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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
CHS	Commune Health Station
CIEM	Central Institute for Economic Management
CIT	Corporate Income Tax
CHS	Commune Health Station
DFID	Department for International Development
DRG	Diagnostic Related Group
EC	European Commission
GDC	German Development Cooperation
GDP	Gross Domestic Product
GSO	General Statistics Office
HCMC	Ho Chi Minh City
HCFP	Health Care Fund for the Poor
HEPR	Hunger Eradication and Poverty Reduction Program
HPAI	Highly Pathogenic Avian Influenza
ICA	Investment Climate Assessment
ILSSA	Institute for Labor Studies and Social Affairs
IMF	International Monetary Fund
LUC	Land-Use Right Certificate
MDG	Millennium Development Goal
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOLISA	Ministry of Labor, Invalids and Social Affairs
MONRE	Ministry of Natural Resources and the Environment
MPI	Ministry of Planning and Investment
NGO	Non-Governmental Organization
NME	Non-Market Economy
NTPH	National Target Health Program
PCI	Provincial Competitiveness Index
PLWD	People Living with Disabilities
SBV	State Bank of Vietnam
SEDP	Socio-Economic Development Plan
SFE	State Forestry Enterprise
SHI	Social Health Insurance
SOE	State-Owned Enterprise
TRIPs	Trade Related Intellectual Property Rights
VASS	Vietnam Academy of Social Sciences

VBARD	Vietnam Bank for Agriculture and Rural Development
VBSP	Vietnam Bank for Social Policies
VCCI	Vietnam Chamber of Commerce and Industry
VGCL	Vietnam General Confederation of Labor
VHLSS	Vietnam Household Living Standards Survey
VHW	Village Health Worker
VSS	Vietnam Social Security
WHO	World Health Organization
WTO	World Trade Organization

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The popularity of the term "social protection" is evidenced in the recent literature and policy debate. [...] Social protection has however fairly recently come into extensive use in developing countries. The concept remains confusing mainly due to the range of existing definitions and the variety of ways in which it is interpreted.

Since the late 1990s, a growing concern with the global dimensions of social policy has been apparent. A majority of agencies take an action approach to social protection policies, seeing it as a collection of measures to manage risks and improve or protect livelihoods.

[...] There is an outer circle of promotional measures, which includes mainly macro policies, development strategies and institutional measures. They help enhance the social status and empower the rights of the marginalized and the disadvantaged. Preventive measures, which make up the middle circle, are generally made up of direct measures for averting deprivation. This typically refers to a range of social insurance and other services which protect people from falling into crisis and requiring public assistance. Lastly, the inner circle of protective measures consists of narrowly targeted safety nets which aim to provide the vulnerable with in-kind and cash donations, or other short-term public assistance and relief from shocks (e.g. natural disasters, animal disease, family illness). [...] The three components can overlap and interact, but are not identical in practice.

[...] Through the discussion held so far on the topic and the Government's activities in this area, both social protection researchers and practitioners seem tentatively not to object to define social protection as (i) direct assistance to poor and vulnerable household, (ii) social insurance and (iii) other activities aimed at reducing the vulnerability caused by such risks as unemployment, aging and disabilities.

Le, Bach Duong, and others. 2005. Social Protection for the Most Needy in Vietnam. The Gioi Publishers, Hanoi.

EXECUTIVE SUMMARY

Vietnam will soon join the group of middle-income countries. In a simple, mechanical way, this means that its income per capita will cross some more or less arbitrary threshold. At a deeper level, becoming a middle-income country entails harnessing new, more complex policy challenges. Two decades of Doi Moi have sustained a spectacular transformation of Vietnam, from being a poor agrarian economy to becoming a globally integrated player, from being run through command and planning to thriving on market mechanisms. The main structural reforms have been adopted, or are in the process of being implemented. Markets have been opened for competition, or created altogether. A hard budget constraint and private initiative have been brought into public enterprises. The banking sector is being reorganized and capital markets are being developed to support an efficient mobilization of resources. While much remains to be done in order to consolidate these transformations, the general sense of direction is clear. But a second generation of reforms is increasingly needed.

As Vietnam enters the ranks of middle-income countries, it needs to layout the foundations of a more sophisticated economy. It has to sustain productivity growth in the long term, moving up towards more skill-intensive, knowledge-based activities. It should avoid draining down its natural resources and damaging its environment in ways that could be irreversible or too costly for future generations to redress. It needs to increase transparency and accountability in public administration, avoiding the waste of corruption and its potential damage to public confidence and morale. And it needs to

establish mechanisms to preserve the inclusive nature of its development so far, at a time when rapid economic growth could easily result in increased hardship and inequality.

Vietnam is at the dawn of unprecedented economic and social transformation. The average citizen is a mostly healthy 26 years old who lives in a rural area, belongs to a multi-generation household including grandparents and works in agriculture or does informal activities, such as being a casual laborer or helping in a household business. Because of a rapid demographic transition, in a few decades population will be much older on average. And because of rapid rural-urban migration, it will have moved too. By then this average citizen may have health concerns, will most probably have migrated to a city, could belong to a nuclear household including no grand-children (and perhaps no children), will most probably be part of the formal economy as a wage employee or a businessperson, and will not be so far from retirement.

How well will the institutional arrangements of Vietnam support this transformation? How can they contribute to making the personal journeys of millions of citizens become stories of prosperity and accomplishment, not of hardship and uncertainty? Jobs will be needed for people to move out of agriculture and informal sector activities. Local development will be required to boost the living standards of those who do not migrate. Social services should be accessible for those who do, and may need them away from home. Health care should be affordable and of good quality. Instruments should be available for

people to save towards their old age. And protection mechanisms should exist to cope with multiple risks along the way, from natural disasters to anti-dumping actions by Vietnam's trade partners to catastrophic health shocks.

Targeted programs aimed at the most vulnerable will not be enough. Targeted programs have not been a critical component of the government strategy anyway. They have aimed at helping the neediest households to cope with the costs of social services and to gain access to credit. They have also supported the most disadvantaged communes to integrate with the market economy. But they have never represented a major budgetary outlay, and only reach a fraction of the poor. The strategy of the government has relied more on economic growth, the redistribution of land and reasonably good health and education. And when it comes to social policies, the stated ambition of the government is to build universal programs. From this perspective, targeted programs can become important in supporting the participation of the poor and the vulnerable in mainstream social programs. But mere social assistance will not do.

However, the policy agenda of a country at Vietnam's development level cannot be to mimic the social protection systems of industrial countries either. Poverty remains a serious issue. It continues to decline rapidly in rural areas, but for the first time it seems to have stagnated, perhaps even increased, in urban areas. The higher cost of living in booming economic hubs may start to take a toll on those whose means are barely above the poverty line. In rural areas, the plight of ethnic minorities deserves special attention. Many in this population group are bound to "cross" the poverty line in the coming years, which will result in continued poverty reduction overall. But they will still be barely above the line for the foreseeable future. And meanwhile, many among the ethnic minorities will still be suffering from deep poverty. A policy agenda focused on managing risks and shocks only would fail to deliver to these

groups, as they experience hardship even in good times.

This report aims to contribute to the discussion of appropriate social protection strategies for Vietnam. It does so in the understanding that this is a new area, closer to the second-generation reforms faced by middle-income countries than to the structural reforms Vietnam has successfully gone through over the last two decades. It also does so in the understanding that a common vision exists among policy makers, academics and the population at large. But at this early stage the specifics remain unclear, often resulting in frustration in the daily implementation of social policies and programs.

The vision is one of shared and inclusive growth, in the socialist spirit of Vietnam. Based on the success of Doi Moi, it involves relying on market mechanisms to the extent possible, to ensure an efficient allocation of resources in the short term and sustain innovation and growth in the longer term. But it also entails mobilizing government resources to finance the participation of the poor and other vulnerable groups. And it requires market regulation and policy stewardship, to ensure that everybody has access to services and quality standards are met.

Because the vision is clear, the report focuses on the specifics. While its scope is wide, the topics covered can be regrouped into three main areas: opportunity to thrive, support for those left behind and insurance to cope with shocks.

Opportunity. Job creation has been one of the main avenues out of poverty in Vietnam. A flexible labor market has allowed absorbing almost one and a half million new entrants to the labor force, year after year. Wage employment is particularly important in this respect. Regardless of whether this is ideal or not, access to social programs, from health insurance to old-age pensions, is easier for those with formal sector jobs. Sustaining rapid job creation, especially in the formal sector, is crucial to keep growth inclusive. But success should not be taken for granted.

The implementation of commitments made to accede to the World Trade Organization (WTO) will require that the minimum wage faced by domestic private enterprises be raised rapidly over the next few years. The temptation to balance the books of the social insurance agency through higher social security contributions will only add to the burden faced by employers. Meanwhile, the industrial relations system in force is not conducive to decentralized wage bargaining at the enterprise level and exacerbates labor conflicts. Moving out of such an outdated system could also help Vietnam exit the Non-Market Economy (NME) status it was granted when entering the WTO. This, in turn, would help confront protectionist anti-dumping actions by Vietnam's trade partners, which are another major threat to jobs.

Support. Opportunities do not arise spontaneously, and not everybody has access to them. Deliberate efforts are needed to connect communities to markets and to develop local infrastructure, so that businesses can thrive. In a country as decentralized as Vietnam, the amount of budgetary resources available to a province has a decisive influence on its capacity to deliver social services, implement social policies and finance infrastructure development. A set of transparent budget allocation norms has been set up to transfer resources from richer to poorer provinces, on a scale that dwarfs similar efforts in much richer regions of the world. But there has been less progress in the allocation of provincial resources to districts, communes and below. As a result, there are marked gaps between funding and needs. Programs targeted to specific households and communes are of mixed quality, with some having a considerable impact and others being clearly less effective. Redistribution of resources also happens through taxation, an area currently undergoing a dramatic overhaul. Overall, the taxes paid by households are progressive in Vietnam, but this is not true of local fees. And taxes paid by enterprises seem to put a heavy burden on smaller units, while entailing high compliance costs. As for the current attempts to

redistribute resources through Personal Income Tax (PIT), they run the risk of penalizing the formalization of economic activity, without mobilizing much revenue. Taxes on valuable urban land bear a much higher potential to redress inequality and to raise resources for local infrastructure development, without distorting incentives much. But they would require a substantial modernization of both land and tax administration.

Insurance. Households face a range of shocks, some of which may have devastating effects on their livelihoods. Natural disasters, crop failure, serious health conditions, the death of a breadwinner or longevity beyond resources are among them. Insurance markets have developed considerably in Vietnam, and may soon extend their reach to areas such as health, pensions and agriculture. However, for their coverage to be substantial and for the risk of default to be contained, the government needs to provide adequate regulation. In some cases, like flood-based insurance, it may need to lay the foundations of a market through the establishment of verifiable indicators and hazard maps. In other cases, regulation will just not be enough. Health insurance faces well-known adverse selection problems, resulting in the exclusion of high-risk populations. Old-age pensions suffer from a free rider problem, whereby people may not save enough in the expectation that government will provide support when the time comes. The organization of the social insurance system tries to address these problems, but in doing so it also introduces other distortions. In the end, implementation details can make all the difference. Voluntary health insurance or pension programs may not be sufficient to address the corresponding market failures and substantially expand coverage. Provider payment mechanisms or benefit packages may not elicit a cost-effective delivery of services. The regulation of providers may result in some population groups (the poor in particular) being denied service, or at least quality service. The complexity of these problems is what makes the social protection agenda part of a second,

technically more demanding generation of policy reforms.

In reviewing the situation and challenges in relation to opportunity, support and insurance the current report tries to provide analytical input for important policy debates ahead. During the remaining of this five-year period, the National Assembly will most probably pass a Law on the Minimum Wage and revise the Labor Code, especially on industrial relations. A Law on Social Assistance may lead to the revamping of targeted programs. Tax policies and tax administration will be subject to a major overhaul, with new laws passed for almost every major tax instrument, including property tax. A Law on Health Insurance will be discussed in 2008, while a new voluntary pension program will be implemented from 2009 onwards. A decree on private pensions will also be passed as part of the agenda for capital markets development. Meanwhile, the adoption of a Natural Disaster Management Strategy raises the prospect of developing new market-based insurance instruments.

The report is organized under the form of "vertical", self-standing chapters dealing with each of the key issues to be addressed by the National Assembly and by policy makers in government during the next few years. These chapters can be seen as brief policy notes, trying to provide an analytical structure for the discussion. Because of their brevity, they cannot go in depth into each of the aspects covered, and can only sketch the findings of more rigorous and detailed studies. However, for those interested in digging deeper, the report includes an extensive bibliography, mainly made of references produced by local researchers and think tanks.

The report also tries to extract a few major policy recommendations, cutting across all the "vertical" chapters. These recommendations amount to basic principles which could help build a more integrated social protection system in Vietnam. They can be summarized under the form of four policy priorities: extending coverage, strengthening incentives,

improving information and managing resources.

Extending coverage. While the vision underlying the social protection agenda is one of shared growth and inclusion, Vietnam is quite far from anything resembling universal coverage for its social programs. In the case of health insurance, the initial target was to get there by 2010. By now close to half of the population is covered, which is certainly an accomplishment for a low-income country. But subsequent gains could prove increasingly difficult. Coverage is even more limited in relation to pensions, raising the prospect of large liabilities when the young of today reach retirement age, if budgetary resources need to be mobilized to pay for non-contributory pensions. Targeted programs do not reach all of their intended beneficiaries either; far from that.

Implementing the vision will require bolder steps. The full subsidization of participation by the poor in mainstream programs, already adopted in the case of health insurance, opens a promising avenue. Something similar could be done in the case of pensions, where a minimum contribution towards retirement and some basic benefits could be paid by government to the social insurance agency on behalf of each poor household head. A necessary complement to this approach is the partial subsidization of participation by the near-poor. Without it, the incentive for households to escape poverty could be reduced and enrollment could decline among those who do escape. There is also a need to delimit the extent of voluntariness. Group insurance (involving all household members or a minimum fraction of all people in a *thôn*) can help address adverse selection in the case of health. Mass organizations could be mobilized to support enrollment into the voluntary pension program.

One important question is whether a strategy involving the subsidization of a large fraction of the population can be afforded. The answer is probably yes. To begin with, part of the subsidization simply entails shifting current

government funding from providers (say, public hospitals) to purchasers of services (the social security agency, or a dedicated fund for chronic illnesses and life-threatening diseases). In the case of pensions, the alternative to the subsidy is not savings: it is a contingent liability, as something will need to be done sooner or later to support old people without income. The truly additional spending can be contained as long as policies are in place to support a rapid reduction in poverty.

Strengthening incentives. Increased reliance on market mechanisms, one of the foundations of Doi Moi, can certainly lead to large efficiency gains. The improvement in the quality of care provided by hospitals operating in an autonomous manner is a case in point. However, in sectors which are plagued by market imperfections, undesirable outcomes are common as well. Hospitals may become good at catering to those who can pay, but they can also neglect the mandatory provision of free services to the poor. Improving the monitoring of health care providers is thus an important priority.

The mechanisms used by the government to regulate these sectors can be a source of distortions as well. The payment schedules used by the social insurance agency to reimburse health care providers can encourage excessive diagnosis and treatment, resulting in an unwarranted escalation of health care costs. The benefit formulas used for the old-age pensions program affect the incentives to save and to participate in the system. Pensions are quite far from what an actuarially fair system would provide. Government employees and women get more, out of the same stream of contributions, than private sector workers and men do. After 20 years of contributions, the incentive to remain enrolled starts declining and it is in the interest of participants to under-declare their earnings. The emergence of private pension funds will require that attention be paid to the portability of benefits across programs. Introducing better-designed provider payment mechanisms in health and bringing the pension program closer to the

actuarial benchmark are important priorities in relation to social insurance.

Some of the most complex incentive issues might actually be faced in rural areas. Sustaining the emergence of flood insurance and other market-based tools to deal with natural disasters will not be easy. Without a proper institutional set up, involving cadastral maps, hazard modeling and verifiable information, insurers may simply not be interested. In other areas, such as agricultural extension, finding the right incentives may involve a much deeper understanding of cultural differences between ethnic minorities and the majority group. The current offer of services is based on models which have worked well in the lowlands but may be of little relevance for swidden cultivation on sloping plots of land.

Improving information. The vision of an integrated approach to social protection is at odds with the current fragmentation of information systems. Targeted programs use the classification of households by poverty status, conducted by local officials of MOLISA. Health insurance and old-pension programs run on separate information systems, focused on individuals rather than households. All of these programs rely on the place where the household or the person lives, or is supposed to live, through a system of residential registration which often restricts access to benefits in other localities. Such system seems ill-adapted to a country where a large fraction of the population will be moving from rural to urban areas in the coming years.

The fragmentation of information systems is such that the ministries in charge of formulating policies cannot effectively monitor the behavior of the populations they are supposed to serve. MOH has difficulty figuring out how health care services are used by different participants in the health insurance program. MOLISA knows little about the typical jobs and earnings transitions of contributors towards old-age pensions. Because of this fragmentation, participants can easily be denied service. Current,

scattered attempts to introduce modern information technology, through the use of bank cards for pensions or chip cards for health, may add layers of complexity to an already difficult problem.

The main recommendation in this area is to introduce a single social insurance number, to be given to every person at birth regardless of coverage. Unlike current registration cards, such number allows the full portability of benefits throughout the country. The poverty status of the household the person belongs to can be updated on an annual basis. And the number can serve to document personal histories in connection to employment, earnings and health care use, among others. With adequate information management systems, these personal histories can help design better provider payment mechanisms in health, and eventually support the introduction of individual accounts in the case of pensions. A single social insurance number could also limit the denial of service often observed at present.

Managing resources. Delivering on the social protection agenda also requires solid financial management. Targeted programs involve transferring resources to thousands of communities and millions of households. Extending the coverage of social programs will require some form of subsidization for the poor and perhaps the near poor, with the budget covering the contributions of a significant portion of the population, or supporting provinces to do so. The development of the health insurance program amounts to shifting an increasingly large share of the funding for health care from public providers to wholesale purchasers of health care services. The pension program, in turn, is bound to accumulate a massive amount of reserves during several decades. This is because the population is young and the labor market is formalizing, so that dependency ratios will remain low.

Transparent financial management will be crucially important in all these areas. There will be a need to make sure that targeted

communes do receive the resources they are entitled to and manage them properly. It will be necessary to monitor that those who are classified as poor get their social security contributions totally or partially paid for out of public resources. The purchasing decisions of the social insurance agency will involve hundreds of thousands of providers, including public hospitals, private clinics, facilities of non-governmental organizations (NGOs) and certified doctors. Scrutiny will be required to avoid abuse or favoritism, as in any other public procurement decision.

An area deserving special attention is the management of the reserves of the old-age pension program. Those reserves already exceed the equivalent of 4 billion dollars. But they are placed in bonds and liquid assets yielding low returns. There is a need for strategic decisions as to what the authorized investments are, and how portfolio reallocation decisions are going to be made. Transparent mechanisms could also be considered to report to the National Assembly on the financial performance of social protection programs, including the management of reserves, perhaps on an annual basis.

Some may question whether these four policy recommendations address the most important policy priorities faced by Vietnam. It can be argued that the strengthening of monetary and financial policies, the development of infrastructure and the modernization of tertiary education are more urgent at this point. And it is true that less hinges on effective social protection and inclusive growth in the short term. However, this agenda may still be of critical importance for the medium term. While many developing countries have made it to middle-income level, very few have continued to become industrial nations. Handling the social protection agenda well could hold the key for a successful transition to the next level a few decades down the road. To get there, it is better to make the right policy choices now.

PART I:
SOURCES OF
VULNERABILITY

1. A POVERTY UPDATE

Household survey data from 2006 confirms the continued reduction of poverty in Vietnam, with the fraction of households living below the poverty line attaining 16 percent, compared to 28.9 percent in 2002, and 58.1 percent in 1993. Other estimates, using different methodologies, yield an equally encouraging picture. But progress is uneven. Poverty remains much higher among the ethnic minorities than among the Kinh and Chinese majority. Most of the poor live in rural areas, and it is encouraging that rural poverty continues to decline, albeit at a slower pace than before. On the other hand, urban poverty rates appear to have stagnated, and could even be for the first time on an upward trend. The combination of these diverging urban and rural trends is probably behind the convergence in poverty rates observed across regions and provinces. The Northwest, the Central Highlands and the North Central Coast remain much poorer than the rest of the country. But even in these regions some provinces and groups are witnessing important declines in their poverty rates. Understanding why poverty remains high in specific areas requires a closer analysis of local circumstances, as shown by the diversity of experiences across poor rural communities. As for urban poverty, the rate could be somewhat inflated due to statistical biases, such as the better sampling of migrants in recent surveys and the re-classification of wards at the fringe of cities as urban. However, these biases do not explain everything. It is likely that rapidly growing prices of goods and services, possibly associated with much higher land prices, are pushing households that were barely making it back into poverty. As for inequality, standard indicators suggest that it remains quite

low for an economy growing as fast as Vietnam, and might even have declined slightly. However, household expenditure surveys may not be well-suited to capture a rapid increase in wealth at the top of the distribution.

Main trends

Poverty rates continue to fall in Vietnam. One way to assess the speed of this decline is based on data on household expenditures from five surveys on living standards conducted by the General Statistics Office (GSO) in 1993, 1998, 2002, 2004 and 2006. One international methodology to produce a number of indicators that are consistent over time is to compare household expenditures per capita with a poverty line. The latter is defined as the cost of a food and non-food consumption basket allowing a healthy life. In the case of Vietnam, it has been customary to consider the poverty line as the cost of a basket allowing a daily intake of 2,100 calories per person per day. Based on this measure, it appears that poverty has fallen dramatically between 1993 and 2006, both in rural and in urban areas and for both Kinh and for ethnic minority groups (Table 1.1). According to these estimates, over a 13 year period Vietnam has seen 42 percent of the population (equivalent to about 35 million people) move above the poverty line. In 2006, 16 percent of the population remained below the poverty line.

Rural areas still account for the bulk of the poor in Vietnam, but it is the rapid decline in rural poverty that is driving poverty reduction at national levels. Between 2004 and 2006, the rural poverty rate fell by 2.3 percentage points

Table 1.1: Poverty Rates and the Poverty Gap

	1993	1998	2002	2004	2006
Poverty rate	58.1	37.4	28.9	19.5	16.0
Urban	25.1	9.2	6.6	3.6	3.9
Rural	66.4	45.5	35.6	25.0	20.4
Kinh and Chinese	53.9	31.1	23.1	13.5	10.3
Ethnic minorities	86.4	75.2	69.3	60.7	52.3
Food poverty	24.9	15.0	10.9	7.4	6.7
Urban	7.9	2.5	1.9	0.8	1.2
Rural	29.1	18.6	13.6	9.7	8.7
Kinh and Chinese	20.8	10.6	6.5	3.5	3.2
Ethnic minorities	52.0	41.8	41.5	34.2	29.2
Poverty gap	18.5	9.5	6.9	4.7	3.8
Urban	6.4	1.7	1.3	0.7	0.7
Rural	21.5	11.8	8.7	6.1	4.9
Kinh and Chinese	16.0	7.1	4.7	2.6	2.0
Ethnic minorities	34.7	24.2	22.8	19.2	15.4

Source: Based on preliminary GSO data. Estimates for 2006 are unofficial.

per year, compared to 3.5 points between 1993 and 2004. While this reflects a slowdown, the overall trend remains strong. By contrast, the urban poverty rate appears to have stabilized, or to have even increased slightly. Confidence intervals are such that no clear trend can be inferred from the data in this case. And to some extent, poverty rates are bound to stabilize as they get closer to zero. However, the slight slowdown in poverty reduction in rural areas and its stagnation in urban areas deserve closer analysis.

Other commonly used indicators refer to food poverty and the poverty gap. A household is said to be food poor when its expenditures are so low that even if they were entirely allocated to buying food that would not be enough to attain 2,100 calories per person per day. It is clear that even the poorest households spend on non-food items. Therefore, a food poor household can be expected to suffer from hunger, at least during some periods of the year. The poverty gap is the average "distance" between the expenditures of poor people and the

expenditure level associated with the poverty line. This measure is used to describe whether poverty is shallow, with most poor people being quite close to the poverty line, or deep.

While falling rapidly, food poverty still affects nearly nine percent of rural households, and an astounding 29 percent of ethnic minority households. The good news is that poor people across all population groups are moving closer to the poverty line, with the poverty gap falling from 6.9 percentage points in 2002 to 3.8 percent in 2006. Even among ethnic minorities, the poverty gap in 2006 was comparable to that of the Kinh and Chinese majority in 1993.

Other metrics

As for all issues related to measurement, methodology matters. In Vietnam's case, at least two other ways of measuring poverty receive considerable attention. One of them considers a poverty line set at one dollar per person per day. The main point of using such

poverty line is to facilitate comparisons with other countries. However, prices also differ considerably across countries, so that the purchasing power of the dollar needs to be adjusted as well. This is usually done through a correction factor called Purchasing Power Parity (PPP), which seeks to find the equivalent of one dollar in the US. As of 2006, the PPP factor for Vietnam was around 3.36, which means that 30 cents can buy roughly the same as one dollar in the US.

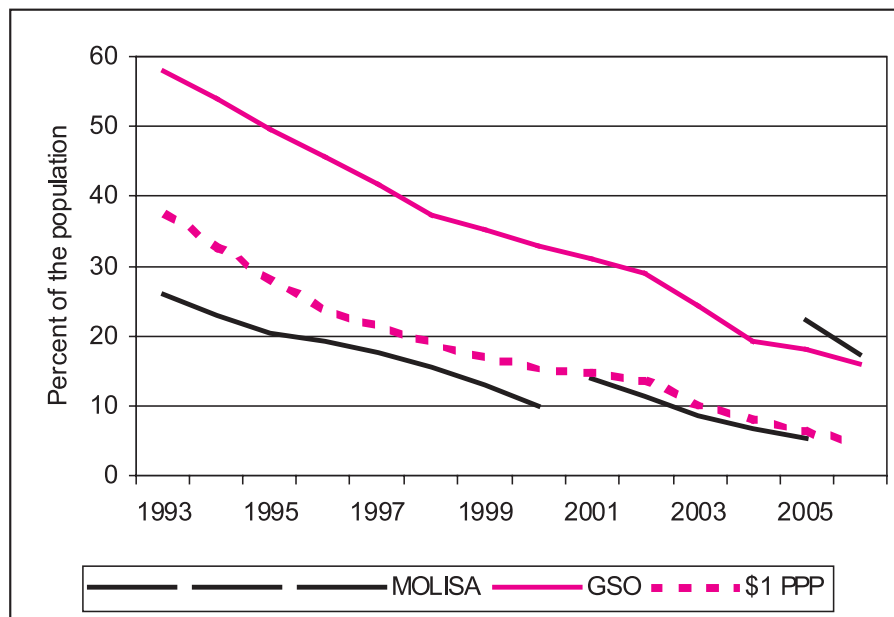
On the one-dollar-a-day metric, poverty in Vietnam has declined at the same rapid pace suggested by the 2,100-calories metric (Figure 1.1). As of 2006, only 4.9 percent of the population was below this poverty line. This can be interpreted as meaning that only 4.9 percent of the population was poorer than someone living on one dollar per day in the US. Beyond supporting international comparisons, the usefulness of this information to local policy makers can be

questioned. More importantly, PPP factors are as difficult to estimate as household expenditures. Because they are subject to occasional revisions, it is not uncommon to see unexpected jumps in poverty rates, in one direction or another.

Other commonly reported poverty figures for Vietnam are produced by MOLISA, using an alternative methodology. Again, the underlying principle is to compare some indicator of household living standards with some minimum acceptable benchmark. But both household living standards and the poverty line are measured in ways that differ from the international methodology.

The poverty line used by MOLISA was originally conceived as a certain amount of rice. Back in 1993, people were considered poor if they could not afford 20 kilos of rice per person per month in urban areas, and 15 kilos in rural areas. These amounts were increased to 25 and

Figure 1.1: Consistent Decline but Different Levels



Source: Based on data from GSO, MOLISA and World Bank.

Box 1.1: Top Down, Bottom Up and in between

The poverty lines estimated by GSO rely on a painstaking measurement of expenditures at the household level. It takes two days for a respondent to fill in the questionnaire of a living standards survey, and considerable training, monitoring and checking is required to ensure that the data are of high quality. Not surprisingly, the samples of such surveys tend to be small. The first Vietnam Living Standards Survey (VLSS) for Vietnam, conducted with funding by the United Nations Development Program with technical assistance from the World Bank included 4,800 households, on a nationally representative basis. With 6,000 households covered, the sample of the VLSS 1998 was only slightly larger. A major expansion took place with the 2002 Vietnam Household Living Standards Survey (VHLSS), when 30,000 households were surveyed. At 9,189, sample sizes were also quite large for 2004 and 2006 VHLSSs. However, sample sizes remain too small for really accurate provincial estimates (the errors are quite large) and certainly too small to measure poverty at lower levels of administration. Building on data from household surveys and population censuses, statistical methods known as poverty maps allow estimating defensible poverty rates at the district and perhaps the commune level. But in a country characterized by rapid growth and massive rural-urban migration, population censuses become quickly outdated and so do poverty maps.

The MOLISA approach, on the other hand, deals with almost all poor and near-poor households in the country, one by one. Every year the list of poor households is updated in each community or *thon*. This involves some discussion as to which households might have moved out of poverty and which ones might have fallen back in it. A careful assessment of local household classifications was conducted across 41 communities all over Vietnam, relying on wealth-ranking exercises, using the same methodology in all of them. Wealth-ranking is a standard participatory approach derived from applied anthropology. Households in these communities were also subject to more quantitative techniques, in the spirit of those used by GSO to measure household expenditures. In statistical jargon, these techniques are known as means testing and proxy-means testing, among others. It appeared that the classification by MOLISA officials outperformed all the statistical approaches, both within each community and across communities. However, poverty rates computed based on the MOLISA classification did not perform well at ranking communities. It is clear that aggregating the classifications further up, at district or province level, can only result in unreliable poverty rates.

With the GSO metric being reliable at aggregate levels and the MOLISA metric being better at commune levels, the main question is how to reconcile them at the middle ground. One of the most obvious steps is to use the same poverty lines in both cases. The revision of the MOLISA poverty lines in 2005 is an important step in this direction, as the new thresholds are much closer to the 2,100 calories benchmark. However, reconciling bottom-up poverty figures, obtained by aggregation over local MOLISA poverty rates, and top-down figures, from household surveys and poverty maps, will not be an easy task. MOLISA is currently undertaking research into how targeting procedures can make best use of the comparative strengths of the methodologically rigorous GSO estimates and the more disaggregated, local estimates. For some time, however, there still may be conflicting information on poverty rates at the district and commune levels.

Source: Based on information from GSO, MOLISA, and Nga Nguyet Nguyen and Martin Rama (2007).

20 respectively in 1995, and a threshold of 15 kilos was introduced in 1997 for mountainous areas. In 2001 rice amounts were converted into money terms, at 150, 100 and 80 thousand dong per person per month, respectively. A major update took place in 2006, when the poverty line was set at 260 thousand dong for urban areas and 200 thousand dong for all rural areas.

To determine which households are below the poverty line, local officials from MOLISA use a combination of survey techniques and village discussions. They also rely on their personal knowledge of the families in the community they oversee. The result is a list of poor households, who are then targeted as beneficiaries under government programs

Table 1.2: Poverty Rate across Regions

	1993	1998	2002	2004	2006
Northern Mountains	81.5	64.2	43.9	35.4	30.2
Northeast			38.4	29.4	25.0
Northwest			68.0	58.6	49.0
Red River Delta	62.7	29.3	22.4	12.1	8.8
North Central Coast	74.5	48.1	43.9	31.9	29.1
South Central Coast	47.2	34.5	25.2	19.0	12.6
Central Highlands	70.0	52.4	51.8	33.1	28.6
Southeast	37.0	12.2	10.6	5.4	5.8
Mekong Delta	47.1	36.9	23.4	15.9	10.3
Vietnam	58.1	37.4	28.9	19.5	16.0

Source: Based on preliminary GSO data. Estimates for 2006 are unofficial.

designed to reduce poverty. The process through which the lists are compiled varies across the 10,000 or so communes in Vietnam, which somewhat affects the comparability of the estimated poverty rates. Analysis suggests that most of those included on the lists were indeed poor, but that, at least until the poverty line was increased in 2006, the lists often missed many other poor households.

The co-existence of the GSO and MOLISA measures of poverty has led to confusion in the past, with some analysts preferring one metric to the other. But both approaches have strengths and weaknesses, making the two metrics complementary to some extent (Box 1.1).

Poverty and geography

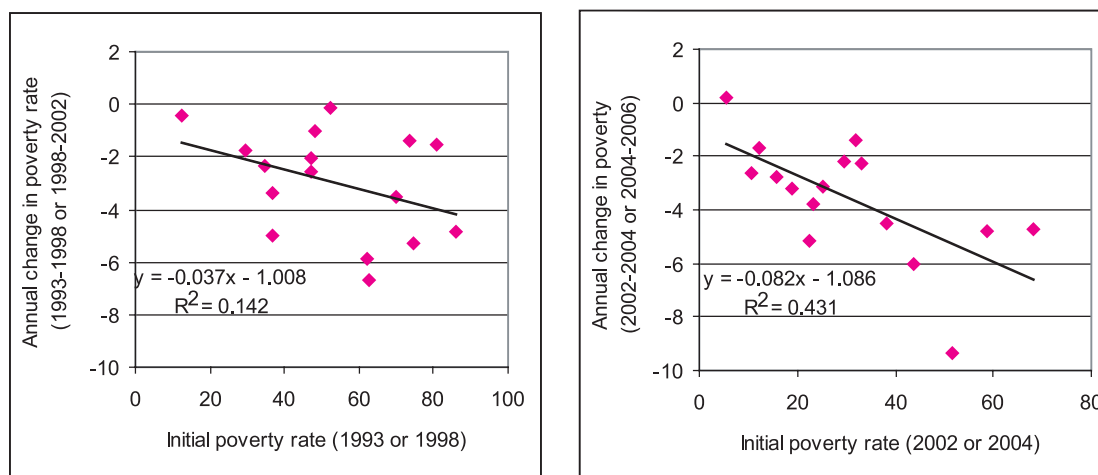
Regional differences remain wide, with the mountainous areas being much poorer than the lowlands, and especially than the Southeast (Table 1.2). But there are also important differences in the speed at which poverty is falling. The poorest region of the country, the Northwest, has reduced poverty by 19 percentage points over the last four years and the Central Highlands by a staggering 23 percentage points. The two least poor regions,

the Red River Delta and the Southeast, on the other hand, are seeing a marked slowdown. This slowdown is all the more notable, since it follows a period of strong and sustained poverty reduction.

The combination of fast declines in poverty rates in the poorer areas of the country and slower declines in the richer ones is resulting in a narrowing of the gap between regions. In an encouraging sign of convergence, poverty has fallen more rapidly in areas where its incidence was initially highest (Figure 1.2). Statistically, between 1993 and 2002 a region whose poverty rate was 1 percent higher than the average experienced an annual decline that was 0.037 percentage points faster than the average. Between 2002 and 2004, the decline was 0.082 percentage points faster. And the fit of the statistical relationship also became stronger over time.

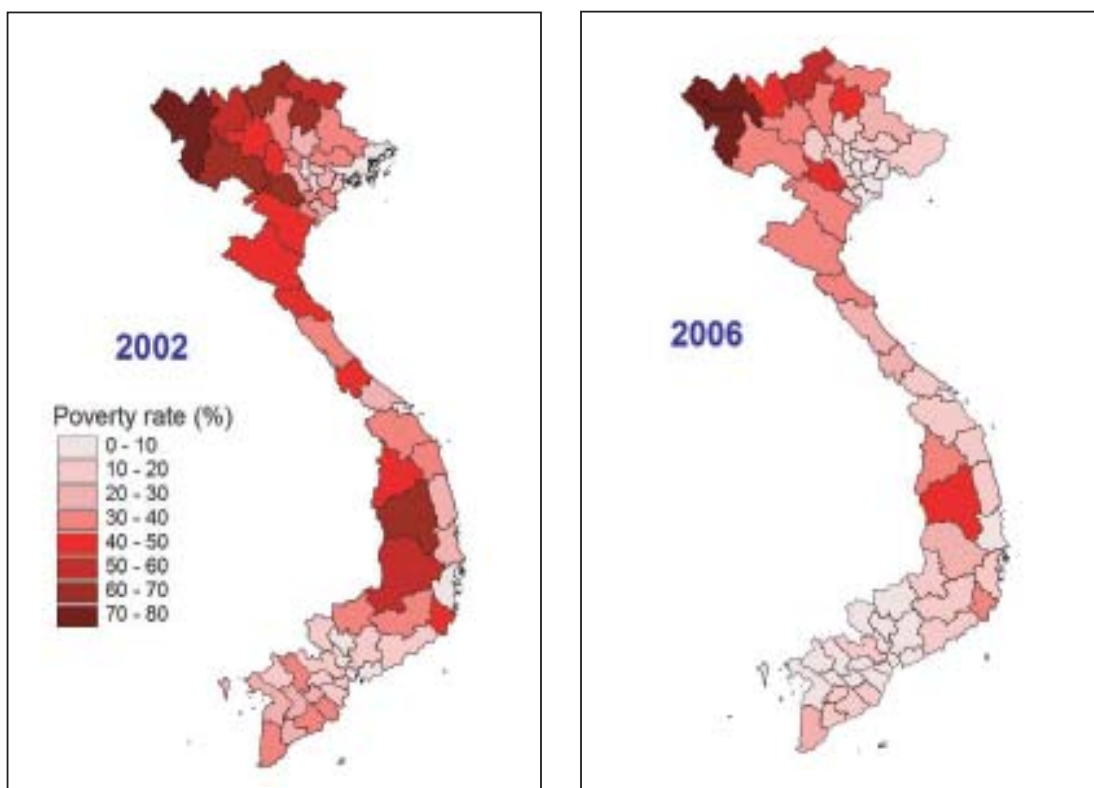
The picture is similar when provincial poverty rates, instead of regional poverty rates, are considered. There are still dramatic gaps between the poorest and the richest provinces in the country (Figure 1.3). But even in the poorest highland areas some provinces are doing considerably better and starting to resemble their richer counterparts in the lowlands.

Figure 1.2: Accelerated Regional Convergence



Source: Based on preliminary GSO data, with one observation per region and per inter-survey period. Estimates for 2004 - 2006 are unofficial.

Figure 1.3: Poverty Maps at the Province Level



Source: Based on preliminary data from GSO. Estimates for 2006 are unofficial.

Underlying forces

Rapid improvements in wellbeing should not deflect attention from the fact that there may still be around 13.5 million people living in poverty in Vietnam, with between 5 and 6 million of them being food poor. One of the challenges for the medium term is to locate those places and populations where poverty persists, and to understand the reasons why they are not benefiting from economic growth as the majority of the population is, so as to reach them with the kind of support that stands the highest chances to be effective. Small-scale surveys from across the country show the diversity of circumstances under which rural poverty persists (Box 1.2).

While it is clear that poverty is largely rural in nature, the figures for 2006 suggest that economic growth alone may not be sufficient to deal with poverty in urban areas. The major

cities of Vietnam have been booming for many years now, and yet urban poverty appears to have stabilized, if not increased. It must be noted that the sample of the household survey is such that less than 100 urban households in it are poor. Under these circumstances, movements of the poverty rate by less than one percentage point are not statistically significant. Yet, any increase is bound to raise questions in a country where measured poverty has fallen consistently and rapidly over the past 13 years. Understanding why this is so is especially important to adjust social protection policies in a period of rapid urbanization.

Admittedly, the stabilization of urban poverty could just be a statistical artifact. GSO has been making consistent efforts to better capture rural-urban migrants in the sample of its household survey. This group is poorer than well-established urban dwellers. If their relative weight had increased in the 2006 sample, urban

Box 1.2: Pockets of Severe Poverty in Rural Areas

In Ninh Thuan province, research that is part of an ongoing participatory poverty monitoring exercise engaged with poor communities that have seen little positive change in wellbeing for the poor. Asked about their quality of life over the previous 12 months, a vast majority of poor households reported either no change (51 percent) or deterioration (33 percent). Meanwhile, twice as many non-poor households than poor households reported an improvement in the quality of life. Households blamed dependence on an unpredictable weather for continuing poverty or worsening conditions.

Kong Chro is one of the poorer districts of Gia Lai Province. Researchers visiting one of the district's 13 communes were impressed by the outreach of government services. A paved road led to the commune centre, health care cards had been allocated, houses built, land distributed and water supply systems constructed. However, conditions of life remained very difficult for Ede people. One family of eight people visited was subsisting on two hectares of land where they cultivated maize and cassava. Besides raising a pig and few chickens, the family was entirely dependent on income from agriculture. Despite the well-constructed road, this family remained disconnected from the economic growth that is encouraging farmers in other parts of the country to diversify their income sources.

Pockets of poverty are not confined to the mountains. The Red River Delta region has seen dramatic declines in poverty over the last ten years. But even there it is possible to remain marginalized from the growth process. A coastal commune in Thai Binh province has a number of households that are prospering through investments in shrimp farms. But other households in that same commune have so little land that they are dependent on harvesting shellfish and tiny shrimp that live in the mud flats exposed at low tide. Within moments of the waters receding, whole families (including school age children) appear to dig the mud for shellfish and shrimp, which they sell in local markets to raise supplementary incomes for very meager returns. Every low tide the families return, regardless of the time of day.

Source: ActionAid Vietnam & Institute of Economics (2004) and Xuan Thanh Hoang (2007).

poverty could have increased mechanically, without it implying that well-established urban dwellers have become poorer.

A similar composition effect may result from land conversion. Because of rapid urbanization, formerly rural wards in the fringes of cities have been reclassified as urban. Those wards were presumably wealthier than most other rural areas, but also poorer than the cities next to them. Their reclassification could, other things equal, bring the urban poverty rate down.

However, there may also be more substantive reasons why poverty has apparently stopped declining in urban areas. Increasingly higher prices in the cities stand as a plausible explanation. The boom in real estate prices increases the cost of retail trade and other services in the cities. Therefore, even simple staples can cost much more than in rural areas, and the gap is presumably increasing. Higher prices in urban areas may result in lower living standards for those whose earnings do not grow accordingly. They could push into poverty people whose expenditures are barely above the poverty line.

The so-called regional deflators used to compute poverty rates can be used to assess whether higher prices may be affecting the purchasing power of urban households. Regional deflators play the same role as PPP conversion factors when comparing poverty rates across countries. They help convert expenditures measured in nominal terms into "quantities" of goods and services purchased. The regional price deflators for 2006 confirm that prices in urban areas are rising more rapidly than in rural areas. The trend would be even slightly faster if the regional price deflators were constructed so as to reflect population shares in different parts of the county, instead of the consumption shares currently being used. Were population weights to be applied, urban poverty rates would be marginally higher.

When all these possible explanations are put together, it seems unlikely that urban poverty may be falling (Table 1.3). Biases from a better sampling of migrants can be accounted for by

looking only at urban households that were surveyed in both 2004 and 2006. Poverty among this "panel" component of the survey appears to have increased (the poverty rate goes from 5.0 to 5.7 percent). Biases from land reclassification can be corrected by focusing only on wards that were considered urban already in 2004. This adjustment makes little difference to the urban poverty rate in 2006 (it goes from 3.9 percent using the classification for 2006 to 4.0 with that of 2004). Finally, prices matter too, as the 2006 price deflators lead to higher urban poverty rates compared to the 2004 deflators (from 3.6 to 3.9 percent). Admittedly, all the changes are minor and unlikely to be significant. But for the first time in 13 years they are suggestive of a slowdown in urban poverty reduction, if not worse.

Growing inequality?

Vietnam's strong record in terms of growth and poverty reduction has been associated with only modest increases in inequality.

Household expenditure data permits compiling some standard indicators in this respect. For instance, it is possible to break the population into five equally large population groups based on their living standards and to estimate the share of all expenditures that are made by each "quintile" (Table 1.4). These estimates show that the poorest 20 percent of the population makes around 7.2 percent of all expenditures, compared to 43.3 percent for the wealthiest quintile. This implies that the average person in the richest quintile spends six times as much as the average person in the poorest one.

Another standard indicator is the Gini index. Measured on a scale from zero to one, this indicator increases with inequality. In the command and control economy preceding economic reforms in Vietnam, the Gini index was presumably very low, as mostly everybody was poor. Market mechanisms usually result in a differentiation of incomes encouraging work effort and capital accumulation, and this differentiation can be expected to increase in periods of rapid economic growth.

Table 1.3: What Lies behind Changes in Urban Poverty?

	2004			2006			
	All house- holds	Panel house- holds	With 2006 regional deflators	All households	With 2004 regional deflators	With 2004 ward classification	Panel house- holds
Vietnam	19.5	20.2	16.2	16.0	17.0	16.2	16.1
Urban	3.6	5.0	4.0	3.9	3.6	4.0	5.7
Rural	25.0	25.0	20.7	20.4	21.9	20.5	19.6

Source: Based on preliminary data from GSO. Estimates for 2006 are unofficial. Figures in parentheses are standard errors.

Because of its economic transition and its remarkable growth performance, Vietnam could have seen a substantial increase in inequality. Yet the Gini index only trended up slightly between 1993 and 2004, and even declined a notch between 2004 and 2006. This stability of the Gini index is driven by the good performance of the three middle quintiles of the population, which in turn reflects the emergence of an increasingly important middle class. The middle three quintiles accounted for 50 percent of total expenditures in 2006, a relatively high proportion by developing country standards. But the growth of the middle class is not incompatible with a growing gap between the top and the bottom quintiles.

Standard inequality indicators may not be telling the full story, however. There is

abundant anecdotal evidence of rapidly increasing wealth at the top of Vietnam's distribution. Sales of cars are growing by nearly 80 percent per year. Literally hundreds of those cars were imported by plane by customers who did not want to wait for normal delivery, adding outrageous transport cost to the already high import duties and taxes. Vietnamese newspapers now regularly run stories about the market for luxury phones, cars and, most recent yachts. The year 2007 saw the purchase of two Rolls Royce cars, with a price tag exceeding one million dollars, and one luxury yacht, at a cost of more than two million. And there are individual investors owning shares with a value in excess of 100 million dollars. Whether standard inequality indicators are able to capture developments of this sort is a matter of debate (Box 1.3).

Table 1.4: Share of Expenditures by Population Quintile

	1993	1998	2002	2004	2006
Poorest	8.4	8.2	7.8	7.1	7.2
Near poorest	12.3	11.9	11.2	11.2	11.5
Middle	16.0	15.5	14.6	15.2	15.8
Near richest	21.5	21.2	20.6	21.8	22.3
Richest	41.8	43.3	45.9	44.7	43.3
Total	100.0	100.0	100.0	100.0	100.0
Richest/Poorest	5.0	5.3	5.9	6.3	6.0
Gini index for expenditures	0.34	0.35	0.37	0.37	0.36

Source: Based on preliminary data from GSO. Estimates for 2006 are unofficial.

Box 1.3: What is Happening at the Upper End?

The primary focus of surveys of living standards in developing countries is often on the measurement of poverty. Therefore, tools such as the VHLSS can provide a sound basis to analyze the welfare of households around the poverty line. They are less good at capturing information from those at the very poorest end of the distribution, since the destitute are often absent from samples. They are also less good at describing the richest end. The very wealthy are unlikely to spend two days answering a questionnaire. And even if they did, they could find it hard to recall how much they have spent over the reference period. The questionnaires themselves tend to be designed based on the expenditure patterns of average citizens, rather than the very wealthy. Questions on conspicuous consumption are often omitted, since they have no relevance for the very large majority of respondents. While the omission of the very rich has no relevance for the measurement of poverty, it could have implications for the measurement of inequality. One study from China found that the exclusion of the top one percent of the sample reduced the Gini index from 0.50 to 0.44.

In 2006, the top ten percent of the population accounted for 28 percent of total expenditures. This is less than in several neighboring countries. In China, for example, the top ten percent accounts for 35 percent of total income. In Malaysia it accounts for 38 percent and in both Thailand and the Philippines for 34 percent.

Nobody can be sure how much expenditure is missing from the VHLSS. One clue is to look at non-response rates of surveys, but unfortunately this is not available for the VHLSS 2006. Another approach is to compute total consumption based on the VHLSS and compare the resulting figure with private consumption as estimated by national accounts. This exercise shows that the VHLSS 2006 might have underestimated expenditures by around 18.8 percent. This is more than in 2004 (16.2 percent) and 1998 (15.9) percent.

Perhaps the biggest uncertainties concern the valuation of housing. The VHLSS asks households to report the approximate market value of the place they live in. The average figures reported for large cities suggest that responses are plausible. However, to measure expenditures it is necessary to convert the value of housing into an imputed rent. This conversion is based on information on the households which do rent the place they live in. But there are not many of those in the sample of the VHLSS, and the resulting ratio of rent to property value may be under-estimated. Many urban households have made sizeable capital gains on the value of their housing. Failure to reflect those gains in their imputed rent may lead to an under-estimation of consumption by the richest population groups, hence to an under-estimation of the extent of inequality.

2. ETHNIC MINORITIES

Ethnic minority groups account for an increasingly large share of the poor in Vietnam. Poverty rates have been declining steadily for ethnic minorities living in valleys or in the lowlands and engaging in paddy field cultivation. Other groups, less dominant in number, are seeing little improvement in their living standards. Overall poverty rates remain much higher among ethnic minorities than among the Kinh and Chinese majority. The severity of poverty is much higher too, and hunger remains an issue for several of the groups. This is despite considerable progress in making ethnic minority communities more accessible and providing them with basic social services. In fact, geography alone cannot be retained anymore as the main explanation for poverty among ethnic minorities. Even in remote areas, households belonging to the Kinh and Chinese majority are doing reasonably well. Differences in endowments do not tell the full story either. Ethnic minority people tend to have more annual cropland than the majority group, albeit of poorer quality. Their educational attainment is improving, at roughly the same speed as that of the majority. And there has also been considerable progress in their access to education, health and credit. Ethnic minorities are at a disadvantage in relation to annual cropland, use-rights to forestry land and schooling levels. But one of the main reasons why they lag behind may be the failure of public policies and programs to take into account their specific needs and behavioral differences. For instance, agricultural research and extension models well suited to the lowlands may be of little relevance for swidden cultivation on sloping

plots of land. Ethnic minority people are also less geographically mobile, which results in a different impact of investments in accessibility. In spite of all this, a faster reduction in ethnic minority poverty can be expected in the coming years, for the simple mechanical reason that the expenditures per capita of a large number of households are getting closer to the poverty line and could soon be above it.

Doing better, but...

