



# Strategy and Program Assessment

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## Vie: Poverty Assessment

## TABLE OF CONTENT

<b>I.</b>	<b>Poverty Profile and Measurement in Viet Nam</b>	<b>3</b>
<b>II.</b>	<b>Effectiveness of the government policies and programs for poverty Reduction</b>	<b>13</b>
	A. The Overall framework and Strategy for Poverty Reduction	13
	B. Targeted Programs Addressing Poverty and Social Deprivation	17
	C. Stakeholder initiatives	22
	D. Strategies and Programs of ADB and development partners	23
<b>III.</b>	<b>Challenges</b>	<b>23</b>
	A. Achieving Equitable and Inclusive Economic Growth	23
	B. Widening the Rural-Urban Gap	25
	C. Growing Regional Inequalities	29
	D. Improving the National Targeted Programs	25
	E. Uplifting Ethnic Minorities	26
	G. Decentralization and Participatory Development	27
	H. Malnutrition and Food Insecurity	27
	I. Linkages of Large-Scale Infrastructure to Poverty reduction	28
	K. Improving Monitoring and Evaluation	28
<b>IV.</b>	<b>Strategic implications for ADB</b>	<b>28</b>
	References	32
	Table 1: Poverty rate	5
	Table 2 Where are the Poor located?	9
	Table 3 Poverty Distribution across Regions	10
	<b>Appendix 1: The Viet Nam Development Goals</b>	
	<b>Appendix 2: Summary Poverty Impact Assessment of the PRSC Program</b>	
	<b>Appendix 3: Poverty by regions</b>	
	<b>Appendix 4: Poverty reduction support by donors</b>	

**ABBREVIATIONS**

ADB	-	Asian Development Bank
AIDS	-	Acquired Immune Deficiency Syndrome
CEM	-	Committee for Ethnic Minorities
CPRGS	-	Comprehensive Poverty Reduction and Growth Strategy
CSP	-	Country Strategy and Program
DFI	-	Direct Foreign Investment
DFID	-	Department for International Development
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
GSO	-	General Statistics Office
HCFP	-	Health Care for Poor
HCMC	-	Ho Chi Minh City
HDI	-	Human Development Index
HEPR	-	Hunger Eradication and Poverty Reduction
HIV	-	Human Immunodeficiency Virus
IFAD	-	International Fund for Agriculture Development
IDMC	-	Irrigation Drainage and Management Company
JBIC	-	Japan Bank for International Cooperation
LUC	-	land-use right certificate
MARD	-	Ministry of Agriculture and Rural Development
MDG	-	Millennium Development Goals
M&E	-	Monitoring and Evaluation
MfDR	-	Management for Development Results
MOLISA	-	Ministry of Labor, Invalids and Social Affairs
MPI	-	Ministry of Planning and Investment
NCFAW	-	National Committee for the Advancement of Women
NGO	-	Non-Governmental Organization
NPAAW	-	National Plan of Action for Advancement of Women
ODA	-	Official Development Assistance
PAR	-	Public Administration Reform
PDCED	-	Program for Socioeconomic Development in Communes Faced with Extreme Difficulties
PIP	-	Public Investment Program
PL	-	Program Loan
PPA	-	Participatory Poverty Assessment
PPP	-	Purchase Power Parity
PRSC	-	Poverty Reduction Support Credit
SARS	-	Severe Acute Respiratory Syndrome
SEDP	-	Socioeconomic Development Plan
SEDS	-	Socioeconomic Development Strategy
SFE	-	State Forest Enterprise
SIDA	-	Sweden International Development Agency
SSNF	-	Social Safety Net Fund
TA	-	Technical Assistance
UNDP	-	United Nations Development Programme
VDG	-	Viet Nam Development Goals
VHLSS	-	Viet Nam Household Living Standards Surveys
VLSS	-	Viet Nam Living Standards Surveys
VNHS	-	Viet Nam National Health Survey
VND	-	Vietnamese Dong (\$ 1 = VND 15,732 as of 15 November 2005)
WB	-	World Bank
WTO	-	World Trade Organization

## POVERTY PROFILE AND MEASUREMENT

### Recent Economic Performance

1. In spite of adverse shocks experienced in recent years including an outbreak of avian influenza, severe flood and droughts, a sharp rise in the prices of key imported commodities, and the introduction of market barriers that affect exports of textiles, garments, and other products, Viet Nam has maintained high economic growth while significantly reducing poverty. GDP grew by more than 7% in 2002, 2003, 2004 and average of 7.5% in 5 years (2001-2005). The main force behind this strong economic performance is rapid private sector growth, as evidenced by strong private consumption and investment and fast export growth. The gross domestic investment/GDP ratio increased from 33.7% in 2003 to 35.5% 2004. The export growth rate jumped sharply from 20.4% in 2003 to 30.3% in 2004. The private sector has welcomed the New Law on Enterprises as is reflected in the high growth rate of newly established private enterprises (26% in number and 24% in registered capital) with an additional 35,000 new businesses being registered in 2004. Private sector industrial production rose 23% in 2004, compared with 12% for the state sector. Foreign Direct Investment (FDI) commitments reached a seven-year high of \$4.2 billion in 2004, or nearly 10% of GDP. Exports, including oil, grew by 29% and account for 57% of GDP. In 2005 total investments increased by 10.3% over 2004 amounting to 36.5% of GDP. Domestic investment constitutes more than 70% of total investment.

2. The industrial and service sectors contributed most to overall economic growth accounting for nearly 80% of GDP. The industrial sector expanded 10.2% and the service sector increased 7.4%, while agriculture grew at 2.8%, marking the slowest growing sector. The consumer price index rose by 9.5% in December 2004 and annual average inflation was estimated at 7.7%, up from 3.2% in 2003. Broad money supply rose by 28% in 2004. Credit growth also accelerated to 42% in 2004, mainly after the inflationary peak. The credit growth raised concerns over the quality of lending. Since then, the Government has taken measures, including raising the reserve ratio and discount rate on refinancing of commercial banks, to reduce the credit growth rate to 25–30% in 2005. The fiscal deficit, estimated at 3.8% of GDP, is below the Government's target of 5.0%. GDP growth is projected at around 7.6% for 2005, 7.6% in 2006, and 7.5% in 2007, supported by strong domestic demand and export growth.<sup>1</sup> The fiscal position is expected to remain expansionary but manageable to cover the cost of reforms and infrastructure. Inflation will likely moderate to 6% in 2005 and 5.2% in 2006.

### Poverty profile

3. The government of Viet Nam has taken advantage of recent economic growth to make significant headway in reducing overall poverty. The poverty rate dropped from 58.1% in 1993, to 37.4% in 1998, 28.9% in 2002, and 19.5% in 2004, while in the same years food poverty declined from 24.9%, to 15%, 10.9%, and 7.4%<sup>2</sup>. The poverty reduction speed has slowed down (from 4.14 percentage points in the period 1993-1998 to 2.98 percentage point in period 1998-2004). However, growth elasticity of poverty reduction has increased, from 0.94 to 1.32 respectively. This, coupled with recent accelerated economic growth rate, makes poverty reduction even easier<sup>3</sup>.

<sup>1</sup> ADB. 2005. *Asian Development Outlook 2005*. Manila.

<sup>2</sup> These figures have been provided by the General Statistics Office (GSO).

<sup>3</sup> VASS, Preliminary report on Poverty Update 2005

4. In Viet Nam two different poverty indicators are currently used, one by the GSO and a second by the Ministry of Labor, Invalids and Social Affairs (MOLISA). GSO uses an internationally comparable methodology for living standards surveys. The so-called “all poor” (or Poverty Rate) is the percentage of the population that cannot afford a threshold consumption basket which includes food and non-food items, with food spending being large enough to secure 2100 calories per day for each family member. The so-called “food-poor” (or Food Poverty) is the fraction of the population that is too poor to afford the food part of the consumption basket, even if they did not purchase any non-food items. The cost of this consumption basket is referred to as the Poverty Line<sup>4</sup>. The government targets for reducing poverty to 15-16% of the population by 2010, based on the new poverty line.

5. MOLISA uses a methodology based on household income and a Vietnamese definition of poverty. In the 1990s MOLISA defined the national poverty line as the income equivalent needed to buy fifteen, twenty, and twenty-five kilograms of rice per person per month for mountainous, rural and urban areas respectively. In 2005 MOLISA increased the poverty line from VND 150,000 to VND 260,000 per month for urban areas and from VND 100,000 to VND 200,000 for rural areas, which includes mountainous and remote areas. Under certain conditions, provinces and cities are authorized to raise the poverty line to allow more households to qualify for poverty programs. After revising the definition of the poverty line in 2005, MOLISA estimates that 26% of the population will be classified as impoverished by the end of 2005, which is nearly twice the percentage according to the previous definition. MOLISA identifies poor at the local level drawing up a list of poor households prepared in consultation with villagers on which target programs like P135, HEPR will rely on for their targeted support.

### Poverty characteristics

8. Understanding who the poor are is an important prerequisite for designing the right policies and programs to reduce poverty. There are several sets of poverty characteristics, like family size and composition, education of household head and spouse, occupation, housing and assets, community characteristics and geographical region. The poor often have relatively large families, poorly educated parents, and live in remote areas with poor infrastructure and housing quality. The average number of children under 15 years of age among the poorest families in the Viet Nam is 1.85 while it is only 0.72 among the richest families. A household whose head has technical education spends almost 19% more than the lesser educated, and 31% more if the head has higher education. On average, wealthy families spend about 6.3 times more than their poor counterparts. Furthermore, where other things are equal, urban households spend 2.23 times more than rural families. While food poverty has been almost eliminated in urban areas, it still affects more than one third of the population among ethnic minorities. In terms of housing 39.78% of the poor live in temporary housing and only 0.13% live in houses with a private kitchen and toilet.

**Table 1. Poverty rates**

In percent	1993	1998	2002	2004*
<b>Poverty rate</b>	58.1	37.4	28.9	19.5
Urban	25.1	9.2	6.6	3.6
Rural	66.4	45.5	35.6	25.0

<sup>4</sup> It should be noted that this poverty line is not directly comparable to the more common measure of \$1 Purchase Power Parity per person per day

<sup>7</sup> UNDP & PTF, June 2002, *Localizing MDGs for poverty reduction Viet Nam: Promoting ethnic minority development. Hanoi*

Kinh and Chinese	53.9	31.1	23.1	13.5
Ethnic minorities	86.4	75.2	69.3	60.7
<b>Food Poverty</b>	24.9	15.0	10.9	7.4
Urban	7.9	2.5	1.9	0.8
Rural	29.1	18.6	13.6	9.7
Kinh and Chinese	20.8	10.6	6.5	3.5
Ethnic minorities	52	41.8	41.5	34.2
<b>Poverty Gap</b>	18.5	9.5	6.9	4.7
Urban	6.4	1.7	1.3	0.7
Rural	21.5	11.8	8.7	6.1
Kinh and Chinese	16	7.1	4.7	2.6
Ethnic minorities	34.7	24.2	22.8	19.2

Source: General Statistics Office (GSO)

\* GSO, 2004 VHLSS

### *Poverty and Ethnic Minorities*

8. Poverty is strongly related to ethnicity. In 2004, only 13.5% of Kinh and Chinese were poor, while 60.7% of the ethnic minorities lived below the poverty line. The gap was even bigger in terms of food poverty. There was almost no food poverty among Kinh and Chinese (3.5%), while 34.2% of ethnic minorities were classified as food poor. Approximately 75% of Vietnamese ethnic minorities live in mountainous areas, mainly in the Northern Mountains and Central Highlands. The minorities living in the Mekong Delta have experienced a steady decline in poverty and have lowest rate of ethnic minority poverty of all regions, while among ethnic minority groups living in the Central Highland poverty has been increasing. Ethnic minorities have benefited less from economic growth less than other groups, despite government action to achieve equitable development. Household expenditures among ethnic minorities are less than a half of those of Kinh or Chinese households. In terms of food poverty the share increased from less than 30% in 1993 to 53% in 2002 and could remain in that range through 2010.

9. School enrollment rates for ethnic minorities are rising overall, but remain low for some groups, particularly minorities living in the Central and Northern Highlands. Primary school enrollment rates for ethnic minorities have stabilized at about 80 per cent, (approximately 12 percentage points lower than among Kinh and Chinese). Gaps are larger for secondary education. These gaps are attributed to poor infrastructure and accessibility, language and cultural barriers, limited quality of teachers, low suitability of the curriculum, and the perception that returns to education are low. Many ethnic minority children entering primary school face a language barrier. Of the 334 primary schools surveyed in the Viet Nam Living Standards Survey (VLSS) of 1998, only 10 provided some courses in an ethnic minority language. Ethnic minorities, partly because of the remote areas they inhabit, also tend to suffer greater exclusion from services and economic opportunities<sup>7</sup>. The quality of education in remote areas is also a concern. In highland areas, up to 50 % of teachers are not fully trained.<sup>8</sup> Health indicators also lag behind for ethnic minorities. Data from the 2002 Viet Nam National Health Survey (VNHS) reveal that children are better nourished than they were four years ago, but also show striking gaps in malnutrition between the majority population and ethnic groups in mountainous areas. Approximately 23% of all ethnic minority children are underweight for their age. This proportion is even higher among ethnic people in the Northern Highlands (34%), and in the central coast and the Central Highlands (45%). Malnutrition is also more severe among these groups.<sup>9</sup> Most provinces with high infant and child mortality rates also have high concentrations of ethnic people. Childbirth

<sup>8</sup> ADB 2001, *Health and Education Needs of Ethnic Minorities in the Greater Mekong Subregion*.

<sup>9</sup> *Poverty, ibid.* page 28.

without prenatal care is as high as 60% among ethnic minorities, as compared to 30% for the Kinh population. Family planning remains a sensitive issue among ethnic minority groups.<sup>10</sup>

### *Poverty and Gender*

10. Human development indicators for literacy, school enrollment, labor force, and political participation of women are higher in Viet Nam than in most other countries in Asia. However, there is a gender gap in secondary school enrollment and in vocational training. Women's illiteracy rates are somewhat higher than men's. Women have less access to secondary and higher education and to productive assets such as land, credit, and knowledge. Female-headed households show lower mean household expenditures than male-headed households. Other areas where gender gaps are evident include the number of hours worked, the type of work, representation in political bodies and public administration, and voice in public life. Domestic violence is still a gender problem in many areas, especially in remote and disadvantaged areas.

11. Women are underrepresented in leadership positions within the public administration and hence have very little decision-making authority. However, the number of women in leadership positions increases somewhat from the provincial level down. In the latest election (1999-2004) the proportion of female presidents in provincial people's committees increased by 3% and vice presidents increased by 11%. In Parliament (2002-2007) 27% of seats are held by women, one of the highest among countries of similar income and human development. This also represents an increase from 26.2% in 1997-2002 and 18.5% in 1992-1997. The percentage female ministers and vice ministers are 12.5% and 9.1% respectively. Qualifications of the women civil servants are slightly lower than those of their male counterparts, for instance, university graduates account for about 70% among women while among men, the ratio is 80%. Postgraduate degree holders are few (3% of the total cadres). It is estimated that women account for only about 26% of public servants and about 18% in the professional category. Women civil servants have limited opportunities to attend certificate or in-service training. The retirement age for women is lower than for men (55 for women and 60 for men), which affects their promotion into senior positions, income and purchasing power.

