or their potentially *growing* importance, including for sociopolitical stability. There are both positive and negative developments to report in each of the six areas, and there are also limitations of existing data and interpretation that must be addressed.

Following an overview of each 'driver', we turn to policy choices. Our intention is to focus attention onto broad areas of public sector reform likely to have the greatest impact on

mitigating disparities. All of these areas are being publicly deliberated to some extent. One cross-cutting theme heard against the backdrop of these discussions concerns the appropriate role of the state in addressing inequalities that to a substantial degree are generated by market processes. The danger, well understood by Vietnamese policymakers, is that an overly interventionist strategy to promote equity will have the unintended side effect of blunting incentives to grow. This could happen if the equity strategy is heavily redistribution-oriented (since excessively taxing the rich or the most productive sectors of the economy would reduce incentives to invest) or if public investments lack a strategic focus on building up the long term competitiveness and productive capacities of the economy.

One response to this conundrum is to emphasize policies and reform approaches that do not blunt incentives to grow, but in contrast contribute to equitable development. This is what we seek to highlight below: policies both likely to substantially contribute to improved equality over the coming decade and that are consistent with Vietnam's strategy of rapid economic expansion as the driver of its modernization and poverty reduction. In what follows, an assessment of each driver is followed by an overview of reform approaches that are likely to be both growth- and equity-enhancing.

## **Driver # 1: Urban bias**

Urban bias is a complex phenomenon that is commonly observed in developing countries. In the context of this paper, it refers to institutional arrangements that, broadly speaking, disadvantage the rural and agricultural sector.<sup>18</sup> Evidence is strong that urban bias is a serious problem in Vietnam, despite a formal government commitment to rural development since Eight Party Congress in 1996.

**Assessment.** Agricultural decollectivization created strong incentives for 10 million farming households to make long-term investment and expand agricultural production, and the productive response was astonishing. The agricultural sector has performed impressively over the past ten years, with an average growth rate of 4%. For this reason, the sector has been one of the key engines behind the country's economic development and poverty reduction. A decomposition of changes in overall poverty revealed that between 55 to 60 % of the reduction in poverty between 1992 and 1998 was due to higher agricultural incomes.<sup>19</sup> This is important especially because income generated in the agricultural sector has an equalizing effect – it tends to mitigate disparities, an effect seen strongly in the case of China.<sup>20</sup>

Yet several analysts point to an unfinished agenda of agricultural and rural development reform, as seen in several areas.

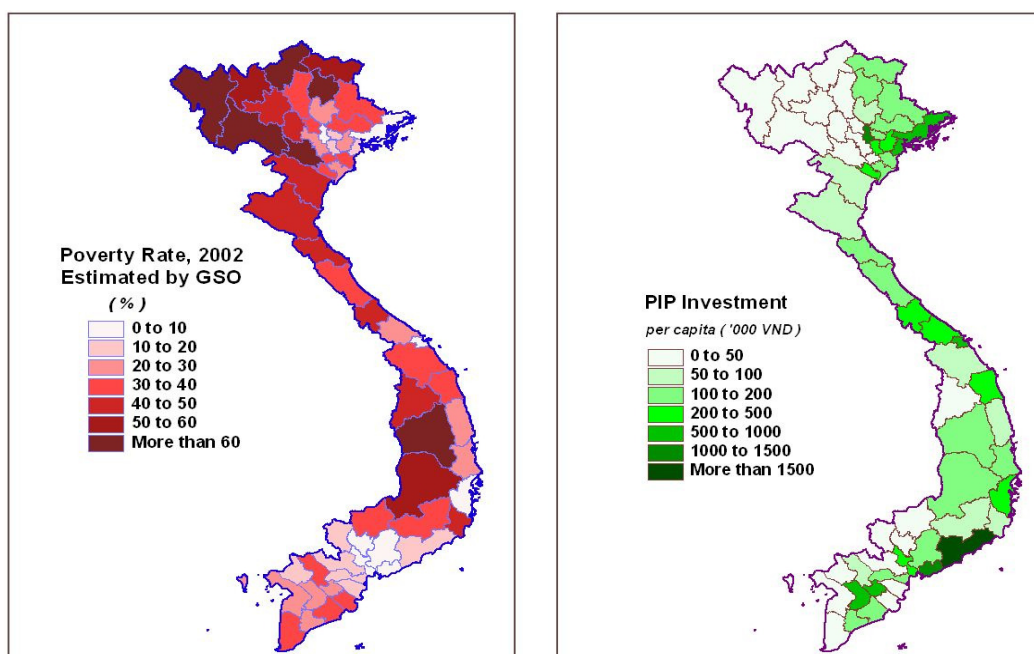
*Terms of trade.* The terms of trade for agriculture may be worsening; from 1997-2004 levels of protection of the agricultural sector have been reduced relative to those for industry.<sup>21</sup> The question is whether the sector could do substantially better with less import-substituting protection to the industrial sector.

*Public finance.* The pattern of public expenditure has been biased towards selected regions and urban areas, while revenue collection has significant regressive (anti-poor) characteristics.

Overall interprovincial transfers are equality-enhancing throughout Vietnam when measured at the provincial level, but the intra-provincial distribution to districts and communes is often not based on poverty criteria. In addition, larger-scale infrastructure funded through the government's master Public Investment Program (PIP) is skewed even in per capita terms towards more densely populated lowland and urban areas. **Error! Reference source not found.** Figure 6 demonstrates this by placing maps depicting provincial poverty rates side by side with Public Investment Program expenditure per capita. There are some countervailing tendencies in public expenditure. Expenditure on a range of targeted anti-poverty programs has generally focused on rural areas and within them, on relatively poor regions. Yet these investments are generally considered to be too small to make a significant impact on the overall regional pattern of development. The "growth pole" strategy that focuses scarce investments specifically onto three sub-regions (centered on the urban anchors of Hanoi, Danang and Hochiminh City) adds to the regionally unbalanced nature of growth.

On the revenue side, there is evidence that burden of income tax and fees may be disproportionately borne by the rural population. Direct income taxes like personal income tax, real-estate tax contributes an abnormally small share to budget revenue. Personal income tax contributes only 3% to total tax collections. Yet the combined incidence of various taxes, fees, and contributions (TFC) to which rural populations varies widely across provinces and may be 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).<sup>22</sup> Another study<sup>23</sup> estimated taxes in one village of Ha Tinh province to amount to fully one-third of household income, with no effective exemption mechanism for poor households.

**Figure 6. Provincial poverty rate (Panel A) and Public Investment Program expenditure per capita by province (1996-2000) (Panel B)**



Panel A

Panel B

Sources: reproduced from Swinkels and Turk, 2004 based on GSO data

*Institutions mediating access to land.* Within the agricultural sector, one important controversy concerns the impact of land distribution on inequality. The connection between land and inequality is a mixed one. Clearly, the quality of forest and land endowments varies for Vietnam's regions. Yet at the advent of the *doi moi* reforms, it was the relative equality of the distribution of land holdings – the results of the country's long experience with agricultural collectivization, except in the Mekong delta – that enabled so many rural households to broadly participate in the process of economic growth.<sup>24</sup> Households made immediate productive use of the assets that were devolved to them in the process of decollectivization. This follows a pattern observed for other countries as well – where the distribution of rural land holdings was initially relatively equal, the benefits of growth could accrue broadly throughout society.

Without this initial equity in land holdings, inequality would have been much greater. One analyst<sup>25</sup> finds that land and fixed farm assets are a relatively minor cause of increasing inequalities at present, which is to say that the rather equitable initial distribution has generally helped mitigate disparities. In fact, land plays an important part as a safety net for many households perched just above or under the poverty land.

This positive situation is changing for some regions, notably the Mekong Delta and Central Highlands. Nearly a third of the poorest 20% of rural households in the Mekong Delta have no

access to land whatsoever, and the overall landlessness picture has doubled from 21% to 43% from 1993 to 2002. In the Central Highlands, the figures of the landless are much smaller, but the issue is perhaps more potentially explosive, since unequal land distribution is being driven by migration and a cash crop bonanza from which that minorities have benefited little if at all.

*Institutions mediating access to productive services.* Another fundamental constraint has been the slow development of rural institutions that can lower the costs of accessing productive services. This is particularly important for the poor. Without equitable, strong rural institutions, the poor are effectively 'priced out' of the market for services such as extension, marketing and crop insurance; or they are disadvantaged in their access to infrastructure that is collectively produced, but to which access is typically distributed unequally, such as irrigation systems. In the pre-*doi moi* period this role was played by cooperatives, but despite their resurrection as voluntary, "new style cooperatives" in the mid-1990s, the share of cooperatives in economic production has dropped to less than one % of GDP.<sup>26</sup>

Other institutions have arisen on the rural scene over this period, but their effectiveness has been mixed. Rural credit institutions are one example. The Vietnam Bank for Social Policies (VBSP) is the latest incarnation of state-supported institutions to bridge the credit gap separating credit-worthy low income households from sources of credit to fund productive investments. While this objective is appropriate, the financial services offered by the VBSP are so heavily subsidized as to call into question the sustainability of the approach.<sup>27</sup> Moreover, while 2.75 million households across the country received VBSP loans, data from the VLSS 2002 indicates that only some 5% of poor households successfully accessed subsidized credit.<sup>28</sup>

*Differential impacts of migration.* One area linking the rural development picture with that of the rapidly changing requirements for labor is migration. Some analysts have long argued that the migration process should be viewed as a positive contribution to the development of the market economy rather than a pressing problem, and Chinese policy is now formally encouraging it. Migration permits the poor to travel to where they can earn greater returns on their limited human capital, serving an important mechanism that allows for a more balanced regional development. Yet rapid urbanization creates stresses, and policy-makers have put into place mechanisms that often restrict, *ad hoc*, the ability of the poor to move, or their ability to integrate into local labor markets once they have moved. Such policies – such as a household registration system in urban areas that serves to drive many migrant households into the same 'informality' as was described for private sector firms – unwittingly serve to bolster urban bias.

Much about the situation of migration is unknown in Vietnam. Several indications suggest it may be working at present to heighten, not reduce, disparities, especially within urban areas. *De facto* restrictions on migration have contributed to considerable wage premia in Hanoi and Hochiminh city;<sup>29</sup> they may also contribute to the finding that migrant workers tend to earn only 88% of non-migrant workers in both the domestic private and foreign invested sectors. Some analysts claim that poorer provinces have yet to capitalize on migration to centers of export-oriented manufacturing in the growth pole regions, due to the absence of backward linkages to the hinterland economies<sup>30</sup> and due to the disparity-increasing impact of worker remittances, which have been larger for urban than rural households, and greater both in absolute and relative



terms for higher as compared with lower expenditure quintile households. Several reports point to the emergence of an urban under-class, disadvantaged both in its legal rights to residency and in its differential access to social and productive services and safety nets.<sup>31</sup>

**Reform approaches.** Urban bias in Vietnam is not the whole story. In fact, there are several tendencies in Vietnamese political life that mitigate against urban bias. For example, the idea that economic development should be geographically balanced – not least for the sake of national unity – still enjoys much political support and has influenced the government to guide some major investments (such as the Dung Quat oil refinery) into slower growing regions. And the political networks on which the country is governed through a complex set of compromises and balances are both geographical (e.g. provincial based party groups) and functional (e.g. industrial SOE interests), but they are not reducible to ‘urban’ vs. ‘rural’ interests. This implies that there are important resources within Vietnam’s political system for combating the disadvantages that the rural and agricultural sector does experience in some of the areas noted above – disadvantages that accelerate geographical and socioeconomic inequalities. Reducing urban bias is thus best seen as a theme in itself with a number of different elements.

