

# The Static and Dynamic Incidence of Vietnam's Public Safety Net

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**Abstract** What are the outcomes for the poor of Vietnam's public safety net? Although centrally mandated, social welfare programs are locally implemented according to local norms and local poverty standards, and are often heavily reliant on local financing. This paper examines the coverage, incidence and horizontal equity of the programs that can be identified in the VNLSS data. The paper looks at the role of location in determining whether the poor are assisted nationally. Dynamic incidence between 1993 and 1998 is explored, as is the degree to which programs performed a safety net function. Coverage and payments to households are found to be low and to have had negligible impact on poverty. The impact of current outlays could in principle also be improved through better targeting. The system was also ineffective in protecting households who were vulnerable to shocks. Finally, although there is a greater concentration of poverty-related programs and household participation in poorer communes, the results suggest that more is spent absolutely and relatively on the poor in richer communes.

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## **1. Introduction**

Vietnam has a system of centrally determined and mandated poverty and social welfare programs that are implemented by local authorities according to local norms, local poverty standards, and in large part, local financing. Resources are scarce. Although they may be intended to cover the mandates, insufficient central and provincial allocations may never even reach the communes. These central allocations must inevitably be supplemented by means of local resource mobilization. There is evidence that the rural population, and the poor among them, are heavily taxed including through numerous locally levied 'fees, charges and other contributions' (Government of Vietnam (GOV)-Donor Working Group 2000, Annex C). In addition, standards of "poverty" used by different authorities vary across locations often simply mirroring local resources. For these reasons, there is thought to be uneven coverage and leakage. The poorest in Vietnam often need to rely on charity from within their communities. But the communities they live in are often poor, so that other households have little to spare. In this context too, it has been argued that coverage among Vietnam's poor may be quite uneven spatially, with poor people living in poor areas faring much worse than poor people in well-off areas (Rao et al. 1999 and van de Walle 1999).

The decentralized nature of Vietnam's public safety net also raises wider concerns from recent literature (Bardhan and Mookerjee 2000, Gallasso and Ravallion 2000, Conning and Kevane 1999). A popular argument in recent years is that decentralized programs are better at reaching the poor. The argument is essentially that local authorities are better placed to accurately identify and target poor people and their problems. Against that, counter arguments can also be made that local entities may not

share the objectives of the central government and may be more liable to political capture. Arguments can clearly be made both ways.

In the light of these concerns — both specific to Vietnam and more general — this paper examines how well targeted existing programs and expenditures on poverty reduction in Vietnam are to poor communes and poor people. Surprisingly little is known about this. Cross-province regressions of budgetary allocations for health- and education-related national programs strongly suggest that transfers from the center are progressive in that they result in higher per capita spending in poor and middle income provinces (Fritzen 1999). Fritzen also finds that central health transfers are well targeted based on health needs. However, little is known about the within province allocations to districts and communes. Others have noted the lack of cross-commune redistribution of resources and the consequent disparities between communes in their ability to provide basic services and assistance to the local poor (Litvack 1999). Moreover, nationally representative data on household specific program incidence has not been available for more than one or two programs. Fortunately new data from the 1997/98 Vietnam Living Standards Survey (VNLSS) enable an analysis of the incidence across households and communes of some social welfare and poverty-related initiatives and provide an opportunity to explore these concerns more rigorously. The availability of an earlier data set for 1992/93 also allows some comparisons over time including longitudinal comparison for the same households. There was more than a doubling of total spending on certain transfers between the two dates. This provides an interesting experiment in who benefited from the changes in outlays.

The main question the paper tries to address is whether current public social

welfare programs are targeted to the poor.<sup>2</sup> In trying to answer this question, the paper explores sensitivity to the definition of poverty and what is assumed about household behavioral responses to the programs. The paper examines whether programs perform a safety net function — recognizing that this involves both protection from poverty and promotion from poverty (Dreze and Sen 1989). The paper also examines the role of non-income factors, including whether equally poor communes in different provinces are treated equally and, if not, what accounts for these differences.

The next section discusses the setting, the overall system of poverty alleviation and safety net programs and their financing. Section 3 describes the data, while section 4 discusses welfare measurement. Implications for the incidence of program spending are addressed in section 5. Section 6 then looks at how much the system protects versus promotes the poor. The importance of factors other than welfare to incidence, including where one lives, is discussed in section 7. Section 8 concludes.

## **2 Background**

Despite experiencing a large reduction in poverty since embracing the market economy in the late 1980s, Vietnam remains a poor country with more than one third of its population in poverty. Its population and poor are primarily rural, engaged in small-scale agricultural activities and subject to seasonality in incomes, recurring natural disasters and other important sources of vulnerability and impoverishment. Geographical differences and the existence of disadvantaged ethnic minority groups add to the complexity of the poverty picture. The country also faces severe budget constraints.

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<sup>2</sup> The paper's focus is on public transfers only. For a discussion of private inter-household transfers see Cox (2001).

Yet, on paper at least, Vietnam has — by poor country standards — an extensive social security and safety net system. This reflects a strong historical commitment to combating inequality and raising the living standards of all its regions and people. The surviving concern and frequently expressed political commitment to ensuring a minimum level of welfare for all and maintaining a low variance in incomes also does much to preserve the regime's political legitimacy. But the government's aspirations in this area are often overshadowed by a lack of resources.

Doi Moi profoundly changed the way social services were delivered, leaving peasants more vulnerable (Kolko 1997, Glewwe and Litvack 1998). Cooperatives that had financed and supported health and education services for their members, as well as insurance against shocks, were disbanded in 1988. The social protection system that has evolved since decollectivization is composed of a number of different initiatives that are centrally mandated but locally implemented, often relying heavily on local resources.<sup>3</sup> The *Social Security System* provides pensions and other employment-related social insurance payments to formal sector workers. Public servants and armed forces personnel have been covered since 1947. In 1995, the scheme was expanded to private sector employees working in firms with 10 or more employees (MOLISA 1999). Although these social insurance payments are employment-related and eventually meant to be fully funded from payroll taxes and employee contributions, they continue to be heavily subsidized by the central budget.

The *Social Guarantee Fund for Veterans and War Invalids* extends compensation and assistance in the form of social subsidy transfers to those who contributed and

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<sup>3</sup> van de Walle (1999) provides more details.

suffered from the war efforts — such as disabled veterans, relatives of dead soldiers, and others who contributed to the revolution. The *Social Guarantee Fund for Regular Relief* on the other hand targets assistance to those unable to support themselves, including the disabled, orphans and the elderly. But, here especially, scarce public resources imply that implementation and coverage ultimately depend in large part on local level governments and resources. The central government also runs a *Contingency Fund for Pre-Harvest Starvation and Natural Disasters* whose role is to minimize the consequences of natural calamities and other emergencies by dispensing disaster relief to regions and households. Finally, the government has devised a number of *National Development Programs* that aim to reduce poverty and are often targeted to ‘poor and remote’ communes. These include interventions such as employment generation, reforestation, school and health fee exemptions, micro-credit schemes and physical infrastructure investments. Their focus is generally more on promoting growth than on providing protection.

In 1996 the government also proposed a national hunger elimination and poverty reduction (HEPR) program to coordinate existing and new efforts, as well as the resources for combating poverty. Since then many public programs have been consolidated under the HEPR national poverty program in order to better mobilize and coordinate antipoverty resources. Within this, the government implemented the ‘National Target Program on Poverty Alleviation’ between 1998 and 2000 and has recently prepared a ‘Poverty Alleviation Strategy’ for 2001-2010 (MOLISA 2001). The HEPR and these efforts do not appear, however, to have entailed much change in policy focus. The policy areas have all been emphasized in the past and addressed by past programs and a variety of *ad hoc* schemes. In addition, there is little new funding for HEPR from

the center. New poverty mandates and targets are imposed on ministries by HEPR without the benefit of additional funding or reductions in other mandated responsibilities (van de Walle 1999, Nguyen The Dzung, 1999).

Throughout these programs, eligibility criteria, guidelines and norms are largely dictated by the center, while implementation is chiefly the responsibility of the communes. Poverty and needs are locally determined following national norms but heavily influenced by available local means and resources. Communes initially draw up lists of eligible candidates for the different social protection programs to reflect their needs.<sup>4</sup> These are gathered, altered and eventually approved and passed on by the districts and the provinces to the center. Following a process of review and negotiation between the Ministries of Finance (MOF), Planning and Investment (MPI) and of Labor, Invalids and Social Affairs (MOLISA) in Hanoi, transfers are made to the provinces.

Although transfers from the central budget appear to be insufficient to cover local needs or even centrally mandated spending, there is evidence that they are quite redistributive, aiming to equalize resources across provinces (Rao et al. 1999). However, use of the funds and intra-provincial distribution are largely at the discretion of the provincial authorities. The evidence suggests that the redistributive process often breaks down at this level (Litvack 1999). Provinces distribute resources to districts based on criteria that vary widely from one province to another. And similarly, districts distribute to communes in disparate ways. Certainly, there is great disparity in the resources available to communes. Expenditure mandates are sometimes ignored and sometimes funded from other recurrent transfers or locally mobilized resources ('contributions').