Vietnam's remarkable record in poverty reduction is qualified by slower progress in the case of ethnic minorities. Constituting about 14 percent of the population, ethnic minorities currently account for 44 percent of the poor and 59 percent of the hungry. Over the last 13 years, their poverty rate has been declining at an average of 2.6 percentage points per year, against 3.4 points for the Kinh and Chinese majority. In 2006, 52 percent of ethnic minority people were still living in poverty, compared to only 10 percent of Kinh and Chinese people. Poverty for ethnic minorities was also deeper than for Kinh and Chinese people. The poverty gap, which indicates the average distance between the household expenditures of the poor and the poverty line, has also remained consistently higher for ethnic minorities.

There could be a faster decline of poverty among ethnic minorities in the coming years, however. The distribution of household expenditures per capita across households in Vietnam can be seen as the combination of two distinct distributions, one for the Kinh and

Chinese group and the other for ethnic minorities (Figure 2.1). The distribution of expenditures among ethnic minority households in 2006 is similar to the one observed for the Kinh and Chinese population in 1993, prior to a period of very rapid poverty reduction.

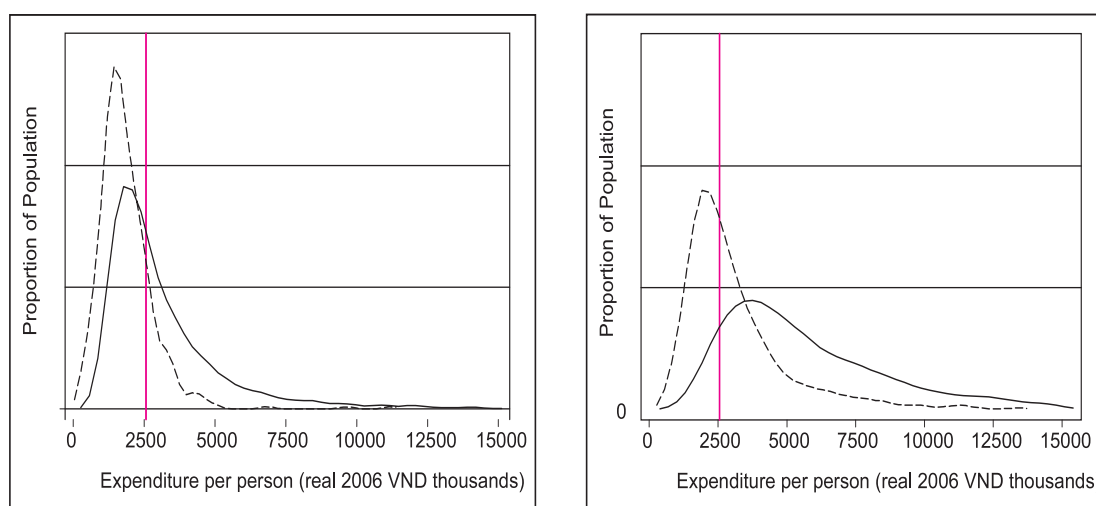
Growth in Vietnam has, to date, been effective at moving those a little way below the poverty line over the poverty line. It is possible that the next few years of high growth will see the movement of ethnic minorities over the poverty line at a more rapid pace than in the past. But such acceleration of poverty reduction, if it were to happen, should not be automatically attributed to successes in policymaking or government programs. To some extent, it would reflect a relatively mechanical process, whereby a slight increase in household expenditures per capita pushes people over what is ultimately an arbitrary line.

Most previous analyses of ethnic minority poverty have provided a blunt comparison of performance between two populations, the first comprising Kinh and Chinese people,

the second aggregating all other ethnic minorities. However, ethnic minorities are a relatively heterogeneous group. Representative data are not available for all of them, given their small populations. But distinguishing between sub-groups provides a "higher resolution" picture, allowing a more nuanced assessment of their differences (Figure 2.2).

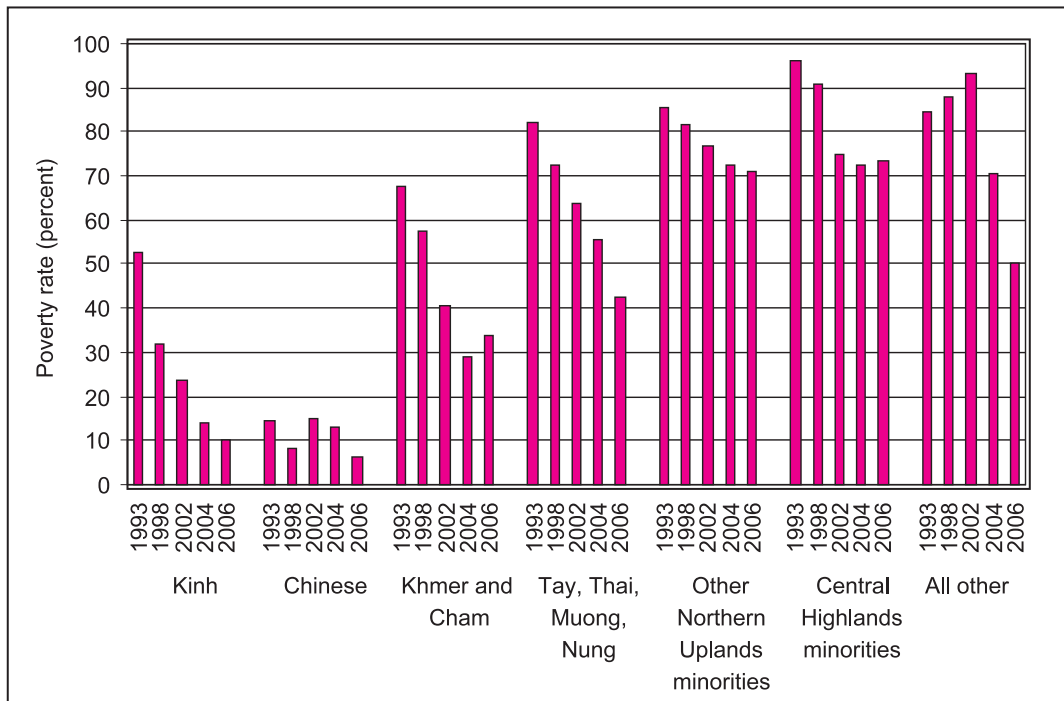
Ethnic minority groups based in the lowlands (Khmer and Cham) have seen dramatic rates of poverty reduction. Groups who tend to be valley-dwelling rice farmers in the Northern Mountains (Tay, Thai, Muong and Nung) have also seen a significant reduction in poverty over the past 13 years. But other groups in the Northern Mountains, the Central Highlands and the South and North Central Coasts remain extremely poor. The lack of progress for these groups tends to be masked by the more rapid improvements in the larger ethnic minority groups. For instance, the poverty rate of the Central Highlands fell by a remarkable 23 percentage points between 2002 and 2006. However, a closer examination suggests that there has

Figure 2.1: Household Expenditures: A Two-wave Story



Source: Bob Baulch, T. Hung Pham and Barry Reilly (2007).

Figure 2.2: Diversity among Ethnic Groups



Source: Bob Baulch, T. Hung Pham and Barry Reilly (2007).

been almost no movement in living standards for minority groups in that region.

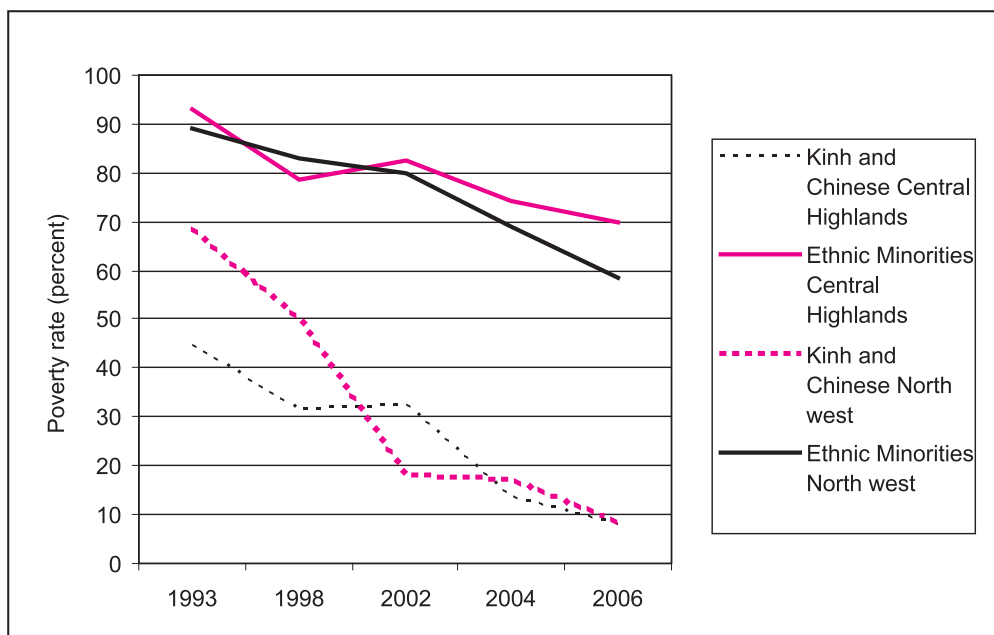
Some of these groups are actually poor enough to be exposed to hunger. In 2006, a greater proportion of ethnic minorities were below the food poverty line than was the case for Kinh and Chinese people in 1993. Hunger appears to be particularly acute in some regions. For example, more than 40 percent of ethnic minorities live in hunger in the South Central Coast, and more than 52 percent in both the Central Highlands and the Northwest. At the same time in all of these regions less than ten percent of Kinh and Chinese people were below the higher general poverty line.

Stories from an ongoing research exercise illustrate the problems ethnic minorities still face. In four poor villages in Ninh Thuan province, not having enough rice or maize for daily consumption was a less severe problem

than four to five years earlier. Villagers agreed that better-off households no longer experienced food shortages and that the "hungry period" for poor households had fallen from between eight and ten months per year in 2003 to between two and six months in 2007. But they also reported that most Raglai households experienced hunger between harvests, especially from April to July. During this period, lack of food and cash would send people into the forests in search of sweet potatoes. At other times of the year, poorer households might have adequate quantities of rice or maize to eat, but would only be able to afford fish or meat once or twice a month.

Not just remoteness

Regional and ethnic patterns of poverty show that prosperity is possible in all regions of the country. Kinh and Chinese people have seen extremely rapid reductions in poverty

Figure 2.3: Same Remote Areas, Different Histories

Source: Based on GSO data. Data for 2006 are preliminary.

regardless of which region they live in. Ethnic minority poverty has remained high in both the Northern Mountains and the Central Highlands, but Kinh and Chinese poverty in those regions has declined at 4.6 and 2.8 percentage points per year respectively (Figure 2.3). Analyses that investigate how the welfare of different ethnic groups deviates from average welfare confirm that differences in living standards are not simply an issue of geography. District-specific effects appear to be modest in explaining differences in expenditures per capita.

Access to infrastructure and services is improving throughout the country, for both the Kinh and Chinese majority and for ethnic minorities. By 2006, 80 percent of the ethnic minority population was living within two kilometers of an all-weather road, compared to 59 percent in 1998. At 91 and 76 percent respectively, figures were much higher in the case of the majority group. But the change over time was similar in both cases. Travel times have also fallen considerably. For

instance, in 2006 the average travel time to the nearest primary school was 18 minutes (2.7 kilometers) for ethnic minority people, against 10 minutes (1.6 kilometers) for the majority group. The gap was slightly bigger for the nearest lower secondary school, and substantially bigger for the nearest upper secondary school. But even in this case, the average distance for ethnic minority people was reduced from 12.8 to 9.8 kilometers in two years, from 2004 to 2006, whereas it only fell by 0.3 kilometers in the case of the majority group.

Overall, it is fair to say that the efforts to improve infrastructure at local levels are paying off. Access has increased as a result (Table 2.1).

Land and its use

Ethnic minority livelihoods are highly dependent on agriculture. More than 90 percent of households in this group have annual cropland. In regions where ethnic minorities are

Table 2.1: Public Programs Are Reaching Out

	Travel time to lower-secondary school (minutes)	Travel time to market (minutes)	Within 2 km of an all-weather road (percent of population)	Access to improved water sources (percent of population)	Access to improved sanitation (percent of population)
2004					
Kinh and Chinese	14	9	84	82	36
Ethnic minorities	28	36	66	37	4
Vietnam	17	13	82	76	32
2006					
Kinh and Chinese	12	9	91	87	43
Ethnic minorities	25	32	80	55	7
Vietnam	15	13	90	82	38

Source: Based on data from GSO. Data for 2006 are preliminary.

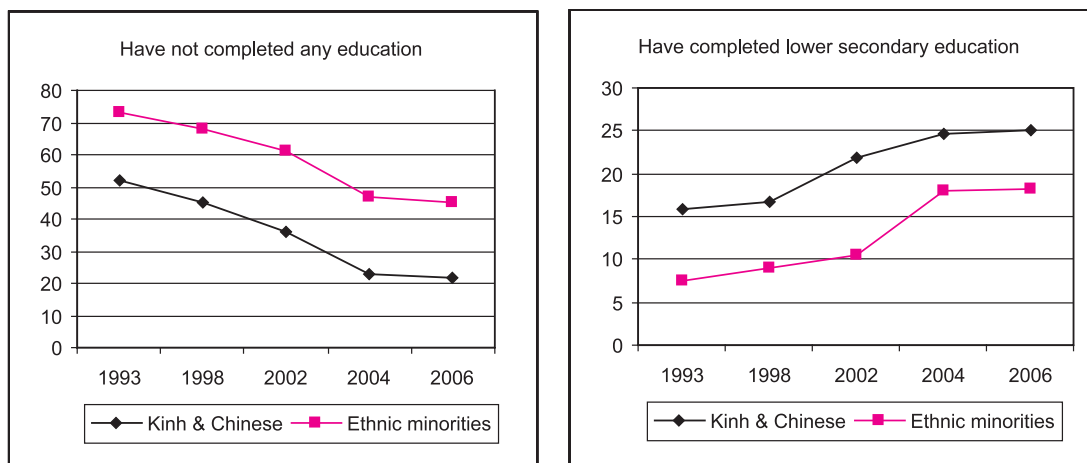
Table 2.2: Size of Land Used by Ethnicity

		Northeast		Northwest		Central Highlands	
		Kinh and Chinese	Ethnic minorities	Kinh and Chinese	Ethnic minorities	Kinh and Chinese	Ethnic minorities
Annual cropland	Have (percent)	88	98	75	99	48	90
	Size (m ²)	2457	4995	5436	11855	7745	11399
Perennial cropland	Have (percent)	33	25	30	20	66	38
	Size (m ²)	2471	3617	3561	3582	12193	10782
Forest land	Have (percent)	17	50	-	22	2	4
	Size (m ²)	13487	17645	-	22199	-	-

Source: Based on preliminary data from GSO for 2006. Size is computed over households that have at least one piece of that land; "-" means that the sample is too small to provide a reliable estimate.

most dominant the percentage is even higher (Table 2.2). Those ethnic minority households who have annual cropland tend to have more of it than Kinh and Chinese people, but this should not necessarily be interpreted as an advantage. Much of the annual cropland farmed by ethnic minorities is on sloping terrain and yields only one crop a year. Kinh people are much more likely to have higher-quality irrigated land.

Perennial cropland land has been important in allowing rural households to diversify income sources. Kinh people have more of it, particularly in the Central Highlands where coffee and other cash crops have been a source of rural development. Though ethnic minorities often reside close to forestry land, whether they actually have access to it varies considerably across the

Figure 2.4: Educational Attainment by Ethnicity

Source: Based on data from GSO. Data for 2006 are preliminary. Figures are in percent of the adult population.

country. Half the ethnic minority households in the Northwest region declare that they "use" forestry land. But only 4 percent of ethnic minorities in the Central Highlands have these use-rights, despite this being the region with largest forest area in the entire country.

The way agricultural research and extension are organized may result in ethnic minorities reaping lower returns from their land allocations. Policies that encouraged the production of wet rice in valleys may have had little impact on ethnic minority poverty. By contrast, limited attention has been paid to upland agriculture, which is an essential part of most ethnic minority livelihoods. Diminishing fallow times present a challenge for upland farming systems, one that has not been sufficiently addressed by public agricultural research. Similarly, agricultural extension is not supporting farmers enough as they switch from subsistence to cash crops on their upland plots. More broadly, agricultural extension is not oriented towards the technical challenges of upland agriculture and its staff is often unable to communicate in ethnic minority languages.

Social services

The last 13 years have seen improvements in educational attainment across the board. Though ethnic minorities have not caught up with the Kinh and Chinese majority, there is no sign that they are falling behind either (Figure 2.4). For instance, the proportion of adults who have not completed primary education dropped by 30 percentage points for the Kinh and Chinese majority, and for 28 percentage points for ethnic minorities. Over the same period, the proportion of adults who completed lower secondary education rose slightly faster for ethnic minorities than for the Kinh and Chinese majority. And while there appears to be a slowdown in improvements during the last two years for both groups, a closer analysis is needed to determine whether this represents a real trend or is rather a product of flaws in the data.

There has also been a considerable success in the distribution of health insurance or healthcare cards to ethnic minority people (Table 2.3). Data for 1998 do not allow discerning between health cards and health

Table 2.3: Access to Health Care by Ethnicity

Regions	Ethnic minorities			Kinh and Chinese		
	Have health insurance (percent)	Have health insurance and free healthcare card (percent)		Have health insurance (percent)	Have health insurance and free healthcare card (percent)	
	1998	2004	2006	1998	2004	2006
Red River Delta	8	37	72	33	37	49
Northeast	8	42	73	36	42	61
Northwest	3	70	83	44	55	75
North Central Coast	11	66	86	32	38	55
South Central Coast	3	82	97	36	38	56
Central Highlands	1	70	95	27	36	51
South East	41	41	51	32	36	47
Mekong Delta	3	43	55	21	26	40
Vietnam	8	55	78	30	35	49

Source: Based on data from GSO. Data for 2006 are preliminary.

insurance, so the comparison with later years exaggerates the expansion in access to health services. Even with this caveat, it is clear that there have been serious efforts to reach vulnerable groups. In 2006, nearly 80 percent of ethnic minority households had either free health insurance or a healthcare card. Such high proportion reflects a rapid improvement in the last two years alone, and a dramatic transformation over the last eight years.

There has also been a slight increase in the fraction of ethnic minority households accessing credit sources. About one quarter of Kinh and Chinese households and one third of ethnic minority households took loans from the formal financial sector in 2006 (Table 2.4). The latter is increasingly important for ethnic minority households, accounting at present for 58 percent of all loans and 70 percent of all resources borrowed. The Vietnam Bank for Social Policies (VBSP) is becoming the dominant source of credit for ethnic minorities, whereas VBARD, which offers larger loans, is the primary lender to Kinh and Chinese households. Nearly one third of the resources borrowed by ethnic minority households actually came from the VBSP,

compared to only 5 percent among Kinh and Chinese households.

Increased access to formal credit by ethnic minorities might be interpreted as proof of the success of VBSP in extending its outreach. Indeed, it is part of VBSP's mandate to provide directed lending targeted to poor households, particularly ethnic minorities. Household survey data suggest that this is actually happening, as VBSP is reaching more ethnic minority households and is becoming increasingly important in their overall borrowing. But there is also a possibility that VBSP is crowding out lending by VBARD. These two banks offer different financial products, with the latter characterized by larger loan sizes, sometimes requiring collateral, which are arguably more useful for investment purposes. Recent surveys indicate dissatisfaction with elements of the VBSP offer, particularly the small loan size and the practice of tying lending to particular activities. Current trends suggest there is a possibility that VBSP may evolve into a bank for ethnic minorities, who may then face difficulties transitioning to the mainstream credit market and taking advantage of the larger loans offered by VBARD.

Table 2.4: Access to Credit by Ethnicity

Lenders	Percent of households borrowing from the different lenders		Percent of resources borrowed from the different lenders			
	2006		2004		2006	
	Kinh and Chinese	Ethnic minorities	Kinh and Chinese	Ethnic minorities	Kinh and Chinese	Ethnic minorities
Formal	25	36	61	68	70	69
VBSP	7	18	3	16	5	30
VBARD	17	18	42	51	47	38
Other banks	2	0	17	1	18	0
Informal	21	23	39	31	30	31
Employment support fund	1	1	1		0	1
Credit organization	2	1	4	2	4	6
Mass organization	3	3	1	3	2	4
Money lenders	4	5	6	5	4	5
Friends and relatives	12	13	25	19	19	13
Others	1	2	2	3	1	2
Total	41	54	100	100	100	100

Source: Based on data from GSO. Data for 2006 are preliminary. The total is not sum of formal and informal borrowing because a household can borrow from more than one lender.

The cultural dimension

Thanks to the availability of good household survey data, it is relatively straightforward to document the endowments of ethnic minorities, as well as their access to social services. Data of this sort are at times used to "explain" the gap in household expenditures per capita between the Kinh and Chinese majority and the ethnic minority population. The result is a decomposition of the gap between differences in endowments (for instance, in the amount of land available) and differences in the returns to those endowments (in the productivity of such land). However, these decompositions can be misleading, as they tend to ignore the role of community characteristics which are much more difficult to capture through survey data.

For instance, looking at differences in geography and infrastructure is easy, but actual mobility could be more relevant. One recent research exercise combining qualitative and

quantitative techniques found Kinh people in ethnic minority areas to be much more mobile than the minorities. Nearly all Kinh people interviewed had visited the commune centre and well over 90 percent had visited the provincial town, compared to 85 percent and a little more than one half respectively for ethnic minorities. Most notable was the difference in the histories of visits outside the province. Two thirds of Kinh people had traveled beyond province boundaries, but only 18 percent of ethnic minorities had done so. Higher mobility may give Kinh people advantages not easily picked up by household surveys, such as greater access to information, broader social networks, increased contact with markets and the opportunity to learn from others.

Failing to understand this more cultural dimension of the difference between ethnic minorities and the Kinh and Chinese majority may easily result in stigma, lead to inappropriate policy responses and frustrate

development efforts. Anthropological studies have explored differences in behaviors and have found that some ethnic minority responses to policies and programs, though unexpected by officials used to managing service delivery in majority areas, are entirely rational given the context. In other cases, those policies and programs have been found to be conceptually flawed, being based on ill-informed preconceptions.

Government programs to reduce ethnic minority poverty are often built on the assumption that activities which worked well for the Kinh and Chinese majority should also work well for ethnic minorities. When they do not, lack of understanding can lead to the conclusion that the target beneficiaries are backward, or unmotivated, or lazy.

For example, the distribution of health insurance cards has, in general, improved access to healthcare for the poor. If certain ethnic minority groups make limited use of their cards, it could be tempting to conclude that they do not value modern medicine as much as the Kinh and Chinese people do. However, a study of ethnic differences in health seeking behavior in Son La suggests that economic considerations may matter more than perceptions. When taking into account the distance to the closest provider covered by the health insurance program, the time away from work, the expense and the likelihood of decent treatment, the decision not to use the card seems sensible. Reliance on

modern medicine is more common when the commune health station (CHS) is close by, the doctor speaks the same language as the patient, and the health insurance card is issued with correct information on it.

Other interventions may be misguided because of behavioral assumptions which are not substantiated by evidence. Over several decades, well-funded programs have aimed to settle groups seen as nomadic because of their dependence on swidden agriculture. However, a recent study found that only a tiny fraction of ethnic minority people were living a nomadic lifestyle, with most upland farmers being well settled. In the same spirit, a review of these sedentarization programs concluded that they had had little discernible impact on livelihoods.

There is also a need to look beyond ethnic minorities as a whole and realize the challenges the variety of cultures and contexts across the 53 different groups present for policymakers. Nationally representative household surveys are unable to capture this diversity well, because the smaller groups get only a tiny representation in their sample, if any at all. Studies that have investigated the situation of a small number of groups in certain areas show that differences between ethnic minority groups (in terms of endowments, contexts and, by extension, responses to government interventions) can be even more marked than differences with the Kinh and Chinese majority.

3. SHIFTS AND SHOCKS

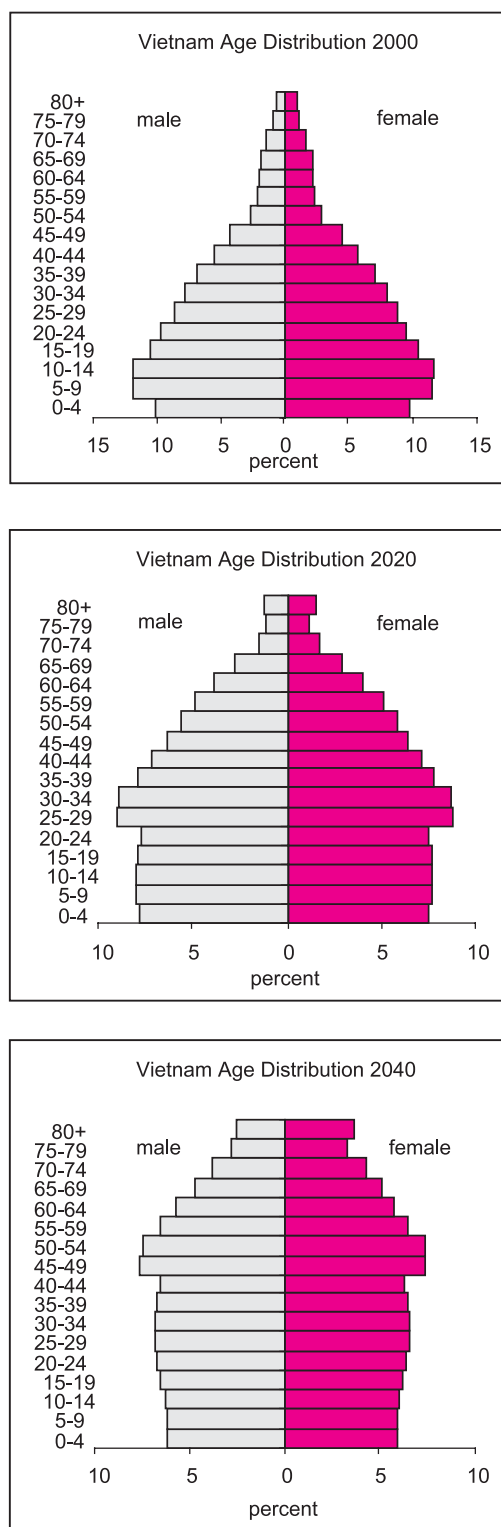
Rapid economic growth has dramatically improved living standards for the bulk of the population. But it has also brought other shifts and transformations, some underway and some embryonic, some domestic and some global in nature, which influence the nature of risks that people face and the policy options to support the vulnerable. Lower fertility and improvements in health care are rapidly raising life expectancy. By 2040, more than 20 percent of the population will be above 60 years of age. By then, social change and rural-urban migration might have undermined the multi-generation living arrangements which currently sustain the livelihoods of the elderly. Vietnam is also one of the countries most vulnerable to natural disasters, such as floods and typhoons. Given the massive concentration of its population along the coastline and in the large deltas, disasters take a heavy toll in lost lives and damaged livelihoods. Climate change will make these shocks worse over time. But providing insurance against natural disasters raises important implementation challenges. There is also a fundamental transformation in morbidity and mortality. Traditional infectious diseases have receded, whereas non-communicable diseases and accidents (including traffic fatalities) account for a substantial fraction of all deaths. This epidemiological transition requires a fundamental transformation of health care, from vaccination campaigns and other forms of prevention at local levels towards individual- or household-based insurance provided regardless of location. Addressing emerging diseases such as HIV or avian influenza also entails innovative interventions,

cutting across several policy areas. And special policies are needed for people living with disabilities (PLWDs), a group which is probably larger and more vulnerable than previously acknowledged. Last but not least, the same market mechanisms which support rapid economic growth and dramatically improved living standards can also be a source of vulnerability, with price fluctuations in international markets and anti-dumping measures by trade partners resulting in large shocks to household income.

Ageing and migration

Vietnam has a young population. At the turn of the millennium, more than half of it was below the age of 25. But fertility rates have been declining, from 2.33 in 1998 to 2.11 in 2004, partly as a result of the vigorous family planning campaigns implemented over the last two decades. Meanwhile, improvements in living standards and healthcare have increased life expectancy. In 1999, a newborn could hope to live to the average age of 68.3. By 2005, life expectancy at birth had risen to 71.3.

With declining fertility and growing longevity, the Vietnamese population is bound to age rapidly (Figure 3.1). By 2020, only 40 percent of the population will be below the age of 25 and 10 percent will be over the age of 60. Further ahead, in 2040 only 32 percent of the population will be under the age of 25, but the proportion of the population over 60 years of age will have doubled. The proportion will be higher for women (22 percent) than for men (19 percent), an issue of relevance for the debate on retirement ages.

Figure 3.1: A Rapidly Ageing Population

Source: Based on United Nations (2007).

This demographic transition has a number of implications for policymaking. There will clearly be a much larger number of elderly. The 20 percent of people who will be over 60 years old in 2040 are currently economically active. Most of them are not poor and many of those who are poor are quite likely to exit poverty in the next five to ten years. An important opportunity exists therefore to put in place mechanisms that allow today's youth to be saving for economic inactivity in older age.

This will be particularly important as household structures begin to change, with more traditional, multi-generation households becoming less dominant. This change is already taking place in urban areas, where values are shifting along with increased wealth and intensified exposure to the wider world. But it is also likely to happen in rural areas, as domestic migration becomes a mainstream response to economic opportunities in other parts of the country. Traditional patterns of care within a multi-generation household may be less of a safety net when the youth of today retire than they are now.

Domestic migration is the other major demographic transformation ahead. Explosive growth in the non-agricultural sector was sustained by a massive movement of people out of agriculture. Quantifying such movement is difficult, however, and there are good reasons to suspect that current statistics underestimate it by a large margin. Indeed, migrants from rural to urban areas are not systematically included in the surveys most often used to assess poverty and vulnerability (Box 3.1).

It is not clear how the absence of migrants affects the poverty estimates in urban areas. But it is clear that migrants may be vulnerable in a number of ways which are hard to analyze with existing data. Access to services depending on registration papers (as for education) or on presence in a specified location (as for healthcare) is a case in point.

Box 3.1: A Vastly Under-Reported Internal Migration

Does the VHLSS underestimate the number of rural-urban migrants in Vietnam? In spite of sustained efforts to improve its sampling, there is a concern that migrants working in industrial zones and living in rented bedrooms may not be appropriately captured. There is also a possibility that the sampling frame may be of better quality for the population having permanent forms of registration (KT1 or KT2 status) than for people holding more temporary cards (KT3 or KT4).

One way to answer this question is to focus on HCMC, where a population census was carried out in 2004. The census is supposed to be the most comprehensive data source, as it attempts to capture all households. The VHLSS has a question that enables to estimate the population having differing types of registration. The responses to this question in the case of HCMC can be matched to those provided to a similar question in the Census. If migrants with temporary forms of registration were appropriately captured in the 2004 VHLSS, the proportions of respondents with KT3 and KT4 registration should be similar of that of the 2004 Census. As it happens, the Census estimated that households with KT3 or KT4 registration accounted to nearly 20 percent the population, compared to only 3.8 percent in the VHLSS.

Registration Status	2004 VHLSS in HCMC	2004 Census for HCMC	
		All Communes	Communes in VHLSS
KT1	85.5	71.6	71.8
KT2	9.2	9.7	8.6
KT3	3.8	11.5	12.6
KT4		7.2	7.0
Other	1.5	-	-

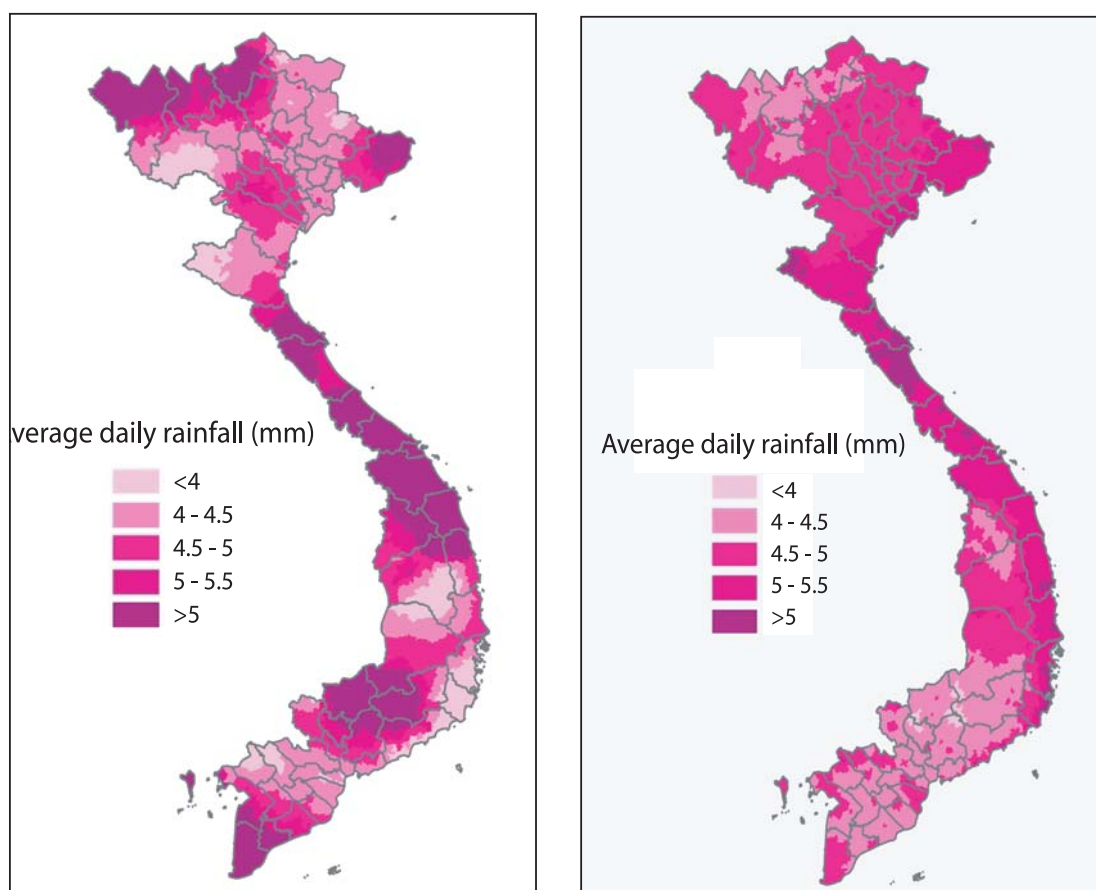
Another way to assess the coverage of rural-urban migrants in the VHLSS is to estimate the population employed in different sectors, or holding different occupations. The VHLSS responses can in this case be matched to employment estimates from the Enterprise Surveys conducted annually by GSO. The results suggest, again, that many migrants are omitted from the VHLSS sample. In 2002, the VHLSS underestimated employment in manufacturing in all of Vietnam by about 2 percent. By 2006 the gap had widened to 22 percent. The largest difference is for the leather goods industry, which includes shoe manufacturers. The VHLSS appears to miss about 41 percent of leather workers (160,000 people in all) in 2002 and around 45 percent (or 230,000 workers) in 2004. It is also apparent that the VHLSS surveys miss a substantial number of construction workers, who are often migrants. The gap in this case amounted to 480,000 workers in 2002 and 420,000 workers in 2004.

Source: Based on data from GSO.

Weather and climate

Vietnam's climate and topography make it one of the countries most prone to natural disasters. Typhoons and floods are by far the most frequent and severe natural hazard. Typhoons hit the long coastal area most directly. Flooding is extensive and prolonged throughout the wet season in the large deltas.

Most of Vietnam's 2,360 rivers are short and steep, so that heavy rainfall in their basins produces intense, short duration floods. Sizeable portions of the country, and especially the Central Highlands and the Central Coast, are subject to heavy rainfall. Even more unsettling is the substantial variation in rainfall, especially over the long coastline and in the Northern Mountains (Figure 3.2).

Figure 3.2: Disaster-Prone Areas

Source: Quy-Toan Do and Trung Dang Le (2007). The coefficient of variation is the ratio between the dispersion (as measured by the standard error) and the mean. Data are for 2001-2006.

With around 70 percent of the population living in lowland areas, in the deltas or along the 3,200 km-long coastline, these disasters often take a heavy toll. There are about 700 deaths per year as a result of typhoons, floods and rainfall-induced landslides. In addition to the human casualties, there are important economic losses and environmental damage. Between 1991 and 2000, natural disasters resulted in 2.3 million tons of food lost, 6 million houses destroyed and 9,000 ships sank. In total about 3 billion dollars in assets was lost.

The encroachment of economic activity and development into marginally suitable areas,

such as floodplains, coastal swamps, drainage channels or other natural buffers, only adds to the vulnerability of the population.

Preliminary results from an ongoing study suggest that households living in disaster prone areas have been active in diversifying their income sources so as to reduce risk. Matching daily rainfall data from 172 weather stations for the period 2001-2006 with household survey data from the surrounding areas shows that farmers in areas facing higher weather volatility diversify their labor inputs more. But they do not self-insure by accumulating livestock or asset holdings, nor do they

participate more in social networks. The study also suggests that farmers in these disaster prone areas have fewer diversification options, perhaps because they do not have good access to land or credit.

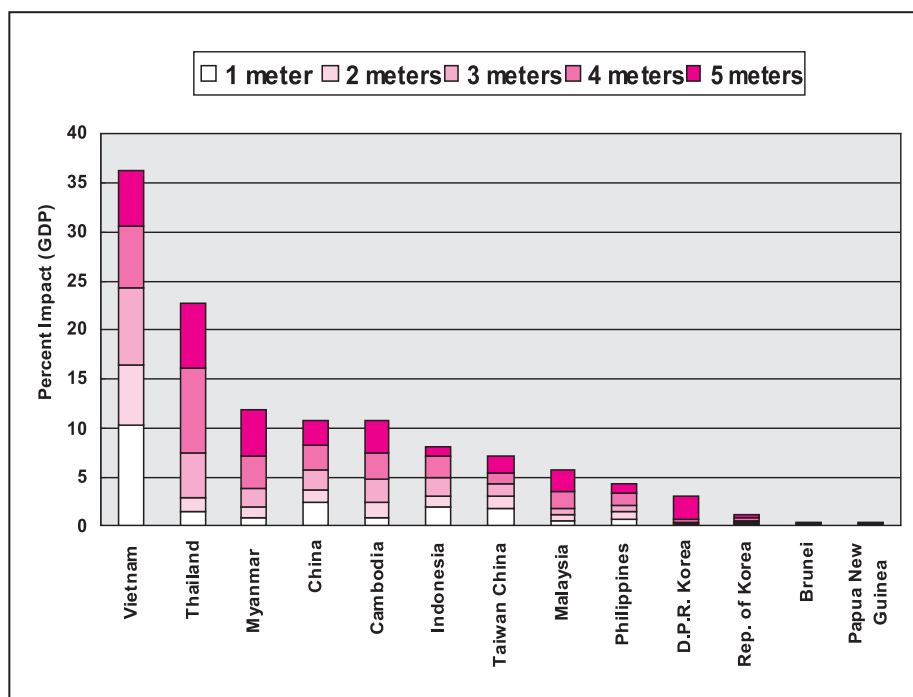
Vulnerability to natural disasters may be exacerbated over time by climate change. International consensus now exists that global warming is linked with human activity. There is also consensus that the poor are vulnerable to its impacts, because they live in more exposed areas and depend more on natural resources for their livelihoods. But there is uncertainty over the scale and nature of the possible impacts. Modeling is more advanced in relation to the impact on sea levels than on weather patterns, and especially on how rainfall patterns will change across the country. Climate simulations under a range of scenarios suggest that mean annual temperature in Vietnam could increase by between 1.5 to 2.5 degrees Celsius by 2100,

whereas the sea level could rise by 18 to 59 centimeters.

Different scenarios have been developed to model the potential impacts of climate change. While they need to be interpreted with caution, they provide important warnings. One study considered 84 coastal countries and found that Vietnam was one of the five most vulnerable to sea level rise in the entire world, and the most vulnerable in East Asia (Figure 3.3). This is because a large proportion of the population, infrastructure and economic production, including irrigated agriculture, is located in coastal lowlands and deltas.

Digital surface data has been used to improve the resolution of these scenarios. It appears that a one-meter rise in the sea level would affect 39 of the 64 provinces in six of the eight economic regions of Vietnam. About 20 percent of communes could be wholly or partly inundated,

Figure 3.3: Going under Water?



Source: Dasgupta and others (2007)

with the Mekong River Delta being the most seriously affected area. By one estimate, a one-meter rise in sea level would affect approximately 5 percent of Vietnam's land area, 11 percent of the population, and 7 percent of agricultural output. However, these figures should not be taken literally. In particular, more detailed analysis is needed before deriving any policy implications. For example, scenarios of this sort do not consider the contribution that the existing system of sea dykes provides for flood prevention.

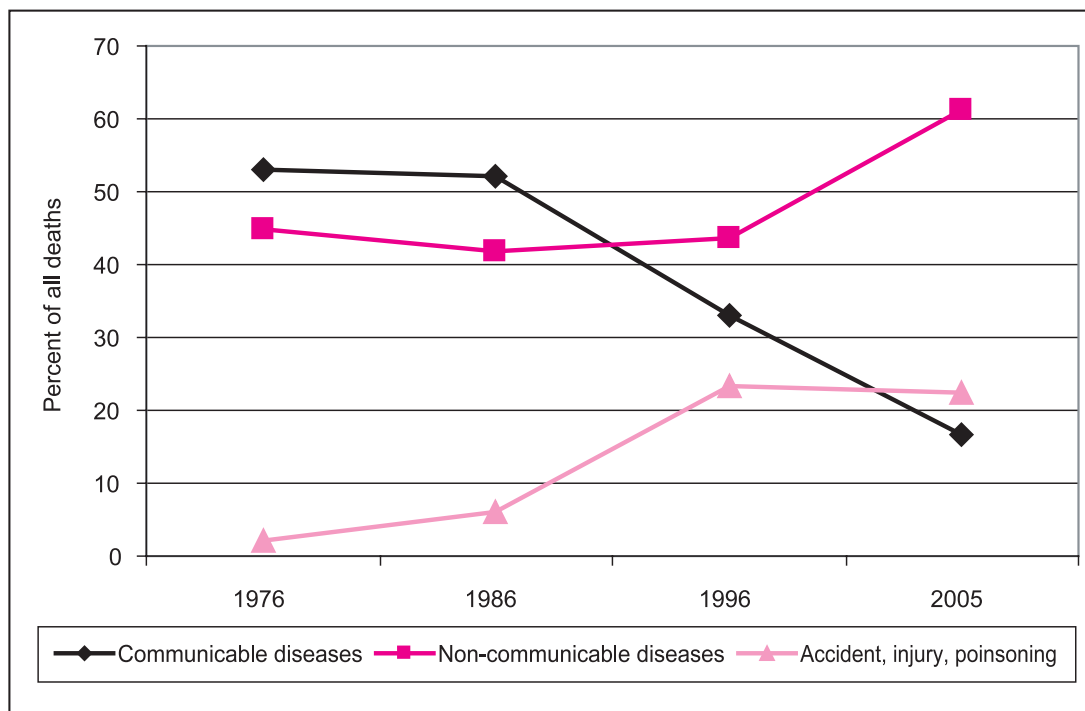
Beyond the potential for arguments over assumptions, it appears that without effective adaptation strategies, climate change will increase vulnerability among some of the poorest groups in Vietnam. As is the case for natural disasters today, there will be a need to develop appropriate policy responses, from mitigation to insurance.

Providing insurance against natural disaster raises important implementation challenges. Pooling risk is difficult when shocks are bound to affect large population groups, which is the proper of hazards such as typhoons or floods. Measuring the extent of damage in an objective way might be difficult as well. And the availability of insurance could discourage prevention efforts by households and communities. As a result, market responses may be insufficient, and complementarities between public policy and private provision will have to be explored.

Health and disability

Vietnam is well along in its epidemiological transition, with non-communicable diseases being by now the main cause of morbidity and mortality, by a large margin. Traditional infectious diseases may still be an issue in

Figure 3.4: The Evolving Causes of Mortality



Source: Based on data from MOH.

Box 3.2: New Diseases: Who Is at Risk?

Until the mid-1990s, HIV prevalence was low in Vietnam. Rates were largely below 1 percent, even among typically vulnerable groups such as sex workers, the military, clients of sex workers and tuberculosis patients. Injecting drug users were the exception, with rates of 20 percent reported among selected samples of them as early as 1994. The quality of these data is admittedly of concern. The sampling of injecting drug users and sex workers is largely limited to detained populations, who may have higher prevalence. Nonetheless, injecting drug use is clearly central to Vietnam's HIV epidemic, accounting directly for about 60 percent of reported transmission and contributing indirectly to an even larger percentage, through the links between injecting drug use, sex workers and clients.

By 2004, HIV rates were low among pregnant women (0.27 percent) and military recruits (0.39). They were intermediate among clients of sex workers (2.56 percent), tuberculosis patients (3.5) and sex workers themselves (6.5%). They were highest among injecting drug users, reaching a striking 32.2 percent. Rates among sex workers rose in the wake of increased HIV infection among injecting drug users. This suggests that injecting drug use was seeding the epidemics among sex workers, a notion supported by behavioral surveillance.

There are too few representative, high-quality data to make confident HIV projections in a country as large and diverse as Vietnam, but it is clear that HIV presents a significant health and development threat. Even if HIV was to simply saturate vulnerable populations and their immediate partners, adult prevalence could eventually exceed 1 percent of the general adult population. That is, over 300,000 people. In addition, by being disproportionately concentrated among marginalized groups, HIV may compromise social inclusion and solidarity. As a long-term illness, HIV also creates particular challenges for health services and is a source of serious costs for households.

Avian flu is also a new disease but unlike the slow, chronic HIV, its impact on suffers comes in the form of a short, sharp shock. Avian flu, caused by the infection of highly pathogenic avian influenza (HPAI) virus is a devastating disease in poultry, the disruption of its production and trade. An HPAI epidemic outbreak occurred in Hong Kong in 1997, causing not only poultry death, but also 18 human cases leading to six fatalities. Since then, HPAI outbreaks have been reported in many countries in Asia, Europe and Africa. The virus has caused more than 300 laboratory-confirmed cases, with 185 deaths. The HPAI virus is currently considered a potential source for future human influenza pandemics and raises concerns not just for agriculture but also to public health authorities and scientific communities. Since the first human case of HPAI was identified in Vietnam in 2003, the international community has witnessed large-scale mobilization in order to contain the spread of the virus among the animal population, and to prepare governments, agencies and the populations to a possible worldwide pandemic.

Despite the amount of international attention, little to date is known about the virus. Its possible routes of transmission are not well identified. Contact with poultry is recognized as a risk factor, however, making the breeders of duck, goose and chicken more vulnerable.

poorer, upland parts of the country, but in most areas their incidence fell dramatically over the last thirty years (Figure 3.4). Meanwhile, the incidence of cancer, cardio-vascular accidents, diabetes and mental illness is rising and poses the greatest threat to health and length of life. Non-communicable diseases already account for 62 percent of all deaths, and the proportion is likely to increase in the medium term, along with growing per capita incomes and changes in lifestyle.

Accidents, injury and poisoning now account for a sizeable proportion of deaths. Traffic accidents are responsible for almost half all accidental deaths, and resulted in 14,800 fatalities in 2006 alone. This amounts to 19 dead per 100,000 people, a rate which is higher than the East Asia average, worse than in any European transition country and four to five times worse than in the best performing countries. The likelihood of injury or death in the event of a road accident is estimated at 20 to 25 percent.

Table 3.1: The Economic Consequences of Health Shocks

Change expressed in percent, for the household as a whole	Urban			Rural		
	Earned income	Medical spending	Food intake	Earned income	Medical spending	Food intake
Death (working age)	-30.6	n.s.	-18.5	-12.5	n.s.	-8.3
Hospitalization (working)	n.s.	339.3	n.s.	n.s.	292.0	n.s.
Hospitalization (non-working)	n.s.	256.8	n.s.	n.s.	322.1	n.s.
Serious illness (household head)	n.s.	n.s.	n.s.	n.s.	n.s.	-10.8

Source: Based on Adam Wagstaff (2007a). Figures were estimated using data from the 1993 and 1998 VLSS. Death is computed only if it took place in the two years preceding the 1998 survey; hospitalization, if it spanned at least seven days over the previous year; serious illness if body mass fell by one standard deviation or more between the surveys. Estimates are for changes at the household level, everything else being equal; n.s. stands for not statistically significant.

While traditional infectious diseases are receding, emerging communicable diseases pose new threats to public health. SARS, HIV/AIDS and Avian Influenza are the most visible examples, especially because of the risk of rapid scale up (Box 3.1). But the re-emergence of diseases which were previously under control, such as Japanese encephalitis, dengue fever and tuberculosis, also represents a challenge for the authorities.

People living with HIV continue to face considerable stigma. By the time their condition becomes known, many of them lose their jobs, often under the excuse that their health does not fit their work requirements. This critically reduces the income of their families, especially when they are the breadwinners. Women living with HIV tend to be more highly stigmatized than men due to the commonly held assumption that HIV is acquired through immoral means, and the social expectation that women should uphold the moral integrity of family and society, while men can be more self-indulgent. Stigma is also common in other contexts, from the denial of service in restaurants or shops to the separation of children at school.

Whether due to communicable disease, non-communicable disease or accident, the impact of a health shock on household living standards can be substantial. A study comparing the situation of the same households in 1998 and

1993, depending on whether they had experienced a major health shock, highlights how large the effects can be (Table 3.1). The findings suggest that the impact is stronger in urban households than in rural households. The study also demonstrates the impact of hospitalization on household medical expenditures. In rural areas, serious illness can be destabilizing enough to cause a 10 percent drop in household food intake.

Impacts of this magnitude call for policy interventions to mitigate health shocks and, when these shocks happen, to reduce their impact on household living standards. However, the epidemiological transition of Vietnam has implications on the nature of the required policies. When morbidity and mortality were related to infectious diseases, vaccination and prevention campaigns with a geographical focus were the most effective interventions. With non-communicable diseases becoming a more important cause of morbidity and mortality, curative care gains prominence, and the focus needs to shift to providing insurance to individuals and households, regardless of where they live.

Emerging communicable diseases also call for different policy interventions, involving a closer coordination between health services and other areas of government, ranging from extension services (in the case of Avian Influenza) to social policies (in the case of HIV) to

infrastructure and education (in the case of traffic accidents). Community-based responses are likely to be important to reach out to groups that are poorly positioned to know or demand the services they need.

PLWDs are another group in need of special policies. The VHLSS 2006 contained a module which allows estimating how large this group is in Vietnam. The questionnaire probes respondents on seeing, hearing, walking, remembering, caring for themselves and communicating. One simple way to present the findings is to distinguish between "any level of disability" and "severe disability". About 15.3 percent of the population falls in the former group and 3.7 percent in the latter. These figures reveal a much higher prevalence of disabilities than suggested by previous, official estimates.

A closer inspection shows a strong link between disability and age, with the increase in disability prevalence as age rises being more marked than in other countries. There are higher reported levels of disability for women than for men, possibly reflecting their older average age. There are no discernible patterns linking the broader category of disability to income group, and no regional patterns either. But a strong association exists between severe disability and poverty.

