

INTERNATIONAL MONETARY FUND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

VIETNAM

**Interim Poverty Reduction Strategy Paper
Joint Staff Assessment**

Prepared by Staffs of the International Development Association and
the International Monetary Fund

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SUMMARY

1. The Interim Poverty Reduction Paper (I-PRSP) has been prepared by the government of Vietnam, with support from international organizations and in consultation with donors, international nongovernmental organizations (NGOs), and local associations. The paper meets the requirements for an I-PRSP, and provides a good start for the development of a full PRSP and a framework for the Fund and Bank concessional assistance programs.
2. This I-PRSP has a number of strengths. It was developed as a part of the government's overall strategic planning exercise in preparation for the Ninth Party Congress in Spring 2001. There was strong ownership, with the document being written entirely by the government in Vietnamese. It has also benefited from a participatory process of consultation involving NGOs, donors, and other organizations. Other main strengths are that this I-PRSP: (i) provides an adequate review of the current poverty situation and the challenges ahead; (ii) outlines the government's poverty reduction strategy, centering on a program of structural reforms to promote employment, exports, and broad-based economic growth; (iii) in support of this structural program, specifies the direction of sector-specific interventions.
3. In developing the full PRSP, the agenda of work ahead includes: (i) identifying the indicators and mechanisms for monitoring poverty; (ii) filling gaps in data and analysis to link proposed policy measures to poverty outcomes; (iii) elaborating specific sectoral strategies to promote the delivery of high quality services and ensure a strong poverty focus; (iv) ensuring affordability by prioritizing and costing programs; (v) strengthening the participatory process followed so far to build broad ownership of the strategy and ensuring active consultation with the poor on program development and implementation; (vi) addressing questions of government organization and accountability in preparing the full PRSP and in handling a broadened scope of poverty reduction activities; and (vii) ensuring adequate attention is paid to vulnerable groups who may not benefit automatically from the structural reforms. Given

this substantial agenda and the capacity constraints, the staffs would consider the PRSP as an evolving document that will strengthen with the government's experience.

I. INTRODUCTION

4. Recent progress in reducing poverty in Vietnam has been remarkable, with the number of people living below the poverty line falling from 58 percent in 1993 to 37 percent in 1998. Reforms implemented in the late 1980s and early 1990s, particularly those which returned the responsibility for agricultural production to individual farmers and permitted the establishment of household enterprises, led to dramatic increases in agricultural production. There was a 60 percent increase in farm incomes between 1993 and 1998 as well as improvements in service sector employment and incomes. Progress in expanding the delivery of education and health services generated gains in social indicators. Enrollment in primary school rose above 90 percent. Adult and child malnutrition fell, the incidence of stunting among children falling from 51 percent to 34 percent between 1993 and 1998, and access to infrastructure improved. However, gains in poverty reduction are fragile. Many of those who escaped poverty in recent years remain vulnerable to household- and community-level shocks. Consolidating and building on recent progress in poverty reduction and social development will demand strong economic growth, a continued emphasis on promoting equity, and investments in human development. The challenge ahead lies in implementing a program of structural reforms which will foster a competitive, labor-intensive, domestic private sector and promote social equity.

5. Preparation of the I-PRSP was one of a number of strategic planning exercises undertaken by the government of Vietnam during 2000. In preparation for the Ninth Party Congress in March 2001, a Socioeconomic Development Strategy (2001–2010) has been drafted. Economic growth and poverty reduction targets lie at the heart of this strategy, underscoring the government of Vietnam's commitment to poverty reduction and social equity. In parallel, line ministries have prepared draft ten-year strategies and draft five-year plans, many of them setting out specific outcome targets for their sectors. The government has been open in sharing these draft strategies and plans. The I-PRSP needs to be seen as one part of this overall strategic planning exercise. In an attempt to remain brief and focused, the I-PRSP does not do justice to the substantial amount of work which has already taken place in this broader planning exercise.