### *Migrants and poverty*

12. Migrants constitute a high percentage of the poor. The 2002 Viet Nam Household Living Standards Survey (VHLSS) suggests that one third of inter-provincial migrants went to the Central Highlands and about a third of them are ethnic minorities; more than half of them are still poor. Migrants have the least access to social protection. Many of them have no health or social insurance. They can not protect themselves from hazardous work or abuse by employers because most of them have no official work contracts. Women suffer most from hazardous work conditions because they usually have fewer qualifications than men. Because they lack health insurance, many migrants are reluctant to use health services. Female migrants are highly vulnerable to HIV/AIDS infection and stress. Children of migrants have limited access to education because in many provinces/cities children without resident certificates (ho khau) can not attend public schools. The ADB Labor Segmentation and Poverty survey shows that residential status (migrant or non-migrant) helps to explain the wage gap between migrant and non-migrant workers among surveyed firms. Migrant workers receive lower wages than non-migrants even when both exhibit the same human capital characteristics.

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<sup>10</sup> WHO, *Health and Ethnic Minorities in Viet Nam*, Technical Series # 1, June 2003.

12. Migration emerged as an issue in all twelve provinces covered by the Participatory Poverty Assessments (PPAs).<sup>11</sup> The ADB's PPA reports on Daklak and Quang Ngai provinces also confirmed that migrants have less access to social services and jobs and receive lower salaries and fewer opportunities for promotion than do non-migrants.<sup>12</sup> The PPAs reveal that poor migrants constitute a significant percentage of urban poor. In fact in urban areas, poverty is likely to be concentrated among migrants. Presently this group represents a relatively minor share of the population but it is estimated that in the next two decades, migration to urban areas could amount to almost one million people annually. Most of them are likely to prosper but if only a fraction of them failed, the overall picture of poverty could change. The PPAs identified out-migration from rural areas to other (urban) areas in search of livelihoods as an important source of income for poor areas. Normally there are four types of migration which were supporting household incomes, namely,<sup>13</sup> i) seasonal migration to work as hired agricultural labor within provinces, ii) seasonal migration to work as hired agricultural labor in other regions, iii) long-term migration to cities and other provinces, and iv) participation in "labor export" programs.

### **Where are the poor located?**

13. The poverty incidence is not equal across regions. In 2004, the regions with the highest poverty rate were the Northern Highlands (35.4%), Central Highlands (33.1%), and North Central Coast (31.9%). The lowest incidence of poverty was in the Southeast (5.4%). The rural poverty rate fell to about 25% in 2004 from about 35.6% in 2002, and the urban poverty rate remained at 6.6% during the same period. Inequality is modest and increased marginally over 11 years (1993-2004) from 0.34 to 0.37 (Gini Index). While the rural-urban gaps in poverty were small in the Mekong Delta and the North Central Coast (0.32 and 0.31 in 2004 respectively), they were very big in Central Highlands and Northern Mountains as well as South East. (0.36 and 0.35 respectively)<sup>14</sup>

13. While poverty has declined in all seven regions of Viet Nam,<sup>15</sup> this has occurred at different rates and regional poverty differences exist (table 2 and 3). The most rapid decline in poverty between 1998 and 2004 occurred in the North East, accounting for 5.43 percentage points while the changes in poverty rates were very low in the South East at 1.13 percentage points. The poverty rate of the Central Highlands declined rapidly over the last 9 years, from 81.5% in 1993 to 35.4% in 2004, but still remained the highest in the country. Although the share of the population in the Northern Mountainous Areas and the North Central Coast is not large (11.2% and 12.9% of the national total in 2004, respectively), the poor are mostly concentrated in those two regions (58.6% in North West, 29.4% in North East and 31.9% respectively in 2004). In 2004 the Central Highlands region had the third highest rate of general poverty (31.1%), but the highest rate of food poverty (18% in 2004) and had the highest percentage of ethnic minorities with 32% of the population. Among six poorest minorities, four (Bana, Gia-rai, Ede, Coho) live in the Central Highlands. The poverty rate among ethnic minorities in the region declined from 93.2% to 82.6% over the last 9 years, but still remains high.

<sup>11</sup> PPAs in twelve provinces across all seven regions of Viet Nam were carried out by teams of Vietnamese researchers from a combination of international non-governmental organization (NGOs), local NGOs, local research institutes and government agencies in Sumer, 2003

<sup>12</sup> The "Labor market segmentation" study was carried out by VSS, CIEM and ISSA for ADB, 2005

<sup>13</sup> UNDP, AusAID, & Long An Community Health Centre, 2003. *Mekong Delta participatory poverty assessment* (Draft).

<sup>14</sup> VASS calculation based on GSO's 2004 VHLSS Preliminary results

<sup>15</sup> These regions are listed in "Poverty" Ibid., as Northern Highlands, Northeast, Northwest, Red River Delta, North Central Coast, South Central Coast, Central Highlands, Southeast, Mekong Delta. It must be noted that the regional classification changed over time and new provinces/regions were created in the process. Subsequently time series on regional change in poverty can not be compared.

**Table 2: Poverty distribution across Regions**

	<b>1993</b>	<b>1998</b>	<b>2002</b>	<b>2004</b>
<b>Poverty rate/Vietnam</b>	<b>58.1</b>	<b>37.4</b>	<b>28.9</b>	<b>19.5</b>
Northern Mountains	81.5	64.2	43.9	35.4
North East			38.4	29.4
North West			68.0	58.6
Red River Delta	62.7	29.3	22.4	12.1
North Central Coast	74.5	48.1	43.9	31.9
South Central Coast	47.2	34.5	25.2	19
Central Highlands	70.0	52.4	51.8	33.1
South East	37.0	12.2	10.6	5.4
Mekong Delta	47.1	36.9	23.4	15.9
<b>Food poverty/Vietnam</b>	<b>24.9</b>	<b>15.0</b>	<b>10.9</b>	<b>7.4</b>
Northern Mountains	42.3	32.4	21.1	16.2
North East			15.4	11.4
North West			46.1	34.8
Red River Delta	24.2	8.5	5.3	2.3
North Central Coast	35.5	19.0	17.5	13.6
South Central Coast	22.8	15.9	9.0	8.1
Central Highlands	32.0	31.5	29.5	18
South East	11.7	5.0	3.0	1.5
Mekong Delta	17.7	11.3	6.5	4
<b>Poverty gap/Vietnam</b>	<b>18.5</b>	<b>9.5</b>	<b>6.9</b>	<b>4.7</b>
Northern Mountains	29.0	18.5	12.3	
North East			9.6	7
North West			24.1	19.1
Red River Delta	18.3	6.2	4.3	2.1
North Central Coast	24.7	11.8	10.6	8.1
South Central Coast	17.2	10.2	6.0	5.1
Central Highlands	26.3	19.1	16.7	10.6
South East	10.1	3.0	2.2	1.2
Mekong Delta	13.8	8.1	4.7	3

Note: Poverty rates are measured as a percentage of the population. Poverty gaps reflect the average distance between the expenditures of the poor and the poverty line, in percentage of the latter.

Source: GSO

**Table 3: Where are the Poor located (poverty share)**

	1993	1998	2002	2004
<b>General poverty/Vietnam</b>	100	100	100	100
Northern Mountains	23	25	22	25.4
Red River Delta	24	18	17	18.7
North Central Coast	16	18	20	21.45
South Central Coast	5	8	7	7.4
Central Highlands	3	5	10	8.0
South East	11	5	5	4.3
Mekong Delta	17	21	17	14.71
<b>Food poverty/Vietnam</b>	100	100	100	100
Northern Mountains	26	32	28	26.1
Red River Delta	24	13	11	13.6
North Central Coast	18	18	22	21.1
South Central Coast	5	9	7	8.3
Central Highlands	3	8	16	9.6
South East	9	5	4	4.4
Mekong Delta	15	16	13	17.0

Note: Figures indicate the percentage of the total number of poor living in each of the regions.

Source: Based on data from GSO/Vietnam Development Report 2004.

### Reasons for poverty

14. The PPAs<sup>16</sup> confirmed that in most communes there is an overwhelming sense of improvement in well-being. Respondents mentioned increased and greater stability of income, often generated by agricultural productivity. Respondents described a noticeable decline in hunger. Especially in the mountainous areas, they mentioned improvements in infrastructure and access to basic services. However, the PPAs also found that for some people, poverty was persisting, and for others raising themselves out of poverty was difficult and prone to reversal. Throughout the country a range of increasingly pressing environmental concerns were raised. These included deforestation in the uplands, pollution from enterprises, poor sanitation in urban and some rural areas, and problems associated with rapid development of shrimp farms in coastal areas.

15. The reasons for the persistence of poverty varied slightly from place to place. In upland sites the problems included poorly developed factor markets and product markets<sup>17</sup>, poor quality land, limited access to financial services, and governance issues. In lowland sites, people mentioned additional features: being unskilled, being unemployed or dependent or facing an unstable demand for daily labor, high levels of indebtedness (in the Mekong Delta associated with loss of land) were seen as important determinants of poverty. The key perceived causes of poverty included poor infrastructure, poor market factors, ineffectiveness of Government policies and programs at the grassroots level, lack of transparency and accountability, lack of participation of people in decision making, weak capacity of local government staff, lack of capital, land and labor, poor health and harsh climatic conditions.

<sup>16</sup> Ibid, footnote 13

<sup>17</sup> ADB, Making Markets work for the poor. Factors are defined as land, capital, labor. Products are defined as commodities.

16. In many better-off provinces/cities, like Ho Chi Minh City and Binh Duong the labor market was a much more prominent concern. Being unskilled, unemployed or dependent or facing an unstable demand for daily labor were seen as important determinants of urban poverty. A lack of mobility in the labor market also limits migrants' access to reasonable jobs. According to the survey data, the main barriers to finding a reasonable job for migrants are lack of jobs, health status and limited access to labor market information. The imperfection of the labor market clearly increases transaction costs and the uncertainty of getting another job, and hence leads to different returns where similar human capital characteristics prevail.

### **Progress and forces behind poverty reduction**

17. Viet Nam's impressive growth during the 1990's has by and large benefited all groups. Despite low per capita GDP (about \$470 in 2003; or PPP-\$ 2,400 in 2002), Viet Nam ranks 112 out of 177 countries in terms of the HDI as of 2002. Vietnam Academy for Social Science computes a Human Development Index (HDI) at the provincial level<sup>18</sup>. i.e. 0.691 in 2004,<sup>19</sup> which is much lower than other countries in the regions, but ranks much higher at 41 in terms of income per capita. Progress in raising the HDI over time can be seen as an indicator of success in the implementation of the Comprehensive Poverty Reduction and Growth Strategy<sup>20</sup> (CPRGS). Viet Nam has adapted the internationally accepted Millennium Development Goals (MDGs) to create a set of Viet Nam Development Goals (VDGs), which are generally designed to reduce poverty and improve social well being. In all, Vietnam has achieved great results in poverty and social development towards MDGs (there are 11 goals with 32 targets and 136 indicators (see Appendix table 1)). With the exception of the North West, all other regions have achieved a MDGs of halving extreme poverty well ahead of deadline. 4 out of 8 regions have crossed the 20% threshold (ie. Only people in the bottom expenditure quintile live in poverty), of which one (South East) has firmly crossed the 10% threshold. North East has crossed the 30% threshold and North central Coast and Central Highland crossed slightly above the 30% threshold<sup>21</sup>. The VDGs showed a steady improvement in social indicators, such as school enrollment and infant mortality and improvements in other human development indicators.

18. Most indicators have improved over the last decade and compare favorably with other countries at a similar level of per capita income. Life Expectancy at birth has increased to 69.0 years, Under-five Mortality Rate reduced from 58 per 1000 in 1990 to 40 per 1000 life births in 2003. Malnutrition in children under five, though still high, has decreased from half the population to 26.6% in 2004. In 2000, Viet Nam completed the primary education universal. The primary education enrollment has increased from about 90% in the 1990s to 96.6% in 2003-2004. The lower secondary education enrollment was 79.9% in 2003-2004. The government has introduced various incentives to improve access to and quality of education for minorities. Salaries of teachers working in remote areas have been increased to a more attractive level (up to 1.7 times) and several measures were introduced to facilitate access by ethnic minority peoples to higher education, such as admission without entrance examination, lower standards to pass examinations and to receive scholarships

<sup>18</sup> The HDI combines Gross Domestic Product (GDP) per capita, life expectancy, and knowledge (literacy) into a single index. This index can be interpreted as a measure of deprivation across a variety of areas, ranging from material well-being (income) to the ability to fully engage in social life.

<sup>19</sup> UNDP. 2004. "Human Development Report 2004: Cultural Liberty in Today's diverse World", UNDP, New York. Indicators are for 2002.

<sup>20</sup> Socialist Republic of Viet Nam, *The Comprehensive Poverty Reduction and Growth Strategy*, Hanoi, November 2003

<sup>21</sup> VASS, Preliminary report on Poverty Update 2005

<sup>25</sup> Viet Nam: Poverty Analysis, background paper for the ADB 2002-204 CSP.

and tuition fee wavers. However, underemployment in rural areas remains high (20% in 2004). The minimum wage rate was raised by 38% in 2003. The Government of Viet Nam is committed to continuing its efforts towards reducing poverty.

19. Viet Nam's success in reducing poverty has been made possible because of high economic growth. The forces behind the reduction in poverty have changed over time. In more recent years, the driving forces behind poverty-reducing economic growth were (i) macroeconomic stabilization, particularly inflation control; (ii) surging inflows of foreign direct investments (FDI) with the opening up of the economy; and (iii) reform of land use rights that provided individual farmers with a strong incentive to increase production. Fast growth in 2004 was supported by strong investment and private consumption. There was concrete example of the interrelation between the high growth rate and poverty reduction in the case of the Central Highlands. The region's poverty rate decreased from 51.8% in 2002 to 33.1% in 2004 partly because of the region's high economic growth rate during 2001-2003 (7.79% in average for the region versus 7.06% for the whole country) and which also link with market and commodity price increase like coffee in the region.

20. One of the salient characteristics of Viet Nam's growth pattern has been its strong pro-poor nature. A growth rate of output per capita of roughly 5.9% was associated with a reduction in poverty by about 7%, implying an "elasticity" of poverty reduction to economic growth higher than one percent. This high elasticity reflects the commitment of the Government to equality and social inclusion. Earlier regional-level analysis confirmed the positive relationship between growth and poverty reduction.<sup>25</sup>

21. The redistribution of agricultural land to rural households has contributed to fast economic growth and poverty reduction. While land is shown to be one of the most valuable assets in Viet Nam, especially for the more marginalized groups of the population and those living in the mountainous and remote areas, and the allocation of land-use right certificates (LUCs) to rural poor households amounted to a massive and egalitarian transfer of wealth. The revised Law on Forest Protection and Development, approved by the National Assembly in November 2004, also provided the overall framework for the move towards more social and community-based forestry and recognized the forest use rights of households, communities and other sectors as well as their ownership of plantation forest. This resulted in a phenomenal increase in agricultural production and exports, and effectively helped millions of households to escape poverty. The favorable terms of trade for primary agricultural commodities also contributed to this phenomenon. Currently, farmers are selling about 70% of their output, compared to 48% 9 years ago. The average household income in the agriculture sector grew during this period by 61%.