A small survey of PLWDs in Hung Yen, Quang Ngai and Ho Chi Minh City (HCMC) is quite telling about the difficulties they face. The educational attainment of this group is much lower than that of the general population, with more than one third of the sample being illiterate. This low level of education may result from disability itself and its impact on learning capacity. But it also reflects the difficulties faced by this group in accessing education. By the time of the survey, only half of the sample was working, mainly on precarious jobs including petty trade and simple services such as food and stall cooking and motorbike washing.

Market fluctuations

The adoption of market mechanisms has resulted in an extraordinary improvement of

living standards in Vietnam, but it also has brought in a number of dramatic changes. The conversion of land from agricultural to non-agricultural purposes, the shift from farming to wage employment and the movement of people from rural to urban areas are all signs of a vibrant economy that offers opportunity. But these changes are also potential sources of vulnerability, from landlessness to unemployment to the loss of social networks.

Some groups are particularly vulnerable because they are already poor, or are barely above the poverty line, or lack sufficient assets to cope with shocks (Table 3.2). Among them are farmers, those working for other households or for collectives and those who are economically inactive. Those working for the government or in a foreign invested company appear to be least vulnerable by these criteria.

Recent changes in land use influence vulnerability as well. For example, increased reliance on aquaculture in coastal zones has generated high returns for those with sufficient investment capital and connections with local officials. But this trend may increase the vulnerability of groups without access to such assets. This is because aquaculture ponds have replaced or degraded public goods assets (such as coastal mangroves and wetlands for capture fisheries) that previously helped diversify livelihoods, especially in times of stress.

Global integration has opened new outlets for domestic production, allowing economies of scale to materialize and supporting massive productivity gains. But exposure to international markets can also result in large price fluctuations, as experienced by coffee farmers at the turn of the millennium. As the economy diversifies, and more sophisticated mechanisms are developed to hedge against risks, some of these vulnerabilities will start receding. However, in the medium term even a step as positive as WTO accession can be a double-edged sword. For instance, the removal of subsidies for fertilizers could affect farmers.

In relation to global integration, one important source of vulnerability is the NME status given

Table 3.2: Who Is more Vulnerable?

Occupation of household head	Percent of households who			
	Are poor	Are less than 10 percent above the poverty line	Have less than 15 million dong in assets	Meet any of these three criteria
Inactive	12.5	3.8	2.6	14.2
Employed by				
Government	1.5	1.6	0.7	6.1
State-owned enterprises (SOEs)	4.7	1.1	1.3	3.4
Foreign-invested company	2.5	0.0	0.0	0.4
Private sector	4.2	2.9	2.9	2.4
Households and collective enterprises	20.4	6.8	7.2	13.3
Non-farm self-employment	6.8	2.2	1.7	22.6
Farmers	25.1	5.8	4.8	37.5
Total	16.0	4.4	3.7	100

Source: Based on preliminary GSO data for 2006.

to Vietnam at the time of accession. This status makes it much easier for its trading partners to impose anti-dumping measures, which in turn can have a serious impact on the living standards of specific population groups (Box 3.3).

The importance of market fluctuations as a source of vulnerability is highlighted by a recent survey conducted among poor households in 24 rural communes across eight provinces. Asked about the economic risks they faced, 87 percent of respondents declared to have experienced at least one major shock over the previous three years. On average, each household had suffered two shocks. Floods, droughts and environmental degradation were often

mentioned as sources of vulnerability. Among farmers, crop failure was identified as the biggest risk, followed by the lack of employment and the ups and downs of the market prices for key agricultural products.

The most common measure taken by a vast majority of households to address the effects of these shocks was to reduce expenditures. Two thirds of them also borrowed, mainly from private lenders and relatives, friends or neighbors. One third relied on relief programs offered by the government. About 12 percent of the respondents declared having taken children out of school, and almost ten percent had a family member migrating to urban areas for work.

Box 3.3: Anti-Dumping and Catfish Farmers in the Mekong Delta

In June 2002, US catfish farmers filed a lawsuit against Vietnam, arguing that its exports of frozen catfish (that is, tra and basa) fillets were conducted at prices below the cost of production. A few months later, in January 2003, the US Department of Commerce ruled in favor of the plaintiffs. Because Vietnam is not recognized as a market economy, it is claimed that its domestic prices are distorted and therefore its domestic costs cannot be used to assess whether production or exports are subsidized. Instead, the production costs of a "surrogate", supposedly comparable country are used. In the case of Vietnamese catfish, the US Department of Commerce chose Bangladesh as the surrogate country. The comparison between Vietnamese prices and Bangladeshi costs resulted in tariffs ranging between 37 and 64 percent on imports of frozen catfish from Vietnam. In July 2003, the US International Trade Commission ratified the ruling. Shortly after, Vietnamese exports of catfish to the US plummeted.

The impact of this anti-dumping measure on the living standards of catfish farmers can be assessed using household data from the 2002 and 2004 VHLSS, which span the period right before and after the tariffs on catfish were imposed. A key feature of the VHLSS is that thousands of households surveyed in 2002 were interviewed again in 2004. Many among them were aquaculture farmers in the Mekong River Delta, the main area where catfish is produced in Vietnam. Comparing the change in the living standards of these farmers to that of aquaculture farmers in other regions, where catfish is not produced, gives an estimate of the consequences of the anti-dumping measure.

Results indicate that the shock has an impact on income (via lower prices and quantities), per capita expenditures, and current use of inputs, especially in fishing (but also in agriculture more broadly). The average income of a typical catfish farmer fell by 3 to 10 percent, whereas per capita expenditure dropped by 11 to 17 percent. Labor supply increased, partly to compensate the drop in fish-related income. However, long-run responses, like expenditure in education and health, and fundamentally school attendance, were not affected. It would then seem that catfish farmers perceived the shock as being temporary.

Source: Guido Porto (2007).

PART II: POLICIES AND PROGRAMS

4. LABOR MARKETS

Abundance of opportunities for gainful employment is one of the most important forms of social protection for households in general, and for the poor in particular. Moving out of farming jobs into self-employment, and especially into salaried jobs, has been one of the main avenues for poverty reduction in Vietnam. This transition has often taken place by moving out of rural areas. Low unemployment rates, high occupational mobility and chances for migrants to do better are thus essential for households to escape poverty and cope with adverse shocks. So far, labor markets in Vietnam have performed relatively well. But global integration brings in new challenges and labor market regulations have to be adapted to a more complex and diversified economy. In this context, the introduction of an unemployment insurance scheme may not be a sufficient policy response, assuming that it is at all warranted. The most urgent priority is to spur the growth of salaried employment and to support its formalization. This entails a delicate balance between preserving competitiveness and protecting workers from abuse. The revision of minimum wage policies and the mechanisms for collective bargaining is crucial in this respect. The commitments made by Vietnam in the context of WTO accession imply that the minimum wages paid by domestic and foreign companies will need to be unified in a few years. To avoid penalizing job creation in less developed parts of the country, a differentiation of minimum wages by region may be considered. Also, to avoid an explosion in government spending, minimum wages should be dissociated from the setting of salaries for civil servants and pensions for retirees. As for collective bargaining, the increase in the

number of wildcat strikes over time suggests that the current mechanisms for dispute resolution are increasingly ill-adapted to address labor discontent. Facilitating collective bargaining at the enterprise level may also hold the key for Vietnam to exit the NME status early on, hence to be able to protect its jobs from unjustified anti-dumping measures.

Activity and employment

Vietnam is a nation at work. At 71 percent, the fraction of the working-age population that is economically active is high compared to other countries and among the highest in the South East Asia region. Unlike other countries, the fraction is very similar for men and for women. Meanwhile, the fraction of the working-age population in the total population is bound to increase for some time. This is because of Vietnam's rapid demographic transition. The population growth rate declined from 1.9 percent per year in the early 1990s to 1.3 percent at the beginning of this century. As a result, the fraction of children will decline, while the numerous children of today will be entering the labor market.

With roughly 1.4 million people joining the labor force every year, both economic prosperity and social stability hinge on very rapid job creation. So far, the performance of the labor market has been quite remarkable in this respect. Over the decade and a half for which representative household surveys are available, the unemployment rate has remained stable and relatively low (Table 4.1). The precision of the estimate may be questioned as the available surveys are not well designed to monitor the labor market. But it is clear that

Table 4.1: The Structure of the Labor Force

	1993	1998	2002	2004	2006
Inactive	19.4	15.3	16.7	17.2	19.5
Active	80.6	84.7	83.3	82.8	79.7
Employed					
Government	3.1	3.6	4.4	5.3	5.5
SOEs	2.5	2.6	3.3	3.1	3.3
Foreign-invested companies	0.1	1.1	0.8	1.3	1.6
Private enterprises	10.8	10.1	15.7	17.0	17.3
Non-farm self-employment	14.7	16.5	19.1	16.5	19.5
Farmers	49.5	50.2	38.2	38.8	32.6
Unemployed		0.6	1.8	0.8	0.8
Urban unemployment rate (MOLISA)		6.9	6.0	5.6	4.8

Source: Based on data from GSO and MOLISA. GSO data for 2006 are preliminary. All figures are in percent of the population aged 15 to 64, except for unemployment rates, which are in percent of the active population. Employment figures are based on main occupation. Household businesses are treated as private enterprises for their hiring of wage workers, and as a source of non-farm self-employment for the jobs they provide to household members on an unpaid basis.

unlike other transition economies, and despite the remarkable transformation of its economic structure, Vietnam has not faced a mass unemployment problem.

To some extent, this relatively good performance simply reflects the fact that a majority of the active population still works in agriculture. Underemployment, more than outright unemployment, is the main mechanism for labor adjustment in rural areas. But the fraction of the working age population for which farming is the main occupation has been declining rapidly, from about half in 1993 to a third in 2006. Meanwhile, the fraction working for a wage or a salary has increased steadily, from 16.5 to 27.7 percent.

In the early 1990s, civil servants and public sector workers accounted for the bulk of wage employment. Not anymore. Their share of the labor force has slightly increased, partly as a result of the expansion in the coverage of social services and partly because of the recruitment of village chiefs into government administration. But the share of wage employment accounted

for by domestic private enterprises and foreign-invested companies has increased remarkably over this period. The dynamism of these companies accounts for the bulk of job creation during this period, and helps explain why Vietnam has not faced mass unemployment.

Not everybody working for a wage or a salary is in the formal sector of the economy, however. In the context of the labor market, formality can be defined in relation to the Labor Code, introduced in 1994 and amended in 2002. In theory, the Labor Code applies to urban and rural laborers who have signed a labor contract or have a verbal agreement with their employers. The 2002 amendment defined different kinds of contracts such as indefinite term, definite term and seasonal work. Laborers working on farms are also theoretically protected by the Labor Code. The reality is that few workers in rural areas benefit from such protection outside state-owned farms and plantations. Even in urban areas, non-compliance with labor regulations is widespread. For instance, a study on migrants revealed that only 36 percent of those in paid

employment had a labor contract, with the proportion being lower among women.

Assessing trends in formalization, earnings and working conditions is difficult, however, due to the absence of adequate survey instruments. Household surveys have proved very useful in Vietnam to assess poverty and measure progress in human development. But these surveys are too demanding to implement, so that they are conducted only every two years. And their labor modules tend to be succinct. A reliable monitoring of labor market developments, as

the economy diversifies and further integrates with the outside world will require a high-quality labor force survey conducted on a continuous basis (Box 4.1).

Labor earnings

Low labor costs remain one of Vietnam's main sources of competitiveness, especially when taking into account that Vietnamese workers learn fast and have a high work ethic. But labor earnings have been increasing rapidly.

Box 4.1: Towards a Better Monitoring of the Labor Market

How economic transition, rapid growth and global integration are affecting job quality and working conditions in Vietnam remains an open question. One important problem is the lack of high-quality tools to monitor labor market developments. Even assessing the evolution of simple indicators such as the share of wage workers in total employment is difficult. For instance, both the Labor Force and Employment Survey (LFES) implemented by MOLISA and the household expenditure surveys conducted by GSO put that share at around 17 to 19 percent in the years around 1996 to 1998. And both report a substantial growth in the share in subsequent years. But around 2004 the LFES estimates the share to be 26 percent, whereas the VHLSS puts it at 32 percent. Other problems relate to the ambiguity of some of the concepts and definitions used. For instance, some wage earners may work in the informal sector, and some self-employed in the formal sector.

A diagnosis of the existing surveys in Vietnam shows that none of them provides reliable estimates of informal employment. The LFES concentrates on main occupation, and does not collect information on labor contract, benefits, or the characteristics of the employer. The VHLSS is probably the best data source at present. Nevertheless, being mainly designed to obtain income and expenditures estimates, it is weak on labor market indicators and the accounting of informal sector production. As for the Annual Household Business Survey (AHBS), its main shortcoming is to exclude non-located enterprises, an important component of the informal sector. This has resulted in unsolved debates as to how many non-farm household businesses there are in Vietnam.

In 2007, taking advantage of the transfer of the LFES from MOLISA to GSO, the questionnaire design was significantly improved. The number of questions increased from around 25 to 50, allowing an enlarged coverage of labor markets indicators. The August 2007 survey will for the first time capture informal employment in Vietnam, including both primary and secondary jobs, and both jobs in the informal sector and unprotected jobs in the formal sector. The new questionnaire also ensures a better compatibility with international labor market concepts and definitions (for instance, on unemployment and underemployment).

Meanwhile, a household business and informal sector survey has been launched. Following the principle of mixed surveys (covering both households and enterprises), it focuses on unincorporated enterprises identified as employers or own-account workers in the LFES sample. Two representative pilot surveys have been conducted (in Hanoi and HCMC) and scaling up to the national level is scheduled for 2008.

In the medium run, the objective should be to consolidate the LFES and bring it up to the best international standards. To attain this goal, it should become a continuous survey, able to provide quarterly estimates of the main labor markets indicators. It should also include a panel component, whereby the same respondents are interviewed more than once over time, so as capture employment and earnings transitions. And it should allow for flexible modules to address specific labor market issues, such as gender, training or job quality.

Source: Based on Mireille Razafindrakoto and Francois Roubaud (2007).

The exact speed depends on the indicator considered. The average earnings of a full-time worker in domestic private enterprises provide a useful perspective. In 1998, those earnings stood at 554 thousand VND per month; by 2006, they had escalated to 1.420 thousand. The figures include bonuses and overtime pay, as well as labor earnings from secondary occupations. They exclude the value of payments in kind and benefits such as health insurance or access to old-age pension. Based on this indicator, nominal labor earnings increased by a cumulative 12.5 percent per year during this period. Given that consumer prices increased by 4.2 percent during the same period, the annual growth rate of labor earnings, in real terms, was 8.3 percent.

Part of this growth in labor earnings was associated with workers getting better paid in their jobs; part resulted from workers moving from lower to higher paying jobs. Occupational and geographical mobility have actually been a fundamental part of this moving-up process.

Needless to say, labor migrants to urban areas often face considerable hardship, and their pay and working conditions are far from ideal. A study of labor migrants to cities conducted in 2004-2005 reported earnings substantially below those of city residents. Most of the migrants made less than 1 million VND a month; two out of five less than 600 thousand a month. Women were much more likely to be in the lowest paying group. More than half of the migrants interviewed also reported receiving unstable income. However, when asked if they knew about the expected difficulties before they migrated, four out of five said they did. And an astounding 95 percent of them declared that in spite of those difficulties migrating had been a sound decision.

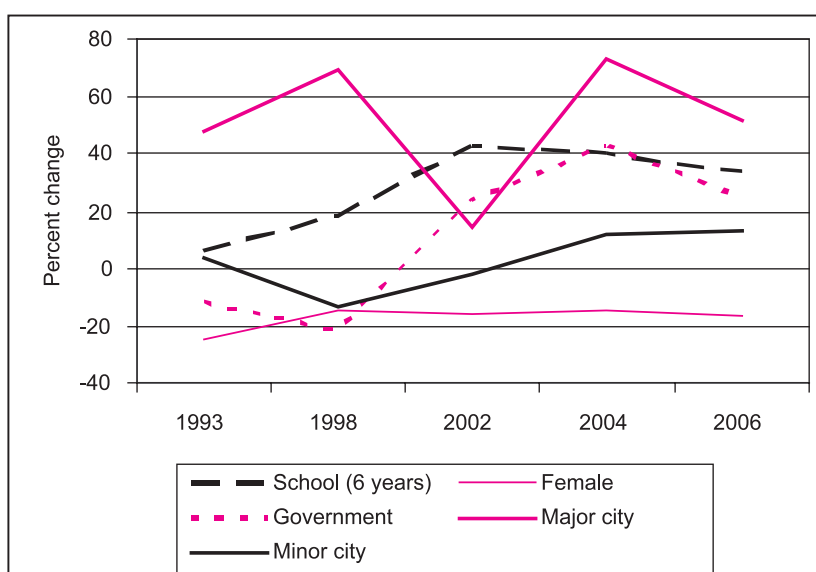
These findings indicate that labor migration in Vietnam takes place with high risks and costs, but on average the payoffs still outweigh the hardship, especially taking into account the limited opportunities for gainful employment in rural areas. When asked to compare their earnings in the cities with those they could make had they stayed in their place, again 95 percent

reported that they were higher or much higher.

A comprehensive analysis of job transitions, using a nationally representative sample of households, reveals a more complex picture. A comparison of labor earnings across all occupations between 2002 and 2004 shows that considerable gains were also made by moving out of wage employment into self-employment. This may reflect the creation of own businesses, after a phase accumulating savings and knowledge in a paid job. The analysis of household expenditures, instead of individual labor earnings, yields a similar result, with gains being particularly important for households who were not engaged in farming before moving into opening their own businesses. At the other end, those who had to complement their farming activity with some wage employment, and those who remained engaged in farming exclusively, fared much worse.

Another way to understand the mechanisms which have allowed so many Vietnamese workers to secure higher earnings is to look at their individual characteristics. An analysis of the determinants of labor earnings highlights the importance of education (Figure 4.1). In the early stages of economic transition, there was relatively little differentiation in labor earnings. Pay compression was deliberate in the public sector. Out of it, the redistribution of agricultural land to rural households had generated relatively similar opportunities for mostly everybody. However, with the development of the market economy, those with higher skills have faced increasingly better earnings opportunities. Beyond fluctuations that may be attributed to quality data, the increase in the returns to education is one the salient trends of this period. In 1993, an additional year of schooling resulted in labor earnings being only 1 percent higher on average. By 2002, the corresponding gain was 6 percent and since then it roughly stabilized. This widening gap stresses the importance of equality of opportunity in education.

The development of a market economy might have been more of an equalizer in other respects. In particular, the gender gap in

Figure 4.1: Determinants of Labor Earnings

Source: Based on data from GSO. The figures are based on the estimated coefficients of a Mincerian equation explaining hourly earnings in the main occupation of the respondent.

earnings appears to have declined during the 1990s. Other things equal, a woman at work used to earn 24 percent less than a man in 1993. By 1998, the gap had narrowed to about 15 percent and it remained at roughly that level since then.

Other salient trends include the catch up of earnings in government, with civil servants being underpaid in the 1990s and experiencing a recovery subsequently, especially around 2004 where minimum wages were raised substantially. Workers in smaller cities also appear to have experienced important gains. Those in larger cities clearly earn much more, but the fluctuations of the estimate (especially in 2002) cast doubts on its precision.

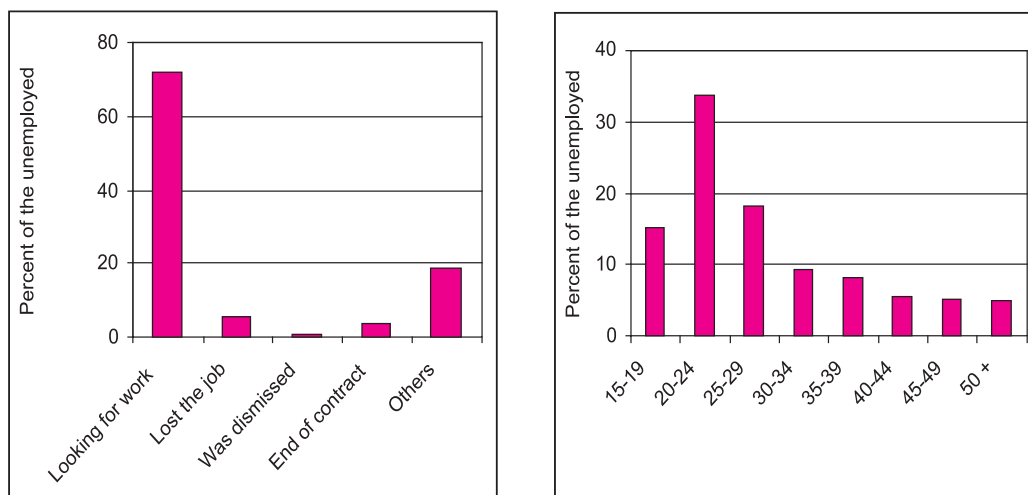
Unemployment

While unemployment has not been a major issue in Vietnam so far, rapid global integration is expected to lead to increased competition across all sectors, and this in turn could result in

substantial economic restructuring. Recent experience also shows that important job losses could result from anti-dumping measures by Vietnam's trade partners. It is therefore important to understand who the unemployed are, and what measures could be taken to facilitate their transition to work.

So far, the bulk of the unemployed are young, urban people with secondary or even tertiary education. Very few of them are unemployed due to job loss or dismissal (Figure 4.2).

Data from the 2003 National Survey Assessment of Vietnamese Youth provide valuable insights into the employment opportunities and paths of this population group. Overall, 57 percent of working youth are self-employed, with two thirds of them doing unskilled agricultural jobs. Even after two decades of economic reforms, only a modest 6 percent of the employed youth reported working in domestic private enterprises and 5 percent in foreign-owned companies or joint ventures.

Figure 4.2: Who Are the Unemployed?

Source: Based on 2005 data from MOLISA.

A statistical analysis of the probability of being at work shows that it is higher for males than for females, and it also increases significantly with age. Although marital status is not strongly associated with work, younger single youth are more likely to be looking for jobs than older married youth. Education also exerts a strong influence on the probability of working. More educated youth are both less likely to be working and more likely to be looking for suitable employment. This is especially so in the case of university graduates.

Protracted job search among educated youth may not necessarily reflect a shortage of employment opportunities, as there is at the same time a dramatic shortage of skilled personnel in Vietnam. A series of surveys suggest that unemployment coexists with large numbers of vacancies. Lack of skilled labor was mentioned as a severe bottleneck by one fifth of respondents to the 2005 Investment Climate Survey, and as a moderate bottleneck by an additional fifth. Skill shortages were a serious obstacle in electronics, but they also appeared to be significant in chemicals, machinery, furniture and even textile. A 2006 survey of Japanese manufacturing companies operating in Vietnam revealed difficulties in recruiting staff at the middle-management level,

as well as engineers. According to the labor force survey conducted by MOLISA, domestic companies face similar challenges, especially for craftsmen.

High job turnover is a key factor explaining the perceived skill bottlenecks. In the survey of Japanese manufacturing firms operating in Vietnam, low worker retention was mentioned as an issue by about 30 percent of respondents. In the same vein, a study on foreign-invested companies showed that over the period from 2001 to 2003, the labor turnover rate was more than 43 percent. Turnover was highest in textiles, garments and footwear enterprises. According to information provided by the affected companies, 32 percent of the departing workers had moved to other foreign companies, 23 percent had gone on to establish their own business and 18 percent had taken jobs in domestic enterprises.

Which policies should be put in place to assist the unemployed while they search for a job is not so clear. Vietnam has an affective safety net for redundant workers from SOEs. This safety net was set up in 2001 to overcome resistance to the equitization process and provide fair compensation to those who stood to lose because of it. Since then, it has supported more

than 4 thousand enterprises and paid relatively generous severance to close to a quarter of a million redundant SOE workers (Table 4.2). Two tracer studies conducted over this period have revealed relatively high levels of satisfaction among the assisted workers, and especially among women and the old, who were potentially the most vulnerable to restructuring.

The activity of this safety net slowed down recently because the time frame for its operation was based on the optimistic assumption that equitization would be completed by the end of 2005. With some of the biggest SOEs still needing to go through this process, there was a need to reactivate the fund and provide it with an appropriate budget allocation, which only happened in early 2007. The decision was also made to extend its scope to redundant workers from state-owned forests and farms, and to update the design of the severance pay package. Implementing these changes has also taken longer than expected. But the political will to keep this safety net fund in operation is clear.

There is also a decision, stated in the Social Insurance Law, to introduce an unemployment insurance scheme, in the spirit of those that can be found in industrial countries. Such scheme

would cover workers in the formal sector and be funded through higher social security contributions. The readiness to implement a program to support the unemployed is commendable at a time when global integration may lead to unexpectedly large shocks, maybe resulting in substantial job losses. If that were to occur, having a mechanism in place to provide assistance to the unemployed without delays would be of great help. However, whether such mechanism should be activated for now is questionable.

The main risk in introducing an unemployment insurance scheme is to raise the cost of labor, hence to slow down the formalization of employment, without really helping those who lose their jobs.

Unemployment insurance is clearly ill-adapted to assist young, educated job seekers. Most of them have a limited work experience, or no work experience at all, so they would not have contributed to the scheme long enough to qualify for any benefits. Moreover, if unemployment among this group reflects a protracted job search for opportunities that are commensurate with their qualifications and expectations, financial support could simply result in extending their unemployment spell, by making job seeking more affordable.

Table 4.2: The Safety Net for Redundant SOE Workers

Year	Workers assisted	SOEs assisted	Spending (VND million)	Average package (VND million)
2002	1,147	34	29,262	25.5
2003	18,445	453	534,973	29.0
2004	43,659	873	1,298,738	29.7
2005	86,483	1,445	2,812,933	32.5
2006	49,683	953	1,748,329	35.2
2007	19,401	367	948,616	48.9
Total	218,818	4,125	7,372,851	33.7

Source: Based on data from Corporate Finance Department, Ministry of Finance (MOF).

Unemployment insurance is also ill-suited to help other potentially vulnerable groups of workers. The entry of large supermarket chains in Vietnam, with their more efficient supply chains and management techniques, could affect the earnings of household businesses engaged in retail trade. But the members of these households would not be eligible to claim unemployment benefits because they would not have contributed. As for workers in the formal sector, under the Labor Code they are entitled to a reasonable amount of severance pay. Admittedly, that entails an additional cost for the restructuring enterprises. But the additional contribution towards an unemployment insurance scheme would represent an additional cost for all enterprises, not just those undergoing restructuring, at a time when minimum wage hikes and reforms to social insurance programs already risk increasing labor costs substantially.

An unemployment insurance scheme would not be a useful substitute for the safety net for redundant SOE workers either. No standard scheme would be able to match the generosity of the current safety net. Without such generosity, the equitization of large SOEs could be stalled. The efficiency gains that can be expected from bringing business-oriented outsiders into the management of large SOEs are bound to be sizeable. In fact, completing the restructuring of the state sector is one the last major hurdles for Vietnam to fully become a market economy. The safety net for redundant SOE workers can be seen as a compensating mechanism, to avoid making losers along the way, rather than as a pure social protection mechanism. From that perspective, replacing it by unemployment insurance benefits would not be advisable.

Wage setting

Supporting rapid employment generation, especially by the formal sector of the economy, is the most effective way to address the risk of unemployment. To achieve this goal a good balance is required between protecting workers

from abuse and keeping formal enterprises competitive. Policies influencing wage setting are especially important in this respect.

Vietnam introduced a minimum wage for foreign-invested companies in 1990 and one for domestic enterprises in 1993. The latter is the same for the entire country. Since 1992, the former varies by region, depending on the province and on whether the companies are located in urban or rural districts. Minimum wages were adjusted in several opportunities over the years, with the minimum wage for domestic enterprises growing faster (Table 4.3). The ratio between minimum wages and average wages in domestic enterprises has increased moderately, from 25 percent in 1998 to 32 percent in 2006.

In spite of these adjustments, the minimum wages applying to foreign companies remain substantially above the domestic minimum wage. The margin varies from 53 to 93 percent depending on the region. This margin is incompatible with the national treatment principle of the WTO. Vietnam is thus confronted with the need to unify the minimum wage applying to domestic and foreign companies. And because the latter cannot be reduced, unification will require that the minimum wage applying to domestic enterprises be increased rapidly. The prospect of affecting employment creation and formalization is thus real, and requires the adoption of a sound policy strategy.

A first step is to identify who the minimum wage earners are. The characteristics of full-time workers whose earnings fall within a narrow range of the applicable minimum wage provide a good indication in this respect. Using a 20 percent band (from 10 percent below to 10 percent above) and data from 2004, it appears that some 2 to 2.7 percent of all wage earners are paid the minimum wage. The range in the estimates is due to the various defensible ways to compute labor earnings. If part-time and casual workers are considered, and the minimum wage is computed on an hourly basis, some 3.1 to 6.1 of wage earners appear to be at the minimum.

Table 4.3: Minimum Wages and Average Wages

Year	Domestic enterprises				Foreign-invested companies			
	Minimum wage	Average wage			Minimum wage			Average wage
		Household enterprises	Private enterprises	SOEs	Region 1	Region 2	Region 3	
1998	144	552	554	572	464	530	597	680
2002	210	606	771	1002	487	556	626	1037
2004	290	649	852	1077	487	556	626	1044
2006	450	914	1420	1680	810	790	710	1774

Source: Based on data from MOLISA for minimum wages and from GSO for average wages. Figures are in thousand VND per month. Region 1 includes Hanoi and HCMC. Region 2 covers their suburbs, several other large cities and some districts with industrial zones. All the rest of the country is under Region 3.

About half of these minimum wage earners are between 15 and 25 years of age, and more than 62 percent are women. An impressive 85 percent have completed lower secondary education, but less than a fifth has any technical qualification. Not surprisingly, almost half do unskilled jobs. Minimum wage earners are heavily concentrated in manufacturing industries (nearly 42 percent) and in foreign-invested companies (13 percent). In absolute numbers, however, the largest share (more than 55 percent) corresponds to household businesses and small enterprises. About half of minimum wage earners belong to poor or near-poor households. But the fraction of household heads and spouses is declining rapidly.

A second, more difficult step is to assess the effects of minimum wage increases on labor market outcomes. Preliminary findings of an analytical effort led by ILSSA suggest that the effect on average wages is substantive. But there is no noticeable effect on poverty rates among minimum wage earners. This may be due to a negative impact on formal sector employment. This impact appears to be minor, and disappears when the overall probability of being employed is considered, instead of the probability of working in the formal sector. These preliminary findings suggest that minimum wage hikes may not hinder employment creation much, but they could slow

down the formalization of the economy.

The 2002 amendment of the Labor Code and subsequent regulations stipulated that the minimum wage had to be adjusted over time in accordance with consumer prices, economic growth, and the balance between labor supply and demand.

While this is an eminently sensible approach, implementing it in practice is not straightforward. The study by ILSSA tried to translate the criteria introduced by the 2002 amendment of the Labor Code into specific indicators. For consumer prices, the study considered the cost of a consumption bundle securing living standards close to the poverty line for the worker and one dependent child. In relation to economic growth, the research estimated the relationship between the minimum wage and Gross Domestic Product (GDP) per capita. And for labor market conditions, it estimated trends in the average labor earnings of workers with the same characteristics as minimum wage earners.

For 2010, these different methodologies yield levels of the minimum wage ranging from 790 to 930 thousand VND per month. But this could be an underestimate, for two reasons. First, the assumptions used by ILSSA in its simulations are too optimistic in relation to the inflation rate. Second, the forecasts for 2010 are close to the

current minimum wage levels in foreign-invested companies. It is unlikely that workers in these companies would be satisfied if there was no increase of the applicable minimum wage between now and then. Vietnam is thus confronted with the need to double, if not to triple, the domestic minimum wage over just a few years.

Absorbing such an increase without losing in competitiveness could be a serious challenge for many domestic enterprises. The government has sensibly chosen to introduce a regional distinction for all minimum wages, in the spirit of the one in force nowadays for foreign-invested companies. In this case, the increase in minimum wages would be fastest in Hanoi and HCMC, and slowest in the least developed provinces.

The doubling or even trebling of minimum wage levels over a short period of time could also have an adverse impact on public finance. The salaries of civil servants are determined through formulas involving the domestic minimum wage and coefficients related to occupation and seniority, plus a series of bonuses and additional payments. Because of the latter, a minimum wage hike would result in a smaller increase of the wage bill. But the increase could still put public finance under strain. The domestic minimum wage also enters in the benefit formulas determining the pensions of retired civil servants. Therefore, government liabilities would also increase substantially in the event of a minimum wage hike. This stresses the importance of separating minimum wage policies from civil service pay and pension formulas.

Industrial relations

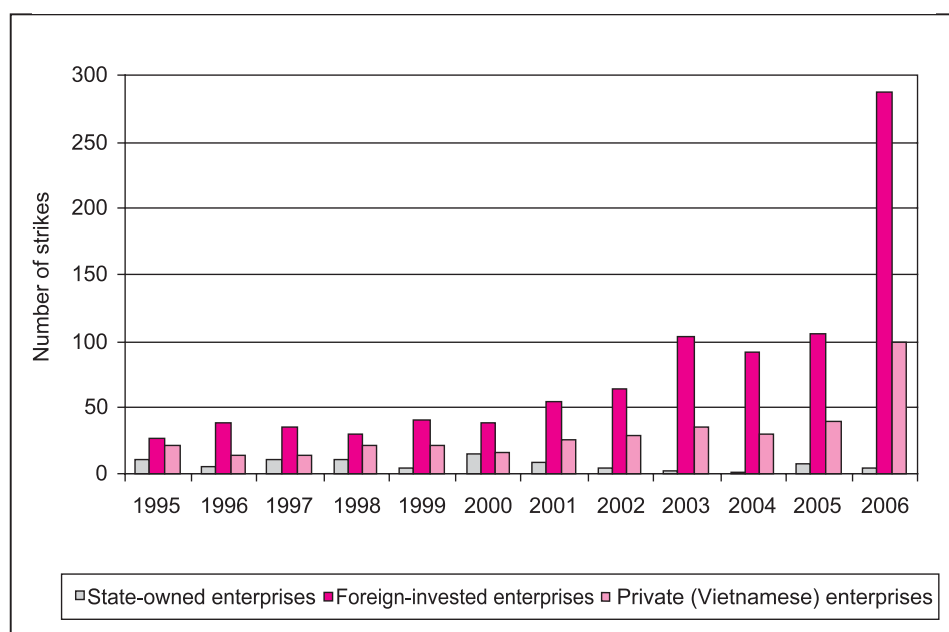
According to Vietnam's labor regulations, any enterprise employing five workers or more must have a trade union or a temporary trade union executive established within its first six months of operation. Yet, compliance is very limited. The majority of enterprises in Vietnam do not have a representative with the right to bargain on behalf of workers. According to the Vietnam General Confederation of Labor (VGCL), 90

percent of SOEs, one third of private enterprises, and half of foreign-invested companies had a trade union by 2005. And even this could be an overestimate.

Most importantly, there are serious deficiencies in the representational function of existing trade unions at the enterprise level. The majority are led by the management staff of the enterprise. Trade unions at enterprise level also have problems of capacity in terms of representation and bargaining skills. VGCL estimated that 96 percent of SOEs had collective agreements in force in 2006. But the reported fraction dropped to 40 percent in foreign-invested companies, and further to 25 percent in domestic private enterprises.

A study of industrial relations in selected provinces reached similar conclusions. Only 10.4 percent of enterprises in Ha Tay had collective bargaining agreements in 2005. The share was as low as 3.7 percent in Khanh Hoa. Not only there is a limited number of enterprises with collective bargaining agreements, but the coverage of existing collective agreements is also quite restrictive. Many of them are simple replications of the Labor Code rather than the outcome of a real negotiation between workers and employers. Wage bargaining is thus the exception rather than the norm.

Meanwhile, labor conflicts have been on the rise, especially among foreign-invested companies (Figure 4.3). The above-mentioned study of industrial relations found that 90 percent of strikes had happened due to violation of labor regulations by employers, and 80 percent was related to wage issues. However, in the absence of a well-established negotiation mechanism at the enterprise level, most of these conflicts had been processed outside the legal framework and without trade union involvement. The increase in the number of labor conflicts has been related to issues such as salaries, working time, meals and working conditions, and they do not necessarily entail a violation of legal rights by employers. Labor conflicts also result from the lack of adjustment of the minimum wage for foreign companies. Many workers have been paid the same wage

Figure 4.3: Number of Strikes by Enterprise Ownership

Source: Based on data from MOLISA.

level for many years, while the cost of living has considerably increased.

The lack of workers' representation at the enterprise level and the prevalence of wildcat strikes suggest that the legal framework for collective bargaining of Vietnam is not well adapted to the maturity of its economy. Current regulations are too stiff in only allowing a trade union executive committee or a temporary trade union to raise proposals for negotiation and engage in labor collective agreements. They do not allow for more than one collective bargaining agreement at the enterprise level. They do not permit those working on piece production to be associated with wage negotiations, or to engage in industrial action. And they do not protect workers serving as trade union representatives from harassment by abusive employers.

Current labor market regulations also ignore the possibility of collective bargaining taking place at higher levels. The Vietnam Chamber

of Commerce and Industry (VCCI) and the Vietnam Cooperative Association are appointed to be the national representatives of employers, much the same as VGCL represents workers. But no provisions exist for negotiation at sectoral or regional levels. For instance, there is no legal representative actor of employers in sectors such as garments, textiles or cement.

Other shortcomings of the legal framework refer to the settlement of disputes. For instance, there is no time limit for negotiation. In the event of disagreements, the law requires the Labor Conciliation Council to assist in finding a solution. But the Council is simply made of the representatives of the two parties in the negotiation. In the absence of an agreement, the involvement of an independent third party would be required. Labor administration agencies could play this role. However, they are not allowed to intervene unless requested to do so by the two parties. And even then, their responsibility is described in vague terms.

Box 4.2: Trade Unions in Vietnam and in China

Trade unions in China and Vietnam continue to encompass all types of 'workers', including top managers. This originated from the nature of socialist employment relations where it was perceived that no conflicts of interests existed between management and workers. This perception has easily become a convenient tool for management to dominate the workplace and control the unions. In both countries, trade union leadership at the enterprise level is disproportionately dominated by staff members representing the management. However, there are important differences as well.

Rank-and-file workers in Vietnam have displayed a great degree of spontaneous solidarity, outside the official unions and the official legal framework, to defend and advance their rights and interests. Field research indicates that most wildcat strikes were not only well planned and coordinated, but were also participated in by a majority of the workers within the enterprises concerned. The so-called contagion effect of wildcat strikes illustrates the Vietnamese workers' ability to take well coordinated collective actions. For example, on December 28, 2005, 18,000 workers of a Taiwanese owned company in Linh Trung Processing Zone in HCMC went on a wildcat strike demanding a wage increase, this move was immediately followed by strikes in two other factories in the same Zone on the same issue.

What is also noticeably different from China is the response of the public authority to wildcat strikes. In Vietnam the local labor administration will usually send its officials to investigate the situation and to resolve the strike situation by offering a compromise. This intervention tends to legitimize workers' actions. For instance, managers are quietly advised by local government officials not to take any retaliatory action such as dismissal against labor leaders, as it would only provoke another round of strikes. Of 50 strikes for which detailed information is available, workers' key demands were met in 48 cases. Favorable coverage of the collective actions by local media also generates pressures on the local government to intervene.

Trade unions at higher organizational level in Vietnam tend to display stronger support for workers on strikes than their counterparts in China. Local trade union cadres usually accompany the government conciliators, putting pressure on the management side to accept reasonable demands while also persuading workers to return to work. In response to the strikes in Linh Trung Processing Zone in December 2005, VGCL actually criticized the government for its failure to raise the minimum wage for foreign-invested companies for a long period of time.

The strong solidarity of workers, the tolerant attitude of the public authorities, the supportive response of the general public and the relatively autonomous behavior of higher level trade union organizations all differentiate Vietnam from China.

Source: Chang-Hee Lee (2006b).

In late 2006, a number of articles of the Labor Code regarding the resolution of collective labor disputes were amended, with several implementing regulations issued during 2007. The changes separate resolution mechanisms for rights-based and interest-based disputes. Importantly, they allow conciliation by the district labor officer, the first step of the dispute resolution process. Both employer and employees need to agree in written form on the selection of the district-level labor conciliator. The chairman of the district People's Committee becomes

the new authority responsible for settling disputes in the second stage of the resolution process.

Improving the legal framework for collective bargaining would not only provide a better channel for the resolution of industrial disputes: it could also help Vietnam counter anti-dumping measures by trade partners. The absence of satisfactory wage negotiation mechanisms at the enterprise level is invoked as evidence that Vietnam is still an NME. Under WTO agreements, an NME is more

vulnerable to anti-dumping measures, because the production costs of other (so-called surrogate) countries can be used to measure the extent of subsidization.

Vietnam has accessed the WTO with an NME status which will expire automatically in 2018. Introducing a more adequate industrial relations framework could hold the key to advancing this date. And there are valid reasons to believe that Vietnam is in a relatively strong position to

make this move (Box 4.3). A more adequate framework could include more flexible mechanisms for employees and employers to appoint their representatives at various levels. It could also allow piece workers to be part of collective agreements, and provide protection to employees' representatives. Introducing time limits for negotiation and replacing the Labor Conciliation Council by conciliators who are truly independent from both parties would be another change worth considering.

5. TAXES AND FEES

Before any resources can be spent by the government on social protection policies and programs, they have to be raised through taxation. Securing stable government revenue is one of the main priorities of the current tax reform agenda. But the tax base is evolving rapidly, requiring an adjustment of both tax instruments and tax administration. SOEs continue to account for the bulk of revenue collection, but the share of foreign companies and private domestic firms is growing rapidly. The structure of revenue by tax instrument is changing as well, with tariffs and other trade-related taxes losing share as a result of global integration. The way those tax instruments is designed has an impact on both equity and efficiency. Taxes and fees introduce a wedge between gross and net income and thus redistribute resources across households. In Vietnam, they are progressive overall, with the tax burden increasing with household expenditures. But there is a wide variation across instruments. Value Added Tax (VAT) is progressive, some local fees are regressive, and Personal Income Tax (PIT) affects only a tiny fraction of households. The burden on enterprises varies too. Disturbingly, it appears to be higher for domestic private enterprises, for small firms and for those located in rural areas. The cost for enterprises to comply with tax regulations is high as well. But estimates vary widely, suggesting the need for reliable indicators to monitor the efficiency and integrity of tax administration. In a country where wealth is very much associated with the ownership of valuable urban land, property taxes have the potential to redistribute resources across households without introducing the inefficiencies associated with taxes on household or enterprise income. Property taxes

should also allow a better recovery of the costs of infrastructure development, targeting its most direct beneficiaries. But property tax requires good registration and reliable valuation of land titles. More generally, a proper operation of the tax system has strong administrative requirements. Vietnam has adopted an ambitious agenda to modernize tax administration, but implementation will be challenging. Changing business processes from systematic inspection towards self-declaration will be necessary to expand the number of taxpayers, reduce the cost of compliance and mitigate the risk of corruption. This change is now being rolled out, with encouraging results.

An evolving tax base

As part of the transition to a market economy, two major tax policy reforms were undertaken in Vietnam in 1990 and 1998. A comprehensive legal framework was developed as a result. Taxes imposed on state, non-state and agricultural sectors were integrated into major instruments, notably turnover and profit taxes. Subsequently, these were transformed into VAT and Corporate Income Tax (CIT) respectively. By now, the system in place also includes natural resource taxes, PIT, excises, customs duties, and a number of minor taxes, fees and charges. Considerable efforts have also gone into reforming the legal framework for tax administration.

Despite the reforms already undertaken, many difficulties remain. The number of potential taxpayers is growing faster than current arrangements can handle. The large set of minor taxes, charges and fees results in

unnecessary complexity. Efforts have been made to shift the responsibility for collection of these taxes to local governments, but decentralization creates additional accounting and supervision problems. Taxpayers complain about ambiguities and contradictory provisions in the tax system, which increase the compliance burden and the discretionary power of tax inspectors. To address these concerns, a third wave of reforms to tax policy and tax administration is currently underway.

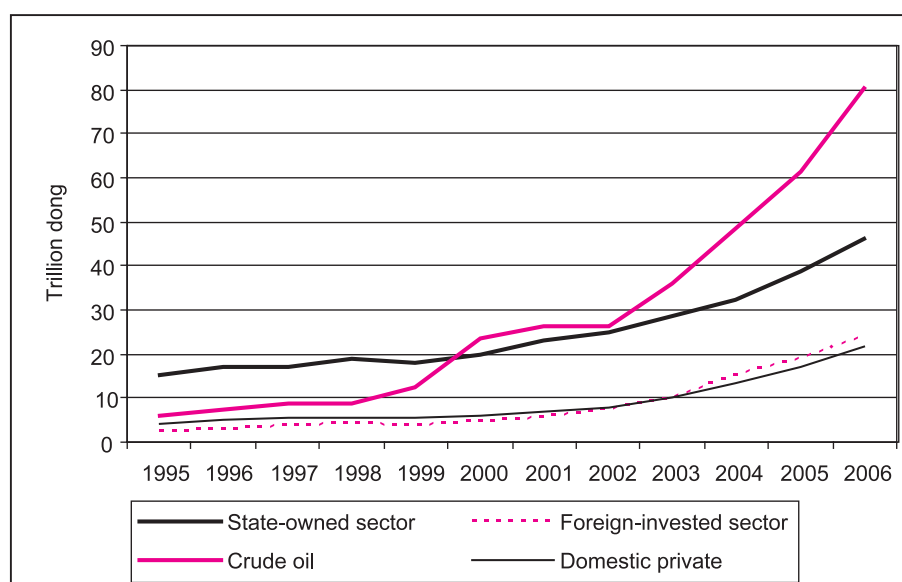
Amidst these transformations, the structure of government revenue is changing as well. Overall revenue has increased slowly but steadily in recent years, from 20.5 percent of GDP in 2000 to 23.4 percent in 2007. This increase is mainly due to the growth in oil revenues and in non-tax revenue. Tax revenue proper actually experienced a minor decrease during the same period. SOEs remain the most important taxpayers, accounting for some 54 percent of CIT and 42 percent of VAT revenue. Revenue from SOEs doubled between 2001 and 2006, whereas it multiplied by 3.3 in the case of domestic private

enterprises and by 4.3 in the case of foreign-owned companies (Figure 5.1). Yet, in spite of the buoyancy of the mainly small-scale domestic private sector, the 673 largest taxpayers still contribute more than 70 percent of total domestic tax revenues.

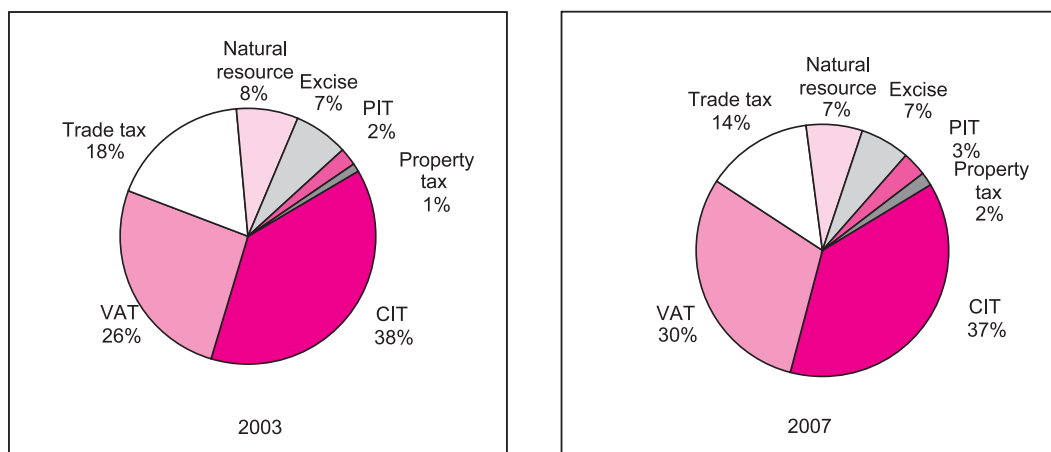
There are also ongoing changes in the structure of revenue by tax instrument. CIT and VAT remain the workhorses of the system (Figure 5.2). In particular, VAT is a highly "productive" tax in Vietnam, in the sense that the revenue (measured in percentage points of GDP) per point of the basic rate (in percent of value added) is among the highest in the region. However, the planned revision of the VAT, which includes the establishment of an exempt threshold and an enhancement of the refund mechanism, may result in lower revenue.

On the other hand, greater global integration has led to a diminished importance of taxes related to international trade. The share of import and export duties in total tax revenues has decreased from 28.9 percent in 1996 to

Figure 5.1: Who Pays Taxes in Vietnam?



Source: Based on data from MOF.

Figure 5.2: Tax Revenue by Source

Source: Based on data from MOF.

17.8 percent in 2003 and further to 13.1 percent in 2007. The implementation of WTO commitments will reinforce this trend, although not necessarily in the short term. The commitments made by Vietnam do not entail dramatic reductions in tariffs. As the reductions are mainly at the high end, import volumes (the base on which taxes are computed) are bound to grow so that revenue could actually increase, at least for some time. Moreover, WTO commitments allow raising the tariff lines for a range number of items from zero at present to a maximum of 5 percent. This should also result in higher revenue.

From gross to net income

Taxes and fees not only raise revenue for the government: they also introduce a wedge between gross and net income, and thus redistribute resources across households. Some times, such redistribution is a deliberate choice, accomplished through a variety of exemptions, thresholds and differential tax rates. Quite often, however, the complexity of the tax system leads to unplanned (and even unknown) redistribution.

In Vietnam, households are directly subject to

several taxes and fees. As consumers, they pay VAT and excise taxes. As residents, they face a range of local fees such as agricultural taxes, education fees and taxes on household businesses, among others. Overall, these taxes are progressive (Table 5.1). In 2006, a household in the richest quintile of the population devoted 14.8 percent of its spending to paying taxes and fees, compared to 8.7 percent for a household in the poorest quintile. But not all taxes and fees are equally progressive. VAT, excise taxes and taxes on household businesses are, while agricultural fees are not. And not all households pay all taxes and fees. For instance, mostly everybody is confronted with VAT whereas a meager 0.1 percent of households pay PIT.

In industrial countries, PIT is one of the main tax instruments for redistribution. Its role is typically more modest in developing countries, given that many households are engaged in farming or work in the informal sector, where incomes are difficult to document. The potential for evasion is high at the top of the distribution as well, as profits and capital gains are relatively easy to hide from tax agents, some times with their complicity. That leaves civil servants and workers in the formal private sector as the

Table 5.1: How Progressive Are Taxes and Fees?