*Institutional reform in the rural sector.* Uniting most of the recommendations above – particularly those relating to access to productive services – is the need to strengthen broadly-based, participatory and democratic rural institutions, both State- and non-State-based. 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.

Emphasis should be placed on the development of more sustainable approaches to credit delivery, including building on the myriad informal revolving schemes operated informally by women, and on further boosting investment in agricultural research and development, particularly on sustainable upland farming systems. In addition, development of a targeted strategy for addressing the trend among poor farmers towards landlessness trend in the Mekong Delta.

*Facilitating urban migration.* Encouraging rural-urban migration reduces inequality. In Vietnam, however, policies such as residency permits and other barriers to employment and social services have attempted to slow down rural-urban migration, and have tended to push migrants into the informal sector. Urban residents worry about congestion, pollution, and may even blame migrants for social evils. These are not good enough reasons for stopping poor rural workers from trying to improve their lives in urban areas. The poor do not need charity, but rather opportunities – and policies that support migration create opportunities. China, where this problem has been brewing in a more pernicious form for years, has recently begun to change its policy orientation. Support is given for recent urban migrants and further rural-urban migration

is actively promoted, both to reduce existing income inequalities and for faster economic growth. Vietnam should perhaps also rethink its ideas and policies about rural-urban migration.

*Rethinking regional policy.* The ‘economic focal point’ model currently being pursued has both advantages and disadvantages. It can be argued that the three growth pole approach was a sensible approach to early industrialization; for one thing, the strategy helped to tap into economies of scale in basic infrastructure provision.<sup>32</sup> Yet over ten years later, it is important to review the policies underpinning regional development to avoid over-concentration of scarce public expenditure in the three areas. This is especially urgent since the expected linkages between growth zones and surrounding rural areas have been slower to realize than at first hoped. To the extent that these focal point regions absorb significantly greater shares of scarce public investment than their share in national population, the strategy may run counter to the government’s rural development objectives. As Vietnam continues to industrialize, policy would be better focused on trying to create overall enabling conditions rather than picking or creating “winning” regions and economic sectors.

*Public finance reforms.* A number of reforms to both the expenditure and revenue sides deserve consideration. Several of these recommendations have emerged from the extensive government-donor Public Expenditure Review (PER) in 2005.

- Increase budget allocations to rural development and sector, using both the Public Investment Program and other vehicles for capital and recurrent planning as a guide. Critical areas that are currently considered to be significantly underfunded, such as agricultural research and extension services, should be given greater budget shares.
- Improve budget monitoring systems to ensure equitable allocations across both the rural-urban divide and directly to poor and vulnerable populations. New MOLISA and GSO poverty data can be used to help align resources to poverty reduction targets. And annual reports with detailed and consistent data on public spending in each province should be published, since so much of the inequality in public spending cannot be captured in aggregate accounts. Better mechanisms to continuously and systematically monitor budgets and accounts at sub-national level are especially urgent, given ongoing fiscal decentralization to provinces and (under Decision 10 and 139) to service delivery units.
- Reform interprovincial finances, towards enhanced financing of fiscally weak provinces. 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. 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. As noted in the PER, the longer term need is to regularize and make more poverty-focused the expenditure assignments for districts and communes.
- 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.<sup>33</sup>

- Reform current tax structure. Two steps are particularly urgent. First, better mechanisms are needed to tax personal income, which necessitates more accurate data collection on the various sources of income, especially for the top income quintile. The second is the reduction of rural taxes, fees and labor contributions faced by rural households.

## Driver # 2: State-sector bias

**Assessment.** A structural change in the economy away from agriculture is occurring in Vietnam, as in virtually all agriculture-dominant economies that experience prolonged economic growth. The agricultural sector share in GDP continues its inevitable decline; its share of overall employment has declined from 73 % in 1990 to 67 % in 2001, while the proportion of own farm employment has decreased from 64 to 47 % in the five years between 1998 and 2002 alone.

There is an important implication for inequality in the picture above. Since incomes in the non-agricultural sector are in general more unequally distributed, income inequality will continue to rise assuming within-sector inequality does not change. *How much* this inequality will rise as a result of the agricultural transformation will depend heavily on two factors: the rapidity of employment generation in the rural non-farm and industrial sectors, and on what happens to those remaining in agriculture and the rural sector generally.

Growth has clearly generated significant increases in employment in industry, construction and services, and wage employment has driven incomes higher for a substantial segment of the population. But there is some controversy among researchers as to whether one could reasonably expect the growth to be generating significantly *more* off-farm employment than has been the case to date. Several analysts are suggesting the rate of employment generation has slowed in recent years.<sup>34</sup> What is the evidence?

*Labor-intensive* enterprises have declined as a proportion of all industry from 58 to 51%, and account for only one-third of exports (in contrast to China, for instance, where it accounts for half of all exports). The overall growth in industrial-sector employment has been modest, growing at an average rate of 4% between 1993 and 1997 and 8% from 1997-2003; both figures are low compared to industrial GDP growth. Labor-intensive industry only accounts for a third of exports, as opposed to China where it accounts for half of all exports.<sup>35</sup>

Two factors help explain the pattern observed. First, the environment for the private sector – while without doubt improved since the early transition period – has yet to become fully enabling. The small but growing private sector suffers from variations in the quality of provincial regulatory environments, which results in a high level of “informality”, meaning essentially that the sector is not effectively regulated or supported by state interventions. The scale of this informality may be astonishing: it is estimated that for every dollar of official GDP, up to half a dollar goes unrecorded.<sup>36</sup> High levels of informality are detrimental to Vietnam’s development objectives. Informality is caused by excessive regulation and binding rules and weak

implementation capacities. It thrives because businesses in different ownership types and sizes are treated unequally. Smaller and private enterprises have more difficulty than public and larger enterprises gaining access bank financing, land and information in general.

The second is the continued slowness in pushing through State-Owned Enterprise (SOE) reform. These enterprises are concentrated in capital-intensive industries which have seen significant expansion with relatively little employment generation. These enterprises have certainly been exposed to increased competitive pressures. Yet the significant levels of protection afforded the sector under an import-substitution industrialization policy, coupled with preferential access to state credit, have arguably hurt sectors with the potential for more rapid employment growth.

It is important to note the progress that has been made in recent years with respect to the two constraints above. The situation for private enterprise has markedly improved since the promulgation of the Enterprise Law in 2000, which has contributed to a 58% increase in the number of registered private enterprises of all types.<sup>37</sup> And the share of SOEs in industrial output, non-oil exports and bank credit has continued to fall, all from approximately one-half to one-third of the total between 1998 and 2003.<sup>38</sup>

Yet this is no time for complacency, for several reasons. First, further disaggregation of the employment statistics by sector is necessary to assess the remaining constraints on private sector employment generation. In many sectors (such as telecommunications, airlines, large-scale infrastructure provision), important constraints may remain on the large-scale domestic private sector, which has to date largely been restricted to a low value-added industries (notably garments and footwear). This matters to employment generation since small and medium sized enterprises cannot alone create all the employment Vietnam will need in the coming years, nor will they necessarily be competitive once Vietnam joins the World Trade Organization. As such, the Mekong Project Development Facility's conclusion in 1999 that "Vietnam's private sector...is vulnerable to rapidly shrinking margins and volatile global markets" remains relevant today.<sup>39</sup>

Second, the significance of the SOE sector for inequality goes beyond its impact on employment. State-owned enterprises in Vietnam operate in a special legal framework (governed by the SOE Law), in which the practical implications of "state-ownership" are not always clearly, split as it this ownership is between several agencies (the Ministry of Finance, various line ministries, central government and provinces). In this framework, transparency is often sub-standard, and accounting and auditing are in practice seen as subjects for 'bargaining', with some SOE clients protected by powerful institutional patrons and external political interventions. Such as system invites corruption, and in fact the Vietnamese press has recently reported several cases of massive corruption and abuse of power in some large General Corporations.

The constraint on private sector development is probably the more serious of the two problems noted above. Vietnam began its reforms more than 10 years after China, which still suffers from a similar or worse SOE problem and from contract and property rights

shortcomings. The case of Taiwan also suggests that the private sector can 'grow around' an inefficient, capital-intensive SOE sector when the overall enabling environment is sound.

**Reform approaches.** Reducing poverty in Vietnam is inextricably linked to policies that promote extensive use of the primary asset owned by the poor – their labor. It is estimated that the Vietnamese economy must absorb well-over one-million new labor entrants per year,<sup>40</sup> while returns to labor must increase over time for incomes to be rising and poverty falling. In Vietnam and many other countries, the primary engines of employment generation are labor-intensive industrialization and – explored in the next section – the promotion of higher incomes through higher productivity in the smallholder agricultural sector.

There are a number of strategies that can help accomplish greater labor-intensive industrialization. The first is a more rapid downscaling and reform of the SOE sector. Among the most important policy instruments for doing this are the removal of biases (e.g. in the allocation of scarce credit) towards capital-intensive, import-substituting industries, primarily those in the SOE sector. Along with SOE downscaling, improvements to corporate governance will be essential. Application of improved accounting and auditing standards in the remaining large SOEs (General Corporations) are an essential element of reform; consideration may also be given to equalizing such standards across both SOEs and private enterprises. Strengthening the internal audit function in SOEs – through both direct legal standard setting and indirect measures such as the establishment of a professional association of internal auditors – are highly recommended.

The second important area is the facilitation of private-sector investment and small- and medium-scale enterprises. Performance in these areas is mixed and the subject of much controversy. Vietnam has made some progress in establishing a legal framework for the private sector, which is now acknowledged in its new (2001) constitution to play a pivotal role in development. Beyond such policy statements on the role of the private sector, however, some analysts find deep contradictions in the overall policy and regulatory environment towards private enterprise, and in the application of existing laws. Reform of State-Owned Enterprises, and related banking sector reforms, are perceived by many analysts to be generally sluggish, though the pace appears to have stepped up in the past three years. By 2003, 1766 SOEs had been restructured, accounting for around one-third of total SOEs.<sup>41</sup> Among them, 905 SOEs had been equitized. Given Vietnam's endowment in natural and human resources, Belser (2000) argues that there is potential to triple manufacturing exports and to create around 1.6 million manufacturing jobs in the near future.

These are reform agendas with high feasibility, because they touch on incentives that are quite strong for growth. But they will have their critics as well, including those who will say that we must hold back on reform for reasons of equality itself – that, for instance, accelerated reform of the state-owned sector will itself generate greater inequalities. They are wrong. It is true that 'level playing fields do not result in draws' – the private sector will inevitably generate its own share of economic inequality. But a dynamic, competitive private sector is essential to reducing economic polarization; it will broaden economic opportunities for the millions of job

seekers of modest means moving off the farm, while attacking a source of significant corruption at the top end of the economic spectrum.

