

Development Centre Studies

# Social Cohesion Policy Review of Viet Nam





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## Foreword

Over the past decade, the global economic centre of gravity has moved eastwards and southwards. Fast growth in developing countries has lifted hundreds of millions of people out of poverty and doubled OECD growth rates. At the global level, this overall decline in poverty has resulted in better distribution of wealth among countries. However, the picture within countries can be quite different. Rapid economic growth has left many societies in flux with a variety of impacts on human well-being and inequality. Certain population groups remain mired in persistent poverty, while the growing middle class and an increasingly educated youth have new expectations and rising aspirations.

The Review takes a multi-dimensional approach to the analysis of fiscal, labour, education, health and social protection policies to establish their impact on social cohesion. It applies an analytical framework based on the OECD report, *Perspectives on Global Development 2012: Social Cohesion in a Shifting World*, which examines the impacts, challenges and opportunities of a decade's fast growth on social cohesion. The report defines a cohesive society as a society that strives for social integration and builds up social capital to create a common sense of belonging, and as a place where prospects exist for upward social mobility.

The findings constitute technical inputs to the on-going discussions led by the Ministry of Labour, Invalids and Social Affairs (MOLISA) to set new social targets in the framework of the Socio-Economic Development Strategy 2011-20. The review incorporates new social cohesion indicators and social cohesion impact assessment tools, which are expected to shed light on the evolution of Vietnamese society, monitor progress on the impacts of economic development and highlight the state of social well-being for all groups of the population.

A central feature of this review is the multi-dimensional and inclusive approach to policy analysis. The effects of policies on social outcomes are measured for different groups of the population and recommendations are made

across sectors towards social cohesion objectives: to promote social inclusion for all; to facilitate upward social mobility; and to strengthen social capital. These three dimensions constitute the pillars of social cohesion.

The *Social Cohesion Policy Review of Viet Nam* is the result of extensive empirical analyses using data from household surveys and consultations with MOLISA and local experts, including the Institute of Labour Science and Social Affairs (ILSSA), the General Statistics Office (GSO) and the Ministry of Finance (MoF). The SCPR aims to provide policy recommendations across sectors that will improve policy coherence and co-ordination within the government and ultimately help the country implement a policy reform agenda that promotes social cohesion. Viet Nam is a member of the OECD Development Centre.

Mario Pezzini  
Director,  
OECD Development Centre  
October 2014

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## Acronyms and abbreviations

2SLS	Two-Stage Least Square
ADB	Asian Development Bank
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CHC	Commune Health Center
CIEM	Central Institute for Economic Management
CISBs	Community Investment Supervision Boards
CPI	Consumer Price Index
EIU	Economist Intelligence Unit
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FSQL	Fundamental School Quality Level
GDP	Gross Domestic Product
GIC	Growth Incidence Curve
GNP	Gross National Product
GRDO	Grassroots Democracy Ordinance
GSO	General Statistics Office
HEPR	Hunger Eradication and Poverty Reduction
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HPG	Health Partnership Group
IBE	International Bureau of Education
ILO	International Labour Organization
ILSSA	Institute of Labour Science and Social Affairs

ISCED	International Standard Classification of Education
ISCO	International Standard Classification of Occupations
ISIC	International Standard Industrial Classification
KILM	Key Indicators of the Labour Market
Lao PDR	Lao People's Democratic Republic
LFS	Labour Force Survey
LMICs	Lower Middle Income Countries
LUCs	Land Use Certificates
MDG	Millennium Development Goal
MoF	Ministry of Finance
MoH	Ministry of Health
MoJ	Ministry of Justice
MPI	Ministry of Planning and Investment
MOLISA	Ministry of Labour, Invalids and Social Affairs
NA	Not Available
NEET	Not in Education, Employment or Training
NGO	Non-Governmental Organization
NIN	National Institute of Nutrition
NORAD	Norwegian Agency for Development Cooperation
NTPRP	National Targeted Poverty Reduction Programme
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights
PAPI	Provincial Governance and Public Administration Performance Index
PCI	Provincial Competitiveness Index
PDR	People's Democratic Republic
PIBs	People's Inspection Boards
PISA	Programme for International Students Assessment
PIT	Personal income tax
PPP	Purchasing Power Parity
SAV	State Audit of Viet Nam
SEDP	Socio-Economic Development Plan

SIGI	Social Institutions and Gender Index
STEP	Skills Toward Employment and Productivity
SWIID	Standardized World Income Inequality Database
TABMIS	Treasury and Budget Management Information System
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children’s Fund
USD	United States Dollars
VAT	Value Added Tax
VET	Vocational Education and Training
VHLSS	Vietnamese households living standard survey
VND	Vietnamese Dong
VSS	Vietnam Social Security
WB	World Bank
WDI	World Development Indicators
WHO	World Health Organization
WHO/ UNICEF JMP	WHO/UNICEF Joint Monitoring Programme
WTO	World Trade Organization



## Executive summary

Viet Nam has achieved sustained growth over the past decade accompanied by impressive progress in poverty reduction and the emergence of a large middle class. These achievements are largely attributed to the *Doi Moi* economic reform process, initiated in 1986, which launched a series of structural changes that transformed the country into one of the fastest growing economies in the world.

The on-going *Doi Moi* (or renovation) process in Viet Nam has created challenges for social cohesion, however. There are questions regarding the extent to which recent achievements have translated into progress towards universal well-being and also about the ways in which this structural transformation has impacted social cohesion. There are additional concerns that existing gaps in employment, social, education and fiscal policies may put social cohesion at risk.

The aim of the Social Cohesion Policy Review is to contribute to the on-going policy dialogue on social cohesion in Viet Nam and to support the formulation of well-informed public interventions. The first part of the review focuses on the following questions: *i)* How cohesive is Vietnamese society? *ii)* Was economic growth inclusive in Viet Nam? *iii)* To what extent have growth policies been able to generate employment and contribute to employment transformation? The subsequent chapters analyse selected policies (minimum wage, education, social protection and fiscal policies) and their effect on social outcomes for different socio-economic groups and sub-national regions.

### Social cohesion at a crossroads in Viet Nam

While the economic reform process has contributed to an overall improvement in living standards, there are concerns about the extent to which growth was inclusive. Recent growth performance favoured the poorest least and has not resulted in significant job creation. Analyses also highlight the difficulties some groups encounter in participating in economic and social life.

Social mobility is an important aspect of a cohesive society. Absolute and relative income mobility is high in Viet Nam, implying the presence of both

winners and losers. However, there are limits on the opportunities available to workers to upgrade in jobs requiring higher levels of skills and to move to jobs that match their level of skills. The prospects of upward inter-generational mobility may be also limited.

Regarding social capital, structural transformation has affected people's relations and trust with each other and the government. There are also signs that traditional social support networks are weakening. While there are opportunities for civic engagement, these do not necessarily imply an ability to actively engage in the public sphere, act as a check on government or influence government policy. Social norms also play an important role in Vietnamese society, but some of these appear to have an adverse impact on gender equity.

### **Improving social cohesion through employment-friendly policies**

Viet Nam has enjoyed high rates of growth in recent decades exceeding those prevailing in most OECD countries. However, employment intensity has remained low despite a large increase in labour productivity combined with real wage growth. Skills mismatch is a rising concern as labour demands are rapidly changing with structural transformations.

Years of public investment in education have functioned as an important engine for growth and contributed to major progress in human capital formation. A number of challenges remain, however, in terms of access and equity. In addition, there are growing concerns about the inadequacy of education and training policies to prepare the work force for employment in a fast-growing economy.

Other policies are of importance for the quantity and quality of employment. A minimum wage policy was introduced to protect the wage level of workers, but fuelled a controversial debate over development impacts. The review found no evidence that the policy had adverse employment effects, but its only partial legal coverage may limit the desired impact on income inequality.

### **Building an inclusive social protection system**

The social protection system in Viet Nam has been instrumental in mitigating risks throughout the life cycle, while narrowing inequalities between different groups in society. A number of challenges remain related to the sufficiency and equity of the social protection system, with certain schemes, such as social insurance, requiring more attention.

Over the past decade, public spending on social protection has increased overall, but Viet Nam still spends less than other lower middle-income countries. The issue of low coverage varies depending on the type of social protection. Widespread tax avoidance is a significant factor that undermines the development of inclusive social protection schemes.

Programmes specific for vulnerable groups are successful in reaching the officially targeted population. The principal challenge is to extend the coverage to the poor who are not officially registered as beneficiaries. In contrast with pro-poor assistance programmes, coverage of social insurance schemes is concentrated disproportionately among the better off, and there are large inequalities in the use of health care services among ethnic groups and across income categories among the elderly.

## **Fiscal policy and the social contract**

Ensuring fiscal legitimacy through effective and equitable fiscal policies is an essential part of preserving the social contract. In Viet Nam, reported trust in fiscal institutions and tax morale are high, but the widespread practice among enterprises of under-reporting wages to evade social security contributions tends to undermine fiscal legitimacy and the social contract.

Personal Income Tax (PIT) in Viet Nam appears to have very limited redistributive effects. If fully enforced, however, the existing PIT regime could have greater influence on reducing inequality. Public transfers contribute to a more sizeable reduction in income inequality than taxes, but are regressive in character.

The state budget system has, in principle, been decentralised. Yet, decision making remains heavily centralised. Fiscal transfers from the central to local governments have been progressive. However, the pro-poor nature of fiscal transfers does not automatically translate into improved satisfaction with public service delivery.

## **Policy implications**

To foster social cohesion, national policy makers need to work across sectors and develop a multi-pronged approach to fill policy gaps that put social cohesion at risk. This multi-pronged approach must take into account the fiscal space available for public programmes. It will be necessary to evaluate the cost of the proposed public actions and establish an appropriate sequence of interventions.



## Assessment and recommendations

**The sustained growth achieved by Viet Nam over the past decade was accompanied by impressive poverty reduction and the emergence of a large middle class.** This progress is largely attributed to the *Doi Moi* (or renovation) process, initiated in 1986, which launched a series of economic reforms that transformed the country into one of the fastest growing economies in the world. The country achieved an average annual GDP growth rate of 7% over the past decade, doubling the median income of middle-class households. Poverty headcounts fell from 58% in 1993 to 14.5% in 2008. The *Doi Moi* aimed to transition from a centrally-planned economy to a socialist-oriented market economy, encouraging private sector development and foreign investments.

**However, the on-going renovation process has created challenges for social cohesion.** The extent to which recent successes have been translated into improved well-being is questioned as well as the ways in which this rapid growth has affected social cohesion. A cohesive society can be described as a society that strives for social integration and builds up the necessary social capital to create a common sense of belonging, and one where prospects exist for upward social mobility. Persistent and deepening inequalities among certain groups of the population (e.g. 60% of ethnic minorities are poor, accounting for nearly half of the total poor) raise concerns on the prospects of achieving sustained and inclusive growth. The coverage gaps in social protection (e.g. 67% of people in the middle class do not have social insurance) and the weak redistributive effect of the current fiscal policies may expose many middle-class households to the risk of falling back into poverty. Last but not least, innovation and technological progress are generating new skills needs which place education and training policies under tremendous pressure. These elements combined put social cohesion at risk.

**The importance of social cohesion is increasingly recognised in Viet Nam's national development strategies, not least since excessive disparities in well-being outcomes can cause social instability and threaten progress.**

The Socio-Economic Development Strategy (SEDS) 2011-20 emphasises the change in the growth model to ensure sustainable development and “consider human the main resource and objective of development”. New human and social development targets have been set for 2020, including life expectancy to 75; 9 doctors and 26 hospitals beds per 10 000 people; universal health coverage; 70% trained labour force and improved vocational training; social security and welfare and community health care guaranteed; income gaps between regions and groups of population narrowed; and rudimentary housing eliminated. The Ministry of Labour, Invalids and Social Affairs (MOLISA) has been charged to implement this strategy and is working with different line ministries to set targets and measurement indicators for 2020 (Resolution 15).

**The aim of this review is to contribute to the on-going policy dialogue on social cohesion in the context of the SEDS 2011-20 and Resolution 15 and to support the formulation of well-informed public interventions.** The review starts with a diagnosis chapter on the state of social cohesion, which looks at the impact of growth on income distribution, employment and other social outcomes for different groups of the population and sub-national regions. Key questions addressed in this chapter include: *i)* How cohesive is Vietnamese society? *ii)* Was economic growth inclusive? *iii)* To what extent has growth been able to generate employment and contribute to employment transformation? The subsequent chapters focus on selected policies and their effect on social cohesion and attempt to address the following questions: *i)* Has minimum wage affected the quantity or quality of employment? *ii)* Is the quality of education adequate for today’s labour market needs? *iii)* Is public social service delivery sufficient and equitable? *iv)* Are fiscal policies redistributive and effective in promoting social cohesion? The assessment and recommendation section presents a summary of these findings and provides policy recommendations that can guide the government towards building a holistic social cohesion agenda.

## Social cohesion at a crossroads in Viet Nam

The social cohesion policy review assesses the degree of social cohesion through three lenses: social inclusion, social mobility and social capital. Social inclusion is measured by the distribution of income growth and the extent to which location, ethnicity, gender and age shape social outcomes. Social mobility is analysed by the ability to move up in income class and job status as well as the determinants of inter-generational mobility. Social capital looks at the level of trust in society and the changing social norms and values in Vietnamese society.

## Social inclusion

**While the economic reform process contributed to overall improvement in living standards, past growth performance has not addressed the high level of inequalities.** Structural transformation in Viet Nam has been accompanied by little change in overall income inequality as measured by the Gini index (remaining at around 0.42). Overall income inequality is nonetheless higher than in OECD countries (average 0.31). Today, the richest 10% of the population earn on average 15 times more than the poorest 10%. The distribution of income growth further shows that strong economic performance between 2002 and 2008 resulted in the richest households gaining the most, followed by the middle class, while the distribution was less favourable for households in the bottom 20%. There is also evidence that past growth was not particularly job rich. Average employment intensity of growth was low, with 1% growth in GDP translating into only 0.16% growth in total employment for the period 2002-12. This is low in comparison to both Asian and OECD countries, yet employment levels remained high.

**Spatial disparities are pronounced and increasing.** During the last decade, growth varied significantly across provinces and so did the distribution of income. Poverty has been largely rural and reached its highest rates in the Northern Mountains and Central Highlands regions. The lowest social outcomes (e.g. access to basic infrastructure and services, housing conditions, education, employment) are mostly in rural areas. However, poor social outcomes are not exclusively concentrated in rural areas. For example, youth joblessness is a particular problem in urban areas. In short, spatial disparities suggest the need for a geographical focus in public policy.

**Ethnic minorities, who live mostly in the Northern Mountains and Central Highlands regions, face a serious disadvantage in terms of education, employment and housing conditions.** Income poverty is disproportionately high among ethnic minorities. The percentage of households with access to improved drinking water and improved sanitation was nearly 93% and 80% for the majority Kinh and Hoa groups, against only 46% and 26%, respectively, for ethnic minorities. This situation is all the more challenging since ethnic minorities are concentrated in mountainous regions or rural areas where natural barriers represent an obstacle to the flow of national services and access to sanitation and water. A positive development is the high level of health insurance coverage among ethnic minorities, as a result of a state policy that automatically provides free health insurance to large segments of the vulnerable population.

**There are significant age-related inequities in employment and income.** Youth have a disproportionately high incidence of low-paid work, while many pensioners must continue to work in the absence of adequate pension benefits. Nearly 20% of employed youth were in low-paid work compared to 12% on average for the country. A high percentage of people among the elderly (34%) are still working, while only 27% receive a pension, reflecting the nascent status of the pension system.

**On the other hand, Viet Nam enjoys a fairly low level of gender inequality, particularly in terms of education and health.** There have been significant improvements in narrowing gender gaps at all levels of education and in providing health treatment and health insurance coverage. However, as in most countries in the world, women in Viet Nam earn substantially less than men. In 2012, the median hourly wage earnings were VND 17 060 for men, compared to only VND 14 470 for women. Men and women also differ in terms of employment status, with more women working as self-employed earners and in low paid-work.

### Social mobility

**High income mobility has produced both winners and losers.** While a majority of households experienced upward income mobility (an absolute increase in income), downward income mobility affected nearly one out of five households. Relative income mobility (a household's income change with respect to others) was also important, especially among the middle class (defined as those between 50% and 150% of the median income). Even if existing members of the middle class did not move to the poor or rich groups, the majority changed their position within the middle class itself (only 13% to 29% stayed within their initial decile). One reason for this high within-class mobility is that the large number of households in the middle class narrows the values of each income decile brackets, but also those at the bottom (top) of the income distribution can only stay in the same decile or move up (down). Factors strongly correlated with upward income mobility include living in an urban area, a higher employment share in the household, a higher share of agricultural income over total income, and moving from low-value (e.g. plastic production, wood processing) to medium-value (e.g. automobile parts, textile) manufacturing jobs. Participation in own-account agriculture (independent farmer without employees), the number of children and the presence of a disabled household member increased the risk of downward mobility.



**In contrast with the pace of economic development and high income mobility, job mobility has been rather moderate and a large share of the employed has remained in self-employment.** The self-employed in Viet Nam include mostly vulnerable workers, such as own-account workers and contributing family workers, but consider also entrepreneurs that earn better than wage jobs. Sectorial mobility has been moderate, with the most significant movements observed from industries and services to agriculture. In particular, mobility rates to agriculture are disproportionately high for minorities and women, but are also above the national average for youth. During the 2008-09 crisis, many had to return to agriculture to make ends meet, which could explain this movement. Opportunities to leave self-employment appear particularly limited for ethnic minorities, as well as for women and workers of pre-retirement age.

**Workers have limited opportunities to move up the occupational ladder or to simply move to jobs that match their skills.** Downward skill mobility affects a non-negligible share (20%) of skilled workers, in particular among ethnic minority groups and workers close to retirement. Upward skill mobility tends to also be limited, except for unskilled youth who have greater opportunities to move to jobs requiring higher skills. Besides low skill mobility, qualification mismatch is another important issue. Between 2004 and 2008, a small share of under-qualified (34%) and over-qualified (24%) workers managed to move to jobs that matched their level of education. In short, qualification mismatch is an important challenge.

**Prospects of upward inter-generational mobility may also be limited.** Education has proven to be the most powerful instrument for social mobility and the educational aspirations of parents and children are strong determinants of children's education outcomes. The socio-economic status of the family represents the first and most immediate environment affecting children's aspirations. In Viet Nam, children from disadvantaged background – namely children belonging to ethnic minorities, the poorest households and with less educated parents – have lower educational aspirations, and are therefore more likely to achieve lower levels of education, which raises concerns about inter-generational mobility.

## Social capital

**Interpersonal trust and tolerance for diversity is relatively high overall, but the level of satisfaction with public institutions remains moderate and unevenly distributed across provinces.** Land reform processes have been a

major factor of distrust in public institutions. The process of de-collectivisation, which began in 1988, is considered a good example of land rights distribution reform, however, growing land needs for industrial and infrastructure development have led to land grabbing and unfair land sale practices causing social unrests. Women make up the majority of the agricultural labour force and suffer disproportionately from land reforms as they have limited knowledge about land rights and joint titling. Real or perceived corruption is an obstacle to trust in the government, although efforts have been made to increase transparency and there are some signs of improvement.

**As a traditional agrarian society, the family plays a critical role in survival and remains the main source of social support.** Family, friends and community support is particularly important for poorer households and vulnerable groups. Such support systems can strengthen social cohesion as they help buffer in times of crisis. However people who depend on them are also extremely vulnerable in case the relationship breaks down or the family can no longer support them. Dependence on informal networks can also have a negative effect on promoting entrepreneurship. Young entrepreneurs in Hanoi rely mostly on family and friends for financial help to set up or expand a business because formal credits are difficult to obtain. Such transactions, established on kinship, reinforces paternalism (vertical relationship) that can lead to favouritism and corruption and ultimately unproductive labour outcomes (as one may be obliged to hire unqualified family members). In the absence of formal institutions, informal institutions are considered as an important mechanism of risk management. However, industrialisation and urbanisation are beginning to adversely affect these traditional social support systems.

**While there are opportunities for civic engagement, these do not necessarily imply an ability to actively engage in public matters, act as a check on government or influence government policy.** Non-governmental organisations have flourished, but civic engagement still occurs mainly through state-subsidised “mass-organisations”. Despite an increase in the number of local associations, accountability or trust in institutions has not improved. In fact, measurements of civic engagement show a decline in citizen’s involvement in community life. Knowledge about civic rights is low, especially among women and ethnic minorities, and formal participation in political life seems to have declined. The poor encounter greater difficulties in voicing their opinion and women’s ability to voice their concerns in public life is limited. The space for civic participation in public matters is growing but local organisations have not been yet empowered to be the channel for active civic engagement.

**Social norms play an important role in Vietnamese society but some appear to have an adverse impact on gender equity.** Social norms are largely influenced by the interchange between three leading religions in East Asia: Taoism, Buddhism and Confucianism. These norms not only substitute for the law in many aspects of life, but also influence the conception of the law. Restricted civil liberties for women and strong son bias remain a concern. Traditions may also impact negatively women as regards inheritance. While a legal framework exists to guarantee equal ownership rights, including access to land, many women remain unaware of their rights and are at risk.

## Improving social cohesion through employment-friendly policies

One important aspect of inclusive growth is the creation of decent jobs for all groups of the population. The review looks at the role of selected public policies in promoting the quantity and quality of employment. Specifically, it starts by investigating the extent to which growth has been associated with employment creation and employment transformation. It then examines whether and how other policies, namely education and skills policies, and minimum wage policy, have impacted on employment, contributed to adjust the workforce to a changing economy, and helped protect the wage of vulnerable workers.

### Growth and patterns of employment creation

**Low employment intensity of growth indicates limited benefits to employment from further output expansion.** Overall, employment remained fairly stable, albeit at a high level, and unemployment and underemployment remained remarkably low. In fact, average employment elasticities (employment variation with respect to economic growth) hide large disparities in the employment intensity of growth by type of employment, industry and business ownership. Employment intensity of growth for waged jobs was ten times that of self-employment. Manufacturing jobs were also more responsive to GDP growth. This could be explained by the country's ability to attract foreign direct investments, which averaged a rate of 8.3% of GDP between 2008 and 2012.

**Structural transformations led to noticeable changes in labour sectorial allocation over the last decade, with a shift away from agriculture.** Viet Nam diversified its economy away from agriculture towards services and industries. Agriculture as a share of total GDP fell from 40% in 1991 to 21% in 2012, while for the same period, industry gained increasing importance in the economy

with its share of total GDP rising from 24% to 40%. Steady rates of economic growth were associated with an increase in wage-employment and a decline in self-employment, however self-employment remains the dominant form of employment across all groups. Increase in wage-employment was especially pronounced among young people, rural residents and households located below the median income. Contrary to traditional development models, rapid economic growth in Viet Nam has not diminished informal employment.