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<sup>4</sup> The lists are of people or households depending on the program.

There is often pressure on the communes to raise the resources to implement central programs through charging various fees and levying 'voluntary contributions' from their populations. Communes are likely to contribute their own additional resources depending on several factors including the economic status of households in the commune, and local leadership. But it is likely that the most needy communes are often the ones that are least able to mobilize local funds. Existing fiscal arrangements which, at least for some programs, ensure progressive redistribution to poor provinces are, nevertheless likely to lead to low and uneven coverage and horizontal inequity due to the lack of central incentives or mandates for targeting the poor within provinces. Statistics published by MOLISA (1999) show the large gap between the numbers of eligible for each of the social welfare programs and the actual numbers of beneficiaries. The probability of participation is likely to depend on local budgets and leadership and hence, on where one lives.

In exploring the implications for the poor of the existing safety net in Vietnam, this paper emphasizes a number of concerns. One issue relates to defining 'the poor'. The paper uses per capita consumption expenditures as its general welfare measure, but recognizes that some components of the observed household consumption data reflect public transfers. This has implications for drawing conclusions about the counterfactual of what welfare would have been without transfers, and hence, about the incidence of transfers. The paper describes a method for dealing with this concern.

A second issue concerns how the safety net performed over time. In principle, a safety net can reduce poverty either by protecting non-poor people from becoming poor or by promoting poor people out of poverty. How does Vietnam's existing safety net

perform in both functions? With panel data, methods exist to address this question (Ravallion et al. 1995). These methods are applied to Vietnam's safety net.

A final question concerns possible determinants of program incidence other than consumption expenditures. One possibility is that interventions are aimed at non-income dimensions of welfare so that the incidence picture based on consumption gives a skewed view of targeting. Another possibility is that, given public institutional arrangements for delivering social welfare programs, one may find that non-welfare — in particular, political and geographical — factors matter a great deal to whether transfers reach the poor. In this respect, it may not be poverty that attracts benefits but rather, the characteristics of the commune where one lives. Communes in richer provinces will generally have more resources for helping the poor. To what degree is the interaction of geography and low living standards the determining factor in whether the poor are assisted nationally?

### **3 Data**

The analysis is based on the nationally representative 1992/93 and 1997/98 Vietnam Living Standards Surveys (VNLSS).<sup>5</sup> These are multi-topic household consumption expenditure surveys with modules covering numerous aspects of living standards.<sup>6</sup> The surveys covered 4800 households spread across 150 communes in 1993, and 6000 households living in 194 communes in 1998. In both years, a community

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<sup>5</sup> The 1992/93 survey spanned a full year starting in October 1992, while the 1997/98 survey began in December 1997 and lasted a year. For brevity's sake I will refer to the surveys as the 1993 and 1998 surveys respectively.

<sup>6</sup> World Bank 1995 and 2000 provide detailed information on the surveys. They are accessible at [www.worldbank.org/lsm/](http://www.worldbank.org/lsm/)

questionnaire was administered in rural and small town communes — 120 and 156 communes in the respective years. A panel of 4308 households is also contained in the surveys.

The welfare indicator is annual per capita consumption. This includes the value of consumption from own production and the use value of consumer durables including imputed housing expenditures (World Bank 1995 and 2000). Consumption expenditures and other monetary amounts are expressed in real January 1998 national prices and therefore take account both of inflation through the survey year and of spatial price differences. The 1998 survey sought to improve the measurement of consumption in certain ways. For example, it records the consumption of own-produced non-food items such as coal, wood, and flowers and strives for a better accounting of tobacco consumption. Although some changes were introduced, the questionnaire also ensured that comparability across the two surveys would be feasible. Two total consumption expenditure measures — namely, one which is the best possible measure for 1998 and another which is made comparable to the 1993 expenditure totals — are therefore available. For all comparisons over time, the paper uses the temporally comparable measures of consumption, but sticks with the best 1998 measure otherwise.

The questionnaires changed between the two surveys in certain other respects as well. In particular, the 1998 survey contains considerably more information on government programs and policies than the 1993 survey. This puts certain limitations on the types of issues that can be examined with respect to public interventions. The only transfer receipts recorded in 1993 for which a comparison can be made over time are

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education scholarships, social insurance and social subsidy funds. In 1998, details are also available on whether the household received transfers from the poverty alleviation fund or NGOs. In addition, there is information on the existence of programs and numbers of beneficiaries of various interventions at the commune level for 1998. It should be noted that there are a number of other ways in which the government intervenes to increase social welfare — for example through subsidizing micro-credit and various goods, and disaster relief (MOLISA 1999). Although information at commune level for some such schemes (e.g. disaster relief) permits analysis of geographical reach, an analysis of household level benefits is not feasible.

#### **4 Behavioral Responses to Transfers**

In assessing whether programs reach the poor, a first step involves accurately identifying the poor. The aim is to determine what welfare would have been without the government interventions. Outcomes may depend on that choice: the appearance of weak targeting may just be due to deficient welfare measurement.

Typically, studies of the incidence of public spending subtract the entire amount of government transfer receipts from household income or consumption to approximate pre-intervention welfare, and to rank the population into quintiles (say). Netting transfers out fully assumes that there is no replacement through savings, labor effort, schooling decisions, inter-household transfers and other potential changes in household behavior. That assumption is implausible. Yet, treating post-transfer consumption as the welfare indicator instead, is just as problematic. Ideally, one would like to subtract the intervention amount but add in the replacement income households would have had had

they not benefited from the intervention. van de Walle (2001) addresses these concerns by estimating the marginal propensity to consume out of social income (PCSI) (also see Ravallion et al. 1995). The estimated PCSI is then used to determine the net gain to consumption from social transfers and to construct the counterfactual consumption level without intervention. This section summarizes the key results from van de Walle (2001). The estimate is then used for the paper's incidence analysis. In the following analysis, transfers comprise social insurance, social subsidies and education scholarship receipts — the only components of social income that can be identified in both surveys.

Consumption of household  $i$  at time  $t$  ( $t=1993, 1998$ ) ( $C_{it}$ ) is assumed to be represented by an additive function of public transfers ( $T_{it}$ ), observed household characteristics ( $X_{it}$ ), time varying ( $\mathbf{d}_t$ ) and time invariant ( $\mathbf{h}_i$ ) latent factors:

$$C_{it} = \mathbf{a} + \mathbf{b}T_{it} + \mathbf{g}X_{it} + \mathbf{h}_i + \mathbf{d}_t + \mathbf{e}_{it} \quad (1)$$

There are a number of potential problems with estimating  $\mathbf{b}$  directly with this equation. For example, transfers are likely to be correlated with time invariant household characteristics ( $\text{cov}(T_{it}, \mathbf{h}_i) \neq 0$ ), such as if there is purposive targeting to the long term poor. Another possible source of endogeneity arises if transfers are correlated with time varying determinants of consumption ( $\text{cov}(T_{it}, \mathbf{d}_t) \neq 0$  or  $\text{cov}(T_{it}, \mathbf{e}_{it}) \neq 0$ ). This would occur if transfers target those who suffered a shock. Alternatively, transfer eligibility may have changed as a result of the death of a pension-receiving elderly household member. Furthermore, such changes may not all be observed in the data. Finally, the behavioral response, and hence the PCSI, may well vary across households with different household characteristics.

A number of alternative specifications are run to test for these possibilities. A double differencing model where all variables are expressed in first differences is used to purge the estimate of fixed effects and deal with the first source of endogeneity.

Equation (1) is then:

$$\Delta C_{it} = \mathbf{b}\Delta T_{it} + \mathbf{g}\Delta X_{it} + \Delta \mathbf{d}_t + \Delta \mathbf{e}_{it} \quad (2)$$

Since there are only two rounds of data, the term  $\Delta \mathbf{d}_t$  becomes an ordinary intercept term in a regression of the change in consumption on the change in transfers. This regression was initially run assuming that  $\mathbf{g}\Delta X_{it} = 0$  (characteristics don't change or don't have any effect), giving the standard “double difference” estimate of the consumption impact of transfers. This gives a  $\mathbf{b}$  estimate of 0.45 with a heteroscedasticity and clustering-corrected  $t$ -statistic of 4.3 (van de Walle 2001). To deal with potential remaining contamination through dependence of the change in transfers on time varying characteristics, a regression is run that controls for changes in observable household characteristics in the double difference model of consumption as a function of transfers. A number of variables are found to be significant — changes in household size and in the language of interview have a negative impact, while an older head and a higher educational level influence consumption positively.<sup>7</sup> The  $\mathbf{b}$  estimate is 0.37 ( $t=3.6$ ), and not significantly different from the initial simple double difference estimate.

