

POVERTY ANALYSIS (SUMMARY)¹

1. **Recent progress in poverty reduction in Viet Nam.** Viet Nam has a remarkable record of reducing poverty since 1993. The poverty rate, based on the cost of a consumption basket allowing a daily intake of 2,100 calories per person and some nonfood expenditure, dropped from 58.1% in 1993 to 14.5% in 2008. This means about 43 million people have risen out of poverty. The food poverty rate fell from 24% to 7% over the same period, while the poverty gap narrowed from 18.5% to 3.5%.² According to the results of the 2010 survey of living standards in Viet Nam,³ the poverty rate based on the methodology of the Ministry of Labor, Invalids, and Social Affairs (MOLISA)⁴ fell from 18.1% 2004 to 15.5% in 2006, 13.4% in 2008, and 10.7% in 2010.⁵

2. **National poverty assessments.** Viet Nam has had two different sets of poverty data and assessments based on different methodologies and issued by different government agencies. The first one is issued by MOLISA, which is responsible for formulating and implementing the government's poverty-reduction strategies and programs and for proposing official baseline poverty rates for the government's 5-year socioeconomic development plans (SEDPs). MOLISA's methodology was originally based on rice equivalents but shifted to the cost of basic needs (CBN) in 2005. The other set, developed and used by the General Statistics Office with the support of international partners including the World Bank, follows standard CBN with reference to a food basket for the poor and essential nonfood needs. Since MOLISA's adoption of CBN, the gap between poverty data from MOLISA and the General Statistics Office has narrowed, and the two agencies have been working together to develop a common methodology for poverty lines and assessments.

3. **Need to narrow inequality in poverty reduction.** Despite the remarkable record of reducing poverty in absolute and nationwide terms, challenges remain. Poverty incidence varies significantly across regions. It is low in the southeast, Red River and Mekong deltas, and south central coast but high in the northern mountains, north central coast, and central highlands. While ethnic minority groups account for only 14.5% of the total population, they make up more than half of the poor. The proportion of people living on less than \$1.25 a day adjusted for purchasing power parity dropped from 63.7% in 1993 to 16.9% in 2008, and the proportion of those living on less than \$2 per day fell from 85.7% to 43.4%.⁶ This suggests a significant number of near poor in the population.

4. **Millennium Development Goals.** Viet Nam has made good progress toward achieving the Millennium Development Goals (MDGs). Three MDG targets concerning extreme poverty, hunger, and the incidence of malaria and other diseases have been achieved, and another four—boys' and girls' completion of primary schooling, gender equality in education, reduced

¹ This summary is based on ADB. 2011. Viet Nam: Poverty Assessment. Ha Noi. Available on request.

² Socialist Republic of Viet Nam. 2010. *Millennium Development Goals 2010 National Report: Viet Nam 2/3 of the Way Achieving the Millennium and Towards 2015*. Ha Noi.

³ General Statistics Office. 2011. *Key Findings from 2010 Viet Nam Living Standard Survey (VHLSS)*. Ha Noi.

⁴ The official poverty rate for 2006–2010 based on the methodology of MOLISA, and including price escalation, measured the proportion of people living below the official poverty line of D220,000 per person in urban areas and D170,000 per person in rural areas in 2004, D260,000 and D200,000 in 2006, and D370,000 and D290,000 in 2008.

⁵ According to the MOLISA National Survey on Poor and Near Poor Households 2010 reported in 2011 using the new poverty line, the poverty rate in 2010 was 14.2%. The results of this survey will guide the implementation of social protection policies for 2011–2015. The new poverty line for 2011–2015 is D500,000 per person in urban areas and D400,000 per person in rural areas.

⁶ World Bank. 2012. *World Development Indicators*. Washington DC.

under-5 mortality, and reduced maternal mortality—are likely to be achieved ahead of time. However, other targets concerning HIV/AIDs and environmental sustainability may not be achieved in time.