**Labour productivity has increased significantly combined with real wage growth.** Labour productivity varied significantly across sectors but was relatively lower in agriculture compared to industry and services. Labour productivity gains were associated with wage increases in all sectors. Wage increases were particularly significant for agriculture, which may be due to the liberalisation of the agricultural markets, which allowed a strong growth in commercial agriculture.

### Education policies and changing skills needs

**Public investment in education has increased steadily over the years and contributed to major progress in human capital formation.** Structural transformation requires long-term investment in education and training in new skills to meet the changing labour demands. At 4.7% of GDP, spending on education is relatively high compared to other lower middle income countries (LMICs) in the region. Investment in education to eradicate illiteracy and achieve universal primary education has paid off. Today's youth have a much higher level of education than older generations and in an international assessment (PISA) done in 2012 of its 15-year-old students, Viet Nam was among the top performers, above OECD countries.

**Despite the progress in basic education, access to higher levels of education and issues of equity and quality need further attention.** Enrolment rates for non-mandatory levels of education and attainment rates for all levels remain low. Education quality is also a matter of concern although new quality-control mechanisms are being introduced. Low teacher motivation is also an issue due to low salaries. Viet Nam currently enjoys a well-educated young work force, however returns on education are modest. Distribution of schools and teachers across regions has been equitable, with poorest regions benefiting most from recent increases in school and teachers numbers. However, the share of children not attending mandatory schooling is persistently higher for ethnic minority children than for their Kinh and Hoa peers. A standardised test of grade 5 pupils carried out in 2007 show significant differences in performance

between ethnic minority children and the majority Kinh children. A regression analysis also shows that the probability of attending secondary education increases with wealth. The widespread use of private tutoring may worsen existing gaps.

**Moreover, there are growing concerns about the capacity of education and skills to adjust to the fast-changing economy and to prepare the workforce accordingly.** The demand for skilled jobs is growing and a skilled workforce is increasingly central to Viet Nam's social and economic development. Evidence shows that the distribution of skilled jobs remains highly unequal and that skills mismatch is a serious and growing challenge in fast-growing Viet Nam. Skills mismatches are the result of gaps in education and skills policies, which have had difficulty keeping up with the evolving needs of the labour market. A number of programmes have been put in place in recent years to address the challenge of skills mismatch, with a particular emphasis on youth and disadvantaged groups. New labour requirements and skills shortages and gaps have also led to the reform of vocational education and training. However, despite ambitious training objectives the proportion of untrained workers remains very high at around 83%.

### Minimum wage policy and employment growth

**Minimum wage policy has been introduced to protect wage levels, in particular the most vulnerable.** Evidence indicates that minimum wage policies can have both negative and positive impacts, depending on the level of the minimum wage in relation to local economic parameters. Sound policy design can help to maximise the benefits and reduce possible adverse effects. At present, minimum wage levels have been set to take into account the needs of workers and their families as well as economic conditions and price levels.

**Despite a fairly high minimum wage to mean wage ratio, there is no evidence that minimum wage policy has adverse effects on employment, including among vulnerable workers.** Minimum wage to mean wage ratios are fairly high in Viet Nam compared to OECD countries, but seem to be driven mainly by low average wages in purchasing power parity (PPP) terms. Minimum wages are non-binding in Viet Nam, yet the proportion of workers whose wage level is close to the minimum wage varies across firms and groups of workers. Minimum wage to mean wage ratios were lowest for workers in the state sector and highest for youth and low-educated workers. Higher minimum wage to mean wage ratios are associated with high levels of non-compliance, but only in the non-state sector. Minimum wage policy tends to have small but overall positive employment effects, and no adverse employment effects on youth and low-educated workers.

**Partial legal coverage of minimum wage policy may reduce its desired effect on income inequality.** Overall, only one-third of workers are legally covered by the minimum wage legislation. Coverage is extensive among workers in the state (including state-owned enterprises) and FDI sectors, but low among workers in the non-state sector. Compliance with legal minimum wage provision is quite high, but has declined markedly in recent years. Non-compliance is of concern in the non-state sector and for groups such as youth and low-educated workers.

## Building an inclusive social protection system

Sufficient and equitable delivery of social protection services can be effective in reducing vulnerabilities and inequalities between socio-economic groups and geographical regions. Sufficiency refers to the supply-side, including public spending, and the demand-side such as coverage. Equitable delivery is the capacity to provide social services of the same quantity and quality to all beneficiaries, regardless of their characteristics. Social protection systems in Viet Nam have been instrumental in mitigating risks associated with ill health, disability, work-related injury and old age, protecting vulnerable groups, and narrowing inequalities between different socio-economic groups of the population. Over the past two decades, poverty rate has decreased sharply for the whole population, ethnic minorities included, and health outcomes have improved. Although it is difficult to isolate the contribution of social policies to improved living standards, it is undeniable that the efforts of the government to invest in social protection have had positive effects on social outcomes. The review looks at the sufficiency and equity of social protection schemes, including social assistance, social insurance and health insurance.

### Sufficiency

**Over the past decade, public social protection spending has increased overall, but Viet Nam still spends less than other lower middle-income countries (LMICs) and spending on pension is particularly low.** The increase in public social spending was largely driven by the health sector. However, compared to LMICs globally, Viet Nam's public spending is significantly lower. Public spending on health (1.7% of GDP) was average compared to Asian countries, but significantly below the average for all LMICs (2.6% average). Other social protection spending (cash transfers, pensions and allowances) amounted to 3.0% of GDP, which is much lower than other Asian countries (4.8% average) and LMICs globally (7.6% average).

**Coverage varies greatly depending on the type of social protection. Social assistance programmes tend to cover extensively targeted groups while social insurance coverage is low.** Social assistance consists mostly of cash transfers to vulnerable groups, but has been expanded to include a larger category of beneficiaries. One of the main challenges is the non-coverage of the poor who are not registered in the official poverty list. Social insurance coverage is driven largely by the compulsory or voluntary nature of the scheme. Mandatory social insurance schemes, which include maternity leave, pension, work-related injury, occupational hazards and health insurance, cover people with formal labour contracts. Voluntary schemes, which include only survivorship and pension, are intended for all other workers, mostly in the informal sector. Altogether, social insurance coverage of the labour force remains limited, covering just 16.4% of the total workforce and 38.7% of all employees. In fact, 67% of people who belong to the middle class do not have social insurance. A specific concern is the currently very low pension coverage of elderly retirees (27%), which is projected to get worse. In contrast, health insurance coverage is high, covering 67% of the total population, because large sectors of the population are automatically enrolled and subsidised by the state. However, hospital overcrowding is a rising concern.

**Widespread tax avoidance is a strong impediment to the extension of social protection schemes.** Low benefits, low participation and low tax collection threaten the social contract and social cohesion. Viet Nam is facing a rapid demographic transition and new reforms are needed to improve the coverage rate and financial sustainability of social insurance schemes. The government is analysing various policy options to expand coverage of the elderly with pensions and encourage voluntary participation.

## Equity

**Programmes targeting vulnerable groups have largely succeeded in reaching their intended population. The principal challenge now is to extend coverage to poorer groups who are not officially categorised as such.** Poverty alleviation programmes were implemented in rural areas that had a significantly higher proportion of poor households. The majority of beneficiaries of social assistance, which consists mostly of cash transfers to vulnerable groups, were found among the poor. The main challenge, however, is to reconcile the list of registered poor with those excluded from the official poverty list. Currently, about 40% of the poor are not on the official list and are unable to benefit from poverty reduction programmes or other forms of social assistance.

**In contrast with pro-poor assistance programmes, coverage of social insurance schemes is concentrated disproportionately among the better off, and there are large inequalities in the use of health care services among ethnic groups and among the elderly.** In 2012, only 33% of the middle class had social insurance. Of those with social insurance, only 3.5% belonged to the 20% bottom of the income distribution, while 44.5% were among the top 20%. Important challenges also remain regarding health care coverage of the poor not registered in the official poverty list. Evidence shows that use of health care among the elderly is disproportionately lower among the poor, while it is much higher for the same group among the majority Kinh and Hoa.

## Fiscal policy and the social contract

Effective and equitable fiscal policies ensure fiscal legitimacy and are essential to preserve the social contract. Fiscal policies such as taxes and transfers are essential tools to ensure sustainable funding for social programmes and public investments, and also contribute to reducing income and spatial inequality. However, trust and confidence in fiscal institutions are crucial to ensuring fiscal performance and preserving the social contract. The level of trust in the government's fiscal responsibility is often driven by the extent to which taxes and transfers play a redistributive role. When taxation fails to bridge the gap between richer and poorer individuals it undermines fiscal legitimacy, and this can damage the social contract. The effect of personal income tax (PIT) and public transfers on inequality is analysed, as well as the link between fiscal decentralisation and poverty reduction in provinces.

### Fiscal legitimacy

**Reported trust in fiscal institutions and tax morale are high, but the widespread practice among enterprises of under-reporting wages to evade social security contributions tends to undermine fiscal legitimacy and the social contract.** Trust in authorities is one of the key indicators used to measure fiscal legitimacy. Although corruption remains a challenge, overall trust in authorities regarding budgetary issues is high. Evidence further shows that most Vietnamese consider tax evasion unjustifiable, but despite good tax morale, underreporting of wages to evade social security contributions is widespread. Only 46% of domestic private firms are registered with the social security system, and these report only 32% of the wages actually paid.



**A strong social contract has particular relevance in the context of recent rapid socio-economic changes.** Profound structural changes in Viet Nam have impacted not only the economy, but also households in terms of income and social mobility. The way in which taxes are collected and expenditures are allocated – the social contract – will be a determining factor in sustaining inclusive growth and ensuring social cohesion.

### Taxes, transfers and inequality

**Personal income tax (PIT) has little effect on redistribution.** PIT has practically no influence on inequality, while public transfers have a small effect on inequality reduction, with the Gini coefficient reducing by 2.1 points (on a scale of 0 to 100). Although 72% of total PIT revenues are generated by those in the top 10% of the income distribution, the share of PIT as a percentage of income is the highest among the poorest. PIT's low impact on redistribution is due to several reasons. First, the PIT system is designed in such a way that a majority of people benefit from tax reliefs, leaving only a few who actually pay taxes. Second, the current system relies heavily on wage earners and does not reflect the actual labour market situation, the bulk of which are self-employed or working in household businesses. Third, there is also a high level of tax evasion due to under-reporting of wages and weak enforcement capacity.

**The existing PIT regime has the potential to reduce inequality, if well enforced.** Disregarding the taxes reported in the VHLSS and calculating the PIT that individuals are supposed to pay according to tax legislation, the existing PIT regime has the potential to reduce inequality by up to 1.5 Gini points, mostly through increased level of tax collection. This is comparable to Latin American countries that achieve on average an inequality reduction through PIT of 1.0 points, but still much below the OECD average of 4.5 points.

**Public transfers have a greater impact in reducing income inequality than taxes, but remain regressive.** Public transfers are underutilised as a tool for redistribution and the system itself is regressive. Richer households receive more in aggregate amount of public transfers than the poorer households. In spite of this, public cash transfers still achieve a reduction in the Gini coefficient of 2.1 points. Targeting public transfers towards vulnerable groups could increase their impact on inequality reduction.

### Fiscal decentralisation and spatial disparities

**The State Budget Law decentralised the state budget system, however, decision making remains heavily centralised.** In principle, fiscal

decentralisation is believed to improve accountability and responsiveness in providing social services, and as such can be instrumental in strengthening fiscal legitimacy. Fiscal transfers are a dominant feature of public finance in decentralised governments and aim to ensure equity and maintenance of national standards for public services across sub-national regions. Strengthening public finance management is a government priority, and a series of reforms have taken place since 2000. Fiscal decentralisation was implemented in 2004 following enactment of the State Budget Law in 2002. The National Assembly together with the Provincial People's Councils plays a central role in budget allocations and transfers from central to local government. The budget planning process uses a mix of top-down and bottom-up approaches, but sub-provincial level consultations, particularly involving the communes, remain marginal.

**Fiscal transfers from central to local governments have been progressive, however, the pro-poor nature of fiscal transfers did not automatically translate into improved satisfaction with public service delivery.** Pro-poor fiscal transfers can help reduce spatial inequalities. As part of decentralisation, equalisation mechanisms were put in place to transfer budgetary resources to provinces to meet overall national development objectives. By allocating more central budgetary resources to lagging provinces, the aim is to better address local needs through decentralised budget management. The correlation between net transfers and poverty rates at province level is positive and gets steeper over time, indicating that fiscal transfers are pro-poor. However, perceptions of the quality of public service delivery are weakly correlated with fiscal transfers in the respective provinces. One explanation could be that poor regions suffer from such low-quality public services and poor infrastructure that transfers may not be sufficient to make much difference. Another reason could be that transfers to commune levels where improvements are needed are inefficient.

## Policy implications

**To foster social cohesion, national policy makers need to work across sectors and develop a multi-pronged approach to fill identified policy gaps that put social cohesion at risk.** This approach should help to prioritise public actions in the context of the Socio-Economic Development Strategy 2011-20 of Viet Nam. The development of such a multi-pronged approach must take into account the fiscal space available and would require a cost evaluation for the proposed public actions and the establishment of an appropriate sequence of interventions. Directions for public policy are articulated around the following three main goals: *i*) to promote social inclusion; *ii*) to facilitate social mobility; and *iii*) to strengthen social capital.

## Promoting social inclusion

**Sustained and inclusive economic growth needs to remain high on the policy agenda.** In the context of continuing structural transformation and rapid economic growth, equitable distribution of income gains across different population groups represents a challenge in Viet Nam. Social inclusion as defined in this review refers to the provision of certain rights to all individuals and groups in society, such as decent work, education and training, health care or adequate housing. Strong economic performance has led to income gains for the majority of the population and a remarkable decline in poverty, but the poorest have benefited least. There are also rising concerns over persistent poverty among certain groups of the population. Policies for ethnic minorities should adopt an integration approach by respecting their historical, cultural and geographical spaces while creating political room for participation. Vulnerability among the rising middle class is also a matter of concern in the absence of universal coverage of social protection schemes. Structural transformation therefore needs to be accompanied by careful macroeconomic and fiscal management in combination with effective redistributive policies.

**Greater attention needs to be paid to the employment intensity of growth. Growth strategies also need stronger linkages with employment-friendly policies.** Employment growth has lagged behind economic growth in Viet Nam. Increase in labour productivity was instrumental in making work pay decent salaries, yet brought challenges in terms of new skills needs. Continuous efforts are essential to make education and vocational education training (VET) systems more responsive to rapidly changing labour market circumstances. With current available data it is difficult to assess the relevance and quality of vocational training; therefore indicators should be defined and monitored through regular surveys to evaluate the impact of training on employment outcomes.

**Improved compliance and coverage can enhance the impact of minimum wage policies.** Minimum wage policy has proven to be an effective way to protect low wage earners without inducing negative employment effects. In Viet Nam, partial legal coverage is an issue as existing minimum wage legislation protects only one-third of workers. To be meaningful, minimum wages need to cover a broad range of workers and must be enforced by credible mechanisms. At present, coverage is high among workers in the state (including state-owned enterprises) and FDI sectors, but very low among workers in the non-state sector. Traditional policies, such as taxation, social protection and minimum wages affect mostly the formal sector. However the majority of non-state

workers are in the informal economy, where such policies have no effect. As Viet Nam advances economically, informality may start to decline, but during the interim period more inclusive policies are needed to protect workers in self-employment or informal jobs, as well as ways to increase revenues. Labour inspection capacities should be strengthened and should include a monitoring system with enforceable penalties in the event of non-compliance.

**Maintaining a geographical focus in public investment can reduce persistent inequalities in basic infrastructure, housing conditions and economic opportunities, and increase potential for regional economic growth.**

Inequality varies substantially across regions and is spatially concentrated in poor areas, such as the Central Highlands and Northern Mountains. The Northern Mountainous regions have the largest population in the bottom national income quintile (44%), while the Southeast region has the largest share of the population in the top national income quintile (32%). Growth has been particularly pro-poor in the richer Southeast region, but largely unequal in the poorer Northeast region. Access to basic infrastructure services and housing conditions are worse in the Northwest region. These Northern Mountainous regions also have the highest percentage of ethnic minorities, who remain persistently poorer than the majority Kinh population and face serious disadvantages in terms of education and employment.

**Increased transparency in the process for officially registering poor households would help to strengthen the social contract.**

There is a significant gap between the officially registered poor and the number of actual poor. Although the list of registered poor is generated through consultations and community discussions, it also depends on budget allocations, which exclude households who are effectively poor. Better communication on this issue is necessary to avoid tension and unrest. In the long term, a larger contribution base will be needed to expand social benefits for the poor and ensure coverage for those in need.

**Better access to health care services for the poor, ethnic minorities and those living in rural areas would help to improve health outcomes among these groups.**

Health insurance coverage reached nearly 67% in 2012. All ethnic minorities, registered poor, children under 6 and elderly people over 85 automatically receive coverage. However, analysis of health care utilisation by income quintile and ethnicity shows that the richest households and the majority Kinh and Hoa population enjoy the largest share of high-level care. Commune Health Centres (CHCs) that meet national standards are also less accessible in the poorest Northern Mountains and Central Highland regions.

**Re-designing fiscal policy to ensure progressivity would unlock its potential as a real redistributive mechanism.** At present, the personal income tax (PIT) system in Viet Nam has little effect on redistribution. The design is progressive in theory, but is undermined by high tax relief levels with few people actually paying taxes, thereby compromising the essential revenue-generating function. Tax avoidance due to high levels of informality and under-reporting of wages is widespread. Improving enforcement of social contributions from employers and PIT collection would enlarge the tax base and maximise the potential of the tax system as a redistributive mechanism. Better awareness of the benefits of social insurance and pensions among the working population, especially informal workers, would also help to improve the contribution base and coverage. Increasing the benefits of voluntary schemes would be an incentive for informal workers to participate in social insurance schemes.

### Facilitating social mobility

**Mandatory and voluntary social protection coverage should be expanded and developed to cover the middle class, so as to reduce the risk of downward income mobility.** The middle class in Viet Nam is a heterogeneous group characterised by significant variation in income and instability. Income mobility within the middle class is high with both winners and losers. Between 2004 and 2008, the majority of households experienced upward mobility, however one in five households moved downward in terms of income. While the poorest households are eligible for social assistance, the majority of the middle class (67%) does not have social insurance. Voluntary social insurance schemes are under-developed with limited benefits, and are not yet an attractive option.

**Strengthening family and disability benefits and improving market integration of household businesses can reduce the risk of downward mobility, particularly of vulnerable households and households in own-account agriculture.** Families with multiple children and/or a disabled member have a higher risk of downward mobility. The risk is also higher for households working in smallholder and own-account agriculture. Credit schemes, capacity building in risk management and better safety nets to cope with natural disasters or economic shocks can protect vulnerable households and promote entrepreneurialism, value-added products and upward mobility.

**Reconciling value-added industrial development with skills and education policies can encourage greater sectoral mobility towards value-added activities.** Structural transformation led to noticeable changes in labour sectorial allocation over the last decade, with a shift away from agriculture.

Growth performance was driven predominantly by productivity increases resulting from this structural shift. However, rising demand for new skills in new jobs outpaced existing supply, creating skills gaps and shortages. Low skill mobility and large skills mismatches are becoming a growing concern. While education and skills policies are struggling to meet the evolving needs of the labour market, substantial efforts are needed to increase access to education, foster on-the-job training opportunities, and improve the quality of human capital in accordance with labour market requirements.

**Education policies must address income-related barriers to educational achievement, as these function as strong determinants of low inter-generational mobility.** Understanding the factors that drive children's aspirations and identifying the channels through which they develop are vital to promoting inter-generational mobility. Parental education and wealth are strong determinants of children's educational outcomes. Children from disadvantaged backgrounds have lower educational aspirations and children from ethnic minorities in the poorest wealth quartile tend to adjust their aspirations downwards as they get older. As education is one of the key factors to reducing poverty and enhancing upward social mobility, education policies must develop strategies to overcome socio-economic barriers to educational achievement.

### Strengthening social capital

**Trust in public institutions could be improved through more inclusive, transparent and budgeting processes.** Real or perceived corruption remains a challenge and hampers trust in government. Fiscal decentralisation has been in effect since 2004 and fiscal transfers to provinces have been pro-poor. However, budget planning processes are mostly top-down and there is little space and time for involving the commune level during these processes. A better inclusion of communes in budget planning and further decentralised spending through participatory mechanisms could help improve public service delivery to meet the needs of the population.

**Establishing regular dialogue between citizens and local governments and communicating more actively on land-use plans and related reforms could strengthen the social contract.** Land reforms have been a major factor of distrust in public institutions over recent years. More transparent and active communication about land policies must be instituted with information on land-use planning and prices made readily available at the commune level. Local institutions such as Community Investment Supervision Boards and People's

Inspection Boards are mandated to realise citizen's rights to discuss and verify public actions. These institutions could be better leveraged to improve public dialogue and transparency of reform processes. Women are especially affected by land reforms. Awareness of civil and ownership rights, such as joint titling, should be improved among women, the poor and ethnic minorities.

**Better public social protection coverage and schemes are needed to compensate for declining social support networks, especially among vulnerable groups.** Family support is particularly important for poorer households and vulnerable groups in times of crisis. However, increased urbanisation and fast economic growth are diminishing the reliability of this support system. There are also large gaps in coverage of the poor. This is due in part to the official poverty list registration process, but also to low levels of awareness among the poor of public services and benefits (e.g. health). Expanding coverage to include all poor households will require improvements to the registration process and an increase in revenues through better taxation. Raising awareness about health services could further improve usage among the poor.

**An enabling environment is needed to empower non-governmental organisations (NGOs) and engage people more actively in civic activities and community life.** NGOs have flourished in recent years, but civic engagement remains channelled through a few mass-organisations controlled by the state. In fact, civic engagement, measured by citizen's participation in their communities, has actually decreased. The increasing number of local organisations does not seem to have improved citizen's perceptions of freedom of expression in their country or the accountability of public institutions. True grassroots activities seem to still be in their infancy and NGOs must be empowered to facilitate more active civic engagement.

**Improved awareness raising on women's rights relating to issues of inheritance, education and ownership would help to mitigate discriminatory social norms.** Son-biased traditions with regard to inheritance, ownership of land and other preferences remain deeply engrained in Vietnamese societies. The Viet Nam's Civil Code provides equal opportunities to men and women to benefit as heirs, however in practice the eldest son customarily inherits the largest portion of the family property, particularly land. Younger sons will often inherit some land or other assets of value, while daughters receive only small symbolic items. The share of children not attending mandatory schooling is also much higher among ethnic minority girls compared to the national average. Such discriminatory social norms contribute to the devalorisation of girls and women, affect self-esteem and perpetuate gender inequalities that have long-term social and financial costs.