### **Driver # 3: Unequal access to quality education at all levels**

**Assessment.** Education mediates access to wage employment in a market-driven and increasingly diversified economy; and regular access to wage employment is an important factor driving the income differentials found between the industrial, service and agricultural sectors. Some analysts<sup>42</sup> find the return to university education in particular to be among the foremost predictors of socioeconomic mobility and status through Vietnam's transition period.

Even as the demand for a more diversified workforce have increased, the supply of university graduates – though growing – is still very limited in Vietnam, particularly in comparative international perspective; the relatively few graduates are therefore able to establish substantial wage premia, driving up inequalities.

Table 2 shows one important reason behind this supply-demand imbalance. While coverage of upper secondary education is growing fast it is still low overall and restricted to a significant degree to better-off households in urban areas. Indeed, the absolute differential in this regard with better-off students has risen since 1993, as opportunities have expanded far faster for the better off. The poor are almost entirely locked out of higher education; not due to overt discrimination, but to the combination of the lack of pro-poor spending on scholarships as well as the pool of eligible students from poor backgrounds – those making it to the upper secondary level. Clearly, this secondary level bottleneck in the educational system is constraining access by the poor to the upper levels of the educational system, thereby accelerating inequalities.

The differential net enrollment reflected in Table 2 do not adequately capture the full extent of the inequality problem in education. High net enrollment rates at the primary school level, for instance, mask striking differentials in the *quality* of education provided and in the *learning outcomes* that ensue:

- Around one fifth of all pupils will drop out before completing primary school, and half is still receiving only one shift (a half-day) of schooling – problems that are highly concentrated in rural and mountainous localities.
- Almost 20% of those who have completed five years of education *in remote areas* remain functionally illiterate. In fact, the gap learning outcomes for reading between Hanoi pupils and those in four representative rural provinces is two years equivalent in a five year cycle.
- Of 35 countries in one study, Vietnam showed average levels of average primary school reading achievement but the highest degree of inequality *between schools*.<sup>43</sup>

These quality differentials have alarming implications for social cohesion, equity and human and economic development outcomes.

An important cause of these inequalities relates to the impact of public expenditure patterns, in ways that have resonance with several other social services. Education was historically

provided by the state. Economic reforms and the limited state budget opened up opportunities for education socialization. The provision of education services by non-state sector was liberalized in 1989. The 4<sup>th</sup> Plenum of the Communist Party of Vietnam (CPV) in 1992 came up with several important decisions for the development of education and training in Vietnam, including plans strengthening public education, encouraging people's schools at all education levels and legalizing private schools at pre-school level and vocational training. The development of non-state education establishments have reduced the burden for state budgets in both terms of service provision and financing as they helped to increase the number of pupils/students without requesting transfers or less transfer from the government as all recurrent or operational costs of non-state schools are covered by tuition fees from pupils and students. The higher up in the educational chain, the greater the percentage of school fees collected. As result, the public sector accounts for only slightly more than 50 %of total expenditure on education.

**Table 2. Net Enrolment Rates 1993-2002**

	Primary			Lower Secondary			Upper Secondary		
	1993	1998	2002	1993	1998	2002	1993	1998	2002
Vietnam	87	91	90	30	62	72	7	29	42
Poorest	72	82	85	12	34	54	1	5	17
Near Poorest	87	93	90	17	53	71	2	13	34
Middle	91	95	92	29	66	78	3	21	43
Near Richest	94	96	94	38	72	79	8	36	53
Richest	96	96	95	55	91	86	21	64	67
Kinh and Chinese	91	93	92	34	66	76	8	32	45
Ethnic Minorities	64	82	80	7	37	48	2	8	19
Urban	97	96	94	49	80	81	17	55	59
Rural	85	91	89	26	58	70	5	23	38

Source: World Bank (2003:62)

The policy of “socialization” [*xa hoi hoa*] has implied drawing on private and social sources of funding for education as in other public services. In these terms, one cannot argue against the notion of ‘socialization’ itself, but there is a major potential problem with the application of user fees in the social sectors. The organizational capacities and/or local political will necessary to exempt the poorest from these payments are still inadequate to ensure access to essential public services by the poor. Limited access of the poor beyond primary school is thus both a cause and consequence of a public expenditure skewed towards the better-off. Table 3 demonstrates how out-of-pocket expenditure on schooling for the very poor consumes a higher share of discretionary income than it does for the better off.<sup>44</sup>

In short, it is economically advanced households who are at present capturing the lion's share of benefits from expenditure on higher education. Few poor households can afford to educate their children through to upper secondary level, where they would have a chance of entry to universities, due to the significant school fees that must be paid and the lack of effective targeting mechanisms.

**Table 3. Average annual out-of-pocket school expenditure per child as % of household annual non-food consumption expenditure, by expenditure quintile**

	Per capita consumption expenditure quintile					Average
	Poorest	Near poorest	Middle	Near richest	Richest	
Primary	6.3	5.3	4.5	4.3	4.8	4.4
Secondary	11.0	8.9	7.2	6.7	6.8	7.4

Source: VHLSS, 2002, reproduced from Sepehri (2005)

**Reform approaches.** The growing importance of educational opportunities suggests the need for a “big push” to address educational inequalities. Of all the social sectors, perhaps it is reducing the inequalities in the access to education that may have the biggest impact on inequalities. Disparities in the quality and access to education are stark, as is the *rising* importance of human capital in determining economic outcomes. Several strategies will be important to do address social fairness in education.

One is to refocus the role of the state, and boosting overall expenditure on, basic education. Although the percentage has been rising, Vietnam still spends less on education, on both per student and as a percentage of GDP than several countries in the region. How can increases in spending on basic education be accomplished? One method is to gradually reduce *general* subsidies to tertiary education while means-testing scholarships to a greater extent; budget support to primary, lower and upper secondary education should, in turn, be increased. 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 an important cross-cutting strategy.

Expenditure reform must be targeted onto where the effects of inequalities are most severe. Provincial and district-level expenditure inequalities must be examined. But even more important will be a focus on getting critical inputs to specific underperforming schools.<sup>45</sup>

A related approach is to address the ‘crisis of affordability’ of basic services to the poor is another key area. This implies encouraging a shift in expenditure, towards primary and lower secondary education, as 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 and upper 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. In this context, Decree 10 (2004) on financial autonomy for service delivery units (including those in the education sector) should be implemented and monitored with great care, to ensure this



expansion of 'socialization' does not contribute to the already serious inequalities facing the sector. In fact, the World Bank has recommended that its implementation be made conditional on having in place a mechanism to protect access of the poor to basic social services.<sup>46</sup>

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. The development of mechanisms to ensure that at least a minimum level of budget funding reaches the point of service delivery for each student, sufficient to deliver standards of service provision, will be vital to this expenditure reform effort; this will be particularly important for more vulnerable areas. Promising ongoing approaches in this area include

A third strategy is to improve service coverage and quality in the poorest areas of the country. Strategies for improving basic education in the poorest areas of the country include both fiscal and non-fiscal elements:

- *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* efforts should be continued, particularly in ethnic minority areas. In particular, the *Alternative Basic Education (ABE)* curriculum should be promoted, while gradually raising current standards to reach eventual integration with the normal curriculum. Minority-area curricula should not serve as a permanent sub-standard alternative to the normal one.<sup>47</sup>
- Above all, there is an urgent need (in light of the limited improvements in their access to education reported by recent rounds of the VLSS) for a special approach 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.

In fact, government and donor initiatives are underway in several of these areas. For example, the government's Primary Education for Disadvantaged Children Project is developing multi-dimensional standards of "Fundamental School Quality Level" (FSQL), and using these standards to upgrade service quality in the most disadvantaged districts of the country.<sup>48</sup> The government's Primary Teacher Development Project, in turn, is attempting to introduce reforms to improve teacher incentives in a sector in which centralized budgeting norms and rules have long hampered school initiatives. In further developing the minimum standards-oriented strategy in a context of administrative decentralization, it will be important to assign clear managerial accountability for complying with minimum resource standards, backed by a consistent monitoring both through vertical channels and by communities themselves.

In a different stream, vocational education should be made more responsive to market demands. While Vietnam's labor 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. Higher-quality vocational education linked to the demands of the private sector may play an important role in increasing overall supply of skilled labor.

Finally, while addressing equity issues ‘upstream’ – at the primary and lower secondary levels, a range of interventions will be necessary at the upper secondary and higher education levels. Addressing the ‘crisis of affordability’ at these levels is imperative; the policy commitment should be to the ideal of enabling, through a combination of social scholarships and socialization of fees for those who can afford them, every promising student to study at higher levels. Academic corruption – the buying and selling of degrees – must be addressed as a high priority for the country’s emerging anti-corruption strategy. The uneven quality of higher education institutions in Vietnam should be addressed as the supply of upper secondary school graduates increases; if only a few higher education institutions meet acceptable standards, both for academic integrity and the quality of teacher-student interaction, the fruits of broader access to education will not be realized.

#### **Driver # 4: Limited access to safety nets**

**Assessment.** Two facts stand out when examining the need for safety nets in Vietnam’s context. First, fully 40% of the population is vulnerable, poised just above or below the poverty line. Second, the movement towards wage employment and increasing landlessness described above means that some of the props households have traditionally relied on for protection are changing. Both facts underline the need for sensible social protection instruments that protect people against risk and vulnerabilities in a market economy.

Table 4 sums up available data on government poverty and safety net programs for a number of vulnerable groups. Though much information is sketchy, four basic conclusions seem warranted. First, formal safety nets cover only a small portion of Vietnam’s population. This coverage includes formal social insurance, various poverty alleviation sources and targeted subsidies (the latter two are known collectively as the National Target Programs – NTP). Second, the level of coverage is rising at a rather slow pace. In 1998, only 2.2% of the population lived in households that received a payment from *any* of the poverty programs; that percentage is unlikely to have changed much by 2002 (though program 135 to build commune-level infrastructure is one bright spot).<sup>49</sup> Low coverage marks various forms of social insurance as well. In Vietnam, overall coverage of health insurance, social insurance and pensions is estimated to be approximately 15% of the relevant target populations as of 2004, and unemployment insurance is still in the design phase.<sup>50</sup>

Third, households that are covered receive very limited assistance. Even adding the additional 40% which community contributions form on average within safety net expenditure, overall expenditure constituted on average only some 5% of household income for recipients in 1998. Numerous problems have also been reported by households in attempting to use health insurance cards in various hospitals. Their second-class status is related to the low incentives for

servicing them under current user fee financing arrangements – incentives which may be unwittingly strengthened by Decree 10 on Financial Autonomy (2004), which grants sweeping discretion to revenue-raising public agencies such as hospitals.<sup>51</sup>

Fourth, coverage of social transfers is also generally not effectively targeted towards relatively poor groups (except for several of the specifically anti-poverty programs cited in Table 4). Targeting is currently a problem in Government’s programs for the extremely poor and ethnic regions: “... 45% of the households in the Program 135 communes are not poor.... The non-poor households are likely to benefit disproportionately from the large investments in public goods such as commune infrastructure and other benefits.”<sup>52</sup> The VLSS data suggest that social subsidies and the social insurance fund both benefit better-off households more than poor households, and that this percentage has not increased over a five year period. Various programs within the Hunger Eradication and Poverty Reduction umbrella are somewhat better targeted: some 60% of HEPR assistance received by households goes to the poorest 40% of households.<sup>53</sup>

**Table 4. Access to Targeted Benefits in 2002**

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

Source: Cuong Viet Nguyen (2003); reproduced from Swinkels and Turk (2004)

Programs 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 programs, 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

programs in poorer localities, which may have a higher percentage of vulnerable populations, are underfunded.