	Taxes as percent of household expenditure per capita						Households paying taxes (percent)
	Poorest quintile	Near poorest	Middle quintile	Near richest	Richest quintile	All households	
Value-added tax	4.7	6.0	6.7	7.4	7.6	7.0	100.0
Excise taxes	1.2	1.4	1.6	1.7	2.2	1.8	97.3
Taxes on household enterprises	0.1	0.3	0.6	1.8	2.4	1.6	15.4
Educational fees	1.2	1.6	1.8	1.9	1.3	1.5	62.1
Agricultural fees	0.7	0.9	0.6	0.3	0.1	0.4	40.2
Personal income tax	-	-	-	-	0.1	0.1	0.2
Other fees	0.8	0.8	0.8	0.9	1.1	1.0	99.0
Total tax paid	8.7	11.0	12.1	14.0	14.8	13.4	
Expenditure per capita (thousand dong per year)	2,469	3,982	5,529	7,980	17,106	7,411	

Source: Jonathan Haughton and Phuong Viet Ngo (2007).

main taxpayers for PIT. Because it falls mainly on formal wage and salary earnings, PIT can be seen as disincentive to formalization.

In spite of these well-known problems, the government of Vietnam is trying to scale up its PIT. A new law was promulgated in late 2007, and from 2009 onwards all individuals making more than 4 million dong per month will be subject to PIT. Implementation is expected to increase the number of taxpayers to about 2.3 million, and result in 13 trillion dong in additional tax revenue. This compares with about 300 thousand high-income taxpayers and six trillion dong in revenue at present. The main source of household income targeted by PIT is wage earnings. But the PIT law also applies to income related to equity shares, giving individual investors two options: a 20 percent tax on the profits they make or a 0.1 percent tax on the sale of stocks.

In Vietnam, wage employment is the source of roughly one quarter to one third of household

income, with the proportion being higher among richer population groups. However, not all wage income comes from the formal sector, and only a fraction of it (presumably among the upper quintiles of the population) is likely to be subject to PIT.

A more comprehensive assessment of tax incidence should take into account the indirect impact of taxes on consumer prices, through production costs. For instance, taxes on fuel affect households who do not pay them directly, because they raise the cost of transportation. To assess the impact of upstream taxes on inputs it is necessary to use information on the cost structure of goods and services.

The only study of this sort available for Vietnam was conducted using household survey data from 1998 and the input-output table for 1997. This study was able to trace the incidence of approximately half of all tax revenue. Its findings suggest that taxation remains progressive even when considering indirect effects. But the gap between the

burden of the richest and the poorest quintile is lower than when direct taxes alone are considered.

Taxing capital

Taxes can also affect the incentives faced by firms. In the case of Vietnam, the tax burden should be the same across all enterprises, and amount to 28 percent of corporate profits. In practice, however, the tax burden may differ from that benchmark. Policies to encourage investment in laggard regions, or dynamic sectors, or labor-intensive technologies, usually rely on tax incentives, which in turn should result in a lower burden for the encouraged enterprises. But poor enforcement, arrears and even corruption may lead to substantial disparities in the actual tax burden across enterprises of different sorts.

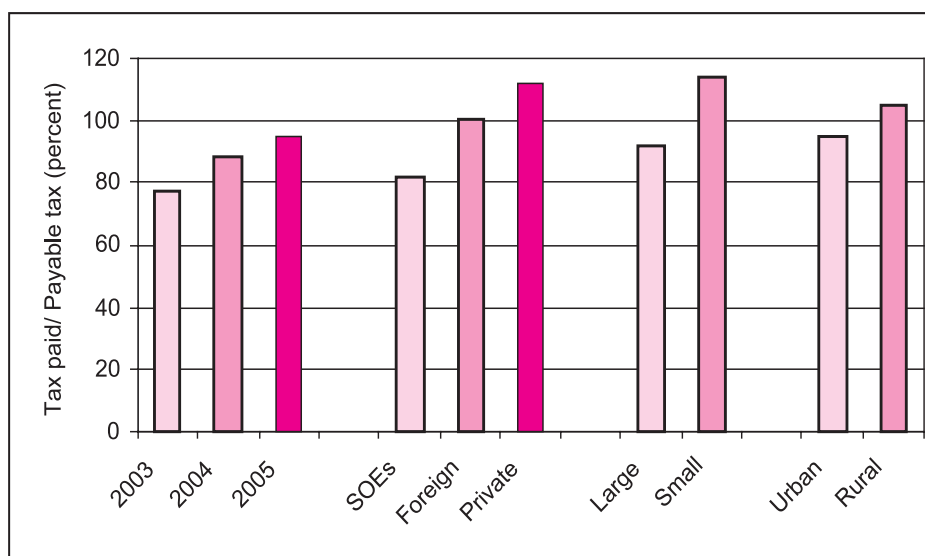
Individual records from enterprise surveys allow comparing actual tax payments to the hypothetical benchmark. The latter can be computed as 28 percent of the declared pre-tax profits. The comparison shows that actual tax

payments have moved closer to the benchmark over time, which is reassuring (Figure 5.3). But they also suggest that the gap with the benchmark is wider in the case of SOEs, large firms and enterprises located in urban areas. Whether this pattern is due to deliberate incentives, to weak tax administration or to evasion is unclear. But whatever the reasons, imposing a higher (actual) tax burden on small firms, private businesses or enterprises located in rural areas does not seem to be in the best interest of Vietnam.

However, there are other, more indirect ways in which taxation can become a burden on enterprises. The actual cost of complying with taxes, in terms of hours of skilled personnel devoted to filling forms and negotiating with tax officials, has been a hotly debated topic in Vietnam in recent years (Box 5.1).

The burden from corruption is also difficult to assess, but not less real. A diagnostic study prepared in 2005 by the Central Committee for Internal Affairs of the Party identified tax administration as one of the government agencies most vulnerable to corruption. This

Figure 5.3: The Tax Burden on Enterprises



Source: Based on data from the GSO enterprise survey. Figures are for 2005 unless otherwise indicated.

Box 5.1: How Costly Is It to Comply with Tax Regulations?

Assessments of the cost of complying with taxes can be sensitive to the methodology used. Three recent attempts to measure such cost in Vietnam have yielded substantially different results.

Investment Climate Assessment (ICA). Conducted by the World Bank in 2005, it surveyed a representative sample of firms in manufacturing across 25 provinces in Vietnam. The focus of the survey was not to estimate the tax burden, but rather to assess the broader investment climate. However, one of the questions referred to the time spent dealing with tax inspections, including the preparation of relevant documentation. According to the results, firms were subject to an average of 2.5 inspections per year, lasting 9.5 hours on average. From these figures, it could be inferred that firms need to spend about 24 hours of work to comply with taxes. But tax inspections, no matter how burdensome, are only part of the overall compliance cost. Therefore, the ICA produces an under-estimate of tax compliance costs.

Doing Business. Also conducted by the World Bank, this is an attempt to quantify various dimensions of the overall business environment across countries. One of those dimensions refers to the costs of complying with taxes. In this respect, the Doing Business methodology relies on expert assessments for a hypothetical enterprise with 60 employees and a turnover equivalent to 0.7 million dollars per year (in Vietnam's case). In all the assessments conducted from 2005 to 2007, the time needed for this enterprise to be current in its obligations was 1,055 hours per year. This estimate refers to CIT, VAT, PIT and labor taxes. It includes the time to prepare tax returns and to keep books. However, the latter may be incurred anyway, regardless of tax payments. Also, few enterprises pay PIT in Vietnam, and the estimate assumes that electronic filing is not used. Therefore, the Doing Business methodology over-estimates compliance costs.

Central Institute for Economic Management (CIEM). This government-led evaluation was conducted in 2007 using a "standard cost model" developed by the Dutch government. The model relies on 360 interviews with small and medium enterprises. In the case of Vietnam, the average time to comply with taxes was estimated at 1,959 hours. Most of this cost (1,733 hours) was associated with VAT, which respondents seem to consider particularly annoying. However, this evaluation mixes the one-time cost of obtaining a taxpayer number with the recurrent cost of paying taxes. Also, the methodology makes it difficult to distinguish between activities which are part of doing business, activities specifically related to the payment of taxes, and more subjective "annoyance costs". A closer analysis shows that the estimate for the time spent on inspections is four times higher than in the ICA. The cost of dealing with most taxes is twice as high as in the Doing Business report, and the cost of dealing with VAT about 30 times higher. Therefore, the CIEM study is likely to have vastly over-estimated tax compliance costs.

In order to avoid similar discrepancies in the future, a consistent methodology to monitor tax compliance cost and service delivery should be developed. Such methodology should be anchored on representative samples and well-tested questionnaires. Estimates should be produced on a regular basis, focusing on the costs (time and money) faced by different groups of taxpayers. Similar surveys of tax officers would allow for a more complete picture. Key metrics should include not only the cost of complying with taxes, but also indicators related to the efficiency of administration, the integrity of its officials and the satisfaction of taxpayers.

conclusion was corroborated by an investment climate survey conducted among a representative sample of firms in 25 provinces, also in 2005. Corruption was facilitated by the business processes of the tax administration agency at the time, which involved inspections by tax agents to each individual taxpayer firm. Those inspections were prone to negotiation on the profits to be declared. The investment

climate survey suggests that the size of the bribes was not particularly large, but the practice was prevalent

Taxing property

A potentially more effective way to redistribute income across households while avoiding distorting incentives is to tax property, and

especially valuable land. In Vietnam all land formally belongs to the state but land-use right certificates (LUCs) can be transferred, rented, donated or used as collateral or as capital. As stipulated in the Land Law of 2003, local governments are in charge of approving and supervising land use. They can also apply taxes and fees on land, and retain the revenue (Table 5.2). The most common taxes apply to the value of agricultural land, urban land or

housing, to land rent and to the transfer of LUCs. In addition, there are registration fees and cadastral fees.

Across many countries, taxes on land and property are a reliable source of revenue for local governments, financing local expenses on key public services such as infrastructure, education and health care. This is also the case in East Asia. For instance, land tax represents

Table 5.2: Revenue Assignment by Level of Government

	Central Budget	Local Budget
Non-shared sources of revenue	<ol style="list-style-type: none"> 1. Export/Import duty 2. Value added tax on imported goods 3. Excise tax on imported goods 4. CIT 5. Tax and other revenue from crude oil 6. Proceeds collected from government lending and capital contributions 7. Non-refundable aid from central government 8. Fees and charges 9. Unused revenue of previous fiscal years 10. Others 	<ol style="list-style-type: none"> 1. Housing and land tax 2. Natural resources tax (except that on crude oil) 3. Licenses 4. Land transfer tax 5. Agricultural land use tax 6. Land-use fees 7. Rental of land 8. Proceeds from sale and lease of state-owned houses and buildings 9. Registration fees 10. Proceeds from lottery 11. Proceeds collected from government lending and capital contributions 12. Grants for local government 13. Fees and charges 14. Proceeds from utilization of public land 15. Proceeds mobilized from business and individuals in accordance with regulations 16. Unused revenue of previous fiscal years 17. Supplement from central budget 18. Contributions from local people for construction of infrastructure in accordance with regulations 19. Voluntary contributions
Shared sources of revenue	<ol style="list-style-type: none"> 1. Value added tax 2. CIT (except that of nationwide business activity) 3. Tax on high income earners 4. Profit remittance tax 5. Excise tax on domestic goods and services 6. Petroleum fees 	

Source: MOF. CIT from nationwide business activities, in which profits can not be assigned to a single province such as a post and telecommunication, electricity generation and distribution enterprises are assigned exclusively to the central budget.

a quarter of local revenue in Japan. Even among developing countries in the region, 13 percent of the revenue of local governments is accounted for by land and building tax in Indonesia, and by real property tax in the Philippines.

Property tax has several appealing features. It can be strongly progressive, as land and housing are among the most valuable assets a household can have. In Vietnam, fortunes have been made at extraordinary speed thanks to capital gains on property. Such gains are difficult to tax through PIT. At the same time, it is straightforward to exempt small plots of agricultural land from taxation, so as to avoid penalizing poor farmers. One legitimate concern refers to households with limited income who happen to live on plots which appreciated considerably, simply because of urban development. Paying tax on land could be beyond their financial capacity and force them to sell their property, thus destabilizing their livelihoods. However, this concern can be addressed by delaying the payment of the tax (plus interest) until the property is transferred, through sale or inheritance.

Property tax also allows recovering infrastructure development costs, at least partially. The market value of land is very closely related to the density of the area and the quality of the surrounding infrastructure. Every time a road is built, those living nearby make a capital gain, some times substantial. But if the road is financed out of general tax revenue, they do not revert much of that gain to society. Property tax helps recovering part of the capital gain for government, under the form of a stream of revenue computed on the new (higher) value of the land. From this perspective, it contributes not only to fairness but also to the development of local infrastructure, one of the main priorities of Vietnam at this stage of development.

Perhaps one of the biggest advantages of property tax is that it does not distort incentives as much as other taxes do. In a developing country, taxing wage earnings is

an encouragement to informality. Taxing capital returns, if pushed too far, can be detrimental to competitiveness. Both workers and employers can move elsewhere to avoid paying taxes. But land cannot be moved. Admittedly, property tax creates competition among localities, encouraging households and enterprises to settle in places where infrastructure and amenities are good while property taxes are not too high. But given the enormous agglomeration effects taking place in the process of development, some places are simply unique. There are not two Hanoi, or two HCMC. At most, there is a case to tax land more heavily than the buildings on it, so as to avoid discouraging residential and commercial investment.

The main problem with property tax is that it requires good registration systems and reliable pricing mechanisms. Good registration systems avoid ambiguities on ownership and physical delimitation. Reliable pricing mechanisms help set tax payments at a level that is commensurate with the situation of the real estate market. To improve registration, it is necessary to complete the issuance of LUCs on urban property, to update cadastral maps and to modernize the information systems of land administration offices. Setting up reliable mechanisms for pricing is more complex. Administrative procedures may prove insufficient given the vast number of plots to oversee. As in other aspects of tax administration reform, self-declaration may be a better alternative. There is obviously a risk that unrealistically low prices could be reported, to avoid paying high taxes. However this risk can be addressed by establishing a link with rights for compensation in the event of land reclamation. If the government can set land compensation at the reported price, the owner faces an incentive to align such price to actual market conditions.

Tax administration

A comprehensive tax administration reform program was adopted by the Politburo in 2004. Its objectives are to develop a modern, fair and

transparent tax system, promoting voluntary compliance, improving taxpayer service and enforcement, and enhancing revenue collection. These objectives seem largely in line with the values and expectations of the Vietnamese population (Box 5.2). Implementing such ambitious reform program will be challenging, however.

Revamping business processes so as to change the relationship between tax agents and taxpayers will be critical to the success of the reform. A pilot project for self-assessment of VAT in selected localities is now being rolled out at the national level. It leads to the gradual replacement of tax inspections by the declaration of tax liabilities by taxpayers themselves. Tax filings are then subject to analysis, with inspections taking place only when objective indicators suggest an improper assessment or an intention to fraud. This change in business processes should make it possible for the tax administration agency to

increase substantially the number of taxpayers it can handle. It should also reduce the scope for negotiation between enterprises and tax agents, hence for corruption.

There are some indications that this approach is paying off already. For several years, a mail-in survey of enterprises has been conducted to compare the quality of governance at local levels, under the form of a so-called Provincial Competitiveness Index (PCI). The survey contains the following statement: "Negotiations with tax authorities are an essential part of doing business" and asks respondents whether they agree. The fraction that agrees declined from 75.2 percent in 2005 to 61.1 percent in 2006 to 44.7 percent in 2007. The last two surveys included all provinces in Vietnam. Their comparison is telling about the progress made through the introduction of self-assessment (Figure 5.4). But it also suggests that more progress can be made.

Box 5.2: Attitudes towards Tax Evasion

Opinion surveys can be used to gauge attitudes towards taxation and to compare them across countries. The Human Beliefs and Values Survey is a potentially valuable tool in this respect, as it covers 200 thousand respondents in 81 countries accounting for 85 percent of the world's population. Of those respondents, 989 are from Vietnam.

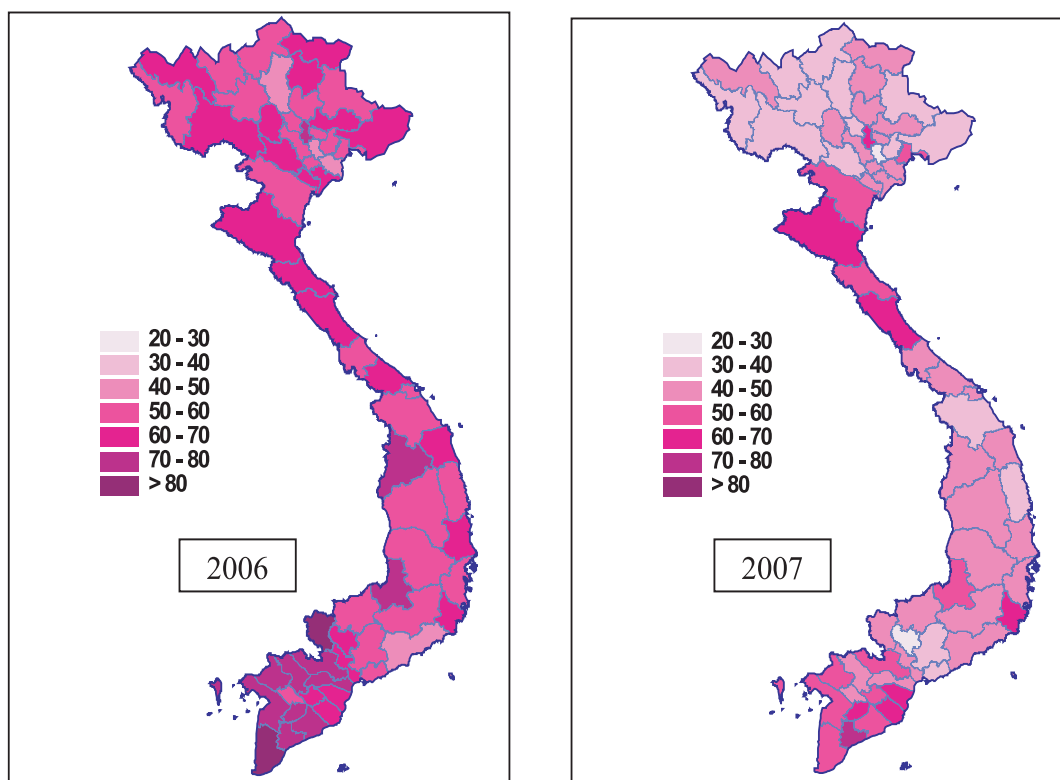
The survey questionnaire includes a range of statements and asks the respondents to comment whether they agree with them. One of such statements refers to "cheating on taxes if you have a chance". Answers can be in a scale of one to ten, where one means that it is "never justifiable" and ten "always justifiable."

A vast majority of Vietnamese participants declared that tax evasion was unethical, with 87.8 percent considering that it was never justifiable. The mean score was 1.32. Admittedly, self-reporting high ethical standards is not surprising and may not be particularly informative. But it is interesting to note that the share considering evasion to be never justifiable was substantially higher in Vietnam than in other countries and territories in the region, including China, Hong Kong (China) and Thailand.

Variation across population groups in Vietnam is interesting as well. The belief that tax evasion is never justifiable appears to be slightly stronger among young adults and the elderly, whereas there is more willingness to compromise among respondents aged between 30 and 49 years. Also, the category most receptive to tax evasion is the most highly educated group.

Another suggestive breakdown is by religion. Ancestral worshippers are most likely to believe that tax evasion is never justifiable. Buddhists are somewhat more flexible on the ethics of tax evasion, whereas Christians are the most accommodating.

Source: Robert McGee (2006).

Figure 5.4: Negotiating with Tax Officials

Source: VNCI and VCCI (2007). Figures indicate the percent of survey respondents who agree with the statement: "Negotiations with tax officials are an essential part of doing business".

6. BUDGET ALLOCATIONS

Opportunities for people to make a living, to have access to social services and to get support in the event of bad shocks are better where there is an effective government. It takes more than just budget resources to deliver on infrastructure, health care or targeted programs. But the availability of such resources can make a difference, especially in areas which are too poor to raise them on their own. Public expenditures in Vietnam are not particularly large in relation to GDP, but they have been on a slightly upward trend, with spending increasing on investment and education, and to a lesser extent on health. The level of public expenditures also appears to be sustainable over time, as the ratio of public debt to GDP is expected to peak barely above 51 percent around 2016 and to start declining afterwards. While neither the functional composition nor the relative level of public expenditures are changing dramatically in Vietnam, the mechanisms used to allocate budget resources to lower levels of government went through a profound transformation since 2004, as part of a move towards increased decentralization. By now, almost half of public expenditures are decided at provincial levels and below. Importantly, transparent formulas have been introduced to allocate budget resources to the provinces. Initially they covered recurrent expenditures, but they were recently extended to capital expenditures as well. These formulas rely on indicators such as provincial population and the level of development; they also take into account geographic conditions and the organization of government administration. In practice, budget allocation norms result in a massive transfer of resources from richer to poorer provinces, some of which may receive

the equivalent of 50 percent or more of their GDP in equalization grants. Such availability of resources bears the potential to make a difference, helping to lift people out of poverty and to reduce their vulnerability. The main challenge is to use them effectively. The small size of the typical Vietnamese province raises important coordination problems in relation to public investments. And the pro-poor nature of budget allocations from the center to the provinces is only now starting to be replicated for transfers from provinces to districts and below. At the commune level, progress is still needed to improve grassroots participation in the budget process.

Overall spending

Total government expenditures are not particularly large in Vietnam. By international standards, where they accounted for 29.8 percent of GDP in 2006. This fraction had been gradually increasing since 1990, but has remained relatively stable in the last four years. The government's declared intention is to have expenditures grow annually by 2 to 3 percent less than GDP. However, it is unclear that this will happen in practice, given the willingness to upgrade the skills base of the country, the escalating costs of health care and the pressing needs in terms of infrastructure development.

Some of these upwards trends have already been clear for quite some time in the budget of the central government (Figure 6.1). Between 2000 and 2007, spending on infrastructure by the central government has increased by about 2 percentage points of GDP, spending on education by about 1 percent, and spending on

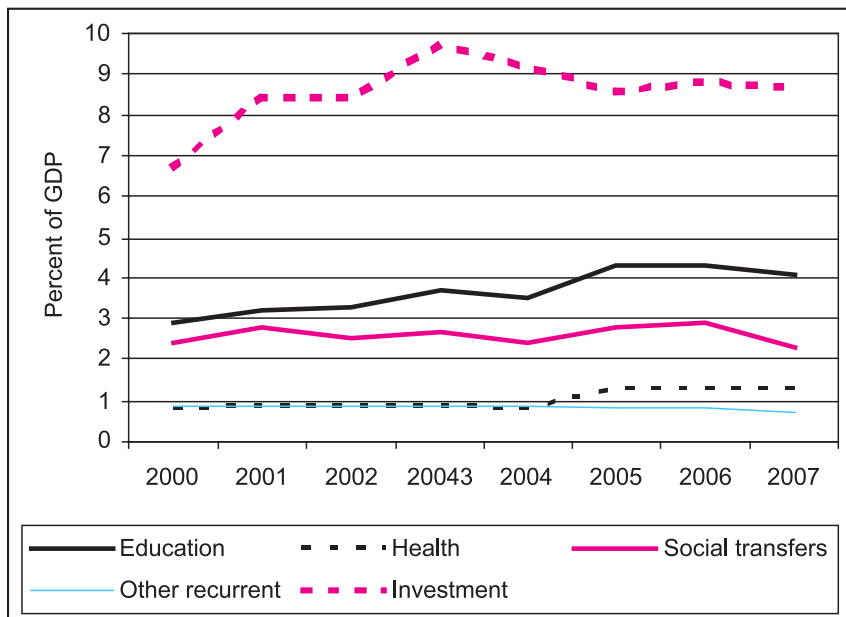
health by half a percentage point. If spending on pensions and social transfers appears to be stable, or even declining, it is mainly because the social insurance agency takes care of a portion of it, with the funding coming from social security contributions and insurance premiums. Only targeted programs and the pension entitlements accumulated by civil servants before 1995 are paid for by the budget. Moreover, pensions were not readjusted in 2007, a year of rapid growth and accelerating inflation.

While government expenditures are not particularly large, there have been concerns about their implications for the sustainability of public debt, especially in light of Vietnam's ambitious growth and investment targets. Massive infrastructure development, larger spending in the social sectors, and possible support to large economic groups, could result in faster economic growth in the medium term, but at the expense of larger government liabilities in the longer term. While this risk cannot be ruled out, and public debt is bound to

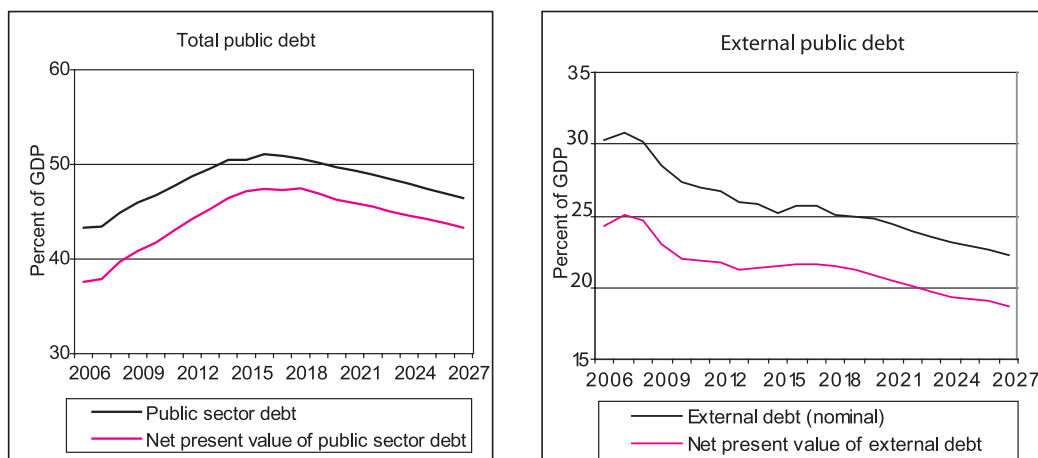
increase in the coming years, prudent macroeconomic policies would ensure that it remains manageable.

Under plausible assumptions, Vietnam should remain at low risk of debt distress. The rate of total public debt to GDP is projected to reach a maximum of about 51 percent in 2016, but should decline subsequently provided that borrowing continues to be cautious and contingent liabilities are kept under control (Figure 6.2). Success crucially depends on completing the reform of the state sector. External debt is projected to decline from an already manageable 31 percent of GDP in 2007 to about 27 percent in 2012. These figures refer to the nominal value of public debt, but most of Vietnam's borrowing is in concessional terms. If net present values are considered, instead of nominal values, total public debt could peak at 47.4 percent of GDP in 2016 and external debt at 25 percent in 2007. Given the openness of the Vietnamese economy, the service of external debt may not exceed 4 percent of exports at any point in the coming years. On

Figure 6.1: A Breakdown of Budget Expenditures



Source: Based on MOF data. Figures for 2007 are forecasts.

Figure 6.2: Not Overburdening Future Generations

Source: Debt sustainability assessment by IMF and the World Bank.

the other hand, the fraction of government revenue needed to service public debt could increase from 10 percent at present to 15 percent by 2017, to start gradually declining afterwards.

Spatial allocation

The allocation of public expenditures across levels of government changed dramatically with the Budget Law of 2002, which came into effect in 2004. Vietnam became a much more decentralized economy as a result. By now, 45 percent of public spending decisions are made at the provincial level and below. The National Assembly and People's Councils are in charge of budget appropriations. This has also entailed an important transformation in the role of line ministries, from doing to steering. For instance, provincial governments now decide on their investment plans using their available budgetary resources, instead of submitting "wish lists" of projects to MPI for screening and approval.

The move towards decentralization has been accompanied by the implementation of an equalization mechanism, aimed at transferring budgetary resources to provinces so as to meet the government's development objectives. This mechanism also seeks to achieve greater

coherence between capital and recurrent expenditures. To foster transparency, transfers are based on numerical formulas, involving a series of measurable indicators at the province level. Initially, allocation norms were applied to recurrent expenditures only, based on 11 formulas by policy area. Since 2007 the same principle has been adopted for capital expenditures.

The formulas use provincial population as one of the main determinants of budget allocations, but they modulate them based on the level of development of the province, the difficulty of its terrain, its administrative organization or the presence of a regional development pole, among other criteria (Table 6.1).

Other redistribution mechanisms for government expenditures are also at play, in addition to these formulas. Among them are a series of targeted programs such as the exemption of education fees for poor households, the distribution of health insurance cards for disadvantage people or the support to communes facing extreme difficulties. Each of these programs has its own formula mapping resources to locations. In most cases there is a noticeable trend towards greater simplicity and transparency. For instance, in the case of health insurance cards (under Program 139), provinces receive

Table 6.1: Budget Allocation Norms for Provinces

Category	Criterion	Recurrent expenditures	Capital expenditures	
			Equalization transfers	Targeted transfers
Population	1) Total	+	+	+
	2) School-age children	+		
	3) Ethnic minorities		+	+
	4) School-age children in P135 communes	+		
Development	5) Poverty rate	+	+	+
	6) Local revenue		+	
	7) Revenue transferred to state budget	+	+	
	8) Industrial output	+	+	
Geography	9) Total surface		+	+
	10) Disadvantaged location	+	+	+
	11) Growth pole	+	+	
Administration	12) Administrative units at district level		+	+
	13) Districts in disadvantaged locations		+	
	14) Civil servants	+		

Source: Based on Decision 151/2006/QĐ-TTg for the allocation of recurrent expenditures in 2007 and Decision 210/2006/QĐ-TTg for the allocation of capital expenditures in 2007-2010. The former does not include NTPs, Health Care Funds for the Poor (HCFPs), and Program 135.

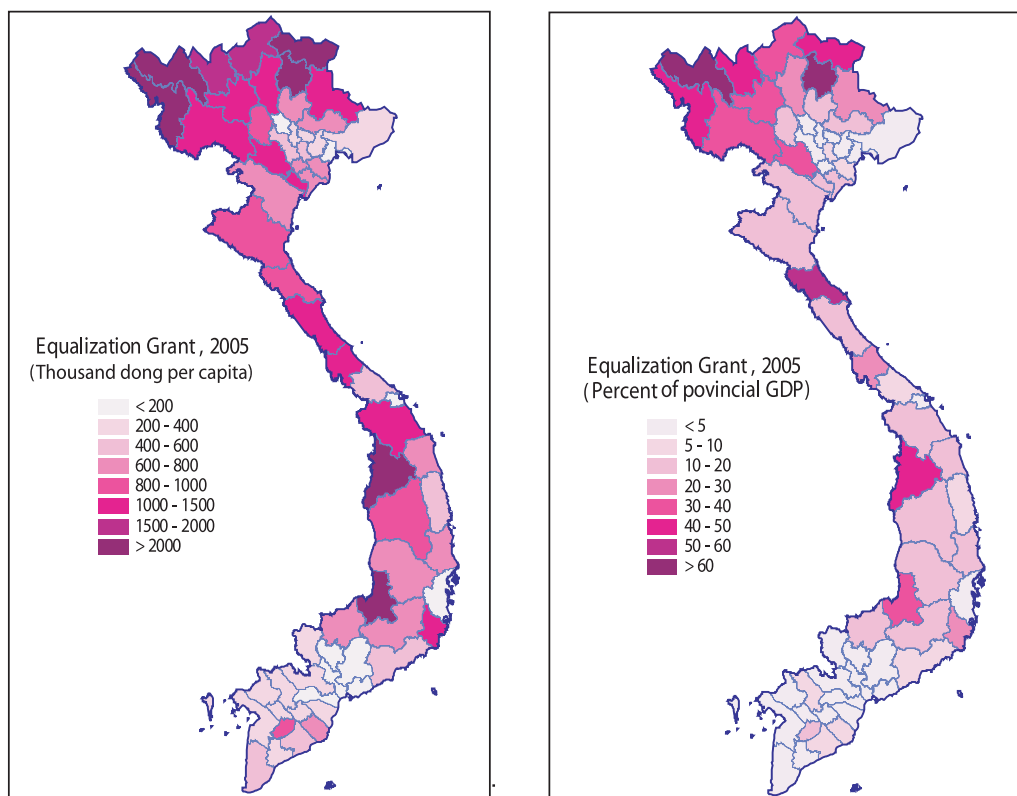
70 thousand dong per beneficiary per year. And in the case of support to disadvantaged localities (under Program 135) each targeted commune receives 800 million dong for infrastructure and 200 million for production development.

Support to communes affected by natural disasters has a design more akin to insurance. All communes located in areas considered prone to typhoons, floods and other calamities have to set aside either 3 or 4 percent of their budget as a solidarity contribution. The applicable percentage is set based on weather statistics from the period 2001-2005. The central budget, in turn, includes a relief fund for natural disasters whose size is roughly

similar to the sum of resources set aside by all the communes in potentially affected areas. In the event of a natural disaster, affected communes can tap on that common fund.

Pro-poor transfers

Budget allocation norms, combined with the authority for People's Councils to decide how to appropriate the resources allocated to them, could be a powerful tool for social inclusion. Unlike targeted programs, these norms transfer to local levels of government not only the funding but also the responsibility for its use. Provided, this is, that the norms actually redistribute resources from richer to poorer provinces.

Figure 6.3: How Large are Equalization Grants?

Source: Based on data from MOF and GSO.

By referring to the provincial poverty rate, or to the number of districts in disadvantaged locations, the formulas underlying these norms ought to do so. For instance, transfers for investment purposes increase by 50 thousand dong per year for each ethnic minority person living in the province. Similarly, the allocation of recurrent health expenditures per capita is 72 percent higher in the uplands and in low areas populated by ethnic minorities than in urban areas. But not all the criteria considered in budget allocation formulas are progressive. For example, more resources are transferred to provinces which have greater capacity for revenue collection or harbor regional development poles.

In the end, whether the mechanism set up by the government of Vietnam actually transfer resources from richer to poorer provinces is an

empirical question. But once the numbers have been worked out, the answer is clearly affirmative (Figure 6.3).

The size of the transfer is actually remarkable, both in absolute and in relative terms. The poorest provinces in the Northwest or in the Central Highlands receive equalization grants in excess of 2 million dong per person per year. Everything else being equal this amounts to 25 to 30 billion dong more per year than for a rich province in the deltas.

While figures on sub-national accounts are not totally reliable in Vietnam, equalization grants could exceed 50 percent of provincial GDP in some cases. Beyond those extreme cases, it is clear that poorer provinces in the Northern Mountains, the Central Highlands and the Central Coast receive much larger equalization

grants than provinces in the richer Red River Delta, Southeast and Mekong Delta.

Not only do budget allocation norms favor poorer provinces: they have also made the allocation of government expenditures more progressive over time. This is reflected in the correlation between net transfers and poverty rates by province. Provincial poverty rates can be measured using the household expenditure surveys produced by GSO. Net transfers are defined as the difference between the resources channeled by the central government to the provinces and the tax revenue channeled by provinces to the central government. Net transfers are highest for the poorest provinces, including Lai Chau, Bac Kan and Ha Giang. Richer provinces like Binh Duong and Dong Nai, on the other hand, are net contributors to the central budget.

The correlation between net transfers and poverty rates has become both stronger and steeper over time. A comparison between 2002 and 2006 is telling in this respect (Figure 6.4). In 2002, resources were channeled to the provinces on the basis of allocations by line ministries, investment projects approved by MPI and targeted programs. In 2006 they still relied on targeted programs, but were mainly based on quantitative formulas for recurrent and capital expenditures. The correlation has become stronger in the sense that it explains a larger share of the variation in net transfers. It has become steeper in that an increase in the poverty rate is associated with a larger net transfer. In 2002, one extra point of the poverty rate was associated with an additional transfer of roughly 20 thousand dong per person per year. By 2006, the corresponding net transfer had almost doubled. Even when inflation is taken into account, this almost doubling reflects a very substantial increase in the real amount of resources transferred. However, this increase may not be sustainable and should rather be seen as a one-off change. The formulas for the allocation of budget resources are such that provinces with a stronger capacity to raise revenue will be favored, whereas poorer provinces will experience a slower growth in

their transfers. According to the new investment plan of the Government, in 2008 the net transfer to the Northern Mountains could increase by only 0.8 percent, compared to 6.4 percent for the Central Coast, 11.1 percent for South East, 11.0 percent for the Central Highlands and 17.2 percent for the Red River Delta.

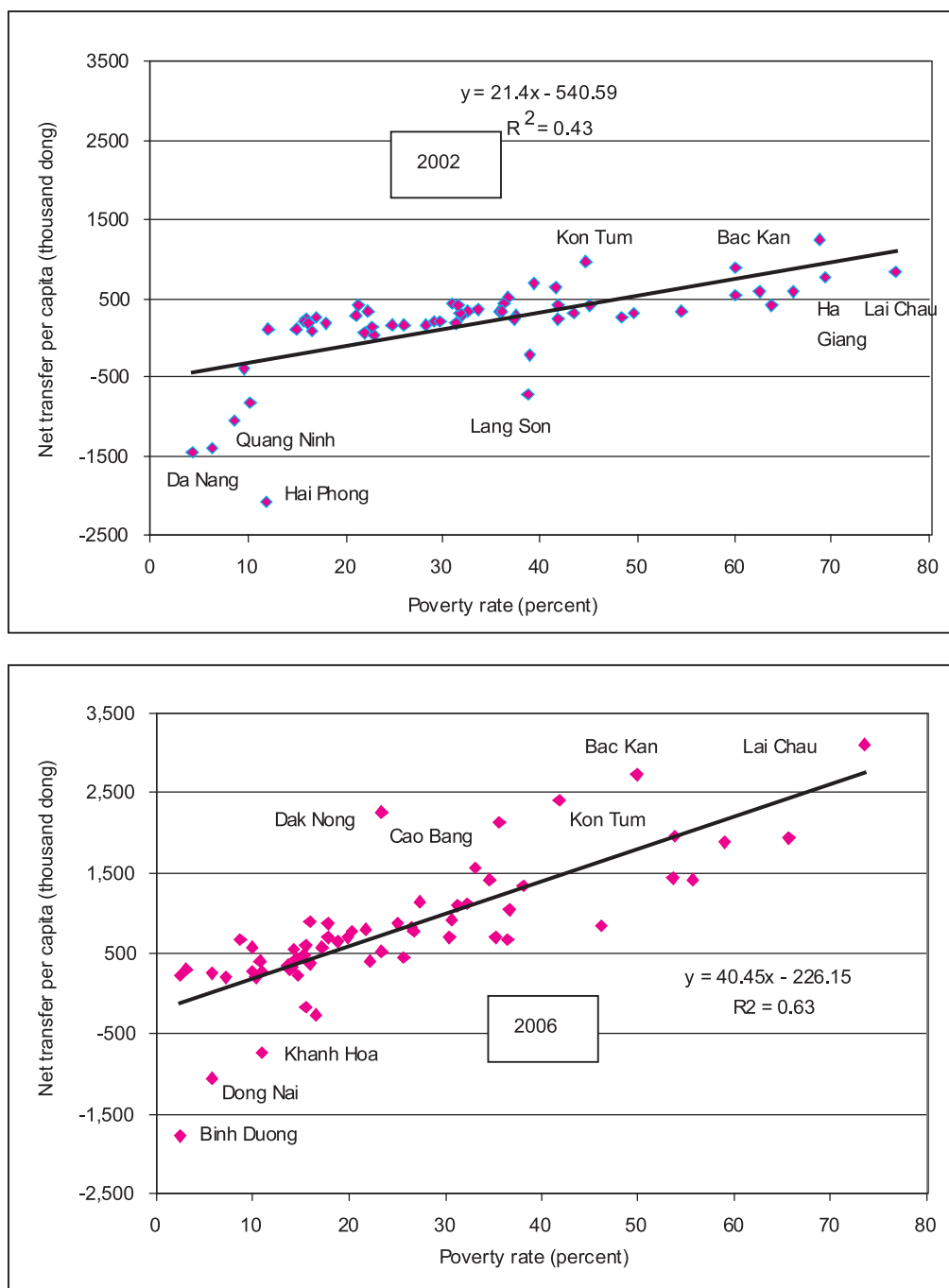
Local decisions

The decentralization of authority on budget appropriations to provincial governments provides an opportunity to better serve local populations. But it also raises new challenges. One of them is the possible lack of coordination between provincial decisions.

The median population of a Vietnamese province is less than one million people. This may result in over-investment in some cases and under-investment in others. The willingness of most coastal provinces to have their own deep-sea port, or their own university, could undermine the necessary economies of scale. In other cases, none of the individual provinces may be large enough or rich enough to undertake critical projects, such as an international airport. Wasting resources through duplication, or failing to undertake critical investments, could be detrimental to economic growth and job creation, thus making local populations more vulnerable. Regional planning, bringing coherence to the investment decisions of groups of related provinces, is one way to address this coordination failure (Box 6.1).

Insufficient budgetary resources push many poor localities to rely on local fees, charges or even voluntary contributions to raise revenues. According to a recent study, the majority of communes receive transfers accounting for 50 to 70 percent of their budget needs. This study listed about 28 different types of fees and contributions the farmers have to pay to local government and cooperatives to make up for the shortfall. On average, these fees and contributions would cost a poor household nearly 10 percent of its total expenditure. In some extreme cases, they represent 18 percent

Figure 6.4: Net Transfers and Poverty Rates



Source: Based on data from MOF, MPI and GSO. Hanoi, HCMC and Vung Tau are excluded from the figures although not from the correlation analysis.

Box 6.1: Regional Plans, Infrastructure Master Plans and Public Projects

With much greater emphasis being placed on sustainability, regional development planning has also received increased attention in the last few years. The Socio-Economic Development Plan (SEDP) 2006-2010 explicitly sets out the requirements for the reform of regional planning, by instructing government to "pay attention to spatial planning, technical infrastructure... to prevent overlapping efforts and conflicts between sectors and territories". Shortly after the approval of the SEDP, the government has promulgated Decrees 92, 99 and 140. These documents for the first time lay out the regulatory framework for regional planning.

According to Decree 92, master plans should have their targets built around three pillars: economic, social and environmental. The decree also requires the evaluation of the strategic environmental impacts of master plans, although it provides no guidance as to how this should be done. Decree 99 specifies the process and the responsibility of relevant authorities in the implementation and monitoring of development plans and master plans. Decree 140 lists out the requirements of environmental protection in the formulation, appraisal and implementation of development strategies, master plans, socio-economic development plans, development programs and projects.

The importance attached to improving master plans was highlighted again in the report of the Prime Minister before the National Assembly, in October 2007. Improving the quality of the development of strategies and master plans was included as one of the main tasks for 2008.

Through Official Letter 950, issued in July 2007, the Prime Minister instructed MPI to take the lead in the formulation of the Socio-Economic Development Strategy to 2020 and the regional master plans for the period 2010-2020. Decree 92 is now being revised to increase transparency, to remove duplications and to increase consultation along the way.

of the income of the "average" household in the commune.

Other problems arise at lower levels of government. Much progress has been made in adopting predictable and transparent formulas to allocate resources from central to provincial governments. But until recently allocations from the province level down remain dominated by the old budget mechanisms.

Only gradually are provincial governments starting to emulate the national formulas for their budget transfers to districts and communes. As of August 2007, 21 one of them (including Hanoi) had approved budget allocation norms like those used by the central government. Encouragingly, more than 30 others have submitted proposals in this direction to their respective People's Councils.

The budget allocation norms being developed by the provinces are somewhat simpler. Investment expenditures tend to be set as a lump

sum by district. But some more refined schemes are emerging as well. Son La, for instance, foresees the share of investment resources allocated by districts growing from 15 percent in 2007 to 30 percent in 2010, with the share allocated by the provincial government declining accordingly. Guiding principles such as transparency, equity and compliance with master plans are common. Priority is given to the repayment of debt over the approval of new projects. When district-level indicators are used to determine the amount of resources to be transferred, the criteria are very similar to those chosen by the central government. They involve the population of the district (including ethnic minorities), its development level, its geography and the size of its civil service. Economic zones, industrial zones and world heritage areas also get special treatment.

Further down, the decree on the exercise of democracy in communes, issued in 2003, enshrined the right of citizens to supervise and to be informed about "the annual estimates and

settlements of the commune budget". The decree also recognized the right to be informed about "the estimates and settlement of revenues and expenditures of funds, programs, projects and contributions mobilized from the people for the construction of infrastructure and public welfare projects of communes, villages and hamlets, as well as their implementation results" and to supervise "the collection and spending of various funds and fees according to the State regulations as well as various contributions of the people".

Progress in the implementation of these provisions has been limited, however. A study based on surveys and focus group discussions in 320 villages across four provinces in Vietnam found that two thirds of participants either disagreed or strongly disagreed with the statement that "there is plenty of timely information on the commune budget". Another study found that 40 percent of the interviewees

had heard about the commune budget but, disturbingly, all of them reported that they did not understand it. Bearing in mind the complexity of budget issues, the findings indicate that there is still a long way to go in implementing grassroots democracy.

In April 2007 an ordinance was issued replacing the decree on the exercise of grassroots democracy. The Ordinance provides citizens with the same rights as the Decree with regard to the transparency and supervision of local budgets, but it contains new elements that could increase transparency and improve implementation. Unlike the decree, the ordinance indicates when the information must be posted and the duration of the posting, it rationalizes the means through which information must be disseminated, and introduces the right to submit complaints and denunciations in relation to the supervised activities.

7. TARGETED PROGRAMS

Vietnam has a range of targeted programs whose goal, directly or indirectly, is to alleviate poverty. Some of them provide cash transfers to vulnerable groups such as orphans, the very elderly or war invalids. Others support poor households through access to credit or through subsidies to participate in mainstream social programs. Yet others focus on disadvantaged communes, financing local infrastructure development and initiatives to improve livelihoods. And there are also programs focused on improving access to services and boosting the assets of ethnic minorities. These programs differ in several important ways. There is a wide variation in the resources available, both across programs and for the same program across provinces, depending on the local funding they can mobilize. The result is a considerable dispersion in the support received by various beneficiaries, from modest in the case of cash transfers to sizeable in the case of local infrastructure development. There is also considerable diversity in targeting methods. In some cases, beneficiaries are a small fraction of the population at large, and presumably of the intended target group as well. In others, the coverage of the target group is quite substantial, and the extent of leakage to other groups is not excessively large. Assessing the impact of all these programs on household living standards is not an easy task from a methodological perspective. A rigorous evaluation is available in the case of local infrastructure development. The results suggest that this intervention has a sizeable impact on local access to markets, household expenditures and even social indicators such as children's

schooling. The impact is larger in poorer communes and in those located in more difficult or remote areas. It is smaller in communes where ethnic minorities represent a larger share of the population. There are good reasons to believe that the subsidization of participating in mainstream programs by poor households is having a positive impact as well. But there is less clarity in relation to the subsidization of micro-credit. In some cases, it is simply too early to tell. The targeted program for rural sanitation and the initiatives to increase the landholdings of ethnic minorities fall in this category. However, there are signs suggesting that their implementation will be challenging.

A range of programs

A number of social assistance and anti-poverty initiatives exist in Vietnam. Some of them provide cash support to vulnerable groups, others deliver assistance on a targeted basis to disadvantaged groups or regions. The pricing of utilities such as water can also be based on the ability to pay of different population groups.

Cash transfers are mainly handed over by Social Guarantee Funds, which provide regular relief to defined vulnerable groups and to war veterans and invalids. Subsidies are provided through the National Target Program for Poverty Reduction (NTPPR), formerly the Hunger Eradication and Poverty Reduction program (HEPR). Development assistance to poor communes is managed through Program 135, whereas Program 132 and Program 134 seek to support ethnic minorities with agricultural and residential

Box 7.1: A Variety of Targeting Approaches

The NTPPR 2006-2010, much the same as its predecessor the HEPR 2001-2005, targets households who have been listed as poor using procedures set out by MOLISA. Poor households are formally identified on the basis of an official poverty line, defined as a certain level of income per person per month. In practice, whether household income is above or below such threshold is decided through a combination of surveys and community discussions. This procedure is currently under revision, based on the results of comprehensive field work conducted in 2005. The new approach first identifies those households who are "certainly poor" and "certainly non-poor" and applies tests to the remaining households to establish whether or not they are likely to be poor. MOLISA is currently testing the results of these exercises against household expenditure data from the VHLSS. At aggregate levels, the new approach yields poverty rates which are similar to those produced by the GSO using data from the VHLSS.

Program 135, which provides support to communes facing hardship in ethnic minority and mountainous areas, adopts a geographic approach to targeting. The first phase of the program allocated 700 million VND per year to selected communes. In general these allocations were made in a pro-poor manner. Poverty maps constructed using small area estimation techniques show that the communes targeted by Program 135 were generally those with the higher poverty rates. Targeting issues arise at lower levels, as resource allocation may favor wealthier villages within a commune and not everyone in those villages is poor anyway. The second phase of program 135 is tackling these issues by requiring the inclusion of both poorer villages within the poorest "zone III" communes and the poorest villages in the less poor "zone II" communes. The new guidelines governing resource allocation specify the need to develop clear, transparent criteria for channeling resources to the poorest villages and communes and allow flexibility in allocating more funds to poorer places.

Programs 132 and 134 have targeted vulnerable ethnic minorities using different criteria. Program 132 aims at distributing agricultural and residential land to ethnic minority households in the Central Highlands, so as to bring landholdings up to a specified minimum. IPSARD is currently assessing the impact of this program in two provinces. Program 134 operates on the same logic, but it targets all ethnic minorities (not just those in the Central Highlands) and its specified minimum for landholdings is lower. In addition to providing land, this program also identifies ethnic minorities living in temporary housing as eligible to receive 5 million dong for housing construction. Ethnic minority households living in high mountains or in areas lacking clean water are also eligible for support to improve their water sources. Villages without clean water supply get a varying level of assistance depending on the proportion of ethnic minorities in the village population.

land, housing and water supply. All these initiatives differ not only in the nature of the benefits they provide, but also in the targeting techniques they use to identify their beneficiaries (Box 7.1).

The overall number of beneficiaries from targeted programs is not easy to estimate. In the case of the Social Guarantee Fund, it has increased more than three-fold over the first part of the decade (Table 7.1). The number of beneficiaries has risen in all categories.

Yet, regular relief in the form of monthly cash transfers to vulnerable groups still covers only a small fraction (about 0.5 percent) of the Vietnamese population.

Although funding has increased, reaching 750 billion dong in 2007, it remains an important constraint. The resources supporting these cash transfers come from a combination of national and local sources, with their amount varying widely across the country. As a result, some in the target groups cannot be covered and, when covered, allowances tend to be small on average and to differ considerably across recipients.

