

## **Reducing rural poverty in Vietnam: issues, policies, challenges**

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### **Vietnam's growth and poverty reduction record**

Vietnam has experienced high and well sustained rates of economic growth over the past three decades. From a closed economy with per capita income of around \$100 in the 1980s, Vietnam has managed to liberalized and achieved per capita income of \$2,300 (current US\$). The economy which is used to rely heavily on agriculture gradually moved towards more services and manufacturing oriented with only 17 percent of GDP generated from agriculture sector, 39 percent from industry sector and the remaining from services.

This success resulted from a series of comprehensive reforms. The first reform of all is Doi Moi, launched in 1986 with the aim to create a socialist – market oriented economy. With this reform, Vietnam remains a one-party socialist state, run by the Communist Party, but embraces free-market policies. The economy is liberalized internally and externally, starting with the abolishment of price control system and harsh money supply control. The revised Land Law introduced in 1993, together with the release of the Enterprise Law in 2000 were two key milestones, allocating land to households and granting them five basic rights to their land<sup>1</sup> and allowing enterprises to establish and operate private businesses with limited state's intervention.

Following these reforms, Vietnam saw great transformation in agriculture sector, incentivizing farmers to invest in their land and an explosion of business registration. Food is not only enough for domestic consumption but was at a surplus for export market. Aside from that, the government also made much efforts to open the economy to trade, joining a large number of unilateral, bilateral, regional and multilateral trade agreements. As a result, Vietnam joined WTO in 2007. The growth model then relied on heavy inward investment and rapid transition away from farming. Following these reforms, economy has been growing at an annual rate of more than 8 percent over the last decade and among the fastest growing country. Another factor which contributed to Vietnam's success is generous aid programs of foreign donors that provided numerous capacity buildings for the Vietnamese government officials<sup>2</sup>.

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<sup>1</sup> To transfer, exchange, inherit, rent and mortgage their land.

<sup>2</sup> According to OECD, Vietnam is one of the top ten aid recipients in the world.

Aside from that, the government invests a lot in human capital, in particular, education and healthcare with 6.3<sup>3</sup> and 12<sup>4</sup> percent of GDP respectively in 2012. Last but not least, various poverty reduction programmes were implemented such as P-135, P30a (improving the living conditions of ethnic minorities), P-132 and P-134 (targeted mainly at the Central Highlands to increase access to land and improve housing conditions), the Hunger and Poverty Eradication Program (HEPR), and later NTP-PR (health insurance for the poor). Such programs impact many facets of households, including infrastructure investment (roads, irrigation, schools, health clinics, electricity), capacity building, skills upgrading, ensuring access to basic social services such as clean water and latrines, health services, primary and secondary enrolment.

As a result of inclusive growth, poverty rate measured at national poverty line dropped as dramatically as from more than 50 percent in 1980s to just 9.8 percent in 2016<sup>5</sup>. There is only 2 percent of the population living in extreme poverty<sup>6</sup>. Almost three quarter of the population could be considered as economically secure with income to spend on daily necessities, cover income shock while still having enough for additional spending at their own discretion (Pimhidzai 2018).

In the past decade, poverty rate continues decreasing, however, at a slower pace. Growth begins to be less inclusive. Some live in a much worse conditions which is not reflected in the poverty line. For that reason, in 2015, the Vietnamese government adopted the multidimensional approach to poverty measurement, accounting for deprivation in access to five basic social services such as healthcare, education, housing, water and sanitation, and access to information. Poor households are defined as households with deprivation in three or more indicators out of ten. Despite using either uni-dimensional or multi-dimensional poverty definition, Vietnam shows remarkable success in poverty reduction. Slightly more than one third of the population suffers from only one deprivation and only 1.3 percent face severe poverty with 5-6 deprivations.

### **The Poor in Vietnam**

Despite the success story, poverty reduction remains an issue in Vietnam. Being the 13<sup>th</sup> most populous country with more than 95 million people, 9.8 percent of the population living in poverty means about 9 million people in absolute term. This number exceeds the entire population of quite a few countries such as Laos, Israel, and Libya.