To deal with possible omitted variables that alter over time and affect transfers,

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<sup>7</sup> The regression controls for changes in household size and composition — in particular, the number of members in the 0 to 6 and 7 to 16 age groups, the number of women and men over 55 and 60 respectively (the formal sector legal retirement age) — a change in the highest grade completed by the most educated member of the household, the change in the age and gender of the household head and finally a change in the language of interview. Households had the option of being interviewed in a language other than the majority Kinh in both survey years. See van de Walle (2001) for full regression results and explanation.

the last OLS is re-estimated with the change in transfers instrumented by transfer receipts in the first period.<sup>8</sup> This gives an estimated  $\mathbf{b}$  of 0.72 ( $t=3.7$ ). This is higher, but still not statistically significantly different from the first, naïve estimate.

van de Walle (2001) also tests for heterogeneity in impacts by adding interactions between the change in transfers and household characteristics to the OLS regression with controls for time varying changes in characteristics. The results suggest that the impact of transfers on consumption is higher in more educated households. However, a test of the joint significance of the interaction terms shows them not to be significantly different from zero.

The analysis in van de Walle (2001) suggests a range of estimates of the PCSI none of which are significantly different from the simple double difference estimate of 0.5. So, in the following analysis, consumption expenditures are net of half of the value of transfer receipts that can be identified, unless otherwise noted.<sup>9,10</sup>

## 5 Incidence of Poverty-Related Programs

The paper now turns to evidence from the 1998 VNLSS on the incidence of programs and policies aimed at raising living standards. The focus is squarely on the distributional impacts and who's getting how much. In reality, these programs serve

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<sup>8</sup> A high correlation is found between these variables (0.50). The key untestable exclusion restriction is that transfers in 1993 do not appear on the right hand side of the equation (i.e.  $\text{cov}(\varepsilon_{it}, T_{it-1}) = 0$ ). This appears plausible but would not hold if, say, the initial level of transfers helps prevent households from falling into destitution or succeeds in putting them on a different growth path. There is no obvious other instrument with which to do an over-identification test.

<sup>9</sup> Note that this means half of the total of scholarships, social insurance and subsidy funds for 1992/93 and half that same total plus poverty alleviation and NGO funds for 1998.

<sup>10</sup> The lower the PCSI, the more targeted transfers appear to be to the poor. See van de Walle (2001) for a discussion.

noted other objectives — such as assisting those who contributed to and suffered from the war effort or the elderly — that one may want to take into account when assessing whether to expand or contract them. At the same time, it is often argued that there is a coincidence of objectives and that some of the larger Funds — particularly social subsidies — are quite pro-poor. Substantial public resources are spent on these programs and while poverty may not be their sole objective, it is important to ask how much is reaching the poor.

In Table 1, individuals are ranked into national population quintiles on the basis of their household per capita expenditures — net of half of current transfer receipts as discussed in section 4.<sup>11</sup> The table presents real monetary amounts per capita of various types of public transfers received by households during the 12 months prior to the survey. Amounts are expressed averaged over each quintile's population — recipient and non-recipient. Percentages of the population living in households where at least one member benefited from these transfers are given in Table 2. In general, outlays are small and there is weak coverage.<sup>12</sup>

The largest payments are from the social insurance fund, covering pension and disability benefits for civil servants and SOE employees. As a result, one would expect these payments to be more widespread in urban areas and not to be particularly pro-poor. They are predominant in urban areas where 18.3 percent of the population live in households where someone received these payments in 1998 (Table 2). Yet, per capita amounts from this source are by far largest for the poor in urban areas. In rural areas, by

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<sup>11</sup> I will refer to these as net quintiles.

<sup>12</sup> The official January 1998 exchange rate was about VND12,290 to the US dollar.

contrast, the amounts received rise steadily with levels of living. This program also touches the greatest number of people of any program (11.2 percent nationally).

Social subsidies, which include payments to veterans and the families of war martyrs, as well as to those unable to support themselves, are much smaller in absolute amounts. These programs are often claimed to be reaching the poor in Vietnam. Per capita amounts are largest for those in the poorest quintile in urban areas. In rural areas, the poorest quintile follows the top quintile with the second largest per capita amounts. In general, receipts are much more even across expenditure levels than for social insurance benefits. Interestingly, mean payments are larger in rural areas, though coverage is relatively similar across the sectors.

Actual individual social insurance and subsidy payments are found to vary widely across recipient households. For example, social insurance outlays range from 49,252 to 21,500,000 and social subsidy outlays from 14,264 to 8,645,464 Dongs per year. It should be noted that some of this variance is expected. For one, the survey does not allow identification of recipients. Some households may have more than one beneficiary. Furthermore, social insurance payments consist of pensions but also disability payments which are likely to be lower than the former. Government- set minimum Regular Relief transfers also vary across the different types of potential beneficiaries (MOLISA 1999).

The survey also asked about transfers received under policies or programs supported by the government's education scholarship program, its poverty alleviation efforts, and transfers received from NGOs. Few scholarships are awarded (141 were reported in the sample). Their incidence is regressive: the top quintile has the largest share of recipients as well as the highest per capita amounts in both rural and urban areas.

However, the urban population in the bottom quintile is also notable for having the second highest incidence of beneficiaries. In general, scholarships benefit a larger share of the urban than rural population. Per capita amounts are also higher in urban areas.

The amounts involved in the poverty alleviation and NGO funds are negligible: equivalent to approximately \$0.22 per person per year (1998 official exchange rate) in the case of poverty alleviation funds and \$0.08 from NGOs for the quintile with the largest receipts. The little money there is appears to be moderately well-targeted in rural areas, in that per capita amounts fall with higher quintiles. However, there is also evidence of capture by the well-off since all quintiles get something. This is more pronounced in urban areas for both poverty and NGO transfers.

Finally, expressing all transfers together as a share of household per capita expenditures indicates progressive overall incidence in both rural and urban areas.<sup>13</sup> Transfers to the urban poor in the bottom national quintile account for 35 percent of their consumption — quite a contrast with the poorest in rural areas for whom transfers account for 7.3 percent. Nonetheless, it is clear that income from social welfare programs account for only a small percentage of consumption expenditures overall.

The low average amounts received from social welfare in Table 1 could reflect either low coverage or low monetary amounts among those covered. Table 2 provides information on percentages of the population in each sub-group whose household received social welfare transfers (as discussed in Table 1). The patterns across quintiles are what one would expect following the discussion of Table 1. Only 2.2% of the population (2.6 and 0.8% of the rural and urban populations respectively) belong to

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<sup>13</sup> Note that throughout the paper I am defining progressive to mean that as a proportion of expenditures, transfers decline as expenditures increase.

households who received assistance under a poverty program. This rises to a maximum of 6.6% for the poorest rural quintile. These figures may well underestimate the coverage of poverty programs if households do not know the source of assistance. Nevertheless, the data suggest very limited coverage. Table 3 further shows the urban bias of spending on these programs. Although only 22 percent of the population and less than 6 percent of the poor lived in urban areas in 1998, 46 percent of total spending goes to urban areas.

One important initiative under the education-related national programs has been targeted exemptions from paying school fees and other contributions. Such exemptions appear to be received by children attending all levels of education, but most commonly primary, followed by secondary, schooling. Since primary school fees were abolished in 1993 (Behrman and Knowles 1999), the exemptions being picked up by the VNLSS98 and received by primary school kids must cover other school expenditures. Table 4 presents percentages of the population living in households with at least one child benefiting from exemptions across quintiles, as well as the reasons given for being exempted. Unfortunately, the data do not allow a calculation of the pecuniary benefit of the fee discharges. Exemptions can be partial or total. In the VNLSS sample, there were only 862 households who had at least one recipient child, though many had more than one. One thousand children benefited from partial exemptions and 571 from total exemptions. In both urban and rural areas, more partial than total exemptions are bestowed — 3.7% versus 2.1% of the rural population and 1.8% versus 0.7% of the urban. There are clear indications that total exemptions are better targeted than partial ones. This can also be seen in the reasons given for receiving the exemption. Of the reasons listed in the questionnaire, unspecified 'other' is the most common for partial

exemptions in both urban and rural areas (see below for further explanation). This is followed by living in a remote or mountainous region and having a parent who is a disabled soldier or cadre in rural areas, and the latter and being poor in urban areas. In contrast, living in a remote or mountainous region is the most commonly given reason for receiving the total exemption in rural areas, followed by being from an ethnic minority and poor. In urban areas, poverty is given as the main reason and is given as a reason across all quintiles. For example, 35% of exemptions received in the fourth quintile give poverty as the reason. Targeting exemptions to the children of disabled soldiers or cadres primarily benefits the richest groups in both sectors. However, 33% of all reasons in rural and 43% in urban areas were given as ‘other.’<sup>14</sup>

Table 4 shows the incidence of school fee exemptions to be mildly pro-poor. Similar conclusions are reached when the incidence is instead expressed across the percentage of children 6 to 14 across consumption quintiles (p.145, GOV-Donor Working Group 2000). However, as noted by Behrman and Knowles (1999) school fees account for only a small share of total school-related expenditures and have a negligible impact on poverty outcomes.