Overall goals	Main issues	Policy implications
<p>Promote social inclusion.</p>	<ul style="list-style-type: none"> <li>In a context of structural transformation and rapid economic growth, equitable distribution of income gains across different population groups represents a challenge.</li> <li>There are rising concerns over persistent poverty among certain groups of the population.</li> <li>Vulnerability among the rising middle class is also a matter of concern, in the absence of universal coverage of social protection schemes.</li> <li>While the poorest households are eligible for social assistance, a large segment of the middle class (67%) do not have any form of social insurance.</li> </ul>	<ul style="list-style-type: none"> <li>Implement policies that promote broad-based growth and sustain an inclusive growth agenda.</li> <li>Tackle persistent inequalities between ethnic minorities and the majority Kinh population.</li> <li>Raise awareness among the working population of the benefits of social insurance and contributory pensions.</li> <li>Increase the range of benefits of voluntary schemes to expand coverage of workers in self-employment or informal jobs.</li> <li>Improve enforcement of social contributions from employers.</li> <li>Improve revenue collection through taxation to help expand social protection coverage to the middle class and the poor.</li> </ul>
	<ul style="list-style-type: none"> <li>Employment growth has lagged behind economic growth.</li> <li>Increase in labour productivity was instrumental in making jobs pay decent wages, but came with important challenges in terms of meeting new skills needs.</li> <li>Only one-third of workers are legally protected by minimum wage legislation. Coverage is high among workers in the state and FDI sectors, but low for those in the non-state sector, most of whom are informal workers.</li> <li>There is a large gap between the officially registered poor and the number of actual poor.</li> <li>Inequality varies substantially across regions and is spatially concentrated in poor areas, such as the Central Highlands and Northern Mountains. Access to basic infrastructure services and housing conditions are also worse in poorer regions.</li> </ul>	<ul style="list-style-type: none"> <li>Reconcile growth strategies with the development of employment-friendly policies.</li> <li>Invest in value-added jobs and skills.</li> <li>Make education and vocational education training (VET) systems more responsive to rapidly changing labour market circumstances.</li> <li>Monitor compliance with minimum wage policy and seek to increase the coverage of minimum wage to maximise its effect on wage inequality, while avoiding possible side effects on employment.</li> <li>Ensure a more transparent process for generating the list of officially poor households.</li> <li>Unlock the economic potential of regions by maintaining a geographical focus in public investment, so as to reduce persistent inequalities in basic infrastructure, housing conditions and economic opportunities.</li> </ul>



Overall goals	Main issues	Policy implications
Facilitate social mobility	<ul style="list-style-type: none"> <li>The poor and ethnic minorities tend to underutilise health care services.</li> <li>The personal income tax (PIT) system has little effect on redistribution. The design is progressive in theory, but is undermined by high tax relief levels with few people actually paying taxes.</li> <li>Tax avoidance due to high levels of informality and under-reporting of wages is widespread.</li> <li>The middle class in Viet Nam is a heterogeneous group characterised by significant variation in income and instability. Income mobility within the middle class is high with both winners and losers. Between 2004 and 2008, the majority of households experienced upward mobility, however one in five households moved downward in terms of income.</li> <li>Families with multiple children and/or a disabled member have a higher risk of downward mobility.</li> <li>The risk of downward mobility is also higher for households working in smallholder and own-account agriculture.</li> <li>Skills mismatches are now widening and becoming a growing concern. Structural transformation led to noticeable changes in labour sectorial allocation over the last decade, with a shift away from agriculture. However, rising demand for new skills in new jobs outpaced existing supply, creating skills gaps and shortages.</li> <li>Education and skills policies are also struggling to meet the evolving needs of the labour market.</li> </ul>	<ul style="list-style-type: none"> <li>Raise awareness of access and use of health care services among the poor and ethnic minorities, and in rural areas.</li> <li>Re-design fiscal policy to ensure progressivity and its use as a redistributive instrument.</li> <li>Enforce more strictly the PIT system and strengthen labour inspection capacities, including a monitoring system with penalties in cases of non-compliance.</li> <li>Improve enforcement of social contributions from employers and personal income tax collection to enlarge the tax base and maximise the potential of the tax system as a redistributive mechanism.</li> <li>Expand social protection coverage, both mandatory and voluntary, to cover the middle class and reduce the risk of downward income mobility.</li> <li>Reduce the risk of downward mobility by strengthening family benefits and disability benefits.</li> <li>Support smallholders and own-account agriculture by creating the enabling environment through credit schemes, capacity building in risk management, and better safety nets in times of natural disasters or economic shocks.</li> <li>Develop credit schemes to promote entrepreneurialism and investment in value-added products, and help vulnerable households build capacity for risk management.</li> <li>Support on-the-job training programmes to upgrade under-qualified or low-skilled workers.</li> <li>Increase access to education and improve the quality of human capital in accordance with labour market requirements.</li> <li>Reconcile value-added industrial development with skills and education policies to support greater sectoral mobility towards value-added activities.</li> <li>Improve the relevance and quality of vocational training and implement monitoring tools to evaluate the impact of training on employment outcomes.</li> </ul>

Overall goals	Main issues	Policy implications
<p>Strengthen social capital</p>	<ul style="list-style-type: none"> <li>Parental education and wealth are strong determinants of children's educational outcomes. Children from disadvantaged backgrounds have lower educational aspirations, in particular ethnic minority children and children in the poorest wealth quartile.</li> <li>Real or perceived corruption remains a challenge and hampers trust in government.</li> <li>Fiscal transfers to provinces in the context of fiscal decentralisation have been pro-poor but there has been little improvement in public service delivery in poor provinces.</li> <li>Land reforms have been a particular issue in recent years. Cases of land grabbing, unfair land sales, eviction of people and so on, have led to social tensions and unrest. Women make up the majority of the agricultural labour force and are especially affected by land reforms.</li> </ul>	<ul style="list-style-type: none"> <li>Tackle income-related barriers to education to foster inter-generational mobility.</li> <li>Enhance trust in public institutions and strengthen the social contract by establishing regular dialogue with citizens and tackling governance issues.</li> <li>Allow more time and space to involve communes in budget planning and spending processes.</li> <li>Make information on land-use planning, prices and ownership rights, such as joint titling, more readily available at the commune level, particularly to women, the poor and ethnic minorities.</li> <li>Ease social tensions by ensuring inclusive and transparent land reform processes.</li> <li>Make greater use of local institutions such as Community Investment Supervision Boards and People's Inspection Boards to improve dialogue with citizens and verify public actions.</li> </ul>
	<ul style="list-style-type: none"> <li>Urbanisation and fast economic growth are diminishing the reliability of traditional social support network systems, such as family support, especially for vulnerable groups.</li> <li>Large coverage gaps in social protection remain for the poor and near poor, partly due to the official poverty list registration process, but also due to low levels of awareness among the poor of available public services and benefits.</li> </ul>	<ul style="list-style-type: none"> <li>Expand social protection coverage to address the decline in social support networks.</li> <li>Increase awareness on public service access and benefits (especially health) to women, the poor and ethnic minorities.</li> </ul>
	<ul style="list-style-type: none"> <li>Non-governmental organisations have flourished in recent years, but civic engagement remains channelled through a few mass-organisations controlled by the state. In fact, civic engagement, measured by citizen's participation in their communities, has actually decreased. True grassroots activities seem to still be in their infancy.</li> </ul>	<ul style="list-style-type: none"> <li>Create the enabling environment for grassroots organisations to flourish and empower them to engage people in civic activities and community life.</li> </ul>

Overall goals	Main issues	Policy implications
Strengthen social capital	<ul style="list-style-type: none"> <li>• Viet Nam's Civil Code provides equal opportunities to men and women to benefit as heirs, however in practice the eldest son customarily inherits the largest portion of the family property, particularly land. Younger sons will often inherit some land or other assets of value, while daughters receive only small symbolic items.</li> <li>• The share of children not attending mandatory schooling is much higher among ethnic minority girls compared to the national average. Such discriminatory social norms contribute to the devalorisation of girls and women, affect self-esteem and perpetuate gender inequalities that have long-term social and financial costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Tackle discriminatory social norms by raising awareness of issues on women's rights with regard to inheritance, education and land ownership.</li> </ul>



## Introduction

Viet Nam is a unitary state with a single Communist Party, which rules over all organs of government, politics and society. The territory is organised into 58 provinces and 5 major cities, which have provincial status. Each province is split into districts (698 at present), which are in turn divided into communes. The provinces are regrouped into non-administrative regions: Northwest and Northeast (also called Midlands and Northern Mountains); Red River Delta; North Central Coast and South Central Coast (also called Northern and Coastal Central Region); Central Highlands; Southeast and Mekong River Delta. The population numbers 90 million and is composed of 54 officially recognised ethnic groups, of whom the Kinh form the majority. With the exception of the Hoa (Chinese), ethnic minority groups live mostly in the highlands (Northern Mountains and Central Highlands) away from the coastal areas and major cities. The current working-age group (15-64) makes up about 70% of the total population.

Viet Nam achieved sustained growth over the past decade accompanied by impressive progress in poverty reduction. These achievements are largely attributed to the *Doi Moi* economic reform process, initiated in 1986, which launched a series of structural transformations that encouraged private sector development and foreign investment, moving towards a decentralised and market-oriented economy. Sustained economic growth improved the overall living standards of the majority of the population in terms of income and health status, with many Vietnamese entering the middle class.

However, structural transformations resulted in the emergence of new challenges for social cohesion. Recent growth has contributed to an overall improvement in living standards, but has favoured the poorest least and has not resulted in significant job creation. Economic reforms also weakened traditional social support networks and led to rising expectations as well as widening inequalities between ethnic groups and sub-national regions. There

are additional concerns that gaps in social and fiscal policies may expose many middle class households to the risk of falling back into poverty, and limit the government's ability to address persistent inequalities. Last but not least, innovation and technological progress are generating new skills and competency needs, which education and training policies are unable to address, leading to a serious problem of skills mismatch. These elements combined put social cohesion at risk.

The OECD report *Perspectives on Global Development 2012: Social Cohesion in a Shifting World* defines a cohesive society as a society that strives for social integration and builds up the necessary social capital to create a common sense of belonging, and as a place where prospects exist for upward social mobility. The importance of social cohesion in national development strategies is increasingly recognised, not least since excessive disparities in well-being outcomes can cause social instability and threaten progress. As the government implements its Social-Economic Development Strategy (SEDS) 2011-20, the *Social Cohesion Policy Review* (SCPR) acts as a useful tool to measure the level of social cohesion, uncover risk factors, assess the distributive impact of key policies and ultimately promote discussion of policy reform agenda to enhance social cohesion.

The aim of this review is to contribute to the on-going policy dialogue on social cohesion and to support the formulation of well-informed public interventions. The review focuses on the following questions: *i)* How cohesive is Vietnamese society? *ii)* Was economic growth inclusive in Viet Nam? *iii)* To what extent has growth been able to generate employment and contribute to employment transformation? *iv)* Has minimum wage affected the quantity or quality of employment? *v)* Is the quality of education adequate for today's labour market needs? *vi)* Is public social service delivery sufficient and equitable? *vii)* Are fiscal policies redistributive and effective to promote social cohesion?

After providing an analysis of the state of social cohesion in the country, the review examines selected policies and discusses the extent to which they have had an effect on social cohesion. Each chapter ends with policy conclusions that can guide countries towards building a holistic social cohesion agenda.

The report draws on extensive empirical analyses and consultations with the government. The quantitative data were taken from the following sources: the Viet Nam Household Living Standards Surveys, VHLSS (2002, 2004, 2006, 2008, 2010, 2012), the Labour Force Surveys (2010, 2011, 2012, 2013) and Young Lives (2002, 2006, 2009). The VHLSS is a biennial survey conducted by the General Statistics Office of Viet Nam on even years. The sample size is large and representative – 36 700 households were surveyed in 2012. It includes

commune survey which covers 2 208 of the 2 233 rural communes visited for the households survey. The key findings are articulated around three social cohesion dimensions:

Chapter 1 starts by measuring the inclusiveness of growth over the past decade. It then discusses whether growth has promoted employment, income and inter-generational mobility. Finally, it assesses the current level of social capital by examining changes in Vietnamese people's relations, social networks, family values and social

The subsequent chapters investigate policies that can have an effect on social cohesion. Chapter 2 explores whether growth has promoted decent job creation for different population groups and how education, skills training and minimum wage policies have affected the quantity and quality of employment and helped adjust the workforce to a changing economy. Chapter 3 discusses the sufficiency and equity of social protection schemes. Finally, Chapter 4 assesses the potential of fiscal policy to reduce inequalities with a focus on the capacity of traditionally important redistributive tools, such as taxes and transfers. It analyses the effects of Viet Nam's Personal Income Tax (PIT) system and public transfers on reducing income inequalities, and looks at the effect of fiscal transfers on reducing regional disparities.





## Chapter 1

# Social cohesion at a crossroads in Viet Nam

This chapter starts by examining the inclusiveness of recent economic growth, focusing on the distribution of income growth, income inequality and the employment intensity of growth. It then discusses the extent to which location, ethnicity, gender and age may shape the distribution of key social outcomes. The chapter offers an overview of intra-generational and inter-generational mobility in Viet Nam, highlighting three important dimensions of social mobility: income, labour and education. Finally, it investigates ways in which rapid growth has affected Vietnamese people's relations with each other and the government, their involvement in social networks, and social norms and family values.

Over the last few decades Viet Nam has benefited from a period of steady economic development. An average annual GDP growth rate of 7.6% prior to the global financial crisis placed the country among the world's fastest growing economies. This achievement is largely attributed to the *Doi Moi* (renovation) economic reform process, initiated in 1986. This launched a series of structural transformations that moved Viet Nam towards a decentralised and market-oriented economy through the encouragement of private sector development and foreign investment. Viet Nam simultaneously diversified its economy away from agriculture, reaping benefits as an emergent manufacturing powerhouse with close proximity to China.

In January 2007, Viet Nam became the 150th member of the World Trade Organization (WTO) following several years of intensive negotiations. Today, the country is one of the world's largest exporters of commercial agricultural products such as rice, coffee, fish and rubber. Traditional exports of labour-intensive goods such as garments and footwear continue to sustain rapid growth, while exports of hi-tech, high-value products in the electronics and automobile-manufacturing sectors have increased substantially. The recent period of sustained economic growth has also seen the emergence of a sizeable middle class as well as remarkable progress in poverty reduction. According to official estimates the poverty headcount in Viet Nam fell from 58% in the early 1990s to 14.5% in 2008.

The on-going renovation process in Viet Nam has created challenges for social cohesion, however. Observations show that recent achievements have not translated directly into progress towards universal well-being. Instead, the structural transformation has had diverse impacts on the different forms of social cohesion. The OECD (2011) defines social cohesion as a society's capacity to achieve progress in well-being for all its members. This is tied to its ability to fight exclusion and marginalisation, create a sense of belonging, promote trust and offer its members opportunities for upward mobility. Analysing social cohesion in Viet Nam is important, not least because excessive actual or perceived disparities in well-being can cause social instability and threaten social and economic progress. This chapter reviews the state of social cohesion in Viet Nam through three different but equally important lenses: social inclusion, social mobility and social capital. These three dimensions were first presented in the OECD *Perspectives on Global Development 2012* report, which addressed the issue of social cohesion in a shifting world.

## A. Social inclusion

Social inclusion is commonly understood as the provision of certain rights to all individuals and groups in society, such as decent work, education and training, health care or adequate housing. Social inclusion is central to fostering inclusive growth and building a cohesive society. Challenges to social inclusion outcomes include series of stigmatised markers, such as social class, ethnicity, gender, place of residence, disability status, age, sexual orientation and others, all of which may be used to single-out individuals or communities in ways that contribute to social exclusion.

The aim of this section is to provide an overview of social inclusion outcomes, measured by aspects such as poverty, inequality and social polarisation in well-being dimensions. It assesses the extent to which growth is inclusive by focusing on distribution of income growth, income inequality and the employment intensity of growth. It then explores ways in which location, ethnicity, gender or age may have shaped disparities in well-being outcomes.

### Inclusive growth

The quest for inclusive growth has a particular importance and specific meaning in Viet Nam. While recent growth performance has been associated with an increase in household consumption and a remarkable decline in consumption poverty, there are important questions about overall income inequality, distribution of income growth and the employment content of growth. The OECD defines inclusive growth in broad terms encompassing not only fair distribution of income growth, but also shared progress in other non-income dimensions of well-being. As such, inclusive growth refers to the pace and distribution of economic growth. During recent years, Viet Nam has enjoyed high rates of growth in excess of those prevailing in OECD countries as well as a continuous increase in household consumption and a remarkable decline in consumption poverty (Table 1.1). However, concerns have been raised about income inequality and the employment intensity of growth. It is important, therefore, to assess overall income inequality and distribution of income growth and to measure growth-employment elasticity, as these factors provide valuable input to policy debate on the inclusiveness of growth.

Table 1.1. Trends in household consumption, poverty and GDP, 1992-2012

	Household final consumption expenditure (constant 2005 USD)	Consumption poverty headcount <sup>a</sup> (%)	GDP growth rate (annual %)
1992			8.6
1993		58.1	8.1
1994	17 609 011 284		8.8
1995	18 879 432 483		9.5
1996	20 595 828 591		9.3
1997	21 813 276 951		8.2
1998	22 787 262 059	37.4	5.8
1999	23 378 813 031		4.8
2000	24 097 974 149		6.8
2001	25 175 526 913		6.2
2002	27 095 887 894	28.9	6.3
2003	29 266 449 309		6.9
2004	31 342 690 180	19.5	7.5
2005	33 617 743 961		7.5
2006	36 423 449 876	16.0	7.0
2007	40 357 567 671		7.1
2008	44 128 011 581	14.5	5.7
2009	45 753 653 889		5.4
2010 <sup>b</sup>	50 060 958 709	20.7	6.4
2011	52 263 620 812		6.2
2012 <sup>b</sup>	54 354 168 287	17.2	5.2

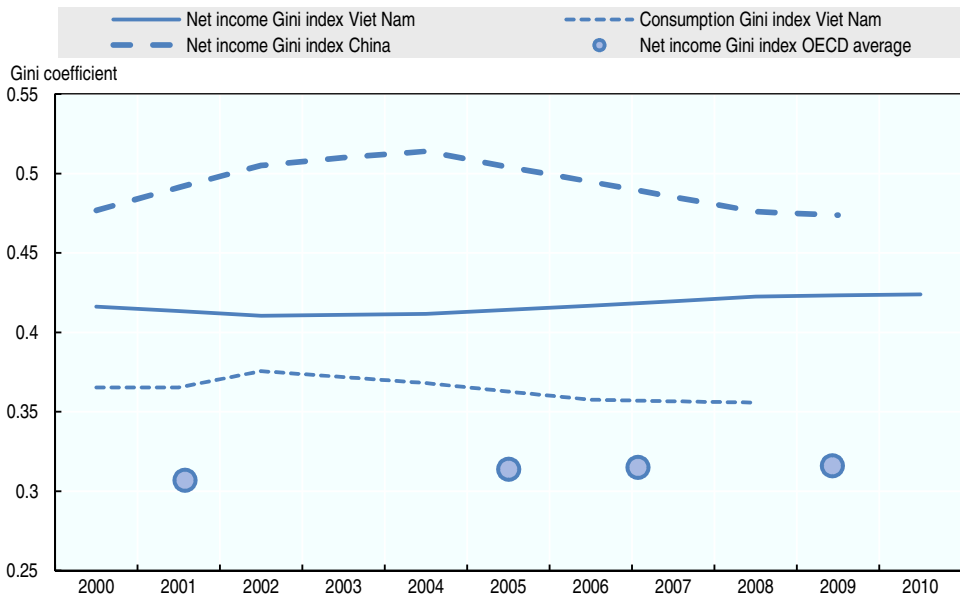
Note: a) Consumption poverty headcount is the percentage of people living below the GSO-World Bank poverty line. b) In 2010, a new poverty line is set making 2010 and 2012 data not comparable to previous years.

Sources: WDI (consumption and GDP data) and VHLSS (poverty headcount).

Structural transformation in Viet Nam has been accompanied by little change in overall income and consumption inequality. Inequality is measured in terms of total household consumption or net income using the Gini coefficient. The reported values show that income inequality remains above OECD countries (Figure 1.1). The difference between income and consumption inequality is not surprising, as consumption inequality usually acts as a better proxy for distribution of material well-being than income. Consumption in households

generally flattens out over time, while income is subject to underreporting and shows higher variability.

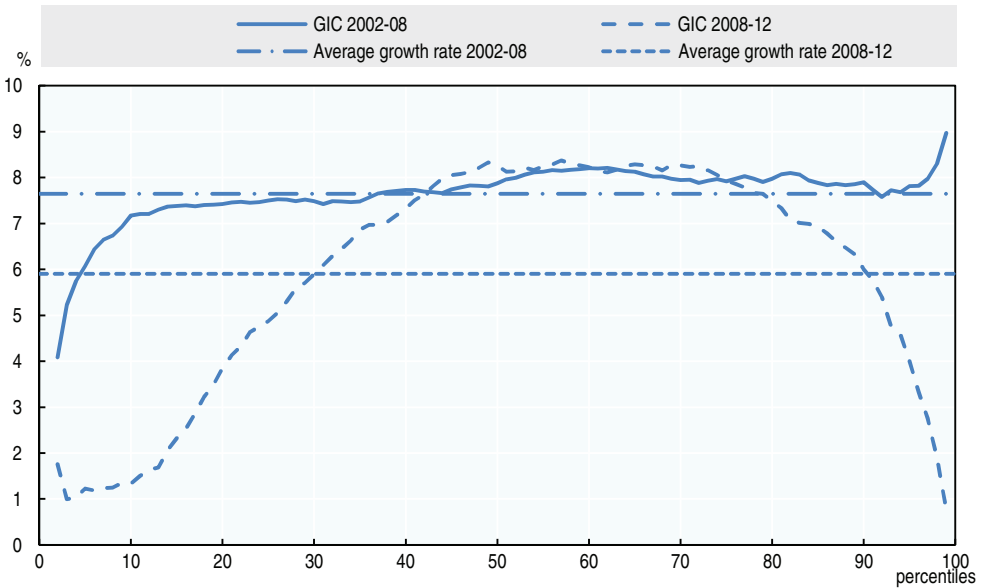
Figure 1.1. Trends in income and consumption inequality, 1992-2010



Sources: Povcalnet World Bank based on VHLSS (consumption Gini), SWIID (net income Gini for Viet Nam and China) and OECD (net income Gini for OECD average).

High growth rates and strong economic performance between 2002 and 2008 resulted in gains among the richest households followed by the middle class. The distribution of gains favoured less households in the bottom 20%. Between 2008 and 2012, growth was neither pro-poor nor pro-rich, but benefited most the middle class. Growth incidence curves depict changes in total adult-equivalent disposable income for two sub-periods: 2002-08 and 2008-12 (Figure 1.2). Trends show general and continuous improvement in total disposable income of households in Viet Nam from 2002 to 2012, explaining the enormous reduction in prevalence of absolute poverty. For the period 2002-08, however, final distribution of gains favoured less those households in the bottom 20% of income distribution, while the richest individuals and those between the 4th and 8th deciles benefited the most. The pro-rich character of growth in Viet Nam was not detected during the period 2008-12. Income growth was highest for the middle-income deciles and lowest at both the bottom and top of the income ladder.