5. **Poverty Reduction Support Credit.** In 2002, the World Bank initiated and coordinated the Poverty Reduction Support Credit (PRSC) to support the government's socioeconomic reform. The PRSC process comprises several closely related activities jointly undertaken each year by participating development agencies to help the government carry out the policy reform needed to successfully implement its poverty reduction strategy. With support from ADB, the World Bank, and other development agencies through the PRSC process, the policy reforms needed to successfully implement the government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS), 2002–2010 were carried out, and most CPRGS goals were achieved.⁷ The PRSC process has been a driver of policy reform in Viet Nam, contributing to poverty reduction and to improving legal, regulatory, institutional, and policy frameworks for the reform agenda.

6. **Risks, shocks, and vulnerability as the causes of poverty.** Climate change may push more people into poverty. Viet Nam is one of the five countries expected to suffer most from climate change.⁸ The south central coastal and Mekong Delta provinces have been strongly affected by climate change. People in the northwest, central highlands, and Red River delta, especially the poor, depend heavily on natural resources. The poor account for large proportions of rural and ethnic minority populations and also have significantly lower average incomes than the poor in urban areas and among the ethnic majority Kinh. Most poor households are in rural and ethnic minority areas. In 2008, the poverty gap was 4.6% in rural areas and 15.1% among ethnic minorities, compared with 0.5% in urban areas and 1.7% among Kinh and ethnic Chinese. Ethnic minorities account for 47.1% of the chronic poor. Poverty also varies significantly across regions. In 2010, the poverty rate was 39.2% in the northwest mountains, 24.6% in the northeast mountains, 22.7% in the north central coast, and 22.5% in the central highlands, compared with 2.1% in the southeast, 8.3% in the Red River delta, 13.5% in the Mekong delta, and 17.3% in the south central coast.⁹ Areas with some of the highest poverty rates are likely to have higher shares of ethnic minorities, which experience poverty reduction at rates below average.¹⁰ Vulnerability to poverty is high. The large difference between the proportion of the population living on less than \$2 per day and \$1.25 per day shows the near-poor accounting for a substantial proportion of the population. Data from MOLISA's 2011 national survey show near-poor households accounting for 7.4%. A small external or internal shock and a moderate deterioration in economic circumstances may push many people into poverty. As the economy slowed sharply, unemployment and underemployment increased and more households, particularly in rural areas, fell into poverty in 2009 and the first half of 2010. Many people from rural areas who were employed in urban areas of Viet Nam or abroad lost their jobs and stopped remittances to their households. Some of them returned to their villages, despite there being few alternative sources of income.

⁷ For an assessment of how the PRSC process contributed to the implementation of the CPRGS, 2002–2010, see R. Grawe. 2009. Poverty Reduction Support Credits: Vietnam Country Study. *IEG Working Paper 2010/9*. Washington, DC: World Bank.

⁸ S. Dasgupta et al. 2007. The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis. *World Bank Policy Research Working Paper No. 4136*. Washington, DC: World Bank.

⁹ MOLISA. 2011. *National Survey on Poor and Near Poor Households 2010*. Ha Noi

¹⁰ V. C. Nguyen, N. G. Truong, R. van der Weide. 2010. Poverty and Inequality Maps for Rural Vietnam. *Policy Research Working Paper No. 5443*. Washington, DC: World Bank.

7. **Poverty reduction strategy and targets in the Socioeconomic Development Plan, 2011–2015.** Robust economic growth has been the key driver of poverty reduction in Viet Nam, but government policies and targeted programs have played a major role in making that growth pro-poor. The government's current poverty-reduction strategy is embedded in the SEDP, 2011–2015. The SEDP provides for broad policy reform and many investment projects toward achieving targets and goals under three pillars: (i) improving the socialist-oriented market economy institution; (ii) quickly developing high-quality human resources; and (iii) gradually constructing comprehensive infrastructure systems with modern facilities, especially transportation networks and major urban infrastructure. The SEDP aims to integrate the poverty reduction strategy into growth and development objectives, considering poverty reduction as both a tool to achieve sustainability and the driver of the country's overall development. The SEDP prioritizes investments for socioeconomic development, particularly in regions with high poverty incidence to help narrow the gaps between social groups. Other measures under the SEDP include the implementation of a social welfare strategy, closer attention to ethnic minorities and mountainous provinces, and better natural disaster management and climate change response. The government has set specific targets for poverty to decline nationally by 2% per year and in poor communities at 4% per year during the SEDP period. The pace of poverty reduction seems to have slowed since 2008 because of global economic turmoil and domestic macroeconomic imbalances. Achieving the poverty-reduction targets set under the SEDP, 2011–2015 requires strong and sustainable economic growth and improved social service delivery and social protection systems.