A recent review of the implementation of the Ordinance on Disabled Persons interviewed intended beneficiaries in two provinces. In Tuyen Quang, about 40 percent of the disabled people interviewed were receiving

Table 7.1: A Growing Number of Beneficiaries

	2001	2002	2003	2004	2005	2006
Isolated elderly and poor disabled	68	73	77	103	110	122
Orphaned children	24	39	32	45	47	61
Disabled	90	111	120	155	179	180
Elderly above 85				26	70	88
People with HIV/AIDS					10	10
Other						9
Total number of beneficiaries	182	223	229	329	416	470

Source: Based on data from MOLISA. Figures are in thousands.

cash allowances of an average amount of 79 thousand dong per month. In Nghe An, on the other hand, only 17 percent of the interviewed were receiving allowances. But at 221 thousand dong per month the average cash support was much higher.

One relevant question, then, is whether cash transfers should be scaled up under the form of a more coherent program, both in terms of beneficiaries and in their allocation of resources to local levels.

Poor households

Assistance to poor households under the NTPPR and its predecessor HEPR has been running since 1998. The change in the name of the program reflects the conclusion by MOLISA that hunger has been already eradicated in Vietnam. In its new phase, the program seeks to halve poverty between 2005 and 2010.

Activities under the NTPPR fall into three areas. Two policies and four projects aim to create conditions for the poor to develop their productive activities. This area includes the largest component of the NTPPR, the provision of preferential credit through VBSP. The second area comprises four policies covering access to basic services, including healthcare, education, housing, water supply and legal aid. The third area focuses on building the capacity

of officials working on poverty alleviation programs, and on monitoring.

A total of 43.5 trillion dong has been allocated to this program over a five-year period, with 60 percent of the resources going to the provision of preferential credit. For the remainder, the central budget covers 29 percent of the envelope, with local governments and local communities expected to contribute a further 5 and 6 percent respectively.

Most of the resources flow through existing policies managed by a number of line ministries. For example, MOH is responsible for providing free health insurance cards to poor households and honoring the obligations these cards bring. Likewise, the Ministry of Education and Training (MOET) is responsible for ensuring that exemptions and reductions of education fees are implemented according to policy.

Other programs provide a subsidy allowing the poor to participate in the mainstream services accessed by the non-poor. In a context where poverty continues to decline, the assumption is that subsidies can be reduced over time and those who move out of poverty can fund their own participation in education or health insurance. However, ensuring the coherence between mainstream social services and targeted subsidies can be challenging (Box 7.2)

Household expenditure surveys can be used to

Box 7.2: Linking Targeting Programs and Mainstream Social Insurance

Decision 139 (passed in 2002) led to the establishment of HCFPs, with 75 percent of the funding to be provided by the central government and the rest by local and international sources. Initially, resources could be used to either purchase health insurance cards for beneficiaries or to directly reimburse providers. From 2006 onward, HCFPs can only be used to purchase health insurance cards. The government is also to increase the resources per intended beneficiary and to introduce a partial subsidy for the health insurance premium of the near-poor. Although the implementation of HCFPs was slow to take off in many provinces, the number of beneficiaries has increased substantially in the last few years.

Several problems remain, however. Funding is one of them. The government support for the HCFPs was increased from 50 thousand dong initially to 70 thousand in 2006. But this is still too low compared to the cost of the benefit package for the poor. And only a few provinces have mobilized significant levels of funding for their HCFPs.

Another problem is the limited extent of risk pooling. All the beneficiaries from this program fall under the same fund in VSS, regardless of their province. But such fund is still managed separately, offering no scope to diversify risk with other population groups with different patterns of morbidity. Pooling would make it possible to increase the average healthcare spending on the poor which is extremely low compared to that of other participants in the health insurance program.

Concerns have also been expressed about equity, due to the limited capacity to identify the beneficiaries at local levels and to use this information in budget planning. Experience with a health support project in the Mekong River Delta shows that better-off provinces obtain more resources for their HCFPs by applying looser targeting, hence reporting a higher number of beneficiaries.

assess the coverage of some of the NTPPR programs and projects. Data from the 2006 VHLSS show that that 13.7 percent of all households had been classified as poor by local authorities (Table 7.2). Though this was not much lower than the estimated number of poor households using consumption-based approaches to measurement, there were important shortfalls in some places. For example, according to the 2006 VHLSS, 49 percent of the population of the Northwest region is below the poverty line. However, only 22 percent of people had been officially classified as poor. On a more positive note, the fraction of people officially classified as poor was higher among those with expenditures below the poverty line (46 percent), and considerably lower among those above (7 percent). In the parlance of targeting, this reflects a reasonably good "coverage" of the program, and a modest amount of "leaking". By way of comparison in 2002 the corresponding fractions were 28 and 5 percent.

Poor communes

Some targeted government expenditures do not have poor or vulnerable households as their intended beneficiaries, but rather poor communes. While the emphasis of public investment programs during the 1990s was on the countries' growth poles, in recent years considerable resources have been spent in linking poor regions to nationwide transport and electricity networks. Accurate estimates of expenditure are complicated by the blend of central and local funds. But over the past decade the government has probably spent about 1.2 billion dollars to connect 6.3 million households to the electricity grid. A further 2.6 billion was channeled towards the construction of roads in rural areas over a five-year period. By now, less than 300 communes are without road access. There is evidence that these investments can have a significant impact on the welfare of the rural population (Box 7.3).

In addition to directing investment resources

Table 7.2: Coverage and Leakage of Targeted Programs

Percent who:	Household type			
	Total	Food poor	Poor	Non poor
Are officially classified as poor	13.7	53.6	46.6	7.5
Hold a healthcare card	10.5	41.6	35.1	6.2
Covered by health insurance	39.9	31.4	31.7	41.3
Have access to preferential credit	5.8	21.4	18.7	3.4
Are exempt from education costs	8.3	38.8	31.6	3.9

Source: Based on preliminary 2006 data from GSO. A household is classified as poor if its total expenditures are below the cost of a food and non-food basket securing 2,100 calories per person per day. It is classified as food poor if its total expenditures are below the cost of the food component of such basket.

towards the provision of mainstream infrastructure to rural areas, the government has also developed mechanisms to channel significant funds to some of the country's poorest localities. In its first phase, Program 135 allocated around 430 million dollars to 2,362 disadvantaged communes over a five-year period for local infrastructure investment and livelihood support.

The program is now in a second phase, with about one billion dollars scheduled for disbursement before 2010. While it remains heavily focused on the provision of basic infrastructure, it now foresees significantly increased financing for capacity building. This includes support for agricultural production aimed at farmer groups, support for participatory planning and investment management at the commune level, and communications outreach to promote public access to information about the program. The program has also been emulated by a similar initiative targeted to poor coastal communes.

The second phase of Program 135 is still in its early stages, so that relatively few hard data are available on actual implementation. However, a range of good practices have been noted in particular provinces. For example, on the issue of decentralization of investment ownership to local levels, more than 28 percent of all communes under the program are investment

owners by now. This is almost twice the level achieved under the first phase. Tuyen Quang province has already attained the goal of assigning all beneficiary communes to be investment owners, demonstrating to other provinces that this is feasible.

Among other achievements to date, a number of provinces have developed needs-based criteria for resource allocation for 2008, despite the absence to date of specific central-level guidance on this issue. Financial reports are being prepared that track resources down to the level of spending agencies. The individual accounts of these agencies are being reconciled with local treasury accounts in many provinces and implementation audits have been conducted in eight of them. On other hand, further progress is needed on issues such as public disclosure of financial and audit reports, guidance on activities to support production for markets and appropriate procurement methods for small-scale infrastructure.

Water and land

Other government interventions aim at providing access to services to the most disadvantaged populations, or at boosting their assets. In terms of basic services, Vietnam is at risk of not attaining the Millennium Development Goal (MDG) on water and sanitation. As of 2004, only 48 percent of rural

Box 7.3: The Impact of Rural Roads

Assessing the impact of local infrastructure investments on the livelihoods of local populations is not easy from the methodological point of view. Infrastructure development often coincides with rapid economic growth, which in turn increases the availability of goods and improves access to markets. How much of the change observed in living standards at local levels can be attributed to infrastructure development alone becomes unclear. Also, the same intervention could have different impacts on different places, depending on their characteristics. For example, communes with better educated households could derive larger impacts from improved access to markets. The extent of local corruption matters as well, as it may affect the way funds are used. Another way in which the workings of government can dull impacts is fungibility. Aid or central government spending for road projects may substitute for local government spending intended for that purpose.

A study of a road project implemented in Vietnam between 1997 and 2001 addressed these methodological problems in a convincing way. The project aimed at rehabilitating rural roads which were in very bad condition, some with missing bridges and impassable sections year round. The study constructed a baseline before the project started, in 1997. It conducted subsequent surveys in 1999, 2001 and 2003, tracing the implementation process and schedules of prior rounds. This approach provides sufficient controls for comparison and follows the beneficiary communes for long enough to capture full impacts.

The findings reveal significant impacts of rural roads on the development of markets and commercialization. Some outcomes, such as food goods availability, responded rapidly to new and improved roads. Others, such as the presence and frequency of markets and the availability of non-food goods and services, took two years more on average to emerge. The project resulted in households switching from agriculture to non-agricultural activities, mostly service-based. Perhaps most notable, the project had significant and sustained impacts on primary school completion rates. On the other hand, there are many indicators of local area development which cannot be easily attributed to better roads.

The study also found enormous impact heterogeneity, depending on local circumstances. Other things equal, poorer communes tend to benefit more. But poorer communes are generally not equal, and some of their characteristics tend to lessen impacts. For example, location in mountainous areas, holding other commune characteristics constant, boosts road impacts. But many mountainous communes in Vietnam have a high share of ethnic minorities and high illiteracy rates which are both negative in their effects. The role of the initial level of local market development appears to be crucial. The complexity of the way in which initial conditions interact with road improvements to affect outcomes suggests that simple formulas to allocate resources for local investment may be elusive.

Source: Ren Mu and Dominique van de Walle (2007).

households had access to clean water sources and a mere 16 percent had hygienic sanitation. It is clearly the ambition of the government to redress this situation. The National Rural Clean Water Supply and Sanitation Strategy sets the target for access to clean water (based on national standards) at 85 percent by 2010 and 100 percent in 2020. The strategy also anticipates that 70 percent of the rural population will be using hygienic latrines by 2010, with full coverage achieved by 2020. The main government instrument to implement this strategy is the National Target Program (NTP)

on Rural Water Supply and Sanitation. But in spite of rapid progress, meeting such ambitious goals will be challenging.

Alongside the revised Program 135, the government has also embarked on an attempt to strengthen the economic base of ethnic minority households. The focus is on productive and residential land. Introduced in 2002, the original program (known as Decision 132) aimed to address the pressing land problems of ethnic minorities in the Central Highlands. The more recent Decision 134 extends land

allocation activities to ethnic minorities across the country and expands the scope of support to include the provision of clean water and housing. Local authorities are required to identify households that have landholdings below a certain specified minimum, which varies for different qualities of land. They are then expected to make up the identified shortfall by allocating land from state-owned farms, by reclaiming previously unused land, or by redistributing land from households with bigger endowments.

On first analysis, these actions seem well conceived. Ethnic minorities often lack the productive land assets that have supported the majority group to move out of poverty. From this perspective, the allocation of additional land would provide an obvious solution.

A survey-based review of the implementation of these decisions is currently being undertaken. Though field work is not yet complete, findings so far suggest that the impact on ethnic minority livelihoods may be less advantageous than originally foreseen.

One obvious difficulty lies in the fact the most productive and most easily cultivable land is already allocated and farmed. Though it may be possible for authorities to find extra land, in practice it may be distant or poor quality or both. Further complications arise because the process of reclaiming land from state forestry enterprises (SFEs) has been more cumbersome than expected. Provinces also argue that

resources have been inadequate to obtain the necessary amount of land from other households.

Even if land can be allocated satisfactorily, research suggests that there is no easy, automatic response in terms of increasing welfare. One study follows the process of re-allocating forestry land away from SFEs to households and user groups in two villages in the Central Highlands. The research describes land allocation taking place in a context of disputes over rights to use forest land, with prior or customary claims sometimes over-riding the newer, formal claims. Though the handover of land to local people brought some welfare gains, they were highly variable across households. The degree to which households were able to convert their new rights into higher incomes depended on wealth, the size of upland fields outside the allocated forest, labour capacity and the location of the village.

Different issues may influence the implementation of the housing component of Decision 134. The case of a commune in Gia Lai province is telling in this respect. The commune had been allocated funds to build houses for 121 households with low-quality dwellings. Each house cost six million dong and was built by a contractor hired by the commune. The houses were built of brick, in the Kinh style, next to the traditional ethnic minority houses. But they were not considered to be appropriate substitutes by the intended beneficiaries, who chose not to move.

8. HEALTH CARE

If health care systems are to be judged by their outcomes, Vietnam deserves high marks. Key indicators, especially in relation to child mortality, morbidity and nutrition, are indeed comparable to those of countries at a much higher development level. And progress on these indicators has been sustained over time. However, on a closer examination the picture is more complex. Average indicators have improved, but the gap between rich and poor has widened. And the grassroots health care network that served Vietnam so well in difficult times is increasingly under strain, unable to cope with the growing importance of non-communicable diseases and the demand for more advanced services by an increasingly wealthy population. Meanwhile, the scale and heterogeneity of the hospital network, combined with the emergence of large numbers of private health units, makes the regulation of the health system increasingly challenging. The government's overall strategy combines the reliance on market mechanisms (the so-called socialization policy) with the subsidization of the participation of the poor in mainstream programs (the socialist orientation). Increased reliance on market mechanisms has aligned the incentives of service providers with the demands of those who can afford user fees, but it has led to a relative neglect of social mandates and a ballooning of health costs. The subsidization of the poor may not have resulted in lower out-of-pocket expenditures. For the government strategy to be successful, it needs to pay attention to market imperfections requiring specific interventions, and not just increased competition. Monitoring the delivery of services by autonomous units (especially of social mandates), certifying private and non-

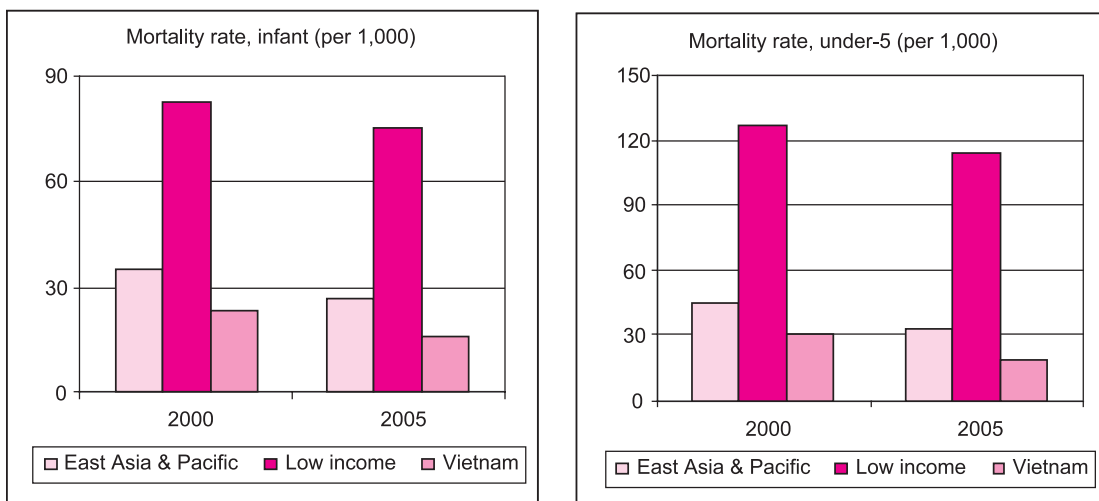
government health units through their eligibility for reimbursement by the social insurance system, and fostering the use of generic drugs and the development of pharmaceutical research, are steps worth considering.

Good but unequal

Health systems can be judged by their ability to improve the health of the population. They may not be the only thing that matters for health outcomes, and it is difficult to quantify the individual contribution they make. But it is unlikely that a country could exhibit good health outcomes if its health system was in disarray.

From this perspective, Vietnam is doing well; as well as countries at a considerably higher development level. One key indicator for which internationally comparable data are available is child mortality. China, Indonesia, the Philippines and Thailand did better than Vietnam during the 1980s. However, Vietnam's performance, in absolute terms and relative to these other countries, picked up in the early 1990s, and has improved further since then. Between 2000 and 2005, the infant mortality rate declined from 36.7 per thousand to 17.8, and the mortality rate for children under 5 years from 42.0 to 27.5 (Figure 8.1). As a result, life expectancy at birth climbed from 67.8 years to 71.3.

Other indicators show Vietnam under an equally positive light. Maternal mortality rate, which stood at 85 per 100,000 live births in 2002, had declined to 80 by 2005. The fraction of children with low weight at birth fell from 7.3 percent in 2000 to 5.1 percent in 2005. And

Figure 8.1: Child Mortality in International Perspective

Source: Based on data from World Bank (2007c).

malnutrition among children under five years of age dropped from 33.8 percent in 2001 to 25.2 percent in 2005.

Admittedly, this was a period when household income increased substantially. But even after taking into account its strong economic growth, Vietnam still remains a good performer in terms of infant and under-five mortality. During this period there was also an increase in the proportion of people with access to safe water. However, this may not be the full explanation for the progress in health outcomes either, as the fraction of households with hygienic latrines and access to safe water in rural, mountainous, remote and isolated areas is still low. And the quality of water remains an issue elsewhere.

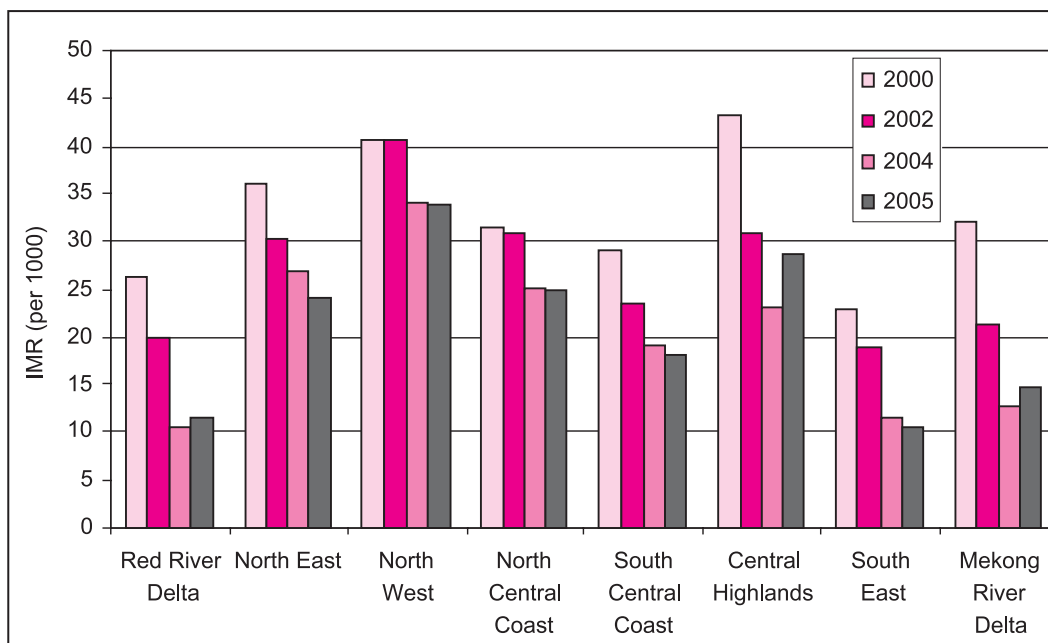
Performance is less remarkable when considering the distribution of gains in health outcomes across regions, income groups or medical conditions. Infant mortality has fallen faster in richer southern regions and the Red River Delta. It remains stubbornly high in the Northern Mountains and the Central Highlands (Figure 8.2). There are also concerns in relation to specific diseases. In the area of pneumonia treatment the quality of care appears to have deteriorated during the 1990s, and there is a re-emergence of tuberculosis.

Most worrying of all is the growing gap in child survival prospects between the poor and the better-off. Between 1997 and 2002, the largest reductions in both infant and under-five mortality rates occurred among the middle and near-poor quintile of the population, with the poorest quintile seeing the smallest gains. Inequalities in child vaccination grew over this period too, with the poorest fifth of the population barely seeing any improvement, whereas the richest quintile experienced a 55 percent increase of its immunization rate.

A sector in transition

Historically, grassroots care was the backbone of Vietnam's health system. During the war, Commune Health Stations (CHSs) and Village Health Workers (VHWs) played a key role in reducing communicable diseases and bringing under control dangerous ones such as small pox, polio and leprosy. Setting up and maintaining such a network of local level personnel during difficult times was a remarkable accomplishment. In remote localities, the assistance of the military health sector was crucial.

The quality of care provided at the grassroots

Figure 8.2: Infant Mortality across Regions in Vietnam

Source: Based on data from MOH.

level is high by international standards. A study by the World Health Organization (WHO) found that a high fraction of children with diarrhea were correctly assessed, and a high fraction of these were correctly rehydrated (Figure 8.3). A large share of caregivers with such children was also adequately advised and the children were properly managed in a high proportion of cases. A full 100 percent of children with dysentery were treated correctly. The picture was less impressive in relation to children presenting with pneumonia.

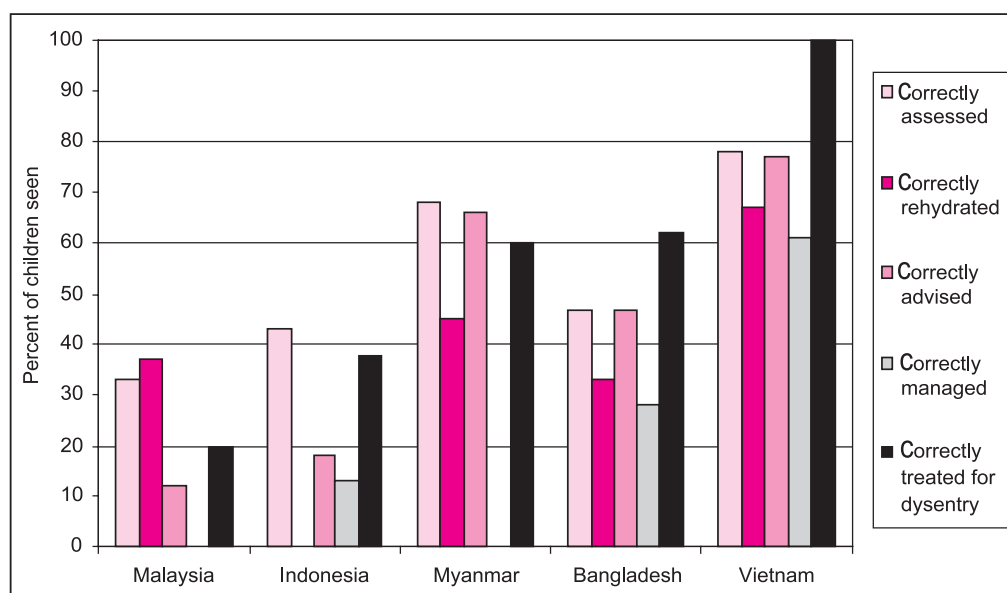
However, grassroots care is under strain at present (Box 8.1). And it is not well placed to cope with the challenges posed by the growing importance of non-communicable diseases. The increase in household income resulting from rapid economic growth also results in a demand for more advanced services than CHSs can deliver.

Increasingly, the focus of health policy has shifted from running an effective health system at the grassroots level to managing a complex

network of health care providers, ranging from large public hospitals to private practitioners. The scale of the system, the heterogeneity of health care units and the overall decentralization of government decisions to local levels add to the complexity of the situation faced by health authorities.

Vietnam's hospitals are numerous and diverse. In 2007, there were 1,030 of them run by different levels of government, and an additional 49 owned and operated by the private sector. That makes for a total of 16.3 beds for every 10,000 persons. General and specialized hospitals under the direct management of MOH, all located in Vietnam's main cities, are the largest and most technical up-to-date. At the province level, 324 hospitals handle medical conditions requiring special treatment. Ranging from 300 to 500 beds, they are managed by provincial health departments. The remaining 600 hospitals, at the district level, have an average of 80 beds. These hospitals remain highly dependent on the government budget for their operation.

Figure 8.3: Quality of Care to Children with Diarrhea



Source: WHO (1998).

Meanwhile, there has been an explosion in private health care. In 2004, there were 65,000 private health units licensed throughout the country, including 30,000 private health clinics, 23,000 pharmaceutical units and 12,000 traditional health units. These figures under-estimate the importance of private providers, as there are large number of unlicensed facilities. Private health units are mainly established in big cities, and especially in Hanoi and HCMC. But home visits by private providers without a clinic or by traditional healers are quite common, especially in rural areas.

The private sector plays an important role in the delivery of out-patient services, where it handles 60 percent of visits, focusing on interventions allowing easy cost recovery. On the other hand, it only accounts for 4 percent of in-patient services and 11 percent of preventive care. The average Vietnamese person has 1.8 contacts with private health units per year, 1.2 contacts with CHSs, and 0.8 with public hospitals.

Non-government actors are gradually emerging. They include international and local NGOs,

research institutions and professional medical associations. Their activities range from the implementation of preventive and curative care to health promotion and advocacy. Some have focused on specific health issues such as HIV/AIDS, reproductive health, sanitation and the quality of care.

Overall, there are around 200,000 health staff of all categories in Vietnam, including medical doctors, pharmacists, nurses, nurse aids, midwives and technicians. The number of highly qualified personnel has increased over time, and includes by now 982 staff with masters degrees, 337 with PhDs and 188 professors and associated professors. About 70 percent of the doctors working in the private sector are also employed in state-owned facilities.

The reform strategy

The *Doi Moi* process entailed a profound transformation of the health care system of Vietnam. The last decade and a half have been characterized by continuous experimentation in search of new approaches. But beyond the specifics these attempts have been guided by

Box 8.1: Health Care at the Grassroots Level

CHSs are the basic technical unit in the public health system. Their main task is to provide primary health care to local populations, including preventive care, family planning, normal delivery, the supply of basic drugs, and overall health promotion. In principle, the CHS is the primary health facility for most of the poor benefiting from health insurance, before they can be referred to higher levels. CHSs also manage the operation of the local network of VHWs.

The average CHS employs 3 to 5 health workers, including a medical doctor in roughly 70 percent of cases, an assistant doctor, a midwife and a nurse. Nationwide, around 50,000 staff are employed at the CHS level. They receive a salary and get social insurance coverage.

Around 80 percent of villages in Vietnam have a VHW. But not all of them are qualified, especially in remote, mountainous and border areas. More than a quarter of VHWs did not receive the required, three-month training. And most of them perform other jobs assigned by the village or commune, so that they cannot devote much time to health care activities. VHWs receive a small allowance of roughly 35,000 VND per month.

The grassroots level of the health care system is fundamental for the implementation of National Target Health Programs (NTHP). There are 10 such programs at present, dealing with malaria, goiter, tuberculosis, leprosy, dengue fever, immunization, child malnutrition, mental health, food safety and HIV/AIDS. Several NTHPs have gained positive results, especially in relation to extended immunization, malaria and leprosy. These programs have also helped to reduce the morbidity and mortality of some dangerous diseases and epidemics, and contributed to reductions in malnutrition.

About three quarters of the operating budget of CHSs is paid for by the government. The norm for recurrent costs is set at 10 million dong per CHS per year. Funding is provided by the central government in the case of disadvantaged communes and by local governments elsewhere. However, more than half of the country's CHSs have expenditures below the regulated norm, and about 72 percent of them have to collect service fees from the population. On average, revenue from fees amounts to 3.7 million dong per CHS per year. Spending on drugs and medical supplies barely reaches 10,000 dong per person treated per year. Given the under-funding of CHSs, spending by the health insurance program on the poor remains very modest.

Since 2006, CHSs no longer report to district hospitals, which only kept responsibility for medical supervision. Now, preventive health bureaus are in charge of the implementation of NTHPs, whereas the health office of the District's People's Committee handles organizational matters. This overlap of responsibilities has substantially weakened the coordination of core CHS activities. Besides, CHSs are not recognized as institutional entities. Contracts with them can only be made through their supervising institutions and proper accounting is not performed.

two main principles. First is to rely on user fees as a mechanism to reduce the dependence of health care units on budget transfers and to increase efficiency in the allocation of resources. And second is to help the poor cope with out-of-pocket health expenditures. The first of these principles is often referred to as the "socialization policy". The second one reflects the socialist orientation of the government of Vietnam.

User fees were introduced in 1989 and became a crucial source of income for the health sector

during the 1990s. The additional income derived from these fees was especially important to raise the earnings of health personnel and to finance investments in health facilities. The scope for health care providers to manage themselves was considerably enhanced through Decrees 10 (in 2002) and 43 (in 2006). Hospitals could then be operated like SOEs, with their own bank accounts and tax exemptions, with responsibility over personnel decisions, including hiring and firing, and with the authority to mobilize or borrow resources. Further deepening the move in this direction,

HCMC is now preparing the equitization of its hospitals. Other provinces can be expected to follow over time.

As user fees were rapidly raising out-of-pocket health expenditures, province-level pilots tested fee waivers and cards identifying patients eligible for free or discounted services. Some of those mechanisms rode on social health insurance, a program introduced in 1992 that did not have many takers and was still stagnant one decade later. Fee waivers did not work well either, as hospitals were often unwilling to accept them; delays, lack of funds, and information gaps spelled trouble for approaches relying on the issuance of cards. Drawing lessons from these failures, in 2003 the government passed Decision 139, which created province-level HCFPs. More recently, it was decided that HCFP would directly pay the health insurance premium of the poor and targeted groups, whereas a partial subsidy would be offered to the near poor.

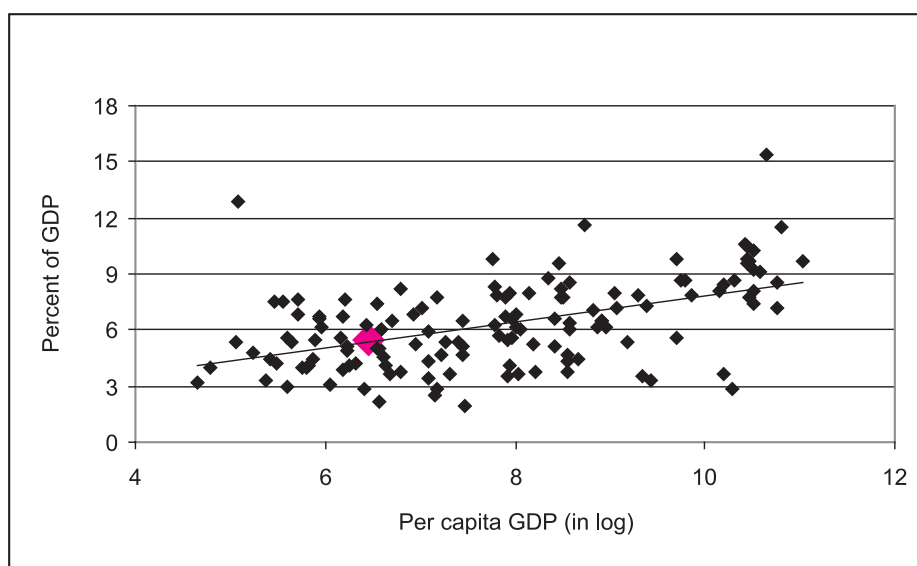
In 2005, the politburo of the Party took the unusual step of consolidating the overall approach to health sector reform into a single strategic document, the Resolution 46 on

"People's Health Protection, Care and Promotion in a New Context". Citing concerns about developments in the sector, and attributing the problems to a disconnect between demand and supply, this document proposed to rapidly increase the share of government resources devoted to the health sector, and to channel a larger fraction of those resources through health insurance. It even set universal health insurance coverage as the target for 2010 (the reference to a specific date was subsequently dropped). It also advanced the need to upgrade health care facilities, giving priority to the lower tiers of the system, particularly in the Central Highlands, the Northern Mountains, the Central Region and the Mekong River Delta.

Who pays what?

The emergence of a market economy, the epidemiological transition, the increase in household income and the overall direction of reforms in the sector have resulted in a fundamental transformation of health finance in Vietnam.

Figure 8.4: Health Expenditures in International Perspective



Source: Based on data from World Bank (2007).

Total health spending is in line with what could be expected, given the country's development level (Figure 8.4). Total health spending is also growing rapidly. In 2003, it was estimated at 25.4 dollars per person per year. By 2006, it may not be too far off the 45 dollars benchmark proposed by the WHO for poor countries.

A rapid increase in health spending is not surprising, as this is a common pattern as countries grow richer. Across countries, a one-percent increase in GDP per capita is associated on average with a 0.71 percent increase in the share of health spending in GDP. However, in the case of Vietnam spending may be growing even faster.

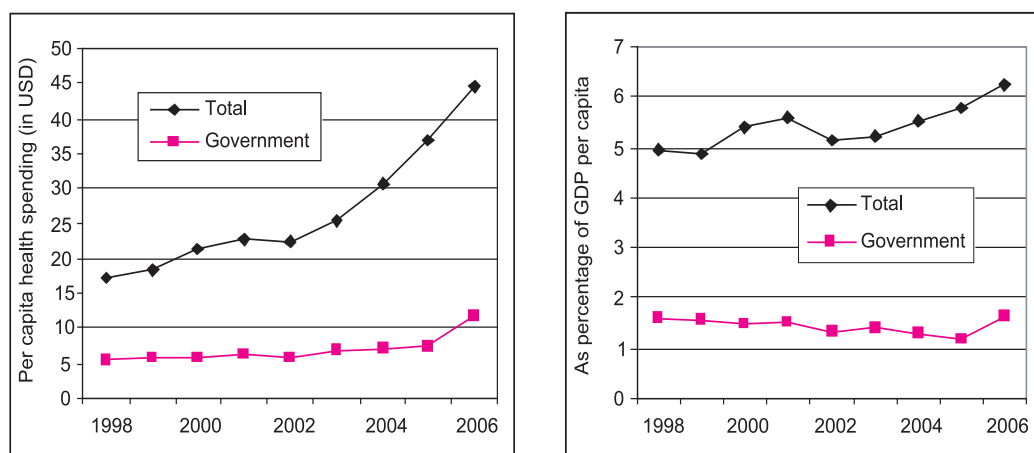
From an input perspective, it is largely wage costs that have been driving hospital expenditures up. Despite wages making up for only 40 percent of total hospital costs, they account for half of the growth in health spending. Another 30 percent is accounted for by rising prices for drugs. From an output perspective, the number of both inpatients and outpatients is growing steadily, perhaps at around 6 to 7 percent per year. But hospitals are also spending more per patient, especially on diagnostic tests such as X-rays and ultrasounds, and on surgery.

Hospitals in Vietnam receive their income from three main sources: the budget, fee income received from patients and the health insurance agency. The share of the latter has increased in recent years. As for the budget, it remains the most important income source for hospitals, but its contribution to the health system as a whole has been on a declining trend (Figure 8.5). Within government, there has been a transfer of responsibilities to the provinces. By 2000, around 60 percent of public spending on health was undertaken by provincial governments, with better-off areas raising an even greater share of revenues from their own resources.

Out-of-pocket expenditures remain the main source of income for the health care system in Vietnam. Of total household spending on health, 30 percent is used to pay user fees (both official and unofficial) in health facilities. The remaining 70 percent is spent on medicines and medical consumables in retailers. An analysis of spending associated with inpatient stays shows that only 48 percent of it corresponds to user fees. Indirect expenses on medicines and extra services such as food, lodging, travel and gifts for health workers account for the rest.

Out-of-pocket expenditures are large enough to potentially result in higher poverty. Of course,

Figure 8.5: Mostly from Out-of-Pocket Payments



Source: MOH (2007a).

it is always difficult to assess what would have happened in their absence, as households would have probably behaved differently. For instance, if they did not need to save so much for health care perhaps they could have chosen to work less hard. But a crude estimate of the poverty impact of out-of-pocket expenditures can be obtained by assuming that the money could have been used to support consumption. In that case the poverty rate of Vietnam would have been 1.1 percentage points lower. This estimated impact is bigger than in other countries in the region, except for China where it is more than twice as large. Also, according to one estimate Vietnam has the highest incidence of catastrophic health care spending in the world, together with Brazil.

User fees may not be the main factor behind large out-of-pocket expenditures in Vietnam, as shown by the importance of spending on drugs and other medical consumables. But in combination with the increased autonomy for service delivery units, user fees might have contributed to this outcome.

User fees are a mixture of charges per service (for instance, in the case of diagnostic tests) and charges per day (for inpatient stays). There are authorized ranges for each type of fee and also variations according to the type of hospital. The introduction of user fees did not result in higher charges by district-level hospitals, which were not initially subject to Decree 10. But in provincial hospitals it led to a 47 percent increase in out-of-pocket income by the third year of implementation. Whether such an increase was justified in medical terms is difficult to tell. But there is a risk that autonomous hospitals simply induced demand for their services.

Market imperfections

Solid health outcomes on average, good quality of care at the grassroots level and the rapid expansion in the availability and quality of health services are all accomplishments that Vietnam can be proud of. However, inequalities in health outcomes, the ballooning of health care costs and the importance of out-of-pocket

expenditures suggest that important, unresolved problems remain in the organization of the health system.

The reform strategy adopted by the government is clear but its success will hinge on the organization of health insurance, the main mechanism chosen to extend access to health care and finance the delivery of health services over time. Given its importance, this is an issue that deserves to be treated separately. But success will also depend on a good understanding of the peculiar nature of markets in the health sector, where information asymmetries and monopoly power are common, and may result in inefficient outcomes. In this context, just relying on market incentives and financing participation in mainstream programs by the poor (the two main principles of Doi Moi reforms) may prove insufficient.

One area in need of attention is the delivery of health services to those who are exempted from the payment of user fees, or simply cannot afford them. Decree 10 aimed to enlarge the operational and financial autonomy of hospitals, providing their managers with wide latitude in all areas, except in setting fees. Hospitals were allowed to earn net income, distribute it among their staff and invest it. For instance, they establish wards for fee-paying patients, providing better-quality care than in regular hospital areas.

This latitude in the use of revenue from fees aligns the incentives of health staff with the interests of fee-paying patients. But in the absence of tight monitoring, it can be expected to result in a relative neglect of those who cannot afford the fees, or are officially exempt from paying them. To the extent that hospitals offer health care interventions not available elsewhere in their vicinity, there is also an incentive to set fees at an excessively high level. And with patients depending on health personnel to tell them what they need, the temptation to prescribe too many drugs and diagnostic tests could be difficult to resist.

Decree 43 tried to realign incentives towards compliance with social mandates. Under this decree, hospital staff only get a share of the

revenue from fees after recurrent costs are recovered (partly or fully) and after the first 25 percent of the revenue is set aside for the upgrading of facilities. A cap was introduced on the wage bill of hospital personnel, which reduces their incentive to charge excessively high fees. Decree 43 also refers to the need to monitor the quality of services provided. However, Vietnam lacks credible quality control mechanisms in health care, and no reliable monitoring system exists. Setting up such system would be a major task. Consumer associations should be involved in it.

A second, related problem with the current direction of reforms concerns the certification of providers. By now, a large fraction of out-of-pocket expenditures is on services delivered by private health units, which account for 60

percent of outpatient visits. But patients are poor judges of the quality of care they receive. In this context, the certification of providers becomes crucial. Certification will also be required if health insurance is to become the key mechanism to pay for health services, as foreseen by Resolution 46. Making a private physician eligible for the reimbursement of expenses by VSS is a straightforward way to signal his or her medical expertise. But with at least 65,000 private health units in Vietnam, going through this certification process in any substantive way would be a vast logistic challenge.

The certification of providers should also extend to non-government actors. Their right to provide social services was officially recognized in 2004. However, their role does

Box 8.2: Drug Production, Commercialization and Pricing

The patent system, developed under the WTO Trade Related Aspects of Intellectual Property Rights (TRIPs) agreement of 1995, established a global standard of 20 years of patent protection for all forms of technology, including medicines. Under the patent system, pharmaceutical companies have not always offered medicines at affordable prices in developing countries, thus placing financial strains on national health programs and on people who must pay for medicines out of their pocket. Under the original TRIPs Agreement, developing countries were therefore provided with safeguards and flexibilities to promote and protect public health. The right of developing countries to protect public health was reaffirmed under the Doha Declaration, which was agreed upon by all WTO Member States in November 2001.

Generic competition is an effective approach to reducing medicine prices. TRIPs safeguards introduce generic competition during the patent term and ensure rapid introduction of generic medicines upon patent expiration. Thailand, for example, exercised a specific safeguard, known as compulsory licensing, for three medicines to treat HIV/AIDS and cardiovascular disease. Before it did so, patent holders were unwilling to reduce the price they charged for these medicines. But in response to the use of this safeguard, the Ministry of Public Health received significant discounts. This confirms the importance of compulsory licensing as a tool to prevent the abuse of monopoly power by pharmaceutical companies.

Developing countries are under pressure to introduce stricter levels of intellectual property rights protection, especially in the context of bilateral or regional free trade agreements. For instance, since 2002 all free-trade agreements with the US include "TRIPs-Plus" articles. However, there are concerns that the implementation of TRIPs-Plus could lead to increased expenditure on medicines. And it is not clear that higher protection of intellectual property rights will encourage pharmaceutical research that is relevant for the needs of developing countries. Indeed, less than 2 percent of the new medicines launched since 1999 address developing country diseases.

As public health demands continue to place a strain on public health systems in developing countries, it will be increasingly important for intellectual property right rules to closely adhere to the letter and spirit of the Doha Declaration on TRIPs and Public Health.

Source: Oxfam International (2006).

not seem to have received the importance it deserves, and there is a perception that they have been treated marginally in designing policies for the health sector.

A third area which needs attention relates to drug policies. A large fraction of out-of-pocket expenditures in Vietnam goes into buying medicines. This is partly due to limited competition in the domestic market for drugs. Single distributors often control large segments of it, which results in high markups over imported prices. From this perspective, it is reassuring to see the emphasis of the Pharmaceutical Law of 2005 on fostering competition. The Law approaches market regulation on the basis that manufacturers and traders are entitled to compete in terms of price.

However, there is also scope for a more active stance in relation to cheaper, generic drugs. Monopoly power by laboratories is intrinsic to the system through which pharmaceutical research is encouraged. Drug discovery and development is a complex, lengthy and costly process. Intellectual property rights are used to restrict the imitation of discoveries for some time, thus allowing laboratories to recover their research and development costs through high prices. But from a humanitarian perspective this is harder to justify. This is why developing countries can regulate intellectual property rights in ways that favor the development of cheaper, generic products, while encouraging domestic pharmaceutical research (Box 8.2). The government of Vietnam should explore such ways as it strives to implement its commitments towards the WTO.

9. HEALTH INSURANCE

After a decade of sluggish growth, participation in Vietnam's health insurance program is now expanding rapidly and could soon reach half of the population. The program is actually made of several schemes. The original ones covered the formal sector of the economy on a compulsory basis, and the rest on a voluntary basis. The main innovation behind the current rapid growth in enrollment was to create a new entry modality, whereby the government directly pays the premium on behalf of targeted population groups (disadvantaged people, children below six years of age...) This approach has been effective at increasing coverage among the poor, to whom it has provided better access to health services. The same principle will be applied to provide partial subsidy to the near-poor so that they can participate on a voluntary basis. However, the health insurance program has also resulted in an escalation of health care costs, to the point where the program ran a deficit for the first time in 2007. Two main forces underlie this trend. First, providers face an incentive to deliver both more treatments and more expensive treatment than may be warranted on medical grounds. Second, the expansion of the program suffers from adverse selection, meaning that heavy users of health care services are more likely to enroll. Addressing these two problems through a higher premium for the voluntary scheme or a higher social security contribution for the compulsory scheme would only offer temporary relief. Such response could undermine the expansion of coverage and the formalization of employment. More promising alternatives include strengthening the procedures through which patients are referred to more advanced and expensive facilities, modifying the rules used to reimburse health care providers so as to encourage them to be

more efficient, and establishing dedicated funds to cover the cost of chronic illnesses and life-threatening diseases for the population at large.

One program, several entries

In 1992, four years after the introduction of user fees under Doi Moi, the government launched a health insurance program. At the time, it comprised two schemes: one compulsory, for workers in the formal sector, the other voluntary.

The compulsory scheme covers mainly civil servants, workers in SOEs and those in relatively large private sector firms. Initially, only enterprises with ten workers or more were obliged to participate, but this size threshold was eliminated in 2005. The contribution to the scheme is set at 3 percent of the salary, of which 2 percentage points are formally paid by the employer. Protection by this scheme does not extend to family members. But people of merit and pensioners are covered at the government's expense.

The benefit package is quite generous, as it includes outpatient and inpatient services at all levels of health care. It also includes laboratory exams, X-rays and other diagnostic imaging procedures, as well as drugs listed as reimbursable. The health insurance fund even covers expensive high-tech services such as Magnetic Resonance Imagery, hemodialysis and open-heart surgery. Insured patients are eligible for health care provided not only at public health facilities, but also in private units that have contracts with the health insurance agency.

Despite the low contribution rate and the

generosity of the package, until not long ago compliance with the compulsory scheme was only partial. By 2005, mostly all SOEs participated in the program, but only a fraction of private enterprises did (Figure 9.1). Moreover, assessing compliance on this basis is potentially misleading, as even among participating enterprises only a fraction of the workers tends to be declared, and only a fraction of their wage is used to calculate the contribution. If the average contribution rate paid by the enterprise is considered instead, the shortfall appears to be much larger. Including contributions towards old-age pensions and other benefits, enterprises should be paying 17 percent of their wage bill to VSS. In 2005, the actual figure is between a third and a half of that.

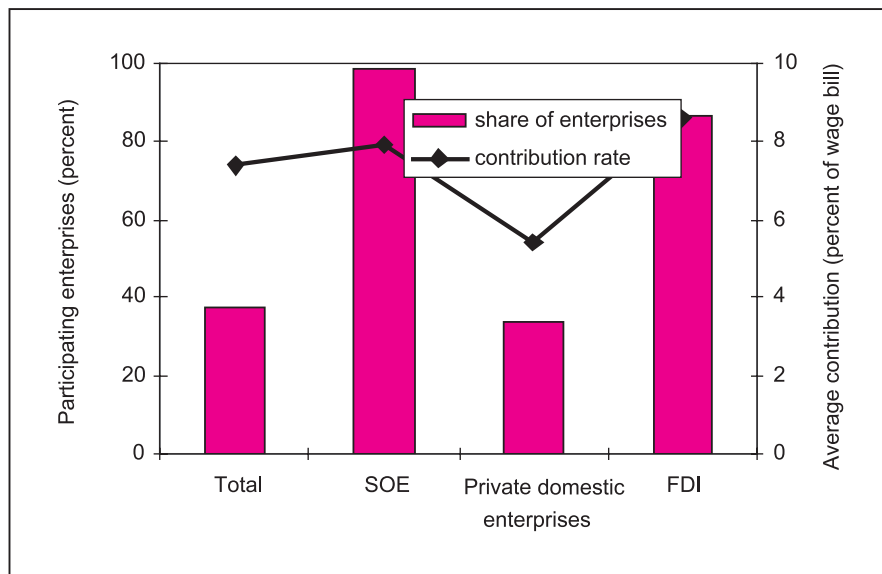
The voluntary scheme is aimed at the rest of the population, including the families of contributors to the compulsory scheme. Payments are on a flat rate. Since 2007 the premium varies by region, according to their development level. Co-payments had been eliminated in 2005, but were reintroduced in 2007.

Group enrollment was encouraged, to better pool risks between healthy participants and those who are more likely to become heavy users of health services. Education facilities, for instance, can enroll their pupils only provided that at least 30 percent of them participate. In 2007 the focus shifted to household membership. Benefits were also revised with the introduction of waiting time for high technology treatment and maternity. Given the slow expansion of the voluntary scheme, there is a debate as to whether to remove all conditions on group participation.

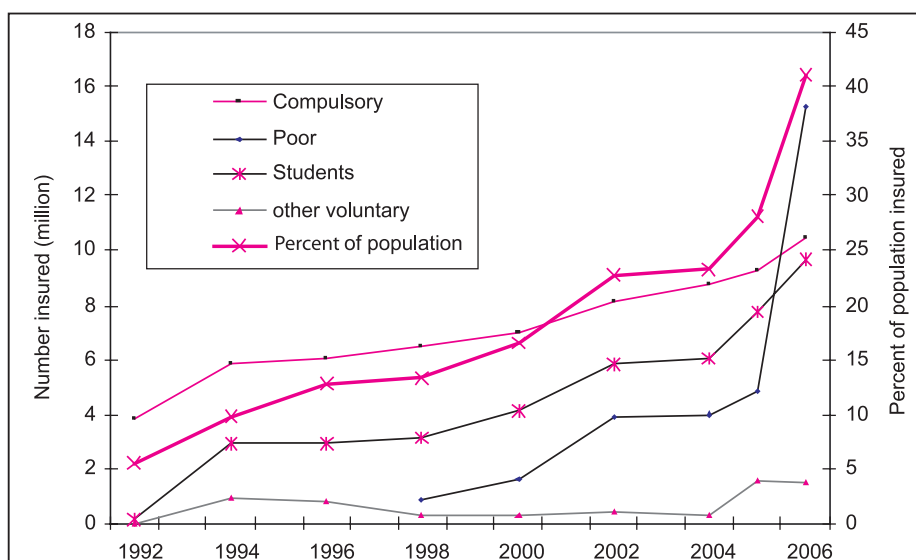
Resolution 46 gave a new impetus to the health insurance program. It was followed shortly after by Decree 63, which significantly increased the scope and depth of the benefit package for both schemes. Importantly, the government chose to directly finance participation in the program by increasingly large population groups. In practice, this amounted to a new entry modality into the health insurance program

Vietnam was the first country in Asia and the second in the world to ratify the UN Convention

Figure 9.1: A Varying Degree of Enterprise Compliance



Source: Based on data from the 2005 Enterprise Survey by GSO.

Figure 9.2: A Rapid Expansion in Coverage

Source: Based on data from VSS for 2006. Series on population groups are measured in millions of insured (left axis); the series for the total is expressed in percent of the population (right axis).

on the Rights of the Child. In connection with this move, in 2005 it was decided that public health facilities would provide health care free of charge to children below six years of age. Such facilities were also mandated to hand over free health insurance cards to children in need of medical attention. The government, in turn, committed to making the necessary transfers to finance the additional costs.

A similar approach was adopted in the case of disadvantaged groups. Provincial HCFPs had been created under Decision 139, in 2002, to finance the health costs incurred by the poor, by ethnic minority groups in six northern and five highland provinces, and by people living in difficult communes covered by Program 135. In practice, HCFP resources had been used to directly reimburse public health care units for the services rendered to these groups. But in 2005 provinces were instructed to use HCFP resources to directly purchase health insurance cards for everyone in the targeted population. The initial allocation, out of the central budget, was 50 thousand VND per year per beneficiary. It will be raised to 130 thousand from 2008 onwards. Increasing the government support for the contribution by the poor to a level equivalent

to 3 percent of the minimum wage is being considered as well.