22. Growth in the manufacturing sector, wholesale and retail trade and agriculture has led to better employment distribution to benefit the poor. The growth in manufacturing was to a large extent generated by relatively capital-intensive forces that may provide relatively fewer opportunities to the poor. Also, the better-educated non-poor captured the employment opportunities that were created by rapid expansion of foreign investment and exports. The poor get jobs mostly on their own farm or as wage employees in private, small and labor-intensive firms. The informal services sector absorbed a significant proportion of labor from agriculture; the better-off captured jobs in the formal services sector.

## **II. EFFECTIVENESS OF GOVERNMENT POLICIES AND PROGRAMS FOR POVERTY REDUCTION**

### **A. The Overall Framework, Strategy and Policies for Poverty Reduction**

23. Most of the set targets have been achieved in term of the average figures for the last four years (2001-2004). Although the 10-Year SEDS does not set specific poverty reduction targets, the Government has initiated many policies and targeted programs in order to reduce poverty over the last five years. Based on the SEDS, the Government prepared the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) which serves as the overall strategy for addressing poverty and social equity. It was approved by the Prime Minister in May 2002 and aims at creating an environment for rapid, sustainable development and social equity.<sup>28</sup> Although the Government has been making efforts at reducing poverty all along, this represents the first time the Government has declared poverty reduction to be a high priority for the socioeconomic development in an official strategic document, i.e., the CPRGS.

24. The CPRGS recognizes the need to focus efforts simultaneously on three specific challenges to growth and poverty reduction, namely, completing the transition to a market economy, ensuring social inclusion, and building modern governance. A major challenge is the translation of this broad strategy into key policies and programs, such as improving the Public Investment Program (PIP). The CPRGS translates the vision laid out in the 10-Year SEDS into concrete public actions that are aimed at reducing poverty. The CPRGS envisions a path of transition towards a “market-economy with socialist orientation.” A major challenge now to be tackled is building capacity at the central level and rolling out the

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<sup>28</sup> For the Poverty Reduction Support Credits (PRSCs), the CPRGS has been organized around three major thrusts or “pillars”<sup>28</sup>: Pillar I: Transition to a Market Economy in order to achieve high economic growth. This Pillar involves an ambitious structural reform agenda for five sectors, namely policy actions on trade integration, SOEs reform, financial sector reforms, private sector development, and infrastructure; Pillar II: Social Inclusion and Environmental Sustainability. This Pillar includes sectors such as education, health, land, water and environment. Achieving equitable, socially inclusive and environmentally sustainable pattern of growth will require appropriate sectoral and social policies and programs; Pillar III: Modern Governance. This Pillar focuses on sectors and activities related to improving governance, i.e. planning process, public financial management, financial accountability, public administration reform, and anti corruption. Adoption of a modern public administration, legal and governance system is essential for the first two goals to be attainable.

CPRGS to the local level. Targets on the national (macro) level include the improvement of framework conditions and the harmonization of sectoral approaches for ecologically sustainable and socially balanced economic growth. Targets on the decentralized (meso and micro) levels include the strengthening of capacities of local institutions and beneficiary organizations with the goal of actively involving them in implementing and monitoring the impact of poverty projects under the umbrella of the CPRGS. The CPRGS also embodies a fundamental innovation in the planning process of Viet Nam. It is the first time a planning document of the government has been presented with a logical structure of goals, objectives, targets and indicators so that the performance of the CPRGS can be monitored and evaluated. The goal on poverty reduction of the CPRGS has been transferred into clear specific targets for twelve areas to be achieved by 2010 in the VDGs. (See Table 1, Appendix 1).

25. Recently, the Government has tried to improve its implementation of CPRGS by seeking the wider participation and consultation of civil society, researchers, local government staff and donors in the new 5-Year Socioeconomic Development Plan (SEDP) 2006–2010. Civil society contributed numerous valuable comments during consultations which were subsequently incorporated in the new SEDP. The Non-Governmental Organizations (NGOs), which were consulted, have lauded the Government for improvements incorporated in the new SEDP, such as (i) the strong commitment by the Government to sustainable development and social inclusion, (ii) greater emphasis on the development quality through incorporating the result-based targets and (iii) allocating more resources from the state budget to social sectors. The Government also shared the draft new SEDP with donors and incorporated their feedback in finalizing the plan. This demonstrates that the Government has given greater attention to accountability and transparency in preparing the new SEDP.

26. To achieve the goals set in the Socioeconomic Development Strategy (SEDS) and Plan (SEDP) the Government of Viet Nam has introduced various policies to transit to a market economy . Viet Nam is making good progress in further improving its policy environment under socialist oriented market economy. During the year 2003 and 2004, the National Assembly (NA) approved, among others, laws on land, bankruptcy, competition, and electricity. In 2005, the National Assembly passed fifteen laws in the first session, and plan to consider fourteen other laws for approval, including a law on anticorruption, unified enterprise law, and common investment law in the later session. In addition, the amendment of the Civil Code is envisaged to be approved in 2005. This Code will clarify rights and obligations of citizens and facilitate transactions among private sector. The Law on Enterprises, the Bankruptcy Law, and the Law on Foreign Investment have been revised many times to create legal framework for fair business competition. The capital market has been developing thanks to clarifications and improvements of regulations and reform of state-owned commercial banks. The Land Law and Construction Law have also been revised to facilitate the development of the real estate market. Viet Nam has made quite good progress in its negotiations for accession to the World Trade Organization (WTO). To join WTO, Viet Nam will need to bring its regulatory framework up to international standards.

27. The Government has recognized the importance of structural issues and social challenges. It has embarked on SOE reform, although with a gradual speed. In order to strengthen the efficiency and competitiveness of SOEs, the government has revised existing laws and passed new legislations, such as replacement of Decree No.44/1998/ND-CP on SOE equitization, Decree on Social Welfare Funds to extend to workers of SOEs, Decree on Treatment of redundant worker, Decree on SOE Debt Clearance. Important steps have also been undertaken, especially in terms of liberalizing trade and fostering competition.

28. With regard to governance, institutional reforms have lagged behind rapid economic growth, creating opportunities for abuse and embezzlement. Considerable weaknesses in the selection of public investment projects continue. Weak financial management systems and insufficient transparency create the risk of inefficiency in the allocation of resources, mismanagement and corruption. The Government has acknowledged these problems to a certain extent. For example, the Government has committed itself to implementing public financial management and planning reforms to improve the quality of public service delivery. Also, an Anticorruption Law will be issued soon. The pro-poor focus of the PAR is intended to promote grassroots democracy and legal support for the poor. In order to accelerate PAR the Prime Minister issued the Decree No.136/2001/QD-TTg on accelerating PAR in four areas: administrative institutions, management bodies, strengthening personnel and public expenditures.

29. Recognizing the importance of decentralization, participation and empowerment in decision making, the Government and the Party have issued various Decrees (such as Decree 29/CP on Grassroots Democracy) and Resolutions (Resolution 79 on “Renovation and increasing the quality of the political system at the grassroots level” issued in January 2002 and Resolution 08 on “Decentralization” issued on 30 August 2004) to promote grassroots democracy, participation and decentralization. The spirit of decentralization has also been reflected in various amendments made to regulations on state investment management, public procurement management, and public financial management. Resolution 79 defines, among others, community level responsibilities, terms of reference for commune officials, instructions on popular consultation, and lists responsibilities of the village chief in convening meetings, applying village codes, ensuring security and reporting communes. However, the PPAs, carried out in 2003 in the 12 provinces, confirmed that in general execution of democracy regulations at the grassroots level was poor. Most surveyed communes reported that the Decree had not yet made an impact on their lives. The decentralization policy of the Government hasn’t been consistent with capacity. The policy making, policy analysis and management capacity of local government doesn’t match to the responsibilities and powers given to them. Therefore, the Government has not pushed decentralization of powers down to lower levels in many provinces. MOLISA has mapped poverty to help the central Hunger Eradication and Poverty Reduction (HEPR) organization to allocate funds more effectively and transparently at commune and district levels. A big concern for ensuring policy/socioeconomic plan/program good performance is the lack of an efficient monitoring and evaluation system. There is almost no monitoring and evaluation in the national and local socioeconomic development management system.

## **B. Targeted Programs Addressing Poverty and Social Deprivation**

30. A specific institutional framework for poverty reduction was set through the initiative of promoting various National Targeted Programs, including the Hunger Elimination and Poverty Reduction (HEPR) program, Program 135, National Population and Family Planning program, National Targeted Program on Culture, Anti-HIV/AIDS and Other Social Diseases Program, National Targeted Program on Education, National Rural Drinking Supply Program, Criminal Prevention National Targeted Program, 5 ha Forest Plantation Program, National Program on Automat technology, Biotechnology, Information Technology and New Material, and the National Program on Fishery Development. Most of these National Targeted Programs are pro-poor and two of them (HEPR and 135 Programs) aim specifically at reducing poverty. The National Targeted programs have made a significant contribution to the poverty reduction achievements in Viet Nam.

31. During the first half of 2005, most poverty-related national targeted programs have been revised and assessed to learn the lessons and to find solutions to improve program

efficiency. Those national targeted programs are multi-sectoral programs. Most of the activities under the programs have been implemented with the participation of more than one ministry/agency. Although multi-sector steering committees for giving instructions about program management and implementation have been established under each program, poor coordination is still a problem. Transparency and accountability in funds allocation and program implementation also require improvement. Decentralization and a participatory approach had been taken into consideration in designing both HEPR and 135 programs, but are not apparent in implementation because of low awareness about grassroots democracy on the part of local managers and poor capacity of the local staff. Nationally targeted programs are not monitored or evaluated to determine whether investments are rightly targeted, funds are used for appropriate targets, or whether programs are implemented efficiently. The next section discusses specific poverty related programs in greater detail.

#### Hunger Eradication and Poverty Reduction Program

32. In 1998, the Government formally launched the Hunger Eradication and Poverty Reduction Program (HEPR).<sup>29</sup> This national targeted program is implemented by MOLISA and is targeted at poor households, as defined by the MOLISA poverty line. The Program consists of two parts: support policies (low cost and good quality medical care for the poor, low cost and good quality education for the poor, special support for ethnic minorities in extreme difficulties, special support for vulnerable people, housing support and support with production tools and land) and projects (credit for the poor households, guidance to poor people on business, agricultural and forestry extension, developing models of hunger eradication and poverty reduction in poor communes, infrastructure development in poor communes, assistance to production, training of HEPR cadres, settlements of migrants in New Economic Zones in poor communes, sedentary agriculture and settlement in poor communes, loans for small-scale employment generation projects).

40. For 2001–2005, the program had provided (i) VND 750 billion as interest-rate subsidies for concessional loans, (ii) 1.5 million health insurance cards to poor households, and (iii) more than VND 120 million to support education of the poor. Subsidized credit, free health care, and education for the poor are reasonably well targeted even though these sub-programs have limited coverage among total poor households in the country. Less than 6% of total poor households have access to subsidized credit, less than 10% to free health care insurance, and more than 20% to tuition fee waivers. While the health insurance fee exemption does not necessarily increase the use of health facilities, the money saved is very important to poor households. Twelve percent of poor households would not have enrolled their children without tuition-fee waivers. Nearly 75% of respondents report no significant impact of sedentarization (reallocation) on their well being. Main reasons include the lack of quality infrastructure, poor soil quality, and lack of consultation in program design.

#### Program 135: Program for Socioeconomic Development in Communes Faced with Extreme Difficulties

33. The Program for Socioeconomic Development in Communes Faced with Extreme Difficulties (PDCED), or so-called Program 135, was approved in July 1998<sup>30</sup> and is implemented by the Committee for Ethnic Minorities (CEM). Several old existing programs with broadly similar objectives were merged into Program 135 by Decision No.138/2000/QD-

<sup>29</sup> Originally listed as Program 133; it was combined with Program 120 in 2001, and has been extended as program 143 until 2005.

<sup>30</sup> Program 135, is also a so called National Targeted Program and there is considerable overlap with HEPR. The two programs were designed as one but were split due to institutional imperatives.

TTg of the Prime Minister. These included the infrastructure components of the fixed cultivation and fixed settlement programs (Program 327) (which were aimed at farmers practicing swidden cultivation in the high mountains, and the relocation of Kinh people from overcrowded provinces to the midland districts of the Northern Mountain Region and subsequently in the Central Highlands), the commune cluster program, which aimed at improving access and building up infrastructure in upland communes, and the program for training of cadres in remote and ethnic minority areas. Using the 4-5 eligibility criteria (remoteness, weak infrastructure, poor and weak health and education services, agricultural production constraints, and over 60 percent of the households are poor by MOLISA income threshold<sup>27</sup>), 1,715 communes had been identified by CEM as the targeted communes for the program. By 2003 the program covered 2,362 commune (around 25 per cent of the total nationwide), covering some 1.1 million households and six million people. The 135 program comprised four components: (i) infrastructure development at communal and inter-communal levels (such as inter-commune roads, health clinics and markets, irrigation and water supply), (ii) settlement and sedentarization of ethnic minorities, (iii) support to production development such as agricultural and forestry extension, and (iv) training of local cadres.

34. A majority of the VND 6,795 billion spent during 1999–2004 was used for local infrastructure projects, with only 3.5% going to resettlement and agricultural extension, and 1% for training of local officials. In most of the provinces involved in the program these powers have not been delegated to communes despite the decentralization policy applied in the program. At present there are not adequate mechanisms for beneficiaries to participate in and oversee such work under the 135 Program. Consequently, resources have been misused and considerable funds have leaked when resources were transferred from the central to commune levels. The 2003 State Inspectorate report on Program 135 expenditure in 23 provinces reported errors/mispending for around 5% of program funds. Nonetheless some provinces (e.g. Tuyen Quang) have implemented the program successfully when program management was delegated to the commune level. Most respondents under the impact survey rated the impact of infrastructure development as highly positive, regardless of the extent of local consultation in their selection. Nearly 25% of all communes in the country benefit from Program 135, covering about 15% of the total population. More than half of them are below the poverty line, with 66% in the bottom two quintiles.

#### Program 139: Health Care For the Poor Program

35. Since the end of 2002, a special program is being implemented to improve medical examination and treatment of the poor; the Health Care For the Poor (HCFP) program, or the so-called Decision 139 program.<sup>31</sup> Decision 139 plans to provide comprehensive health care to all poor individuals and households in communes classified as poor through a program, which provides poor with better access to state-run medical examination and treatments centers, from commune health stations to hospitals and institutes at provincial and central levels. This program has a potentially far-reaching impact on the poor. Poor people are provided with health care cards with a face value of VND 50,000 per person per annum, or actual reimbursement of expenses according to a cap set under health insurance. About 23% of the poor were provided with a health care card.<sup>32</sup> In 2003, a total of 11.3 million people received benefits under the system at a total cost of VND 522 billion (68% of the initial budget proposal). Apart from limited budgetary resources and initial teething

<sup>27</sup> SRV, 1998, pages 4-6

<sup>31</sup> Decision 139/2002/QD-Tg, dated 15/10/2002 on “the examination and treatment for the poor”, also referred to as the Provincial Health Fund for the Poor.