II. POVERTY DIAGNOSTICS AND MONITORING

6. **Poverty diagnostics:** The analysis of poverty presented in the I-PRSP draws on several sources of information, including the two Living Standard Surveys (1992/93 and 1997/98), four Participatory Poverty Assessments (PPAs; 1999), and other data from internal government sources. To accommodate the fact that at this time not all government agencies use the same poverty measures, the I-PRSP attempts to include several different measures often in parallel. This use of data can be confusing, but the profile of poverty presented in the I-PRSP is consistent with recent analysis undertaken by the World Bank in

collaboration with the government, other donors, and NGOs (*Vietnam: Attacking Poverty*; December 1999).

7. The analysis in the I-PRSP indicates that poverty is predominantly rural and associated with working in a low-productivity agricultural sector. The marked regional characteristics of poverty are described and many vulnerable groups identified, including ethnic minorities, female-headed households, and recent migrants to urban areas. Problems that exacerbate poverty are also described, such as corruption, the weak dialogue between poor communities and local authorities, the limited progress in promoting grassroots democracy, and lack of access to information.

8. **Monitoring:** A full PRSP will require a significant amount of work in identifying indicators and establishing mechanisms to monitor them. Two poverty lines are commonly used in Vietnam: The Ministry of Labor, Invalids, and Social Affairs's (MOLISA) rice-equivalent line, based on household income, which is used for identifying poor households for the Hunger Eradication and Poverty Reduction (HEPR) programs, and the General Statistical Office/World Bank (GSO/WB) line, used for national poverty monitoring. While the former measure is relatively easy to use and monitor, methodological weaknesses undermine its reliability. The GSO/WB line is based on per capita expenditure derived from household sample surveys in 1992/93 and 1997/98. This has produced high quality panel data and constitutes a credible baseline for future poverty monitoring.

9. The government is now considering a draft 10-year household survey strategy, which would provide poverty measures based on data from biannual household surveys using a core questionnaire, supplemented with special topic modules that can vary from survey to survey. The government has indicated to the World Bank that, with technical support, it is interested in adopting this strategy, which should form the backbone of poverty monitoring over the timeframe of the PRSP. Adoption of this strategy will strengthen government capacity to assess the impact of past, current, and proposed programs and policies to reduce poverty and to monitor poverty levels among key subgroups of the population. A poverty mapping exercise is underway, and this will create a reliable baseline of poverty data by province.

10. **Analytical and data gaps:** As this I-PRSP is developed into a full PRSP, a number of important data and analysis gaps will need to be filled. The government currently lacks the analysis necessary to link proposed policy measures and public actions with poverty outcomes. Work is already planned to assess the possible consequences of planned trade liberalization on the poor, but other areas of potential impact will also need analysis. Much more work is needed to track public expenditures and better assess the incidence of such spending so that government can set meaningful priorities for public actions to reduce poverty. Given the central role played by the HEPR programs in the government's current efforts to reduce poverty, it will be especially important to evaluate HEPR programs and suggest changes for greater effectiveness.

11. Current national estimates of trends in the number of people living with HIV/AIDS indicate that there is potential for an epidemic of AIDS in Vietnam. The coverage of this issue in the I-PRSP is limited. Action is urgently needed in a range of areas to reduce the risk of an epidemic.

III. POLICY AGENDA

12. **Structural reforms:** At the center of government's strategy to reduce poverty, set out in the I-PRSP, is a program of structural reforms intended to promote employment, exports, and broad-based economic growth. In the 1990s, growth was driven by the rural sector, where agricultural land as well as literate and healthy labor are relatively evenly distributed. Thus, faster growth was accompanied by remarkable reductions in poverty. The impact of growth could have been even more favorable if policies promoted more labor-using industrial growth. The next phase of reforms in the I-PRSP is aimed at promoting productivity gains in the off-farm sectors and generating employment opportunities in both rural and urban areas, through continued growth of agriculture and faster growth of manufacturing, especially exports. The content of the reform program has emerged from extensive discussions between the government of Vietnam and the international community, especially the World Bank and the IMF, and the resulting policies are viewed by most stakeholders as appropriate for the next phase of poverty-reduction in Vietnam.