A partial subsidy would also be extended for the near poor to enrol. In late 2007, the decision was made to support half of the health insurance premium for this group. Several provinces had already embraced this approach and were using their own resources to top up the HCFPs and support participation in the health insurance program by the near poor.

Who is covered?

Growing formalization, increased enrollment in the voluntary scheme with government support, and above all the extension of the program to targeted population groups have resulted in a rapid expansion of health insurance coverage, from around 25 percent of the population in 2004 to more than 40 percent at present (Figure 9.2).

It is often argued that health insurance is unlikely to result in substantial coverage. In developing countries, the argument goes, the formal sector of the economy is small, so that compulsory schemes can only reach a fraction

of the population. As for voluntary schemes, they suffer from adverse selection, meaning that only the elderly and those in need of health treatment have an incentive to enroll, whereas the young and healthy majority of the population is unlikely to do so.

While all this is true in Vietnam's case too, financial support by the government and the active involvement of mass organizations in encouraging participation make the word "voluntary" lose some of its original meaning. From this perspective, discussing the merits and demerits of social health insurance in general, or its potential to eventually reach universal coverage, may not be particularly enlightening in the case of Vietnam. A more relevant discussion is whether the health insurance program is reaching those in need of support, and whether it is helping them gain access to affordable health care of reasonable quality.

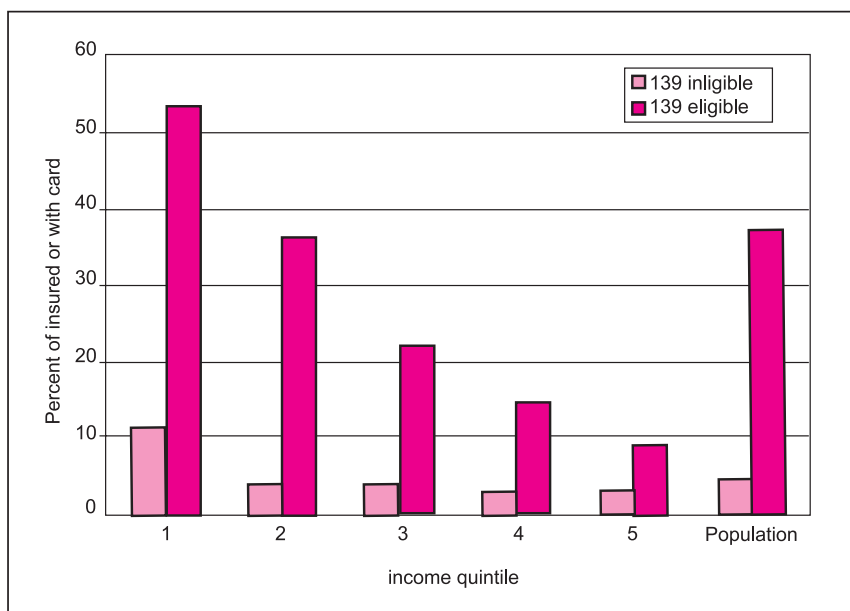
On the program's coverage, there are both good and bad news. The good news is that resources from HCFPs are relatively well targeted towards the intended beneficiaries (Figure 9.3). Participation is highest among the poorest

quintile of the population, and declines as increasingly better-off groups are considered. Admittedly, there is some leakage too, in the sense that individuals who are in principle not eligible do get support from HCFPs. But leakage appears modest overall, and it happens mainly among the poorest population groups anyway.

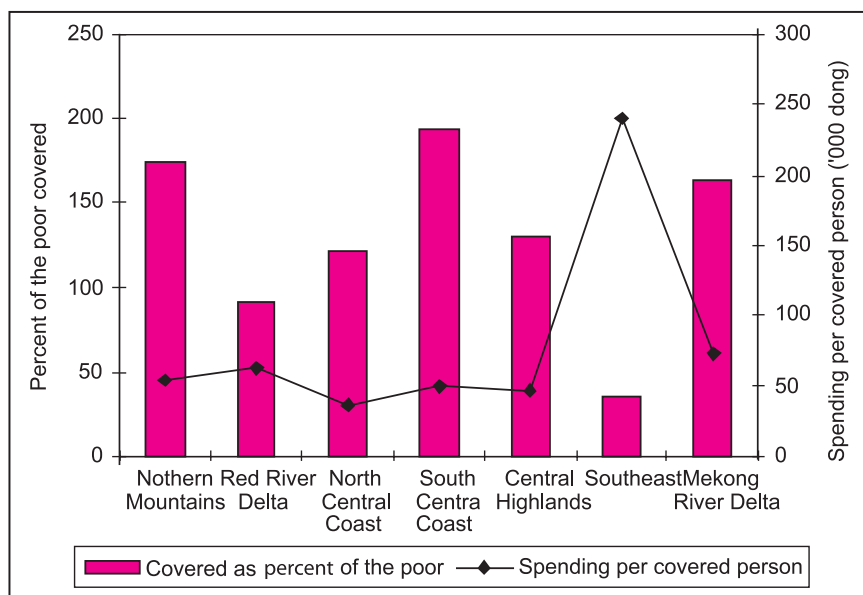
The conclusion is similar when considering the distribution of HCFP resources across regions, rather than across population groups. Three quarters of the funding goes to the Northern Mountains, the Mekong River Delta, the North Central Coast and the Red River Delta, in that order. On a per capita basis, however, the South East receives almost four times the allocation of the Northern Mountains, and six times the allocation of the North Central coast.

The bad news is that the program is not covering all vulnerable groups. Based on the criteria set by Decision 139, as of 2004 roughly 31 percent of the population ought to have been covered by HCFPs. But by the end of 2006 the real figure was only around 22 percent. The situation might have improved since then, both due to a

Figure 9.3: Targeting and Leakage in Decision 139



Source: World Bank (2007c).

Figure 9.4: Vast Disparities across Regions

Source: Based on data from VSS.

better operation of HCFPs and to the fall in the proportion of the population living in poverty. However, some vulnerable population groups are unlikely to be covered. Migrants are one of them. According to a recent study, for the small portion of migrants that was sick and treated at health facilities, 84 percent had to pay for the cost of services and medications out of their own pockets. Only 12 percent had the cost covered by their family. None of them had health insurance.

Access to services

The main goal of health insurance is to reduce the cost of medical treatment, especially in the event of catastrophic shocks. In an actuarially fair program, the total amount insured people spend on health, on average, should not be affected by such shocks. The effect of insurance would be to even out payments for health care across the population. Those payments would not vary so much according to whether people get sick, but rather according to their earnings (in the mandatory scheme) or not at all (in the voluntary scheme).

Most estimates from Vietnam suggest that

health insurance coverage does not affect out-of-pocket expenditures or, if it does so, the effect is not large or statistically significant. Only one study, on the voluntary scheme in Hai Phong, found a very large impact. A couple of other studies estimated out-of-pocket savings in the range of 20 to 35 percent, whereas more than a dozen of them reported no effect. Also, health insurance might have reduced the incidence of catastrophic health spending, but not dramatically. If the estimates are to be interpreted literally, HCFPs result in catastrophic spending declining by 3 to 5 percentage points.

However, looking only at out-of-pocket expenditures is potentially misleading. If health insurance coverage makes access to health services more affordable, participants can be expected to make a more intensive use of such services. The combination of lower costs and higher use is certainly associated with increased wellbeing. But it is not necessarily associated with lower out-of-pocket expenditures. The real issue, then, is whether participants in the program make a more intensive use of health services. The findings of available studies are more consistent in this respect.

Health insurance coverage increases the probability of admission to hospital and the length of stay in hospital. To a lesser extent, it increases the use of outpatient care as well. Studies also find evidence of health insurance coverage encouraging the use of public sector facilities, instead of private health units and pharmacies. However, the impact varies across income groups, with the poorest group experiencing the smallest increase.

Impacts appear to vary across schemes. For instance, the effect of insurance on the probability of admission to hospital is smaller among participants covered by HCFPs than under the compulsory scheme. And it is smaller still for those in the voluntary scheme. There is also evidence of impacts varying with income. Membership of the mandatory scheme increases the likelihood of hospital admission for all income groups, but the effect is most pronounced for middle income groups. Among lower income groups, mandatory health insurance has no significant impact on the length of stay. Worryingly, no significant impacts on inpatient care are evident among the poorest 10 percent of the population, which may result from other barriers faced by this group to access health services, notably transport and time costs.

There are also some implicit barriers this group faces, as they have to first seek care at CHSS whose quality of service is low. Biased treatment and poor attitude of health staff towards patients from this group also present a significant obstacle on their way to seek care. Other barriers are related to hidden costs, such as transport to the newest service provider, loss of earnings or the price of medicines.

Qualitative studies and focus group discussions tend to confirm that health insurance coverage may not be enough to gain access to services. Throughout, beneficiaries of Decision 139 state that they receive less attention than patients paying on a private basis, particularly from the level of district hospitals upwards. It also appears that beneficiaries of Decision 139 are not fully aware of the benefits they are entitled to, or do not understand the rights associated to

health insurance cards. In fact, limited understanding extends beyond this group, affecting some times health staff at local levels. Also, in many opportunities patients who are covered by health insurance do not use their cards when accessing services.

Access barriers are less severe in the case of children below six years of age. Reports by provincial health departments claim that 96 percent of those children had received their free healthcare cards. This claim is not reflective of the overall picture. If figures from the population census are used as a reference, then only two thirds of the eligible children have been given cards. However, this in itself should not be a major obstacle. MOH guidelines stipulate that children under six without health care cards can still receive free services at public facilities as long as they present "equivalent papers", which include birth certificates and commune birth registration documents.

A spending bias

Health insurance can also be expected to lead to an overall increase in health spending. To some extent, this is so by design. Reducing the out-of-pocket cost of medical attention is bound to lead to an increased use of health services, as has happened in Vietnam. This can be considered as a positive outcome, especially in the case of disadvantaged population groups who would have otherwise relied on self-medication or would not have sought any treatment. But there are also less positive reasons why health insurance may lead to an escalation of health care costs.

On the users' side, in the absence of universal coverage there is adverse selection, in the sense that it is people with poorer health who tend to enroll. Those who are covered by the program are therefore likely to use medical services more intensively than those who are not. On the providers' side, unless the program is very well designed, there is an incentive to deliver more services than is warranted and to choose more expensive services too. This is because of the practical difficulties in checking all medical

interventions whether are justified. In the absence of solid, wholesale "purchasing" skills, the health insurance agency may simply function as a largely passive payer of bills.

Data from hospital inventories confirm that health insurance is associated with an increase in the quantity of services provided, relative to the number of outpatient consultations and inpatient admissions. For instance, the fraction of births delivered through a C-section is higher the larger the fraction of hospital patients who are insured. And a similar regularity can be observed in relation to the number of biochemical and microbiological tests conducted.

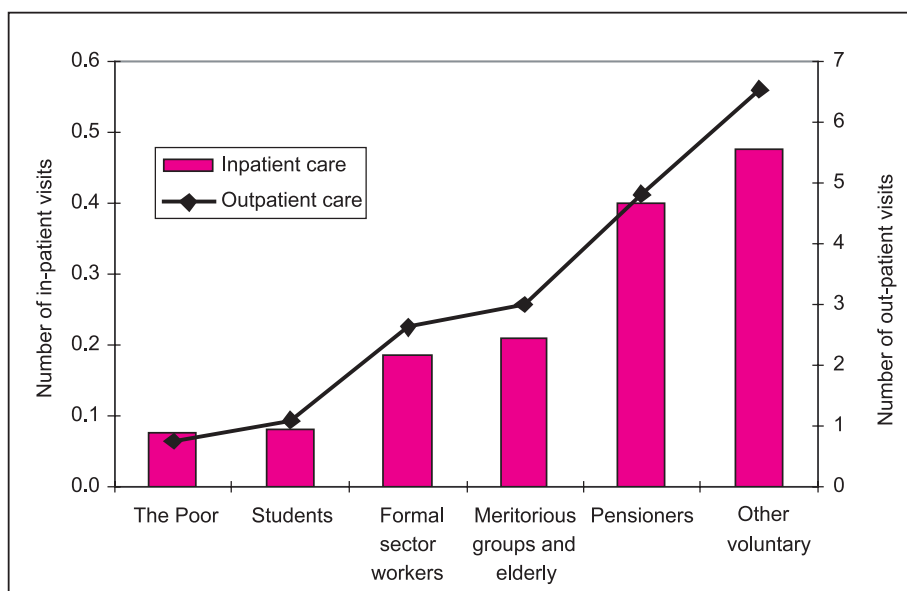
In the case of the poor, household survey data from 2004 show that health insurance coverage is not associated with lower out-of-pocket expenses per outpatient consultation or per inpatient admission. This absence of savings could be due to the fact that some expenses, such as non-prescription drugs bought from vendors, are not covered by the program. However, the high out-of-pocket payments per contact incurred by the insured likely results from providers delivering a different style of

care, including more tests and more expensive drugs, to insured patients.

As for the adverse selection problem, it is apparent in the dispersion in the number of health care contacts across groups of insured (Figure 9.5). This number is modest in the case of students, who are young and mostly healthy. It is modest in the case of the poor as well, because they cannot afford to stay out of work for long and also because of the more substantial barriers they face in accessing health services, from knowledge to transport costs. Formal sector workers and merit groups occupy an intermediate position. Not surprisingly, the highest number of contacts is associated with pensioners and with those who enrolled voluntarily in the health insurance program.

Some studies have tried to understand who enrolls in the voluntary health insurance scheme. One of such studies focused on students aged from six to 20 years of age. It found that the educational attainment of the household head and the level of household expenditures had a strong association with enrollment. Other things equal, a female head of household was much more likely to purchase

Figure 9.5: Health Care Contacts by Group of Insured



Source: Estimates based on 2006 data from VSS.

health insurance for her children than a male head. A short distance to the district hospital and the presence of a public hospital in the commune were also positively associated with enrollment, whereas the availability of private health units had a negative effect. But overall, the study found little evidence of adverse selection among this group, as the height-for-age score was higher among enrolled children.

The conclusion was different in the case of informal sector workers. A study of enrollment in the voluntary scheme among this group found some differences across industries. For instance, those working on a self-employment basis in the health sector were considerably more likely to have enrolled. There were differences by occupation too, with those who classify themselves as skilled being more likely to enroll than the unskilled. Women were more likely to enroll than men, and workers from high-income households were more likely to enroll as well. But unlike the case of students, the study found some evidence of adverse selection among this group, as informal sector workers who had been confined to bed or had taken time off work because of illness were more likely to enroll.

Financially viable?

At the beginning of 2007 the deficit of the voluntary health insurance scheme was growing so rapidly that VSS temporarily suspended its operation. In barely two years, expenditures had doubled and the balance of the health insurance program as a whole had gone from a surplus of 400 billion dong in 2004 to a deficit of 1.2 trillion in 2006. The voluntary scheme was the main source of the problem, with the compulsory insurance scheme not being able to compensate for the shortfall anymore. In early 2007, for the first time, VSS was no longer capable to fully reimburse the health expenditures of its members. Only after co-payments were reintroduced in the voluntary scheme, and the premium for the voluntary program was almost doubled, was the issuance of health insurance cards authorized again.

The government is by far the biggest source of VSS funding. In 2006, it paid contributions on

behalf of 4.5 million public sector employees. In addition, it directly or indirectly covered the premium of another 18 million participants, among them public pensioners, merit groups, the poor and other disadvantaged people.

Securing income from other sources has proved more elusive. For instance, there is a substantial gap between the contributions formal sector firms pay towards social insurance and the contributions they report to the tax administration office for the purpose of tax exemptions. Also, not all provinces use the resources from the HCFP to purchase health insurance for targeted population groups. Lang Son, for instance, provides health insurance cards to the poor only when they need medical attention, keeping its HCFP resources for other uses. Meanwhile, VSS has substantial outstanding bills with hospitals.

At a deeper level, however, the problem is the escalation in the costs per enrollee. The expansion in coverage is insufficient by itself to account for the growth in expenditures. Had costs per enrollee stayed at their level of 2003, expenditures would have gone up by only 30 percent of their actual increase (Table 9.1).

Moreover, there is a clear gap between income and expenditure for two groups of insured, namely pensioners and participants in the voluntary scheme other than students (Figure 9.6). These worrying developments underscore the need to keep treatment costs down, or at least to keep their rate of growth in line with income growth.

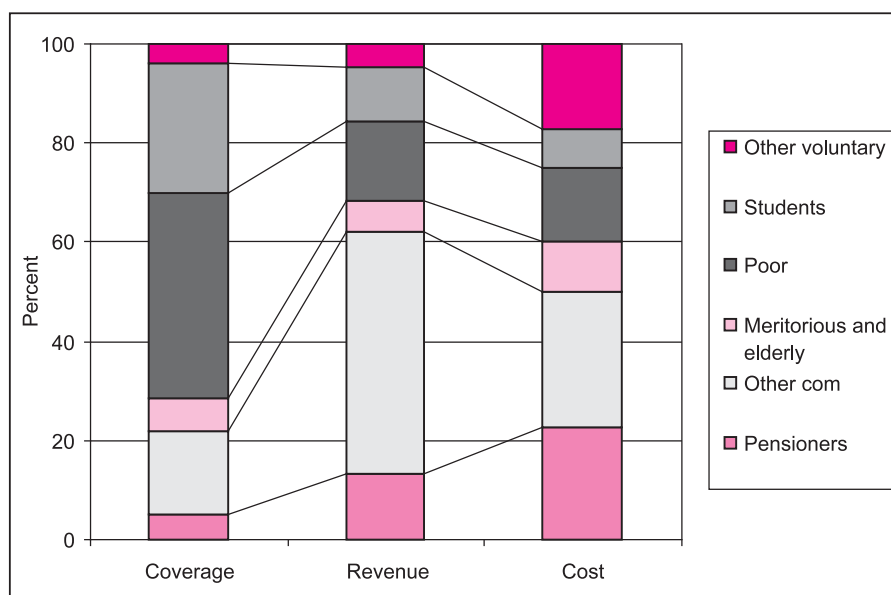
Smarter spending

Containing treatment costs per insured person and addressing the adverse selection problem hold the key to making the health insurance program financially viable. Alternatives such as raising the premium for the voluntary scheme, or the contribution rate for the compulsory scheme, can only offer temporary relief, because they do not correct the tendency towards ever greater spending. Moreover, adjusting on the revenue side would have the unintended consequence of reducing coverage.

Table 9.1: Average Spending by Type of Insured

Insurance group	Reimbursement per card (thousand dong)			
	2003	2004	2005	2006e
I. Compulsory scheme	97	126	180	171
Pensioners	145	325	479	717
Formal sector and merit groups	136	171	238	265
II. Voluntary scheme	16	21	45	151
Students	16	19	26	56
Other voluntary		65	136	701
III. Poor and disadvantaged	34	52	71	56
All	73	91	126	166

Source: Based on data from VSS.

Figure 9.6: Costs and Revenues of the Health Insurance Program

Source: Based on data from VSS.

Higher contribution rates, in particular, would slowdown the formalization of the economy, especially at a time when minimum wages need to grow rapidly in order to comply with WTO commitments.

In practice, several complementary approaches could be considered to contain treatment costs and address the adverse selection problem.

They involve directing patients towards less expensive health care facilities whenever appropriate, removing the incentive for service providers to deliver unnecessary diagnostics and treatment, and moving the funding for chronic illnesses and catastrophic shocks out of the program.

In the parlance of health specialists, these

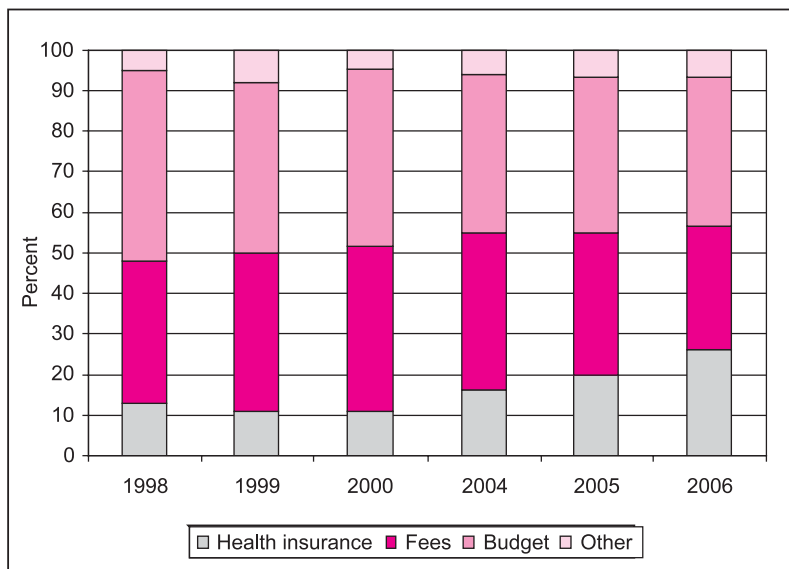
approaches concern referral procedures, provider payments and specialized funds respectively. At the risk of simplifying, stronger referral procedures and better-designed provider payments aim at containing treatment costs per insured person, whereas specialized funds could be used to mitigate the adverse selection problem. Specialized funds could also contribute to making the system more equitable, at a time when the majority of the population is not yet covered by the health insurance program.

Before describing these approaches in more detail, it is important to note that their financial implications could go well beyond the health insurance program. VSS is gradually becoming a major source of income for hospitals, as important by now as user fees (Figure 9.7). Meanwhile, the share of income directly provided by the budget is gradually declining. It amounted to 47 percent in 1998 but was down to 37 percent by 2006. VSS is also increasingly passing contracts with private health care units. The growing importance of VSS as a wholesale purchaser of health services makes it a natural candidate to encourage efficiency gains in

health care more generally. Its procedures, in terms of referrals or reimbursements, stand a chance to become industry standards. If they were well designed, they could help contain the broader escalation of health care costs in Vietnam.

The main weakness of Vietnam's referral system at present is its inability to prevent the insured from "jumping" levels in the hierarchy of health care facilities and choosing unnecessarily expensive ones as their first point of contact. In principle, CHSs should transfer patients to district hospitals, district hospitals should transfer patients to provincial hospitals, and provincial hospitals should transfer patients to central hospitals (in the South to HCMC and in the North to Hanoi). In serious cases, levels can be legitimately skipped. But bypassing seems to be the rule more than the exception. For instance, a study on paediatric emergency shows that about half of children patients check directly into central hospitals, despite many of them not being from the city in which the central hospital they have checked into is located. Such bypassing causes overload in expensive central hospitals, distracts the best

Figure 9.7: Sources of Hospital Income



Source: MOH, Vietnam hospital inventories.

specialists towards minor cases, and results in higher health care costs on average.

One important motivation for patients to skip referral levels is to avoid what they perceive as bad quality of service. CHSs, which are officially the first in line, do not have a good reputation among the population at large, with health workers at higher levels or even with the health insurance agency. There is dissatisfaction even among the poor, despite the CHS being their main access point for medical care, above the pharmacy and the VHW. A recent survey revealed discontent with the range of equipment and the quality of examinations at CHS level. Perceptions were more positive in relation to district hospitals and above, except on the friendliness of health staff which appears to worsen. However, there are reasons to be dissatisfied with the quality of care at those levels too. In 2003, only 59 percent of patients referred to provincial hospitals had been correctly diagnosed at the district level, and 75 percent of patients referred to central hospitals had been correctively diagnosed at the provincial level.

To mitigate the skipping of referral levels, a top priority is to improve the quality of health care provided by CHSs. But it is also important to strengthen referral procedures, so that prospective patients do not unnecessarily jump over lower-level facilities. To achieve this goal, it could be more efficient to provide financial incentives to the facilities than to penalize prospective patients. The health insurance agency could apply a discount on the reimbursement of services to hospitals if the patient was not appropriately referred by the lower level. This could create some pressure from district hospitals to their affiliated CHSs to ensure that they comply with referral procedures. As for the CHSs themselves, VHS could pay them a flat fee for consultation provided.

Paying health care providers on a fee-for-service basis is not necessarily a good idea at higher levels in the system (Box 9.1). However, this is what VSS does since the mid 1990s, when a mixture of fees per outpatient service

and daily rates for inpatient stay was established. Ceilings apply at low levels in the system, but not higher up. The schedule has been revised, with the introduction of new procedures and the pricing of some new drugs. But the incentive remains to overspend. Admittedly, the inspection unit of VSS performs a control of the charges reported, trying to assess whether they are plausible. But in practice, this is a purely administrative check, resulting in a collective invoice being submitted by the provider. The consequence has been an escalation of refunds at higher levels. For instance, in 2007 one central hospital in Hanoi absorbed 5 percent of the total amount reimbursed by VSS nationwide.

It would make sense for VSS to assume the role of an informed wholesale purchaser, linking refunds to medical conditions more than to services provided and specifying the required quality standards.

Experimentation with alternative provider payment mechanisms has been going on for some time already. Capitation was introduced in Hai Phong (since 2005) and Hai Duong (since 2007). After six months of operation, good compliance with the delivery of the services and prescription of generic drugs was observed, whereas the administrative workload decreased significantly. However, there were concerns about the difficulty to finance the introduction of high-tech procedures. There were also initial steps towards establishing a pathology-based reimbursement system. The analysis concluded that in the case of conditions with limited cost variation, such as appendicitis and C-section, DRG payments would be workable. However, DRGs are difficult to introduce on a large scale without appropriate (and highly elaborate) costing and controlling mechanisms.

Finally, some consideration should be given to the mechanism to fund the treatment of chronic illnesses and life-threatening diseases, such as diabetes or cancer. These are the medical conditions resulting in catastrophic shocks for household. The current coverage of the health insurance program implies that more than half of the population is exposed to

Box 9.1: Alternative Provider Payment Mechanisms

Fee for service. The amount reimbursed to facilities is based on a user fee schedule, with fees set at either the same level charged to uninsured patients or below. One important advantage of this approach is that it allows a rapid cost-recovery for investments in new technologies. There is also an incentive to provide all necessary care regardless of the patient's wealth. A major inconvenient is that it encourages the delivery of more services, and more expensive services, than may be warranted. To counter this tendency, the amount paid per patient or per case tends to be capped. In Vietnam, a list of procedures with prices that are reimbursed by health insurance was developed in 1995 and supplemented with new items and prices in 2006. Private health units signing contracts with VSS are reimbursed at the same rate public facilities. A drug list identifies all the medicines reimbursed by VSS, and also the level of the health care system authorized to prescribe them.

Capitation. The amount reimbursed is based on the number of members served by the provider. Because of its simplicity, this approach is well suited to areas with limited administrative capacity. It has been successfully introduced in Thailand and Lao PDR, and Vietnam is considering it for its CHSs and district hospitals. It is also useful for general practitioners, who have the responsibility to steer patients through the health care system. However, when budgets are not sufficient, the capitation approach creates an incentive for providers to withhold services or downgrade their quality. This is the reason why capitation is not often used for hospital reimbursement. An alternative worth considering is morbidity-weighted capitation, whereby reimbursements depend on age, gender and other easily observable characteristics of the patient.

Case-base refunds. The amount reimbursed is related to a medical condition, determined mainly on the basis of diagnostic tests. This so-called Diagnostic Related Group (DRG) approach can provide strong incentives for efficiency in the delivery of services. But the challenge is to set reimbursement rates at a level that reflects the costs that would be incurred if appropriate care was delivered rather than current costs. In practice, DRG includes "pathways", specifying the treatment to be used after each key diagnostic. However, building such pathways is difficult without sound and reliable treatment data. In Vietnam, Decree 63 called for the development of alternative payment mechanisms. An informally stated goal is to adopt DRG payments at provincial and central levels for around 700 medical conditions. Implementation could take five to seven years.

such shocks. Moreover, providing funding for these conditions through the health insurance program can only encourage those who suffer from them, or are more likely to suffer from them, to enroll. This, in turn, can only aggravate the adverse selection problem.

While Vietnam continues to gradually extend the coverage of its health insurance program, one or several dedicated funds could be established to cover treatment costs for

chronic illnesses and life-threatening diseases. Resources should be provided directly by the budget. But they could be managed by the health insurance agency, using provider payment mechanisms similar to those applied in the case of health insurance. This would contribute to shifting the funding of health care to the demand side, and would strengthen the role of VSS as an informed wholesale purchaser of health care services.

10. OLD-AGE PENSIONS

The old-age pension program of Vietnam has recently been revamped with the aim of making it financially sustainable and extending its coverage, on a voluntary basis, to the informal sector of the economy. There are few pensioners for now. Almost all of them used to work for government or for SOEs. But multi-generation family arrangements imply that almost one in ten households in Vietnam receives pension income. The distribution of such income is clearly regressive, in the sense of being concentrated among the richer part of the population. However, other things equal, the poverty rate would be several points higher in the absence of pension income. More important than the current distribution of beneficiaries is the prospect of extending the coverage of the program. The number of participants in the compulsory program has grown steadily, and represents by now 18 percent of the labor force. Whether the voluntary program for the informal sector will have many takers is not clear. The experience with the largest voluntary pension program in operation in Vietnam, in the province of Nghe An, is not particularly encouraging. Many of its participants would not be inclined to join the new voluntary pension program because the minimum contribution is too high and because they are unlikely to reach the 20 years of contribution needed to gain access to a pension, as opposed to a lump sum. The formulas used to compute pension benefits also result in important deviations from the actuarially fair level. Overall, those working for government get a better deal than those working for businesses. With growth in enrollment coming mainly from the enterprise

sector, the compulsory pension program is solid financially. Its annual surplus is roughly 3.7 percent of GDP at present, and it could accumulate a massive amount of reserves in the coming decades. But how large that amount will be will very much depend on how pension benefits are indexed to inflation. Meanwhile, the management of reserves could be substantially improved. At present most investments are in low-yield instruments, which results in a return below inflation.

Life in old age

A majority of the elderly are women. The female share of the population rises with age, from 58 percent for those over 60 years to 66 percent above 80. A majority of the elderly also lives in extended families. More than half of them are part of three-generation households, including working age adults and children. But 37 percent of them live in households containing elderly people only.

Old-age is a period of fundamental transformation in life. The amount of time devoted to work, in the household and out, decreases quite steadily (Figure 10.1). Throughout old age, women work longer hours than men, with most of the difference due to their higher involvement in household work. But even by age 70, both men and women are still devoting roughly 20 hours every week to non-household work. This reality is in sharp contrast with the rigid retirement rules of many old-age pension programs, which impose that people cease working at a specified age. Old-age is also a period of more recurrent or chronic sickness.

The elderly live in households whose total income is slightly higher than the average for the Vietnamese population (6.4 million dong per year in 2004, compared to 6.1 million for the population at large). Their households have lower income from trade and business activities, but this shortfall is more than compensated by larger remittances and social security transfers. About 90 percent of the elderly live in households receiving remittances. The urban elderly are more likely to receive remittances from abroad; those from ethnic minorities much less so. However, remittances and transfers are only one way to provide the elderly with resources. Living in extended families and pooling incomes remains a much more powerful mechanism for now.

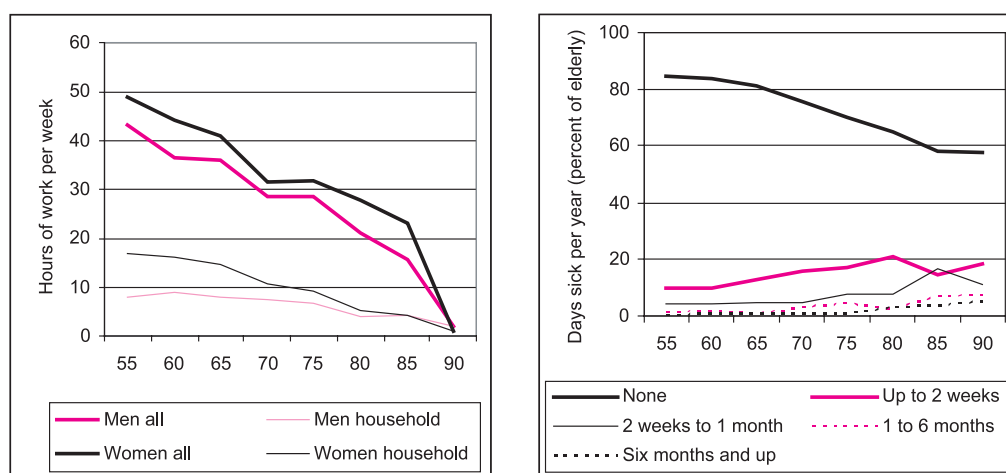
In spite of their slightly higher income, households including elderly people are slightly more likely to live in poverty. This is because they tend to be larger. Other things equal, the probability for a household to live in poverty is 4 percent higher if it includes someone aged over 60. Households with elderly that are headed by a woman are significantly more likely to be extremely poor.

Pension programs

In the period preceding *Doi Moi* Vietnam only had a non-contributory old-age pension program for civil servants and workers in SOEs. In 1993 coverage was extended to domestic private enterprises and foreign companies, on a contributory basis. The entitlements of civil servants and SOE workers were then "grandfathered" into the new program, with the budget taking responsibility for their funding. The program is since then administered by VSS. In addition, a non-contributory pension scheme is in place for people aged over 85 who lack resources. However, such non-contributory scheme is administered separately by MOLISA, as one of its targeted poverty alleviation programs.

The system is now undergoing an unprecedented reform. The first ever Social Insurance Law was passed in 2006, with its various building blocks being implemented between 2007 and 2009. The reform aims to gradually expand the coverage of the system and to ensure its financial sustainability. The

Figure 10.1: Working Less, Getting Sick more Often



Source: Based on preliminary data from GSO.

Box 10.1: Other Benefits in the Compulsory Program

Sickness. This is a cash benefit paid to an employee suffering from an illness that prevents him or her from working. The benefit can be paid during 30 to 60 days, depending on the number of years of contribution. A maximum of 180 days per year, irrespective of the contribution record, is available for diseases requiring long-term treatment. The benefit amounts to 75 percent of the wage earned in the month immediately before ceasing work.

Maternity. A cash benefit is paid to a breast-feeding woman for to six months after delivery, depending on her working environment and health condition. The beneficiary is also entitled to up to five days of leave for pre-natal health checks.

Occupational disease or injury. A benefit under the form of a lump sum or a monthly payment is provided to compensate for the loss of working capacity resulting from occupational injury or disease. The benefit covers injury incurred during business trips or in the journey to and from work. Both the lump sum payment and the monthly benefit consist of two parts. One is based on the minimum wage, the other on the years of contribution and the average salary. In case of injury, the employer is responsible for medical expenses and salary for the duration of the treatment. VSS pays the benefit from the date of hospital discharge.

Disability. Participants who lose at least 31 percent of their working capacity are entitled to a disability pension. The size of the benefit depends on the extent to which working ability is affected. The minimum benefit is equivalent to 30 percent of the minimum wage. It increases by 2 percent of the minimum wage for each additional point of working capacity lost.

latter was accomplished through a series of parametric changes in the formulas for pension benefits. The former through the establishment of a voluntary pension program for the informal sector, designed to allow the portability of benefits to the compulsory program.

The compulsory pension program applies to all Vietnamese citizens working in any enterprise provided that they have at least a three-month contract. It also covers government officials, military personnel and public security employees. The contribution rate towards old-age pension and survivor benefits is currently 16 percent of the salary. Formally, 11 percent is paid for by the employer and 5 percent by the employee. The Social Insurance Law foresees an increase of this contribution rate to 22 percent of the salary by 2014.

In order to receive a pension, participants must contribute for at least 20 years. The pension benefit is computed on the basis of an "average salary". In the case of women, benefits accrue at the rate of 3 percent of the average salary per each year of contribution. The accrual rate is the same for men during

their first 15 years of contribution, but it falls to 2 percentage points subsequently. The minimum pension is set equal to the minimum wage. The maximum is 75 percent of the average salary. Contributions made past the point when this maximum entitlement is reached accrue towards a lump-sum payment. Those with less than 20 years of contribution also get a lump-sum payment when they reach the retirement age. The immediate relatives of pensioners who die are entitled to a survivor benefit, ranging from 40 to 70 percent of the minimum wage per beneficiary, for up to four beneficiaries.

The retirement age is relatively low, at 55 years for women and 60 years for men. Early retirement is allowed for those losing 61 percent or more of their working capacity. It results in a reduction of the pension benefit by 1 percentage point of the average salary for every year in advance. Retirement ages are 50 and 45 years for men and women having worked for at least 15 years in hazardous jobs as listed by government.

In addition to old-age pension, the compulsory

program includes a pension in the event of disability, and a series of short-term benefits related to sickness, maternity and occupational disease or injury (Box 10.1). An additional 3 percent of the basic salary is contributed towards the first two benefits. The contribution rate towards occupational disease or injury benefits is an extra 1 percent. Therefore, in total, participants in the compulsory social insurance program pay 22 percent of their salary towards old-age and short-term benefits.

The Social Insurance Law of 2006 introduced a voluntary old-age pension program accessible to any working-age person who is not currently enrolled in the compulsory program. The features of the voluntary program are largely inspired from the compulsory system. The contribution to make in order to participate has to be at least equal to 16 percent of the minimum wage; this threshold will be gradually raised to 22 percent. Entitlement to pension benefits occurs at age 55 for women and 60 for men, after a minimum of 20 years of contribution. And immediate relatives are entitled to a survivor pension. The main differences with the compulsory program is the absence of a minimum pension.

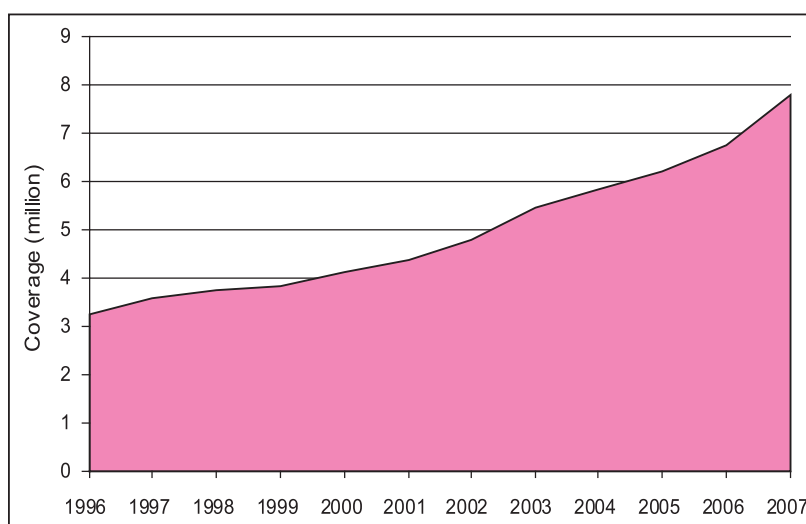
Limited coverage

Participation in the compulsory pension program has grown steadily over the years, albeit from a low base (Figure 10.2). At present, there are about 8 million active contributors representing roughly 18 percent of the labor force and 54 percent of employment in SOEs, foreign invested companies and private domestic firms registered under the Enterprise Law.

It is too early to tell how many participants the voluntary program will attract. The answer will partly depend on the engagement of mass organizations to promote enrollment. But the experience of the voluntary pension program for farmers set up by Nghe An province in 1998 sheds some light on possible trends and challenges ahead (Box 10.2).

There are about 1.9 million pensioners in Vietnam at present. This represents about a quarter of the population aged 60 years and above, but many of those pensioners are actually younger. Because of extended family arrangements close to one tenth of households receive transfers from the social insurance

Figure 10.2: Coverage of the Compulsory Pension Program



Source: Based on data from VSS.

Box 10.2: Participation in Voluntary Pension Programs

As of March 2007, the voluntary pension program of Nghe An province had about 85 thousand participants, of which one thousand had reached or were soon to reach retirement age. More than 60 percent of the contributors to this program are women.

There are several important differences between the Nghe An program and the new, national voluntary pension program. The minimum contribution in the Nghe An program is 10 thousand dong, and the average contribution is 25 thousand. This is far less than 16 percent of the minimum wage required by the national program (the equivalent of 72 thousand dong per month in 2007). Only 5 percent of current contributors would reach the minimum contribution threshold at present. Also, in the Nghe An program almost all participants are entitled to a pension when they reach retirement age. The level of the monthly pension is equal to the sum of contributions, accrued at an interest rate of 0.6 percent per month, minus administrative expenses, divided by 120. Administrative expenses are set at 15 percent of the accrued interest. This formula would be close to actuarial principles in the life expectancy at retirement was about 10 years (or 120 months). But for a mainly female population it is probably much higher.

With the establishment of a voluntary pension program on a national basis, the question is whether participants in the Nghe An program would be willing to switch to the national program and, if not, what kind of incentives they would need in order to do so.

A field study was conducted to this effect in October 2007. It included a survey of 5 percent of participants in the Nghe An program. Responses revealed a high degree of satisfaction among participants, with 84 percent of them saying that they would want to continue with the program. Interviewees were also offered the option to switch to the national program, "buying" years of contributions with their actual contributions to the Nghe An program. Because actual contributions are low, only 54 percent of Nghe An participants would be able to reach 20 years of contribution at they reach retirement age. The option was then offered to the other 46 percent to "buy" the remaining years of contribution.

Among the group who could aspire to a pension, 68 percent would be willing to switch to the national voluntary program. This is the equivalent of 37 percent of all participants in the Nghe An program. Among the rest, 46 percent would accept, but only provided that they can "buy" the additional years of contribution to get a pension. Very few would be interested in contributing towards a lump-sum payment at retirement age. The share would increase by an additional 7 percentage points if the minimum contribution was set at 50 thousand dong per month, instead of 72 thousand.

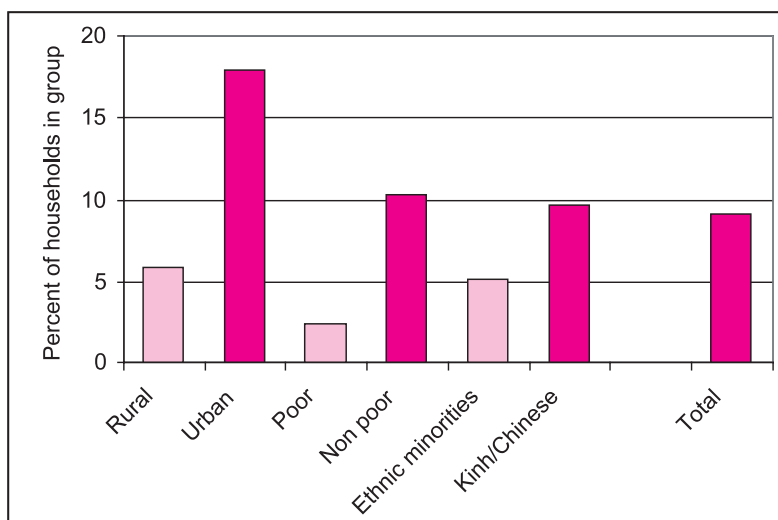
Overall, 57 percent of participants in the Nghe An program would accept to switch in the absence of any subsidy. Disturbingly, those least interested in switching to the national voluntary program are poorer or older than the rest.

Source: Paulette Castel (2007a).

agency (Figure 10.3). Not surprisingly, the fraction is much higher among urban, non-poor households, belonging to the Kinh and Chinese majority. This is because most of the pensioners of today were government employees and SOE workers prior to 1995, when the new rules for contributory pension were introduced.

Pension payments are an important source of income for the households of the elderly. With most pensioners being former civil servants and SOE workers, these payments are clearly

regressive. Almost half of pension spending goes to the two richest quintiles and only 2 percent to the poorest. From this perspective, pensions are not a pro-poor program. A different conceptual exercise is to subtract social security income from household expenditures. Based on data from the 2004 VHLSS, the poverty rate would have been 4.6 percentage points higher, with most of the impact coming from pensions. From this perspective, then, pensions do contribute to poverty reduction.

Figure 10.3: Households Receiving Pension Income


Source: Based on preliminary data from GSO. Figures are for 2006.

However, these analyses do not really tell what the real poverty impact of the pension program is. In order to assess such impact a counterfactual would be needed in which households know that they cannot count on pension income and need to save on their own for old age. The impact of the program would be assessed by comparing the actual poverty rate with the poverty rate in the hypothetical counterfactual. Constructing the counterfactual would require behavioral assumptions in relation to labor force participation, savings or household composition, spanning entire life cycles. Not everybody is likely to agree on such assumptions though. And theoretical uncertainties would be compounded further by data limitations. It is therefore safer not to pass a judgment as to whether the pension program introduced in Vietnam in 1995 is generally progressive or regressive. On the other hand, it should be possible to assess whether the formulas of the pension program implicitly subsidize or penalize participants with different characteristics.

Weak incentives

Whether pension benefits are generous or not depends on the work history of each individual,

making it difficult to derive general patterns. But one practical step that can be undertaken is to compare those benefits with a hypothetical actuarial benchmark, for workers with different characteristics.

Consider the case of a man whose salary has grown by six percent per year in real terms, who retires at age 60, and lives until age 78. Assume for a moment that this man had not enrolled in the pension program, but had nevertheless saved 16 percent of his salary for a certain number of years. Assume also that the savings accrued at an annual rate of 4 percent, in real terms. In this hypothetical benchmark, when reaching age 60 the man withdraws the savings and buys an annuity, to be paid to him for as long as he lives. Such deal would be actuarially fair, in the sense that the present value of this man's savings would be equal to the present value of his annuity payments. A similar benchmark calculation could be done for a woman retiring at age 55 and leaving until age 80.

Now consider that the savings go into the compulsory pension program instead. In this case, computing the pension at retirement involves calculating first the "average salary" to which the formula applies. And such "average

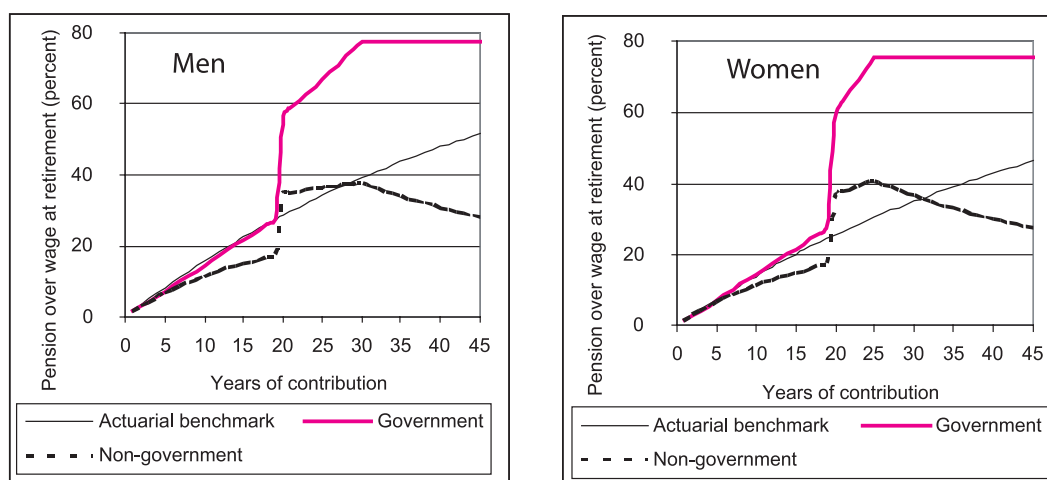
salary" varies depending on whether the person works for the government or not. If not, the average salary is computed over all the years of contribution. But if the person works for government, the average is computed only over the last few years before retirement, from a minimum of five for those who started before 1995, to a maximum of ten for those who joined after 2005. To make salaries comparable over time, they need to be adjusted for inflation. But here, again, there is a difference between those working for government and the rest, with past salaries adjusted by the minimum wage in the former case and by consumer prices in the latter. For the conceptual exercise, it is assumed that inflation runs at 5 percent per year and real wages grow by 6 percent per year. Beyond the specific figures, it is clear that the "average salary" of someone working for government is much higher than that of a person with the same work history but out of government. Note also that the pension program of Vietnam only pays a lump sum to participants who retire with less than 20 years of contribution. To be able to compare its value to the actuarial benchmark, this lump sum can be converted into an equivalent string of payments. One possibility

is to assume that it is invested, yielding 4 percent per year in real terms, the same as in the actuarial benchmark.

The comparison between the estimated pension benefits and the actuarial benchmark shows that the compulsory program of Vietnam creates winners and losers (Figure 10.4). Government employees are clear winners, in the sense that their pension benefits are either comparable to the actuarial benchmark or higher. Some times much higher. The findings also show that women do better than men. This is because their pension benefits accrue more rapidly after 15 years of contribution, but also because their longer life expectancy results in a lower actuarial benchmark. On the other hand, non-government employees stand to lose except if they choose to contribute for less than 30 years.

Different assumptions on the growth rate of real wages, or the annual rate of inflation, or the real rate of return on savings would yield different patterns. Regardless, considerable gaps would remain between actual pension benefits and the actuarial benchmark. And government employees and women would most likely emerge as net beneficiaries anyway.

Figure 10.4: Pension Benefits and the Actuarial Benchmark



Source: Based on Paulette Castel and Martin Rama (2005), updated so as to reflect the changes made to the draft Social Insurance Law by the National Assembly. Pension benefits include 3 percent contribution paid by VSS towards health insurance.

The comparison between pension benefits and the actuarial benchmark is relevant to assess the prospects of extending the coverage of the program. The expansion cannot come from the government sector, as it is already fully covered. As for private sector workers, they will be less likely to enroll if the pension program does not compare well with saving on their own. Admittedly, the actuarial benchmark would be difficult for them to match. The market for annuities is thin in practice, so that self-insuring against the risk of living longer than resources would be difficult. But it is still distressing to realize that the pension program of Vietnam is unlikely to be appealing for private sector workers who have less than 20 years left before reaching retirement age. And it is also clear that the program discourages participation beyond 30 years of contribution.

Managing resources

The social insurance programs of Vietnam seem to enjoy an enviable financial health so far. VSS is responsible for managing the resources of these programs. In recent years its revenue has far exceeded its expenditures (Table 10.1). In 2006 the surplus was 36 trillion dong, or roughly the equivalent of 3.7 percent of GDP. However, this robust performance should not come as a surprise. The population of Vietnam is very young, so that there is barely one pensioner for every 15 contributors to the system. Moreover,

pensioners are mainly former government employees and SOE workers whose benefits have been grandfathered. Resources to pay for their benefits come directly from the budget, so that the actual expenditures of VSS are modest.