<sup>32</sup> CPRGS Progress Report Nov 2003.

problems, another constraint in the implementation of the program is the limited capacity and quality of health services in some provinces (mountainous regions).<sup>33</sup> Despite this successful start of the program, there remains considerable scope for improving the public health system, in particular quality of health services in rural areas, as seen in the outbreaks of SARS, avian flu, and possible increase in HIV/AIDS. These incidences call for increased government attention to public health (and animal health), which may require additional public spending over the medium term. The Government has formulated a national HIV/AIDS strategy. An efficient monitoring system is also needed to ensure that the HCFP health care benefits are not getting distorted by the health care providers prescribing unnecessary or excessive prescriptions and medical procedures to corner greater subsidies.

#### Social Insurance Fund

36. The Social Insurance Fund, an employment-related program for social insurance payments to formal sector (public service and registered company) workers, accounts for the largest payments and the most beneficiaries. The number of insured employees has doubled for the last 10 years from 2.6 million in 1995 to 5.6 millions in 2004. According to MOLISA in 2003 there were more than 40 million people in labor force and 9.6 million people were eligible for the compulsory scheme. However, according to VSS the social security programs covered only 5.4 million, meaning that in 2003 only 56% employees were accessible to the compulsory scheme. Most employees benefited from social insurance programs came from the state sector (79% of the total insured persons in 2002 working in the state sector while this figure in the non-state sector accounted for only 21%). It can be explained by the financial difficulties of employers or low awareness by workers about the social security policies.<sup>34</sup> The revenues increased from about VND 7,000 billion in 2002 to over VND 10,500 billion in 2004.<sup>35</sup> According to the present regulation there are six social security benefits, including four short-term benefits (sickness benefit; maternity benefit; occupational accident and occupational disease benefit; health recovery benefit) and two long-term benefits (retirement pension benefit and survivor benefit). Occupational accident and occupational disease scheme is comprised of a short-term payment with a small ratio. The expenditure of social security programs has risen up 6.5 times from VND 383 billion in 1996 as to VND 2,507 billion in 2002. However, the growth of long-term and short-term expenditures is different largely with the share of expenditure of long-term schemes increased from 31% in 1995 to 70% in 2002, while the share of expenditures of short-term schemes reduced from 69% in 1995 to 30% in 2002. Most of the poor, especially the poor migrants have no access to social insurance. If yes, most of them have access to only short-term benefits because most of the poor have unstable jobs. With the trends of declining of the short-term expenditures share to the total social insurance expenditures, the poor benefited less and less from social insurance expenditures

#### Social Safety Net Fund

37. The Government runs various programs to transfer resources to specific population to mitigate adverse shocks. The Social Safety Net Fund (SSNF) for redundant SOE workers compensates for job losses. A tracer survey in the summer of 2003 of 2,600 randomly selected workers who were assisted by the SSNF reveals that separated workers of restructured SOEs made sound use of the relatively large amounts of money they received.<sup>36</sup> The survey dispels fears that workers who are not used to investment decisions could simply waste their package and become destitute some time down the road. Only a

<sup>33</sup> Ministry of Health, *Assessment of 1-year implementation of examination and Treatment of the Poor*, Hanoi January 2004.

<sup>34</sup> Report on overcoming some difficulties in social security schemes to protect the rights of workers, Committee on Social Affairs, National Assembly (2004).

<sup>35</sup> Report on overcoming some difficulties in social security schemes to protect the rights of workers, Committee of Social Issues, National Assembly (2004).

<sup>36</sup> Nguyen, Nga Nguyet & Martin Rama, 2003. *How well can losses from job separation be predicted?: A tracer study of displaced workers in Viet Nam*. Results are reported in *Poverty*, Ibid. pages 90-92.

minor fraction of the package was devoted to current consumption and most of it was used to investments. The rates of return on these investments appear to be high, in particular on starting or expanding household business. There was no evidence that compensation was wasted or grossly misallocated. The same survey also revealed encouraging findings regarding the insertion of separated SOE workers in the labor market, or becoming self-employed. Last but not least, the survey showed that, on average, there was no decline in the well-being of separated SOE workers.

### Education For All

38. The Education For All (EFA) action plan has targets aimed at improving schooling at all levels, including adult- and non-formal education, and lifelong learning. EFA also aims at improving the quality of schooling through better interaction between schools and communities, including involvement of the latter in the schools' management. The EFA action plan is the education sector plan prepared with the cooperation of all education subsectors using new approach. The action plan's objectives have been presented clearly with prioritizing and responsibilities. The action plan serves as the guidelines for mobilizing and coordinating donors' assistance. Using EFA as the reference, donor can know the needs for investment in each education subsector and take any subsector to support. The Government of Viet Nam always sets education as the highest priority for development investment. The percentage of the state budget expenditure allocated to education increases year by year, from 15.6% in 2001 to 17.4 in 2004 and expected to be 18% in 2005. Realizing the importance of primary and lower education to poverty reduction, the expenditure structure in education has been changed positively towards to increasing the proportion of the state expenditures to these two subsectors. The recurrent expenditures for primary and lower education take 52.6% of the total recurrent expenditures for the whole education sector. The percentage of the state budget allocated to high education reduced from 70% in 1997 to around 40% in 2003.

39. Thanks to the great attention paid by the Government and communities to education, there are quite remarkable achievements in education sector. The literacy rate was 94.5% in 2004. The primary education universal has been achieved throughout the country. It is expected to universalize lower secondary education in the country by 2010. At present 20 provinces/cities have been recognized to achieve the lower secondary education universal target. The number of years staying in school by the children at 15 years age was raised continuously, from 4.5 years in 1990 to 6.3 in 2000 and 7.3 in 2003.<sup>37</sup>

40. Besides the above two target programs, the Government put up policies and programs to support some specific disadvantaged regions such as the Prime Minister Decisions No 186/2001/QĐ-TTg on socioeconomic development of 6 especially disadvantaged provinces in the Northern Mountainous region, No 168/2001/QĐ-TTg on the Longterm Goals, 2001–2005 plan and key solutions for socioeconomic development of the Central Highland and No- 173/2001/QĐ-TTg on socioeconomic development of the Mekong Delta for 2001- 2005. Program 186: By the end of 2001 the Prime Minister issued the Decision on the specific policies and funds from the State budget to support 6 especially disadvantaged provinces in the Northern Mountainous region. These six provinces received the funds from this program for subsidized seeds and breeds (including for importing seeds and breeds), development of sloping plantations, housing for minorities and policy households, water supply, reallocation to lowland areas... The children from ethnic minority families and the most especially disadvantaged communes have been exempted from education fees, school construction fees and health care services fees. The funds have been used also for development curriculum and textbooks in minority languages and for accommodation and food for students staying in Boarding schools or eligible to staying in

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<sup>37</sup> 2006-2010 SEDP, MPI

Boarding schools, but not staying by 50%. Housings are provided to the teachers working in disadvantaged communes. Ethnic minority students can enter some universities, colleges and technical schools without entrance exams. Program 168: Realizing the specific difficulties of the people in the Central highland, the Prime Minister issued the decision No-168/2001/QD-TTg by the end of 2001 to give some specific supports. The first benefit the people there get from the Program is new land received by the local people from forest land clearance or from state forestry and agricultural enterprises. Some other supports given to the Central Highland people are similar the ones under the Program 186, like the children from ethnic minority families and the most especially disadvantaged communes have been exempted from education fees, school construction fees and health care services fees; the funds have been used also for development curriculum and textbooks in minority languages and for accommodation and food for students staying in Boarding schools or eligible to staying in Boarding schools, but not staying by 50% and ethnic minority students can enter some universities, colleges and technical schools without entrance exams. Program 173: Under the Program 173 the poor households can get loans from the state investment funds for housing construction. The agricultural taxes are exempted for the households in the flooding areas and poor households. Education, school construction and health care service fees are exempted for the children from poor and ethnic minority households.

41. All of these three programs have not been evaluated. The reports prepared by MPI listed all the works done under different projects such as power generation, distribution projects, transport, water supply, irrigation and industrial projects. Some social development indicators have been shown, such as 100% of communes having commune health care centers, 2.32% of ethnic minority students staying in Boarding schools, 90% of minorities having stable settlement, 50% of households having access to clean drinking water, 70% of households connected to the electricity grid network, the secondary education enrollment rate increased by 6.5% per year. However, we can not say whether the improvement of these indicators has been made thank to these programs or HEPR or others.

#### Advancing Ethnic Minorities

42. The Government is well aware for the need to create the necessary conditions for all ethnic groups to develop and catch up with the overall economic and social development of the country, with due respect for culture, language, customs and beliefs of different ethnic groups. In the constitution, the position, rights and obligations of all ethnic groups are acknowledged.

43. The Prime Minister has issued the Decision 161 on the provision of early childhood care and education service that are community-based, affordable and relevant to the needs of the poor. In addition to the HEPR and 135 programs, the Government has also implemented the specific programs for the Central Highland and the Northern Mountainous 6 provinces. Recognizing the gaps in school enrollment between the ethnic minorities and the Kinh and Chinese, the government has applied various policies and programs such as education fees exemption, providing 100% accommodation and food expenses support to minorities. Poor ethnic minorities often depend on upland, including forestland for their livelihood. The new Land Law (2003), amongst others, recognizes community based land-use practices. The Government has issued resolution 28/NQ/TW for the accelerated restructuring of State Forestry Enterprises (SFE). The resolution promotes the allocation of underutilized land and forestry currently under the control of the SFEs to the local population or local communities. The revised Law on Forest Protection and Development (submitted to the National Assembly in May 2004) provides the overall framework for a move towards more social and community based forestry. The law recognizes the forest use rights of households and communities. Under a Ministry of Agriculture and Rural Development (MARD) program, it will provide entitlement to agricultural and residential land, clean water

and new houses, and collaborate with local authorities to prioritize infrastructure in disadvantaged areas and assist with commercial production to improve living standards.

### **C. Stakeholder initiatives**

44. Along with the government initiatives for poverty reduction, private sector and communities have also actively involved in delivering poverty reduction programs. Private sector is the key source creating jobs for the poor. The poor are usually have lower qualification and skills than the better off. They have less opportunity to get jobs in official economic sector. The recent study<sup>38</sup> run by ADB shows that migrants (most of them are poor) have less access to reasonable jobs, social insurance and promotion. The development of private sector for the last decade has created a lot of jobs for the poor. According to statistics, private sector created 88.2% of the total employment in Viet Nam in 2004, which was higher than the one in 2003 by 0.1%. With the public- private partnership tendency private sector play more and more important role in providing education and training services to the poor.

45. With the decentralization policy the government intends to involve local government and community more in the development process, increase their accountability to and power in decisions making. Although the community does not have a strong voice in planning process at present, they participate actively in preparing village/commune development plans under many donor-funded projects and national programs (like program 135 in some provinces). With the participation of community the needs of communities have been identified more precisely and the supports from the government and donors become more rightly targeting. International and local NGOs play an important role in helping people, especially the poor, improve their capacity and skills, raising their awareness on their rights and responsibilities, and delivering many poverty reduction subprograms (such as credit and agriculture extension)

### **D. Strategies and Programs of ADB and development partners**

46. International donors have been continuously contributed to the poverty reduction in Vietnam. Taking all pro-poor interventions, ADB and WB are the biggest donors to Vietnam. For the last 12 years WB and ADB provided USD 1,832.81 and USD 1,327.05 millions respectively to Viet Nam for poverty related projects/prorams. The next biggest donor to poverty reduction is Japan.

47. In the 2003- 2006 Country Strategy and Program (CSP), ADB identified two areas as the focus for assistance, such as: (i) accelerating employment generation and growth through support for rural development and private sector development and (ii) helping in binclusive social development. Central region is the highest priority region for ADB assistance. The latest Country Assistance Strategy (CAS) of WB lays out a suggested lending programme of between 300-760 million USD per year, directly in support of the country's poverty reduction objectives as shown in the CPRGS, with a focus on four sectors namely rural development, urban development, infrastructure, and human resource development. The World Bank is the largest single donor through its Poverty Reduction Support Credits (PRSC), PRSC 1 approved in June 2001 for \$250 M, PRSC 2 approved in June 2002 for \$100 M, and PRSC 3 approved in 2004 for \$ 100M. PRSC 4 and PRSC 5 are being considered anticipating the progress achieved with reforms. These PRSCs attracted sizable co-financing loans and grants from several donors including ADB. IMF provided a loan under its Poverty Reduction and Growth Facility. Other donors also identify poverty

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<sup>38</sup> "Labor Segmentation and Poverty" study, ADB, 2005

reduction as the area of high priority for their assistance. The funding for their support is prioritizing mostly for institutional and policy framework development.

48. Under the CPRGS as the overall encompassing Government strategy for addressing poverty and social equity, the Poverty Task Force was established, comprising the representatives of the different agencies of the Government and the donors to harmonize and make synergized all the efforts to poverty reduction. The Government and donors meet regularly at task force meetings to discuss the agenda on poverty reduction and its progress and to share the experience in poverty reduction. Realizing the weaknesses of the instructional capacity, donors have provided various supports to policy reform and institutional capacity building at both central and local level. ADB, World Bank and some other donors also help the Government roll out the CPRGS to provinces. In the poorest regions, such as the Northern Mountains, the Central Highland and the Central Coast regions, donors have provided many investment projects for poverty reduction. Many NGOs provide very efficient support to implement the small projects in very remote areas, making a good contribution to poverty reduction.

### **III. CHALLENGES AHEAD**

49. The key challenges faced by Viet Nam in the coming years in poverty reduction are inequitable and inclusive economic growth that marginalizes the poor and disadvantaged groups from economic growth, expands the rural-urban gap, increases regional inequalities, and causes the poverty rate of ethnic minorities to remain high. The existing institutions and capacity set-ups are still weak. Low transparency, slow decentralization, and lack of monitoring and evaluation system will need to be improved in order for Viet Nam to ensure effective poverty reduction in the coming years.

#### **A. Achieving an Equitable and Inclusive Economic Growth**

50. Although poverty reduction has been impressive in Viet Nam, poverty is still affecting about one-fifth of the population. The future poverty reduction will require more efforts than in the past, in particular in the rural and remote areas. The Government has made a strong commitment to poverty reduction, but further poverty reduction can be expected only if the reform strategy, as laid down in the CPRGS--transition to a market economy, the building of modern governance, and keeping equitable and inclusive development--is implemented expeditiously and effectively. The enabling conditions for reform and effective implementation of poverty reduction interventions are the translation of CPRGS into tangible actions at the local levels is now required. Capacity in planning, financial management and monitoring and evaluation is to be strengthened to local levels as soon as possible along with the rolling out the CPRGS into provinces. Institutional and regulatory capacity should be build to local authorities to ensure effective decentralization. For example, project loans directed at investments at the local level can be a very effective incentive for lowest level administrations to implement the policy and institutional reforms (including PAR, peoples' participation, grassroots democracy and decentralization).<sup>39</sup> Peoples' participation should be stronger in infrastructure projects (participatory planning, contribution in-kind to work, or as an income generating opportunity to the community). The systematic planning, appraisal and implementation of sub-projects will provide for the necessary capacity building at the local level.