13. **Addressing the social costs of reforms:** The I-PRSP does not adequately describe the analytical work and consensus-building that the government has carried out for designing an appropriate social safety net for workers in state-owned-enterprises (SOEs) that may be adversely affected by the reforms. The severance packages have been developed in a way that makes voluntary redundancy more likely and minimizes any potential bias against women workers.

14. **Promoting equity:** In moving toward a full PRSP, it will be particularly important to recognize that some provinces and some vulnerable groups may not benefit equally from the opportunities created by these reforms. Areas of the country that are very remote and/or sparsely populated and/or have poor infrastructure may not benefit from the faster employment-creation that is expected from the reform program, as indeed happened in the 1990s. More recently, there is some evidence that the recent expansion of private small and medium enterprises (SMEs) bypassed nearly a dozen of such provinces. This will call for other government interventions for such areas and their population. It will also call (see paragraph 8) for regular, accurate poverty monitoring which can identify emerging regional and ethnic inequality and highlight the importance of appropriate measures to reduce poverty in those areas.

15. **Elaboration of sectoral strategies and detailed plans:** Sound sectoral strategies, which promote the delivery of high quality services to poor, rural communities more equitably, will be important for both poverty-reduction and regional equity. The I-PRSP outlines the direction of sector-specific strategies in infrastructure and urban development, rural development (including agriculture and financial services, environmental protection, and

development aimed at ethnic minorities), and investments in human capital (education, training and technology transfer, information and communications technology, and health and social safety nets). The need to pursue governance and administrative reform is also identified as critical to the success of the government's poverty reduction goals. However, while the direction of the strategy is articulated, specific measures will need further development.

16. An important challenge ahead in producing a full PRSP will be the development of specific measures and detailed plans to translate these broad strategies into reality. The degree to which general objectives—such as raising the living standards of ethnic minorities—are achieved will depend on the measures ultimately to be specified in the full PRSP and the degree to which these measures are backed by resources. Policy measures and public actions to reduce vulnerability will also be important in ensuring the sustainability of poverty reduction gains and deserve particularly close attention as the full PRSP is developed.

17. Because the Vietnam PRSP is being developed in parallel with the ten-year sector strategies, a considerable amount of work is already underway in specifying sector activities and identifying targets for outcomes. As an example, the education strategy for the next decade sets out targets for kindergarten, primary and secondary school enrollment, and adult literacy. It describes the policy direction needed to reach these targets and identifies the major challenges. However, little of the helpful detail from these strategies has been captured in the I-PRSP. The process of developing the full PRSP should take full advantage of the ten-year sector strategies and at the same time ensure that these sector strategies incorporate an adequate poverty focus.

18. Although the diagnosis of poverty is clear in demonstrating the multi-dimensionality of poverty, policy measures to address the non-material dimensions of poverty are the least developed part of the agenda. The need to tackle issues such as alienation from decision-making processes, the lack of meaningful dialogue between local authorities and poor communities and access to the legal system for the poor is central to the government's goal of promoting grassroots democracy. These issues deserve considered attention in the full PRSP.

19. **Initiatives in public expenditure management:** Continuing work to improve public expenditure management will also be important in reducing poverty and promoting regional equality. Though not acknowledged explicitly in the I-PRSP, the government has already developed a program of actions flowing out of the recently completed Public Expenditure Review, which will improve the transparency, tracking, accountability, and efficiency of public spending. It will also make an important contribution to improving the poverty focus of public expenditures by addressing the allocation of resources within certain sectors and across provinces. The full PRSP will need to build on this work and discuss plans to make explicit the discussion of how planned reforms in public expenditure management can contribute to the reduction of poverty and the promotion of equity.

20. Although a medium term expenditure framework is a useful link between strategic policy priorities and resource allocation, Vietnam is quite far from developing and

implementing such a framework. The development of an overall medium-term expenditure framework is an important goal and while it would take many years to implement in full, efforts could start with the elaboration of medium-term sector expenditure programs. In the interim, the full PRSP will seek to cost the programs and projects and to establish priorities among them in the event that resources, either human and financial, do not permit the implementation of all proposed programs and projects.

