

Introduction

The Socialist Republic of Viet Nam has undergone a remarkable transformation in the past 15 years. Reforms collectively known as *doi moi* (renewal) have radically altered the people's relationship with the economy and with the Government. By all accounts, *doi moi*, which was officially introduced in 1986, has led to a period of unprecedented economic growth and poverty reduction after more than four decades of war and economic hardship. Viet Nam is now often held up as an example of successful transformation from a centrally planned to a market-driven economy.

Evidence from numerous sources shows that poverty rates have dropped significantly in the past 15 years. Using the poverty line of the General Statistics Office (GSO) and the World Bank (see Appendix 1), the percentage of poor people in the population fell from about 75 percent in the mid-1980s to 58 percent in 1993 and to 37 percent in 1998.¹ Likewise, the average consumption for all income groups has increased in the last decade. This decline in poverty is among the fastest ever seen in the world (Poverty Working Group 1999; Glewwe, Grangolati, and Zaman n.d.). In 1996, nearly 80 percent of the population reported that their living standards had improved since 1990 (GSO 2000b). Yet, despite these successes, a significant proportion of the population is still poor.

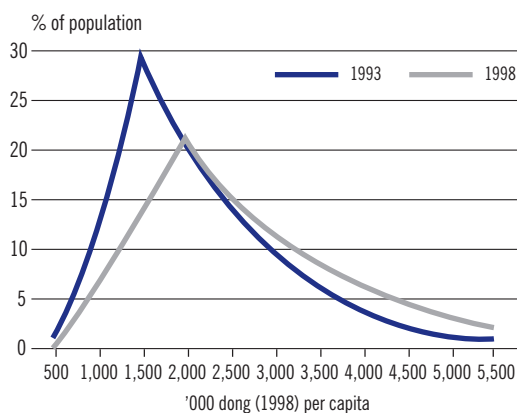
Without a doubt, a large part of the decline in poverty is due to the spectacular growth in the economy. The country had one of the fastest growth rates in the region and the overall increase in income in Viet Nam helped reduce poverty (Dollar and Litvack 1998). Since then, although Viet Nam was less affected than many of its neighbors by the Asian economic crisis of 1997, the economy has started to decelerate. As economic growth slows, Viet Nam will have to redouble its efforts to reduce poverty by investing more in human capital and opening up opportunities for the poor.

Figure 1.1 shows the distribution of expenditure of Vietnamese households. Several trends are immediately clear. First, there has been a general increase in expenditures. On average, households are consuming more and many have escaped poverty (the GSO/World Bank poverty line is about 1.8 million dong per capita per year).

At the same time that the average expenditure level is increasing, however, there is growing inequality in the distribution of expenditure. In 1993, the bulk of the population was clustered around the 1.5 million dong level; by 1998, the distribution was much less equal, with many more households consuming more than 3 million dong per year.

While there is clear evidence of growing income inequality, there are only a few studies that the trend holds in other areas such as education and health. Education and health are widely recognized as the productive assets of the poor and the result of a long series of investments. Income inequality can be reduced fairly quickly, whereas inequalities in human capital can have serious consequences for generations. Investments in human capital are key to breaking the so-called vicious circle of poverty.

Figure 1.1: Distribution of Per Capita Household Expenditure, 1993 and 1998



Sources: 1992–1993 and 1997–1998 VLSSs

¹ On the basis of the observed economic growth rate, Dollar and Litvack (1998) estimated the poverty rate in 1984 to be between 74 percent and 78 percent, depending on how the income was distributed.

While most of the population escaped poverty in the 1990s, a significant minority is still poor and some of the nonpoor have even slipped into poverty. Table 1.1 shows the distribution of households by poverty level and tracks their expenditure from 1993 to 1998. In 1993, more than half of the households were poor; by 1998, only a third were living beneath the poverty line set by the GSO and the World Bank. This means that more than half of the poor in 1993 were able to escape from poverty. On the other hand, despite the growth in the economy and the overall increase in income, more than 10 percent of the nonpoor in 1993 became poor in 1998.

Table 1.1: Transition into and out of Poverty, 1993 to 1998 (%)

Item	Nonpoor in 1998	Poor in 1998	Total
<i>Nonpoor in 1993</i>	39.2	4.7	43.9
<i>Poor in 1993</i>	27.4	28.7	56.1
Total	66.5	33.5	100.0

Sources: 1992–1993 and 1997–1998 VLSSs

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Studies have shown that the highest rates of poverty are in households located in rural and mountainous areas in the Mekong Delta and in the North and Central Highland regions. Ethnic minorities also have high rates of poverty. Not only do these groups have higher rates of poverty, they have had a lower rate of transition out of poverty. Despite economic improvements, people living in rural and remote areas and ethnic minorities still live precarious lives (Glewwe, Grangolati, and Zaman, n.d.).

The Government of the Socialist Republic of Viet Nam has played a major role in both health and education since 1945 and has directly provided social services throughout most of that period. However, recent years have seen a change in that role. The people are now expected to pay a significant portion of the cost of education and health services and the Government has tried to direct its subsidies to the poor. Reforms in the past decade have also brought the private sector into the delivery of social services.

Viet Nam has a relatively high level of human capital. According to the human development index of the United Nations Development Programme (which combines health, education, and income indicators), Viet Nam ranks 108th out of 174 countries, slightly ahead of Indonesia (UNDP 2000). On the basis of per capita income, it ranks 176th out of 203 countries, well below Indonesia, by World Bank (2000) standards. Using indicators of human capital (literacy rate, net enrollment, life expectancy, infant mortality rate, among others) gives similar results: human capital is above the expected level, given Viet Nam's gross domestic product (GDP).