51. Economic growth has been remarkable but some groups have benefited less and are vulnerable to social and economic marginalization. These include the poor with low levels of

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<sup>39</sup> Some examples are discussed further in this chapter.

human capital, ethnic minorities and to some extent women, despite the focus of the government policies and programs on these groups. The challenge found is to help these groups access to social services, i.e., education, health and sanitation as basic needs. Although the government runs various national targeting programs with the components on education and health support to the poor, the problem is how to ensure that benefits actually reach the poor. The so-called socialization policies in education may lead to the risk that the poor can not afford for secondary school and full-day primary school, or use health care services, especially to more complicated health service. In order to improve the access of the poor to the growth's benefits, the growth should be pro-poor.

52. The impressive gains in poverty reduction are still fragile that can be seen in the number of the people falling back to the poverty due to life risks. A significant proportion of the population, who were just below the poverty line in 1993, had barely moved above the poverty line by 1998.<sup>40</sup> These almost-poor (being people graduated just above the poverty line) remain vulnerable to shocks that could push them back below the poverty line. The problem remained because there lack of job generation and adverse shocks mitigation programs to reduce vulnerability of the poor.

51. Further commercialization and globalization of the economy can lead to growth but also increased inequality. The gap in earnings between urban and rural areas, between skilled and unskilled workers between ethnic minorities and non-ethnic population could increase. The trend towards increased decentralization could amplify disparities between rich and poor regions, because the rich regions have higher local revenue and therefore will be able to spend substantially more on infrastructure and social services than their poor counterparts.

## **B. Widening Rural-Urban gap**

52. There are wide variations in poverty incidence based on the rural-urban divide, geography, ethnic group, and gender. Poverty is concentrated in rural areas, where over 90 percent of Viet Nam's poor live. Although poverty has declined in both rural and urban areas, the rural poverty rate (25.0 percent) is significantly higher than the urban rate (3.6 percent)<sup>41</sup>. Furthermore, the depth of poverty<sup>42</sup> is much deeper in rural areas than in urban areas in terms of real consumption expenditures and human development.

53. The widening gaps between rural and urban areas will continue with the further increase in the share of GDP by the industry and services sector as compared to agriculture which generates higher level of incomes for city workers. This is world-wide phenomena and Viet Nam will not be an exception. Viet Nam will face with challenge in rural labor force and job creation in rural areas as alternative livelihood. A "cottage industry" or "village industry" development strategy or rural industries (e.g. agro-industry) as a solution to providing rural employment that may initially absorb redundant labor but will not be sufficient in the long run. Meanwhile, the gap will lead to expansion of migration<sup>43</sup> and as according to the ADB' study on "Labor segmentation and Poverty" shows, the migrants have lower access to jobs, social insurance services and promotion. The policy to ensure free labor mobility is very important to reduce the labor segmentation. Planning ahead may prevent urban imbalances in income levels by promoting labor intensive export industries to absorb (migratory) surplus

<sup>40</sup> *Vietnam Development Report 2004: Poverty.*

<sup>41</sup> Urban poverty is underestimated in official figures that do not include unregistered migrants.

<sup>42</sup> As measured by the Poverty Gap Index, which reflects the average distance between the expenditures of the poor and the poverty line, in percentage of the latter. See Development Report 2004, *ibid.*

<sup>43</sup> See Supplementary Appendix A to the ADB Program Loan for Support to Implementation of the Poverty Reduction Program, para 23, 36.

labor. Viet Nam has untapped export potential in labor-intensive manufacturing. Further liberalization of the services and manufacturing sector will create employment opportunities for surplus labor from the deprived rural areas.

### **C. Growing Regional Inequalities**

54. As mentioned in the previous sections, there are gaps across regions. There are clear signs that regional disparities are widening<sup>44</sup>. At present, Northern Mountainous region has remained the poorest region with the poverty rate of 35.4 % in 2004, followed by the Central Highland of 33.1% and the Northern Central Coast of 31.9%. The trend towards increased regional inequality should have received more attention when formulating public expenditure and public investment programs. Budget transfers already favor poorer provinces but this is still done on an ad-hoc basis and mechanisms for a more equitable allocation, especially for the social sectors. Meanwhile the issues of public investment and transfer are still the political issues beyond what planning for rightly targeting investment can do. The regional inequalities can be seen clearly in terms of opportunities. For example, the fast growth economic hubs and provinces around HCMC, Hanoi and Hai Phong for their geographic advantages, can absorb good infrastructure, markets and well trained and cheaper workers. Northern provinces are not doing nearly so well as may be expected; they not only lag behind the fast growing south, because of fewer advantages of location, infrastructure, and access to skills and markets and foreign investment.<sup>45</sup> Economic stability is found dependent on land prices and the policies allows conversion of agricultural land to non-agricultural use, to attract investments and develop competitive industries, rather than to maintain for crops. Further explicit study may be required to identify the policy and institutional measures required to ensure that the imbalance of growth between regions is addressed by providing attractive incentives to lower level administrations. A major issue is that reducing poverty in areas where it is most severe can be very expensive as these areas may not be populated enough to justify the substantial investments required for poverty reduction.

### **D. Improving effectiveness of the National Targeted Programs**

55. The SEDP 2001-2005 gives a strong emphasis to the National Targeted Programs (NTPs) for poverty reduction and hunger eradication and social security. The CPRGS also explicitly recognizes the role of target programs as one of the vehicles for implementing the overall poverty strategy, including addressing regional inequalities. In fact, the NTPs have made a big contribution to poverty reduction in Viet Nam for the last years. However, the impacts of the NTPs could have been increased through better targeting, increased participation, more transparent and accountable financial management systems, and better capacity and incentives to implement the programs. In the new phase of target programs 2006-2010, programs will establish in most, if not all communes. This will require more complex planning methodologies. The complexities involved require that these investments need to be coordinated, planned and implemented through cross-sector projects rather than single sector approach which can only make possible if there is higher level of responsibility and accountability of communities. Effective target programs are also reliant on local resources as the country decentralizes and the privatization in delivery of social services. Since most of the poor by 2010 will be ethnic minorities, some specific most targeted programs like 168 and 186 still needed, but should be with new approach and activities.

56. A matter of great concern is the lack of an efficient monitoring and evaluation system for the national targeted programs. For example, in the case of HEPR, narrative reports

<sup>44</sup> Viet Nam Development Report 2004: Poverty. Page 134.

<sup>45</sup> UNDP/CIEM . *Why don't northern provinces grow faster*. June 2004.

submitted by districts to central government provide little insight what has actually been done or achieved with HEPR inputs, and are not accompanied by parallel financial reports. Financial accounting on HEPR is blended into overall financial reporting, and at the MOLISA Support Office for HEPR no consolidated reporting on HEPR's activities can be obtained<sup>46</sup>. The indicators developed by MOLISA for monitoring under the HEPR are not relevant for provinces and especially district and commune level to get data and report. There is no capacity, and even no staff in most of provinces for HEPR monitoring and evaluation. As a consequence, there is no way of examining the relationship between inputs, activities, and outputs and certainly no way of efficiency of the various HEPR activities. The operation of a credit scheme activity under such circumstances is likely to be void of basic principles of credit management and accountability. This absence of an adequate monitoring and evaluation system should be a major concern, and needs urgent attention. It seriously affects the planning and resource allocation system for HEPR and its transparency. The latter is further compounded by the fact that by going down from the administrative/budgeting hierarchy – from province to district, to commune- the stakeholders are poorly informed about HERP allocations. Lower levels rarely know what the overall provincial allocations are and for what these are earmarked. The participatory and transparent monitoring and evaluation for effective poverty reduction program implementation will need to be strengthened.

### **E. Uplifting Ethnic Minorities**

The present trends is expected that over the current decade, poverty will become mostly associated with ethnic minorities. Ethnic minorities are among the poorest in Viet Nam and run the risk being left behind while minorities take 13% of the population.<sup>47</sup> If current trends were to continue, by 2010 roughly 37% of those living below the poverty and half of them living below food poverty line could be ethnic minorities. Many of them are trapped in a down-ward spiral: population growth puts pressure on the natural carrying capacity of the uplands, which leads to environmental degradation and less opportunity for livelihood, and thus to further poverty. But it should be ascertained whether targeted programs and policies, or any other measure, will change their down-ward spin into an upward spiral. In the past several programs have been in place for resettlement of ethnic minorities, which have now been merged in Program 135. Over the past decades some 3.14 million nomadic people have been settled. The government policy to end nomadic living and migration by 2010 requires further attention and may be supported by the donor community. The evaluation of Program 135 revealed that 75% of the interviewed responded no significant impact of senteriarisation (relocation) on their well being. Many of the poorest ethnic minorities live in the highlands and inaccessible places. Past policies to encourage a move from shifting to permanent cultivation and settlement have been problematic. In the 2006-2010 SEDP the Government plans to transfer forest land to local households. The new revised law provides terms and condition for the leasing of production forest to economic units including farm households and proposes to assign an economic value to each forest production area as the basis for its allocation or lease. However, the issue of how to improve the agricultural activity of the indigenous groups is very complex and goes beyond the usual off-the-shelf solutions such as agricultural extension, credit and livelihood programs. It needs the support and experience sharing from various stakeholders and active participation of the people affected. In terms of human development gap, ethnic minorities lag behind in educational level and access to health services. However, efforts to close the educational gap as well as health situation are ambiguous to show results.

<sup>46</sup> As reported on pg 24 in Saxena, *Poverty reduction in Viet Nam Lao PDR, and Cambodia*, prepared for ADB 2004

<sup>47</sup> For further details , see Supplementary Appendix A on Social and Poverty Impact Assessment of the ADB Program Loan for support to Implementation of the Poverty Reduction Program

## **G. Decentralization and Participatory Development**

57. As in the previous sections has already been mentioned, a well designed policy and institutional reform agenda may have been agreed and accepted at the central level (e.g. the CPRGS), to conceive the benefits of these policies and reforms for poverty reduction. Decentralization policy has been made at central level, inflected in various important legal documents, like the Law on State Budget, the Land Law. but they need to be better implemented at the local levels of administration. Donor funded loan projects at local levels which require participatory planning and decentralized decision making and community participation in sub-projects implementation provided a powerful incentive for the local government and local community. In addition to providing the targeted investments (e.g., potable water supply, small scale irrigation, rural roads, markets, education programs, health clinics, school building, etc), the interventions with inbuilt procedures for community participation will strengthen the capacity at the local level for decentralized and participatory planning and therefore local contribution in-kind. In order to increase the effectiveness and ownership of the projects. Experience has been gained through a number of donor-supported projects with direct financing of commune and/or village development budgets (including UNDP, IFAD, SIDA, GTZ, World Bank, ADB and NGOs). This approach, in accordance with the administrative reform process, needs to be considered for wider application. It is also confirmed that projects, not only the Government run projects but donor funded ones need to have participatory and decentralized implementation modality, that contribute to capacity building at the local levels and accelerate public administration reforms at the local levels<sup>48</sup>

## **H. Malnutrition and Food Insecurity**

58. There are still some 16 million undernourished people. Viet Nam has a high incidence of child malnutrition (26.6% in 2004) and women and children are especially likely to be underweight amongst vulnerable groups. In the poorest expenditure quintile, 39 per cent of women and 30 per cent of men were suffering from malnutrition<sup>49</sup>. Attention needs to be given to the poorest and most food insecure regions and targeted programs are needed increase access to food and food availability. Food security may be not the problem of Viet Nam as the whole, but still insists the problem for specific region and community. Adverse shock mitigating programs are also very important to help the poor from the food insecurity because in many regions like Northern mountainous areas, central regions... the drought, flood, flash flood and landslide are big danger for falling below the poverty line and having no food. Lessons from programs in other countries may be considered for implementation in Viet Nam. For example, from the experience of feeding children and mothers in India under the Integrated Child Development Scheme; the World Food Program in Laos is running a similar program in Laos.

## **I. Linkages of Large-Scale Infrastructure and Poverty Reduction**

59. Infrastructure has been treated as an integral part of overall development strategy but due attention should be paid to its complimentary policies, projects and programs. The impact of large-scale is much more complex. It takes time to be constructed, requires large capital costs, benefits may accrue to other people than the local community, some people may be adversely affected, and its economic impact is highly dependent on other investments or actions. The latter will be a decisive factor for the effect on employment,

<sup>48</sup> For further Information, Partnership 2005, to Consultative Group Meeting Dec 2005

<sup>49</sup> Saxena, page 38

income distribution, poverty reduction. Usually large scale infrastructure has a supply-side effect (increasing capital stock) and demand-side effect (providing additional effective demand). Being a public good, the supply-side effect of large infrastructure investment contributes to general productivity enhancement. For example, transport and energy infrastructure are intermediate inputs for a firm's production, and raise the productivity of others. They can also contribute to social service delivery. The subsequent economic growth may reduce poverty. A large number of the population has benefited from the projects as, they connect remote areas to the power grids and connect these areas with feeder roads to the trunk roads. Nevertheless, physical infrastructure alone is not enough. The case studies identify the importance of complementary policies and measures to realize and spread the benefits of large scale infrastructure, such as an enabling investment climate, agricultural policies to promote diversification and commercialization, deregulation of transport and distribution services and appropriate safeguards policies (resettlement, environmental protection policies, ethnic minorities, etc.).

### **K. Needs for new approach to agricultural development**

60. In recent years, the driving forces behind poverty reduction was job creation by the private sector and more free labor movement. In 2004, 25.6 per cent<sup>50</sup> of those at work earned a wage, or 1.6% higher than the one in 2003. Given the large size of the population it employs (over 60 per cent) the agriculture, forestry and fishery sector should remain a focus for poverty alleviation in the foreseeable future. Hence, increasing the income of the rural sector has been important in achieving rapid economic growth in an equitable fashion. The rural sector will continue to dominate employment over the medium term. In the longer term, when labor is likely to become less abundant, the demand for labor from the industry and service sector will lead to farm consolidation in the favorable areas, but in the remote and marginal mountainous areas, farming activity is likely to decline when better rewarding employment opportunities are offered. It would likely be too costly and uneconomic to allocate substantial investments for these marginal areas.

61. The scope for increase in land through land re-distribution to increase incomes from agriculture sector and support the people in rural sector are likely to be limited but there is ample scope for increasing agricultural productivity by increasing yield and by diversification. This requires investment in research and extension, which has until now been extremely low as a percentage of agriculture GDP (for research, about 0.1 per cent; as compared to Thailand 1.4 per cent)<sup>51</sup>. Probably more important, agricultural growth is not only to be generated from increased production of commodities, but should now focus on value addition. The development of commercial agribusiness in rural areas could rapidly take off and, amongst others, increase exports of processed agricultural products and can help in raising rural income, generating more jobs for rural people, that can lead to poverty reduction and at the same time it can make contribution to solve the problems of urbanization. To develop commercial agribusiness the policy and institutional environment such that private sector is given ample opportunity should be created. This may, amongst others, require some market supporting infrastructure and institutions, efficient road network, a stimulating policy environment, and keen private entrepreneurs who had access to private finance<sup>52</sup>.

<sup>50</sup> Vietnam Economy, 2004, CIEM

<sup>51</sup> Past growth in agriculture was largely the result of increasing factors such as labor, land, irrigation, and fertilizer rather than total factor productivity. See Final Report produced under ADB TA No. 3223-Vie *Agriculture Sector Program*.2001.