Households in Vietnam are expected to make cash or in kind contributions to a myriad number of funds, associations and national causes. Table 5 provides some information about average household per capita annual contributions to their commune's labor and local security and police funds, and to mass associations. These are the funds for which the household survey collected information, but represent just some among the

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<sup>14</sup> Other (not individually recorded) reasons for receiving exemptions included: being a student at a pedagogic college; being an excellent student, a class monitor, the children of teachers, the children of officers and workers for whom tuition is paid for by the parent's work; and households with 2 or more children attending school (GSO communication).

many payments households make. Such funds collect fees that are earmarked for particular services. For example, contributions to the labor fund can be made in labor time, cash or kind and are intended to finance road maintenance and small construction works in the commune. With the exception of the labor fund in rural areas, absolute amounts generally rise with levels of living for all categories. As a share of household expenditures they are still moderately regressive for the rural population but they are income neutral for the urban population at a consistent 0.4% of expenditures across quintiles. Strikingly, more is paid per capita by all but the top quintile in rural areas. This is driven by much higher contributions to the labor fund by the rural population.

A much larger percentage of the population makes contributions to one of the three funds (for which there is self-reported information) than benefit from social welfare income. In rural areas, this varies from 70% of the population, to 54 and 49 for the labor fund, security fund and associations respectively. Compulsory contributions of 10 labor days a year for able-bodied adults within a certain age range has been a long time tradition in Vietnam. With the introduction of the market economy, the labor contribution has been partly or fully replaced by a cash or in-kind contribution in some regions. A national ordinance specifies the money amounts to be paid for each work day and details a number of characteristics that exempt individuals either temporarily or permanently. The 1998 VNLSS asked the household both about the time given in labor and the cash and in kind payments made by family members during the last year. The data, as well as other sources suggest that there is liberal interpretation of the national ordinance at local level. For example, a study of 6 communes in 3 provinces found the time obligation to vary between 10 and 15 days and the cash alternative to be between VND 3,400 to

10,000 per day (GOV-Donor Working Group 2000, Annex C). The evidence thus suggests that the cash amounts paid in lieu of labor time are considerably lower than daily wage rates on average. Imputing a labor time cash value by using mean commune-specific level agricultural and non-agricultural unskilled wages will tend to overestimate the labor contributions.<sup>15</sup> Short of going to every commune, it is impossible to know how the policy is enforced for each household. Below, I use what appears to be reasonable, if an upper bound, estimates of 10,000 and 15,000 dong per day for rural and urban areas respectively.

Imputed labor time is added to the cash and in kind contributions to give the total payments to the labor fund presented in Table 5. Participation in the labor fund decreases with increasing living standards in rural areas. The picture is quite different in urban areas. In all quintiles a smaller percentage contribute to the labor fund than in rural areas and participation rises with expenditures from 25% of the poorest to 42% of the top quintile. A large percentage contribute to local security (59% overall) and the more so the higher the quintile. 57% of the urban population also contributed to associations over the last year. For these contributory “funds” coverage appears reasonably wide, though average amounts contributed among those contributing are clearly low. As noted however, the charges reviewed account for just part of the amounts levied from households. A recent study suggests that in aggregate they can be quite burdensome as a share of household expenditures. Conversely, they clearly play a crucial role in commune level budgets (GOV-Donor Working Group 2000, Annex C).

Tables 6 and 7 combine data from the household and commune surveys to present

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<sup>15</sup> For example, commune mean daily unskilled agricultural wages in real 1998 prices are 19,421 and 16,609 dong for men and women respectively.

percentages of the rural and small-town populations classified into poor/non-poor groups, by whether i) they live in communes where any of seven public programs are currently active (poverty alleviation, employment generation, environmental/clean water, public health, infrastructure development, education/culture, or other); ii) whether the commune received disaster relief in the last year; iii) and whether any physical infrastructure was built or improved during the last three years and what type.<sup>16</sup>

Poverty programs are the most common. These were active at the time of the survey in communes covering 80% of the population and 84% of the poor. However, they were slightly more common in small towns where 83% of the entire population, and 86% of the poor, were covered. Employment generation, sanitation and clean water, and education and culture projects also reached a larger proportion of small town residents than rural ones. By contrast, public health and infrastructure development programs covered more of the rural population. Disaster relief was also received in communes covering 65% of the non-urban population. Finally, infrastructure investments are extremely widespread covering communes containing 92% of the rural, and 78% of the small town populations. In both sectors, roads and schools are the most common investments. In rural communes, both tend to benefit larger percentages of the better-off.

In the programs reviewed in Tables 6 and 7 there is some evidence of targeting the poorer population groups. Disaster relief, for example, is received by the communes of a greater percentage of poor than non-poor households. However, based on these data, it is not possible to judge whether relative to needs, disaster relief would still appear well-targeted. Many of the other programs are thought to be geographically targeted to

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<sup>16</sup> Here and elsewhere, the paper uses the national poverty lines described in Glewwe et al. (2000).

government-identified ‘poor and remote’ communes. Yet, on the whole the impression is one of programs being spread widely across expenditure groups and the rural population generally. This may reflect problems in identifying the poor through the current ‘poor and remote’ commune classification, corroborating the results of Minot and Baulch (2001). It could also indicate that communes are heterogeneous in terms of levels of living and that geographical targeting may be an inefficient way to help the poor. Of course, these tabulations tell us nothing about the magnitude or impact of the programs.

Careful evaluation of Vietnam’s various poverty program disbursements must be made to better understand what does and does not work. However, the data reviewed both at household and commune level suggests a government preference for programs that are community-based rather than targeted to households. Transfers to households are negligible and coverage is weak. By contrast, the data indicate substantial community based programs and investments. Again, how much is being spent is unclear, as is the impact of the latter programs. However, as assessed by incidence across per capita expenditure quintiles, such interventions appear to be only weakly targeted to Vietnam’s poor. The data suggest that transfers are redistributive, but not particularly well targeted in that, in general, the poor receive less in absolute amounts than the non-poor.

## **6 Protection versus promotion**

As can be seen in Table 8, there was a clear expansion in the total outlays going to social welfare programs between 1993 and 1998.<sup>17</sup> As reported in the survey, mean

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<sup>17</sup> Note that this refers only to programs —scholarships, social insurance and social subsidies—covered in both VNLSSs. Although these do not account for all programs, they cover the bulk of social income receipts.

overall real per capita amounts rose from 51,443 to 116,641 dongs in 1998 prices, a 127 percent proportionate increase.

Was this expansion pro-poor? A comparison of panel households over time can help answer this and other pertinent questions concerning the performance of the safety net. An important role for the public sector in a poor rural economy like Vietnam is to provide protection for those who are vulnerable to poverty due to uninsured shocks. The preceding incidence picture is uninformative about whether transfers perform such a safety net function. The static incidence may not seem particularly well-targeted, but it may be deceptive about the degree to which outlays, coverage, and changes over time, were perhaps correlated to poverty related shocks and changes in exogenous variables. We have already seen the considerable variability in payment amounts across recipients. There is also much instability over time in who gets transfers. For example, out of a total of 744 and 769 panel households who respectively got social insurance or social subsidy outlays in one of the two years, only 402 and 111 got them in both years. Does this reflect a response to changing household circumstances on the part of the system? This section examines social welfare incomes from this perspective.

When using the panel to study the incidence of the changes in social income, there is a question of how one should rank households in deciding who is 'poor'. Table 8 ranks households by three different definitions of welfare, which can be loosely referred to as denoting the initial, new, and long-term poor — namely per capita expenditures (net of half of transfers) in the initial period, the same in the later period and by the mean over both years — and presents a comparison of mean per capita social income receipts in both years. The proportional gains from expansion were pretty uniform across groups.

However, among the 'poor' in each of the three senses, the 'initial poor' clearly had the lowest gains with a 122% proportionate increase in benefits for the bottom quintile and a 131% increase for the second lowest. The 'new poor' had the highest proportionate gains (137% and 155% increase respectively), while the 'long-term poor' fall somewhere in between (130% and 139%). Per capita amounts increased for all groups but the share of the population receiving transfers declined slightly overall (22 to 20 percent), as did the proportion of the poor receiving them by all three definitions. The evidence does not suggest that the poor were targeted by the program expansion.

Were changes in transfers responsive to poverty-related shocks? Table 9 presents information on mean changes in transfers received by panel households classified into a three by three matrix. Households ranked into terciles of their initial 1992/93 level of per capita consumption (low, middle or high) are cross-tabbed against the change in their consumption between the two dates categorized into whether it underwent a fall, stayed more or less the same or rose significantly.<sup>18</sup> So, for example, 34 percent of those who were in the bottom third of the distribution in 1992/93 and experienced a fall in consumption over time, received transfers equal to about 111,901 dong per person in recipient households.

There is little sign that the system responded to consumption shocks. Indeed, the percentage of households who benefited from social incomes is relatively uniform across cells. Neither starting out poor, nor experiencing negative consumption shocks, appear to have elicited a response from social welfare programs. 32 percent of those who enjoyed

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<sup>18</sup> Consumption in 1993 is net of half of transfers, while changes in consumption are net of half the change in transfers.

the highest initial consumption and the highest gains to consumption were beneficiaries compared to 34 percent of the worst off in both respects. Furthermore, if anything, the per capita transfers to participants increase with initial and rising welfare. The smallest amount went to the most needy. These specific programs appear unresponsive to shocks.