Figure 1.2. Growth incidence curves (GICs) of adult-equivalent total after-tax income, 2002-12

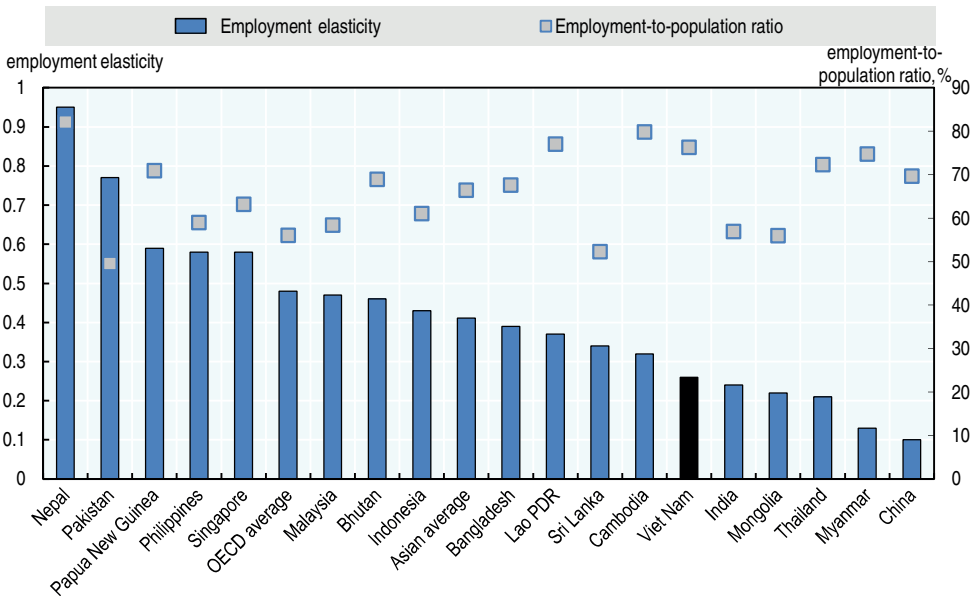


Note: The GICs present the average annual growth rates for each decile in the period 2002-08 and 2008-12. A new sample frame was introduced in the VHLSS from 2010, based on the 2009 census.

Source: VHLSS.

Average employment intensity of growth was low in Viet Nam in comparison to both Asian and OECD countries, yet employment levels remained high. Employment intensity of growth, or elasticity of employment with respect to output, is a useful indicator of inclusive growth. In basic terms this indicator is a numerical measure of how employment varies with economic output. Employment elasticity can indicate how growth in economic output and growth in employment evolve together over time, however it provides little insight into the quality of employment. Estimates produced for this review show that overall short-term employment elasticity for the period 2002-12 ranged between 0.05 and 0.32 (Figure 2.2.a), corresponding to an annual total average of 0.16%. In other words, a 1% growth in GDP for this period translated into 0.16% growth in total employment. This indicates that one-fifth of total GDP growth (16%) during this period is traceable to growth in total employment, while four-fifths (84%) is attributable to gains in productivity. From an international perspective, total employment elasticity in Viet Nam appears rather low for the period 2004-08. According to available comparable data, annual average employment elasticity in Viet Nam (0.26) was almost half the OECD average (0.47) and two-thirds the Asian average (0.40). However, the country enjoyed very high employment-to-population ratios (Figure 1.3).

Figure 1.3. International comparison of employment elasticity and employment-to-population ratios



Note: Annual average employment elasticity and average employment-to-population ratios are calculated for the period 2004-08.

Sources: Authors' calculations based on VHLSS and WDI; other countries and OECD and Asian averages from ILO KILM (2009).

## Spatial disparities

The last decade has witnessed large, shifting disparities in distribution of income across regions. Table 1.2 shows population distribution across national income quintiles by subnational region. The Midlands and Northern Mountainous areas had the largest population shares in the bottom national income quintile (43.5%) in 2012, while the Southeastern Area had the largest share of population in the top national income quintile (32.2%). Regional distribution of income also changed over time. In relative terms, the Red River Delta and Central Highlands regions witnessed improvements with a population decline in the bottom national income quintiles and an increase in the higher quintiles. The relatively wealthy Southeastern Area experienced a sharp decline in the population located in the top national quintile. In the poor Midlands and Northern Mountainous areas, the income gap increased further, as shown by the increase in population located in the bottom national income quintile.

Table 1.2. Population distribution across national quintiles by subnational regions, 2002 and 2012

	Quintiles of adult-equivalent total pre-tax income (%)				
	Q1	Q2	Q3	Q4	Q5
<b>2002</b>					
Red River Delta	15.4	20.3	23.0	21.5	19.7
Midlands and Northern Mountains	34.2	22.3	19.0	15.4	9.1
Northern and Coastal Central Region	27.4	24.6	20.6	16.6	10.8
Central Highlands	32.7	27.6	17.6	13.0	9.2
Southeast	4.2	6.6	13.3	22.9	53.1
Mekong River Delta	13.7	19.0	21.2	25.3	20.9
<b>2012</b>					
Red River Delta	10.7	15.8	22.1	23.9	27.5
Midlands and Northern Mountains	43.5	20.6	13.4	13.0	9.5
Northern and Coastal Central Region	24.9	24.0	20.4	18.1	12.6
Central Highlands	26.6	18.8	16.4	18.4	19.8
Southeast	4.5	14.3	22.5	26.6	32.2
Mekong River Delta	19.5	25.0	20.7	17.6	17.2
<b>Change, 2012-02</b>					
Red River Delta	-4.8	-4.5	-0.9	2.4	7.8
Midlands and Northern Mountains	9.3	-1.7	-5.6	-2.4	0.4
Northern and Coastal Central Region	-2.5	-0.6	-0.1	1.5	1.8
Central Highlands	-6.1	-8.7	-1.2	5.4	10.7
Southeast	0.2	7.7	9.2	3.7	-20.9
Mekong River Delta	5.9	6.0	-0.5	-7.7	-3.7

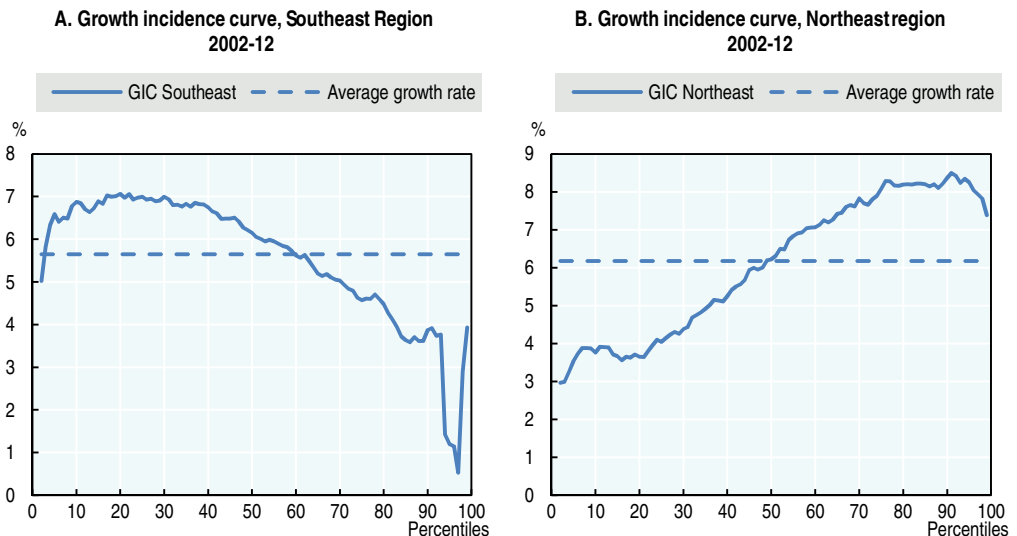
*Note:* The quintiles are based on the national income distribution.

*Source:* Authors' calculations based on VHLSS.



Inclusiveness of growth varied significantly across provinces. Figure 1.4 shows income growth incidence curves for the Southeast and Northeast regions between 2002 and 2012, highlighting large regional disparities in inclusiveness of growth. Growth was particularly pro-poor in the Southeast Region with income growth much higher among the bottom income quintiles. Conversely, growth was unequal in the Northeast Region with income growth highest at the top of the income ladder and consistently higher for the top quintiles.

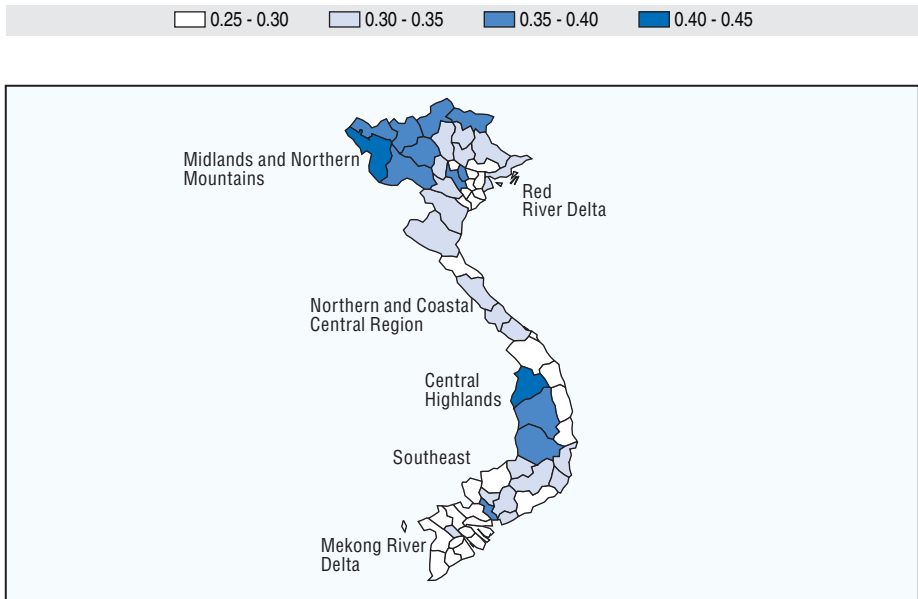
Figure 1.4. **Income growth incidence curve in selected regions, 2002-12**



Source: Authors' calculations based on VHLSS.

Inequality mapping shows substantial variation in income inequality across regions, with spatial concentrations in poor areas. Income inequality in 2010 is noticeably high in poor areas, such as the Central Highlands and the Northern Mountainous regions, but significantly lower in the richer Southeastern Area and Northern and Coastal Central regions (Figure 1.5).

Figure 1.5. **Income inequality in Viet Nam by region, 2010**

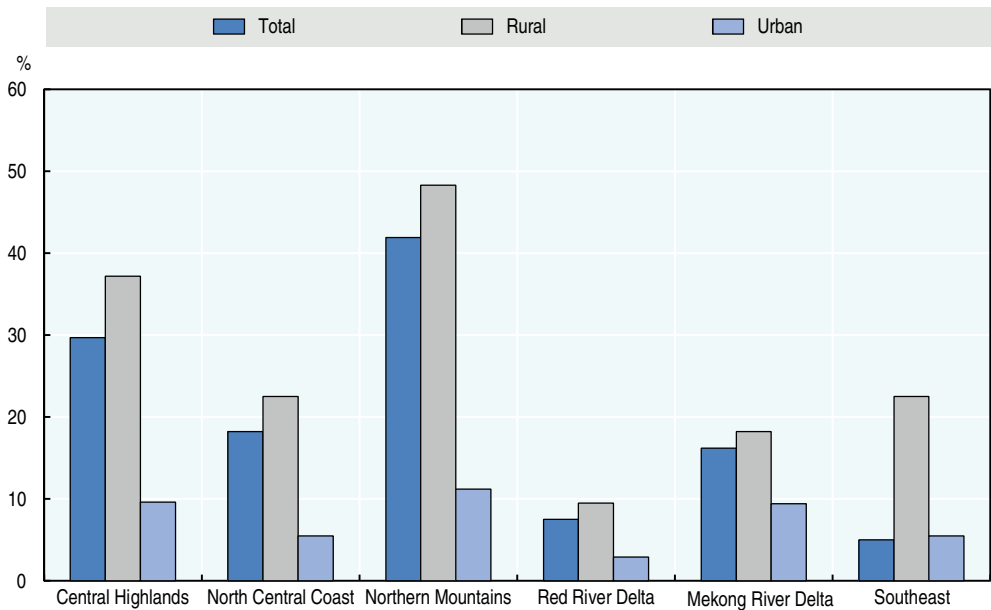


Source: Lanjouw, Marra and Nguyen (2013).

Incidence of poverty has a strong spatial dimension. Poverty is largely rural and affects all regions, although to varying extents. Figure 1.6 presents consumption poverty rates in 2012 by region and place of residence. The highest poverty rates are found in the Northern Mountains (44.8%), the Central Highlands (32.7%) and the Northern and Coastal Central region (23.7%). Poverty is systematically higher in rural areas for all regions.

Spatial disparities in social outcomes are significant in Viet Nam and justify a geographical focus in public policy. Rural areas and some regions exhibit the lowest social outcomes. However, poor social outcomes are not exclusively concentrated in poor regions and youth joblessness is a particular problem in urban areas. Monitoring of spatial disparities in income and non-income dimensions of well-being is essential to establish the extent of territorial imbalances, and to support the formulation of more balanced and coherent development policies at sectorial and regional levels.

Figure 1.6. Consumption poverty rates by region and place of residence, 2012



Source: GSO-World Bank poverty estimates based on VHLSS.

Table 1.3 presents selected socio-economic indicators by region, based on the 2012 VHLSS. There are large regional and rural-urban disparities in education, health and employment outcomes. In 2012, the tertiary attainment rate ranged between 1.99% in the Red River Delta area to 0.77% in the Central Highlands, and from 2.56% in urban areas to 1.04% in rural areas. A higher share of people cannot afford health treatment in rural areas and in the Northern Mountainous region, although the percentage of people not covered by health insurance is lowest in this region. While informal employment is high in all regions in Viet Nam, the Mekong River Delta region exhibits the highest incidence. Informal employment is also much higher in rural areas. The share of youth not in education, employment or training (NEET) ranged from 0.65% in the North West region to 10.06% in the Mekong River Delta. Youth being NEET was much higher in urban areas (8.2%), compared to rural areas (4.3%) where young people are more easily engaged in agricultural activities (Table 1.4).

Table 1.3. Selected socio-economic indicators by region, in percentage, 2012

	National average	Red River Delta	Northeast	Northwest	North Central	South Central Coast	Central Highlands	Southeast	Mekong River Delta
<b>Education</b>									
Primary attainment rate	25.05	14.99	22.29	21.90	21.64	30.90	29.81	29.22	33.11
Primary enrolment rate, net	92.14	94.10	92.68	87.99	93.67	94.91	88.02	92.27	90.19
Lower secondary attainment rate	26.49	39.16	30.14	22.90	36.12	22.07	21.94	21.03	12.74
Lower secondary enrolment rate, net	80.61	87.66	82.53	69.33	83.95	85.44	80.82	81.04	70.31
Higher secondary attainment rate	15.78	22.21	17.48	9.88	19.49	12.99	13.9	15.90	7.65
Higher secondary enrolment rate, net	59.27	78.19	55.25	46.11	71.30	59.62	43.95	55.30	45.1
Tertiary attainment rate	1.52	1.99	1.79	1.02	1.32	1.87	0.77	1.74	0.84
Tertiary enrolment rate, net	26.98	35.95	19.95	7.05	31.87	34.97	22.58	28.26	18.04
<b>Employment</b>									
Median hourly earnings, in '000 VND	16.09	17.51	16.53	16.07	14.56	14.88	16.55	18.23	12.99
NEET (15-24)	5.37	3.54	2.54	0.65	2.96	6.11	4.1	7.85	10.06
Type of employment: inactive	23.36	26.24	17.38	11.28	21.84	24.94	18.57	28.14	22.66
Type of employment: self-employed	46.25	40.55	61.63	75.6	55.62	42.55	61.56	27.82	47.63
Type of employment: wage-employed	30.39	33.21	20.99	13.12	22.54	32.51	19.87	44.04	29.61
<b>Health</b>									
Cannot afford health treatment (any type of treatment)	3.26	3.17	3.79	7.79	4.66	2.86	4.00	2.94	2.36
No health insurance	35.64	37.46	22.40	11.97	29.82	31.03	35.44	40.72	46.54
<b>Housing</b>									
Access to improved drinking water	86.76	98.71	69.43	31.18	87.03	87.87	82.76	94.41	84.16
Access to improved sanitation	73.50	92.26	62.01	30.31	76.44	75.25	57.75	90.18	49.79
Access to national electricity	97.55	100	94.26	79.15	97.10	98.54	97.02	99.43	97.51
Overcrowding (<7m <sup>2</sup> /person or 11<m <sup>2</sup> for 2 or more)	20.77	16.32	17.46	37.20	20.73	19.89	30.95	23.45	20.55
<b>Vulnerability</b>									
Incidence of child labour	4.12	1.20	9.95	10.26	7.07	2.96	3.79	1.91	2.64
Informal employment	70.51	70.53	71.16	81.20	74.94	73.24	69.49	60.07	79.2
Low paid work (<60% of the median wage)	12.61	9.7	9.79	8.67	18.32	14.3	10.24	6.25	24.06
Working elderly	34.43	31.76	38.23	33.88	42.21	46.00	43.44	22.14	32.42

Source: VHLS5.

Access to basic infrastructure services and housing conditions varies substantially across regions and tends to be worse in rural areas. The percentage of households with access to improved drinking water and improved sanitation was much lower in rural areas and the North West region. There is less variation in distribution of electricity, with lower access in the North West but little difference between rural and urban areas (Table 1.4).

Table 1.4. Selected socio-economic indicators by rural-urban, in percentage, 2012

	National average	Urban	Rural
<b>Education</b>			
Primary attainment rate	25.05	19.72	27.46
Primary enrolment rate, net	92.14	91.24	92.5
Lower secondary attainment rate	26.49	22.23	28.42
Lower secondary enrolment rate, net	80.61	83.06	79.74
Higher secondary attainment rate	15.78	24.01	12.05
Higher secondary enrolment rate, net	59.27	67.42	56.39
Tertiary attainment rate	1.52	2.56	1.04
Tertiary enrolment rate, net	26.98	38.69	22.61
<b>Employment</b>			
Median hourly earnings, in '000 VND	16.09	20.05	14.29
NEET (15-24)	5.37	8.22	4.33
Type of employment: inactive	23.36	30.76	20.18
Type of employment: self-employed	46.25	28.52	53.88
Type of employment: wage-employed	30.39	40.72	25.95
<b>Health</b>			
Cannot afford health treatment (any type of treatment)	3.26	2.48	3.61
No health insurance	35.64	32.49	36.96
<b>Housing</b>			
Access to improved drinking water	86.76	95.53	83.00
Access to improved sanitation	73.5	93.03	65.13
Access to national electricity	97.55	99.70	96.63
Overcrowding (<7m <sup>2</sup> /person or 11<m <sup>2</sup> for 2 or more)	20.77	20.46	20.91
<b>Vulnerability</b>			
Incidence of child labour	4.12	1.16	5.26
Informal employment	70.51	59.86	78.44
Low paid work (<60% of the median wage)	12.61	7.17	16.44
Working elderly	34.43	19.70	40.66

Source: VHLSS.

## Gender equality

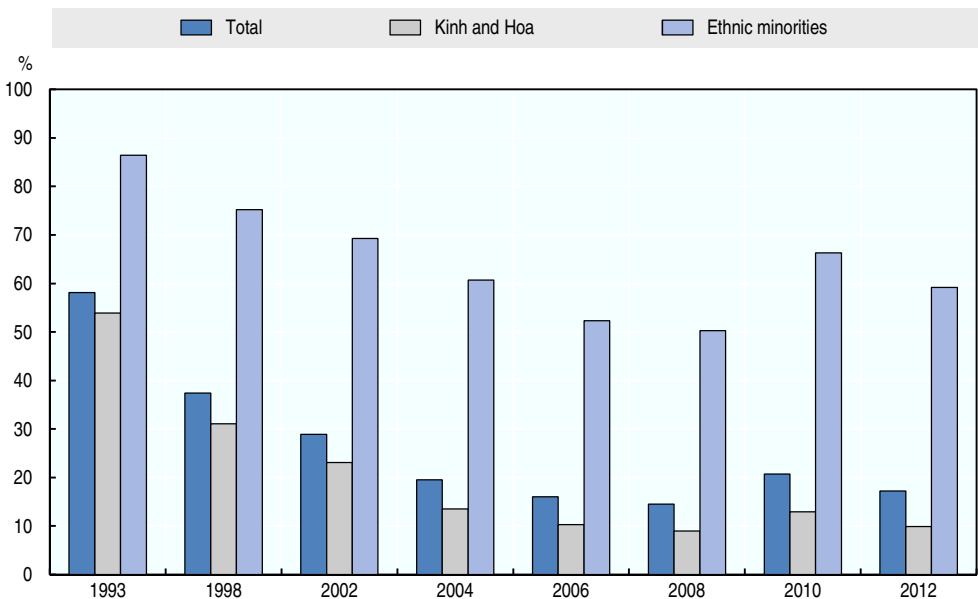
Viet Nam enjoys a fairly high level of gender equality for several socio-economic outcomes. Although there are differences in gender equality for men and women in Viet Nam, these are generally not very significant and do not appear for every dimension of inclusiveness. Education and health outcomes are relatively equally distributed along gender.

Women in Viet Nam are disadvantaged in terms of wage earnings. According to VHLSS, women in Viet Nam tend to earn substantially less than men. In 2012, the median hourly wage earnings were VND 17 060 for men, compared to only VND 14 470 for women. Men and women also differ in terms of employment status, with more women working as self-employed earners. However, there is little apparent difference in terms of informal employment.

## The ethnic dimension

Income poverty is disproportionately high among ethnic minority groups. In 2012, incidence of poverty was as high as 59.2%, compared to 9.9% for Kinh and Hoa groups (Figure 1.7).

Figure 1.7. Poverty rates by ethnicity



Note: poverty estimates are not comparable before and after 2008 due to a change in the poverty line.

Source: GSO-World Bank estimates based on VHLSS.

Ethnic minorities face a serious disadvantage in terms of education and employment outcomes. Ethnicity is the dimension that presents the highest gaps in terms of social cohesion with minorities in worse situations than their majority counterparts. Differences touch nearly every dimension from education to employment, vulnerability and housing. In education, differences in enrolment and attainment rates are evident. The gap starts to appear in lower secondary and increases at higher levels (Table 1.5). As primary and lower secondary schooling are mandatory in Viet Nam, this finding is of particular concern. Disparities along ethnic lines are also significant for employment. Minorities systematically earn less than majorities and are more likely to be in self-employment or informal jobs. Incidence of child labour is also extremely high for minorities.