21. **Addressing ethnic minority poverty:** The proposal to develop local ethnic minority development plans should be elaborated in the full PRSP. Ethnic minority communities suffer multiple and interlocking disadvantages, making their poverty particularly intractable. The slow progress in poverty reduction for these groups demonstrates that past programs have had limited impact and that a strong, coordinated, cross-sectoral approach is needed to generate real change. The local ethnic minority development plans provide a good opportunity for an innovative approach to ethnic minority poverty. Given the poor social and economic indicators for ethnic minorities, development of these plans in the Central Highlands and Northern Uplands should be considered a priority. Experience in Vietnam and elsewhere suggests that strong community participation in the design, implementation, and monitoring of these plans will be important in making these plans relevant, realistic, and effective.

22. **Gender issues:** Vietnam performs well relative to other countries of comparable income levels in many indicators of gender equity. Gender issues are not treated separately in the I-PRSP, but clear attempts have been made to address the more pressing gender concerns. Several sections note the importance of emphasizing the participation of women in particular activities, and this is a welcomed start to mainstreaming gender issues. Commitment to pursuing gender equity will be tested in the details of the specific measures, and data disaggregated by gender will be needed to design programs and monitor progress. The processes within government to formulate plans and strategies do not now include formal reviews to ensure that gender issues are considered and addressed (other than those plans relating directly to women or children). The full PRSP would be enriched by stronger use of the recent analytical work on the situation of women (undertaken in preparation for the development of a second plan of action for the advancement of women) and a rigorous review by organizations concerned with promoting gender equity in Vietnam.

23. **Macroeconomic framework:** The three-year macroeconomic framework set out in Appendix I was developed in close consultation with the IMF. It is designed to maintain macroeconomic stability while providing sufficient resources to support the reform program and, at the same time, avoid crowding out critical social expenditures. The framework is based on necessarily rough estimates of some important elements of the program, which will have to be refined when the analysis and costing of programs is more advanced, and as implementation of the structural reform program proceeds.

IV. PREPARATORY PROCESS

24. The I-PRSP has been drafted by a team led by the Ministry of Planning and Investment (MPI) in close consultation with other ministries. It was written entirely by the government of Vietnam, in Vietnamese. The I-PRSP has been through seven drafts, each new draft subjected to an extensive process of consultation and feedback. In preparing the I-PRSP, the drafting team showed commendable openness to dialogue with organizations outside government.

25. In addition to holding several meetings with government agencies, donors, international NGOs, and local associations, the draft I-PRSP was also distributed and discussed at the Consultative Group meeting in December 2000. Based on the positive collaborative experience on the poverty assessment, the government plans to rely on the Poverty Working Group (a joint government-donor-NGO working group) to ensure consultation with the international community in the preparation of the full PRSP and to coordinate external support and inputs.

26. Although consultations were not held with poor households to discuss strategic solutions to poverty, the content of the document reflects many of the important findings that evolved from direct discussions with the poor through the PPAs conducted during 1999 involving more than 1,000 poor households.

27. The I-PRSP does not outline in any detail the participatory process envisaged in developing a full PRSP. The development of a full PRSP will need to strengthen the participatory process followed so far and ensure active consultation with the poor on program development and implementation. This requires broad-based participation not only in the design of the strategy, but also in monitoring progress and effectiveness. The authorities should develop a timeline regarding the steps to be taken during the period leading up to the full PRSP, including the identification of key milestones against which progress can be measured. The need to promote the input of all stakeholders in monitoring the PRSP will require rethinking a traditional reliance on quantitative indicators and statistical data.

28. As the implementation arrangements in the PRSP are finalized, it will be helpful to consider how the input of local associations and NGOs might be enhanced. Collaboration with local organizations would be facilitated by a supportive regulatory framework.