As discussed in section 2 (and to be further discussed in section 7), location may be an important factor in the determination of program participation. Possibly the absence of a pattern in Table 9 arises from variation across geographical areas that is obscuring patterns within them. To test this, a dummy variable indicating whether transfers were received in 1998 was regressed against initial (1993) per capita consumption and the change in per capita consumption (1993 to 1998). A linear probability model was used and run with and without commune effects. With commune effects, there is no sign of transfers responding either to initial consumption or to changes in consumption. Without commune effects, the results suggest that transfers respond perversely to initial consumption ( $b = 1.12e-8$ ,  $t=2.52$ ) and not to shocks (similarly to Table 9). This suggests that it is households in richer communes that primarily benefit from these transfers.

It is of further interest to examine what role transfers played in the impressive reduction in poverty that occurred over this period. The panel structure is now exploited to evaluate how well the safety net performed dynamically including how well it protected against poverty distinguished from how well it promoted out of poverty, following the approach proposed in Ravallion, van de Walle and Gautam (1995). In comparing joint distributions of consumption expenditures, such as with and without policy changes, the approach tests a policy's ability to protect the poor (PROT) and its

ability to promote the poor (PROM).<sup>19</sup> It indicates which distribution offered more protection and which offered more promotion and allows a calculation of the statistical significance of the difference.

Table 10 presents the baseline joint distribution of consumption in the two years. Households are classified into four groups according to whether they were poor or non-poor in both years, and whether they escaped or fell into poverty over the period. There is evidence of a large fall in poverty: 26 percent of the population escaped poverty, 5 percent fell into poverty, 34 percent were persistently poor and 35 percent were never poor. There is considerable persistent poverty.

What is the effect of transfers on poverty? To answer this question, it is necessary to simulate the counterfactual joint distribution without transfers; as in the static incidence calculations, this is done by subtracting half the transfers received in each respective year from consumption in that year. The simulated joint distribution is given in Table 11. Transfers are found to have negligible impact on poverty. Without them, one and two additional percent of the population would have been poor in 1993 and 1998 respectively. The measures of promotion and protection are not statistically significantly different from zero. Table 12 simulates the joint distribution had there been no changes in transfers between the two dates. The change in the proportion who fell into poverty identifies the degree of protection offered while the change in the proportion who escaped poverty indicates promotion. Changes enabled just over one percentage of the population to escape poverty, while they protected about one percent from falling into poverty. Again, these are not statistically different from zero effect. Low spending, low

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<sup>19</sup> Details on the tests are given in Ravallion et al. (1995) and van de Walle (2001).

coverage and poor targeting together explain the negligible impact of transfers and changes in transfers on poverty.

How much could better targeting improve impacts on poverty incidence? Table 13 compares the current distribution relative to a simulated uniform allocation of actual 1998 social income across the entire population. This would have a small, but statistically significant further impact on poverty: an additional 3 percent of the population (7 percent of the poor) under the actual allocation would escape poverty (s.e.=0.4%). Just over two percent of the non-poor would have fallen into poverty (s.e.=0.3%). What if 1998 transfers were instead targeted based on an equal allocation to those below the poverty line only? The results in Table 14 show that outlays would be sufficient to bring 17 percent of the poor (7% of the population with a standard error of estimate of 0.4%) out of poverty. Only 3 percent of the non-poor would have fallen into poverty (2 % of the population, s.e.=0.2%).

Finally, going back to the concerns of Table 8, Table 15 presents the joint distribution of the incidence of proportionate gains in social incomes. When ranked by their 1998 welfare, large gains are again apparent for the non-poor. The new information here is that within the non-poor, the largest gains went to those who were initially poor. Once again, the evidence suggests very poor performance on protection.

Poverty fell quite dramatically in Vietnam between 1992/93 and 1998, but social insurance, social subsidy and scholarship income transfers appear to have had negligible bearing on that outcome. Nor did they fulfill a safety net role in protecting those who faced falling living standards during this period. Part of the reason is low overall spending on these programs. However, the simulations above suggest that poor targeting

is a fundamental problem, as are low total outlays.

## **7 Geographic Targeting**

One possible explanation for the picture that has emerged so far may be the narrowness of the welfare indicator that has been used. Consumption expenditures per capita may simply be too narrow a welfare metric to reveal the underlying pro-poor targeting. Programs may well respond to on-the-ground definitions of welfare that are considerably more complex than per capita consumption.

Another possible explanation is that, given Vietnam's institutional arrangements for delivering social welfare programs, non-welfare dimensions, such as politico-geographical dimensions, may largely determine whether transfers reach the disadvantaged. This section explores these possibilities.

Poor communes have greater needs but richer communes can better afford poverty-related programs. The latter may also be better at implementing programs and reaching their poor. One means of equalizing resources is through the central government's national programs. An obvious question is to what degree redistribution occurs through these programs. Are the limited resources transferred from the national programs to the local level targeted to poorer communes? It is not possible to answer this directly since there is no way to figure out whether a sampled household benefits from a national program from the VNLSS (with the exception of school fee exemptions for which a benefit amount is not identifiable). However, incidence at commune level is observed in the commune level data for employment generation, poverty alleviation, education and culture, infrastructure development, public health, environment and other

programs; similarly, household participation at commune level is observed for micro-credit, school and health fee exemptions, tax exemptions, training and disaster relief programs. Most of these programs are probably centrally mandated 'national programs', although they can not be identified specifically. Table 16 links the household and commune level data to show the incidence of programs and of beneficiary households across communes classified into three equal groups — poor, middle and rich — by the mean per capita consumption expenditures of their population as sampled in the household survey.

Are poor communes more likely to have poverty programs? Table 16 suggests that the answer is yes. In general, poorer communes appear to have both more poverty related programs and a greater share of their populations participating. But the exceptions are interesting. The percent of households benefiting from occupational training is highest in rich communes. Education, employment generation, and environmental programs are all most common in the richest communes. There appears to be capture of skills and employment related schemes in richer communes perhaps because they are already well-endowed with the benefits offered by the other programs. Overall, the incidence across communes is redistributive in that there is a greater concentration of programs in the poorest communes. However, it is also true that programs are spread around quite widely geographically.<sup>20</sup>

The above results tell us nothing about the benefits to households from living in a

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<sup>20</sup> Again, the empirical evidence does not support the claim that truly poor communes are being targeted much more so than others. This could reflect deficiencies in the government's identification of poor communes (see Minot and Baulch 2001), or point to the inefficiency of geographical targeting due either to fundamental heterogeneity among communes or alternatively, to targeting not actually being implemented.

commune with a program or from being among the beneficiaries. For this we need to turn to household level data. Linking up household and commune information further allows an exploration of the importance of geographical location to participation in programs. For example, how do the poor in poorer communes fare compared to the poor in richer communes? To what degree does a poor household's geographical location determine whether and how much it benefits from assistance programs? Do poor households in rich communes do better than in poor communes? Are there signs of better targeting when more is spent overall in a location (see Ravallion 1999). Tables 17 and 18 attempt to examine these issues by looking at the distribution of beneficiaries and of social income payments (as reported at the household level) across the populations of poor, middle and rich communes ranked into national terciles of per capita consumption net of transfers.

Table 18 clearly shows that, not only is more being spent per capita overall in richer communes, but much more is also going to the poor. Total mean per capita payments in the richest communes are more than double that in the poorer communes. Mean per capita amounts going to the poor are 136 percent higher. There are signs of better targeting in better-off communes. Social insurance and social subsidies largely drive these results. Although Table 17 indicates that more of the poor live in households that participate in programs in poor communes than in rich communes, the per capita amounts received by the poor in the latter dwarf the former. They account for 7.1 percent of household expenditures compared to 4.3 for the bottom tercile in the poorest communes. Although small, outlays from the poverty alleviation fund tend to be concentrated in poor communes and on the poorest. The targeting differential, given by

the difference between the mean expenditures going to the poorest 50 percent of the population to that going to the top 50 percent are 1202, 1210 and 161 for poor, middle and rich communes respectively.

## **8 Conclusions and Policy Implications**

The paper's results reveal little sign of targeting to poor people or poorer communes in terms of their levels of living measured by consumption. If anything, transfer receipts rise with consumption per person, though there are signs that the share of social incomes in consumption falls with consumption, implying that transfers reduce inequality. Nor is the existing system effective in protecting households who are vulnerable to falling living standards. Household payments and contributions also appear to be regressive.

The current system suffers from the lack of national norms for identifying the poor consistently across regions; the lack of survey and other instruments with which to consistently measure and monitor local needs and program performance; a lack of integration and coordination between sub-programs with well-defined and universal rules for implementation at the local level; insufficient welfare maximizing redistribution of resources across space so that everyone is treated equally regardless of where they reside; and a lack of resources and attention to helping households and communities deal with covariate risk. Progress in these areas could lead to significant improvement in social protection for Vietnam's poor and vulnerable households.