Housing conditions are particularly bad among ethnic minorities. The percentage of households with access to improved drinking water and improved sanitation was nearly 93% and 80%, respectively among Kinh-Hoa, against only 46% and 26% for ethnic minorities. An underlying reason for these huge gaps is area of residence, as minority groups are concentrated in mountainous regions or rural areas where natural barriers can represent an obstacle to the flow of national services and access to sanitation and water. However, such ethnic disparities are much more modest with regard to access to national electricity. This finding highlights the important role of public policy, which in Viet Nam mandated high electricity coverage in remote rural areas where minorities tend to live (Pachauri et al., 2013).

Despite many disadvantages, ethnic minorities enjoy greater health insurance coverage. A positive development in Viet Nam is the high level of health insurance coverage among ethnic minority groups. Only 14% of people belonging to minorities are not covered by health insurance, compared to nearly 40% of the majority population. This relatively high level of coverage is explained by a recent State policy decision to provide free health insurance to large selected segments of the vulnerable population registered as poor.

### Disparities across generations

While age-related disparities in social outcomes appear modest in Viet Nam, there are significant inequities in employment and income. Youth have a disproportionately high incidence of low-paid work, while many pensioners are obliged to work in the absence of adequate pension benefits. Nearly 20% of employed youth were in low-paid work compared to 12% on average in the country (Table 1.5). A high percentage of people among the elderly (34%) are in work, reflecting the nascent form of the pension system in Viet Nam. As a result, many people of pension age are barely able to meet their needs unless they continue to work.

Table 1.5. Selected socio-economic indicators by individual characteristics, in percentage, 2012

	National average	Men	Women	Ethnic majority	Ethnic minority	Youth (age 15-24)
<b>Education</b>						
Primary attainment rate	25.05	24.88	25.19	25.24	23.67	
Primary enrolment rate, net	92.14	92.35	91.91	92.94	88.61	
Lower secondary attainment rate	26.49	28.58	24.62	27.66	18.25	
Lower secondary enrolment rate, net	80.61	79.6	81.63	83.52	68.08	
Higher secondary attainment rate	15.78	18.19	13.63	16.99	7.33	
Higher secondary enrolment rate, net	59.27	56.04	62.6	65	32.81	
Tertiary attainment rate	1.52	1.25	1.75	1.63	0.72	
Tertiary enrolment rate, net	26.98	24.31	29.79	30.84	8.31	
<b>Employment</b>						
Median hourly earnings, in '000 VND	16.09	17.06	14.47	16.29	13.52	13.23
NEET (15-24)	5.37	4.25	6.54	6.08	1.98	
Type of employment: inactive	23.36	19.48	26.97	25.22	11.68	46.89
Type of employment: self-employed	46.25	43.25	49.04	42	73.01	26.83
Type of employment: wage-employed	30.39	37.27	23.99	32.79	15.31	26.29
<b>Health</b>						
Cannot afford health treatment (any type of treatment)	3.26	3.68	2.94	3.02	5.05	
No health insurance	35.64	36.26	35.05	39.43	13.79	
<b>Housing</b>						
Access to improved drinking water	86.76			92.72	46.36	
Access to improved sanitation	73.5			80.47	26.26	
Access to national electricity	97.55			99.29	85.79	
Overcrowding (<7m <sup>2</sup> /person or 11<m <sup>2</sup> for 2 or more)	20.77			18.3	37.55	
<b>Vulnerability</b>						
Incidence of child labour	4.12	4.09	4.15	2.16	12.82	
Informal employment	70.51	72.13	68.72	69.92	80.23	73.77
Low paid work (<60% of the median wage)	12.61	9.48	17.22	12.11	19.78	19.77
Working elderly	34.43	41.23	30.13	33.87	39.92	

Source: VHLSS.



## B. Social mobility

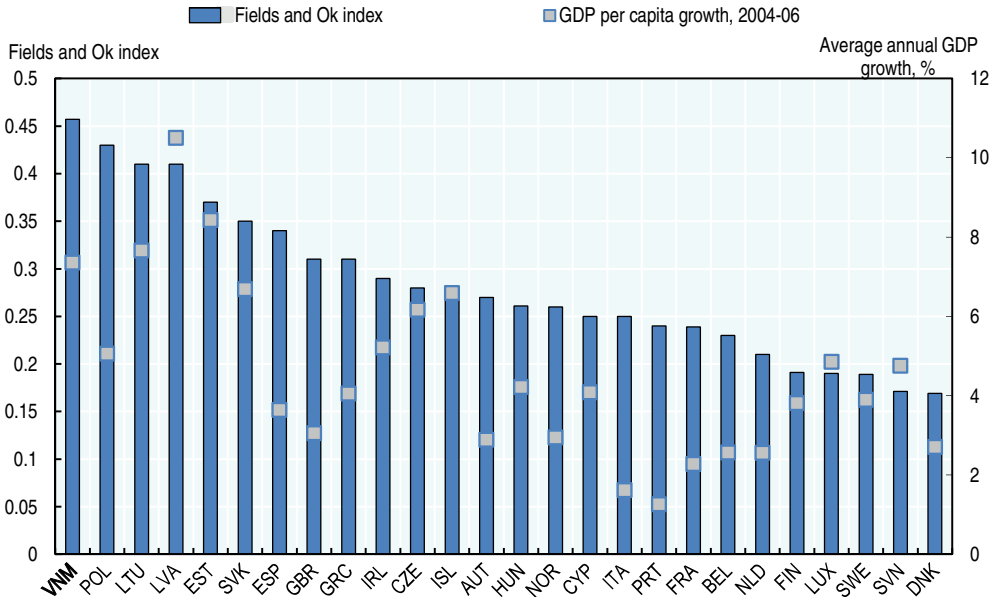
Social mobility is a key dimension of social cohesion. In essence, it concerns the movement of individuals or groups of people in social position, such as income classes, employment status or career structure, and measures the real extent to which equality exists in a society. Social mobility can be upward or downward and either intra-generational (occurring within a generation) or inter-generational (occurring between generations). “Absolute” social mobility refers to the total amount of movement of people (e.g. an increase/decrease in household income irrespective of a change in the distribution of income), while “relative” social mobility refers to the upward or downward movement of a member of one social class compared with a member of another class.

This section examines social mobility in Viet Nam in a selective manner, focusing on three important aspects: intra-generational income mobility, intra-generational job mobility and inter-generational socio-economic mobility as measured through children’s educational aspirations. The section begins with an analysis of income mobility in Viet Nam from 2002 to 2008. The concept of income mobility is significant for countries such as Viet Nam that have experienced stable, persistent economic growth and profound structural transformations. Income mobility aids the diagnosis of social cohesion by quantifying winners and losers from past economic performance. The second part of the section reviews job mobility between 2004 and 2008 with a focus on movement across type of employment, industries and jobs with different skill levels and skill mismatches. The final part of the section examines children’s educational aspirations with the aim of identifying factors shaping intergenerational inequality in Viet Nam.

### Income mobility

Past growth performance in Viet Nam has been associated with high absolute income mobility. Figure 1.8 presents the Fields & Ok income mobility index together with the annual average GDP growth rate for the period 2004-06. The index measures the dynamics of income distribution both in terms of upward and downward mobility for Viet Nam as well as for selected countries. The results point to high-income mobility in Viet Nam in comparison with some OECD and emerging economies. The addition of average annual GDP growth demonstrates that countries with similar GDP growth may present different levels of income mobility. High-income mobility in Viet Nam is not a recent phenomenon and was observed first during the 1990s (Glewwe and Nguyen, 2002).

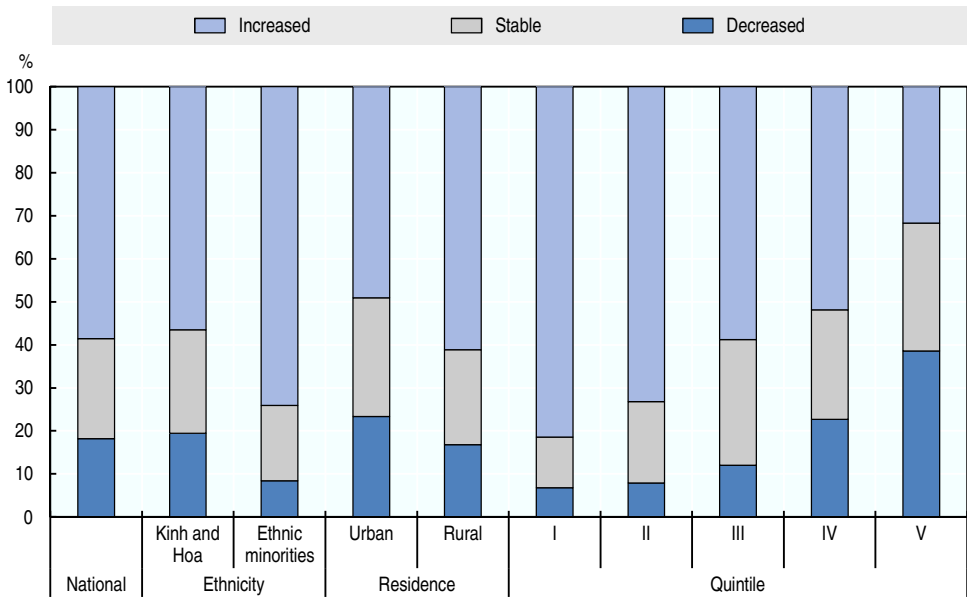
Figure 1.8. Overall income mobility (Fields & Ok index) and GDP, 2004-06



Sources: Authors' calculations based on VHLSS 2004 and 2006 for Viet Nam; other countries from Aristei and Perugini, 2012; GDP figures from WDI.

High absolute income mobility has produced both winners and losers in Viet Nam. While a majority of households experienced upward income mobility, downward absolute income mobility affected nearly one out of five households. Upward and downward absolute income mobility indices were calculated according to changes in adult equivalent income that exceeded 20% of initial income (Figure 1.9). Between 2004 and 2008, about 59% of households experienced upward absolute income mobility, while about 18% were subjected to downward mobility. What is remarkable is that downward absolute income mobility was more significant in urban areas (23.4%) than in rural areas (16.8%), and among the richest (38.6%). In contrast, upward absolute income mobility was more significant among ethnic minority groups (74.1%) and households at the bottom of the income ladder. However, these results need to be interpreted with caution, as small changes in income will affect more the mobility experience of low-income households and less that of richer households.

Figure 1.9. Upward and downward absolute income mobility, 2004-08

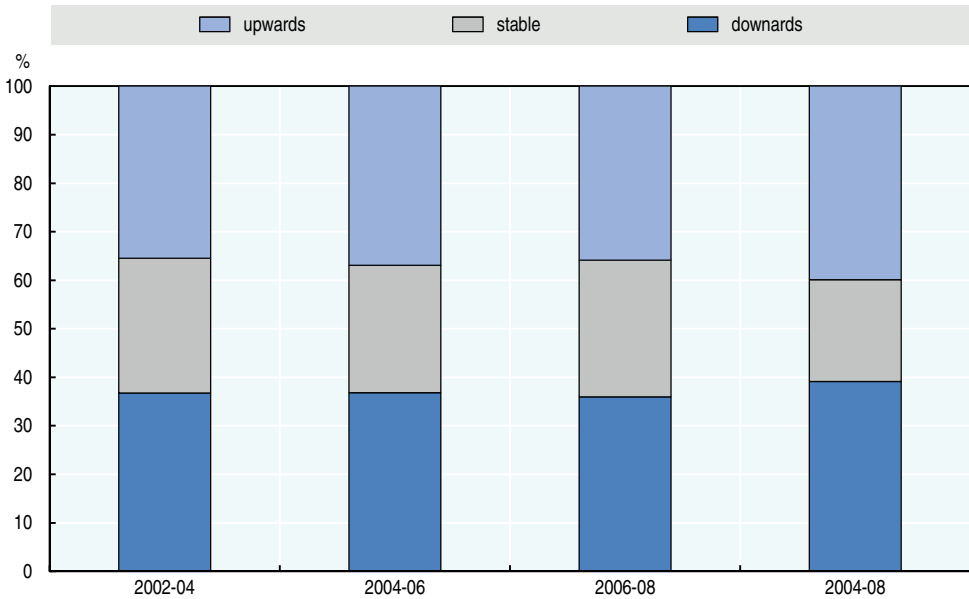


Note: Absolute income mobility refers to a change in adult equivalent income of 20% or more of the initial income.

Source: VHLSS.

Aside from absolute income changes, relative income mobility was particularly high. Between 2004 and 2008, only about 20% of households in Viet Nam remained in the same income decile, while 40% of households experienced upward/downward relative income mobility (Figure 1.10).

Figure 1.10. Relative income mobility, 2002-08



Note: Percentage of households staying, moving up and moving down with respect to their decile position in the initial period.

Source: VHLSS 2002-08.

A large share of the poor was able to move up the income ladder, contributing to the rise of the middle class in Viet Nam. Table 1.6 divides the population into three shares: the poor, the middle class and the rich. In 2004, the middle class accounted for 57.1% of Vietnamese households. This number increased slightly to 60.3% in 2008. The existing middle class remained rather stable (73% of those who were middle class in 2004 remained middle class in 2008), while attracting a significant portion of the poor (58.5% of the poor in 2004 became middle class in 2008).

Table 1.6. Transition matrix: Middle class, 2004-08

%		2008		
		Poor	Middle class	Rich
2004	Poor	39.5	58.5	2.1
	Middle class	10.4	73.0	16.6
	Rich	2.0	36.6	61.4

Note: Poor, middle class and rich are defined as households with equivalised income below 50% of the median, between 50% and 150% of the median and above 150% of the median, respectively.

Source: Authors' calculations based on VHLSS, 2004 and 2008.

The middle class in Viet Nam is a rather heterogeneous group with significant variation in income. Viewing the middle class as essentially stable can be misleading. The range that comprises the middle class is very broad (50%-150% of median income) reaching from parts of the 2nd to parts of the 8th decile. The considerable changes that occur within this group are therefore not surprising. Table 1.7 focuses on the relative mobility (measured by changes in deciles) of households that belonged to the middle class in 2004 and 2008, accounting for 73% of total households. Even if existing members of the middle class did not move to the poor or rich group, the majority changed their position within the middle class itself (only 13% to 29% stayed within the initial decile).

Table 1.7. **Transition matrix: Movements within the middle class, 2004-08**

%		Deciles in 2008						
		2	3	4	5	6	7	8
Deciles in 2004	2	16.9	24.7	21.8	17.9	10.9	6.9	0.9
	3	17.7	16.5	16.1	13.9	22.5	11.8	1.6
	4	8.6	20.8	20.0	20.7	16.1	9.9	4.0
	5	11.1	13.2	17.9	15.4	23.7	15.4	3.4
	6	6.8	14.1	15.0	23.9	13.7	19.0	7.4
	7	9.0	5.8	16.2	16.8	15.9	28.7	7.7
	8	11.7	25.8	4.7	13.9	16.5	14.4	13.0

Source: Authors' calculations based on VHLSS, 2004 and 2008.

Factors strongly correlated with upward income mobility include living in an urban area, a higher employment share in the household, a high share of agricultural income over total income and moving from low to medium manufacturing. A multivariate analysis of determinants of relative income mobility of the society as a whole, conducted for this review, highlighted characteristics that increased the chances of moving up at least one income decile or decreased the chances of moving down at least one decile. These included: living in an urban area, having many household members of working age and/or increasing the share of workers among household members, the number of members with a second job relative to all working household members, a household head having an upper secondary diploma or occupation as a high-level or mid-level professional, the household head being economically active in the initial period, and the household head becoming economically active after not working in 2004. Factors with a robust positive impact on moving up a decile or more included the initial share of agricultural income over total income and moving from low to medium manufacturing.

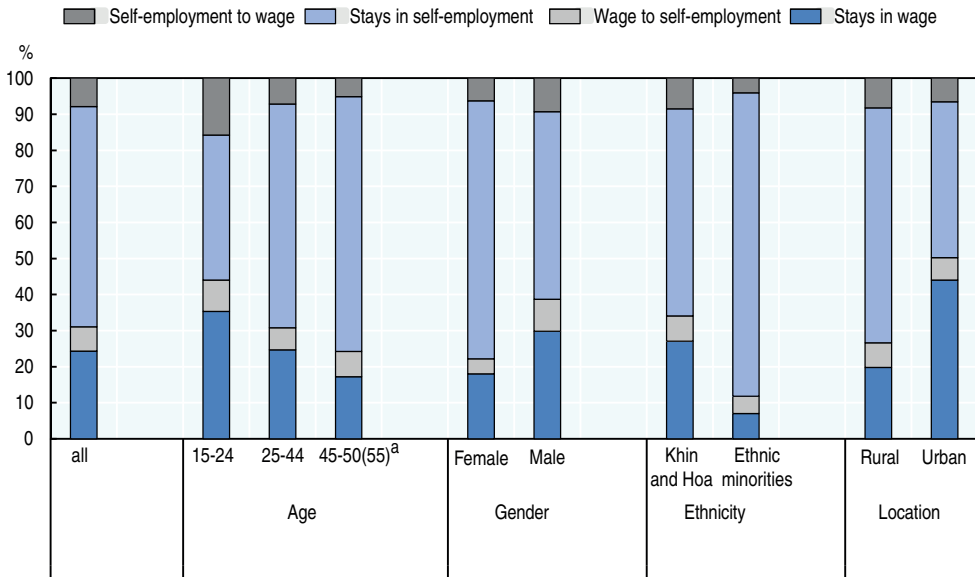
Participation in own-account agriculture, number of children and the presence of a disabled household member increased the risk of downward mobility. The multivariate analysis produced interesting findings concerning the drivers of downward income mobility. Factors that increased the chances of moving down at least one decile were mostly related to household socio-economic composition and included variables such as the number of children in the household, the presence of a disabled household member and participation in own-account agriculture (independent farmer without employees). However, belonging to an ethnic minority did not appear to be significantly correlated with relative income mobility.

### Job mobility

The structural transformation in Viet Nam has been associated with fairly low mobility in terms of employment status, with a large share of the employed remaining in self-employment. More than two-thirds of the employed working-age population in Viet Nam is self-employed. This heterogeneous group includes representatives from the most vulnerable categories, such as own-account workers and contributing family workers. General conclusions about the relative well-being of self-employed workers compared to wage employees are difficult to state with certainty. A recent study on Viet Nam found that self-employment can be better remunerated than wage work (Nordman, Nguyen and Roubaud, 2013). Employment mobility statistics indicate that nearly two-thirds of individuals employed in 2004 and 2008 remained in self-employment during this period (see Figure 1.11). Moreover, movements from wage to self-employment were as low as movements from self-employment to wage employment (7% against 8%).

Opportunities to leave self-employment appear particularly limited for ethnic minority groups, as well as for women and workers of pre-retirement age. An examination of mobility rates by population group (Figure 1.11) shows substantial disparities across groups. Stability in self-employment is largest for ethnic minority groups (84%), followed by women (72%) and pre-retirement workers (71%). However, movements into wage employment were more significant among youth and urban workers.

Figure 1.11. **Employment mobility: Changes in employment status between 2004 and 2008**

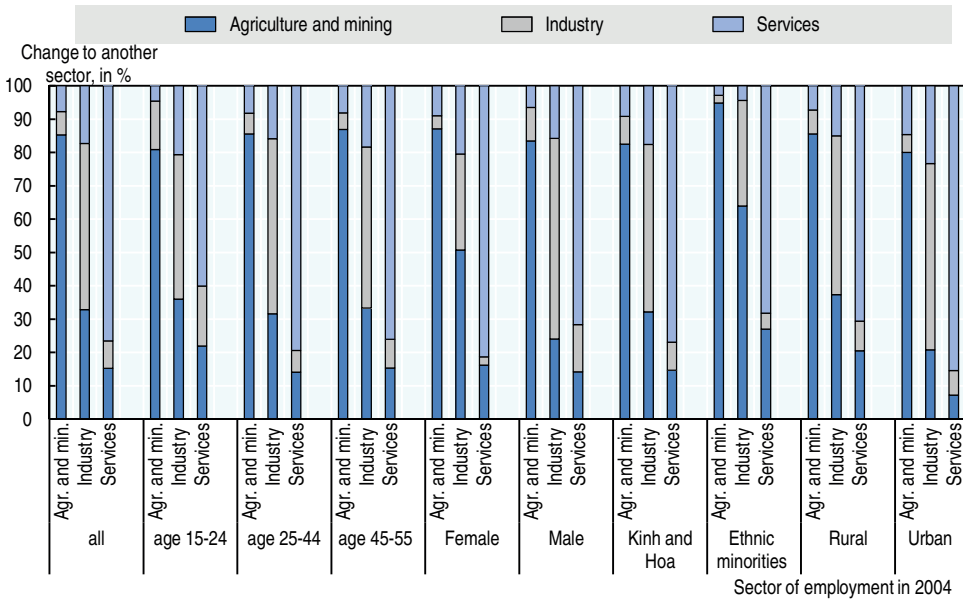


Note: a) Age 50 for women and 55 for men in 2004.

Source: VHLSS.

Employment mobility between sectors is moderate with the most significant movements occurring from industry and services to agriculture. In 2004 more than half of the working age population was employed in agriculture or the mining sector. Figure 1.12 presents the employment mobility rates between sectors for the period 2004-08. About 85% of workers in agriculture or the mining sector remained in the same sector, compared to 77% for the service sector and 50% for industry. Mobility from industry or the service sector to agriculture was moderate (33% and 15%, respectively), but noticeably higher than mobility from agriculture to the service sector or industry (8% and 7%, respectively). During the 2008-09 crisis many workers returned to the agriculture sector, a common trend in times of crisis or loss of jobs.

Figure 1.12. **Employment mobility: Changes in jobs by sector between 2004 and 2008**



Source: VHLSS.