Factors that characterized the poor include large size of household, low education and skills, dependency on agriculture, remoteness in rural mountainous areas, lack of supporting infrastructure (UNDP 2018). The poor nowadays is also specifically associated with ethnic minorities in mountainous area rather than urban migrants. About 6.6 million of the 9 million poor people are from ethnic minority heritage, although they only account for around 15 percent of the total population. Some ethnic minority groups even have poverty rate as high as 70-80 percent such as Hmong, Kho Mu, Xo Dang.

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<sup>3</sup> WHO Country Statistics 2016.

<sup>4</sup> World Bank Development Indicators 2016.

<sup>5</sup> The GSO-World Bank poverty line in 2016 is US\$3.34 per day in 2011 PPP.

<sup>6</sup> Less than 2011 PPP \$1.9 per day.

Even though the Vietnamese poor is associated with rural mountainous area, there is a significant difference between majority (Kinh and Hoa people) and minority people living at the same region. The incidence of poverty of Kinh and Hoa people in high mountains area is as low as 10.4 percent, while the figure is almost six times larger for ethnic minority people (see Table 1), suggesting that the high poverty incidence of ethnic minority does not just simply correlate with their living place but with their difference to the majority<sup>7</sup>.

Table 1. Poverty rate and population distribution by topography, 2016 (Pimhidzai 2018)

	Poverty Headcount Rate (%)		Population composition with location (%)		Population distribution across locations (%)	
	Ethnic Minorities	Kinh & Hoa	Ethnic Minorities	Kinh & Hoa	Ethnic Minorities	Kinh & Hoa
Urban	20.4	0.7	4.5	95.5	8.7	34.7
<b>Rural Communes</b>						
Coastal	25.4	4.1	3.4	96.6	0.9	4.8
Inland delta	12.1	3.8	2.8	97.2	6.3	41.4
Hills/midlands	9.4	1.7	6.8	93.2	1.7	4.4
Low mountains	34.4	5.3	28.9	71.1	23.0	10.7
High mountains	57.0	10.4	72.8	27.2	59.4	4.2

## Issues and challenges in rural poverty reduction

“The poor is constrained by a lack of human, physical and financial capital” (Pimhidzai 2018). The constraints identified back decades ago still have not been tackled properly.

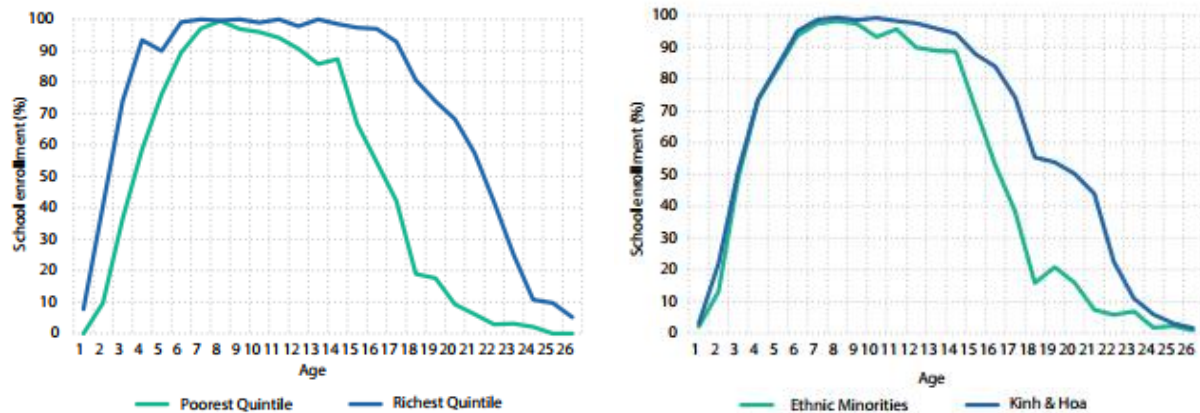
### Lack of education

The relationship between poorness and education level in Vietnam has always been reversed and shows no improvement over time. In 1998, households whose heads completed primary school or less accounted for 55 percent of the total poor population. This figure increased up to 75 percent in 2010. With strong effort in eradicating poverty and thus improve education for all, this figure was decreased back down to 57 percent in 2016 but this is still no improvement in comparison to 20 years ago.