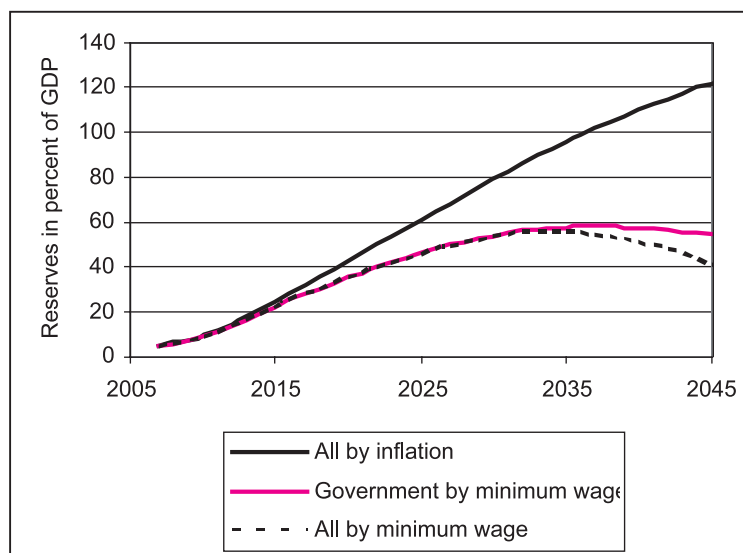
The reforms introduced by the Social Insurance Law of 2006 also ensure a good financial health for VSS in the longer term. The sustainability of the pension program hinges on the way the "average salary" of non-government employees is calculated. To allow comparisons over time, past salaries are inflated by consumer prices. But in a country with the growth prospects of Vietnam, actual salaries will almost certainly increase much faster than consumer prices. Adjusting past salaries by inflation thus results in the "average salary" falling increasingly behind the salary at retirement. This is not the case for government employees, whose "average salary" is computed only over the last few years of service, with past figures adjusted by the minimum wage, not by consumer prices. But most of the growth in coverage of the pension program will come from the non-government sector. Therefore, it is the low pensions of non-government employees that will ensure the financial viability of the pension program.

The volume of reserves of the pension program will accumulate in the long term will crucially depends on how pensions are indexed to inflation. The Social Insurance Law states that the adjustment will be based on consumer prices and economic growth. But how exactly

Table 10.1: Social Insurance Revenue and Spending

Year	Total revenue	Long-term benefits			Short-term benefits			Total spending	Balance
		Old-age pensions	Lump sums	Survivor benefits	Sickness invalidity	Maternity	Industrial injury		
2002	26.7	7.0	0.4	0.3	0.2	0.3	0.1	8.2	18.5
2003	33.7	10.2	0.4	0.4	0.2	0.5	0.1	11.7	22.0
2004	42.6	11.2	0.5	0.4	0.2	0.6	0.1	13.1	29.5
2005	51.6	15.3	0.9	0.4	0.2	0.7	0.1	17.6	33.9
2006	60.7	21.4	1.2	0.6	0.3	1.1	0.1	24.7	36.0

Source: Based on data from VSS. Figures are in trillion dong.

Figure 10.5: The Reserves of the Pension Program

Source: Based on Paulette Castel, and Martin Rama (2005), updated so as to reflect the changes made to the draft Social Insurance Law by the National Assembly. The real return on investments is assumed to be 4 percent per year.

this rule is interpreted can make a difference. It could mean that the reference is the growth in consumer prices, provided that economic circumstances make it affordable. Or it could be read as saying that pensions should not lose value compared to the salaries of those at work. In the first case, pensions would be adjusted by the inflation rate; in the second they could follow the minimum wage (a choice that MOF seems to favor at present). For a decade or so, this choice would only affect the budget transfer the government needs to make to VSS to pay for the pensions of former government employees and SOE workers. But the implications of this choice become noticeable as non-government workers start to retire, in a decade or so (Figure 10.5).

There are other aspects in which the financial

health of the pension program does not seem so enviable. By one estimate, the administrative costs of VSS amount to roughly 4 percent of total contributions. And yet, 6 percent is retained, which raises questions as to how the remaining 2 percent is being used. More importantly, the reserves of the pension program are yielding a return below inflation. Investments have concentrated on safe sources with very low rates of return. These are predominantly in the public sector. According to one study, more than half of the portfolio is in bank deposits in state-owned commercial banks, a third goes to support development projects and the rest goes into government bonds and treasury bills. The figures in this study are most probably outdated by now. But it is unlikely that returns have increased much since then.

11. INSURANCE SCHEMES

Market mechanisms can be very effective at diversifying risk and cushioning shocks. Financial products such as life insurance, savings products for old age or agricultural insurance redistribute resources from "lucky" individuals and households who are not affected by shocks toward the "unlucky" ones who are. From this perspective they can be seen as part of the broader social protection system. Since most of the poor and vulnerable already actively participate in markets, as entrepreneurs, employees or consumers, in principle at least they could also benefit from the protection provided by such financial products. However, the markets for these products also suffer from imperfections that make government intervention necessary. Without it, the share of the population covered could be thin and participants would be exposed to providers defaulting on their obligations. For markets to work for those who need protection the most, they must first be able to work at all. In practice, the required degree of government intervention varies considerably across segments, from industry regulation to active monitoring to market organization. At one end, well-performing insurers can provide an efficiency benchmark against which to assess the management of government-run social insurance mechanisms. For instance, returns on the assets of private pension funds (net of commissions and fees) are an obvious comparator for the returns of the assets of public pension programs. At the other end, there is a need to design incentives so that the poor and other groups who would tend to be excluded stand a chance to participate in those markets. Access to life and disability insurance through micro-credit schemes is an illustration of this

approach. In between, government leadership can be combined with private delivery. Agricultural insurance is a case in point. Reimbursement obligations on commercial loans by farmers could be linked to an objective indicator (such as upstream water levels), based on a classification of land plots by risk area. But such products are unlikely to emerge without an initial government investment. In extreme cases, insurance needs to be provided by the government itself. Natural disasters fall in this category. Exposure to multiple hazards, which is likely to increase as a result of climate change, requires stronger coordination arrangements between all the ministries and agencies involved.

Insurance products

Vietnam's insurance system has experienced healthy growth. The sector's liberalization took place in 1993 when entry by multiple stakeholders was first authorized. Life insurance started in 1996 and began to grow from 1999 onward, when large foreign insurers joined the market. Reform accelerated from 2003 when Bao Viet, a state-owned company established in 1965 originally to provide only import-export cargo and shipping insurance, was restructured into a financial group with life and non-life insurance services. Bao Viet and other state-owned insurers have since then been equitized into joint stock companies, whereas private joint stock insurance companies and brokers have been established.

By the end 2006, there were 37 firms of diversified legal form and scale operating in the life and non-life insurance, reinsurance,

and insurance brokerage sectors (Figure 11.1). Of these, three were fully state-owned, 16 were joint stock companies, four were joint ventures and the remaining 15 were fully private. Such diversification of ownership forms shows how much the sector has matured in the decade since life insurance started in Vietnam.

Premium income for the insurance sector was close to 15 trillion dong in 2006, or about 1.5 percent of GDP. This represents a growth of 9.6 percent over the previous year. About 57 percent of that income was accounted for by life insurance. Funds invested by the insurance industry amounted to almost 31 trillion dong, or 3 percent of GDP. More than half of the total was invested in government bonds, close to a quarter was in deposits, and roughly a tenth each in equity shares and trust investments. Financial performance was strong, thanks to enhanced risk assessment and loss prevention capacity. Insurers have also performed well in terms of gross and net claim ratios.

However, the overall insurance penetration rate is lower than elsewhere in the region. By way of comparison, premium income reaches 3.5 percent of GDP in Thailand, 5.4 percent in

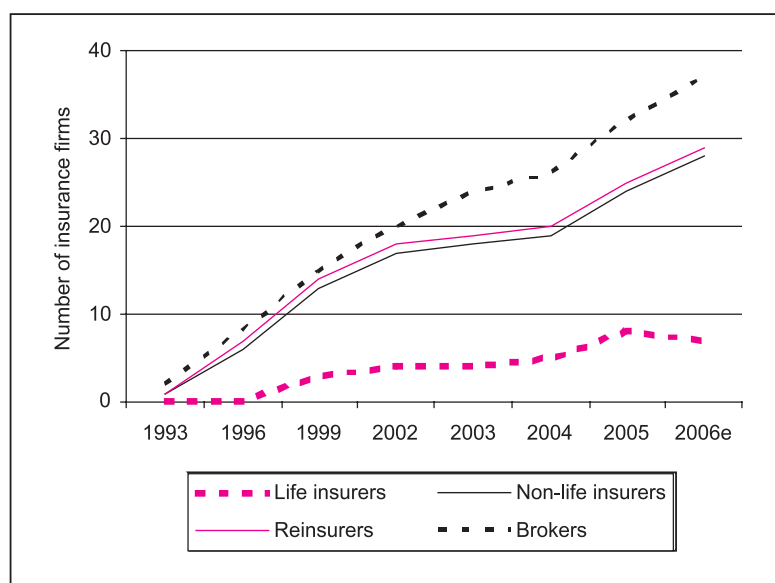
Malaysia and nearly 10 percent in industrial countries. In Vietnam today, more than 90 percent of the population does not have any formal insurance policy.

For many years the growth of the sector rested on life insurance, which was opened for foreign investment earlier on and is by now dominated by foreign firms. The products offered number around 100. Among them, endowment insurance has been the dominant product, with an 80 percent share in new business premiums. The sector is offering increasing benefits, combining insurance protection with savings and investment elements, thus attracting larger size contracts on average. Yet, the number of new life policies sold decreased in 2006, and so has the number of life insurance agents.

To some extent, the healthy growth observed in life insurance for many years reflected the scarcity of long-term saving instruments in Vietnam. By now, however, life insurers are confronted with heated competition from the thriving banking sector and the stock market.

The non-life insurance sector, which was until recently dominated by domestic firms, started

Figure 11.1: A Steady-Growing Sector



Source: Vietnam Association of Insurers.

growing rapidly since accession to WTO. This means that protection of businesses and households against risks of accidents, business events and natural catastrophes started improving gradually. Non-life insurers are offering about 700 products. Vietnam's WTO commitments include allowing participation by foreign investors in the lucrative statutory insurance business from 2008 onwards. Among the areas to be opened up, motor insurance accounts for the largest share, followed by property and casualty insurance.

Products more closely related to social protection remain marginal. For instance, there were only 1.4 thousand policies for annuities. Even on life insurance, there are half a million policies active at present, which is the equivalent of roughly one for every 40 households. Commercial health insurance looks more promising. Local firms such as Bao Viet, Bao Minh and Pjico are implementing schemes focusing on school children. However, no study has yet assessed the coverage, benefit package and amount reimbursed of such schemes. Another area with growth potential is private pensions (Box 11.1).

Insurance for the poor

Commercially-oriented insurance companies rarely offer products that are attractive to the poor. The typical sources of market failure in insurance markets, related to asymmetric information between policy holders and insurance managers, are exacerbated in their case. High administrative costs usually lead to sizeable insurance premiums that poor households cannot afford. Premiums are anyway bound to be higher than for the population as large, as the poor have shorter life expectancies, higher disability rates and a higher incidence of disability. Moreover, the relative complexity of premiums, benefits and contingent payments is often difficult to grasp for individuals and households with limited financial knowledge. Thus, the typical insurance products offered by commercially-oriented companies only reach individuals and households with relatively high incomes. This is also true in the case of Viet Nam.

However, a few commercially-oriented mechanisms have emerged to provide social protection to low-income populations at local levels. Two broad schemes, namely micro-insurance groups and credit unions, deserve especial attention.

Several micro-insurance products are already available in the case of Vietnam. Overall, the sector is growing rapidly, although from a low base. Microfinance groups and mass organizations have developed programs such as aid funds, hunger and calamity reserves and cash allowances for war invalids and merit citizens. Other groups have introduced the write-off of outstanding debts in the event of death. Sometimes the household of the insured person also receives a funeral grant.

Some commercially-oriented companies offer micro-insurance products as well. Bao Viet proposes products requiring low premiums; as low as 15 thousand dong per person per month for people under 31 years of age. This is for a policy with a value of five million dong in the event of death. Mass organizations (in particular the Women's Union) and sometimes microfinance institutions are used as brokers.

There is less information in relation to health insurance funds. The experience in Hoc Son, Hanoi, indicates the presence of serious adverse selection problems. Participants are primarily pregnant, old, or in bad health. There are also some signs of abuse, such as healthy people getting medicines for other, noninsured members of their family.

Information is also limited in relation to emergency loans. A 2004 survey of insurance and micro-insurance products found that interest-based lenders, pawnshops, and two savings-and-loans funds of the Women's Union (in Nghe An and HCMC) were providing emergency loan services. Besides these cases, a detailed study of households in the Duyen Hai District in Tra Vinh Province also indicates that it is common for poor households to borrow in kind. Rice is indeed obtained in small quantities from friends and relatives, but small traders also lend rice through the shortage period leading up to the harvest.

Box 11.1: Private Pension Programs

The main risk with private pension funds is to see them defaulting on their obligations towards the insured. Few companies live for many decades. It might therefore be difficult for someone of working age today to trust one such company to administer his or her savings and faithfully pay a pension until death ensues.

Private pension funds with defined contributions manage savings on behalf of policy holders up to the point of their retirement. In doing so, they function like an investment fund. Therefore, similar regulations should apply. In both cases, provisions are needed against excessive borrowing. If by design a defined contribution fund does not have debt, it cannot go bankrupt, except for the case of fraud. As for the risk of fraud, it should be mitigated by appropriate regulation and supervision to ensure sound business conducts and professional ethics.

Yet, even with limited borrowing and in the absence of fraud there might be cases of poor performance. For instance due to recessions, or to poor management. An important policy issue is how much protection should be given to the insured against such risks.

Private pension funds which provide a minimum guarantee have an element of "defined benefit," or entitlement, which creates liabilities and thus risk of bankruptcy. Prudential regulation is required to discourage excessive risk taking by pension funds providing such a guarantee. Such funds must have a strong risk management capability. Aside from a tight limit on borrowing, regulation often includes specific restrictions as to the type of assets that such funds are allowed to invest in. For instance, illiquid assets and unlisted securities tend to be banned.

The behavior of pension fund managers should be closely monitored not only by the supervisor but also by policy holders. If a pension fund is legally organized as a company (or an investment company), policy holders would be the equivalent of shareholders. They should participate in the board of directors, having the power to hire or fire a fund manager and overseeing his or her performance of the pension fund manager. Similar arrangements should be made even when a pension fund takes a contractual form such as a business trust.

Assets managed on behalf of policy holders should be kept in a competent and independent custodian. Execution of sale and purchase of assets often requires a broker. Regulation should require that such a broker not be affiliated with the pension fund manager. There should also be arrangements in place to ensure a high degree of transparency of business dealings between the fund manager and the broker. Those arrangements are necessary to avoid the appropriation of assets through business practices such as "churning", "front running" or "self-dealing". The securities market regulator should have adequate competency to police such activities in the market.

Regulation should promote competition among pension fund managers. To ensure that, pensioners should be provided with good portability so that they can choose and move to a well performing pension manager. This requires a competent individual account management capability by the pension fund manager and its custodian. The regulation should require that they have appropriate electronic data processing. The performance of pension funds should also be made easily and frequently observable. In the case of investment funds, they are typically required to publicize their net asset value (NAV) daily. A similar requirement should be applied to pension funds. In a similar spirit to the case of open-end investment funds, pensioners should be provided with possibilities to liquidate their contributions without a prohibitive penalty.

At retirement, a pensioner should have an option of receiving a lump sum or reinvesting it in an annuity or getting a mixture of both. Pension fund managers could continue to manage the annuity if they have appropriate expertise to do so. In many countries, however, life insurance companies manage annuities because they specialize in actuarial business.

One of the government's larger-scale credit programs, VBSP, targets its lending towards low-income groups and includes emergency loans among its products. Households can borrow up to 10 million dong to cover living

expenditures with no collateral required. Borrowers must instead be certified by the People's Committee of their commune and be part of a credit and savings group. These two requirements aim at reducing the risk of default,

but they also considerably increase the time it takes to get a loan. As a result of this delay, VBSP processes few emergency loans in practice.

Besides administrative delays and a sometimes limited local outreach, the low provision of emergency loans by VBSP can also be linked to its reliance on commune authorities and local mass organizations to seek out the eligible poor households and organize lending groups. Local Women's Union representatives have raised concerns about the high costs for them to run these activities properly, and have complained that these costs have not been fully factored in. Local authorities also express reluctance to endorse emergency loans, which are considered a high risk because they are not related to any productive investment.

Supporting micro-insurance products and emergency loans requires specific financial expertise. In the case of micro-insurance, to determine the level of premiums it is necessary to estimate the frequency of the risks that are being insured and the magnitude of the losses associated with bad shocks. Also, to profitably invest and manage the resources collected, assess and process the claims, and rapidly disburse the benefits, some financial expertise and administrative capacity are required. But such expertise is seldom available at local levels. This explains why most providers of micro-insurance have turned to commercial insurance companies for the management of their insurance schemes. This is the so-called partner-agent model where the formal insurance company assumes the financial risks and the microfinance institution serves as a "matchmaker" to provide lower-cost links between the parties.

Agricultural insurance

With a majority of the poor living in rural areas, and their livelihoods depending so much on crop success, agricultural insurance is a potentially important social protection instrument. However, two common programs plague agricultural insurance programs around the world, namely moral hazard and adverse

selection. The experience of Vietnam has been similar to that of many other countries in this respect. When Bao Viet experimented with agricultural insurance in the 1980s and 1990s it soon learned that it was extremely difficult to control administrative costs due to the small size of the average farm. Since then, the instrument has not really picked up.

Yet, focus groups discussions conducted in Dong Thap province in 2007 suggest that flooding remains a major concern. The most severe shocks are linked to early flooding, with numerous participants referring to a particularly devastating episode in 2000. Back then, not only did many of them lose their crops and incur additional debt, but some also ultimately lost land rights when they were unable to pay off their debts. Some of them have responded to early flooding by advancing the harvest. While this approach reduces costs, it also reduces benefits due to the poorer quality of rice when it is harvested early on.

The feedback obtained from these focus groups suggests that farmers do appreciate the idea of linking insurance to commercial loans. They appear to value the lower transaction costs, and thus lower administrative costs, that would accompany this type of contract. And they understand the rationale for using the level of water in the river as an objective indicator to decide on repayment. Not everybody is supportive, however. Some of the participants think that recent improvements in infrastructure would result in less flooding than 2000, even if mapping work suggests otherwise. Some farmers also believe that the government will forgive debts, despite recent policy changes calling for the halt of this practice.

In light of Vietnam's past experience with agricultural insurance and also based on this study of Dong Thap province, solutions have been proposed to mitigate the traditional problems of high administrative cost, adverse selection, and moral hazard. Those solutions hinge on flood-index insurance offered over the short period of time (June 20 to July 10) when early flooding interferes with the rice harvest.

Three insurance products can be considered.

One possibility is to index the level of water upstream (at the Tan Chau hydro-meteorological station) and to provide indemnity payments directly to the dominant rural lending agency, the Vietnam Bank for Agriculture and Rural Development (VBARD). A second possibility is to provide farm-level indemnity. In this case, assessment costs can be kept under control by classifying farm plots into flood risk zones and using remote sensing satellite technology to measure the water level. A third possibility is to pass on the benefit directly to rice producers based on flood risk mapping, instead of adjusting the benefit based on actual flood levels.

Natural disasters

Vietnam has a long history of striving to manage and reduce the damage risk from natural hazards. This history goes back over centuries, ever since floods were seen as one of the "four biggest dangers to mankind", together with fire, robbers and invaders. By 1248, the Red River dyke system had already been established. At present, a system of river embankments and sea dykes spans thousands of kilometers. There is also increasing recognition that climate change can exacerbate natural disasters, leaving large numbers of people in need of emergency support and pushing many households back into poverty.

The government has succeeded remarkably well in reducing the direct impacts of extreme climatic events. To manage the disaster cycle, Vietnam has structures and mechanisms that provide prior mitigation, response during the disaster, and subsequent recovery and reconstruction. Much of the effort is undertaken by the provinces and communes where disasters occur, in the name of the subsidiarity principle. But there is also recognition that current approaches, largely geared towards handling floods and storms, need to be reconsidered.

At present, key institutions to manage and reduce natural disasters include the inter-ministerial Central Committee for Flood and Storm Control, which is replicated at the level of

the province, district and commune administration. They also include the National Committee for Search and Rescue, which reports to the Prime Minister, and the Committee for Distribution of Goods and Money, with participation of the Fatherland Front and MOF. Other institutions are also associated with the effort to reduce and manage risks from natural disasters are the National Hydro-meteorological Center and GSO.

Public funding is provided under different appropriations at the level of Central Government. Investments to prevent and mitigate natural hazards include structures such as dykes and resources such as hydro-meteorological forecasting capacity. These investments are financed by the concerned ministries as part of their regular programs. Disaster response activities and post-disaster relief are funded by MOLISA, which tops up the resources mobilized by the affected provinces themselves.

These institutional and funding arrangements have served Vietnam well in the past and have resulted in considerable achievements. Yet the performance of the current disaster risk management systems seems to be falling behind.

In the absence of a broader consensus on how to jointly address exposure to multiple hazards, individual ministries pursue prevention and mitigation investments in isolation. They often emphasize disconnected structural measures, thus forgoing important synergies. Multi-hazard exposure requires the involvement of multiple ministries and agencies. While there seems to be no single best organizational structure for that purpose, it is widely accepted that a strong central agency is key in a disaster management system. In Vietnam, the preparation, approval and implementation of public investments that would make provinces more resilient to natural disasters are cumbersome, with little sense of urgency on the part of concerned authorities. These investments are often not integrated into a broader national strategy and plan.

In addition to structural investments, for instance in river embankments, drainage canals or safe harbors, much can be done at relatively little cost. Introducing disaster risk management at the community level, through low-cost "Safer Commune" or "Safer Village" plans, is a promising approach. Another avenue is to undertake flood modeling, which allows to better plan the effect of possible infrastructure investments on flood and water flows. Land use planning is also key to minimize economic activities taking place on marginal sites vulnerable to disasters. Similarly, revisiting

construction codes with the aim of disaster-proofing public infrastructure and private property would help increase resilience to disasters.

Faster implementation of disaster relief and recovery is often hampered by the absence of credible damage and loss assessments. Better assessments would provide for better decision making in terms of resources needed and targeting. Credible assessments are also instrumental in mobilizing international funding in the case of larger damage events.

**PART III:
THE WAY
FORWARD**

12. AN INTEGRATED APPROACH

As poverty continues to fall, new forms of vulnerability emerge. The rapid ageing of the population, massive rural-urban migration, the growing importance of non-communicable diseases, fluctuations originating in world markets, natural disasters and climate change confront Vietnam with unprecedented challenges. But the response to those challenges cannot be simply to mimic the social protection models of industrial countries. Poverty still remains an issue. It remains deep for many in the ethnic minorities; it may be changing its face in urban areas. Just dealing with risks will not be enough, as some groups are not doing well even in good times. Instead, it is better to think of social protection as a combination of policies and programs across three areas: opportunity to thrive, support for those left behind and insurance to cope with shocks. Much has been accomplished by Vietnam in all three. As it joins the ranks of middle-income countries, entering a period of fundamental economic and social transformation, more will be needed to ensure that growth remains inclusive. The key to success may be in a better integration of policies and programs across all three areas. While specific policy recommendations may be offered in each of them, they can be brought together under the form of four main priorities: extending coverage, strengthening incentives, improving information and managing resources.

A reform agenda

Vietnam is at the dawn of an unprecedented economic and social transformation. The average citizen is a mostly healthy 26 years old who lives in a rural area, belongs to a multi-

generation household including grand-parents and works in agriculture or does informal activities, such as being a casual laborer or helping in a household business. Because of a rapid demographic transition, in a few decades population will be much older on average. And because of rapid rural-urban migration, it will have moved too. In a couple of decades this average citizen may have health concerns, will most probably have migrated to a city, could be part of a nuclear household including no grandchildren, will most probably be part of the formal economy as a wage employee or a businessperson, and will not be so far from retirement.

How well will the institutional arrangements of Vietnam support this transformation? How can they contribute to making the personal journeys of millions of citizens become stories of prosperity and accomplishment, not of hardship and uncertainty? Jobs will be needed for people to move out of agriculture and informal sector activities. Local development will be required to boost the living standards of those who do not migrate. Social services should be accessible for those who do, and may need them away from home. Health care should be affordable and of good quality. Instruments should be available for people to save towards their old age. And protection mechanisms should exist to cope with multiple risks along the way, from natural disasters to anti-dumping actions by trade partners to catastrophic health shocks.

Targeted programs aimed at the most vulnerable will not be enough. Targeted programs were never a critical component of the government strategy anyway. They aimed at helping the neediest households cope with the costs of

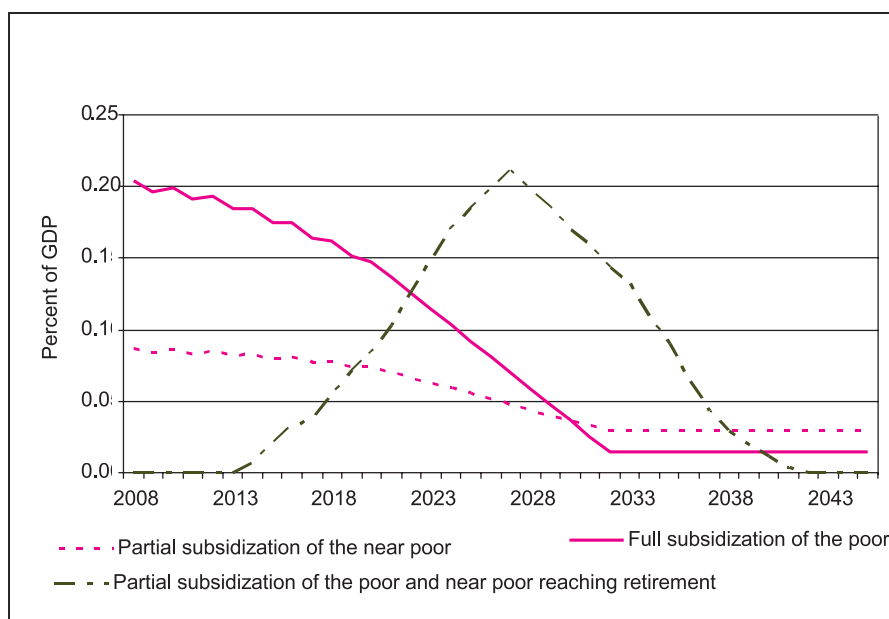
social services and to gain access to credit. They also supported the most disadvantaged communes to integrate with the market economy. But they never represented a major budgetary outlay, and only reached a fraction of the poor. The strategy of the government has relied more on economic growth, the redistribution of land and reasonably good health and education. And when it comes to social policies, the stated ambition of the government is to build universal programs. From this perspective, targeted programs can become important in supporting the participation of the poor and the vulnerable in mainstream social programs. But mere social assistance will not do.

However, the policy agenda of a country at Vietnam's development level cannot be to mimic the social protection systems of industrial countries either. Poverty remains a serious issue. It continues to decline rapidly in rural areas, but for the first time it seems to have stagnated, perhaps even increased, in urban areas. The higher cost of living in

booming economic hubs may start to take a toll on those whose means are barely above the poverty line. In rural areas, the plight of ethnic minorities deserves special attention. Many in this population group are bound to "cross" the poverty line in the coming years, which will result in continued poverty reduction overall. But they will still be barely above the line for the foreseeable future. And meanwhile, many among the ethnic minorities will still be suffering from deep poverty. A policy agenda focused on managing risks and shocks only would fail to deliver to these groups, as they experience hardship even in the best of times.

A common vision on what needs to be done seems to exist among policy makers, academics and the population at large. It is a vision of shared and inclusive growth, in the socialist spirit of Vietnam. Based on the success of Doi Moi, it involves relying on market mechanisms to the extent possible, to ensure an efficient allocation of resources in the short term and sustain innovation and growth in the longer

Figure 12.1: The Cost of Subsidizing Participation in the Pension Program



Source: Paulette Castel (2007b).

term. But it also entails mobilizing government resources to finance the participation of the poor and other vulnerable groups. And it requires market regulation and policy stewardship, to ensure that everybody has access to services and that quality standards are met.

But the specifics remain unclear, often resulting in frustration in the daily implementation of social policies and programs. One way to articulate the reform agenda is under the form of four policy priorities: extending coverage, strengthening incentives, improving information and managing resources.

Extending coverage

While the vision underlying the social protection agenda is one of shared growth and inclusion, Vietnam is quite far from anything resembling universal coverage for its social programs. In the case of health insurance, the initial target was to get there by 2010. By now close to half of the population is covered, which is certainly an accomplishment for a country at Vietnam's development level. But subsequent gains could prove increasingly difficult. Coverage is even more limited in relation to pensions, raising the prospect of large liabilities when the young of today reach retirement age, if budgetary resources need to be mobilized to pay for non-contributory pensions. Targeted programs do not reach all of their intended beneficiaries either; far from that.

Implementing the vision will require bolder steps. The full subsidization of participation by the poor in mainstream programs, already adopted in the case of health insurance, opens a promising avenue. But more budgetary resources may be needed as the health insurance premium increases to match real health care costs. The partial subsidization of the near poor, to be undertaken from 2008 onwards, should also contribute to the expansion of coverage. As for those who will not benefit from subsidies, there is a need to contain the adverse selection. It could be tempting to expand coverage by simply lowering requirements to enroll. However, mechanisms such as group insurance or household enrollment will be necessary if the

health insurance program is to remain financially viable.

Something similar could be done in the case of pensions, where a minimum contribution towards retirement and some basic benefits could be paid by government to the social insurance agency on behalf of each poor household head. A necessary complement to this approach is the partial subsidization of participation by the near-poor. Without it, the incentive for households to escape poverty could be reduced and enrollment could decline among those who do escape.

One important question is whether a strategy involving the subsidization of a large fraction of the population can be afforded. The answer is probably yes. To begin with, part of the subsidization simply entails shifting current government funding from providers (say, public hospitals) to purchasers of services (the social security agency, or a dedicated fund for chronic illnesses and life-threatening diseases). In the case of pensions, the alternative to the subsidy is not savings: it is a contingent liability, as something will need to be done sooner or later to support old people without income. The truly additional spending can be contained as long as policies are in place to support a rapid reduction in poverty.

This is shown by a recent study which assessed the cost of three, potentially complementary avenues to extend coverage in the case of old-age pensions. The first option is to pay in full the minimum contribution towards the voluntary pension program for one adult per poor household. The second one is to partially subsidize the participation of one adult per near-poor household in the voluntary pension program. Based on a previous study on the willingness to pay for old-age pensions, the subsidy was set in this option at 40 percent of the minimum contribution. Finally, the third option is to help the same two groups reach a minimum pension at retirement if their contributions are not sufficient. In this third case, the subsidy is equivalent to the gap between the pension or lump-sum they would be entitled to and half of the minimum wage.

Taking household sizes into consideration, the study estimates the cost of financing the participation of 1.9 million poor and 2 million near poor today, and the partial subsidization of pensions to one million poor and near poor as they reach retirement age. The simulations are based on the assumption that the minimum contribution and the pension levels grow at the same rate as income per capita. The results show that these options are affordable (Figure 12.1). The analysis may need further refinement before reaching a firm conclusion. But these results are plausible, for two reasons. The first one is that the voluntary pension program sets the minimum contribution at a relatively low level, which also results in relatively low pensions. The second is the expected decline in poverty rates, which should reduce the need for subsidization over time.

For the subsidization approach to work in practice, two complementary policies need to be considered. One of them is to use targeted programs more systematically as a vehicle for the poor and the near poor to participate in mainstream programs. This is the spirit of Decision 139, but there are a range of other targeted programs whose effectiveness is less clear. A consolidation of current program under the form of a narrower and better defined set of benefits and transfers, including health insurance premiums, social security contributions and possibly cash transfers could help in this respect.

The other complementary policy to consider refers to the allocation of resources to sub-national levels. In a country as decentralized as Vietnam, the implementation of national policies varies considerably depending on the capacity and the resources of local governments. From this perspective, it is important to ensure that provincial resources are commensurate with provincial needs. In this respect, developing a property tax providing resources to local governments would help. This move would reduce the reliance of local authorities on regressive fees. It is also important to make sure that the budget allocation norms used to redistribute resources to provincial levels and below take into

consideration the costs of extending the coverage of social protection programs.

As for the compulsory health insurance and old-age pension programs, the extension of coverage hinges on the gradual formalization of the economy. In this respect, the main priority is to avoid penalizing job creation through excessively high contribution rates. Labor costs are already bound to increase rapidly, as a result of the rapid minimum age increases necessary to comply with WTO commitments. The Social Insurance Law, by foreseeing an increase in contributions towards old-age pension, and possibly towards unemployment insurance, may add to this burden. In the same spirit, balancing the books of the health insurance program through a higher contribution rate would not be an advisable move.

Strengthening incentives

Increased reliance on market mechanisms, one of the foundations of Doi Moi, can certainly lead to large efficiency gains. The improvement in the quality of care provided by hospitals operating in an autonomous manner is a case in point. However, in sectors which are precisely characterized by market imperfections, undesirable outcomes cannot be ruled out. Hospitals may become good at catering to those who can pay, but they can also neglect the mandatory provision of free services to the poor. Improving the monitoring of health care providers is thus an important priority.

The mechanisms used by the government to regulate these sectors can be a source of distortions as well. Health insurance has the merit of shifting the funding of health care from the supply side (say, hospitals) to the demand side (the insured and VSS). In doing so, it has the potential to foster competition among providers and increase the overall efficiency of the health sector. However, just adopting health insurance is not enough to contain the escalation of costs or to ensure a better quality of service (Box 12.1). The payment schedules used by the social insurance agency to reimburse health care providers can encourage excessive diagnosis and treatment, resulting in an unwarranted

Box 12.1: The Limits of Mandatory Social Health Insurance

Like Vietnam, countries in the former Soviet block had tax-financed health systems in place when they began their transition to a market economy. Many experienced substantial reductions in government revenues along the way, and many looked to mandatory social health insurance (SHI) as a way to raise additional revenues for the health sector. SHI was also seen as an opportunity to move away from paying health facilities through budgets, and instead pay them according to the volume of care delivered, sometimes through a competitive contracting process. In the end, roughly half of the countries in the former soviet block adopted SHI. Some opted for a hybrid model, creating a SHI agency and adopting provider payment reforms, but financing the agency through income taxes or general revenues.

A recent study finds that the countries that did adopt SHI experienced increases in government health spending, controlling for other contemporaneous factors, and also saw hospital activity increase somewhat. The transitions did not, however, bring a measurable reduction in mortality or disease incidence, despite the higher levels of health spending. Several of those countries are now busy trying to introduce stronger incentives in the system to ensure that their higher spending levels translate into better health outcomes.

All countries that adopted SHI have explicitly maintained the commitment to universal coverage, by using tax revenues to finance "contributions" for people outside the formal sector. In practice, this has worked better in some countries than in others. Fiscally decentralized countries like Russia appear to have faced more difficulties. It does not appear that subsidized participants are denied care or receive worse quality care. But there is a shortfall of revenue for the health system as a whole.

China's recent experience is also of potential relevance to Vietnam. In 2003, the government began rolling out a voluntary health insurance program in rural areas following the almost total collapse of the old commune-based cooperative medical system. The new scheme is heavily subsidized for everyone, with government picking up about 65 percent of its total cost. In the poorest provinces, contributions are paid entirely by government.

In part because of the very generous subsidies, enrollment has been very high. The program appears to have increased utilization, but seems to have had only modest impacts on the risk of large out-of-pocket payments. This partly reflects a more intensive utilization of services, which is a positive outcome. But the impact of insurance on out-of-pocket payments per contact has been minimal.

Because the budget for the program is small relative to total health spending in China, coinsurance rates are high, the list of exclusions extensive, deductibles sizeable, and reimbursement ceilings fairly low. All of which explains the high out-of-pocket payments. But even in urban areas, people with insurance face more costly care partly because they end up being treated at higher levels in the system. It is not clear that this extra expense is warranted on medical grounds. There is certainly evidence in China of extensive "supplier-induced demand". It stems in part from the emphasis on fee-for-service and the fact that facilities have almost complete autonomy.

China is now trying to deepen coverage. But the additional resources will come from more generous government subsidies, not from higher household contributions. It is also trying to introduce provider payment reforms and other measures that will allow the insurer to put downward pressure on costs and upward pressure on quality.

escalation of health care costs. This is certainly an area deserving attention by authorities.

The benefit formulas used for the old-age pensions program affect the incentives to save and to participate in the system. Pensions are quite far from what an actuarially fair system would provide. Government employees and

women get more, out of the same stream of contributions, than private sector workers and men do. After 20 years of contributions, the incentive to remain enrolled starts declining and it is in the interest of participants to under-declare their earnings. Parametric changes should be made to the benefit formulas to bring them closer to the actuarial benchmark,

so that those who contribute more also get more. In practice this can be accomplished by gradually moving towards a system of "notional" accounts, which mimic through accounting what could be accomplished by saving at a given interest rate and buying an annuity at retirement.

Moving closer to the actuarial benchmark would also help introduce flexibility into the retirement age. At present, mandatory ages are too far from the work patterns of the elderly in Vietnam. Many of them would prefer to continue contributing for a longer time and enjoy a higher pension subsequently. Low retirement ages may also dissuade many people of working age from joining the voluntary pension program. Under present rules, few men aged 40 or more and women aged 35 or more could be interested in participating. Because they would know for sure that they can only aspire to a lump sum payment, not to a pension. And it is the assurance of a flow of revenue in old age that people value most.

The emergence of private pension funds will require that attention be paid to the portability of benefits across programs. As Vietnam grows richer, many may want to consider topping up their publicly run pension by saving through a private pension program. The more complementary the two systems are, the stronger the incentive to combine them. Eventually, for some segments of the population the voluntary pension program will have to compete with private pension providers. This can be a healthy development, whose potential would be amplified if savings could be transferred across programs. Equally important is to regulate and closely supervise private pension programs, to reduce the risk of them defaulting on their obligations, through bankruptcy or fraud.

Some of the most complex incentive issues might actually be faced in rural areas. Sustaining the emergence of flood insurance and other market-based tools to deal with natural disasters will not be easy. Without a proper institutional set up, involving cadastral maps, hazard modeling and verifiable

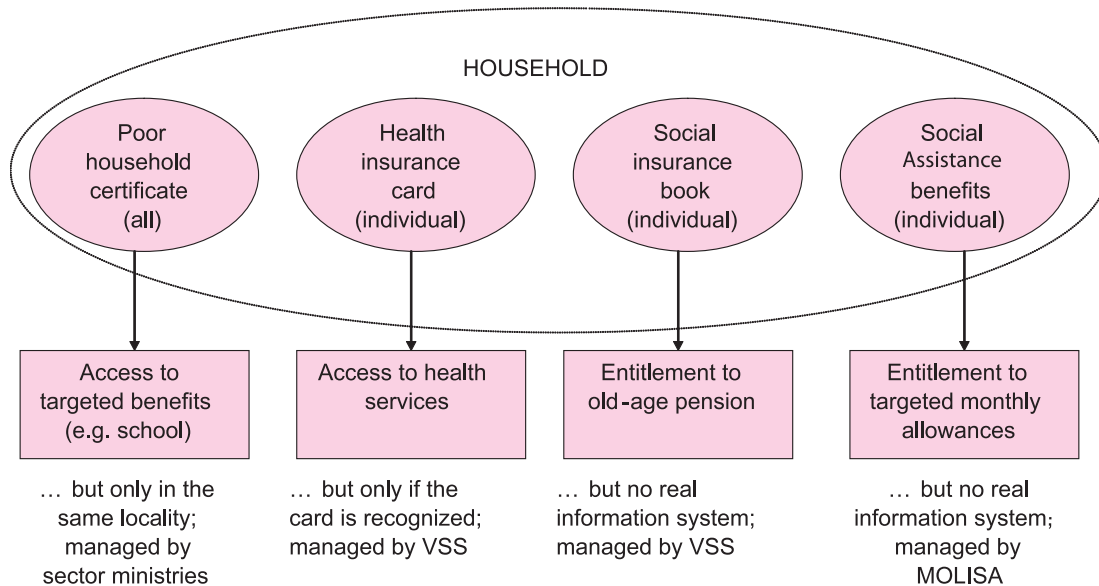
information, insurers may simply not be interested. In other areas, such as agricultural extension, finding the right incentives may involve a much deeper understanding of cultural differences between ethnic minorities and the majority group. The current offer of services is based on models which have worked well in the lowlands but may be of little relevance for swidden cultivation on sloping plots of land.

Improving information

The vision of an integrated approach to social protection is at odds with the current fragmentation of information systems (Figure 12.2). Targeted programs use the classification of households by poverty status, conducted by local officials of MOLISA. Cash transfers for vulnerable groups, while also managed by MOLISA, are handled separately. Health insurance and old-pension programs run on their own information systems, focused on individuals rather than households. All of these programs rely on the place where the household or the person lives, or is supposed to live, through a system of residential registration which often restricts access to benefits in other localities. Such system seems ill-adapted to a country where a large fraction of the population will be moving from rural to urban areas in the coming years.

The fragmentation of information systems is such that the ministries in charge of formulating policies cannot really monitor the behavior of the populations they are supposed to serve. For instance, MOLISA knows little about the typical jobs and earnings transitions of contributors towards old-age pensions. And MOH has difficulty figuring out how health care services are used by different participants in the health insurance program.

Detailed information on the use of health care facilities and services is obviously important to adequately reimburse providers. At a more fundamental level, this information is critical to monitor the delivery of services, assess patterns of health care demand, monitor costs, and

Figure 12.1: A Fragmented Approach to Information Management

design appropriate policies for the health sector. At present, however, this information does not circulate from providers to policy makers or the social insurance agency.

In the case of MOH, a central division on health information is the focal point for collecting and analyzing health statistics for the sector. At the provincial level, there are one or two persons in charge of health care data. And at district levels, health departments are responsible to process a series of forms compiled at commune level. But there are many such forms, and each NTHP has its own information system. The result is a compilation of paper documents with little potential to feed into any usable database.

VSS also has a health information system, which records inpatient stays and outpatient visits by the insured. Inspection units, based in hospitals, are responsible for data entry. Unfortunately, the impressive amount of information being compiled by provincial and district hospitals does not seem to be processed further.

There are several ongoing attempts to introduce modern information technology in parts of the social protection architecture. Some

commercial banks are paying old-age pensions using cards for automatic teller machines. Lang Son is relying on sophisticated chip cards for participants in the health insurance program. In itself, each of these initiatives bears much promise. But the new systems are not connected to a general architecture for information management, which limits their effectiveness. Further down the road, bringing common standards into these scattered efforts may add complexity to an already difficult problem.

The main recommendation in this area is to introduce a single social insurance number, to be given to every person at birth regardless of coverage. The poverty status of the household the person belongs to can be updated on an annual basis. The social insurance number can serve as the platform to document personal histories in connection to employment, earnings and health care use, among others. With adequate information management systems, these personal histories can help design better provider payment mechanisms in health, and eventually support the introduction of individual accounts in the case of pensions.

Unlike current registration cards, a single social insurance number would allow the full portability of benefits throughout the country. From this perspective, it could make a contribution to labor mobility, helping migrants access social services regardless of location. A single social insurance number could also limit the denial of service often observed at present. Eventually, the social insurance number would reduce the usefulness of the household registration system, an administrative approach which served well in its recent history but is not well suited for a more dynamic and mobile economy.

Managing resources

Delivering on the social protection agenda also requires solid financial management. Targeted programs involve transferring resources to thousands of communities and millions of households. Extending the coverage of social programs will require some form of subsidization for the poor and perhaps the near poor, with the budget covering the contributions of a significant portion of the population, or supporting provinces to do so. The development of the health insurance program amounts to shifting an increasingly large share

Box 12.2: Managing Public Pension Reserves

Public pension reserves are managed poorly in many countries. Funds are often forced to invest in government bonds and housing loans at low nominal interest rates. In countries that suffered from high inflation, real investment returns were negative. Even in stable countries, returns on public pension reserves have often been below market. To address these problems, several industrial countries have in recent years revamped the governance structure and investment management of their public pension funds. Canada, Ireland, New Zealand and Norway are among them.

Separate state entities with their own boards of directors have been created in three of these countries. The boards of directors are responsible for formulating the investment policies of the funds, setting the strategic asset allocations, and supervising management. They have adopted corporate governance and conflict of interest guidelines and have set up Audit Committees to ensure the effectiveness of internal control systems. They have appointed auditors and global custodians and adopted appropriate asset segregation and valuation rules. They have also made considerable use of external advisers on a wide variety of topics, ranging from advice on asset allocation strategies to the selection of external asset managers and the adoption of information systems.

Public accountability of the funds is buttressed by regular independent reviews of their performance as well as special examinations that may be commissioned by the ministries of finance. All the funds are required to submit reports to the government and give evidence to parliamentary committees.

All four funds have placed special emphasis on monitoring and controlling both financial (market) and operational risks. They have all separated investment decision making from back-office operations, including record keeping, settlement, and performance measurement. They have developed detailed control procedures. And they have all installed sophisticated systems to measure the performance of external asset managers.

In three of the countries, the funds started by emphasizing passive management through external asset managers. However, this concept was relatively quickly expanded to allow active management, use of customized indexing to limit excessive exposure to index-dominating companies and allow investments in smaller companies. Internal management capabilities were developed, first in passive management and progressively also in active management. The approach was later expanded to encompass investments in private equity, real estate and infrastructure projects as well as emerging markets.

All four pension funds have achieved positive investment results with excess returns over their respective benchmarks. However, equity returns were adversely affected by stock market bubbles. The best performer was New Zealand, partly due to its avoidance on unsettled capital markets.

Source: Dimitri Vitis and others (2007).

of the funding for health care from public providers to wholesale purchasers of services. The pension program, in turn, is bound to accumulate a massive amount of reserves during several decades. This is because the population is young and the labor market is formalizing, so that dependency ratios will remain low.

Transparent financial management will be crucially important in all these areas. There will be a need to make sure that targeted communes do receive the resources they are entitled to and manage them properly. It will be necessary to monitor that those who are classified as poor get their social security contributions totally or partially paid for out of public resources. The purchasing decisions of the social insurance agency will involve hundreds of thousands of providers, from

public hospitals to private clinics to NGO facilities to certified doctors. Scrutiny will be required to avoid abuse or favoritism, as in any other public procurement decision.

An area deserving special attention is the management of the reserves of the old-age pension program. Those reserves already exceed the equivalent of three billion dollars. But they are placed in bonds and liquid assets yielding low returns. There is a need for strategic decisions as to what the authorized investments are, and how portfolio reallocation decisions are going to be made. Transparent mechanisms could also be considered to report to the National Assembly on the financial performance of social protection programs, including the management of reserves, perhaps on an annual basis (Box 12.2).

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STATISTICAL APPENDIX

STATISTICAL APPENDIX

Population and Employment

Table 1.1	Population
Table 1.2	Population by locality
Table 1.3	Total employment by sectors

National Account

Table 2.1	GDP by industrial origin and by economic sector in current prices
Table 2.2 A	GDP by industrial origin and by economic sector in constant prices
Table 2.2 B	GDP by industrial origin -- growth rate
Table 2.3 A	GDP deflator
Table 2.3 B	Change in GDP deflator
Table 2.4	National accounts: sources and uses

Balance of Payments

Table 3.1	Balance of payments
Table 3.2	Merchandise exports by commodities
Table 3.3	Merchandise imports by commodities

Monetary Survey

Table 4.1	Monetary survey
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Budget

Table 5.1	State budget revenues (VND billion)
Table 5.2	State budget revenues (share of GDP)
Table 5.3	State budget expenditures (VND billion)
Table 5.4	State budget expenditures (share of GDP)
Table 5.5	External Debt

Prices

Table 6.1 A	Monthly change in consumer retail prices
Table 6.1 B	Monthly consumer price index
Table 6.2 A	Price index by commodity groups (monthly change)
Table 6.2 B	Price index by commodity groups: monthly growth rates (December 2005 = 100)

Agriculture

Table 7.1	Agriculture production in current price
Table 7.2	Agriculture production in constant price
Table 7.3	Industrial crop production and yields

Industry

Table 8.1	Industrial production output
Table 8.2	Major industrial products

Table 1.1: POPULATION
(thousand persons)

Year	Population (mid-year)	Growth Rate	By sex		By area	
			Male	Female	Urban	Rural
1976	49,160	2.35	23,597	25,563	10,127	39,033
1977	50,237	2.19	24,197	26,039	10,116	40,114
1978	51,337	2.19	24,813	26,524	10,105	41,226
1979	52,462	2.19	25,444	27,018	10,094	42,368
1980	53,630	2.23	26,047	27,583	10,295	43,335
1981	54,824	2.23	26,665	28,159	10,499	44,324
1982	56,045	2.23	27,297	28,747	10,708	45,336
1983	57,292	2.23	27,944	29,348	10,921	46,371
1984	58,568	2.23	28,607	29,961	11,138	47,429
1985	59,872	2.23	29,285	30,587	11,360	48,512
1986	61,109	2.07	29,912	31,197	11,817	49,292
1987	62,452	2.20	30,611	31,841	12,271	50,181
1988	63,727	2.04	31,450	32,277	12,662	51,065
1989	64,774	1.64	31,589	33,185	12,919	50,801
1990	66,017	1.92	32,203	33,814	12,880	53,136
1991	67,242	1.86	32,814	34,428	13,228	54,015
1992	68,450	1.80	33,242	35,208	13,588	54,863
1993	69,645	1.74	34,028	35,616	13,961	55,683
1994	70,825	1.69	34,633	36,191	14,426	56,399
1995	71,996	1.65	35,237	36,758	16,938	55,057
1996	73,157	1.61	35,857	37,299	15,420	57,737
1997	74,037	1.20	36,473	37,564	16,835	57,202
1998	75,456	1.92	37,090	38,367	17,465	57,992
1999	76,597	1.51	37,662	38,935	18,082	58,515
2000	77,635	1.36	38,166	39,469	18,805	58,830
2001	78,686	1.35	38,684	40,002	19,481	59,205
2002	79,727	1.32	39,197	40,530	20,004	59,723
2003	80,902	1.47	39,755	41,147	20,870	60,033
2004	82,032	1.40	40,311	41,721	21,737	60,295
2005	83,106	1.31	40,846	42,260	22,337	60,770
2006	84,156	1.26	41,355	42,801	22,824	61,332

Note: Population by sex and by area may not add to the total due to the possible exclusion of the armed force and migrant worker.