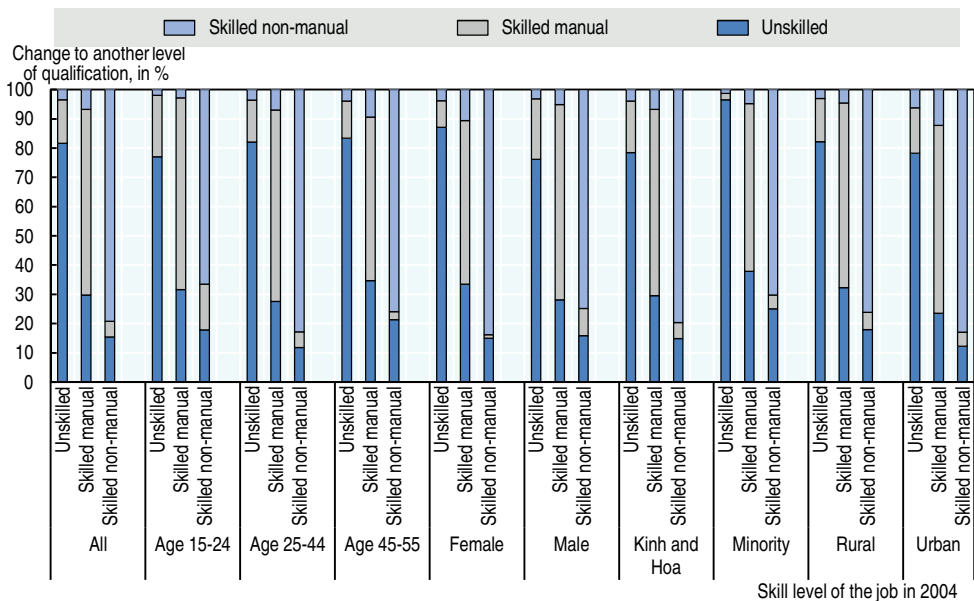
Mobility rates into agriculture are disproportionately high for ethnic minority groups and women, but are also above the national average for youth. Minority groups and women present the highest mobility rates from industry to agriculture (61% and 54%, respectively). Movements from the service sector to agriculture are also relatively high for minority groups (27%) but close to the national average for women (16%). Less expected is the high incidence of mobility among employed youth from industry (36%) and the service sector (22%) into agriculture. The latter could be an effect of the economic slowdown in 2008, which forced workers without stable work back into the agricultural sector.

Unskilled workers have limited opportunities to upgrade in jobs requiring higher levels of skills, while downward skill mobility affects a non-negligible share of skilled workers. The VHLSS allows classification of workers according to the level of skills required by their occupations. This review used the following three ordered categories of skills, from the lowest to the highest: unskilled, skilled manual and skilled non-manual. In 2004, 73% of the employed working-age population held a position as unskilled labourers, 16% worked as skilled manual labourers and 11% worked as skilled non-manual labourers. Figure 1.13 shows the proportion of workers who moved in 2008 to a position that required



a higher level of skills (upward mobility) and the proportion of workers who moved to a position that required a lower level of skills (downward mobility) with respect to their job in 2004. Only a small percentage (18%) of unskilled workers was able to move to a position that required a higher level of skills. At the same time, a non-negligible share of skilled manual workers (30%) and skilled non-manual workers (15%) experienced downward skill mobility.

Figure 1.13. **Employment mobility: Changes in skill level of the job between 2004 and 2008**



Source: VHLSS.

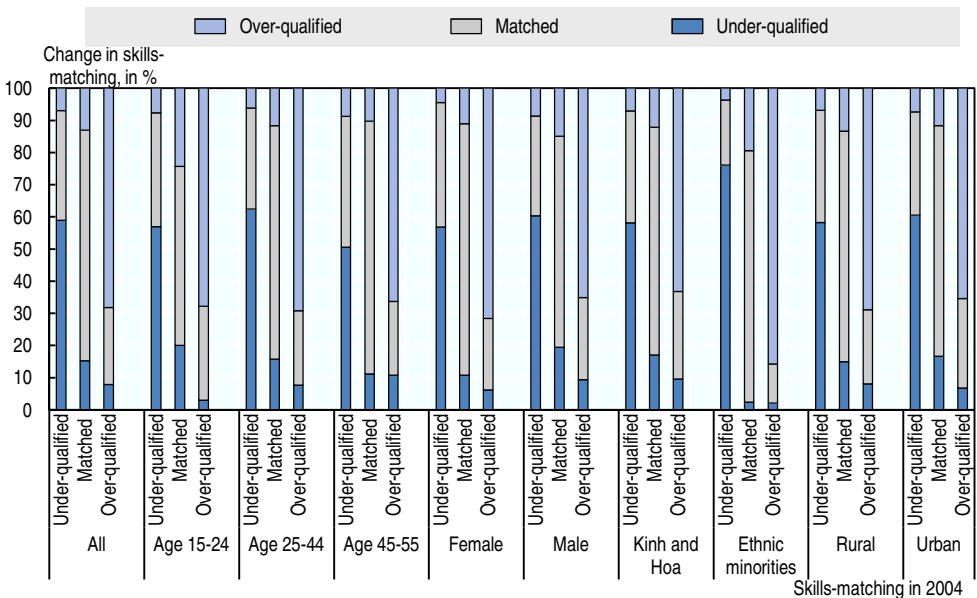
Downward skill mobility disproportionately affects ethnic minority groups and workers close to pre-retirement age. In contrast, unskilled youth have greater opportunities for upward skill mobility. Among minority groups and workers close to pre-retirement age, the share of skilled manual workers (38% and 35%, respectively) and skilled non-manual workers (25% and 21%) who were downgraded was higher than the national average. At the same time, and relative to the average population, more unskilled youth workers (23%) were able to move to jobs requiring higher skills.

Qualification mismatch is an important challenge in Viet Nam and opportunities for workers to move to jobs that match their skills level remain limited. This review follows a normative approach to measuring the mismatch

between the job a person holds and the educational qualifications required for each occupational skills category. It employs the ISCO-88 categorisation of major occupation groups and levels of education in accordance with the International Standard Classification of Education (ISCED). Workers in a particular group with the assigned level of education are considered well matched, those who have a higher level of education are considered over-educated, and those with a lower level of education are considered under-educated. In 2004, nearly 52% of workers were working in jobs that did not match their level of education, 30% were over-qualified and 16% were under-qualified. Between 2004 and 2008, a small share of under-qualified (34%) and overqualified (24%) workers managed to move to jobs that matched their level of education (Figure 1.14).

Workers from ethnic minority groups face the most difficulties in finding jobs that match their skills, and experience the highest chances of remaining over-qualified or under-qualified. As shown in Figure 1.14, among ethnic minority groups 86% of over-qualified workers remained over-qualified four years later, compared to 68% on average. Among under-qualified workers, 76% of minority workers remained in jobs where they were under-qualified, as opposed to 59% on average.

Figure 1.14. Employment mobility: Changes in skills matching between 2004 and 2008



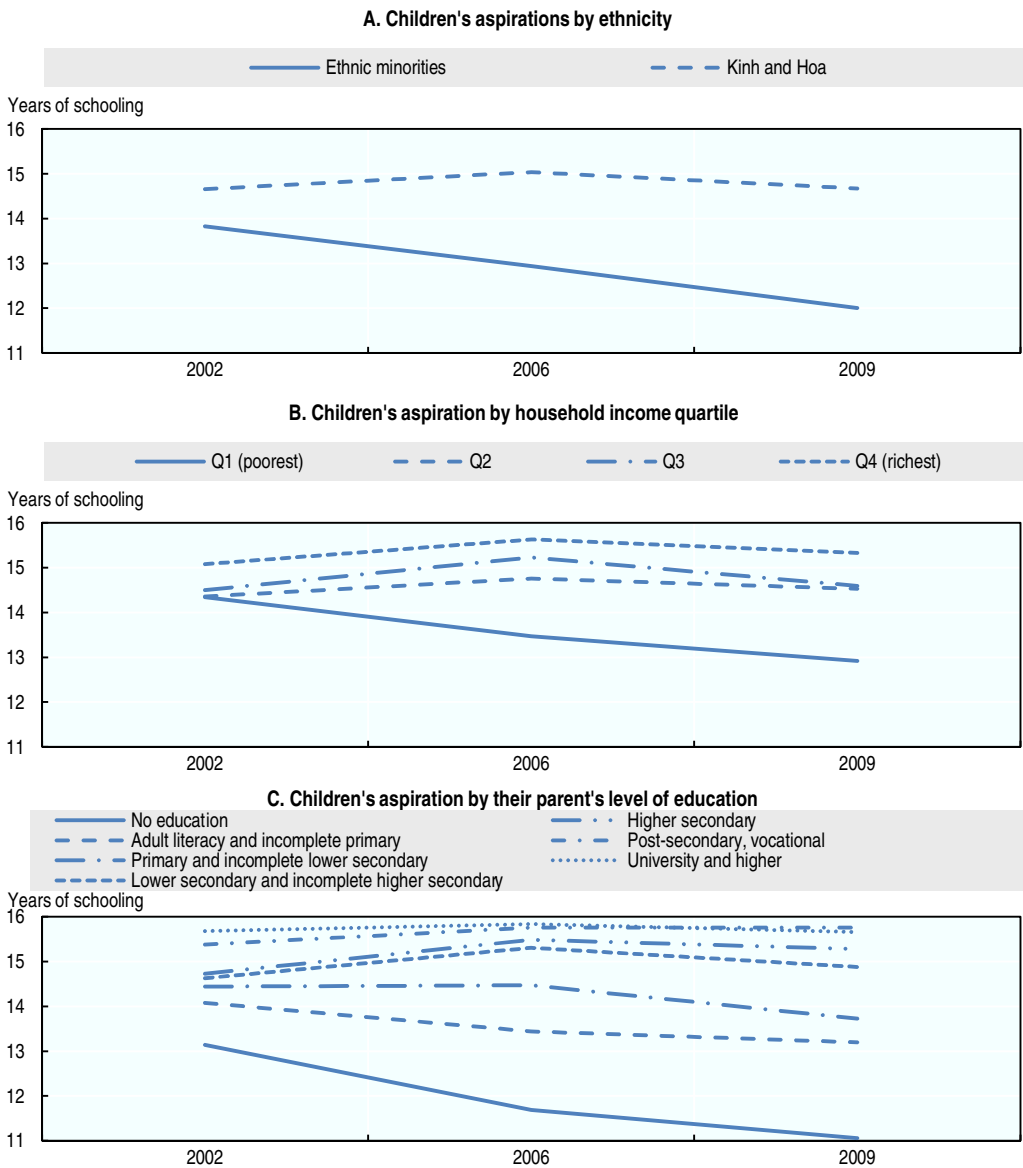
Source: VHLSS.

## Inter-generational mobility

Research shows that the educational aspirations of parents and children are strong determinants of children's education outcomes. Understanding what drives children's aspirations and identifying the channels through which they develop and change best is key to fostering intra-generational mobility. Education and investment in human capital are key factors for reducing poverty and enhancing social mobility. However, poverty may create financial constraints that hamper the capacity to invest in children's human capital, reducing opportunities for social mobility. Studies that focus on advanced economies and developing countries have shown that children growing up in poor families tend to have lower qualifications than those from better-off backgrounds (OECD, 2013; Sirin, 2005). Family economic resources and structure and parental education are strongly associated with children's educational outcomes. In some countries such as Viet Nam, language is a key driver of gaps in achievement (Murray, 2012). Other studies show that parents' and children's educational aspirations are positively correlated with children's educational outcomes (Goodman and Gregg, 2010; Gregg and Washbrook, 2009; Gutman and Akerman, 2008a, 2008b), and that lower aspirations can lead to a decrease in investment in human capital (Macours and Vakis, 2009) and to lower performance in the labour market (Datcher-Loury and Loury, 1986). As children from disadvantaged backgrounds tend to have lower educational aspirations and in turn lower employment outcomes, enhancing their aspirations may have a positive effect on reducing inequality and achieving higher social justice.

The lower education aspirations of children from disadvantaged backgrounds raise concerns about inter-generational mobility in Viet Nam. The socio-economic status of the family represents the first and most immediate environment affecting children's aspirations. Other external factors may also influence children's knowledge, development and aspirations contributing to their inter-generational mobility. In Viet Nam children from disadvantaged backgrounds – namely, children belonging to ethnic minorities, to the poorest households and with less educated parents – have lower educational aspirations. This suggests a low level of inter-generational mobility, as children from disadvantaged households tend to aspire to – and most likely achieve – a lower level of education. Education has proven to be the most powerful instrument for social mobility, thus children's low aspirations may be seen as predictor of lower social mobility. Moreover, children from an ethnic minority, in the poorest wealth quartile and with parents lacking primary education tend to adjust their aspirations downwards as they get older and gain a better understanding of their own attitudes and preferences, existing job opportunities, the level of education required to get a job and the barriers they face in achieving higher levels of education.

Figure 1.15. Children's educational aspirations by socio-economic status of the household, in years of schooling



Source: Authors' calculations using Young Lives-Viet Nam data.

Financial capital and human capital are important determinants of children's education aspirations. While Figure 1.15 shows that disadvantaged children have lower educational aspirations and tend to adjust these downwards as they get older, it remains important to understand the factors that determine such outcomes. The review employed a multivariate approach to identify the drivers of children's educational aspirations. Panel analysis was used based on the Young Lives data to estimate the effect of financial (wealth quintiles, self-reported relative poverty), human (parental education) and social capital (trust, civic participation and support) variables on children's educational aspirations. The results show that children's aspirations are positively correlated with financial capital through wealth quintiles and positive variations in wealth status across years, and negatively correlated with poverty. Human capital also plays an important role as children with more educated parents tend to have higher educational aspirations. As regards the effect of social capital variables, trust and support have no strong and stable effects, while civic participation has a low and negative effect. This is probably because household members with higher civic participation have a more realistic awareness of the difficulties children will face in achieving their educational aspirations. There is also evidence that, over time, children tend to adjust their aspirations downwards, while children from larger household or minority groups have lower aspirations than average. Gender inequality also emerges with girls reporting on average higher aspirations than boys.

While social capital does not seem to have a strong direct effect on children's educational aspirations, it nonetheless affects the ways in which fiscal and human capital influence these aspirations and contribute to more equal outcomes. The multivariate analysis further indicated that higher civic participation reduces the impact of wealth on educational aspirations, levelling the playing field in terms of children's aspirations regardless their family's initial wealth status. Civic participation also enhances the effect of parental education on children's educational aspirations.

### C. Social capital

Social capital corresponds to "the rules, norms, obligations, reciprocity and trust embedded in social relations, social structures and society's institutional arrangements which enable members to achieve their individual and community objectives" (Narayan, 1997). It can be broadly defined as "the norms and networks that facilitate collective action" (Woolcock and Narayan, 2000). Putnam (1993) characterises social capital as "features of social organisation, such as trust, norms and networks that can improve the efficiency of society by

facilitating co-ordination". He states that social capital has productive value in that it allows individuals to achieve objectives normally beyond their reach. The OECD defines social capital as a resource for facilitating co-operation within or among social networks with shared norms, values and understandings (OECD, 2001). The *Perspectives on Global Development* (OECD, 2011) report argues that social cohesion is crucial for the peaceful management of collective action problems that naturally arise in transforming societies. The creation of trust and solidarity and the nurturing of the belief that everybody, regardless of sex, age or ethnic identity can benefit from these new opportunities, is essential.

The political and economic situation in Viet Nam changed dramatically following the *Doi Moi* reform process in 1986. The government de-collectivised farming, encouraged private sector development and foreign trade, and liberalised investments. The result was a remarkable improvement in Vietnamese living standards. However, behind this achievement lies a society in perpetual flux, with rural-urban migration, a combination of upward and downward income mobility, and the emergence of new risks, all of which are transforming the basic structure of Vietnamese society. The impact of these changes has been felt not only in business and economic terms, but also through shifts in social norms and networks.

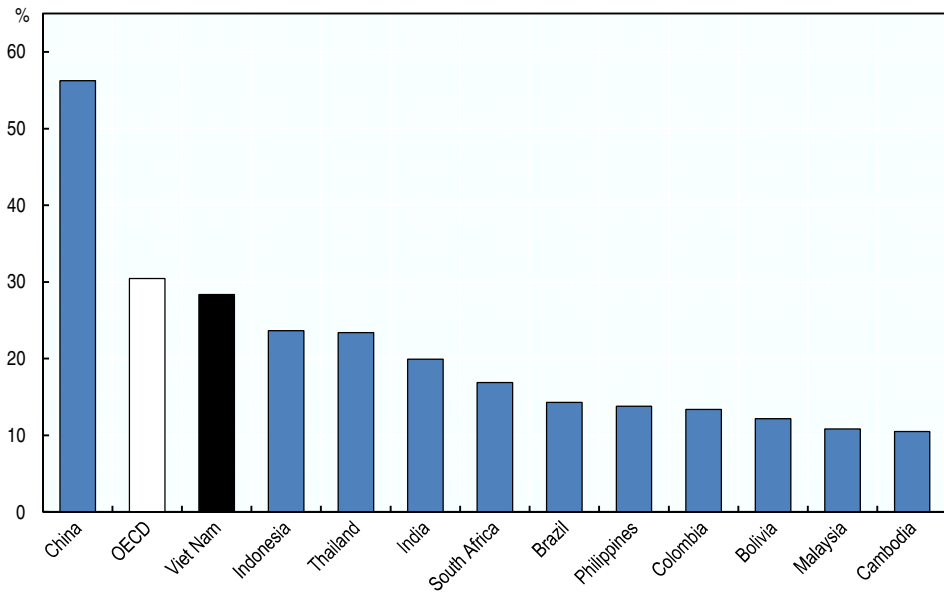
This section provides a tentative assessment of the level of social capital in Viet Nam and explores the ways in which it was affected by the structural transformations that occurred and recent growth performance. It focuses on four dimensions of social capital which interact with and strengthen each other: *i*) Vietnamese people's relations and trust with each other and with the government; *ii*) social networks and family ties; *iii*) civic engagement; and *iv*) social norms and institutions. Understanding these different aspects of social capital and their evolution can help to determine the degree of cohesiveness in Vietnamese society and the way and extent to which these various dimensions of social capital facilitate co-ordination and co-operation for mutual benefits.

### Trust

Interpersonal trust and tolerance for diversity is relatively high overall. Interpersonal trust and tolerance for diversity are found to strengthen the sense of belonging, reduce social discontent and lower crime rates (Wilkinson, Kawachi and Kennedy, 1998). In fragmented societies, the level of trust is usually lower (Alesina and La Ferrara, 2002; Glaeser et al., 2000; Putnam, 2006). Other types of differences, such as income inequalities, have also been found to negatively impact trust and other social norms of reciprocity (Alesina and La Ferrara, 2002; Knack, 1999; Knack and Keefer, 1997; Uslaner, 2003).

As 15% of the Vietnamese population belong to ethnic minority groups that account for 70% of the extreme poor, a low tolerance for diversity could lead to low levels of interpersonal trust and further social segregation. Evidence for Viet Nam suggests that interpersonal trust remains relatively high compared to other countries (Figure 1.16). Tolerance for diversity is also higher than among its regional peers, albeit much lower than the OECD average (Figure 1.17). The level of trust also depends on the degree of participation in social groups and communities, and marginalised groups tend to exhibit a lower level of trust. A study of mothers with young children (Young Lives 2002) shows that levels of trust are low among Vietnamese mothers who have lower participation rates in social groups and shorter duration of residence in a community. This social capital is linked to children's health outcomes. The study finds that children of mothers with a high level of involvement in social groups have less risk of acute illness and long-term health problems than those with mothers with low cognitive social capital. High trust and a sense of belonging may encourage a mother to seek care more effectively (Tran et al., 2005).

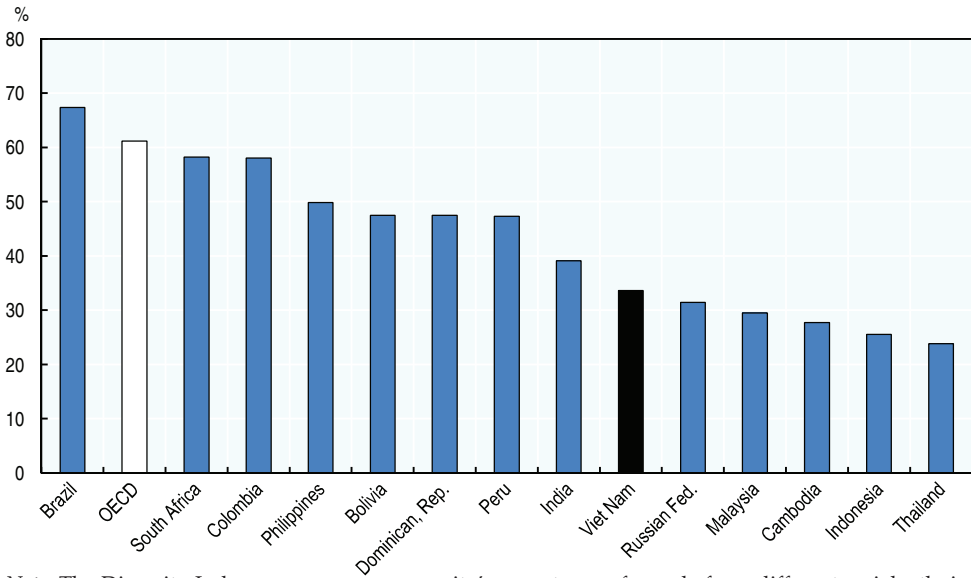
Figure 1.16. Percentage of people who say that most people can be trusted, 2009-10



Note: Interpersonal trust is measured as the average between 2009 and 2010 of the share of respondents who answered that most people can be trusted to the question: "Generally speaking, would you say that most people can be trusted or that you have to be careful in dealing with people"? The OECD average includes 30 OECD countries excluding Australia, Iceland, New Zealand and Norway.

Source: Gallup World Poll, 2009-10.

Figure 1.17. Tolerance to diversity index, average 2006-12



Note: The Diversity Index measures a community’s acceptance of people from different racial, ethnic and cultural groups.

Source: World Poll Index (Gallup World Poll).

Overall, the level of satisfaction with public institutions remains moderate, although there are large disparities across provinces. Trust in institutions such as the government, the court system and the media is essential for social stability, efficiency of policy implementation, public sector performance, private sector development and maintenance of democracy. The level of trust in the government affects people’s willingness to partake in co-operative actions, pay taxes or accept policy reforms (Braithwaite and Levi, 1998; Easterly, Ritzen and Woolcock, 2006). There is therefore a need for transparent and effective institutions. High-quality formal institutions enhance trust and norms of civic participation (Beugelsdijk, de Groot and van Schaik, 2004; Knack and Keefer, 1997; La Porta et al., 1997; Murphy, Trailer and Hill, 1996; Roth, 2009), while a high level of real or perceived corruption impedes trust in the government, placing the social contract at risk (OECD, 2011).

The “Vertical Accountability” dimension of Public Administration Performance Index (PAPI) 2013 measures citizen’s satisfaction on aspects related to “interactions with local authorities” and the coverage and effectiveness of Community Investment Supervision Boards (CISBs) and People’s Inspection Boards (PIBs). CISBs and PIBs render local governments and public officials



accountable to citizens in terms of governance functions. These institutions are mandated to realise citizens' rights to "discuss" and "verify" public actions. Since 2011, there has been marginal improvement in this dimension, but with large variance across provinces. Good performance was observed in provinces in the Red River Delta, North Central and Southeast regions, while poor performance was found in the Northern and Central Highlands and Southwest regions. Greater citizen satisfaction with PIBs and CISBs has contributed to a modest increase in this dimension. The sub-dimension "interactions with local authorities" has, however, declined significantly in its national aggregate mean score by more than 5% compared to 2011, calling into question the effectiveness of regular and ad hoc citizen meetings commissioned by local governments from provincial to grassroots levels.