**Reform approaches.** Three points warrant attention. First, Vietnam should strive to develop and invest in an *integrated national system of social security*.<sup>54</sup> 'Integrated' implies an attempt to systematically identify vulnerable populations and to build the operational capacities for policy coordination and implementation. Such integration will lead to better prioritization of vulnerable groups for scarce funds and enhanced efficiency in targeting the groups identified. Vietnam's current programs suffer, in both policy formulation and information systems, from fragmentation across ministries (with several 'owning' different pieces of the safety net system) and levels of government.

Integration will be particularly important as Vietnam attempts to maximize the social protection impact of National Target Programs (NTP). As noted above, these at present suffer from coverage *and* levels of effective support that are extremely limited. Better coordination and information sharing among programs should help enhance NTP effectiveness.

The second major point is that Vietnam should aim for significant expansion of social insurance program coverage in the coming years. Two important questions concern the feasibility of this approach and priorities for scarce funding.

*Feasibility.* Any discussion of formal coverage of social insurance must begin with the acknowledgement that this is an uphill task in a developing country setting, in which such coverage is typically limited to a minority of formal-sector workers (typically less than one-third). 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. These factors suggest that expectations regarding the expansion of formal insurance schemes in Vietnam should remain modest in the medium-term.

Yet analysts have suggested that some forms of expansion are fiscally and organizationally feasible in some other developing countries, and should be explored in Vietnam. In South Africa and the Indian state of Kerala, this has taken the form of non-contributory schemes funded out of general government revenue targeted onto a distinct population (often those working in the informal sector). In other cases, universal provision may be attainable; universal non-contributory pensions for all individuals over 65 in Vietnam are estimated in one study to be "well within the government's fiscal capacity."<sup>55</sup>

*Priorities.* Expansion of social insurance coverage should focus in the short- to medium-term on addressing household vulnerabilities to infirmity and old age – the "leading causes of households falling into poverty in Viet Nam".<sup>56</sup> In the health sector, attempts to extend the coverage of contributory insurance systems have not produced impressive results in reducing vulnerabilities. The major push over the past three years to get health insurance cards in the hands of all poor households shows great promise, but needs further systematic research. As noted in the joint 2005 Public Expenditure Review, provinces should be encouraged to

implement Decision 139 on Health Care Funds for the Poor by purchasing health insurance cards for the poor rather than reimbursing healthcare providers directly.

At the same time, the same 'crisis of affordability' described above that affects the education sector caution is present in the health sector.<sup>57</sup> Particular care needs to be warranted in the application of Decree 10 (an extension of fee socialization) to hospitals, where disparities in access to care have been glaring; and from an equity point of view, the decree should probably not be applied at all to grassroots health facilities, which perform important public health functions.<sup>58</sup>

Finally, as noted above, non-contributory social pensions are a prime example of an approach that is potentially both fiscally sound and organizationally feasible.<sup>59</sup>

## Driver # 5: Gender Bias

**Assessment.** Many aspects of gender relations in Vietnam are positive in international comparison:

- Vietnam has one of the highest levels of female political participation at central government level in the region, with 27.3% of parliamentary seats held by women (compared for example to 20% in China).<sup>60</sup>
- The ratio of female to male earned income in Vietnam is 69%, which is also amongst the highest in the region and comparable to China's ratio of 66%.
- The gender gap in school enrollment and educational attainment has been decreasing.

But 'gender bias' still works to increase inequalities between men and women in a number of ways. Some can be quantified and juxtaposed to the positive figures noted above.

Representation of women at *local* government level in Vietnam is low and, by some reports, declining over the transition period; fewer than one in six representatives at the commune level are women.<sup>61</sup> Significant variations in the ratio of female to male earned income for similar work are observed at the sectoral level.<sup>62</sup> School attendance for females aged 15-17 is decreasing compared to males, primarily due to girls seeking wage employment in greater numbers than boys.<sup>63</sup>

Other areas in which gender bias is observed are less easily quantifiable, and concern women's voice in society. In the agricultural and rural sectors, women face more difficulties accessing formal sources of credit and land use and property rights, as well as extension programs.<sup>64</sup> Land Use Right Certificates often bear only the husband's name despite the reissue following the revised Law on Marriage and Family of 2000; the proportion of land certificates bearing the name of the wife rose from one-fifth to two-fifths between 1993 and 2004. This reissuing process has no time limit and has proven to be a lengthy process. Many women still do not understand their legal rights and how to secure them. Some analysts have pointed to entrenched attitudes on the part of some local civil servants as another constraint on implementation.<sup>65</sup>

Finally, women report experiencing unequal power within the household, including higher workloads, less involvement in decision-making, domestic violence. In general, the responsiveness of state health providers to women's reproductive health needs is reported as a consistent concern.<sup>66</sup> Finally, ethnic minority women still have far less access to education than their male counterparts, in a pattern that appears to be changing only slowly over the past five years. The intersection of being female, less educated and of minority education group can become a powerful driver of disadvantage.

**Reform approaches.** Reforms related to gender issues aim at enabling men and women to have equal status and recognition in society, a key underpinning of equitable and sustained development. Strengthening women's economic status will also help empowering them to participate more in the decision-making process. The main policy areas to consider with respect to gender inequality are as follows:<sup>67</sup>

*Employment.* Labor legislation still includes some gender bias, which can make it more costly to hire women. Boosting the availability of childcare options should be a priority; one study finds that, like social pensions, provision of universal child care is fiscally feasible.<sup>68</sup> Consideration should be given to equalizing the retirement age for men and women.

*Credit.* Given that non-formal micro-credit schemes have no legal status, there is a need to establish incentive schemes for bank accounts opened and managed by women. Bridges between such schemes and formal sector credit should be built, including through capacity strengthening programs for micro-credit schemes.

*Land.* To capitalize on the progress made in recent years in issuing land certificates in women and men's names, the household registration regulations should be amended to ensure that women can represent the household in civil transactions.

*Health care.* Given their pivotal role in child health and the special challenges facing reproductive health services, a special effort should be made to expand access to primary health care to women, going beyond general poverty-focused targeting such as health insurance cards. There is also a need to increase men's participation in family health care, and to raise men's awareness of their roles and responsibilities in practicing safe sex. One suggestion is to integrate HIV/AIDS communication into other national programs such as HEPR and public education. The provision of legal and counseling assistance to victims of gender-based domestic violence should also be stepped up.

*Political participation.* Targets for women's participation in political circles should be progressively raised at all levels of government, including People's Committees and Councils at lower government levels.

*Education.* Vietnam should progressively raise the number of scholarships awarded to girls, striving to reach gender parity. It may be expedient to introduce strong measures to promote the participation of ethnic minority girls at all levels of the education system. Campaigns to increase public awareness of the benefits to girl's education in remote areas should be scaled up.

## Driver # 6: Multiple, reinforcing vulnerabilities of ethnic minorities

**Assessment.** Despite the economic successes of Vietnam as a whole, ethnic minority communities show signs of considerable distress. Roughly 75% of ethnic minority people fall below an international poverty line, compared to 31% of the Kinh majority. Analysts find that “the gap in living standards between the ethnic minorities and the majority population has been widening”<sup>69</sup> across many indicators, including critical “drivers of inequality” addressed above, such as attendance above the primary school level and access to wage employment. (Important exceptions include infant mortality rates, primary school enrollment rates and access to electricity and roads, where minorities are catching up with already good national averages.)

Minority issues have played an important part of the discourse of inequality in Vietnam. Inter-ethnic group inequalities have long been seen as a potential threat to national unity and as requiring amelioration, largely by “integrating” minorities into the economic and cultural networks of the rest of the country. In recent decades, the migration of lowland, Kinh majority households into midland and upland areas has increased significantly; so too has the effective reach of the Vietnamese state into such areas. These developments can be positive, as shown in the impressive gains in primary school attendance in minority areas. They can also bring their own stresses, since:

Smaller localized peoples who live in upland regions, far from markets, political capitals, and urbanized centers...are deeply disadvantaged in their interactions with the lowland group by their lack of economic power, weak political power, and unfavorable location in a translocal economy.<sup>70</sup>

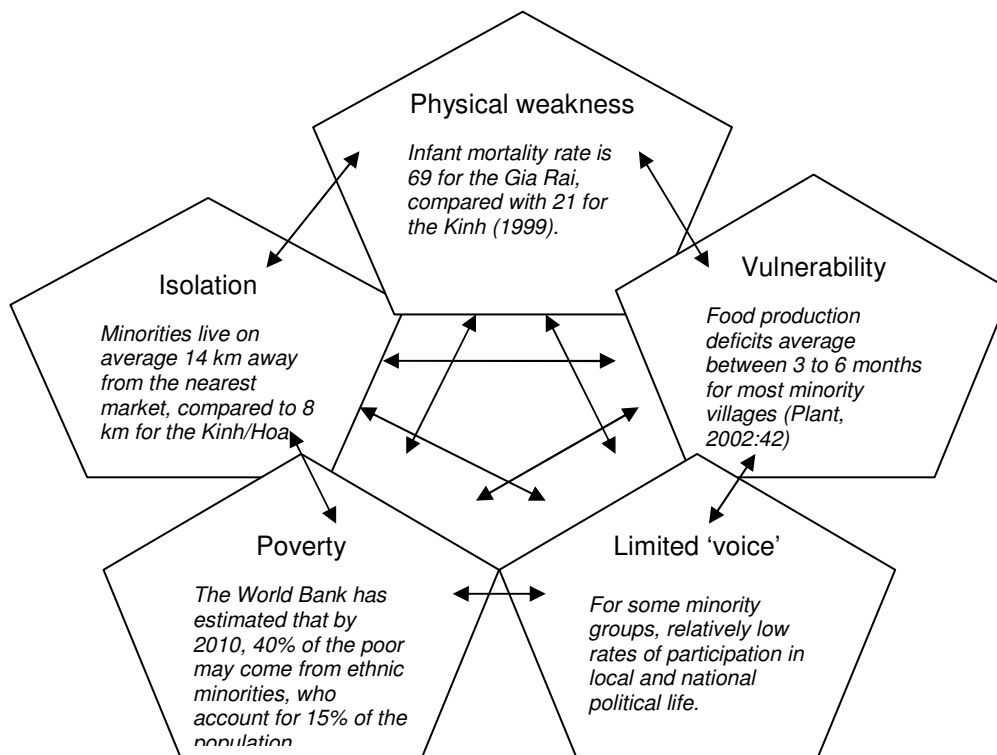
This quotation emphasizes that there is nothing inherent in the diverse cultures of ethnic minorities that condemns them to being at the bottom end of the inequality spectrum— an explanation sometimes featured in descriptions of minorities as “backward” [*lac hau*]. It is not being a minority that is a driver of inequality.<sup>71</sup> Rather, minority disadvantages can be seen in terms of the interlocking effects of isolation, poverty, powerlessness, vulnerability and physical weakness long ago posited as a model of the ‘poverty trap’.<sup>72</sup> Figure 7 shows some selected comparative indicators for minorities and Kinh in those dimensions. The figure helps underscore why it is probable that poverty reduction among minorities has been so much lower than that for the Kinh majority, and indeed why the rate of decrease in the poverty gap measure for minorities (Figure 5 above) has stalled entirely.