In terms of funding and priorities, it is clear that the primary focus of HEPR continues to be micro-finance and infrastructure development. The potential immediate

significance of the HEPR lies in the possibility of greater consistency in priorities and norms, better monitoring of outcomes, much needed integration and coordination between programs, better coverage of the poor, and redistribution towards poorer and less administratively capable provinces. But, here too, there has been little discernible progress since the HEPR's inception.

While the HEPR concept offers the potential for significant improvements in the safety net, the Government of Vietnam faces a number of difficult challenges. The very principles on which the current highly decentralized, community-based assistance and safety net system is built are threatened by the emerging market economy. In particular, increasing mobility — important to a well-functioning market system — dictates a thorough rethinking of the safety net's foundations. Household mobility renders community level identification and targeting of the poor less effective and is likely to make the mobilization of community resources for helping the poor more difficult. The high level of decentralization inhibits the country's ability to provide adequate protection from covariate risks, which, in turn, appear to be on the rise as a result of environmental destruction. Adequately addressing this challenge, and the consequently widening urban-rural and regional inequalities, will require a greater level of risk pooling nationally through greater reliance on state-contingent redistribution mediated through the center. Important political hurdles can also be expected in efforts aimed at reallocating resources to better protect Vietnam's poor and vulnerable.

Geographic targeting is a widespread practice and is generally assumed to work well when there are geographical concentrations of poverty and identification of the poor is possible at sufficiently disaggregated level. However, it may well be that poorer areas

are less capable of reaching their poor well and /or implementing poverty programs than their richer counterparts. The paper finds that across Vietnam's communes, more is spent relatively and absolutely on the poor in richer communes. This is likely to reflect the large differences in resources across regions. More research is needed to understand whether it also reflects weaker capacity for reaching the poor. However, in the absence of a reform of the fiscal redistributive system — whereby the center's redistributive process promotes an equalization of resources all the way to the commune level — if one is asking where resources will have the greatest impact, it is not clear that one should not target better off communes rather than poorer ones.

The data do not allow us to identify whether funding comes from the national or local levels. Past evidence seems to indicate that existing national resources are relatively well targeted spatially at provincial level, but that the redistributive effect is mitigated by the distribution that then occurs within provinces. Although the paper cannot throw light on this question, it does show that the combination of funding and implementation mechanisms results in poor areas and people getting less than better-off areas and people. This suggests the need for more compensatory mechanisms from the center which could take the form of more money, better incentives for fiscal redistribution at the local level, more monitoring of central norms or administrative constraints on local discretion in the implementation of centrally mandated social welfare programs.

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**Table 1: Incidence of social welfare income** (*dongs per year per capita and as a percent of household per capita expenditures*)

<b>National population</b>	<b>No. of households</b>	<b>Social insurance fund</b>	<b>Social subsidies</b>	<b>Education scholarships</b>	<b>Poverty alleviation income</b>	<b>NGO Income</b>	<b>Total Social Welfare Income</b>	
Net quintile		dongs per capita	dongs per capita	dongs per capita	dongs per capita	dongs per capita	dongs per capita	% of h'hold expenditures
1	937	69,506	22,785	1,158	2,652	1,030	97,130	8.3
2	1,001	67,883	17,021	772	1,600	508	87,785	5.2
3	1,165	98,543	17,556	1,856	607	338	118,901	5.4
4	1,319	109,339	17,503	2,806	829	286	130,764	4.4
5	1,576	140,439	18,337	7,912	654	443	167,785	3.1
total	5,998	97,145	18,639	2,901	1,268	521	120,474	5.3
<b>Rural</b>								
Net quintile								
1	887	57,947	21,649	1,058	2,707	1,071	84,431	7.3
2	917	58,712	17,237	817	1,721	546	79,032	4.7
3	997	73,569	17,437	1,411	398	384	93,199	4.2
4	973	80,694	18,862	2,823	444	373	103,195	3.5
5	607	92,885	23,625	6,011	116	0	122,638	2.5
total	4,381	69,697	19,340	1,944	1,249	546	92,776	4.8
<b>Urban</b>								
Net quintile								
1	50	357,704	51,106	3,642	1,296	0	413,747	34.6
2	84	189,868	14,148	185	0	0	204,200	12.4
3	168	281,715	18,431	5,126	2,140	0	307,411	14.1
4	346	203,987	13,015	2,752	2,104	0	221,858	7.4
5	969	174,381	14,562	9,269	1,037	760	200,010	3.4
total	1,617	201,095	15,981	6,527	1,341	425	225,369	7.3

Source: 1998 VNLSS

Note: The rural/urban breakdown follows the urban92 definition. Individuals are ranked into national population quintiles based on household per capita expenditures net of half of transfers receipts. The amounts represent household self-reported income received from the government during the last year expressed on a per capita basis across the population of each quintile. Social insurance refers to pensions and disability payments. Social subsidies consist of transfers to families of war martyrs, disabled veterans, and from social organizations or production facilities. These come from the Social Guarantee Fund for Veterans and War Invalids and the Social Guarantee Fund for Regular Relief. The poverty alleviation income represents all funds received from programs associated with the government's poverty alleviation policy. NGO income is assistance received from private and international NGOs.

**Table 2: Incidence of social welfare income (% of population)**

<b>National population</b>					
<b>% of population living in households who received:</b>					
Net Quintile	Social insurance	Social subsidies	Education scholarships	Poverty alleviation	NGO income
1	9.5	11.6	1.1	6.4	0.5
2	9.1	9.4	0.8	2.1	1.2
3	11.6	9.6	1.9	1.3	0.3
4	12.1	10.0	2.7	0.9	0.2
5	13.9	7.3	5.6	0.2	0.1
total	11.2	9.6	2.4	2.2	0.5
<b>Rural</b>					
Net Quintile					
1	8.7	11.5	0.9	6.6	0.5
2	8.5	9.4	0.7	2.3	1.3
3	9.5	9.6	1.8	1.1	0.3
4	10.1	10.8	2.3	0.8	0.3
5	11.1	9.4	5.1	0.1	0.0
total	9.4	10.2	1.8	2.6	0.6
<b>Urban</b>					
Net Quintile					
1	27.8	13.0	4.6	2.5	0.0
2	17.3	8.9	2.6	0.0	0.0
3	27.0	9.2	2.7	2.8	0.0
4	18.6	7.4	4.1	1.2	0.0
5	15.8	5.9	6.0	0.3	0.2
total	18.3	7.1	4.9	0.8	0.1

Source: 1998 VNLSS

Note: The rural/urban breakdown follows the urban92 definition. Individuals are ranked into national population quintiles based on household per capita expenditures net of half of transfers receipts.

**Table 3: Total spending on social welfare in 1998 as reported in VNLSS by urban, rural and national ('000 Dongs)**

	Rural	Urban	Total
<b>Social insurance:</b>			
total amount	1,458,655.0	1,443,274.0	2,901,929.0
% of total	50.3	49.7	100
<b>Social subsidies:</b>			
total amount	404,762.6	117,436.0	522,198.6
% of total	77.5	22.5	100
<b>Education scholarship:</b>			
total amount	40,680.61	46,779.39	87,460.0
% of total	46.5	53.5	100
<b>Poverty alleviation Fund:</b>			
total amount	26,137.04	9,613.08	35,750.12
% of total	73.1	26.9	100
<b>NGO Funds:</b>			
total amount	11,431.44	3,044.012	14,475.452
% of total	79.0	21.0	100
<b>Total social income:</b>			
total amount	1,941,667.0	1,620,147.0	3,561,814.0
% of total	54.5	45.5	100
% of poor	94	6	100
% of population	78	22	100
Sample Observations	4,381	1,618	5,999

Note: Dong amounts are in thousands of 1998 Dongs and equal the weighted sums of money amounts received by households as reported in the 1998 VNLSS.