This is also true to ethnic minority people. Their average years of schooling are lower than that of Kinh and Hoa people . In 2015, the number of ethnic minority population aged 15 and above, who cannot read and write, was 20.8%, four times higher than the national average of about 5.3% (Pham et al. 2018). In fact, ethnic minority children start to lag behind only after a few years at primary school and the gap between them widens with each year of age.

Figure 1. Net school enrollment by welfare status and by ethnicity, 2016 (Pimhidzai 2018)

<sup>7</sup> The poor majority are mainly found in the Red River Delta, along coastal regions and in the Mekong Delta rather than in mountainous area (Badiani 2013).



Evidence shows that the dropout rate at secondary schools are higher for students in communes at farther distance to district center<sup>8</sup> (Badiani 2013). In mountainous area, secondary schools are more scarce and located inconveniently for remote households such that students have to board rather than commute to school each day from home<sup>9</sup>. For poor households, the costs of having a boarding school students completely outweighs the benefits in the short run, de-incentivizes schooling by losing one labor/the child who can generate income while covering room rent, pocket money for the child at the same time. It is no surprise that they choose to drop out of school and start working at very young age.

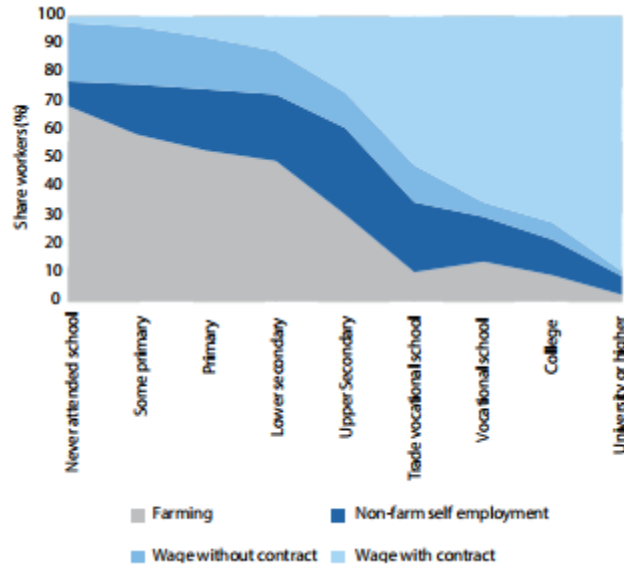
This decision may make sense in the short run but limits their non-farm income for the rest of their lives. The lack of education reduces access to better employment and high earning (see Figure 2). As Vietnam's economy grows and modernizes, the poor without good enough education and skills will continue to be left even further behind.

Aside from that, children from poor households are also disadvantaged in the aspect of tutoring. In Vietnamese education system, tutoring is so central for academic achievement that it is a significant factor contributing to student's performance, even after controlling for other household and school characteristics (Le and Nguyen 2016). As poor households cannot afford the extra payment for as many tutoring classes as non-poor households, poor children are placed at a disadvantage as education is not equal for all. The government needs to address this issue by reforming the education system in a way that offer equal access to education for every child, poor or no poor, both in the aspect of tutoring and travel distance to school.

Figure 2. Employment profile by education level (Demombynes and Testaverde 2017)

<sup>8</sup> For example, the average distance from home to the nearest elementary school, lower secondary school and upper secondary school of La Hu ethnic group in 2015 is 5, 8.1 and 33.2 kilometers respectively, in comparison to just a few kilometers of Kinh and Hoa people (MDRI 2018).