Land reform processes are a major factor in distrust of public institutions in Viet Nam. The process of de-collectivisation, which began with the 1988 Land Law, is considered a good example of land rights distribution reform (Ravallion and van de Walle, 2008). However, growing land needs for industrial and infrastructure development have led to land grabbing and unfair land sale practices. Subsequent land laws (1993, 2003) liberalised the trading of land-use rights. As a result, the number of displaced and evicted people has increased and discontent over poor or unfair compensation for land loss is on the rise (EIU, 2012). Profits from land sales also became a principal source of income for provincial governments, which also function as the legal authorities responsible for the transfer and use of land registration. Land expropriation is a major issue today in Viet Nam and protests over land seizures are becoming more frequent and violent (see Box 1.1). Exclusionary patterns of land ownership clearly make the task of achieving social cohesion more difficult (OECD, 2011). Efforts are being made to improve transparency in land-use plans and prices, and though only 20% of respondents nationwide reported being aware of commune land plans, year-on-year transparency in land-use planning and pricing has slowly improved since 2011 (UNDP, 2014).

Women make up the majority of the agricultural labour force and suffer disproportionately from land reforms. At present, 58% of the female labour force is employed in agriculture, as compared to 51% of the male labour force (ILO, 2012). Having limited knowledge about land rights, women assumed that men as titleholders were entitled to all land rights (World Bank, 2002). In 2001, a new decree enforced joint titling if the land was jointly owned – registering both male and female names on the certificate (LUCs). However, the decree was not well enforced by local authorities due to lack of administrative capacity to ensure full compliance across provinces (Menon, Rodgers and Kennedy, 2013) (see Box 1.1).

### Box 1.1. Land expropriation and social unrest

Land is a major asset for most people in developing countries, and agriculture is often their main source of income. About 80% of Vietnamese live in rural areas and 70% of all households earn their livelihood from agricultural production. Women make up 53% of the farming population (FAO, n.d.). Land rights are therefore an important issue in Viet Nam.

From the mid-1950s to the mid-1960s farming was collectivised to prevent the reappearance of rural inequalities and class division, which had plagued Viet Nam since colonisation. Efforts were made to redistribute land from large land-owners and colonials to tenants. In the north, 90% of farms operated as co-operatives. In the south, cultivators were given the rights to ownership through land titling, within strict limits on the size of landholdings. After the war in 1975, land in the south began to be collectivised. Under the collective system, households were paid a share of output based on the hours laboured on the communal land. The co-operatives and collectives proved inefficient due to pervasive incentive problems and rural people began to oppose the collective system (Ravallion and van de Walle, 2008).

In 1981, the first policy change allowed farmers to keep the surplus they produced over a contracted output. But because of constant renegotiations of quotas this policy was abandoned, resulting in a loss of confidence in public institutions (Do and Iyer, 2003). In 1988, with the adoption of Resolution 10, agricultural land was de-collectivised and farmers in co-operatives and collectives were given land-use rights for a period of up to 15 years. But land was to remain the property of the State and no transaction on land-use rights was allowed. This de-collectivisation process granted considerable power to local authorities (communes and provinces), allowing certain individuals to develop social and economic status. This situation resulted in numerous disputes with about 200 000 complaints submitted in 1990 (Kolko, 1997).

In 1993, a new Land Law gave Land Use Certificates (LUCs) to land users, which increased the lease term and allowed transactions of land-use rights. Land users first had to apply at the commune level through local authorities and prove that they owned the plots of land and that no other claims or disputes existed. The process is complex and several problems – including delays in setting clear guidelines for issuing LUCs, high land-use tax rates, inaccurate records on prior landholdings, large numbers of disputes requiring resolution, and lack of awareness among farm households and local authorities (especially in remote areas) about the importance of formal land-use rights (Menon, Rodgers and Kennedy, 2013) – have hindered the issuing of LUCs. Land-use rights have been unevenly implemented and there have been an increasing number of protests in recent years over land expropriation.

### Box 1.1. Land expropriation and social unrest (*cont.*)

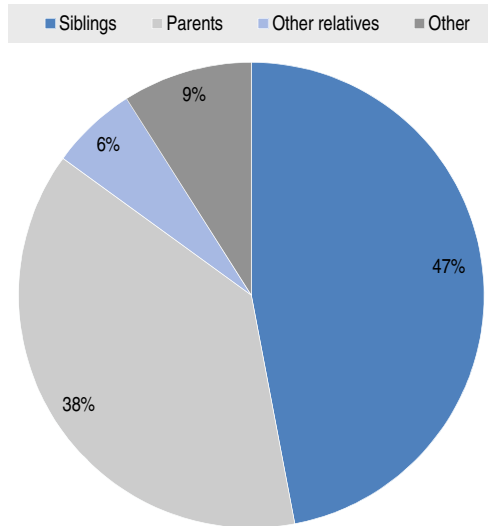
Provinces were made legally responsible for transfers and land transactions subsequently became the principal source of income for provincial governments (Albrecht, Hocquart and Papin, 2010). Real estate investors and well-off households profited from speculation on land transactions and urban development projects, while farmers and the poor benefited little. Housing and land expropriations have become a major issue and remain highly controversial. Infrastructure and factories are being constructed to attract more investors, causing a rise in the number of displaced tenants. By 2011, there were already 700 000 formal complaints, according to National Assembly data, mostly over compensation issues, and it is expected that a large number of lease agreements will soon expire creating uncertainty for millions of tenants. A new law took effect on 1 July 2014, which prohibits the government from reclaiming land for “economic development”. Large parcels will be appropriated for economic projects that “benefit the public and the nation”. But there is debate over whether this law will prove beneficial to farmers.

Real or perceived corruption is an obstacle to trust in the government, however there are signs of improvement. Corruption is considered a major threat to the legitimacy of the Party (NORAD, 2011). According to the Corruption Perception Index (Transparency International, 2013), Viet Nam ranks 116 out of 177 countries, behind Mongolia, Malaysia, Philippines, Thailand and Indonesia, and scores 31 on a scale from 0 (highly corrupt) to 100 (very clean). The government has been working to improve the country’s anti-corruption legal framework since 2005 (Freedom House, 2010) and the PAPI 2013 survey also shows that, compared to 2011, citizens perceive improvements in the fight against in most provinces.

### Social networks

The family in Viet Nam plays a critical role in survival and remains the main source of social network support. Social network support is understood as the capacity of individuals to count on relatives or friends for help when in need. Family ties and traditional authority patterns are strongly embedded in social networks (Dalton et al., 2002). In Viet Nam the family is the basic institution and often includes members of the extended family. There is a strong sense of collective responsibility and mutual obligation and family ties remain the principal source of security and support in times of crisis (Figure 1.18).

Figure 1.18. Social network support and the role of family



Note: Responses to the survey question: "Who would help you in case of problems?"

Source: Gallup World Poll 2010.

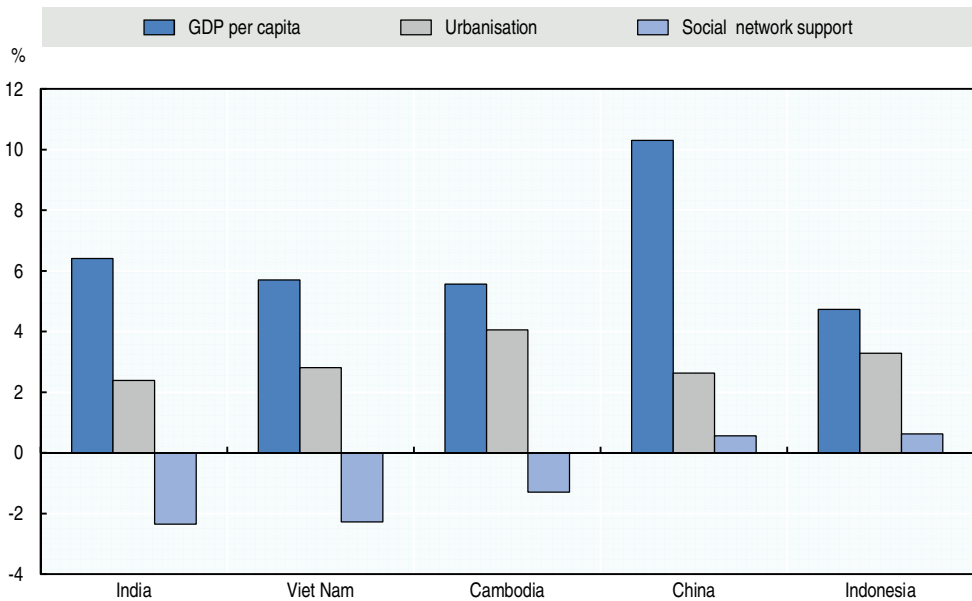
Family support is particularly important for poorer households and vulnerable groups, while better-off people can rely on support from better-connected acquaintances who hold important positions. A study on mothers of young children in Viet Nam (Young Lives 2002) found that poor households rely more on informal networks, such as family, friends and neighbours, than on formal networks. Risk sharing is prevalent especially in the aftermath of natural disasters, as witnessed when the 2005 typhoons struck the poorer Northern provinces. Informal social networks can act as a buffer in times of crisis, but can leave those who depend on them extremely vulnerable in the event that the relationship breaks down or the family are no longer able to provide support. Results from the PAPI 2012 survey also confirm that better-off people have broader and better-quality social networks on which they can rely. Being a government official or a member of the Party presents definite advantages in obtaining necessary help to solve personal problems. Poor people or those who live in rural areas experience greater difficulties in accessing help through such connections. Personal connections also have an influence on obtaining a particular job, particularly in the public sector. According to the PAPI survey,

the majority Kinh group and relatives of government officials have a better chance of obtaining public positions (e.g. land registrar, commune justice officer, teacher, policemen and public functions in the commune People's Committee).

Access to credit and business activities is closely dependent on informal networks. Informal networks help to ease financial constraints. In Viet Nam, the higher the number of high-ranked social contacts, the easier it is to borrow or obtain credit. Well-connected households have a greater chance of accessing relevant information on loans and obtaining a guarantor (Dinh Quoc, Dufhues and Buchenrieder, 2012). Kinship and family ties also play an important role in fostering business activities. Some research shows that young entrepreneurs in Hanoi rely mostly on informal social networks, such as family and friends, to get financial help to set up or expand a business, because bank loans and other forms of formal credit are difficult to obtain for smaller businesses (Turner and Nguyen, 2005). In such cases, however, kinship ties may oblige entrepreneurs to employ unskilled family members. Mutual trust is established by kinship, which also underpins relationships based on paternalism. These can facilitate labour management, but do not guarantee the skills or productivity required for the job. In the absence of formal institutions, informal institutions are considered an important mechanism of risk management. In the long term, as businesses grow and attract new investments, formal institutions will need to be strengthened to increase confidence in court systems and legal arrangements.

Industrialisation and urbanisation are adversely affecting social network support. The structural shift from a closed to an open-market economy, and from a traditional to a modern society, are impacting the ways in which individuals connect to and benefit from social networks. Rural and urban areas are also evolving in different ways. Evidence from the Gallup World Poll shows that expanding urban populations and economic growth in Viet Nam was accompanied by a concomitant decline in social network support. Between 2006 and 2012, the share of Vietnamese citizens who reported being able to count on a family member or close friend for help decreased from 89% to 75%. As shown in Figure 1.19, this fall in support was one of the highest among the selected Asian countries for which data are available, and is associated with high GDP and urbanisation growth. However, other countries with higher GDP growth (such as China) or a rising urban population (such as Cambodia) did not show a substantial loss in this form of social capital.

Figure 1.19. Changes in social network support, urbanisation and growth performance, 2006-12



Note: Social network support is measured by the percentage of respondents who answered positively to the question: “If you were in trouble, do you have relatives or friends you can count on to help you whenever you need them, or not”? Social network support data are for 2011 for Bolivia, Brazil, Cambodia, Colombia and Malaysia.

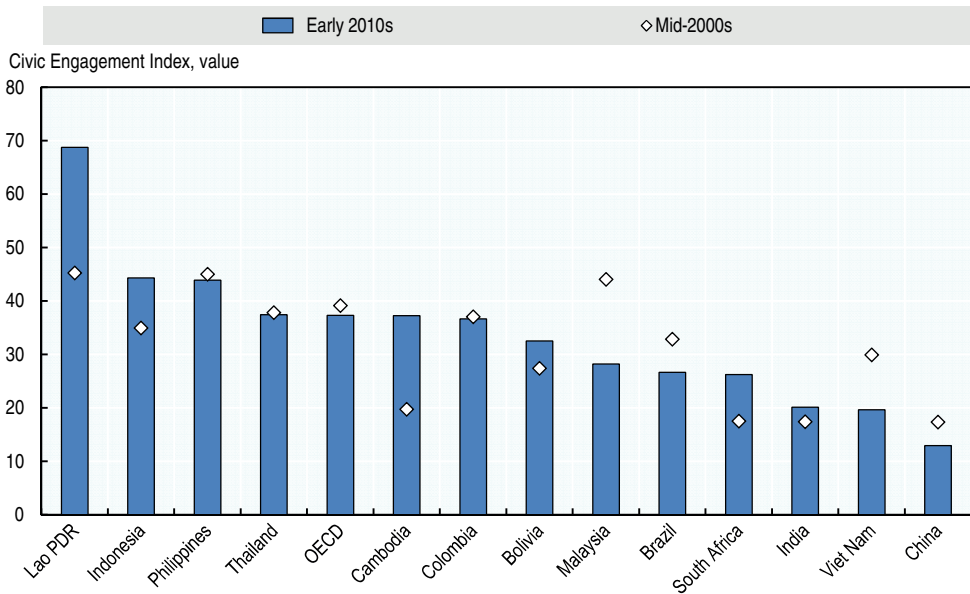
Sources: Gallup World Poll, wave 1-6; World Development Indicators; Social network support: 2006-12 (earliest and latest waves); GDP per capita growth rates: 2006-11; urban population rates: 2006-10.

### Civic engagement

Non-governmental organisations have flourished but civic engagement occurs mainly through State-subsidised organisations. Measurements of civic engagement show a decline in citizen’s involvement in community life. The *Doi Moi* reforms moved Viet Nam towards a socialist-oriented market economy, combining government-led development with an important role for the private sector. Modernisation also saw the emergence of new forms of social relations through professional networks and social groups. Civic engagement can be measured by the level of citizen involvement in organised and established groups, such as professional organisations, political parties, civic associations,

churches and unions. The number of local associations established in Viet Nam grew exponentially over the last ten years, from about 1 500 to nearly 15 000. However, according to the Civic Engagement Index, produced by the Ministry of Home Affairs, citizen involvement in the community is decreasing (Figure 1.20). For the moment, the concept of civic participation in Viet Nam is dominated by five organisations who maintain large memberships: the Women’s Union (12 million), the Farmers’ Association (8 million), the General Federation of Trade Unions (4.2 million), the Youth Union (5.1 million) and the Veterans’ Association (1.92 million) (Asia Foundation, 2010). These organisations operate through extensive bureaucratic structures at central, provincial, district and local levels, and depend heavily on central government subsidies.

Figure 1.20. Trends in civic engagement, 2000-10

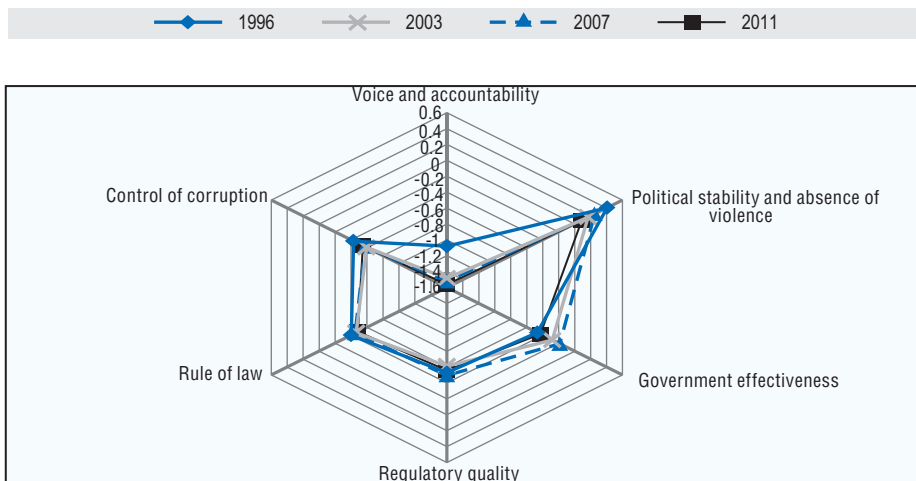


Note: The Civic Engagement Index is designed to measure a respondent’s commitment to the community where he or she lives. Index scores are compiled at the individual level from positive answers to the following questions: “Have you done any of the following in the past month? *i*) Donated money to a charity? *ii*) Volunteered your time to an organisation? *iii*) Helped a stranger or someone you didn’t know who needed help?” The final country-level index score is the mean of all individual records for which an index score was calculated.

Source: Gallup World Poll, wave 1-6.

The increase in number of local associations has not helped improve accountability or trust in institutions. Studies show that communities characterised by high levels of civic engagement tend to host less corrupt public institutions (Putnam, 2000). However, the impact of local associations on governance and improving trust in government remains to be assessed, and accountability and trust in institutions remain a challenge. Viet Nam performs poorly on the voice and accountability sub-index of the World Governance Index, which captures perceptions of the extent of citizen participation in selecting a government, freedom of expression, freedom of association and a free media (Figure 1.21).

Figure 1.21. World Governance Index



Source: World Governance Indicators, World Bank, 2011.

Knowledge about civic rights is low, especially among women and ethnic groups, and participation of the poor in social and political activities is limited. Information from PAPI survey data (Box 1.2) indicate an overall low level of knowledge and awareness of basic and universal grassroots democracy rights granted by the State, and in particular of the Grassroots Democracy Ordinance (GRDO), the official document that grants these rights. In 2013 only 27% of individuals were aware of GRDO, representing a 20% decline from 2011, an election year. Men and the Kinh majority exhibited greater awareness than women and ethnic minority groups (UNDP, 2014). Research shows that the poor rarely participate in social activities due to lack of time and resources. However, when they do participate, they are more reluctant to express themselves in front of “more articulate and politically adept groups that are in frequent contact with the local power system” (Hoang, Castella and Novosad, 2006).



### Box 1.2. The Provincial Governance and Public Administration Performance Index

The Viet Nam Provincial Governance and Public Administration Performance Index (PAPI) surveys citizens on their perceptions of local government. It captures six dimensions: Participation at Local Levels; Transparency; Vertical Accountability; Control of Corruption; Administrative Procedure; and Public Service Delivery.

The first PAPI survey was piloted in three provinces in 2009 and was subsequently expanded to 30 provinces in 2010. These first two iterations allowed questions to be adjusted to better capture the experiences of citizens. In 2011, PAPI was conducted for the first time across all 63 provinces in Viet Nam, and was repeated in 2012 and 2013 to allow performance to be tracked over time. In the past five years, PAPI has collected the experiences of nearly 50 000 citizens.

PAPI assesses three mutually reinforcing processes: policy making, policy implementation and monitoring of public service delivery. The dimensions are specifically tailored to Viet Nam's national and local level contexts. The philosophy underlying the monitoring approach is that citizens are "end-users of public administrative services" capable of assessing governance and public administration in their localities.

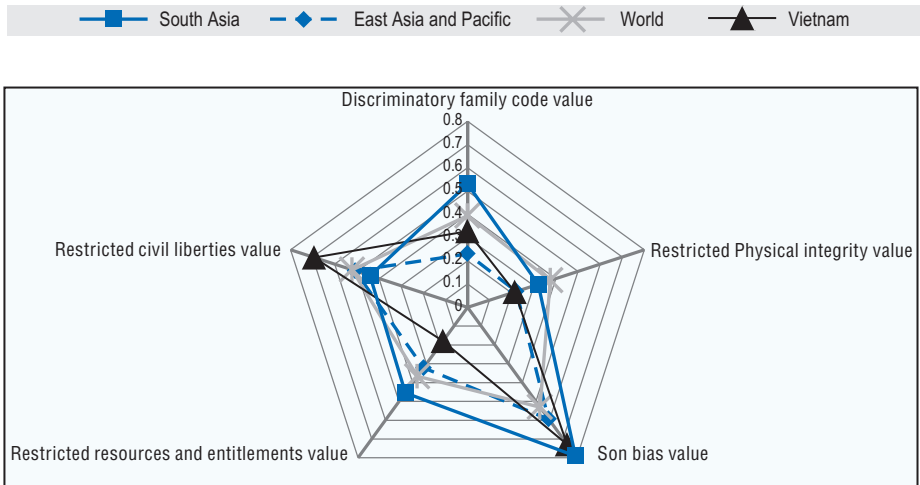
For more information, see: [www.papi.vn](http://www.papi.vn).

## Social norms

Social norms in Viet Nam are largely influenced by the interchange between three leading religions in East Asia: Taoism, Buddhism and Confucianism. These norms not only substitute for the law in many aspects of life, but also contribute heavily to the conception of the law. Sociological studies show that the social norms governing Vietnamese society are drawn largely from Vietnamese agricultural life, and continue to be reflected in people's beliefs. The cult of ancestors has been preserved by generations of Vietnamese and takes precedence over formal laws in the private sphere.

A number of formal and informal social norms appear to have an adverse impact on gender equity. Viet Nam is ranked 43 out of 86 in the 2012 Social Institutions and Gender Index (SIGI), which captures the effect of discriminatory social norms and institutions on gender inequality (Box 1.3). The SIGI measures five sub-indices: Discriminatory Family Code, Restricted Physical Integrity, Son Bias, Restricted Resources and Entitlements, and Restricted Civil Liberties. In Viet Nam, restricted civil liberties for women and strong son bias remain a concern (Figure 1.22).

Figure 1.22. The Social Institutions and Gender Index, Viet Nam, 2012



Source: SIGI, 2012.

### Box 1.3. The Social Institutions and Gender Index (SIGI)

The Social Institutions and Gender Index (SIGI) was first launched by the OECD Development Centre in 2009 as an innovative approach to measuring the underlying drivers of gender inequality for over 100 countries. Instead of measuring gender gaps in outcomes such as employment and education, the SIGI captures discriminatory social institutions, such as early marriage, discriminatory inheritance practices, violence against women, son preference, restricted access to public space, and restricted access to land and credit. The 2012 SIGI comprises 14 unique variables, grouped into five sub-indices: Discriminatory Family Code, Restricted Physical Integrity, Son Bias, Restricted Resources and Entitlements, and Restricted Civil Liberties.

For more information, see: [www.genderindex.org](http://www.genderindex.org).