**Table 4: Incidence of school fee exemptions (% of population)**

National population	% of population with fee exemption:		Reason for fee exemption (%):											
			Net Quintile	partial	total	either	disabled/orphan		ethnic minority		poor		remote or mountainous area	
	partial	total					partial	total	partial	total	partial	total	partial	total
1	3.2	3.8	7.0	0.6	1.6	8.6	37.9	12.7	17.4	24.8	31.3	8.8	3.6	
2	3.7	2.2	5.9	2.1	2.3	10.7	15.9	11.0	27.9	22.5	36.1	11.9	4.0	
3	4.3	1.4	5.7	0.4	0	5.2	14.8	12.6	34.6	24.3	27.2	19.5	12.6	
4	3.1	1.1	4.2	0.9	6.4	4.4	26.8	6.0	11.2	16.2	37.7	28.2	6.0	
5	2.4	0.6	3.0	4.4	3.9	2.3	0	6.9	10.7	6.0	15.1	26.4	15.8	
total	3.3	1.8	5.1	1.5	2.1	6.6	24.7	10.3	21.8	20.0	31.3	18.1	6.3	
<b>Rural</b>														
Net Quintile														
1	3.2	3.8	7.1	0	1.6	8.9	38.7	11.2	15.9	25.6	31.9	9.1	3.4	
2	3.8	2.3	6.1	2.2	2.4	11.3	17.1	10.1	22.5	23.7	38.8	12.6	4.3	
3	4.4	1.4	5.8	0.4	0	6.1	15.0	9.8	27.7	28.1	32.2	20.5	14.9	
4	3.5	1.2	4.7	1.1	3.6	4.0	28.5	3.4	6.6	19.2	45.0	28.6	7.2	
5	3.8	0.6	4.4	0.5	0	2.9	0	4.8	16.3	6.7	36.4	19.1	0	
total	3.7	2.1	5.8	0.9	1.7	7.3	27.1	8.6	18.6	22.8	35.2	17.1	5.7	
<b>Urban</b>														
Net Quintile														
1	2.1	2.2	4.2	17.5	0	0	0	52.4	89.3	0	0	0	10.7	
2	1.6	1.0	2.6	0	0	0	0	27.2	100	0	0	0	0	
3	3.8	1.1	4.9	0	0	0	13.3	30.0	72.5	0	0	13.6	0	
4	1.9	0.6	2.4	0	20.9	6.5	18.3	20.2	34.9	0	0	26.0	0	
5	1.5	0.6	2.1	11.0	6.7	1.3	0	10.6	6.7	4.9	0	38.9	26.9	
total	1.8	0.7	2.6	5.3	5.7	1.8	5.8	21.4	47.1	1.9	0	24.2	11.2	

Source: 1998 VNLSS

Note: The rural/urban breakdown follows the urban92 definition. Individuals are ranked into national population quintiles based on household per capita expenditures net of half of transfers receipts. Some aggregation has been made across reasons given for receiving a fee exemption: disabled and orphan; ethnic minority and boarding student in minority area; parent is deceased soldier, seriously wounded soldier or disabled government cadre; the remainder includes parent is farmer and 'other'.

**Table 5: Incidence of household contributions** (*dongs per year per capita and as a percent of household per capita expenditures*)

National population	Labor fund		Local security fund		Associations		Total payments		
	Net Quintile:	Dongs per capita	% of population with payments	Dongs per capita	% of population with payments	Dongs per capita	% of population with payments	Dongs per capita	as % of h'hold expenditures
1	13,251	72.3	852	53.6	902	38.9	15,005	1.3	
2	16,134	70.1	1,156	52.8	1,206	44.3	18,496	1.1	
3	15,355	65.3	1,450	56.7	2,030	49.3	18,835	0.8	
4	14,726	61.4	1,999	57.6	2,538	56.9	19,263	0.6	
5	9,546	49.8	5,239	73.1	7,987	66.5	22,773	0.4	
total	13,803	63.8	2,140	58.8	2,933	51.2	18,875	0.9	
<b>Rural</b>									
Net Quintile:									
1	13,699	74.2	827	53.4	870	38.8	15,396	1.3	
2	16,960	72.9	1,130	52.2	1,222	44.9	19,312	1.1	
3	16,691	69.3	1,321	54.5	1,979	49.3	19,991	0.9	
4	16,776	65.9	1,576	52.5	2,551	57.0	20,903	0.7	
5	13,892	61.6	2,437	59.0	5,737	65.9	22,066	0.4	
total	15,750	69.9	1,323	53.8	2,038	49.0	29,111	1.0	
<b>Urban</b>									
Net Quintile:									
1	2,120	24.6	1,480	59.6	1,694	40.3	5,294	0.3	
2	5,155	33.2	1,508	61.0	985	36.9	7,648	0.4	
3	5,553	35.8	2,396	73.1	2,407	49.7	10,357	0.4	
4	7,952	46.5	3,396	74.5	2,494	56.5	13,842	0.4	
5	6,444	41.4	7,240	83.1	9,593	67.0	23,277	0.3	
total	6,431	40.7	5,231	77.7	6,320	59.7	17,981	0.4	

Source: 1998 VNLSS

Note: The rural/urban breakdown follows the urban92 definition. Individuals are ranked into national population quintiles based on household per capita expenditures net of half of transfers receipts. Dong amounts are self-reported household payments to local government or any of the numerous associations (mass organizations) during the last year expressed on a per capita basis across the entire quintile population. The value of contributions in labor time has been imputed using values of 10,000 and 15,000 Dongs per day worked in rural and urban areas respectively, and added to cash contributions to the labor fund.

**Table 6: Rural population by whether they live in commune with poverty and other programs (%)**

<b>Programs:</b>	<b>% of total</b>	<b>% of poor</b>	<b>% of non-poor</b>
Poverty alleviation	79.1	83.6	76.2
Employment generation	21.1	19.1	22.5
Environmental/clean water	15.3	13.7	16.4
Public health	25.0	28.7	22.5
Infrastructure development	49.5	52.7	47.3
Education and culture	18.9	18.7	19.1
Other project	7.6	7.8	7.5
Disaster relief	66.1	71.5	62.5
Recent infrastructure investments	92.4	93.4	91.9
roads	50.5	45.8	53.6
electricity	28.1	26.9	28.8
irrigation	36.7	40.6	34.1
schools	58.9	52.8	63.0
health center	36.2	33.3	38.1
water sources	18.1	18.9	17.5
other	0.9	0.5	1.1
observations	4269	1439	2830

Source: 1998 VNLSS

Note: The table combines information from the household and commune data sets. Rural is defined according to urban 98. The questionnaire asked for the first, second and third kinds of government or other projects/programs currently existing in the commune. The table reports % of population living in communes where a kind of project was listed either first, second or third.

**Table 7: Small town population by whether they live in a commune with poverty and other programs (%)**

<b>Programs:</b>	<b>% of total</b>	<b>% of poor</b>	<b>% of non-poor</b>
Poverty alleviation	83.1	86.2	82.7
Employment generation	38.4	45.0	37.4
Environmental/clean water	20.5	23.3	20.1
Public health	6.6	14.1	5.5
Infrastructure development	22.5	24.2	22.3
Education and culture	26.5	20.0	27.5
Disaster relief	50.7	61.4	49.1
Recent infrastructure investments	78.0	83.3	77.2
roads	67.6	78.5	65.9
electricity	21.3	17.2	21.9
irrigation	12.7	18.2	11.8
schools	57.7	62.8	57.0
health center	23.3	20.6	23.7
water sources	27.2	26.9	27.2
observations	581	59	522

Source: 1998 VNLSS

Note: The table combines information from the household and commune data sets. The questionnaire asked for the first, second and third kinds of government or other projects/programs currently existing in the commune. The table reports % of population living in communes where a kind of project was listed either first, second or third.

**Table 8: Changes in incidence over time**

	1992 social transfers			1998 social transfers			% increase in social
	dongs per capita	% of h'hold expenditures	% of population	dongs per capita	% of h'hold expenditures	% of population	
1992 Net quintile:							
1	34,330	4.8	22.1 (775)	76,197	5.8	16.3 (775)	122.0
2	39,166	3.4	19.7 (830)	90,452	5.0	17.0 (829)	131.0
3	43,492	2.9	21.7 (850)	101,858	5.5	21.2 (850)	134.2
4	54,532	2.8	23.4 (895)	130,822	5.4	21.6 (891)	139.9
5	85,654	2.5	24.2 (958)	184,128	0.6	23.2 (958)	115.0
Total	51,443	3.3	22.2 (4305)	116,641	4.5	19.8 (4303)	126.7
Mean net quintile:							
1	35,041	4.6	24.2 (740)	80,468	7.1	16.5 (740)	129.6
2	32,952	2.8	19.4 (809)	78,878	5.1	17.9 (809)	139.4
3	50,290	3.6	21.3 (872)	117,442	6.0	22.2 (872)	133.5
4	58,657	3.0	23.8 (924)	139,395	5.5	20.5 (924)	137.6
5	77,257	2.5	22.5 (960)	166,996	1.5	22.0 (958)	116.2
Total	51,443	3.3	22.2 (4305)	116,641	4.5	19.8 (4303)	126.7
1998 Net quintile:							
1	38,652	4.1	23.0 (735)	91,545	3.2	17.6 (735)	136.8
2	35,299	3.1	21.8 (797)	89,965	5.8	18.1 (797)	154.9
3	51,934	3.5	22.7 (879)	114,218	5.6	22.3 (879)	119.9
4	50,131	3.0	21.0 (929)	116,325	4.3	19.3 (929)	132.0
5	76,857	2.9	22.6 (965)	171,121	3.4	21.8 (963)	122.7
Total	51,443	3.3	22.2 (4305)	116,641	4.5	19.8 (4303)	126.7

Source: van de Walle (2001) using the 1993 and 1998 VNLSSs.