<sup>52</sup> ADB, lessons from Market for Poor, RETA-6113

62. It is also pointed out that rural infrastructure development attracts highest priority. A recently completed study also confirms the high potential of public spending on rehabilitation of irrigation systems rehabilitation and irrigation management for poverty reduction<sup>53</sup>.

#### IV. STRATEGIC IMPLICATIONS for the Asian Development Bank

63. For the last 13 years after the renewing the relationship with the Government of Viet Nam, ADB has provided about \$4 billion, including both loans and grants, for Viet Nam. Most of the supports from ADB have been for agriculture and rural development, transport, education, health, water supply and sanitation, financial sector and power transmission. About a half of the funds from ADB have been used for poverty related projects. The supports of the ADB for Viet Nam for the last 5 years were in full consistency with the development objectives and priorities identified in the SEDS 2001-2010 and SEDPs (2001-2005 and 2006-2010) and the CPRGS.

64.

65. Viet Nam's 10-Year Socioeconomic Development Strategy (SEDS) 2001-2010 expresses a strong commitment to rapid growth, employment creation, and poverty reduction/social equity. The strategy articulates Viet Nam's development vision for the coming decade, namely, developing the country from an agriculture-based economy to an "industrialized economy by 2020." The targets set in the Strategy for 2001-2010 are as follows:

- A doubling of GDP by 2010 to be attained through 7.5% annual economic growth (2001-05);
- Investment to be increased to 30% of GDP from an average of 25% in the 1990s;
- Exports to grow at more than twice the rate of GDP growth;
- The share of agriculture GDP to decline from 25% to 16-17%; industry to increase from 35% to 40-41% and services to increase from 40% to 42-43%;
- The share of agriculture employment to decline from two-thirds to half; and
- The share of the urban population to increase from a quarter to a third.

66. The new SEDP states that its overall goal is, **“to accelerate economic growth for rapid and sustainable development as the basis for industrialization, modernization and development of intellectual economy, so that the country can develop, improve physical, cultural and spiritual living standards, maintain a stable political system, sovereignty, independence, ownership and social security and improve Viet Nam’s status in the world.”** The Government further recognizes eight main tasks for achieving this general goal as follows: (i) to mobilize all sectors and stakeholders to participate in developing society and the economy so as to improve the national competitiveness and increase national wealth; (ii) to progress towards a market economy by establishing socialist-oriented market economic institutions; (iii) to actively integrate with the global economy; (iv) to develop science and technology so as to improve the quality of education and enhance the management of environmental and natural resources; (v) to ensure socially inclusive development and poverty reduction; (vi) to strengthen democracy, transparency and accountability through promoting public administration reform (PAR) and (vii) to enhance national solidarity; and (viii) to enhance national security to ensure a stable and peaceful environment that is conducive toward development. Although the Government made significant improvement in preparing the new SEDP, the plan still exhibits certain structural weaknesses. For example, the plan does not link situational analysis to solutions/programs. Furthermore, the plan does not provide for monitoring and evaluation during the implementation of the SEDP. Both NGOs and donors have made various

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<sup>53</sup> ADB/WB Nov 2004, *Poverty Reduction Impact of Public Spending on Large-Scale Irrigation Systems in Viet Nam*. Draft Report

suggestions about how to monitor and evaluate the SEDP and make it more participatory, feasible, pro-poor and to improve the targeting of investments.

67. The main challenges of the SEDP are (i) to sustain high economic growth and poverty reduction; (ii) to create jobs for new labor market entrants, especially jobs for the poor; (iii) support social development by improving health and education services, gender equality, and social inclusion; (iv) protect the environment; and (v) improve governance to ensure these challenges are sufficiently and efficiently addressed.

68. ADB plans to develop the new country assistance strategy 2007-2009, which will be in line with the 2006-2010 SEDP's goal and objectives. Poverty reduction and inclusive social development will be one consistent direction in ADB's supports in this period. ADB finds the relevance of the three pillars as (i) equitable economic growth, (ii) social inclusive and poverty reduction, environment protection and (iii) good governance.

69. In terms of sector approach, education and health sectors may continue their high needs but better targeted beneficiaries for poverty reduction. As mentioned in the above sections, agriculture will also highly recommended but it should move to more high value-added sub-sectors and integrated natural resources management with focus on poverty dimensions to diversify and improve agricultural productivity<sup>54</sup>. It may not be wise to support separate projects for environment improvement, but incorporating the environmental dimensions into urban development or poverty reduction projects.

70. Since growth has been the key forces for poverty reduction for the last years in Viet Nam, ADB will provide supports to equitable/pro-poor growth promotion. Infrastructure (road, power transmission, etc.) development projects, especially the subregional infrastructure projects to enhance the Greater Mekong Subregion (GMS) integration, will be good choice for ADB. ADB will need to pay attention to more involvement of private sector. Taking the account of the role of SMEs in generating employments, especially the employment opportunities for the poor, ADB continue to support SMEs regulatory framework development and improvement. Financial sector is also the sector for ADB to support to sustain the impacts gained from the last policy improvements in financial and banking sector based on results from three sector program loans on the same. Structural reform is to be implemented with higher speed to prepare for accession to WTO with further accelerated SOEs, financial reforms and creating comprehensive factor markets. More comprehensive aid instruments will be used in these sectors.

71.. Geographical approach allows ADB to target the poorest areas and poor groups like ethnic minorities. For the last 5 years, the Central Highlands and Central Coastal regions are of high priority for ADB assistance. Two poverty reduction specific projects (Poverty reduction in the Central Region and Health care improvement in the Central Highlands) have been implementing in these regions with community-based approach. In these regions, needs for investment are found to be (i) development of infrastructure to allow accessibility by poor villages to public services, markets and expansion of their production; (ii) diversified agriculture, forestry and rural economic with alternative livelihood strategies and integrated natural resource management; (iii) development of SMEs attached to job creation (iv) improving quality of social services, social safety nets to overcome

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<sup>54</sup> ADB has provided the support to Viet Nam for Agricultural sector program II through a policy lending. This program has big impacts on the science research system not only in agricultural sector, but in the whole country. This area may be continued as the focus for ADB support in the future.

risks<sup>55</sup>. Taking the facts of the concentration of ethnic minorities in the remote and disadvantaged areas and the trends of the slow reduction of the poverty rate of minorities in comparison to the Kinh and Chinese, ADB would possibly continue its support to the regions being more vulnerable and with more innovative and integrated interventions. As mentioned in the Part I, most of the poor live in remote areas and depend strongly on natural resources, therefore, natural resources integrated management will be incorporated in the future poverty reduction projects. To save the costs by harmonizing with the government's procedures, policies and institutional system, ADB will consider to support certain National Target Programs, provided the the M&E system will be established effectively.

72. New loan modalities for policy based lending like program loans and technical assistance grants would be relevant to provide incentives to the Government to structural changes and reforms for poverty reduction. Budget support would be possible an effective mechanism of addressing policy and institutional issues at the central level. Budget support may serve as an instrument to harmonize the government and donors' procedures and policies. These modalities would be also cost effectiveness to ADB. In terms of project loans, given the previous experience on investment project loans, it would be also good if sector project loans to be converted to sector program loans, a well balanced mix of policy based and project lending, and to be direct to the local level which allows a very effective mechanism to execute. This also follows the principles of the CPRGS for further decentralization of resource allocations.

73. ADB, among other donors would need to put stronger efforts to improve the monitoring and evaluation as a stand-alone exercise, or be integral part of a loan projects. The latter may be a more effective way to ensure that an M&E system is established which functions well from bottom to central level. ADB, hence has approved the technical assistance for Poverty monitoring to help the government monitor better the poverty reduction progress. To improve the relevance of development, other efforts in planning reform including M&E establishment that Ministry of Planning and Investment is preparing would be the good way to strengthen local capacity in project management. Advisory technical assistance would be provided in attachment to the loans for provinces to establish the good M&E systems for Government and ADB loan programs including the PAR loans.

74. The CSP is the fundamental instrument through which the ADB plans and directs its assistance for development results. As a consequence of the bank-wide Management for Development Results (MfDR) approach, ADB's CSP will become a more results-oriented instrument which clearly identifies, in tangible fashion, the planned contribution of ADB's assistance to the targeted development outcomes<sup>56</sup>. This requires that performance indicators of the development outcomes are well defined and the impact measurable. The formulation of this CSP includes the presentation of a Results Framework with monitorable, quantifiable targets, for carefully selected sectors and thematic areas. The CSP supports the key development priorities and is therefore linked to the Vietnamese development planning process and budget framework. Outputs, outcomes, and impacts must be achieved as effectively as possible and interventions must contribute to achieving the VDGs.

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<sup>55</sup> ADB, 2005 *"How to Accelerate Socio-economic development in the Central Region?"*

<sup>56</sup> Managing for Development Results (MfDR) is a management approach that incorporates planning, monitoring, feedback, learning and continuous improvement, and the formulation of the CSP follows this approach. The ADB's MfDR approach distinguishes Inputs (the financial, human, and material resource), Activities (tasks personnel undertake to transform inputs to outputs), Outputs (products and services produced), Outcomes, (Intermediate effects of outputs on clients), and Impacts (Long-term, widespread improvement in society).

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### Appendix 1: The Development Goals of Vietnam

Millennium Development Goals	Goals and Targets of the Vietnam's Development Goals	Indicators			
		1998	2002	2003*	2004**
<b>1. Eradicate Extreme Poverty and Hunger.</b>	<b>Goal 1: Reduce the percentage of poor and hungry households.</b>				
- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. - Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	Target 1: Reduce by 40% the proportion of people living below the internationally accepted poverty line by 2010.  Target 2: Reduce by 75% the proportion of people living below the internationally accepted food poverty line by 2010.	37.4%  15.0%	28.9%  10.9%	27  n/a	19.5%  7.4%
<b>2. Universalizing Primary education</b>	<b>Goal 2: Universalize education and improve education quality.</b>				
Ensure all children complete primary school	Target 1: Increase the net enrolment in primary school to 97% in 2005 and to 99% in 2010.  Target 2: Increase net enrolment rate in junior secondary school to 80% in 2005 and 90% by 2010.  Target 3: Eliminate the gender gap in primary and secondary education by 2005, and the gap with ethnic minorities in 2010.  Target 4: Increase the literacy rate to 95% of under-40-year-old women by 2005 and 100% by 2010.	91.4%  61.7%  99% 88.2%  93.2%	92%  67%  99% 86.8%  94.3%	93.37%  76.3%  n/a  n/a	93.6%  79.9%  n/a  n/a

Millennium Development Goals	Goals and Targets of the Vietnam's Development Goals	Indicators			
		1998	2002	2003*	2004**
	Target 5: By 2010 improve the quality of education and increase full-day schooling at primary level.	n/a	n/a .	n/a	
<b>3. Promoting gender equality</b>	<b>Goal 3: Ensure gender equality and women empowerment.</b>				
Equalizing the ration of girls to boys in education	Target 1: Increase the percentage of women in elective bodies at all levels.	18% (1992)	27%	26%	27.3%
	- Rate of women in elective national assembly	17.8% (1992)	26.2% (1997)	27.3% (2002)	27.3%
	Target 2: Increase the leadership participation of women in ministries, central agencies, and enterprises at all levels by 3 to 5% in the next 10 years.	n/a	n/a	n/a	
	- ministry level and central agencies				12%
	- enterprises				20%
- supreme court				22%	
- People's Councils at all levels				16.5 – 23.8%	
Target 3: Ensure that the names on both husband and wife appear on all land-use right certificates by 2005.	n/a	10%	n/a	12.5%	
Target 4: Reduce the vulnerability of women to domestic violence.	n/a	n/a	n/a	n/a	
<b>4. Reduce Child Mortality</b>	<b>Goal 4: Reduce child mortality, child malnutrition, and the birth rate.</b>				
Reduce between the 1990 and 2015 under-5 mortality rate by two thirds by 2015	Target 1: Reduce the infant mortality rate to 30 per 1,000 live births by 2002 and 25 by 2010, and at a more rapid rate in disadvantaged regions.	36.7	31	32	18
	Target 2: Reduce the under-5 mortality rate to 36 per 1,000 live births by 2005 and 32 by 2010.	48.4	42	40	35

Millennium Development Goals	Goals and Targets of the Vietnam's Development Goals	Indicators			
		1998	2002	2003*	2004**
	Target 3: Reduce under-5 malnutrition to 25% by 2005 and 20% by 2010.	37%	30%	28%	26.6%
<b>5. Improve Maternal Health</b>	<b>Goal 5: Improve maternal health.</b>				
Reduce between the 1990 and 2015 maternal mortality by three quarters	Target 1: Reduce the maternal mortality rate to 80 per 100,000 live births by 2005 and 70 by 2010	200	165	90	90
<b>6. Combat HIV/AIDs, malaria and other disease</b>	<b>Goal 6: Reduce HIV/AIDS infection and other major diseases.</b>				
Halt and begin to reverse the spread of HIV/AIDs, malaria and other major diseases	Target 1: Slow the increase in the spread of HIV/AIDS by 2005 and halve the rate of increase by 2010 (cases).	12,500	70,000	75,000	86,000
<b>7. Ensure Environmental Sustainability</b>	<b>Goal 7: Ensure environmental sustainability.</b>				
Use principles of sustainable development Reverse the loss of environmental resources	Target 1: Extend forest cover to 43% by 2010 (from 33% in 1999). .	30%	36%	37.5%	38.5%
Halve the proportion of people without safe drinking water	Target 2: Ensure that 60% of the rural population (80% of urban) has access to clean and safe water by 2005 and 85% in 2010	48%	52%	54	62% (2004-2005)
	Target 3: Ensure there are no slums and temporary houses in all towns and cities by 2010.	13.6%	12.2%	n/a	9.35%

Millennium Development Goals	Goals and Targets of the Vietnam's Development Goals	Indicators			
		1998	2002	2003*	2004**
Significantly improve the lives of slum dwellers	Target 4: Ensure that all wastewater in towns and cities is treated by 2010.	—	—		
	Target 5: Ensure that all solid waste is collected and disposed of safely in all towns and cities by 2010.	— 59% (1999)	15% 64% (2001)	n/a	16.2%, 76.1%
	Target 6: Air and water pollution must attain national standards by 2005. - % of water and air quality monitoring stations showing improvement)	58%	64%	n/a	n/a
<b>8. Reducing vulnerability</b>	<b>Goal 8: Reduce vulnerability.</b>				
	Target 1: Increase the average income of the lowest expenditure quintile to 140% of that in 2000 and 190% in 2010.	29% (1993-98) —	8% (1998-02) —	n/a	9% (2002-2005)
	Target 2: Reduce by half the rate of poor (in households) people falling back into poverty due to natural disasters and other risks by 2010.	n/a	n/a	n/a	<b>1.5%</b>
<b>9. Improving governance for poverty reduction</b>	<b>Goal 9: Improve governance for poverty reduction.</b>				
	Target 1: Effectively implement grassroots democracy -	n/a	n/a	n/a	
	Target 2: Ensure budget transparency.	n/a	n/a	n/a	
	Target 3: Implement legal reform agenda.	n/a	n/a	n/a	
<b>10. Reducing ethnic inequality</b>	<b>Goal 10: Reduce ethnic inequality.</b>				
	Target 1: Preserve and develop the reading and				