Source: GSO (2007)

Table 1.2: POPULATION BY SEX AND LOCALITY IN 2006

(thousand persons)

Provinces/ Cities	Total	By sex		By locality	
		Male	Female	Urban	Rural
Ha Noi	3,217	1,612	1,604	2,102	1,115
Hai Phong	1,803	891	912	826	978
Ha Giang	684	338	345	76	608
Tuyen Quang	732	363	370	69	664
Cao Bang	519	255	264	70	449
Lang Son	746	371	375	150	596
Lai Chau	320	161	159	50	270
Dien bien	459	231	229	77	382
Lao Cai	586	393	193	108	478
Yen Bai	741	367	374	147	594
Bac Can	302	151	151	45	256
Thai nguyen	1,127	563	564	257	870
Son La	1,008	507	501	110	897
Hoa Binh	820	409	412	126	694
Vinh Phuc	1,180	572	609	165	1,015
Phu Tho	1,337	657	680	210	1,127
Bac ninh	1,010	492	518	133	877
Bac Giang	1,594	788	806	147	1,448
Quang Ninh	1,091	553	539	509	582
Ha Tay	2,544	1,226	1,318	261	2,282
Hai Duong	1,723	835	888	268	1,454
Hung Yen	1,143	553	590	127	1,016
Thai Binh	1,865	896	969	136	1,730
Nam Dinh	1,974	963	1,011	309	1,666
Ha Nam	827	400	426	80	747
Ninh Binh	923	450	473	141	781
Thanh Hoa	3,680	1,803	1,878	360	3,320
Nghe An	3,064	1,503	1,562	326	2,739
Ha Tinh	1,306	649	658	144	1,162
Quang Binh	848	419	429	119	729
Quang Tri	626	309	316	154	472
Thua Thien - Hue	1,144	562	582	360	784
Quang Nam	1,473	713	760	252	1,221
Da Nang	789	381	407	680	109
Quang Ngai	1,296	629	667	186	1,110
Binh Dinh	1,566	763	803	394	1,172
Phu Yen	873	433	440	183	690
Khanh Hoa	1,135	564	572	453	682
Ninh Thuan	568	281	287	185	383
Binh Thuan	1,163	580	583	437	726
Gia Lai	1,162	591	570	350	812
Kon Tum	383	192	191	134	249
Dac Lac	1,738	876	861	389	1,349
Dac Nong	407	202	205	53	355
Lam Dong	1,179	590	589	443	736
Ho Chi Minh City	6,106	2,946	3,160	5,245	861
Binh Duong	964	462	502	282	682
Tay Ninh	1,047	515	532	178	869
Binh Phuoc	810	411	398	123	686
Dong Nai	2,215	1,099	1,116	686	1,529
Baria - Vung Tau	926	464	462	414	513
Long An	1,423	700	723	236	1,188
Dong Thap	1,668	814	854	252	1,416
An Giang	2,210	1,087	1,124	621	1,590
Tien Giang	1,717	834	884	256	1,461
Ben Tre	1,353	657	696	132	1,221
Vinh Long	1,057	514	543	158	899
Tra Vinh	1,037	505	532	150	887
Can Tho	1,140	561	579	572	568
Hau giang	797	392	405	124	673
Soc Trang	1,276	622	654	235	1,041
Kien Giang	1,685	831	854	405	1,279
Bac Lieu	820	399	421	209	611
Ca Mau	1,232	608	624	248	984

Note: Population by sex and by area may not add to the total due to the possible exclusion of the armed force and migrant workers.

Source: GSO (2007)

Table 1.3: TOTAL EMPLOYMENT BY SECTOR

(thousand of persons)

	2000	2001	2002	2003	Rev 2004	Rev 2005	Prel 2006
Total Employment	37,610	38,563	39,508	40,574	41,586	42,527	43,347
State	3,501	3,604	3,751	4,035	4,142	4,039	4,008
Non-state	34,109	34,959	35,757	36,538	37,445	38,488	39,339
State Sector Employment	3,501	3,604	3,751	4,035	4,142	4,039	4,008
Central	1,442	1,499	1,569	1,628	1,678	1,613	1,572
Local	2,059	2,105	2,181	2,407	2,464	2,426	2,435
Employment by Sector							
Agriculture, forestry and fisheries	24,481	24,468	24,456	24,443	24,431	24,342	24,123
Industry and Construction	4,930	5,552	6,085	6,671	7,217	7,782	8,280
Services	8,199	8,542	8,967	9,460	9,939	10,402	10,945

Note: Figures are rounded*Source:* GSO (2007)

Table 2.1: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR

(VND billion at current prices)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Total	441,646	481,295	535,762	613,443	715,307	839,211	973,790
State	170,141	184,836	205,652	239,736	279,704	322,241	363,449
Non-State	271,505	296,459	330,110	373,707	435,603	516,970	610,341
Agriculture, Forestry and Fisheries	108,356	111,858	123,383	138,285	155,993	175,984	198,266
Agriculture	87,537	87,861	96,543	106,385	119,107	132,985	149,234
Forestry	5,913	6,093	6,500	7,775	9,412	10,052	10,780
Fisheries	14,906	17,904	20,340	24,125	27,474	32,947	38,252
Industry and Construction	162,220	183,515	206,197	242,126	287,616	344,224	404,753
Mining	42,606	44,345	46,153	57,326	72,492	88,897	99,919
Manufacturing	81,979	95,211	110,285	125,476	145,475	173,122	206,945
Electricity and Water	13,993	16,028	18,201	22,224	25,091	28,929	33,386
Construction	23,642	27,931	31,558	37,100	44,558	53,276	64,503
Services	171,070	185,922	206,182	233,032	271,698	319,003	370,771
Trade	62,836	67,788	75,617	83,297	96,995	113,768	132,794
Hotel and Restaurant	14,343	15,412	17,154	18,472	22,529	29,329	35,861
Transportation and Communication	17,341	19,431	21,095	24,725	30,402	36,629	43,825
Finance, Banking and Insurance	8,148	8,762	9,763	10,858	12,737	15,072	17,607
Science and Technology	2,345	2,646	3,009	3,694	4,315	5,247	6,059
Real Estate and Renting	19,173	21,589	24,452	27,287	31,304	33,635	36,814
Public Administration	12,066	12,784	13,816	16,676	19,061	23,037	26,737
Education and Training	14,841	16,245	18,071	21,403	23,335	26,948	30,718
Healthcare and social welfare	5,999	6,417	7,057	8,865	10,851	12,412	14,093
Culture and Recreation	2,558	2,800	2,987	3,376	3,693	4,158	4,617
Party and Association	614	651	712	774	885	1,054	1,217
Community and Social Service	9,853	10,412	11,412	12,497	14,354	16,293	18,789
Private Household Employment	953	985	1,037	1,108	1,237	1,421	1,640

Source : GSO (2007)

Table 2.2: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR

(VND billion at constant 1994 prices)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Total	273,666	292,535	313,247	336,242	362,435	393,031	425,135
State	111,522	119,824	128,343	138,160	148,865	159,836	170,001
Non-State	162,144	172,711	184,904	198,082	213,570	233,195	255,134
Agriculture, Forestry and Fisheries	63,717	65,618	68,352	70,827	73,917	76,888	79,505
Agriculture	54,493	55,613	57,912	59,761	62,107	64,072	65,892
Forestry	2,544	2,556	2,568	2,589	2,610	2,635	2,665
Fisheries	6,680	7,449	7,872	8,477	9,200	10,181	10,948
Industry and Construction	96,913	106,986	117,126	129,399	142,621	157,867	174,239
Mining	18,430	19,185	19,396	20,611	22,437	22,854	23,037
Manufacturing	51,492	57,335	63,983	71,363	79,116	89,338	100,396
Electricity and Water	6,337	7,173	7,992	8,944	10,015	11,247	12,574
Construction	20,654	23,293	25,755	28,481	31,053	34,428	38,232
Services	113,036	119,931	127,769	136,016	145,897	158,276	171,391
Trade	44,644	47,779	51,245	54,747	59,027	63,950	69,418
Hotel and Restaurant	8,863	9,458	10,125	10,646	11,511	13,472	15,145
Transportation and Telecom	10,729	11,441	12,252	12,925	13,975	15,318	16,870
Finance, Banking and Insurance	5,650	6,005	6,424	6,935	7,495	8,197	8,867
Science and Technology	1,571	1,749	1,909	2,044	2,196	2,368	2,543
Real Estate and Renting	12,231	12,631	13,106	13,796	14,396	14,816	15,252
Public Administration	8,021	8,439	8,768	9,228	9,773	10,477	11,270
Education and Training	9,162	9,687	10,475	11,260	12,125	13,127	14,231
Healthcare and social welfare	3,946	4,151	4,464	4,853	5,234	5,640	6,082
Culture and Recreation	1,601	1,648	1,706	1,857	1,997	2,163	2,329
Party and Association	317	334	353	372	395	423	454
Community and Social Service	5,734	6,026	6,353	6,743	7,141	7,655	8,210
Private Household Employment	567	583	589	610	632	670	720

Source : GSO (2007)

Table 2.2B: GDP BY INDUSTRIAL ORIGIN -- GROWTH RATE

(in percent)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Total	6.8	6.9	7.1	7.3	7.8	8.4	8.2
State	7.7	7.4	7.1	7.6	7.7	7.4	6.4
Non-State	6.2	6.5	7.1	7.1	7.8	9.2	9.4
Agriculture, Forestry and Fisheries	4.6	3.0	4.2	3.6	4.4	4.0	3.4
Agriculture	4.0	2.1	4.1	3.2	3.9	3.2	2.8
Forestry	0.4	0.5	0.5	0.8	0.8	1.0	1.1
Fisheries	11.6	11.5	5.7	7.7	8.5	10.7	7.5
Industry and Construction	10.1	10.4	9.5	10.5	10.2	10.7	10.4
Mining	7.2	4.1	1.1	6.3	8.9	1.9	0.8
Manufacturing	11.7	11.3	11.6	11.5	10.9	12.9	12.4
Electricity and Water	14.6	13.2	11.4	11.9	12.0	12.3	11.8
Construction	7.5	12.8	10.6	10.6	9.0	10.9	11.0
Services	5.3	6.1	6.5	6.5	7.3	8.5	8.3
Trade	6.3	7.0	7.3	6.8	7.8	8.3	8.6
Hotel and Restaurant	4.1	6.7	7.1	5.1	8.1	17.0	12.4
Transportation and Telecom	5.8	6.6	7.1	5.5	8.1	9.6	10.1
Finance, Banking and Insurance	6.1	6.3	7.0	8.0	8.1	9.4	8.2
Science and Technology	24.0	11.3	9.1	7.1	7.4	7.8	7.4
Real Estate and Renting	2.6	3.3	3.8	5.3	4.3	2.9	2.9
Public Administration	3.9	5.2	3.9	5.2	5.9	7.2	7.6
Education and Training	4.0	5.7	8.1	7.5	7.7	8.3	8.4
Healthcare and social welfare	6.4	5.2	7.5	8.7	7.9	7.8	7.8
Culture and Recreation	6.4	2.9	3.5	8.9	7.5	8.3	7.7
Party and Association	5.7	5.4	5.7	5.4	6.2	7.1	7.3
Community and Social Service	3.1	5.1	5.4	6.1	5.9	7.2	7.3
Private Household Employment	3.1	2.8	1.0	3.6	3.6	6.0	7.5

Source : GSO (2007)

Table 2.3A: GDP DEFLATOR

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Total	1.6	1.6	1.7	1.8	2.0	2.1	2.3
State	1.5	1.5	1.6	1.7	1.9	2.0	2.1
Non-State	1.7	1.7	1.8	1.9	2.0	2.2	2.4
Agriculture, Forestry and Fisheries	1.7	1.7	1.8	2.0	2.1	2.3	2.5
Agriculture	1.6	1.6	1.7	1.8	1.9	2.1	2.3
Forestry	2.3	2.4	2.5	3.0	3.6	3.8	4.0
Fisheries	2.2	2.4	2.6	2.8	3.0	3.2	3.5
Industry and Construction	1.7	1.7	1.8	1.9	2.0	2.2	2.3
Mining	2.3	2.3	2.4	2.8	3.2	3.9	4.3
Manufacturing	1.6	1.7	1.7	1.8	1.8	1.9	2.1
Electricity and Water	2.2	2.2	2.3	2.5	2.5	2.6	2.7
Construction	1.1	1.2	1.2	1.3	1.4	1.5	1.7
Services	1.5	1.6	1.6	1.7	1.9	2.0	2.0
Trade	1.4	1.4	1.5	1.5	1.6	1.8	1.9
Hotel and Restaurant	1.6	1.6	1.7	1.7	2.0	2.2	2.4
Transportation and Telecom	1.6	1.7	1.7	1.9	2.2	2.4	2.6
Finance, Banking and Insurance	1.4	1.5	1.5	1.6	1.7	1.8	2.0
Science and Technology	1.5	1.5	1.6	1.8	2.0	2.2	2.4
Real Estate and Renting	1.6	1.7	1.9	2.0	2.2	2.3	2.4
Public Administration	1.5	1.5	1.6	1.8	2.0	2.2	2.4
Education and Training	1.6	1.7	1.7	1.9	1.9	2.1	2.2
Healthcare and social welfare	1.5	1.5	1.6	1.8	2.1	2.2	2.3
Culture and Recreation	1.6	1.7	1.8	1.8	1.8	1.9	2.0
Party and Association	1.9	1.9	2.0	2.1	2.2	2.5	2.7
Community and Social Service	1.7	1.7	1.8	1.9	2.0	2.1	2.3
Private Household Employment	1.7	1.7	1.8	1.8	2.0	2.1	2.3

Source : GSO (2007)

Table 2.3B: CHANGE IN GDP DEFLATOR

(in percent)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Total	3.4	1.9	4.0	6.7	8.2	8.2	7.3
State	2.0	1.1	3.9	8.3	8.3	7.3	6.0
Non-State	4.4	2.5	4.0	5.7	8.1	8.7	7.9
Agriculture, Forestry and Fisheries	1.8	0.2	5.9	8.2	8.1	8.5	9.0
Agriculture	1.0	-1.7	5.5	6.8	7.7	8.2	9.1
Forestry	2.7	2.6	6.2	18.6	20.1	5.8	6.0
Fisheries							
Industry and Construction	6.8	2.5	2.6	6.3	7.8	8.1	6.5
Mining	18.0	0.0	2.9	16.9	16.2	20.4	11.5
Manufacturing	3.7	4.3	3.8	2.0	4.6	5.4	6.4
Electricity and Water	4.2	1.2	1.9	9.1	0.8	2.7	3.2
Construction	1.0	4.8	2.2	6.3	10.2	7.8	9.0
Services	1.4	2.4	4.1	6.2	8.7	7.4	0.0
Trade	-0.5	0.8	4.0	3.1	8.0	8.3	7.5
Hotel and Restaurant	2.8	0.7	4.0	2.4	12.8	11.2	8.8
Transportation and Telecom	5.4	5.1	1.4	11.1	13.7	9.9	8.6
Finance, Banking and Insurance	2.6	1.2	4.2	3.0	8.5	8.2	8.0
Science and Technology	-0.6	1.4	4.2	14.7	8.7	12.8	7.5
Real Estate and Renting	2.4	9.0	9.2	6.0	9.9	4.4	6.3
Public Administration	-0.6	0.7	4.0	14.7	7.9	12.7	7.9
Education and Training	1.9	3.5	2.9	10.2	1.2	6.7	5.1
Healthcare and social welfare	4.3	1.7	2.3	15.6	13.5	6.2	5.3
Culture and Recreation	1.1	6.3	3.1	3.8	1.7	4.0	3.1
Party and Association	-0.5	0.6	3.5	3.2	7.7	11.2	7.6
Community and Social Service	2.6	0.6	4.0	3.2	8.5	5.9	7.5
Private Household Employment	3.3	0.5	4.2	3.2	7.8	8.4	7.4

Source : GSO (2007)

Table 2.4A: NATIONAL ACCOUNTS: SOURCES AND USES

(VND billion at current prices)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Sources	452,524	492,277	563,446	664,671	769,307	874,299	1,006,261
GDP	441,646	481,295	535,762	613,443	715,307	839,211	973,790
Trade Balance	10,878	10,982	27,684	51,228	54,000	35,088	32,471
Uses	452,524	492,277	563,446	664,731	769,307	874,299	1,006,261
Total Consumption	321,853	342,607	382,137	445,221	511,221	584,793	668,540
Gross Capital Formation	130,771	150,033	177,983	217,434	253,686	298,543	347,900
Statistical Discrepancy	-100	-363	3,326	2,076	4,400	-9,037	-10,179

Source : GSO (2007)

Table 2.4B: NATIONAL ACCOUNTS: SOURCES AND USES

(VND billion at constant 1994 prices)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Sources	283,751	304,230	334,640	367,691	392,558	417,469	449,966
GDP	273,666	292,535	313,247	336,243	362,435	393,031	425,135
Trade Balance	10,085	11,695	21,393	31,448	30,123	24,438	24,831
Uses	283,751	304,232	334,640	367,691	392,558	417,469	449,966
Total Consumption	200,665	210,029	225,610	243,515	260,940	280,104	301,382
Gross Capital Formation	83,496	92,487	104,256	116,623	128,916	143,291	156,645
Statistical Discrepancy	-410	1,716	4,774	7,553	2,702	-5,926	-8,061

Source : GSO (2007)

Table 3.1: BALANCE OF PAYMENTS

(US\$ million, unless otherwise indicated)

	2000	2001	2002	2003	2004	Rev 2005	Est 2006
Exports (fob)	14,449	15,027	16,706	20,150	26,485	32,447	39,826
Imports (fob)	14,071	14,546	17,760	22,730	28,772	34,886	42,602
Trade Balance	378	481	-1,054	-2,580	-2,287	-2,439	-2,776
Non-Factor Services	-615	-572	-750	-780	-870	-220	-8
Services (net)	-595	-635	-790	-815	-890	-1,220	-1,430
Transfers (net)	1,476	1,250	1,920	2,240	2,485	3,380	4,050
- Official Transfers	136	150	150	140	175	230	250
- Private Transfers (net)	1,340	1,100	1,770	2,100	2,310	3,150	3,800
Current Account Balance (incl. Grants)	644	524	-674	-1,940	-1,565	-500	-165
Capital Account	-525	-330	1,137	4,017	2,448	2,628	4,486
Medium and Long-Term	730	625	520	974	1,396	1,360	1,140
- Disbursements	1,410	990	1,100	1,540	1,920	1,915	1,690
ODA Loans	1,360	960	1,070	1,260	1,395	1,430	1,380
Non-concessional LT Borrowing	50	30	30	280	525	485	310
- Amortizations	680	365	580	566	524	555	550
Portfolio investment						865	1,315
Short-Term (net) (1)	-1,755	-1,380	-993	1,738	-293	-1,030	276
Direct investment	1,100	1,245	2,025	1,895	1,880	1,960	2,400
FDI loan repayments	600	820	415	590	535	525	645
Overall Balance	119	194	463	2,077	883	2,131	4,321
Financing	-119	-194	-463	-2,077	-883	-2,131	-4,321
<i>Memo item:</i>							
Current account as % of GDP	0.0	0.0	0.0	57.5	63.2	-0.9	-0.3

Note: Figures are rounded

(1) Including errors and omissions

Source: SBV, World Bank and IMF

Table 3.2: MAJOR EXPORTS BY COMMODITY

(US\$ million)

	2000	2001	2002	2003	2004	2005	Prel 2006
Total Exports	14,448	15,027	16,706	20,176	26,485	32,442	39,826
Rice	667	625	726	721	950	1,047	1,276
Quantity (000 tons)	3,477	3,729	3,241	3,813	4,060	5,250	4,643
Average Unit Value (US\$/ton)	192	168	224	189	234	199	275
Crude oil	3,503	3,126	3,270	3,812	5,671	7,373	8,265
Quantity (000 tons)	15,424	16,732	16,879	17,143	19,501	17,967	16,419
Average Unit Value (US\$/ton)	227	187	194	222	291	410	503
Coal	94	113	156	184	355	669	915
Quantity (000 tons)	3,251	4,290	6,049	7,246	11,624	17,986	29,307
Average Unit Value (US\$/ton)	29	26	26	25	31	37	31
Rubber	166	166	268	378	641	804	1,286
Quantity (000 tons)	273	308	449	433	975	587	708
Average Unit Value (US\$/ton)	607	539	597	872	658	1,370	1,817
Tea	70	78	83	60	96	97	110
Quantity (000 tons)	56	68	75	60	99	88	106
Average Unit Value (US\$/ton)	1,250	1,150	1,103	1,002	961	1,103	1,045
Coffee	501	391	322	505	641	735	1,217
Quantity (000 tons)	734	931	719	749	975	892	981
Average Unit Value (US\$/ton)	683	420	449	674	658	824	1,241
Cashew Nut	167	152	209	284	436	502	504
Quantity (000 tons)	34	44	62	84	105	109	127
Average Unit Value (US\$/ton)	4,892	3,474	3,358	3,390	4,150	4,610	3,973
Black Pepper	146	91	107	105	152	150	190
Quantity (000 tons)	37	57	77	74	112	109	117
Average Unit Value (US\$/ton)	3,943	1,601	1,399	1,416	1,362	1,381	1,632
Marine Products	1,479	1,778	2,023	2,200	2,401	2,739	3,358
Vegetable & Fruits	214	330	201	151	179	235	259
Textiles and Garments	1,892	1,975	2,752	3,687	4,386	4,838	5,834
Footwear	1,465	1,559	1,867	2,268	2,692	3,040	3,592
Handicraft	237	235	331	367	426	569	630
Wood products	294	335	435	567	1,139	1,563	1,933
Electronic and Computer parts	788	709	605	855	1,075	1,427	1,708
Electric cables and wires	130	154	188	292	389	523	705
Plastic products	100	134	153	154	261	350	480

Source : GSO (2007)

Table 3.3: MAJOR IMPORTS BY COMMODITY

(US\$ million)

	2000	2001	2002	2003	2004	2005	Prel 2006
Total Imports	15,637	16,162	19,733	25,227	31,954	36,978	44,891
Petroleum products	2,058	1,828	2,017	2,433	3,574	5,024	5,970
Quantity (000 tons)	8,777	8,998	9,966	9,995	11,050	11,478	11,213
Average Unit Value (US\$/ton)	234	203	202	243	323	438	532
Fertilizers	509	404	477	628	824	641	687
Quantity (000 tons)	3,973	3,189	3,824	4,119	4,079	2,877	3,189
Average Unit Value (US\$/ton)	128	127	125	152	202	223	216
Steel and Irons	812	965	1,334	1,657	2,573	2,931	2,936
Quantity (000 tons)	2,868	3,938	4,951	4,574	5,186	5,524	5,707
Average Unit Value (US\$/ton)	283	245	269	362	496	531	515
Others							
Machinery and Equipment	2,571	2,741	3,793	5,359	5,249	5,281	6,628
Textile fiber and yarn	231	247	314	298	339	340	544
Cotton	101	132	97	106	190	167	219
Material for garment & footwear	1,422	1,590	1,711	2,034	2,253	2,282	1,951
Motor vehicles and parts	238	433	604	834	904	1,193	672
Motorbikes	787	670	422	329	452	541	557
Pharmaceutical material	62	69	83	76	100	116	133
Medicine	325	296	320	374	410	502	548
Paper of all kinds	142	159	193	230	248	362	475
Chemicals	307	352	406	510	683	865	1,042
Chemical products	304	361	482	582	706	841	1,007
Plastic materials	480	495	617	785	1,191	1,456	1,866
Computer and Electronic components	882	666	664	975	1,342	1,706	2,048
Wood - sawn and log	158	163	179	274	539	651	775
Milk and dairy products	141	247	122	164	206	311	321
Animal feed and materials	159	179	234	421	475	594	737

Source : GSO (2007)

Table 4.1: MONETARY SURVEY

ACCOUNT	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
(in VND trillion, end of period)							
Net Foreign Assets	95.7	117.6	117.4	131.4	145.8	191.1	287.9
Foreign assets	112.7	135.9	135.9	150.5	172.3	220.5	327.0
Foreign liabilities	-17.0	-18.3	-18.4	-19.1	-26.4	-29.4	-39.1
Net Domestic Assets	127.2	162.2	211.7	279.8	390.3	499.6	634.7
Domestic credit	155.2	191.2	239.9	316.9	435.2	585.6	730.3
Net claims on government	-0.5	2.1	8.8	20.1	14.9	32.5	36.5
Credit to the economy	155.7	189.1	231.1	296.7	420.3	553.1	693.8
Claims on state enterprises	69.9	79.7	89.5	105.4	142.9	181.3	218.5
Claims on other sectors	85.8	109.4	141.6	191.3	277.4	371.8	475.3
Other items, net	-28.0	-29.0	-28.2	-37.0	-44.9	-86.0	-95.6
Broad money (M2)	222.9	279.8	329.1	411.2	536.2	690.7	922.7
of which: total deposit	170.7	213.5	254.9	320.6	427.1	559.5	763.9
Dong liquidity	152.5	191.1	235.5	314.1	408.1	531.5	723.2
Currency outside banks	52.2	66.3	74.3	90.6	109.1	131.2	158.8
Deposits	100.3	124.8	161.2	223.6	299.0	400.3	564.4
Foreign currency deposits	70.4	88.7	93.6	97.1	128.1	159.2	199.5
(Annual change in percent)							
Net Foreign Assets	56.4	22.9	-0.2	11.9	11.0	31.0	50.7
Net Domestic Assets	28.2	27.5	30.5	32.2	39.5	28.0	27.0
Domestic credit	34.1	23.2	25.5	32.1	37.4	34.5	24.7
Credit to the economy	38.2	21.5	22.2	28.4	41.7	31.6	25.4
Claims on state enterprises	28.7	14.0	12.3	17.8	35.6	26.9	20.5
Claims on other sectors	46.9	27.5	29.4	35.1	45.0	34.0	27.8
Total liquidity	38.9	25.5	17.6	25.0	30.4	28.8	33.6
of which: total deposits	43.3	25.1	19.4	25.8	33.2	31.0	36.5
Dong liquidity	30.7	25.3	23.2	33.4	29.9	30.2	36.1
Currency outside banks	26.1	27.0	12.0	22.0	20.4	20.2	21.1
Deposits	33.2	24.4	29.2	38.7	33.7	33.9	41.0
Foreign currency deposits	60.7	26.0	5.6	3.7	32.0	24.3	25.3

Note: Data from 1999 onwards comprise the SBV, six SOCBs and 83 non-state banks

Source: SBV and IMF

TABLE 5.1: STATE BUDGET REVENUES

(VND billion)

		2000	final account		2003	2004	rev 2005	est 2006
			2001	2002				
A	Total revenues and grants	90,794	103,888	121,716	158,057	198,614	217,080	264,261
I	Current revenues	87,928	100,918	118,346	145,823	180,197	199,953	244,043
II	Taxes	79,497	91,688	106,154	127,948	155,579	188,119	230,565
1	Corporate income tax	28,950	33,298	36,826	47,410	56,987	71,738	100,820
2	Individual income tax	1,831	2,058	2,338	2,951	3,521	4,238	5,181
3	Land and housing tax	366	330	336	359	438	514	592
4	License tax	381	400	407	778	657	724	794
5	Tax on the transfer of properties	934	1,191	1,332	1,817	2,607	2,797	3,363
6	Tax on land use right transfer	213	298	327	408	640	985	1,250
7	Value added tax	17,072	19,327	25,916	33,130	38,814	45,728	54,773
8	Special consumption tax	5,250	6,229	7,272	8,851	12,773	15,702	17,144
9	Natural resources tax	7,487	8,416	8,543	9,719	17,398	21,916	20,232
10	Agricultural tax	1,776	814	772	151	130	132	120
11	Export & import tax	13,437	17,458	21,915	22,374	21,614	23,645	26,296
12	Other taxes	158	158	170				
III	Fees, charges and non-tax	8,431	9,230	12,192	17,875	24,618	11,834	13,478
13	Revenue from discrepancy of import prices	131	116	168	133	40	1	0
14	Fees and charges (include gasoline fee)	4,950	5,120	6,016	6,483	7,765	7,055	8,008
15	Rental of land	568	570	459	513	1,035	1,003	1,596
16	Others	2,782	3,424	5,549	10,746	15,778	3,775	3,874
IV	Capital revenues	838	959	1,120	9,265	15,540	14,785	16,600
VIII	Grants	2,028	2,011	2,250	2,969	2,877	2,342	3,618
B	Carry-over		3,400	2,145	19,353	26,162	7,030	8,510

Source : MOF

TABLE 5.2: STATE BUDGET REVENUES

(share of GDP)

		2000	final account		2003	2004	rev	est
			2001	2002			2005	2006
A	Total revenues and grants	20.6	21.6	22.7	25.8	27.8	25.9	27.1
I	Current revenues	19.9	21.0	22.1	23.8	25.2	23.8	25.1
I.1	Taxes	18.0	19.1	19.8	20.9	21.7	22.4	23.7
1	Corporate income tax	6.6	6.9	6.9	7.7	8.0	8.5	10.4
2	Individual income tax	0.4	0.4	0.4	0.5	0.5	0.5	0.5
3	Land and housing tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
4	License tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
5	Tax on the transfer of properties	0.2	0.2	0.2	0.3	0.4	0.3	0.3
6	Tax on land use right transfer	0.0	0.1	0.1	0.1	0.1	0.1	0.1
7	Value added tax	3.9	4.0	4.8	5.4	5.4	5.4	5.6
8	Special consumption tax	1.2	1.3	1.4	1.4	1.8	1.9	1.8
9	Natural resources tax	1.7	1.7	1.6	1.6	2.4	2.6	2.1
10	Agricultural tax	0.4	0.2	0.1	0.0	0.0	0.0	0.0
11	Export & import tax	3.0	3.6	4.1	3.6	3.0	2.8	2.7
12	Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I.2	Fees, charges and non-tax	1.9	1.9	2.3	2.9	3.4	1.4	1.4
13	Revenue from discrepancy of import prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Fees and charges	1.1	1.1	1.1	1.1	1.1	0.8	0.8
15	Rental of land	0.1	0.1	0.1	0.1	0.1	0.1	0.2
16	Others	0.6	0.7	1.0	1.8	2.2	0.4	0.4
II	Capital revenues	0.2	0.2	0.2	1.5	2.2	1.8	1.7
III	Grants	0.5	0.4	0.4	0.5	0.4	0.3	0.4
B	Carry-over	0.0	0.7	0.4	3.2	3.7	0.8	0.9

Source : MOF

Table 5.3: STATE BUDGET EXPENDITURES

(VND billion)

		final account			rev		est
		2000	2001	2002	2003	2004	2006
A	Total expenditures	99,751	117,285	129,434	162,150	187,353	267,575
I	Current expenditures	70,127	77,049	84,216	102,521	121,238	181,491
1	Administration expenditure	8,089	8,734	8,599	11,359	15,901	18,994
2	Expenditure on economic affairs & services	5,796	6,288	7,987	8,164	10,301	15,010
3	Social expenditures	30,694	37,369	40,747	50,185	55,185	91,409
3.1	Education	9,910	12,006	13,758	17,390	20,401	33,822
3.2	Training	2,767	3,426	4,086	5,491	4,942	8,376
3.3	Health	3,453	4,211	4,656	5,372	6,009	12,685
3.4	Science, technology & environment	1,243	1,625	1,852	1,853	2,362	3,235
3.5	Culture	919	921	1,066	1,258	1,584	2,024
3.6	Radio and television	717	838	681	1,056	1,325	1,127
3.7	Sports	387	483	586	648	883	675
3.8	Population and family planning	559	434	841	666	397	410
3.9	Social subsidies	10,739	13,425	13,221	16,451	17,282	23,613
4	Interest payment	3,514	4,485	5,330	6,395	7,217	7,000
5	Defence				13,058	14,409	18,463
6	Public security				5,745	6,576	8,432
7	Others	22,034	20,173	21,553	7,615	11,649	14,158
II	Investment expenditure	29,624	40,236	45,218	59,629	66,115	71,957
1	Capital expenditure	26,211	36,139	40,740	54,430	61,746	66,799
2	Others	3,413	4,097	4,478	5,199	4,369	5,158
B	Carry-over	3,400	2,145	4,443	16,390	34,439	10,475
							22,515

Source : MOF

Table 5.4: STATE BUDGET EXPENDITURES

(share of GDP)

		2000	final account		2003	2004	rev 2005	est 2006
			2001	2002				
A	Total expenditures	22.6	24.4	24.2	26.4	26.2	27.0	27.5
I	Current expenditures	15.9	16.0	15.7	16.7	16.9	18.5	18.6
1	Administration expenditure	1.8	1.8	1.6	1.9	2.2	2.0	2.0
2	Expenditure on economic affairs & services	1.3	1.3	1.5	1.3	1.4	1.5	1.5
3	Social expenditures	6.9	7.8	7.6	8.2	7.7	9.2	9.4
3.1	Education	2.2	2.5	2.6	2.8	2.9	3.5	3.5
3.2	Training	0.6	0.7	0.8	0.9	0.7	0.9	0.9
3.3	Health	0.8	0.9	0.9	0.9	0.8	1.3	1.3
3.4	Science, technology & environment	0.3	0.3	0.3	0.3	0.3	0.3	0.3
3.5	Culture	0.2	0.2	0.2	0.2	0.2	0.2	0.2
3.6	Radio and television	0.2	0.2	0.1	0.2	0.2	0.1	0.1
3.7	Sports	0.1	0.1	0.1	0.1	0.1	0.1	0.1
3.8	Population and family planning	0.1	0.1	0.2	0.1	0.1	0.0	0.1
3.9	Social subsidies	2.4	2.8	2.5	2.7	2.4	2.8	2.9
4	Interest payment	0.8	0.9	1.0	1.0	1.0	0.8	0.9
5	Defence				2.1	2.0	2.2	2.4
6	Public security				0.9	0.9	1.0	1.1
7	Others (including salary increase in 2007)	5.0	4.2	4.0	1.2	1.6	1.7	1.3
II	Investment expenditure	6.7	8.4	8.4	9.7	9.2	8.6	8.8
1	Capital expenditure	5.9	7.5	7.6	8.9	8.6	8.0	8.4
2	Others	0.8	0.9	0.8	0.8	0.6	0.6	0.4
B	Carry-over	0.8	0.4	0.8	2.7	4.8	1.2	2.3

Source : MOF

Table 5.5: EXTERNAL DEBT

(US\$ million, unless otherwise indicated)

	2002	2003	2004	rev 2005	est 2006
Public and Publicly Guaranteed	9,413	11,383	13,505	14,208	15,641
Official Creditors					
Multilaterals	3,256	4,510	5,323	5,540	6,149
Of Which IDA	1,100	1,476	1,744	1,780	2,010
Bilaterals	5,427	6,142	7,294	7,070	7,772
Private Creditors	730	731	888	1,598	1,721
Bonds	382	382	382	1,113	1,095
Commercial Banks	184	184	350	362	516
Other Private	165	165	156	122	110
Total Long-Term DOD	9,413	11,383	13,505	14,208	15,641
Disbursement	986	1,749	1,839	2,246	1,477
Payment	849	776	612	698	765
Principal	642	573	327	435	436
Interest	207	202	285	263	329

Source: MOF

Table 6.1A: MONTHLY CHANGE IN CONSUMER RETAIL PRICES

(in percent)

Month/ Year	1999	2000	2001	2002	2003	2004	2005
January	1.7	0.4	0.3	1.1	0.9	1.1	1.1
February	1.9	1.6	0.4	2.2	2.2	3.0	2.5
March	-0.7	-1.1	-0.7	-0.8	-0.6	0.8	0.1
April	-0.6	-0.7	-0.5	0.0	0.0	0.5	0.6
May	-0.4	-0.6	-0.2	0.3	-0.1	0.9	0.5
June	-0.3	-0.5	0.0	0.1	-0.3	0.8	0.4
July	-0.4	-0.6	-0.2	-0.1	-0.3	0.5	0.4
August	-0.4	0.1	0.0	0.0	-0.1	0.6	0.4
September	-0.6	-0.2	0.5	0.2	0.1	0.3	0.8
October	-1.0	0.1	0.0	0.3	-0.2	0.0	0.4
November	0.4	0.9	0.2	0.3	0.6	0.2	0.4
December	0.5	0.1	1.0	0.3	0.8	0.6	0.8

Source: GSO (2007)

Table 6.1B: MONTHLY CONSUMER RETAIL PRICE INDEX

(Index, January 1995 = 100)

Month/ Year	1999	2000	2001	2002	2003	2004	2005
January	130.7	129.1	128.3	130.4	135.3	139.6	152.9
February	133.2	131.2	128.8	133.2	138.2	143.8	156.7
March	132.3	129.8	127.9	132.2	137.4	144.9	156.8
April	131.5	128.9	127.3	132.2	137.4	145.6	157.7
May	131.0	128.1	127.0	132.6	137.2	146.9	158.5
June	130.6	127.4	127.0	132.7	136.8	148.1	159.1
July	130.1	126.7	126.8	132.6	136.4	148.8	159.8
August	129.5	126.8	126.8	132.6	136.3	149.6	160.3
September	128.8	126.6	127.4	132.8	136.4	150.1	161.5
October	127.5	126.7	127.4	133.2	136.1	150.1	162.2
November	128.0	127.8	127.7	133.7	137.0	150.4	162.7
December	128.6	127.9	129.0	134.1	138.0	151.2	164.0
Annual Index	130.2	128.1	127.6	132.7	136.9	147.4	159.3
Annual Growth Rate	4.3	-1.6	-0.4	4.0	3.2	7.7	8.1
Dec/ Dec Growth Rate	0.1	-0.5	0.8	4.0	3.0	9.5	8.5

Source: GSO (2007)

Table 6.2A: PRICE INDEX BY COMMODITY GROUPS

(monthly change)

GOODS and SERVICES	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
General Index	1.2	2.1	-0.5	0.2	0.6	0.4	0.4	0.4	0.3	0.2	0.6	0.5
Food & foodstuff	1.7	3.2	-0.9	0.2	0.2	0.4	0.4	0.2	-0.2	0.5	1.2	0.7
<i>of which: Food</i>	2.1	1.7	0.2	0.3	0.3	0.2	0.4	0.3	0.4	1.3	3.8	2.4
<i>Foodstuff</i>	1.4	3.7	-1.1	0.2	0.1	0.4	0.5	0.1	-0.7	0.2	0.5	0.1
Beverage & tobacco	1.2	1.5	-0.5	0.1	0.4	0.3	0.6	0.2	0.3	0.3	0.8	-0.1
Garment, hats, footwear	0.9	0.8	0.3	0.2	0.4	0.4	0.3	0.5	0.7	0.4	0.0	0.7
Housing & construction materials	0.8	0.7	0.1	-0.3	0.9	1.0	0.8	1.1	0.9	-0.5	-0.2	0.5
Household appliances	0.6	0.6	0.4	0.4	0.5	0.7	0.3	0.3	0.4	0.5	0.7	0.7
Healthcare, pharmaceutical items	0.5	0.5	0.5	0.1	0.4	0.5	0.3	0.3	0.2	0.6	0.2	0.2
Transport & Telecommunication	0.1	0.8	-0.6	0.1	2.9	0.1	0.2	0.9	0.7	-1.8	-0.5	0.1
Educational items	0.1	0.1	0.1	0.1	0.3	-0.2	0.3	0.3	0.7	1.6	0.1	0.1
Cultural and recreation items	0.2	1.9	-0.7	-0.2	0.9	0.0	0.0	0.3	0.4	0.2	0.4	0.2
Goods and other services	0.8	1.7	-0.4	0.2	1.0	-0.3	0.5	0.2	0.0	0.9	1.0	0.8
Gold	4.0	5.4	1.8	4.8	17.6	-5.6	-3.1	2.3	-2.9	-3.1	1.7	3.2
US Dollar	0.0	0.1	-0.1	0.1	0.8	-0.3	-0.2	0.1	0.1	0.2	0.2	0.0

Source : GSO (2007)

TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS

(Index, December 2005 = 100)

GOODS and SERVICES	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
General Index	101.2	103.3	102.8	103.0	103.6	104.0	104.5	104.9	105.2	105.4	106.0	106.6
Food & foodstuff	101.7	105.0	104.0	104.2	104.4	104.8	105.3	105.5	105.3	105.8	107.1	107.8
<i>of which: Food</i>	102.1	103.8	104.0	104.4	104.7	104.9	105.3	105.6	106.0	107.4	111.5	114.2
<i>Foodstuff</i>	101.4	105.2	104.0	104.2	104.3	104.7	105.2	105.4	104.6	104.8	105.3	105.5
Beverage & tobacco	101.2	102.7	102.2	102.3	102.7	103.0	103.6	103.8	104.2	104.5	105.3	106.0
Garment, hats, footwear	100.9	101.7	102.0	102.2	102.6	103.0	103.3	103.9	104.6	105.0	105.0	105.5
Housing & construction materials	100.8	101.5	101.6	101.3	102.2	103.2	104.1	105.2	106.2	105.6	105.4	106.1
Household appliances	100.6	101.2	101.6	102.0	102.5	103.2	103.6	103.9	104.3	104.8	105.5	105.7
Healthcare, pharmaceutical items	100.5	101.0	101.5	101.6	102.0	102.5	102.8	103.1	103.3	104.0	104.2	104.3
Transport & Telecommunication	100.1	100.9	100.3	100.4	103.3	103.4	103.6	104.5	105.3	103.4	102.9	103.0
Educational items	100.1	100.2	100.3	100.4	100.7	100.5	100.8	101.1	101.8	103.4	103.5	103.8
Cultural and recreation items	100.2	102.1	101.4	101.2	102.1	102.1	102.1	102.4	102.8	103.0	103.4	104.3
Goods and other services	100.8	102.5	102.1	102.3	103.3	103.0	103.5	103.7	103.7	104.7	105.7	105.7
Gold	104.0	109.6	111.6	116.9	137.5	129.8	125.8	128.7	125.0	121.1	123.1	127.1
US Dollar	100.0	100.1	100.0	100.1	100.9	100.6	100.4	100.5	100.6	100.8	101.0	101.0

Source : GSO (2007)

Table 7.1: AGRICULTURAL PRODUCTION

(VND billion at current prices)

	2000	2001	2002	2003	2004	Rev 2005
Gross Output	129,141	130,178	145,021	153,955	172,495	183,342
Crop Cultivation	101,044	101,403	111,172	116,066	131,552	134,755
Livestock	24,960	25,501	30,575	34,457	37,344	45,226
Services	3,137	3,273	3,275	3,433	3,599	3,362

Source : GSO (2007)

Table 7.2: AGRICULTURAL PRODUCTION

(VND billion at constant 1994 prices)

	2000	2001	2002	2003	2004	Rev 2005
Gross Output	112,112	118,990	122,150	127,628	132,888	137,112
Crop Cultivation	90,858	92,907	98,061	101,763	106,423	107,898
Food Crops	55,163	55,066	59,619	61,029	63,621	63,853
Industrial Crops	21,782	23,109	22,247	24,175	25,612	8,928
Livestock	18,505	19,283	21,200	22,907	23,439	26,108
Services	2,748	2,800	2,890	2,958	3,027	3,107
<i>Memorandum Items:</i>						
Paddy Output (000 tons)	32,530	32,108	34,447	34,569	39,581	39,622
Cultivated Area (000 ha)	7,666	7,493	7,504	7,452	7,445	7,329
Yield (ton/ ha)	4.24	4.29	4.59	4.64	5.32	5.41

Source : GSO (2007)

Table 7.3: INDUSTRIAL CROP PRODUCTION AND YIELDS

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Production (000 metric tons)							
Cotton	19	34	40	35	28	34	26
Jute	11	15	20	12	13	13	11
Sedge	61	65	88	96	90	81	93
Sugar cane	15,044	14,657	17,120	16,855	15,649	14,949	15,679
Peanut	355	363	400	406	469	489	465
Soya-beans	149	174	206	220	246	293	258
Tobacco	27	32	33	32	23	26	43
Tea - raw and fresh	315	340	424	449	514	570	612
Coffee	803	841	700	794	836	752	854
Rubber	291	313	298	364	419	482	546
Black pepper	39	44	47	69	73	80	83
Coconut	885	892	915	893	960	977	982
Area Cultivated (000 ha)							
Cotton	19	28	34	28	28	26	21
Jute	6	8	10	5	5	6	6
Sedge	9	10	12	14	13	13	13
Sugar cane	302	291	320	313	286	266	285
Peanut	245	245	247	244	264	270	249
Soya-beans	124	140	159	166	184	204	186
Tobacco	24	24	27	23	16	17	27
Tea	88	98	109	116	121	123	123
Coffee	562	565	522	510	497	497.4	488.6
Rubber	412	416	429	441	454	482.7	511.9
Black pepper	28	36	48	51	51	49.1	48.5
Coconut	161	156	140	134	133	132	133
Average Yield (metric ton/ ha)							
Cotton	1.0	1.2	1.2	1.3	1.0	1.3	1.3
Jute	2.1	1.9	2.1	2.6	2.6	2.3	1.8
Sedge	6.6	6.6	7.2	6.8	6.9	6.4	7.4
Sugar cane	49.8	50.4	53.5	53.8	54.7	56.1	55.0
Peanut	1.5	1.5	1.6	1.7	1.8	1.8	1.9
Soya-beans	1.2	1.2	1.3	1.3	1.3	1.4	1.4
Tobacco	1.1	1.3	1.2	1.4	1.4	1.5	1.6
Tea - raw and fresh	3.6	3.5	3.9	3.9	4.3	4.7	5.0
Coffee	1.4	1.5	1.3	1.6	1.7	1.5	1.7
Rubber	0.7	0.8	0.7	0.8	0.9	1.0	1.1
Black pepper	1.4	1.2	1.0	1.4	1.4	1.6	1.7
Coconut	5.5	5.7	6.5	6.7	7.2	7.4	7.4

Source : GSO (2007)

Table 8.1: INDUSTRIAL PRODUCTION OUTPUT

(VND billion at constant 1994 prices)

	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Gross Industrial Output	198,326	227,342	261,092	305,080	355,624	416,563	487,492
State sector	82,897	93,434	105,119	117,637	131,655	141,117	154,231
Central	54,962	62,119	69,640	80,917	92,896	104,372	116,751
Local	27,935	31,316	35,479	36,720	38,759	36,745	37,480
Non-state sector	44,144	53,647	63,474	78,292	95,785	120,127	148,783
Collectives	1,334	1,575	1,668	1,770	1,893	1,969	2,032
Private, households and mixed	42,810	52,072	61,807	76,522	93,892	118,158	146,750
Foreign-invested sector	71,285	80,261	92,499	109,152	128,184	155,319	184,479
Key Industries							
Coal	2,366	2,695	3,189	3,689	4,752	6,111	7,798
Oil and gas	22,746	23,766	23,817	25,132	28,403	27,410	25,768
Mining and metal ores	209	239	281	344	467	476	384
Stones and other mining	2,015	2,398	3,039	3,597	3,842	4,354	4,900
Food and beverage	43,634	50,373	56,061	64,585	74,694	84,482	99,452
Cigarettes and tobacco	5,744	6,690	7,658	9,189	10,160	11,234	12,316
Textile products	10,046	10,641	12,338	14,214	16,626	19,079	22,176
Garment - apparel	6,042	6,862	8,182	10,466	12,792	15,304	18,463
Leather tanning and processing	8,851	9,529	11,096	13,535	16,018	18,920	22,190
Wood and wood products	3,598	3,903	4,488	5,485	6,570	8,120	10,282
Paper and paper products	3,930	4,562	4,877	5,655	7,140	8,311	9,416
Printing and publishing	2,274	2,453	2,876	3,515	3,774	4,626	5,945
Chemicals	11,123	12,852	14,714	16,323	19,029	23,848	28,426
Rubber products and plastic	6,456	8,128	9,706	11,291	15,169	18,237	21,940
Non-metallic products	18,259	21,625	25,913	29,855	33,483	37,055	41,713
Metal production	5,914	6,842	8,516	10,430	11,226	13,949	16,882
Metallic products	5,768	7,063	8,506	10,646	12,963	17,595	22,159
Machinery and equipment	2,761	3,421	3,711	4,612	5,371	5,495	5,718
Computer and office equipment	1,295	977	1,003	1,538	1,846	3,206	4,645
Electric and electronic equipments	3,622	5,172	6,520	7,462	9,050	11,992	15,638
Radio, TV and telecom	4,395	5,407	6,169	7,162	7,956	9,137	10,628
Production & repairing motor vehicles	3,232	4,265	5,774	8,306	8,692	9,753	12,030
Production & repairing other transport means	6,414	7,090	8,534	9,676	12,172	15,834	20,077
Furnitures	3,931	4,759	6,057	7,846	10,179	13,411	18,155
Recycled products	150	151	174	204	261	267	287
Electricity and gas	11,828	13,551	15,741	18,071	20,385	23,427	26,798
Water supply	1,066	1,152	1,328	1,361	1,409	1,570	1,701

Source : GSO (2007)

Table 8.2: MAJOR INDUSTRIAL PRODUCTS

(VND billion at constant 1994 prices)

Product	Unit	2000	2001	2002	2003	2004	Rev 2005	Prel 2006
Assembled automobiles	unit	13,547	20,526	29,536	47,701	50,954	59,152	41,557
Assembled motorbikes	000' unit	643	610	1,052	1,180	1,828	1,982	2,094
Assembled tivi sets	1,000	1,013	1,126	1,597	2,188	2,660	2,515	2,282
Beverage	mil. liters	779	971	940	1,119	1,343	1,461	1,548
Bicycle tires	000 Pieces	20,675	21,656	22,778	26,686	26,008	20,387	23,455
Bicycle tubes	000 pieces	21,917	22,997	24,032	36,083	32,386	26,848	31,625
Bricks	mil. pieces	9,087	9,811	11,365	12,810	14,661	16,530	19,893
Cement	000 tons	13,298	16,073	21,121	24,127	26,153	30,808	32,690
Chemical fertilizers	000 tons	1,210	1,270	1,158	1,294	1,714	2,190	2,176
Cigarettes	mil. packs	2,836	3,075	3,375	3,871	4,192	4,485	4,030
Coal	mil. tons	11.6	13.4	16.4	19.3	27.3	34.1	38.9
Crude oil	mil. tons	16.3	16.8	16.9	17.7	20.1	18.5	17.2
Diesel engines	Pieces	15,623	18,721	32,570	184,418	182,443	201,593	171,508
Electric engines	Pieces	45,855	53,442	64,085	95,779	132,320	194,374	215,010
Electricity	mil. kWh.	26,682	30,673	35,888	40,546	46,202	52,078	59,050
Fabrics of all kinds	mil. meters	356	410	470	496	502	561	575
Glass products	000 tons	113	115	115	147	154	163	168
Insecticides	000 tons	20.1	20.0	20.7	40.9	54,523	45,877	50,285
Paper and paper products	000 tons	408	445	490	687	809	901	997
Porcelain	mil. pieces	247	314	284	524	404	514	551
Rice mill equipment	pieces	12,484	18,298	13,433	10,112	5,749	2,734	2,960
Salt	000 tons	590	699	974	909	906	898	955
Sawn wood	000 m3	1,744	2,036	2,667	3,291	3,009	3,232	3,414
Soap and detergent	000 tons	247	326	361	377	401	421	493
Steel	000 tons	1,583	1,914	2,503	2,954	3,280	3,403	3,827
Sugar (refine)	000 tons	790	739	790	1,073	1,191	1,102	1,032
Tea	000 tons	70	82	100	85	122	127	133
Textile yans	000 tons	130	162	227	235	241	259	265
Tin (billet)	Tons	1,803	1,728	1,565	1,915	2,356	1,766	1,830
Transformers	pieces	13,535	15,664	18,633	33,364	50,146	45,540	52,430
Water pumps for agriculture	pieces	3,496	4,238	3,578	7,787	10,038	8,298	9,730

Source: GSO (2007)