There are two implications of viewing the minority issue from a ‘poverty trap’ perspective. First, “anti-poverty programs that are geared to minority groups will in general have to look different from those geared to the majority,” and will require much input from minority groups themselves in order to be effective – a point developed further below.

Second, we must look to the specific factors that allow some groups in the uplands, both most Kinh and some minority communities, to benefit more from economic development than others – to escape the poverty trap. The fact is that some minority communities have done well through the transition process – one closely documented example being the Thai clustered along Route 6 in Son La province.<sup>73</sup> (By extension, the greater number of minorities in the Northern Uplands who have not done so well are even poorer than the aggregate minority figures suggest.)

One such important contextual factor determining community success in escaping the poverty gap may be local governance quality. Minority-dominant, poor localities face particularly steep governance challenges. Models of service delivery and the exercise of popular participation need to be adapted when applied to upland areas, where low population density, low social development and heterogeneous social composition all raise the costs for households to access services and participate in local decision-making. Yet some analysts of reform attempts<sup>74</sup> in mountainous areas note a tendency towards “one-size-fits-all” development administration in Vietnam’s uplands. Ongoing decentralization reforms should in theory serve to improve the adaptiveness of local administration. But poor areas, where limited finance and weak organizational capacity combine with a passive, top-down administrative culture, face numerous hurdles to make decentralization functional.

**Figure 7. The minority poverty trap: Selected figures**



**Reform approaches.** For a set of problems as complex and diverse as those facing minority communities, there can be no ‘cookbook’ answer, and several full-length publications are devoted to the issue.<sup>75</sup> The following are some of the main approaches that might help provide the flexibility for local solutions to emerge.

**Expansion of economic opportunities.** The significant economic disadvantages faced by minorities are due partly to geography and partly to the reinforcing effects of other constraints, such as language barriers and educational attainment. Policies to reduce urban bias, explored



above, will make a contribution towards reducing the disadvantage of minority areas. Additional measures should concentrate on enhancing livelihood security by minorities. One measure is to accelerate the formal allocation of land use rights over agricultural and forest lands, including to individuals and cooperatives. The government has been creative in finding ways of allocating land use rights in the uplands, such as the allocation of forests to communities. Such flexibility will continue to be essential. Another measure is to invest heavily in upland farming system research and extension.

As minorities continue to be incorporated into regional and national markets, it is important to remember that this integration will generate both winners and losers, imposing increased stress on some communities and households. Markets for agricultural produce and other goods are one example, with some ethnic groups remaining at the low end of commodity chains and thus failing to benefit much from their sale. The challenge is both to expand market access and to improve their position in the markets in which they have become increasingly integrated.<sup>76</sup>

*Special models for service delivery in minority areas.* Studies of what it will take to effectively deliver educational and health services in minority areas come to the same conclusion: the models necessary vary significantly from those in non-minority and lowland communities. In education, a range of issues need attention, such as curriculum content and length, the special constraints of minority girl children, and special strategies for boosting secondary enrollment. In health care, the twin challenges are: a) to find ways to strengthen the public health network at the grassroots in areas with low population density and large catchment areas; and b) to boost utilization of curative health services at the commune clinics and district and provincial hospitals, given the severe income constraints and low insurance coverage of minority households.

*Attention to issues of voice.* Issues of empowerment, participation, accountability and representation need localized strategies in minority areas just as do health and education strategies. Mechanisms to make grassroots decentralization, the role of People's Councils and complaint procedures mechanisms (explored in general terms in the next section) all need special attention within minority areas, starting with more extensive applied research in these areas.

*Making decentralization work in minority areas.* Since Vietnam is in the process of handing over increasing administrative responsibilities to provinces, it is vital to understand how it can be made to work in the poorest areas of the country in which minorities are numerically dominant. *Asymmetrical decentralization coupled with capacity building* holds potential as an important general reform approach – one not relevant only in minority areas.

Capacities and the quality of governance vary dramatically between even similarly situated provinces, districts and communes throughout Vietnam. One reason for this – the variable effectiveness of vertical accountability mechanisms – is covered below. Decentralization is clearly a cross-cutting issue, but its relevance is heightened by the special challenges facing minority regions, where different local requirements need articulation. Weaker provinces require reforms, both fiscal and organization, that will underpin substantially improved service delivery coverage for basic social services. Enhanced funding is a first step. Current

interprovincial financing arrangements are pro-poor at the provincial level, but generally fail to ensure minimal standards of service delivery in poor districts and communes.

Yet there are two caveats that go beyond merely beefed-up funding as a solution. First, *models* for service delivery (different from those in the deltas) which make sense for mountainous areas of the country are in short supply. Some of these will be narrow programs sectorally implemented, but most will lie in areas, like primary health care and basic education, which need to flag particularly disadvantaged populations and geographical areas for intersectoral action.

Second, enhanced funding that is not accompanied by more dynamic local administration will not accomplish much. The incentives to target the poor, or to substantively close service coverage gaps, will be lacking. National program implementation, which constitutes a large percentage of overall provincial expenditure, leaves provinces with little discretion and a fragmented, vertical planning process for basic services. A coordinated capacity development program for poorer localities, focused on strengthening incentives for equitable development administration, will be necessary to bridge the capacity gaps separating poorer from richer, and effective from ineffective, local governments.

## **Driver # 7: Corruption and weak accountability mechanisms**

The last driver concerns corruption and the limited ability to hold officials accountable for safeguarding rights and limited incentives for promoting participation.

**Assessment.** People in any society have different degrees of effective influence or ‘voice’. Differential influence can be analyzed in several ways, including the extent to which people participate in decision-making, the incentives for local authorities to serve the interests of the entire population (including the poor and vulnerable), and the degree to which the powerful can be held accountable for their actions. These aspects have affect inequality in multiple ways:

- Limited ability to *participate in local decision-making*, for instance regarding the selection of projects for government anti-poverty investments, may lead to a low effectiveness of such expenditure and to a greater risk to fund misuse.
- Limited development of *effective local representation and the articulation of local interests* may result in weak incentives for local decision makers to provide productive economic services to poor, underserved populations; instead, urban bias may be reinforced.
- Limited *knowledge of rights and ability to utilize recourse mechanisms* when rights are infringed raises the vulnerability of the poor to abuse and undermines the enabling environment for private sector development.
- Existence of *corruption and economic rents* drawn from unequal access to information and public sector decision makers erodes public trust and perceptions of the legitimacy of any given income distribution.

In some ways participation is a strength of the Vietnamese system, with its long tradition of social mobilization behind collective goals. This section focuses on another aspect of Vietnamese governance that we feel exerts an influence on equitable development while strongly affecting common perceptions of inequality: it is the linked issues of accountability, executive dominance

and anti-corruption. This paper does not go in significant detail regarding these issues, which require more in depth, institutional analysis. But a number of points are well-supported by the literature and by current debates ongoing in Vietnam.

First, Vietnam has an executive dominant governance system that in some localities tends to limit the degree of effective 'downward' accountability, i.e. to the end users of services. Observers within and external to the Vietnamese system tend to agree that at present the executive is, relative to the legislative and judicial branches, overbearing.<sup>77</sup> Related to this is a sensitive debate over how the Party relates to the government, with again many observers calling within the context of public administration reform for the Party to focus on overall 'steering functions' rather than actively intervening (as appears to be the norm) in administrative matters.<sup>78</sup> Weak representative functions hamper democratic decentralization, while a weak judiciary limits the scope for holding administrators accountable for delivering public goods in a transparent and participatory manner as prescribed by law. The move from internal to public systems of accountability is also slow. Since the poor have the most to gain from downward and public-based accountability, executive dominance can hamper the articulation of their interests, and thus indirectly accelerate inequality.

Second, both civil society and, to a lesser extent, a dynamic and deregulated private sector are concepts or governance categories that sit uneasily with Vietnamese political culture, though both sectors are growing at present and the government continues to work on a legal framework facilitative of these sectors.<sup>79</sup>

Third, the classic challenge of multisectoral (or horizontal) coordination at lower levels of government (and possibly at the central level itself) may pose particularly difficulties in the Vietnamese transition context, particularly for the poorest provinces.<sup>80</sup> Such difficulties are in part a legacy of the former system of command and control, when each ministry developed powerful interests in managing economic activities. They are also a function of the as yet unfinished agenda of administrative and fiscal decentralization to lower levels (particularly districts), which has left district 'coordinating executives' (as opposed to what might be termed 'technical executives' or administrators from the line agencies) in a weak position.

The net effect of all of these governance arrangements is to reinforce a system in which accountability is primarily directed upwards (towards higher levels of government) and is, at the same time, somewhat blurred by overlapping spheres of authority and habits of intervention. Accountability, when blurred in this way, tends to preclude the shifting of power from *more* to *less* powerful actors and levels of government, since meaningful decentralization of any kind rarely happens (or remains precarious, as at present in Vietnam) except when backed by enforceable recourse to the rule of law.

This pattern manifests itself in several ways. Procedures for citizens to launch *formal complaints* saw much development over the 1990s. But because the boards which investigate complaints report to the executives of the same or next higher level, their effectiveness in addressing possible systemic or higher-level abuses has been limited.<sup>81</sup>

*Grassroots democratization* efforts, much discussed in the Vietnamese press from the late 1990s, have aimed at setting minimum standards for procedural democracy at the commune and

village levels. Yet the decree focuses attention on the commune level, when in fact corruption is probably a problem throughout much of the Vietnamese system. It also rests for its success almost entirely on the dispositions of district and provincial implementers, who in many cases will be unlikely to enforce its provisions rigorously against errant officials at the grassroots (provided there is no local outcry), or to use the grassroots democratization decree as a major criteria for assessing local government performance.<sup>82</sup>

The problems of limited accountability and corruption are clearly mutually reinforcing. They can be described in a series of illustrative equations that can have a profound impact on several aspects of inequality mentioned in this report:

- Continued prominence of SOEs + weak accounting systems + central ministry and local government incentives = fertile soil for uncontrolled income.
- Unevenness of personal income tax collection + with generally ineffectual income declaration and asset disclosure = widespread perceptions of unfairness in public finance and abnormally small budget revenue from income tax.
- Moving huge tracts of land from state to private control + shifting rules of the game + limited public oversight = windfall gains to those with access to information and influence, including those within the public sector itself.
- “Socialization” of social service financing + weak oversight + limited salaries = widespread “commercialization” of even basic services, exclusion of those with weak purchasing power and uncontrolled collection of illicit payments (e.g. “academic corruption” in universities<sup>83</sup>).