Note: Quintiles are national population quintiles constructed based on per capita expenditures net of half of social transfers. The number of sample households in each quintile are given in parentheses. Dong amounts are expressed on a per capita basis across the quintile populations

**Table 9: The incidence of changes in transfers by initial consumption and changes in consumption over time**

	Fall in consumption	Consumption stayed the same	Large rise in consumption
Low initial consumption	34% 111,901 80	27% 246,476 506	27% 241,658 848
Middle initial consumption	32% 408,469 240	30% 251,619 422	30% 296,513 772
High initial consumption	33% 481,618 496	36% 343,329 221	32% 367,991 720

Source: van de Walle (2001) using the 1993 and 1998 VNLSSs.

Note: The population is ranked into three equal groups based on 1992/93 per capita expenditures net of half of transfers and cross-tabbed against the level of their change in consumption over time net of half the change in transfers. The first number gives the percentage of households in the cell who received transfers in 1998. The second number gives the per capita amount of the change in transfers received by those with positive receipts only. The final number gives the number of households in the cell. Changes in transfers refer to changes in amounts received from social insurance, social subsidies and school scholarships.

**Table 10: The baseline discreet joint distribution**

1993	1998		total
	Poor	Non-poor	
Poor	33.54% (55.78)	26.58% (44.22)	60.12 100
Non-poor	4.84% (12.14)	35.04% (87.86)	39.88 100
total	38.38	61.62	100

Source: van de Walle (2001) using the 1993 and 1998 VNLSSs.

Note: The population is ranked into poor, non-poor groups based on actual per capita expenditures at each date and cross-tabbed. The first number in each cell gives the percentage of total population who were in that row's poverty group in 1993 and that column's group in 1998. The number in parentheses inside the table gives the proportion of each row's population that is in each column's group in 1998 or the transition probability.

**Table 11: Joint distribution without transfers**

PROT= 0.31(0.66); PROM= 0.70(0.74)

1993	1998		total
	Poor	Non-poor	
Poor	35.21% (57.63)	25.88% (42.37)	61.09 100
Non-poor	5.15% (13.24)	33.76% (86.76)	38.91 100
total	40.36	59.64	100

Source: van de Walle (2001) using the 1993 and 1998 VNLSSs.

Note: The population is ranked into poor, non-poor groups based on their simulated without transfer per capita expenditures (minus .5\*transfers) at each date and cross-tabbed. z-scores in parentheses outside the table; critical values: 1.96 (2.58) at the 5% (1%) level.

**Table 12: No change in transfers between 1993 and 1998**

PROT= 0.36(0.76); PROM=0.69(0.73)

1993	1998		total
	Poor	Non-poor	
Poor	34.23% (56.94)	25.89% (43.06)	60.12 100
Non-poor	5.19% (13.02)	34.69% (86.98)	39.88 100
total	39.43	60.57	100

Source: van de Walle (2001) using the 1993 and 1998 VNLSSs.

Note: The population is ranked into poor, non-poor groups based on actual per capita expenditures for 1993 and the simulated 1998 distribution had there been no change in transfers (per capita expenditures in 1998 minus .5 of the change in transfers) and cross-tabbed. z-scores in parentheses outside the table; critical values: 1.96 (2.58) at the 5% (1%) level.

**Table 13: Actual 1998 distribution versus uniform allocation of 1998 transfers**

1998 actual	1998 simulated		total actual
	Poor	Non-poor	
Poor	35.54% (92.61)	2.83% (7.39)	38.38 100
Non-poor	1.54% (2.49)	60.09% (97.51)	61.62 100
total simulated	37.08	62.92	100

Source: van de Walle (2001) using the 1998 VNLSS.

Note: The population is ranked into poor, non-poor groups based on actual per capita expenditures for 1998 and the simulated 1998 distribution had the five transfers identifiable in 1998 been distributed uniformly across individuals, and cross-tabbed.

**Table 14: Actual 1998 distribution versus 1998 transfers targeted on equal per capita basis to the poor**

1998 actual	1998 simulated		total actual
	Poor	Non-poor	
Poor	31.72% (82.66)	6.66% (17.34)	38.38 100
Non-poor	1.98% (3.21)	59.64% (96.79)	61.62 100
total simulated	33.70	66.30	100

Source: van de Walle (2001) using the 1998 VNLSS.

Note: The population is ranked into poor, non-poor groups based on actual per capita expenditures for 1998 and the simulated 1998 distribution had the five transfers identifiable in 1998 been distributed per capita only to the poor and cross-tabbed.

**Table 15: The incidence of proportionate changes in social incomes**

1993	1998	
	Poor	Non-poor
Poor	102%	189%
Non-poor	54%	125%

Source: van de Walle (2001) using the 1993 and 1998 VNLSSs.

Note: The population is ranked into poor, non-poor groups based on their actual per capita expenditures at each date and cross-tabbed. The numbers give the percentage change in the three transfers between the dates.

**Table 16: Incidence of poverty related programs and beneficiaries by rural poor, middle and rich communes**

<i>% commune households who received:</i>							
Communes	Subsidized credit	School fee exemptions	Hospital fee exemptions	Tax exemptions <sup>a</sup>	Training <sup>b</sup>	Disaster relief	
Poor	19.4	13.1	13.6	13.4	1.1	8.2	
Middle	12.6	6.8	2.1	5.4	0.9	4.0	
Rich	11.4	4.8	4.0	7.0	4.0	1.8	
<b>Total</b>	14.6	8.3	6.7	8.8	1.9	4.7	
<i>% communes with following programs:</i>							
	Poverty alleviation	Development investments <sup>c</sup>	Education/culture	Health/public health	Employment generation	Environment/clean water	other
Poor	88.5	53.9	25.0	30.8	19.2	9.6	7.7
Middle	76.9	42.3	15.4	23.1	19.2	19.2	3.9
Rich	71.2	36.5	26.9	9.6	32.7	21.2	7.7
<b>Total</b>	78.8	44.2	22.4	21.2	23.7	16.7	6.4

Source: 1998 VNLSS

Note: Communes are ranked into three equal groups based on the mean per capita expenditures net of half of social incomes of their population. All the other information is based on the commune level data.

a: Refers to exemption or reduction of production/business taxes; b: Refers to occupational and agricultural technology training; c: refers to economic and infrastructure development investments.

**Table 17: Incidence of social transfers across the rural population by terciles and poor, middle or rich commune (% of population)**

<i>Percent population benefiting from following household level funds:</i>						
Population terciles	Social insurance	Social subsidies	Poverty alleviation	NGO	Education scholarships	Total
<b>Poorest communes</b>						
1 (968)	7.6	10.2	6.7	0.7	0.9	23.4
2 (542)	10.7	8.5	2.4	0.7	2.3	21.6
3 (150)	12.2	4.3	3.0	0	3.4	22.3
total (1660)	8.8	9.5	5.1	0.7	1.5	22.8
<b>Middle Communes</b>						
1 (405)	11.9	12.3	1.3	1.5	0.7	25.3
2 (741)	9.0	12.3	0.5	0.5	1.5	21.8
3 (489)	7.8	13.4	0	0	2.6	21.6
total (1635)	9.5	12.6	0.6	0.7	1.5	22.8
<b>Richest communes</b>						
1 (149)	8.7	6.9	3.1	0	2.7	18.4
2 (479)	14.9	7.4	0.7	0.2	1.7	21.2
3 (927)	12.3	6.5	0.2	0	4.2	19.2
total (1555)	12.8	6.8	0.7	0.1	3.2	19.8

Source: 1998 VNLSS

Note: Communes are ranked into three equal groups based on the mean per capita expenditures net of half of social incomes of their population. The rural population is ranked into population terciles. The number of sample households in each tercile is given in parentheses.

**Table 18: Incidence of social transfers across the rural population by terciles and poor, middle or rich commune (dongs per year per capita and as a percent of household per capita expenditures)**

<i>Per capita dongs received by rural population from following funds:</i>							
Population terciles	Social insurance	Social subsidies	Poverty alleviation	NGO	Education scholarships	Total	% of h'hold expenditures
<b><i>Poorest communes</i></b>							
1 (968)	45,122	18,461	2,132	1,204	1,339	68,257	4.3
2 (542)	65,356	21,537	1,009	366	1,646	89,915	3.5
3 (150)	94,177	8,802	210	0	4,735	107,924	2.7
total (1660)	54,310	18,797	1,672	874	1,643	77,296	3.9
<b><i>Middle Communes</i></b>							
1 (405)	88,919	22,820	2,979	384	447	115,548	6.2
2 (741)	73,515	17,495	746	447	1,369	93,572	3.5
3 (489)	75,394	27,084	0	0	2,859	105,337	2.5
total (1635)	78,485	21,462	1,210	316	1,475	102,948	4.0
<b><i>Richest communes</i></b>							
1 (149)	141,927	17,322	890	0	788	160,927	7.1
2 (479)	146,022	17,052	491	634	1,839	166,038	5.6
3 (927)	126,358	15,486	83	0	6,745	148,672	3.1
total (1555)	134,507	16,202	306	207	4,480	155,701	4.4

Source: 1998 VNLSS

Note: Communes are ranked into three equal groups based on the mean per capita expenditures net of half of social incomes of their population. The rural population is ranked into population terciles. The number of sample households in each tercile is given in parentheses.