Millennium Development Goals	Goals and Targets of the Vietnam's Development Goals	Indicators			
		1998	2002	2003*	2004**
	<p>writing ability of ethnic languages</p> <ul style="list-style-type: none"> <li>- (literacy rates of ethnic minorities aged 15–24).</li> <li>- Ethnic minority children enrolled at all educational levels <ul style="list-style-type: none"> <li>o primary,</li> <li>o lower secondary,</li> <li>o upper secondary</li> </ul> </li> </ul> <p>Target 2; Ensure entitlement of individual and collective land-use rights for a large percentage of the population in ethnic minority and mountainous areas</p> <p>Target 3: Increase the participation of ethnic minority people in authority bodies at various levels.</p> <p>- Percentage of ethnic minorities are the member of parliament (center)</p>	n/a	n/a	n/a	17.66%, 12.89%, 8.48%
		n/a	n/a	n/a	
		n/a	n/a	n/a	
			17.3% (1997-2002)		16.8% (2002-2004)
<b>11. Ensuring pro-poor infrastructure development</b>	<b>Goal 11: Ensure pro-poor infrastructure development.</b>				
	Target 1: Provide basic infrastructure to 80% of poor communes by 2005 and 100% by 2010.				
	- Poor communes with car accessible roads to centre (CPC)	n/a	n/a	57.3%	92.2%
	- Rate of poor communes with health stations	n/a	n/a	98.6%	98.9%
	- Rate of poor communes with primary schools, kindergardens and nursery classes	n/a	n/a	86.88%	93.0%
	- Rate of poor communes with markets	n/a	n/a	10.3%	50.2%

Millennium Development Goals	Goals and Targets of the Vietnam's Development Goals	Indicators			
		1998	2002	2003*	2004**
	- Rate of poor communes and districts with safe clean water system	n/a	n/a	23.27%	67.4%
	- Rate of poor communes with electricity	n/a	n/a	57.67%	95.4%

**Sources:** Viet Nam Development Goals as outlined in the Comprehensive Poverty Reduction and Growth Strategy, Government's MDG report 2005; Vietnam Development Report - "Poverty" 2004; General Statistical Office's data. Government of Viet Nam. 2004 from Vietnam Household Living Standards Survey (VHLSS2002-2004); Annual Progress Report on the Comprehensive Poverty Reduction and Growth Strategy 2003, 2004, Hanoi

\*the VHLSS was conducted every two years, hence many data in the year 2003 are not available

\*\* Government Statistic Officer is still completing the data processing of 2004 from the VHLSS hence many data of 2004 are not available.



## Appendix 2: Summary Poverty Impact Assessment of the PRSC Program

Possible Channels of Effect	Effects on the Poor	Effects on Other Stakeholders	Mitigation or Enhancement Measures
<p><b>Labor Markets and Wages</b></p>	<ul style="list-style-type: none"> <li>• <b>Direct Short Term.</b> The reforms and the pro-poor growth strategy will have a positive effect on economic growth in an equitable and sustainable fashion. However, initially adjustments are likely to have some adverse implications. Trade liberalization may cause job destruction in protected sectors. Equitization/reform of state-owned enterprises (SOEs) will lead to labor retrenchment, unemployment.</li> <li>• <b>Indirect Short Term.</b> Employment will be created for infrastructure development and maintenance, but initially reduction in policy lending may affect employment in affected enterprises. <ul style="list-style-type: none"> <li>• Expansion of forest cover will provide employment in poor upland areas, but may reduce land available for annual production.</li> </ul> </li> <li>• <b>Indirect Medium Term.</b> Expansion of trade will increase employment opportunities. The reforms will attract foreign investment, which will create jobs. Better access to education will provide for better paying jobs and higher status. <ul style="list-style-type: none"> <li>• In the medium and longer term, the impact of the reforms on employment and wages of the poor will be positive, because of increased and higher quality employment opportunities. The consultation on the 5 Year SEDP (2006-2010) among the population/community will facilitate the inclusion process.</li> </ul> </li> </ul>	<p>Joining the World Trade Organization (WTO) will increase foreign investment in key strategic sectors. Numerous laws and regulations will be amended, all having a positive effect on economic growth, employment generation, and income.</p> <ul style="list-style-type: none"> <li>• Better access to social services will, in the case of education, increase availability of educated and trained workers and create jobs for teachers.</li> <li>• Destruction of protected sectors will affect livelihood of suppliers to protected sectors.</li> <li>• Fostering private sector development and providing an equitable investment environment will accelerate economic growth and employment. A series of consultation on the 5 Year SEDP (2006-2010) with stakeholders, especially with the private sector is underway and will encourage more demand-oriented needs thus creating more employment opportunities.</li> <li>• Improved growth prospects will raise labor demand and wages. Improved service delivery will help to develop human resources.</li> </ul>	<p>Severance packages and other compensatory measures are in place to offset initially adverse impacts. Also Hunger Eradication and Poverty Reduction Program (HEPR) and similar other measures are already in place, which can mitigate adverse impacts.</p> <ul style="list-style-type: none"> <li>• Restructuring of SOEs will be carried out in consultation with employees to minimize adverse effects.</li> </ul>

### Appendix 3: Regional Poverty profile

#### 1. The Northern Mountainous region:

Northern Mountainous region consists of 11 provinces in the North East and four in the North West with the area of 100,966 km<sup>2</sup> and population of 11.769 million people. This region is the one of the poorest region in the country. The GDP per capita of the region was VND 5.734 million, lower than the national average one. Except Quang Ninh (VND 9.764 million), all other provinces have the GDP per capita lower than the national average one, and in some provinces, the GDP per capita even lower a half of it (e.g. Ha Giang, Bac Kan and Lai Chau). In 2004 the poverty rate of the region was highest among 7 regions of 43.5%. The poverty rate had declined strongly from 81.5% in 1993 to 64.222% in 1998 and 43.9% in 2002, almost by half for five years, but remained almost no change from 2002 (43.9%) to 2004 (43.5%). The poverty gaps between Kinh and Chinese and other ethnic minorities remained high (the rate of the ethnic minorities is three time higher than the one of Kinh and Chinese).

Quite high proportion of the population in the region are ethnic minorities, like Hmong, Muong, Tay, Dao... H'Mong and Muong are the two of six ethnic groups with highest poverty rate. Most of the poor live in high mountains, where they lack of land for cultivation, having poor access to infrastructure, market and social service. The people in this region suffers alots of natural disasters, like flash flood, landslide... Because of the tradition living in high mountains, the minorities usually lack information and skills of doing business. The enrollment rate, especially in secondary education is much lower than the national average one. Chidren, especially girls, drop schools from early age to help parents in running farms. Except Tuyen Quang, the local people in many provinces are not familiar to democracy and decentralization. The capacity of local government staff is very weak. It is the one of the reasons why Ha Giang has a tremendous debt for provincial infrastructure projects.

In order to help in poverty reduction, the Government had initiated a specific program (186 program) in addition to HEPR and 135 Programs to provide various specific supports to ethnic minorities in the Northern Mountainous region, like providing funds for accomodation and food for the egilible students staying and not staying in Boarding schools, for development of cirriculum and textbooks in minority languages, to give subsidized new seeds and breeds, fertilizers to the poor and provide agricultural extension (one extension worker in each village). These supports were mentioned in PPA 2003 as the reasons for the poverty reduction in the region for the last years. However, the support from the Government for sedentarization (to forbid free settlement) seemed to be not welcome by ethnic minorities who used to living in high mountains. World Bank, EU, GTZ and IFAD are the biggest donor for poverty reduction activities in the North Mountainous region. Participatory approach has been introduced in various Integrated Rural development projects and seemed to be successful in some provinces, like Tuyen Quang. The problem is how to expand this experience and how to involve the poor, especially ethnic minority poor into the project preparation and implementation process.

#### 2. The Red River delta:

Red River Delta consists of 11 provinces, including Hanoi, spread over an area of 1.5 million hectares with a total population of 17.6 million in 2003 or 22% of the total population in Vietnam. Nearly 80% of the population in this region live in rural areas. A large proprtion

of Vietnam's enterprise activity is concentrated in the Red River Delta. According to the Enterprise census of 2002 (GSO, 2004a), this region accounted for 25% of all registered enterprises in the country, employing around 1.1 million people. The region has a low proportion of ethnic minorities- less than 2% according to the Population and Housing Census (GSO, 1999).

Red River Delta region has made quite good progress in poverty reduction. However, the poverty rate reduce with decreasing rate from 62.3% in 1993 to 29.3% in 1998, 22.4% in 2002 and 21.1% in 2004. Because of population dense, nearly 3 million people in Red River Delta were still poor, taking around 17% of all the poor in Vietnam. The poverty rates are significantly vary across provinces. Vinh Phuc, Thai Binh, Ninh Binh and Ha Nam are four provinces with highest poverty rate in 2002 (39%, 37% , 32% and 32% respectively), not much lower, even higher in the case of Vinh Phuc, than the poverty rate of the North East region (38.3%). The poverty gap in Red River Delta region has fallen dramatically over the last decade but the rate of decline has slowed in recent years.

Most of the poor live in rural areas. Despite the improvement in poverty reduction, there are big and growing rural-urban gaps in poverty rate in the region, and higher than the national average. In 2002, household expenditure in Hanoi was 5.1 time higher than the one in rural areas within the region. And in practice, the gap may be higher than the data show because of evidence of underreporting of expenditure by the richest households in 2002 survey. This gap is a factor contributing to rising inequality in the region and serve as the incentive for rural- urban migration.

The problems to the poor in the region is increasing burden from schooling costs and health care costs. The poor in the region can't expect the income rasing from improvement of irrigation services much because 70% of agricultural land in the region is irrigated which is double the rate for Vietnam as the whole (GSO, 2003a).

The poverty reduction made in the Red River Delta region has been mostly thank to the changes in agricultural policies (74% of the commune officials surveyed under the VHLSS 2002 mentioned this as the main reason for poverty reduction), expansion of non-agricultural jobs (17%), changes strengthening capacity, education and career level (4%) and changes in access to social services (3%). These factors also emerged in the PPA with government officials attributing reductions in poverty to reform policy, crop diversification, job creation and wage earning opportunities.

For the poor, the most important factor in reducing poverty reported in the PPA was increased opportunities for non-farm income generation. The VHLSS also indicates that farming as the share of total employment in the Red River Delta has fallen significantly over 1998 to 2002 while non-farm employment have risen substantially. Improved knowledge and skills in farming technology are also said to have increased the income of poor people. Access to markets in the Red River Delta is likely to be high as in 2002 about 93% of the people live in a village to which is cars accessible, compared to 86% for the whole Vietnam.

Because of the population dense and high irrigation service availability, the forces are expected for poverty reduction in the region creation of more non-farming jobs, application of agricultural science and technology products in farming, better access to market information and environmental protection. With the development of rural small industries, the industrial and water pollution will become a big danger to the health of the poor in the region.

### 3. Northern Central Coast region:

Northern Central Coast region consists of 6 provinces spread over an area of 51,510 km<sup>2</sup> with a total population of 10.5 million in 2004 or around 13% of the total population in Vietnam. Most of the population in this region live in rural areas. All provinces in the region lie along the coast and are very narrow with mountains and small fields. They suffer a lot of natural disasters, like drought, typhoons and flood.

The Northern Central Coast region is the one of the most disadvantaged region in the country with the poverty rate in 2004 as the second highest region (41.4% in comparison to the 24.1% as the national average poverty rate). The GDP per capita of the region in 2004 was the second lowest in the country (VND 4,596,773) while the average one of the whole country was VND 6,961,321. Some provinces are very poor with the poverty rate higher than the regional average one by 1.5 times, like Quang Binh, and Ha Tinh.

Most of the poor are farmers and minorities living in mountainous and coastal areas. The poverty rate in rural areas (19.7% by the national poverty line) is much higher than the one in urban area (2.2%). The rural poor take more than 85% of the total number of the poor in the region. The poverty rate of ethnic minorities is much higher than of the Kinh and Chinese. Using food poverty, it was 15.5% in 2003 for Kinh and Chinese, while it was 42.5% for other ethnic minorities.

The main reasons of the poverty in region are hard climate condition with regular flood and drought, lack of capital and land, poor access to market and lack of skills, knowledge and technology. 11.3% of households in the region have no land for production. Many communes are still not accessible by cars, especially in rainy season.

The Northern Central Coast region has been paid attention to support by the Government. In addition to the budget transfer, national targeted programs for poverty reduction, many pro-poor ODA have been implemented in the regions, some of them are with participatory approach. Therefore, the capacity of the local staff in the region has been raised quite well. However, many provinces haven't still decentralized the investment ownership under the 135 and HEPR programs to commune level. Integrated Coastal resources management should be of high priority for the donors to support the provinces in the region for sustainable poverty reduction.

#### 4. Southern Central Coastal region:

Southern Central Coast region consists of 8 provinces spread over an area of 44,757 km<sup>2</sup> with a total population of 8.67 million in 2004 or around 10.5% of the total population in Vietnam. Most of the population in this region live in rural areas. Most of provinces in the region suffers a lot of natural disasters, like drought, typhoons and flood. Some provinces (Binh Thuan and Ninh Thuan) are far from the economic center.

The Southern Central Coast region is the one of the disadvantaged region in the country. The GDP per capita of the region in 2004 VND 6,265,343 while the average one of the whole country was VND 6,961,321. Some provinces are very poor with the poverty rate higher than the regional average one by 1.5 times, like Quang Nam. Thank to Danang included in the region, the poverty rate of the region is usually a bit lower than the average one of the country.

Most of the poor are farmers and minorities living in mountainous and coastal areas. The poverty rate in rural areas (31.3.7% by the national poverty line) is much higher than the one in urban area (9.5%). The rural poor take more than 70% of the total number of the poor in the region. The poverty rate of ethnic minorities is much higher than of the Kinh and

Chinese. Using food poverty, it was 9.5% in 2003 for Kinh and Chinese, while it was 31.3% for other ethnic minorities.

The main reasons of the poverty in region are hard climate condition with regular flood and drought, lack of capital and land, poor access to market and lack of skills, knowledge and technology. 17.63% of households in the region have no land for production. Many communes are still not accessible by cars, especially in rainy season. The marketing service is not developed. Many poor, especially poor ethnic minorities have no experience in doing business and involvement in trade transactions. They don't have the voice in the society.

Participation, decentralization should be promoted in the region to increase the voice of the poor, especially minorities in the local development process so that the local people can have their own initiatives for poverty reduction with the support from the government.