<sup>9</sup> In some cases where students do not board schools, they may spend more than a few hours to commute to schools. Sometimes the commuting route could endanger one's life. Videos of children cross river in plastic bags to reach school: <https://www.telegraph.co.uk/news/worldnews/asia/vietnam/10710817/Vietnamese-children-cross-river-in-plastic-bags-to-reach-school.html><https://www.telegraph.co.uk/news/worldnews/asia/vietnam/10710817/Vietnamese-children-cross-river-in-plastic-bags-to-reach-school.html>. Accessed on February 14, 2019.



As the poor and non-poor households differ not in the level of crop income, but rather in level of diversified non-farm activities<sup>10</sup> which is not accessible to the poor due to low education level and skills, improving access to education would introduce the poor to new non-farm opportunities which are considerably more sustainable.

The poor's limited education and skills not only hinders their non-farm opportunities but also in agriculture sector. Research have shown that poor households are less likely to grow perennial crop which require specific knowledge and skills set than cereal crop while in fact, the average profitability of cereal crops per hectare significantly decreases with the slope of cultivated land, oppositely with perennial crops which favor mountainous area (Pimhidzai 2018). The low level of education explains the sub-optimal crop choice, which is one underlying reason for their poverty.

Not only do poor households plant sub-optimal crop, they also yield less than non-poor households who cultivate the same crop type on the same type of land (Pimhidzai 2018). This can be explained through the lack of education which can be a hindrance to trainings from government's agricultural department on farm management and skills. These training are often provided free of charge for farmers, without any modifications or customized approaches for ethnic minority people who possess lower level of education.

### Lack of financial capital

Following the point discussed above about how the poor, in particular, ethnic minority groups, to cultivate perennial and yield higher earnings from their land, we need to address their financial needs for investment. Poor households, nevertheless, have limited access to credits, which is required should they invest in perennial crops as these crops often need expensive intermediate

<sup>10</sup> In the first two decades after Doi Moi, poverty reduction was mostly driven by agricultural reform with households diversifying into cash crops, livestock, fish and shrimp farming (World Bank 1999). Subsequently, in the past decade, households move to trade, business and salaried employment rather than agriculture work (Badiani 2013).

inputs, possibly hired labor and take longer time to yield returns. The lack of access to credits generally stems from the lack of assets (houses, expensive equipment, ect.) and land user certificates which are in favor of financing institutions as collateral<sup>11</sup>. This constrains poor households to crops that require little investment such as rice, maize even though it is more profitable for them to plant perennial crops in mountainous area.

#### High opportunity costs without proper social protection

According to 2012 statistics, social protection provided is very limited. There were a number of poor households, living below the poverty line but were not included in the social protection program of the government. Only about half of the poor households were officially covered in the social safety net with the supporting allowance barely enough to survive (Badiani 2013). Households therefore have relatively high risk aversion. Poverty reduction could be tackled if government approaches to assist them changing from cereal crop to perennial crop in microfinance, skills and vocational training, however, when their daily subsistence is not guaranteed, they will defy any of such help.

*“We offer vocational training for women and encourage everybody to join. But people from ethnic group refuse to come. They thought that it is time-consuming. They would rather save time to go to work and earn money for living. No time to learn.”*

A commune official in Bac Lieu shared in 2019.

#### **Poverty reduction policies to further improve livelihoods for the poor**

Vietnam still has about 9 million poor people living under the poverty line. This remaining group is harder to reach than the group ten or twenty years ago. They rely on agriculture, live in remote mountainous area with very limited access to modern infrastructure, education and government and international aids, have low education level and skills. Their chance getting out of poverty is even worse than the past as Vietnam continues to modernize the economy and thus they will be left even further behind.

In order to eradicate poverty in Vietnam, government needs to improve labor productivity, keep investing in infrastructure to create more and better jobs, especially for the export-oriented manufacturing industry. It is also recommended to target poor households more intensively with a combination of changing farm land use towards profitable crops, strengthening land user rights, providing microfinance, improving skills while at the same securing their subsistence. Most important of all is to reform the education system for equal opportunity of poor and non-poor, preparing the young generations for off-farm opportunities which offer more stable income.

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<sup>11</sup> Uncollateralized lending is uncommon in Vietnam.

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