8. The social protection system in Viet Nam has three main components: social security, social assistance, and area-based programs, when listed in decreasing order of significance in terms of fiscal costs. In 2009, social security accounted for 47% of total government expenditures on social protection, followed by social assistance at 34% and area-based programs at 17%. Since 2009, the government has covered state budget transfers for pre-95 retirees, severance pay for workers, contributions to health insurance, and transfers for children under 6 and to support the near poor, including one-off handouts to the poor on New Year's Eve.

9. **Targeted programs for poverty reduction.** To reach the most disadvantaged, Viet Nam implemented 14 national targeted programs in 2002–2010. Some provided cash support to particular vulnerable groups; others delivered other forms of targeted assistance to disadvantaged groups or regions. These programs supported the development of infrastructure in poor communes and districts and improved access for poor and ethnic minority households to credit, health insurance, education, housing, clean water, and agricultural extension services. Additional interventions related to poverty reduction stem from decisions issued by the Prime Minister. Poverty mapping by the United Nations Development Programme found 41 projects and policies directly and indirectly focused on poverty reduction, dominated both financially and in implementation by three large projects and national targeted programs, including the Socio-economic Programme for Extremely Difficult Communes in Ethnic Minority and Mountainous Areas, 2006–2010; the National Target Programme for Poverty Reduction, 2006–2010; and Resolution 30a on the Rapid and Sustainable Poverty Reduction Programme for the 62 Poorest Districts.

10. **ADB and poverty reduction.** ADB joined the PRSC process in 2003 and has taken part in most PRSC activities since then. In 2004, ADB approved the first phase of the Support for the Implementation of the Poverty Reduction Program a single-tranche standard program loan of \$6.4 million as parallel cofinancing with the World Bank's PRSC 3. ADB's contribution to the PRSC series amounted to \$xx million financed from the Asian Development Fund resources. In

addition, ADB has assisted the government's poverty reduction effort through various program and project loans as well as technical assistance projects and policy support, including those in agriculture and natural resources, rural development and infrastructure, education, health, finance, and public sector management.

11. **Poverty reduction in the country partnership strategy 2012-2015.** The degree of participation in development by various segments of society has varied, creating large disparities in poverty reduction across different population subgroups, notably rural versus urban and by geographic region and ethnic groups. The main constraints on poverty reduction are low returns on social sector investments caused by inefficient planning and implementation, lack of access to social infrastructure, an inadequate social safety net, and vulnerability to natural disasters and climate change. The poor are particularly vulnerable to food inflation, which is considerably higher than in comparable countries in the region because of structural impediments in markets.

12. The strategic thrusts of Viet Nam's country partnership strategy, 2012–2015 are the three pillars: inclusive growth, enhancing economic efficiency, and environmental sustainability. Accordingly, the strategy recognizes as binding constraints the remaining poverty and inequity among different groups caused by inadequate social safety nets; vulnerability to environmental degradation and climate change; low productivity and competitiveness caused by inefficient public sector management, shortages of skilled labor, and infrastructure bottlenecks; strong growth in the gross domestic product over the past decade but high credit growth triggered high inflation; and the lack of transparency, clarity, or consistency in economic policy.

13. ADB's new strategy in Viet Nam considers the following actions as having potential to strengthen poverty reduction:

- (i) Integrating the poor, the vulnerable, and women into development through enhanced economic efficiency; better infrastructure; rural development; better access to economic resources and stronger support to education; and support for institutional, policy, and management reform in social service delivery.
- (ii) Tackling environment and climate change challenges at the national and subnational levels through appropriate natural resource management and the adoption of clean technology in infrastructure, strengthened environmental governance, and regional cooperation to enhance the resilience of the region and its constituent countries.