#### 5. Central Highland region

The central region consists of 5 provinces with the area of 54,474 km<sup>2</sup> (or 16.8% of the total area of the country). The population in 2004 is 4.674 million people from 45 different ethnic minorities. 32% of the population are ethnic minorities. Most of the land in the region is forest land. Agriculture is still the key sector with 42.8% of the region GDP (expected to be in 2005), while the national average one is expected to be only 21.8%. The GDP growth rate of the provinces in the region have been quite high for the last five years. Kon Tum and Gia Lai are the two provinces with highest GDP growth rate of 11.52% and 9.91% respectively for 2001- 2003 period, while it was 7.79% in average for the region and 7.06 for the whole country. It is expected to be 8.26% for 2001- 2005. Thank to high GDP growth rate the poverty rate has been reduced significantly from very high rate of 70.0% in 1993 to 52.4% in 1998, 51.8% in 2002 and to 32.7% in 2004. The poverty rate of ethnic minorities has also reduced from 93.2% to 82.6% for the last 9 years. However, the poverty attribution of the Central Highland to the poverty is still high and increasing from 3.8% in 1993 to 5.2% in 1998 and 10.4% in 2002, while the population account only 3.2%, 3.7% and 5.8% respectively. Most of the poor live in high mountains, living mostly on forestry and agricultural products. Although the poverty rate of the people in agricultural sector has declined from 69% in 1993 to 57.9% in 2002, this sector still take the highest percentage of the poor in the region (92.2%) because of the high proportion of agriculture in GDP.

The reasons for poverty are lack of capital, poor access to resources, risks suffered by the farmers raising tree crops because of dramatical changes of market price, lack of technology and knowledge, lack of land, poor health and lack of infrastructure.

For the last years the Government has paid great attention to support the poor, especially ethnic minority people in the Central Highland for poverty reduction. In addition to the HEPR and 135 programs that the poor in the whole country can benefit, the poor and minorities in the Central Highland can benefit the specific supports from the Program 168. The benefits the people there get from the Program is new land received by the local people from forest land clearance or from state forestry and agricultural enterprises, the support for sedentarization.... In addition, the children from ethnic minority families and the most especially disadvantaged communes have been exempted from education fees, school construction fees and health care services fees; the funds have been used also for development curriculum and textbooks in minority languages and for accommodation and food for students staying in Boarding schools or eligible to staying in Boarding schools, but not staying by 50% and ethnic minority students can enter some universities, colleges and technical schools without entrance exams.

However, as PPA shows, the support for sedentarization was not effective in helping the poor, especially the poor minorities. In the next coming years the donors can cooperate with the government to find appropriate ways to support minorities in the Central Highland for sustainable poverty reduction.

## 6. Mekong River Delta

Mekong River Delta region consists of 13 provinces along the Mekong River. It is a biggest food area of the country. The land in the region is very rich for agricultural development. However, the region suffers flood regularly, serving as the one of the factor to poverty. The GDP per capita of the region is a bit higher than the national average one (VND 7.034 million in comparison to VND 6.961 million). Agriculture is the key sector of the region.

The poverty has been reduced quite significantly for the last 5 years from 47.1% in 1993 to 36.9% in 1998, 23.4% in 2002 and 19.5% in 2004. The region become the second better-off region in the country after the South East region. The biggest gaps in poverty are between rural and urban people (1.1% in urban area and 7.6% in 2003 in rural area) and between ethnic groups (5.3% in 2003 for Kinh and Chinese and 22.6% for other minorities). Most of the poor are in agriculture sector (77% in 2002), which is lower than the national average one. Quite many (13% of the poor) work in service sector. The poor is usually have low education level (70% of the people in the 20% poorest quitile haven't graduated primary education). In 2002, the Mekong River delta is the second region, after the North East, with high proportion of the poor having shortage of land. The interrelation between lacking land and being poor is very clear and high in the region. The percentage of the poor living in temporary housings is highest in the Mekong River delta.

The forces for poverty reduction for the last years have been identified from the PPA are the changes in the agricultural development policies, non-farming employment, improvement of capacity through higher education and training, less natural disasters and better access to social services and infrastructure facilities. The education and health service support policies to poor are mentioned as the good support to the poor to have access to social services.

The government has also provide specific support to the region like the Northern Mountains and Northern Central Coast with the issuance of the Decision 173/2001/QD-TTg. Housing support is identified in the decision as the one of the solutions to supprt the poor in the Region. However, according to the VHLSS only 6.8% of the poor households received the support for housings. Integrated water reservoir development is one of the areas taken by various donors (e.g. Worldbank, ADB, ...) to support to help the local people increasing agricultural productivities, more friendly use of natural resources for sustainable poverty reduction.

## 7. South East region

South East region the richest region in the country with the GDP per capita of VND 23.883 million in 2004. This region consists of four rich provinces/cities (Ho Chi Minh city, Baria-Vung Tau, Binh Duong and Dong Nai) and two poor provinces (Tay Ninh and Binh Phuoc). The GDP per capita varies strongly across provinces/cities. Bara-Vung Tau has highest GDP per capita as of VND 101.112 million, followed by Ho Chi Minh city of VND 23.817 million, Binh Duong- VND 13.740 million, Dong Nai- VND 11.193, Tay Ninh- VND 7.294 million and Binh Phuoc- VND 4.364 million. The poverty rate in the region is low and has reduced with high rate from 37% in 1993 to 12.2% in 1998, 10.6% in 2002 and only 6.7% in 2004.

It is a biggest growth center of the country. The urbanization is clear in the region. Although there is no official data, high proportion of the population in Ho Chi Minh city, Binh Duong and Dong Nai are migrants. As ADB study on Labor segmentation and poverty shows, migrants have poorer access to reasonable jobs, promotion and social services. The migrants in the region suffered not only low salary, but also poor access to education and health services, poor housing, stress of being far from their homes... Migrants usually work in very low salary sector, like garment, textile, footwear... They have to work for extrahours with low rate. Most of them have no social insurance. They live in the crowded house in very poor condition. Many of the migrants are from the Central region (Nghe An, Thanh Hoa..) and the North (Thai Binh, Vinh Phuc...) . The savings are usually not enough for them to buy ticket to visit their family annually.

Ho Chi Minh city has made quite good progress with poverty reduction for the last years. The poverty incidence has been reduced from more than 20% in 1992 to 0% in 2003 using the specific poverty line of Ho Chi Minh city of VND 250,000 per month for urban areas and VND 200,000 for the rural areas. Following the instruction of the Ho Chi Minh city Party Committee HCM city People Committee has developed a very comprehensive HEPR program, mobilizing the efforts of all sectors and communities, including the funds from the city State budget, the National Funds for Jobs generation, credits of mass organizations, banking credits and the public contribution, on poverty reduction. The program has consisted of various activities, including lending program to the poor, education support to the poor students, health care support to the poor, housing for the poor, rural water supply and sanitation and infrastructure development in 20 poor communes...For the 11 years (1992- 2003) the funds allocated to the HEPR activities has been VND 200 billions annually. By the end of 2003 year the amount of HEPR Fund was VND 158.43 billions, of which 36.63% was from public contribution and 63.37% was from the city State Budget. The annual growth of the Fund was VND 12.4 billions. Ho Chi Minh city has included the migrants (KT 3, KT 4) in its HEPR program. This is the only locality in the country that the HEPR program has been monitored quite well by a quite big office (with more than 20 full-time staff) under DOLISA.

With the growing urbanization process, other cities/provinces in the region should also pay more attention to migrants to reduce poverty. Environmental protection can be an area for donors to support

**Table 1: Population, area and GDP per capita in 2004, by regions**

Provinces/cities	Population (000people)	Area (km2)	GDP per capita (VND 000)	GDP (VND 000)
Red river Delta	17,863	14812.5	8063.807871	144043800
Northern Mountainous region	9,244.80	63629.8	5734.080822	53010430.39
North Central Coast	10,504.50	51510.8	4596.772812	48286800
Southern Central Coast	8672.3	44257.5		54334937
Central Higland	4674.2	54473.7	23883.84782	19840698
South East	11499.5	23554.6	23883.84782	274652308

Mekong river Delta	17076.1	39738.7	7034.154479	120115925.3
Whole country	82,033	3,299,314.50	6961.321647	571058098.7

Source: GSO, 2005

**Table 2 : Poverty distribution across Regions**

	1993	1998	2002	2004
<b>Poverty rate</b>	<b>58.1</b>	<b>37.4</b>	<b>28.9</b>	<b>19.5</b>
Northern Mountains	81.5	64.2	43.9	35.4
North East			38.4	29.4
North West			68.0	58.6
Red River Delta	62.7	29.3	22.4	12.1
North Central Coast	74.5	48.1	43.9	31.9
South Central Coast	47.2	34.5	25.2	19
Central Highlands	70.0	52.4	51.8	33.1
South East	37.0	12.2	10.6	5.4
Mekong Delta	47.1	36.9	23.4	15.9
<b>Food poverty</b>	<b>24.9</b>	<b>15.0</b>	<b>10.9</b>	<b>7.4</b>
Northern Mountains	42.3	32.4	21.1	16.2
North East			15.4	11.4
North West			46.1	34.8
Red River Delta	24.2	8.5	5.3	2.3
North Central Coast	35.5	19.0	17.5	13.6
South Central Coast	22.8	15.9	9.0	8.1
Central Highlands	32.0	31.5	29.5	18
South East	11.7	5.0	3.0	1.5
Mekong Delta	17.7	11.3	6.5	4
<b>POVERTY GAP</b>	<b>18.5</b>	<b>9.5</b>	<b>6.9</b>	<b>4.7</b>
Northern Mountains	29.0	18.5	12.3	
North East			9.6	7
North West			24.1	19.1
Red River Delta	18.3	6.2	4.3	2.1
North Central Coast	24.7	11.8	10.6	8.1
South Central Coast	17.2	10.2	6.0	5.1
Central Highlands	26.3	19.1	16.7	10.6
South East	10.1	3.0	2.2	1.2
Mekong Delta	13.8	8.1	4.7	3

Note: Poverty rates are measured as a percentage of the population. Poverty gaps reflect the average distance between the expenditures of the poor and the poverty line, in percentage of the latter.

Source: GSO. After Viet Nam Development Report 2004.

#### Appendix 4: Donor support to poverty reduction

Poverty reduction has been taken as the focus area to support for the last years. It has been identified clearly in the country assistance strategies of many donors. One of the priorities identified in the World Bank's strategy to support to Vietnam includes working with Government on narrowing the development gap of disadvantaged and lagging areas; raising the living standards of ethnic minorities; realizing gender equality and the advancement of women; making basic social services accessible and affordable for the poor; mitigating the impact of natural disasters and other shocks; and enhancing environmental sustainability. These concerns will be thrust throughout the Bank Group's work. For ADB poverty reduction is also the focus for support. In the next 5 year strategy, ADB has identified the challenges suffered by the Vietnamese Government as the priorities to support, all of which relate closely to poverty. They are:

- i. create jobs for new labor market entrants
- ii. reduce inequality through targeted poverty reduction
- i. support social development by improving health and education services, gender equality, and social inclusion
- iii. protect the environment
- iv. improve governance to ensure these challenges are sufficiently and efficiently addressed.

International donors provide big contribution to the poverty reduction in Vietnam. Taking all pro-poor interventions, ADB and WB are the biggest donors to Vietnam. For the last 12 years WB and ADB provided USD 1,832.81 and USD 1,327.05 millions respectively. Although Japan is biggest ODA donor to Vietnam, for poverty reduction Japan takes only the third position with USD 913 million.

Other donors also identify poverty reduction as the area of high priority for their assistance. However, the funding for their support is usually small, and mostly for institutional and policy framework development. World Bank, ADB, IFAD and Sweden are the donors having good experience in participatory poverty reduction. The capacity and awareness of local government and community have been raised thank to the participation in the projects/programs of this kind. PRA, participatory planning, project management, work supervision... skills have been developed for communities under various community-based development projects. Many donors provide very efficient support to implement the small projects in very remote areas, making a good contribution to poverty reduction.

Northern Central Coast, Central Highland and Northern Mountains are the regions serving as the focus for ODA. However, for the last 12 years Northern Central Coast and Northern Mountains have been two biggest ODA beneficiaries with USD 437.77 and USD 480.80 million respectively. By ODA per capita these regions also take the first positions, followed by the Central Highland. The Red River Delta is the region with lowest support for poverty reduction from ODA donors, even though there are many poor provinces in the region. Taking two regions with similar poverty rate (Red River Delta and Mekong Delta) the ODA percapita of the Mekong Delta is 12 times higher than the one received by the Red River Delta.

In the future, along with the specific poverty reduction projects/programs donors can consider to support for institutional and policy reform to promote decentralization, transparency,

accountability and democracy at local level and to build the capacities to government staff at all levels and communities.

**Table 1. ODA poverty related support by regions  
(signed during 1993 – 2005 period)**

Unit: USD million

Regions	Total	ODA per capita in 2004	Of which	
			Loan	Grant
Total	5109.50		3711.91	1397.59
Under the provincial projects/programs	1665.94		1247.47	418.47
I. Northern Mountains	437.77	0.047	330.13	107.64
II. Red River delta	52.53	0.002	49.46	2.57
III. North Central Coast	480.81	0.045	315.69	165.12
IV. South Central Coast	302.71	0.035	224.78	77.93
V. Central Highland	111.02	0.024	98.67	12.35
VI. South East	76.50	0.007	76.50	0.00
VII. Mekong River delta	204.60	0.012	151.74	52.86
B. Regional projects/programs	3443.56		2464.44	979.12
C. The funds used for the shared activities at central levels	2062.83			

**Table 2. Poverty related ODA support by donors**

Unit: USD million

Donors	Number of projects/programs	Up to 27/9/2005		
		Total	ODA	
			Loan	Grant
Total	401	7172.33	5025.95	2146.38
Financial international institutions	83	3848.29	3809.37	38.92
ADB	46	1432.06	1398.36	33.70
WB	30	1985.23	1980.01	5.22
OPEC	4	39.00	39.00	0.00
KUWAIT	2	24.00	24.00	0.00
IMF	1	368.00	368.00	0.00
Other international organizations	57	398.74	105.70	293.04
UNDP	13	27.15	0.00	27.15
UNICEF	8	126.63	0.00	126.63
FAO	13	7.82	0.00	7.82
IFAD	6	105.80	105.70	0.10
UNIDO	4	7.09	0.00	7.09
WHO	1	0.49	0.00	0.49
WFP	6	115.60	0.00	115.60

ILO	6	8.16	0.00	8.16
Asia Pacific bilateral donors	75	1230.92	515.80	715.12
Japan	37	913.27	418.93	494.34
Australia	15	149.10	0.00	149.10
South Korea	4	28.78	26.00	2.78
Taiwan	1	15.00	15.00	0.00
Canada	8	52.22	0.00	52.22
Thailand	5	3.25	0.00	3.25
Singapore	1	55.87	55.87	0.00
Newzealand	2	1.21	0.00	1.21
USA	2	12.22	0.00	12.22
European donors	186	1694.38	595.08	1099.30
Sweden	10	137.86	0.00	137.86
NIB	1	2.73	2.73	0.00
NDF	1	7.00	7.00	0.00
Germany	57	291.30	98.36	192.94
Finland	9	71.06	4.69	66.37
Denmark	21	325.18	1.07	324.11
Netherlands	15	59.86	8.00	51.86
France	30	425.67	420.27	5.40
Belgium	7	18.92	0.00	18.92
Spain	1	13.60	13.60	0.00
Swiss	2	2.05	0.00	2.05
Luxembourg	5	18.18	0.00	18.18
Norway	5	23.45	0.00	23.45
UK	6	125.02	0.00	125.02
Italy	6	17.48	17.02	0.46
EC	10	155.02	22.34	132.68