Indeed, this relatively high level of human capital probably contributed to the success that Viet Nam had with the transition and allowed many poor people to take advantage of new opportunities (Chen and Hiebert 2000). Continuing to invest in human capital must be an important part of any strategy for sustaining economic growth at recent levels.

Investment in health and education does not happen in a vacuum, nor does it happen randomly; households make conscious decisions that affect the health and education of

Box 1.1: Poverty Changes

Although most households saw an increase in their income and many have moved out of poverty, benefits have not been shared equally and many households still remain vulnerable. While many households have become better off, many others have become worse off.

My family used to be quite poor. We were farmers in another province. Since working in the field is hard work with little income and our children had little access to good education, I started looking for new opportunities to earn more. I worked for many people and then as a driver for five years. My wife stayed home to take care of housework and our children. Our life has improved in the last five years since we moved to the hamlet and began to raise and sell shrimp.—Mr. Duc, 50, Mekong River delta

Before, my family was not this poor. Each year, in addition to 300 kg of terraced rice per harvest, we had 2 sao (1 sao = 360 m²) of coffee, 2 sao of wheat, and half a sao of corn. We had two cows, three to four pigs, and many chickens and geese. Our main income, about 2,000,000 dong per year, was from coffee cultivation. The corn and wheat were only enough for our meals but with the money earned from coffee, we were able to build our house. Two years later, we added a kitchen. Then, three years ago, we bought a motor and added a toilet.

However, because of a Government decision, we have not been allowed to till the terraced land for the last two years. Our family of 10 now has only 500 m² and we don't have enough food. In the last eight months, we have not grown any rice, wheat, or corn. We had to sell pigs, cows, chickens, and our motor so we could buy rice and noodles for our children and ourselves.—Ms. Be, 34, Central Highlands

their members. While the ability of the poor to make decisions is limited, often severely so, household decisions are still key in both the health and education sectors. The Government, through subsidies and regulations, can make it more affordable to invest in human capital.

Despite the low per capita income of its population, Viet Nam has had relatively high human capital

The human capital of the parents affects the ability of the family to escape poverty and to prosper. Because the nonpoor are better able to invest in human capital, the poor find themselves mired in a vicious circle: often, they are poor because they lack human capital, and they lack human capital because they are poor. This relationship and the endogenous (or simultaneous) nature of poverty and human capital must be understood so that effective strategies for reducing poverty can be developed.

As poverty declines in Viet Nam, it is becoming increasingly concentrated in three groups: the rural population, ethnic minorities, and those with low human capital. There is a great deal of overlap among these three groups. The Government and the community can promote investment in human capital through targeted subsidies and investments targeted at the poor. As public resources are quite limited compared with the problems that the country faces, choosing the most effective policy requires careful analysis of the target population.

The first set of questions that must be asked is descriptive: Which members of the poor have seen their human capital increase and which have seen a decrease? Have the poor kept up with the rest of the population as a result of these gains, or are they falling behind in relative terms? How well targeted are public subsidies to the poor?

The second set of questions has to do with appropriate approaches to improving the well-being of the poor. What barriers prevent the poor from investing in their human capital? Have user fees and the participation of the private sector prevented large numbers of the

poor from using social services or have income and service quality improved to compensate for these changes?

This report presents evidence in an attempt to answer the foregoing questions. It aims to provide a better understanding of how the human capital of the poor evolved during the transition period of *doi moi*, and of the options available to policymakers and donors in helping the poor increase their human capital.

Investment in health and education does not happen in a vacuum, nor does it happen randomly; households make conscious decisions that affect the health and education of their members

This report presents a series of snapshots of poverty and the human capital endowment of the poor in Viet Nam to explain why and how these changes have taken place. It quantifies and organizes much of the recent discussion on inequality and human capital and provides answers to some key questions, in the context of ADB's poverty reduction strategy and the commitment of the Government of Viet Nam to reduce poverty and to develop stronger social safety nets. With the findings and conclusions contained in this report, the Government, ADB, and other donors can draw up programs for increasing human capital and thereby reducing poverty.

The report is largely empirical and quantitative, although it relies as well on qualitative evidence and the experiences of the poor in Viet Nam. The research draws heavily on two Viet Nam Living Standards Surveys (VLSSs), which were done in 1992–1993 and 1997–1998 by the GSO. The surveys provided useful data but also had shortcomings, especially in their description of the quality of education and health care. Therefore, they were supplemented with data from the 1989 and 1999 censuses and sectoral statistical data from the Ministry of Health (MOH), Ministry of Education and Training (MOET), Ministry of Finance, and Ministry of Labor, Invalids, and Social Affairs (MOLISA). In addition, a participatory poverty assessment was undertaken to document how the poor perceive changes in health and education since the introduction of reform (CECI 2001). Recent studies of the World Bank, other international organizations, NGOs, and local and foreign researchers were also referenced. Appendix 2 explains the study's methodology in greater detail.

Following a discussion of the background and conceptual framework of the study in Chapter 2, Chapter 3 traces the outcome of education and health-care activities in Viet Nam. Chapter 4 describes how the reform policy has affected the human capital-seeking behavior of the poor. The analyses in this chapter are intended to explain the difference in human capital between the poor and the nonpoor, between various resident groups, and between regions. The answers arrived at in Chapter 4 lead to conclusions and policy options in Chapter 5, which the Government of Viet Nam can adopt to reduce poverty and to resolve inequalities in the human capital of the poor.