None of these problems are unique to Vietnam. The point is that Vietnam is in a special and difficult situation in that it is a *transition* society (and therefore likely to be even more vulnerable to corruption) that also holds itself up as a *Socialist Republic* with a strong institutionalized commitment to equity. It will have to not only move quickly on institutional reforms that effectively address these problems but also to stay ahead of public perceptions that can be increasingly strident in calling for ‘fair rules of the game’ in various aspects of social and economic life.

**Reform approaches.** The set of institutional reforms that might have an impact is long and extremely complicated. The key approach necessary is to *think structurally and institutionally about the problem*. Corruption will not be effectively addressed until it is dealt with in a holistic manner. Specifically, this means moving away from a narrow focus, often observed in government rhetoric regarding the problem, on *law enforcement* (catching the ‘bad elements’) and *public morality*, to one that also emphasizes *prevention* and *institutional vulnerabilities*. A public dialogue on the corruption issue is ongoing in Vietnam (with a major anti-corruption law due to be promulgated within weeks) and should continue to grapple with difficult questions, such as the following:

- Can the Party-State rely on *internal and hierarchical controls* to police itself if *external and democratic* accountability mechanisms, for instance by civil society and an independent judiciary, are weak?

- Could the establishment of a strong, independent anti-corruption commission help address the corruption problem? Many such commissions – such as that in the Australian State of New South Wales<sup>84</sup> – focus equal attention onto capacity building for corruption prevention as they do on investigation and enforcement activity.
- How might redress mechanisms, such as ‘complaints and denunciations’ procedures, be reformed to improve the efficiency and impartiality of dispute resolution? How can this function be given greater teeth than it has at present, where it reports to the executives of the same level of government which may be under investigation?
- How can protection for ‘whistle-blowers’ – those who expose corrupt practices – be strengthened? We know that weakness in such protection is a major factor inhibiting anti-corruption work in other country settings.
- How can the increasingly independent role being played by the National Assembly be extended to the representative functions of lower levels of government, and be made into an effective accountability mechanism?
- What role can and will Vietnam’s increasingly diverse media play in not just raising citizen awareness of corruption issues but in helping to hold public sector actors to account?

The Asian Development Bank has nicely summed up some aspects of the agenda ahead for equalizing the position of citizens and officials in a law-based polity:

Currently all economic sectors are to varying degrees regulated bureaucratically; legislative norms are poorly understood and widely ignored, while courts are considered expensive, corrupt and incompetent. Through deregulatory reforms, the state has signaled its intention to partially shift commercial decision making from bureaucratic to market players. Such a change will require improved legislative drafting, coordination and dissemination, further checks on the discretionary powers of bureaucrats, more independent and competent private legal practitioners and greatly improved dispute resolution fora, bankruptcy and debt enforcement mechanisms.<sup>85</sup>

In short, allowing meaningful local participation in decision-making, institutionalizing checks on local authority and creating facilitative conditions for a level playing field for the private sector are three essential elements of state-society relations in transitional Vietnam.

## Conclusions

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This strategy paper has presented a large number of indicators, drivers of inequalities and areas for potential reform. Some findings stand out as particularly important.

The first set of findings might be considered ‘good news’. Economic inequalities in Vietnam are rising at a moderate pace in the aggregate. Along most dimensions of human development, such as infant mortality and adult literacy, the story of the 1990s is one of continued progress across nearly all groups, though to different degrees. Finally, across many of the reform approaches for reducing inequalities noted in this paper, sound policy initiatives already are under way, and the question is more over the speed of implementation rather than the direction of reform.

Yet there are real reasons for policymakers to be concerned over inequality.

1. The pace of aggregate inequality generation may be accelerating, placing Vietnam along a level and trajectory similar to that of China in the late 1980s, during the early stage of its meteoric rise in inequality.

2. While their living standards have improved somewhat over the past decade, ethnic minorities are being left far behind. Evidence suggests that a hard core group of the poor, whose incomes have stagnated well beneath the poverty line, consists mostly of ethnic minorities. There is little in the current development framework that suggests this may change in the near future.

3. Vietnam's continued high growth rates may be masking changes in the nature of employment generation that may be contributing to inequality in access to regular wage employment. Specifically, growth in Vietnam may be increasingly capital-intensive, making it difficult to generate the rapid increases in employment that will be necessary to absorb workers displaced in the industrialization process. This is important since the distribution of the opportunity to access regular wage employment is an increasingly important determinant of overall inequality levels. Slow reform of the SOE sector and, even more importantly, difficulties leveling the playing field for the private sector are two important constraints on the generation of employment.

4. Inequalities between similarly situated localities – that is, inequalities *within* urban areas and *within* rural areas – are increasing, in contrast to the earlier transition period. This reflects the process of socioeconomic differentiation based on access to human capital – which is still highly unequally distributed at the higher levels of the education system. It also underscores the variability in the quality of local governance, which ongoing decentralization is likely to exacerbate.

5. The state of social protection against market volatility and shocks to household livelihood systems is rudimentary. Although it is inherently difficult to scale up social insurance in poor country settings, much more can be done cost-effectively to provide effective safety nets.

6. Corruption, and limited effectiveness of current accountability mechanisms, constrains Vietnam's efforts to build a society based on the rule of law. They may also affect citizen perceptions of the legitimacy of Vietnam's current distribution of economic opportunities and outcomes, and by extension may negatively influence sociopolitical stability itself. There is little evidence to suggest that current policy measures are capable of bringing the corruption problem under control.

To what extent are rising inequalities natural and unavoidable in a rapidly transforming Vietnam? It may in the short term be difficult to halt the rise in Vietnam's Gini coefficient, particularly given the continuing shift of economic momentum away from the agricultural sector.<sup>86</sup> But international experience reviewed in part I of this paper suggests Vietnam is *not* locked into inevitable increases in aggregate inequality. A range of countries have been able to sustain relatively high levels of economic growth without seeing the kinds of meteoric rises in inequality that China has experienced. Indeed, the paper has emphasized a range of policy interventions to promote equity that are fully consistent with the further development of a market economy. Some reforms highlighted here, such more rapid SOE reform and the removal of impediments to

private sector development, can be expected to promote more sustainable *and* more rapid growth. Others, such as strengthening the administrative capacities for decentralization in poor regions and boosting overall expenditure on education, will need to be carefully calibrated in a context of multiple demands on scarce public resources. Yet others, such as a more externally-oriented approach to Vietnam's anti-corruption strategy, are propositions that are being actively debated among Vietnamese academics and policymakers. They will undoubtedly be filtered primarily through the lens of political calculations.

In a broader sense, the question of how fast Vietnam's Gini coefficient will rise is far too narrow. Aggregate measures of inequality will not capture the significance of the issue to Vietnamese citizens themselves. Vietnam has left behind an egalitarian age when it was expedient to pursue, whether in practice or rhetoric, equality of outcomes. Regional development outcomes in Vietnam will not be equalized in ten more years; household economic attainment will never be equal; minorities are unlikely in any scenario to achieve income parity with the majority, given alone the *geographical* challenges posed by upland environments. This is well understood by both policymakers and, one senses, Vietnam's citizens.

But the challenge of progressively improving, step by step, the *equality of opportunity* for all Vietnamese to better themselves – however vaguely defined this must be at the aggregate level – is of profound social and political significance to the Vietnamese polity. This, it has been argued, is not only a question of whether, on average, livelihoods continue to improve in Vietnam. It is at least as much an issue of whether the *rules of the economic, political and social game* are perceived to be fairly applied to all, regardless of who one is or whom one knows. The perceptions and expectations of the Vietnamese populace are changing in this regard – they are becoming, with every year, increasingly demanding. The impact of growing inequalities on social cohesion and political stability depends on a high-wire balancing act. Can the Vietnamese economic system generate opportunities fast enough so that most people feel their future prospects continue to improve, even if others may be getting rich at a faster rate? And can Vietnam's governance reforms for greater transparency and accountability get and stay ahead of growing outrage over corruption?

The lived experiences of social inequality will in turn revolve around everyday questions: whether school fees block access to a university place, jobs are available following graduation or corruption and red-tape plague the new entrepreneur.

Much remains to be done to promote equity and address the core drivers of inequality in Vietnam at present, and much *can* be done. Vietnam can achieve rapid development with equality, but in doing so needs to evaluate policies with both objectives in mind.



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## Annex A: Thematic Background Papers

The following is a list of the thematic background papers and contributory notes that were produced for Mekong Economics as part of the DFID-funded study.

Author(s)	Title	Major contents
Scott Fritzen and Caroline Brassard	<i>Unequal Development: What have we learned?</i>	Three narratives of unequal development: Analytical framework for the study. Economic growth and inequality: the classic 'growth vs. redistribution' The social protection and human rights and institutional integrity
Caroline Brassard	<i>Inequality in Vietnam from a Macro Perspective</i>	Inequality trends and impacts (regional comparisons, pro-poor economic growth, poverty and inequality projections) Drivers of inequality at the macro level (macroeconomic policies, public finance, safety nets)
Caroline Brassard	<i>Sources and Trend of Inequality and Exclusion in Vietnam at the Micro Level</i>	Income, expenditure and wage trends Asset ownership and access to markets Access to services Migration issues
Vu Bich Thuy	<i>Unequal Access To Higher Education As A Driver Of Inequality in Vietnam</i>	Higher Education System in Vietnam (enrollment, academic staff and research, public finance, quality) Trends in Inequality of Higher Education (social, regional and global perspectives) Policy-Map and Good Governance in Higher Education
Bui Thi Minh Tam, Nguyen Phuong Nam, Ngo Duc Huy, Nguyen Ming Tuan	<i>Policy aspects of inequality</i>	Shifting Vietnamese Views on Inequality (Ngo Huy Duc) Policy Background (1): Land, Education, Public Finance, Agriculture and Rural Development, and Migration (Bui Thi Minh Tam) Policy Background (2): Social Insurance, Gender Issues and Minority Issues (Nguyen Phuong Nam) Policy Background (3): Decentralization, Complaints and Denunciations, and Policies to Combat Corruption (Nguyen Minh Tuan)

## **Annex B: Data Gathering for Policy-Making and Areas for Future Research**

### **I. Current Data Limitations**

#### **I.1. Use and Misuse of the VLSS and VHLSS:**

Misuse of data and misinterpretations are made as a result of the lack of more specialized datasets and the overuse of the Vietnam Living Standard Surveys (1992/93 and 1997/98) and Vietnam Household Living Standard Surveys since 2002.