V. RISKS

29. Questions of government organization and accountability will need to be addressed in the full PRSP. Traditionally in Vietnam, MOLISA has had responsibility for poverty reduction through its role in implementing the targeted program for poverty reduction, the HEPR. The PRSP will be a more comprehensive document than the HEPR and encompass a range of policy measures and public actions outside MOLISA's traditional area of expertise. The PRSP will need to clarify how this broadened scope of poverty reduction activities will be handled in the future. Cross-ministerial involvement will be central to the production of a full PRSP, which is a document of the whole government rather than a document of any one

particular agency. This presents the challenge of coordination across government agencies, not only in the drafting of the full PRSP, but also in its implementation.

30. Similarly, there is a risk that government agencies will not see the PRSP as the central guiding document for poverty reduction. The government will have to ensure that the goals and targets set out in the full PRSP are consistent with other government statements and plans for poverty reduction, including the governments' existing intensive five-and-ten-year planning processes, (and vice versa), and that monitoring and analytical work that underpins the PRSP also feeds into the government's own long-term planning process. The Bank and the Fund may need to show flexibility in defining a full PRSP, given the government's existing intensive five- and ten-year planning processes.

31. Though the government is committed to carrying out a rather substantial agenda of work and consensus-building for the full PRSP over the next 12 months, there is a risk that this will not be fully completed in that timeframe. There could be many reasons for this, but capacity constraints is one of them. The PRSP should thus be seen as an evolving document that will grow in content and quality as the government's knowledge, analysis, and comfort level with this instrument improves. In the next phase of PRSP development, the government should be encouraged to emphasize focus and quality of policy actions rather than breadth and speed. To achieve this goal, donors will need to align their support to the priorities articulated in Vietnam's first full PRSP.

32. The most important external risks arise from the possibility of a less favorable external economic environment than originally predicted. Projections that were valid at the time of drafting the I-PRSP already appear optimistic, given the likely slowdown in the global economy, and with it the regional economy. The poverty reduction targets for the short-term may thus turn out to be ambitious. Domestic risks also exist with regard to the strength of implementation of broad-ranging structural reform policies, which could affect the attainment of poverty reduction targets over the medium term.

33. Vietnam is a disaster-prone country. The I-PRSP describes measures which will strengthen the safety net for people affected by natural disasters. Nevertheless, a recurrence of natural disasters over the timeframe of the PRSP will undermine attempts to reduce poverty in those areas.

34. The staffs of the World Bank and the IMF consider that this interim PRSP provides a sound basis for the development of a fully participatory PRSP and for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.

Vietnam: Key Events, March 2001–March 2003		
Institution	Event	Expected Time
World Bank and IMF	Interim PRSP and Joint Staff Assessment	April 2001
IMF	PRGF approval by IMF Board	April 2001
World Bank	PRSC Board presentation	May 2001
World Bank	Primary Teacher Development Adaptable Program Loan	June 2001
World Bank	Natural Disaster Mitigation Project Needs Assessment	April 2001
World Bank	Community Based Rural Infrastructure for the Poorest Communes Project	May 2001
World Bank	Mid-term Consultative Group Meeting	June 2001
IMF	First Review Under the PRGF Arrangement and 2001 Article IV Consultation	September 2001
World Bank	Country Assistance Strategy update	October 2001
World Bank	Consultative Group Meeting	November 2001
World Bank	Northern Mountains Poverty Reduction Project	November 2001
World Bank	Poverty Impact of Planned Trade Reforms	December 2001
World Bank and IMF	Full PRSP and Joint Staff Assessment	March 2002
World Bank	Country Assistance Strategy (jointly with PRSP)	March 2002
IMF	Second Review Under the PRGF Arrangement	March 2002
World Bank	PRSC Second Tranche Review	March 2002
World Bank	Primary Education for Disadvantaged Children Project	March 2002
World Bank	Public Financial Management Project	September 2002
IMF	Third Review Under the PRGF Arrangement and 2002 Article IV Consultation	September 2002
World Bank	CAS Update	March 2003
IMF	Fourth Review Under the PRGF Arrangement	March 2003
World Bank	Second PRSC	March 2003