The purpose of the Vietnam Living Standard Surveys is to collect data on living standards in order to evaluate the socio-economic development of the country and to formulate policies to raise living standards. These datasets were originally designed to measure the overall quality of life, focusing on the quantitative aspects of living conditions. However, they may not be adequate to answer specific policy-relevant questions for the poorest, based on expenditure data. For the poorest households, payment of all types of expenditures can be in arrears or substantially delayed, depending on the season. Households might not reveal such information, and the expenditure section of the questionnaire does not allow for this possibility.

The main limitations of the empirical analysis using the VLSS are found at three levels. First is the degree of comparability of the surveys, second is the reliability of the data due to measurement errors, and third is the level of statistical significance, reducing the degree of reliability of disaggregated analysis. The biases included in the sampling frame, there are considerable constraints in the level of disaggregation, limiting the scope for empirical analysis. Disaggregation by province is not statistically significant, nor is a disaggregation by ethnic minority. New and migrant households are also unlikely to participate in these surveys due to registration requirements.

In addition, simple statistics on the top earners demonstrate an unrealistically low level of income and expenditure, which clearly leads to an underestimation of inequality. This also indicates the importance of the qualitative information from the community questionnaire to provide a more accurate profile of poorer regions.

Another of the main concerns for researchers is not only the availability of data and its quality, but its continuity. The Vietnam Living Standard Survey has come from large donors' need to access standardized information such that comparability between countries can be done. However, individual ministries implement their own surveys so as to monitor their projects and development strategies.

#### **I.2. Provincial and rural/urban data:**

Up to date, the use of provincial level GDP data produces unreliable estimates since the total GDP figures do not add up to the national figure. Many of the human development indicators necessary to disaggregated analyses at the provincial level are unavailable.

Finally, the distinction between rural and urban areas may also be misleading. Due to the speed of urbanization, it is necessary to reflect the true character of rural areas as they become urbanized. Based on anecdotal evidence in officially rural areas around Hanoi which are clearly urban, there appear to be some problems with keeping the pace with urbanization, which causes an overestimation of rural areas and consequently some biases when computing rural poverty levels.

### I.3. Intra-household data:

It has long been argued that 'limiting the analysis of poverty dynamics to the household level appears inappropriate' (Muffels, 2000:168). This is because an evaluation of the incidence of poverty using household income or expenditure data implicitly assumes that all members of the household are at the same income or expenditure level. At the household level, disaggregation by age or gender, to study intra-household inequality is also unreliable. In the VLSS types of datasets, although specific questions are addressed to children, the parent's desire to speed up the process often leads them to reply for their children.

## II. Making Better use of existing data

### II.1 Suggested improvements for the VHLSS

In order to ensure some continuity in data the collection process, here are some recommendations for improvements for LSMS-based surveys. Firstly, there is a need to reduce the level of interpretation of the questions and to make the interviewing process more culturally sensitive, especially for ethnic minorities. This would involve structural changes in the questionnaire and in the guidelines for interviewers and supervisors. In particular, more rigid guidelines on the interaction between interviewers and interviewees, and greater supervision of data quality during interviews, should be required. The selection of interviewers should ensure that interviewers have at least some knowledge of the regional culture in which they conduct interviews, especially in more isolated areas and with ethnic minorities. In addition, the possibility of hiring local translators instead of using another member of the family would be highly beneficial to data reliability.

Secondly, the possibility of over-sampling for lower income households as part of the sampling methodology should be explored further. This recommendation stems from the difficulty of including lower-income households in the sampling frame. Poorer households were systematically under-represented in the VLSS datasets. Moreover, the multi-purpose nature of questionnaires based on the living standards measurement dilutes the emphasis on questions

related to income and expenditures, which further reduces the analytical potential of the survey data to analyze poverty levels.

Finally, the questionnaire should include questions related to changes in household composition between the initial and follow-up surveys. Even though nearly 4,000 households participated in both surveys, the follow-up surveys did not take advantage of this opportunity to ask questions on the reasons for changes in household composition. This change is not necessarily reflected in a different household size. Migration, death, divorce or children leaving to form their own households are highly likely during the five year period between the surveys. Therefore, questions on the household roster should reflect this dynamic context in order to be incorporated in the analysis, since these social changes are a good signal of economic changes in these households. It is also highly recommended that questions on the registration status of households be added to the questionnaires, for a better understanding of 'new' and newly migrated households.

## II.2 Commune surveys

Commune level data is an integral part of the VLSS and includes qualitative type of information. In the first two VLSS (92/93 and 97/98) community questionnaire was collected only for the rural communes because it was considered that "many of the questions are more relevant for rural than urban areas".<sup>87</sup> Due to this rural bias, it is not possible to include variables concerning community endowment when analyzing poverty in urban areas. Nevertheless, using the community level data allows an analysis of rural poverty related to access levels, such as access to land or off-farm employment. This information will be taken from levels of community endowment and mobility of households. Few empirical studies have made full use of this community level information.

Commune surveys can also provide information for cross-checking purposes. For example, in the case of payment by installment, especially relevant for taxes, this information is easier to estimate since the interviewers have access to commune-level data. Should the head of household forget the amount of taxes paid, the interviewer may refer to the books from the local authority, which are widely used to collect the commune data.

## II.3 Census data

It is recommended to make further use of the Census data in order to link it up with VLSS. See for example the excellent work done by Baulch and Minot using this methodology. If possible, adding anthropometric data such as the Body Mass Index (BMI) could be used as a proxy indicator of human development since it has very little measurement error.

### III. Areas for Future Research Related to Inequality

#### III.1. Qualitative Data Collection

In recognition of the multi-dimensions of poverty, it is suggested that longitudinal qualitative surveys be undertaken for targeted groups, as opposed to geographical targeting in various provinces. Such information would be complementary to the six consultations sites done to gather community views on the poverty reduction strategy in 2002 and the 'voices of the poor' reports by various NGOs in 1999. Based on the experience from "Voices of the Poor", to inform policy makers on areas of safety nets development, voices from various segments of the population who are particularly vulnerable could be presented in the form of case studies.

The methodology could follow that used for the Voices of the Poor in Vietnam (1999) using a participatory approach combining interview, focus group discussions, associations, ranking and scoring, charts drawing, causal flows and institutional diagrams. The primary objective of these studies would be to understand the causes and impacts of inequality and draw up policy responses to tackle these problems. The studies would aim at determining poor people's perceptions of inequality, understanding the root causes and exploring possible solutions. It would allow a better understanding of the issues of migration, indebtedness, land alienation, coping mechanisms in relation to disasters.

- *Voices of the Rich*: This study would look into who they are, how they succeed, and how to tax them.
- *Voices of the 50+*: Focusing on people aged 50 and over (pre-retirement age and beyond), this study would address future needs for the establishment of safety nets for the elderly. The focus should be on how to extend coverage of existing schemes if our concern is inequality, and how to extend any sort risk-reducing help to poor households.
- *Voices of migrants*: This study would explicitly address the concerns of safety nets for migrants (males and females) so as to move policy to encourage rural-urban migrants, as in China.
- *Voices of the ethnic minorities*: Some surveys have been done on health issues, but more information is required on the traditional safety nets of ethnic minorities so as to find the best way to spend external funds to assist ethnic minorities. A specific focus should be on access to education by female minorities.

#### III.2. Labor Market Survey

Most of the recent studies related to the labor market rely on the VLSS instead of surveys specifically focusing on labor. MoLISA currently implements a labor survey but it has limited value for policy purposes. Its objectives are to collect information on employment by region, sector, type of employment and employer, as well as estimating labor use time rates. Information on income, benefits, etc is not considered as part of this survey.

However, an increasingly important area for policy makers is how to increase access to a *regular* flow of income. Another is on understanding the impact of the formalization of the informal sector, in the development process - see for example studies by H. De Soto. Up to date, surveys on the informal sector have been sporadic and geographically targeted due to lack

of resources. The labor market survey should be designed so as to increase our understanding on the types of policies that could to reduce inequalities. For this purpose, the survey should systematically address the major sections of the labor code (salaries, benefits, conditions of employment, etc) and compare males with females.

### III.3. Land Issues

To date, there is no national or provincial level survey that covers access to resources for rural households in order to have sufficient understanding on the characteristics and operation of the rural land-use rights market, the relative roles of the various credit sources, the rural labour market and the role of access to input/output markets for income generation. Key surveys and census such as the 2002 Vietnam Households Living Standards Surveys (VHLSS), which covers over 60,000 households nationwide, and the 2001 Rural, Agricultural and Fishery Census, conducted by the General Statistical Office, provide valuable information on the wellbeing and development of rural households. These surveys though are extensive in topics and area of coverage treated the four resources that affect households' production ability only briefly.

### III.4. Impacts of Migration

At the time of writing this report, there exists no reliable and longitudinal data on migration. Although various types of surveys have been done, many by independent researchers, none of the datasets are at the national level. This current study pointed out the many important implications of migration for a balanced regional development in Vietnam. This information will be increasingly important for policy makers.

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<sup>1</sup> For example, the NCHSS study, using data from routine GSO reporting (and income, rather than expenditure-based Gini) paints an alarming picture, while analysts such as Gallop (2002) as well as that contained in the Vietnam Development Reports (e.g. 2000) has seen inequality as increasing only moderately.

<sup>2</sup> The purpose of the Vietnam Living Standard Survey (VLSS) is to collect data on living standards in order to evaluate the socio-economic development of the country and to formulate policies to raise living standards. It comprises three types of questionnaires, gathering information on households, communities and prices. The household questionnaire gathers information on income, expenditures, health, education, employment, assets, housing, migration and demographics. It consists of over a thousand questions collected in two rounds, over a two weeks interval, in order to obtain more accurate information on expenditures. The community questionnaire includes over 200 general information questions on demography, the economy, basic infrastructure, education, health and agriculture in each rural commune. Finally, for each rural commune, the price questionnaire includes three price quotes collected for two hundred goods, to provide essential information on the cost of living.

<sup>3</sup> The Gini coefficient is the most commonly used measure of income or expenditure inequality in the literature. Applied to income or expenditure distribution across the whole country, the index captures in a single number the state of inequality, ranging from 0 (perfect equality of expenditure) to 1 (perfect inequality, i.e. one household owns everything). It is difficult to obtain reliable measures of economic inequality; the Gini coefficient becomes most valid in the context of a comprehensive, carefully designed living standards survey. For Vietnam we have the Vietnam Living Standards Survey (VLSS) results from 1993, 1998 and 2002.

<sup>4</sup> Kuznets, 1955

<sup>5</sup> Ravallion, 2001. Fields and Jakubsen (1994) demonstrate that, although it seems to hold for a few developed economies there is in fact very little time-series evidence to support Kuznets hypothesis. More recently, Barro (1999) finds that, although the Kuznets curve emerges as a clear empirical regularity in panel data, per capita income does not account for much of the variation in inequality across countries or over time. Thematic paper 1 (see note in Annex A) includes further discussion on this topic.

<sup>6</sup> Ravallion, 2001. Fields and Jakubsen (1994) demonstrate that, although it seems to hold for a few developed economies there is in fact very little time-series evidence to support Kuznets hypothesis. More recently, Barro (1999) finds that, although the Kuznets curve emerges as a clear empirical regularity in panel data, per capita income does not account for much of the variation in inequality across countries or over time. See thematic paper 1 for more discussion on this.

<sup>7</sup> For years up to 1995, Figure 1 uses the Denniger and Squire 1996 ‘high-quality’ dataset for China, Indonesia and Malaysia, which includes only survey sources that are nationally representative and systematically sampled. More recent data points are updated from the World Development Indicators.

TP<sup>8</sup>PT World Bank, 1999:ix

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<sup>9</sup> Income is not necessarily the main cause of disparities in nutritional indicators. Factors correlated with income that are highly influential in this case (such as the situation of minorities in remote areas and the education of mothers) are in turn highly correlated with income.

<sup>10</sup> Calculated from net enrollment rates table in Vietnam Development Report 2003, p. 63.

<sup>11</sup> Note this is not a panel dataset, but a snapshot of the richest and poorest 10% of households for the three periods sampled.

<sup>12</sup> Taylor, 2004. See also Ngo Huy Duc's commentary (Background Note #5).

<sup>13</sup> The poverty gap expresses the average difference between the expenditure of the poor and the poverty line as a percentage of the poverty line.

<sup>14</sup> Glewwe and Nguyen, 2002

<sup>15</sup> In 2004, it was estimated by the Department of Planning and Investment that Hochiminh City's GDP accounted for just under 20% of total GDP in Vietnam (DPI, 2004). If the city's immediate environs were included in the figure, it would undoubtedly be several percentage points higher still.

<sup>16</sup> Le Dang Doanh, personal communication. See Annex B for suggested research program on the 'voices of the rich'.

<sup>17</sup> The Corruption Perceptions Index measure should not be confused with the actual incidence of corruption in the economy, which is difficult to measure directly, as measured by Transparency International's Corruption Perceptions Index; Vietnam's corruption perception index score deteriorated slightly from 1997 (the first year of its inclusion) to 2004, and was second lowest score among South and East Asian countries (Indonesia's score was lower). Source: [www.transparency.org/](http://www.transparency.org/)

<sup>18</sup> It is important to note that there is a natural tendency for in rapidly industrializing countries for economic activity to be increasingly concentrated in cities and for incomes to increase at a faster rate in cities than the countryside. This in itself is not evidence of urban bias. The question – which is a difficult one to untangle– is to what extent government policies and institutions themselves directly and indirectly disadvantage rural areas, usually based on the presumption that social and political elites are clustered in urban areas and thus enjoy greater access to resources and decision-makers.

<sup>19</sup> Bales and Phung, 2001

<sup>20</sup> Khan and Riskin, 2001

<sup>21</sup> Minot *et al.*, 2003

<sup>22</sup> World Bank, 1999

<sup>23</sup> A participatory poverty assessment undertaken by Action Aid in Ha Tinh province in 1999 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. These figures are not as quantitatively grounded as those in the VLSS, which place the average figure for North Central region households at 5.4% of expenditures for all taxes and fees. However, the huge gap between these estimates emphasizes the need for better research on this topic. The results suggest that households in many poor localities may not be able to finance more local services from contributions, as the 'socialization' strategy may imply.

<sup>24</sup> Something about agricultural collectivization

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<sup>25</sup> Heltberg, 2002

<sup>26</sup> Van Arkadie and Mallon, 2003

<sup>27</sup> Izumida, 2003

<sup>28</sup> Sepehri, 2005

<sup>29</sup> Gallop, 2002

<sup>30</sup> Nguyen, 2002

<sup>31</sup> For example, the important and accelerating migratory movement, both seasonal and permanent, from the countryside to the cities, principally to Ho Chi Minh City and Ha Noi is causing the appearance of an increasing 'underclass' in those two areas. See for example the synthesis report on Vietnam's "Voices of the Poor" (1999:77).

<sup>32</sup> Brian van Arkadie, personal communication.

<sup>33</sup> 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.

<sup>34</sup> Le Xuan Ba *et al.* 2001, Belser, 2000

<sup>35</sup> Figures are taken from World Bank, 1998; Le Xuan Ba *et al.*, 2001; and Belser, 2000.

<sup>36</sup> Tenev, Carlier, Chaudry and Nguyen, 2003:xiii

<sup>37</sup> Figures calculated from Industrial Enterprise Survey of Vietnam's General Statistics Office, available at [http://www.gso.gov.vn/default\\_en.aspx?tabid=479&idmid=4&ItemID=1822](http://www.gso.gov.vn/default_en.aspx?tabid=479&idmid=4&ItemID=1822), accessed September 10, 2005. See also Mallon, 2004 for a comprehensive overview of the formulation, implementation and impacts of the Employment Law.

<sup>38</sup> World Bank, 2004a:17. To be precise: the share of SOEs in total industrial output fell from 45% to 29%; in non-oil exports, from 62% to 33%; and in Bank credit, from 52% to 36%, all in the period 1998 to 2003.

<sup>39</sup> Webster and Taussig, 1999

<sup>40</sup> Webster, 1999

<sup>41</sup> CIEM-FES, 2004

<sup>42</sup> Heltberg, 2002

<sup>43</sup> The data in the three bullet points of this paragraph are taken from the World Bank's *Reading and Mathematics Assessment Study*, drawing on survey results from 2001. (World Bank, 2004c)

<sup>44</sup> This problem is similar when looking at the effect of user fee introduction in the health services; the poor are much less likely to seek medical treatment when ill compared to the better-off, despite the existence of both health insurance and other fee exemption mechanisms, which are implemented unevenly across local governments and which can lead to 'second class' status in clinics and hospitals.

<sup>45</sup> World Bank, 2004c

<sup>46</sup> Socialist Republic of Vietnam *et al.*, 2005:xx.

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<sup>47</sup> At present, Vietnam lags significantly behind typical international practice in terms of the number of hours of instruction contained in the curriculum. Internationally, students attend school and have face to face instruction for considerably longer than is required in Vietnam; for example, international face to face instruction for students is approximately 1000 hours per year, while in Vietnam the same figure is 752 hours (under current rules) and 627 hours (according to a “new teaching plan” soon to be introduced). The curriculum in ethnic minority areas is significantly shorter, in turn, than the figures above. Fritzen, 2004. Better-off children are also able to pay for “extra classes”, often offered by their day-time teachers for private tuition, yet another driver of educational inequalities.

<sup>48</sup> Ibid, p. xxii

<sup>49</sup> The tables do not allow strict comparisons; the figures in column (a) of Table 4 are not mutually exclusive.

<sup>50</sup> Justino, 2005. See also Nguyen Phuong Nam’s contribution to this study for further analysis (Background Note #7).

<sup>51</sup> Sepehri, 2005

<sup>52</sup> Molisa, 2004, p. 125

<sup>53</sup> Molisa, 2004.

<sup>54</sup> The approaches described in this section draw heavily on Justino, 2005.

<sup>55</sup> Justino, 2005, p. 24 referring to study by Weeks *et al.*, 2004.

<sup>56</sup> Quoted in Justino, 2005, p. 21.

<sup>57</sup> In a remarkable finding that generated much controversy in Vietnam, the World Health Organization ranked Vietnam (and China) near dead last – 187 of 191 countries – in terms of “fairness of financial contribution” in the health sector. The calculation used in the WHO’s complex formula was based largely on the percentage of health financing contributed by households in proportion to their subsistence income. While the international ranking is open to questioning, it has long been established that Vietnam has an extremely high percentage of health finance that is contributed directly by households (e.g. direct purchase of drugs at private pharmacies, etc.). The WHO ranking and an explanatory note on the data is available at [http://www.who.int/whr/2000/en/whr00\\_annex\\_en.pdf](http://www.who.int/whr/2000/en/whr00_annex_en.pdf).

<sup>58</sup> See Socialist Republic of Vietnam *et al.* (2005) for a discussion of the controversy surrounding Decree 10 in the health sector. According to the report, “the Government team felt that Decree 10 should continue to be implemented at the central and provincial-level hospitals and be piloted at the district level hospital and commune-level health facilities. The World Bank team recommended that Decree 10 implementation in the centrally managed hospitals be delayed until appropriate monitoring mechanisms are in place to ensure that the larger public missions of these hospitals will not be compromised; that an appropriate mechanism for Decree 10 implementation in district level hospitals should be developed and tested; and that Decree 10 should not be extended to commune-level health facilities.” (p. xxiii)

<sup>59</sup> Administrative costs for such a system may be low, since communes – which are already responsible for household registration – would merely have the task of certifying the age of applicants.

<sup>60</sup> UNDP, 2003

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<sup>61</sup> NCFAW, 2000, p. 53

<sup>62</sup> For example, Brassard (2005) found that in the agricultural sector (where women dominate most household-level production activities), wages for similar work tend to be more equal between males and females in the northern region of Vietnam than in the southern part, except for work that required more physical strength, such as preparing land and harvesting the crop. There is also a statistically significant difference in monthly salary between males and females in the glass, ceramics and cement industry in northern communes and in the food and beverage industry in the southern communes. In contrast, the textile and garments industry, showed a statistically significant different salary between males and females in both regions.

<sup>63</sup> Nghiem Lien Huong, 2004, p. 303

<sup>64</sup> UNDP, 2004

<sup>65</sup> Le Dang Doanh, personal communication.

<sup>66</sup> according to World Bank, 1999 (“Voices of the Poor” study), p. 73

<sup>67</sup> This section borrows heavily from NCFAW, 2000 and UNDP, 2004

<sup>68</sup> Weeks *et al.*, 2004

<sup>69</sup> Minot *et al.*, 2003; Poverty Task Force, 2002a

<sup>70</sup> Taylor, 2004, p. 17.

<sup>71</sup> At times, this issue can be confused by the presentation of statistics correlating minority status and poverty outcomes. A recent study (van de Walle and Gunewardena, 2001, cited in Baulch *et al.*, 2002) examined the economic benefits associated with different household characteristics, including “the effect of being a minority group”, and discovered that the differential due to minority status had grown from 1993 to 2002. This valuable work should be read together with qualitative analysis of the socio-political and market interactions that lie at the root of this minority effect.

<sup>72</sup> Chambers, 1983

<sup>73</sup> Sikor, 2001

<sup>74</sup> Rambo, 1995 Fritzen, 2000

<sup>75</sup> Neefjes, 2001; Rambo, 1995

<sup>76</sup> Thomas Sikor, personal communication.

<sup>77</sup> Bring *et al.*, 1998

<sup>78</sup> Vasavakul, 2002

<sup>79</sup> Webster, 1999; Nguyen, 2002

<sup>80</sup> van Arkadie, 1993

<sup>81</sup> Cite Minh Tuan’s sources.

<sup>82</sup> Fritzen, 2005

<sup>83</sup> Annex A for a thematic paper that focuses attention onto academic corruption..

<sup>84</sup> See <http://www.icac.nsw.gov.au/> for a comprehensive list of the commission’s activities.

<sup>85</sup> AUSAID, 2000, pp. 12-13

<sup>86</sup> Gallop, 2002



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<sup>87</sup> Quoted from the introductory notes for the VLSS Statistical Abstract 1997/1998, prepared by GSO, 1997, p.2