Women’s ability to voice their concerns in public life is limited. While women and men appear to have the same rights to vote and stand for election in Viet Nam, female representation at national and local levels of government is much lower than male. Government initiatives such as Decision 41-HDBT (1985) to establish a national committee on women’s decade, Decision 72-TTg (1993) to establish a national committee for the advancement of women, the law on gender equality (2006), and the department of gender equality within MOLISA,

show efforts in the right direction to promote gender equality, ensure leading roles for women in public life and advocate on women's rights. A number of NGOs also work in the area of women's rights, but tend to operate under considerable restrictions, which limit their capacity to influence public policy and speak out against rights abuses.

Traditions may also impact negatively women as regards inheritance. If a head of household dies without a will, the law requires an equal distribution of property among the next of kin. In practice, the general custom is for the eldest son to inherit the parental home and the largest portion of the family property, particularly land. Younger sons will often inherit some land or other assets of value, while daughters receive only small symbolic items (CEDAW, 2005). Among some ethnic minority groups, particularly those that are patrilineal, traditions persist whereby women either do not inherit or inherit smaller shares than male siblings, while widows are excluded from inheriting the land of their deceased husband in favour of his parents, sons or other male relatives (UNDP, 2014).

While a legal framework exists to guarantee equal ownership rights, including access to land, women still remain at risk. Women and men in Viet Nam have equal ownership rights, including access to land. The 2003 Land Law grants individuals long-term leaseholds through land-use right certificates (LUCs) and *de jure* provision for joint titling of certificates. However, the law is not retrospective and applies only to certificates issued after 2003 (UNDP, 2010), a fact that has hampered implementation of this guarantee. Moreover, there is some evidence that the process of converting pre-2003 land titles is cumbersome, effectively dissuading people from registering joint certificates (World Bank, 2008). Since the law was amended, 90% of newly issued land-use right certificates carry the name of both husband and wife. However, data from the VHLSS 2004 reveal that, for agricultural land, only 15% of the total number of households with land-use certificates held them jointly, while 66% were held by men and only 19% by women alone (UNDP, 2010). Additionally, a 2009 study found that female-headed households in Viet Nam had much lower access to assets (UN Women and OHCHR, 2013).

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## Chapter 2

# Improving social cohesion through employment-friendly policies

The aim of this chapter is to review the role of selected public policies in promoting employment across different groups in society. Specifically, the chapter starts by investigating the extent to which growth policies have been able to generate employment growth and contribute to employment transformation. It then examines whether and how other policies, namely education and skills policies and minimum wage policy, have impacted on the quantity or quality of employment, contributed to adjusting the workforce to a changing economy, and helped make work pay decent wages.

Long-term employment creation which provides an adequate income, access to contributory social protection schemes, a safe working environment and opportunities for life-long learning, lies at the forefront of Vietnamese economic and social development. Decent job creation helps to ensure crucial dimensions of well-being at work. It also contributes to productive processes and creates a sense of belonging that helps preserve social stability and promote social inclusion.

Viet Nam has experienced sustained economic growth over the past decade driven predominantly by productivity increases resulting from a shift away from agriculture towards higher productivity non-farm jobs combined with increased productivity within sectors. Capital-intensive investments have also become an important source of growth in recent years, reflecting investment on the part of state-owned and foreign-invested enterprises (Abbott, Tarp and Wu, 2014). However, employment growth has lagged behind output expansion, and the current supply of skills is struggling to meet demand from emerging jobs, resulting in skills gaps and shortages (World Bank, 2013).

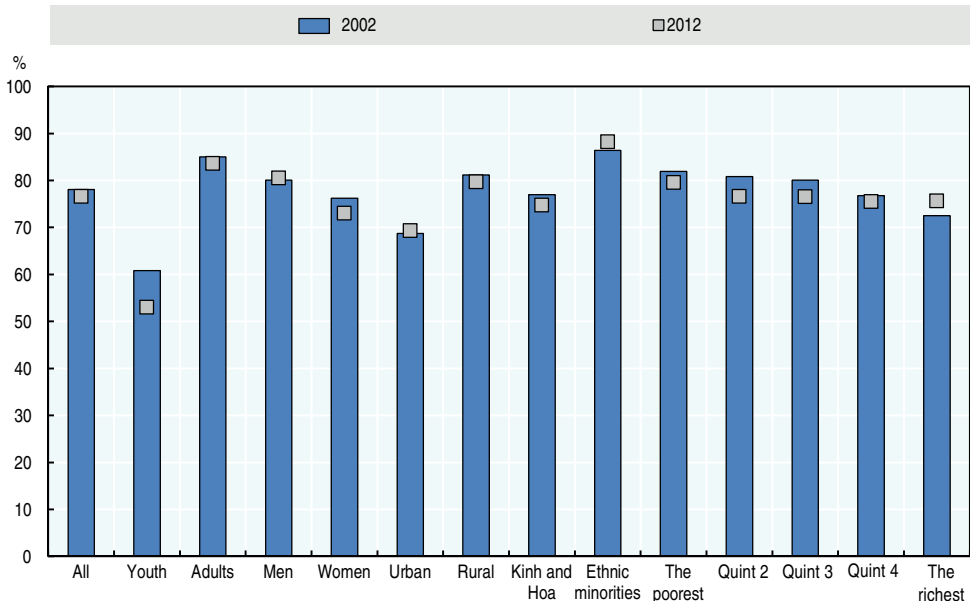
These gaps are a matter of concern for policy makers. Labour productivity growth is widely considered a key element in the structural transformation of emerging countries, especially when driven by technological innovation, and one that is essential for increased earnings, competitiveness and long-run growth. However, increased labour productivity can also equate to fewer jobs and new skills needs, and does not automatically translate into greater earnings. Employment growth may be further aggravated when the development process becomes excessively capital intensive. Furthermore, risks to social cohesion and progress can arise in the absence of employment-friendly policies designed to improve the quantity and quality of jobs, to facilitate matching between labour supply and demand and make work pay decent wages.

### A. Growth and patterns of employment creation

Low employment intensity of growth indicates limited benefits to employment from output expansion. The evidence presented in Chapter 1 indicates that employment growth in Viet Nam has lagged behind economic growth. Over the period 2002-12, on average, a 1% growth in GDP translated into total employment growth of 0.16%. In other words, one-fifth of total GDP growth (16%) was due to growth in total employment while four-fifths (84%) was attributable to productivity gains.

Overall employment remained fairly stable, albeit at a high level. Employment remained fairly stable over this period despite fast economic growth. The level of employment nonetheless remained high in Viet Nam, in part because employment growth was twice as high as the population growth rate (GSO, 2014). Figure 2.1 shows the level of employment among the overall working-age population and among different subgroups for 2002 and 2012.

Figure 2.1. Employment-to-population ratios, 2002 and 2012



Note: Individuals aged 15 and above.

Source: Authors' calculations based on VHLSS, 2002 and 2012.

Employment growth was disappointing; however unemployment and underemployment remained remarkably low. Data for 2009 and 2012, based on Labour Force Survey reports, show rather large labour force participation rates, while unemployment and time-related underemployment remain limited. However, unemployment was disproportionately high among youth, who accounted for less than one-quarter of the working-age population but almost half the total of unemployed workers (GSO, 2013a). Table 2.1 presents some of the main labour market indicators, including labour force participation, unemployment and time-related underemployment.<sup>1</sup>

Table 2.1. Selected labour market indicators

%	Labour force participation rate		Unemployment rate <sup>a</sup>		Time-related underemployment rate <sup>a</sup>	
	2009	2012	2009	2012	2009	2012
<b>All</b>	76.5	76.8	2.8	2.0	5.4	2.7
<b>Youth (age 15-24)</b>	60.5	52.9	6.2	5.5	-	-
<b>Men</b>	81.0	81.2	2.7	1.7	5.7	2.9
<b>Women</b>	72.3	72.5	2.9	2.3	5.1	2.5
<b>Urban</b>	70.6	70.0	4.6	3.2	3.2	1.6
<b>Rural</b>	79.1	80.1	2.1	1.4	6.3	3.3

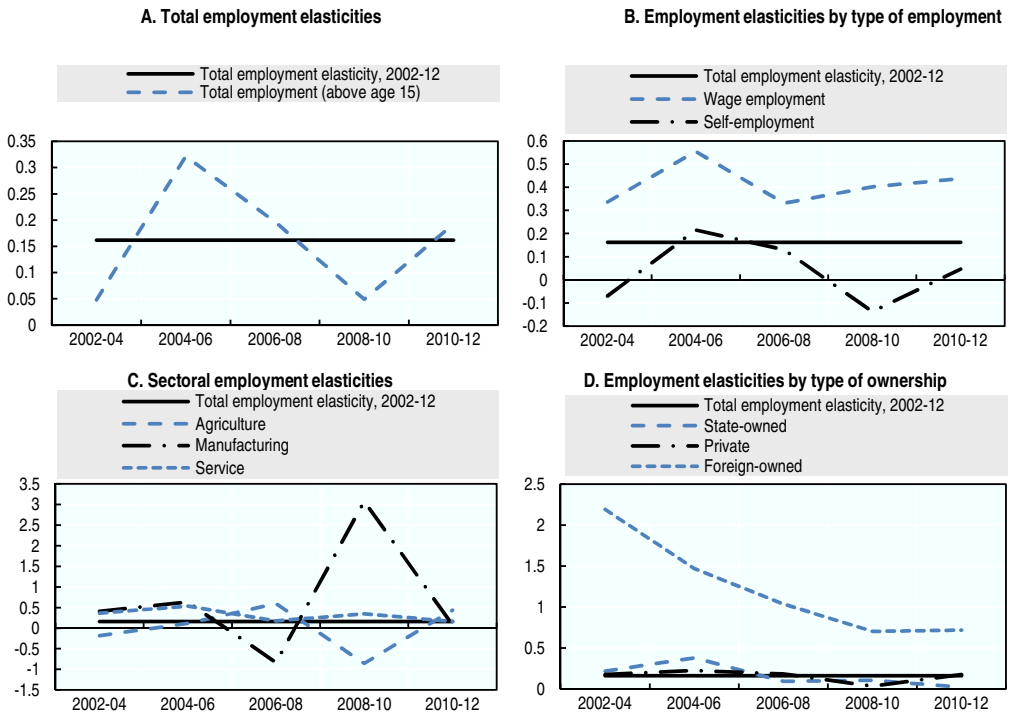
Notes: Individuals aged 15 and above.

a) Statutory working age population (men aged 15-59 and women aged 15-54).

Sources: GSO, 2013a, 2010.

Average employment elasticities hide large disparities in the employment intensity of growth according to type of employment, industry and business ownership. Wage and manufacturing employment were also more responsive to GDP growth. However, the structural transformation of Viet Nam’s economy is visible in the employment elasticity for different categories of employment. Over the period 2002-12, employment intensities of growth for waged jobs were respectively about two to ten times as high as total employment elasticity and elasticity of self-employment (Figure 2.2b). This confirms that wage employment creation was more responsive to output expansion than self-employment. Over the same period, sectorial employment elasticities of growth were positive for all three sectors, with the GDP elasticity of the manufacturing sector exceeding other sectors and the elasticity of the agriculture sector close to zero (Figure 2.2c). This reflects Viet Nam’s gradual move towards a manufacturing powerhouse, albeit not at the expense of jobs in the agricultural sector. The overall trend differs from the previous decade, as most new jobs in the 1990s were created by the service sector (Jenkins, 2004). Finally, analysis of employment elasticity by business ownership shows positive employment growth elasticities for all types of businesses, with growth especially high among foreign-owned industrial firms (Figure 2.2d).

Figure 2.2. Biannual employment elasticity

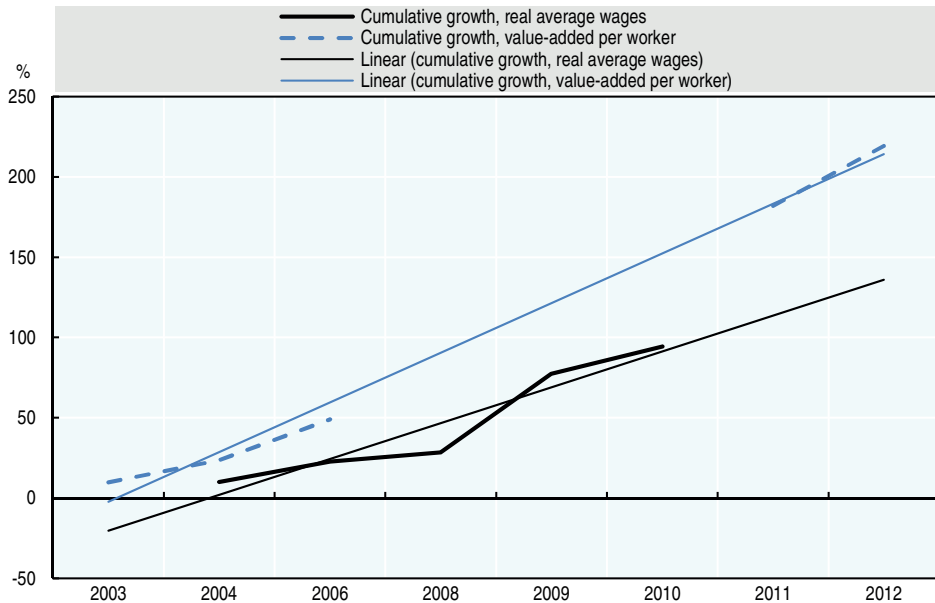


Source: Authors' calculations based on VHLSS.

Employment creation has remained low compared to GDP growth, but labour productivity has increased significantly combined with real wage growth. Average labour productivity increases were substantial and labour productivity growth was associated with a growth in real wages, indicating that productivity gains were transmitted at least in part to workers. Figure 2.3 presents the cumulative growth of real average wages and value added per worker for the period 2002-12.

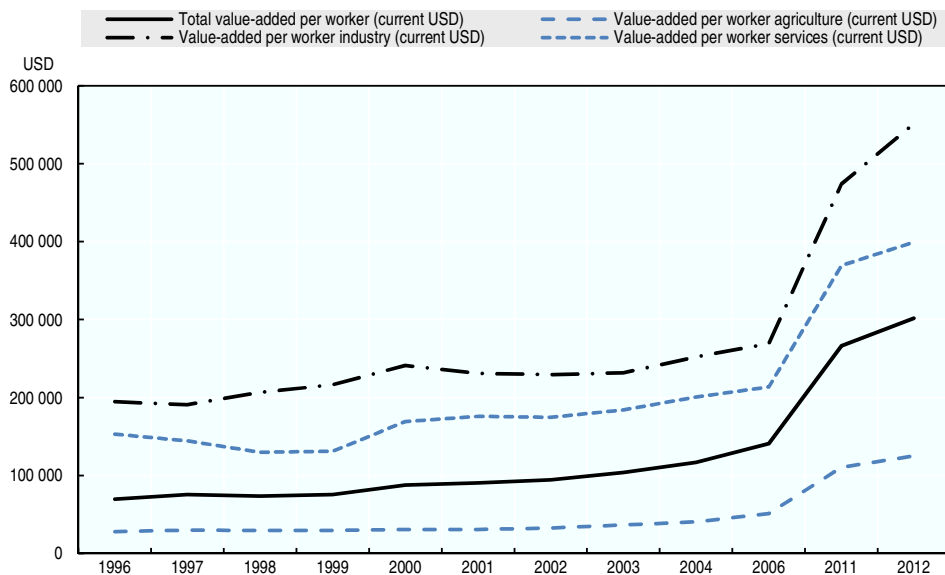
Labour productivity varied significantly across sectors. Labour productivity in agriculture was relatively low compared to industry and services. Trends in value-added per worker show that labour productivity increased for all sectors (Figure 2.4). Increases were highest in industry and services but were much lower for agriculture.

Figure 2.3. Cumulative growth of real average wages and value-added per worker (base year = 2002)



Sources: WDI and ILO KILM databases.

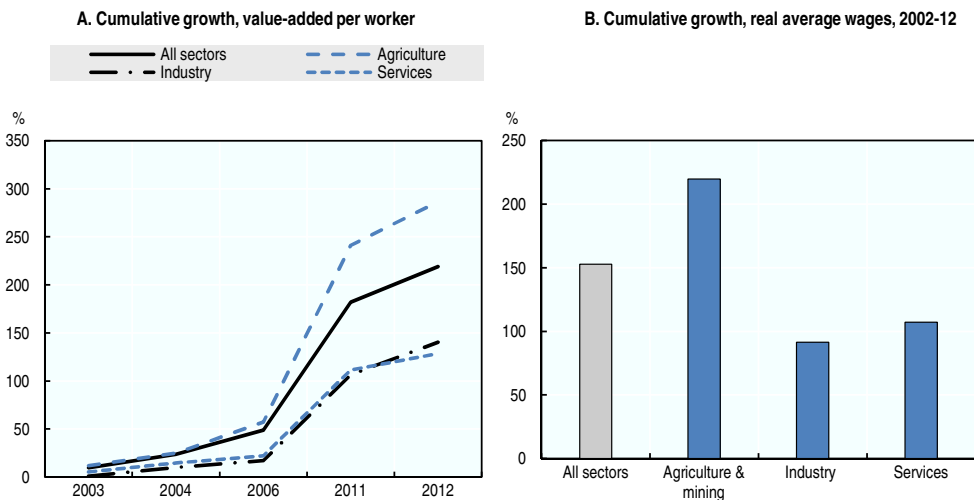
Figure 2.4. Value-added per worker by economic activity



Sources: WDI and ILO KILM databases.

Labour productivity gains were associated with wage increases in all sectors, but were particularly significant for agriculture. Although labour productivity in Viet Nam is much lower in agriculture than industry and services, labour productivity growth has remained high (Figure 2.5). The large increase in labour productivity in agriculture is also associated with a sizeable increase in wages.

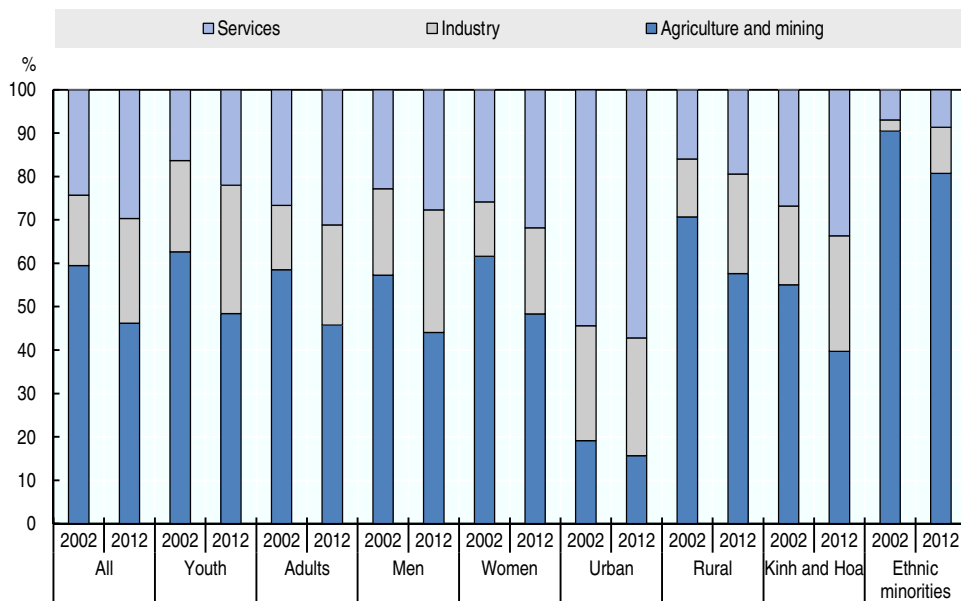
Figure 2.5. Cumulative growth of value-added per worker and real average annual wages by economic sector (base year = 2002)



Sources: WDI and ILO KILM databases (value-added per worker) and VHLSS (wages).

Overall employment remained stable, however the structural transformation led to noticeable changes in labour sectorial allocation with a shift away from agriculture. Industry, and to a lesser extent services, expanded at the expense of agriculture and mining, which saw a reduction in the share of total employment of 13%. The reallocation of labour from agriculture to services and industry was observed across all workers, although at a different pace, and was more acute among rural dwellers and Kin and Hoa populations (Figure 2.6). The transition from agriculture and mining to industry and services was also more pronounced for households in the middle of the income distribution compared to poorer and richer households (Figure 2.7).

Figure 2.6. Distribution of workers by economic activity, 2002 and 2012



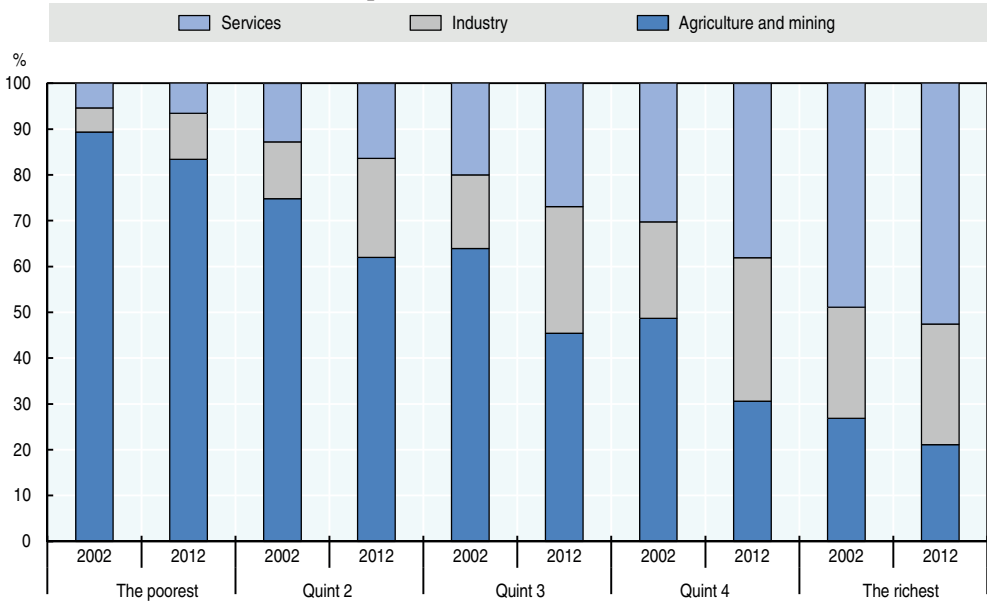
Note: Individuals aged 15 and above. Economic activities are aggregated based on the ISIC classifications: agriculture and mining (categories A and B), industry (categories C, D, E and F) and services (categories G to U).

Source: Authors' calculations based on VHLSS, 2012 and 2002.

Rural residents, ethnic minorities and poorer households remained disproportionately concentrated in primary production activities. Employment in the agriculture and mining sectors decreased overall to 46.2% in 2012. However, agriculture and mining still accounted for 80.7% of employment among ethnic minorities and 57.7% among rural dwellers (Figure 2.6), and 83.4% among the bottom quintile (Figure 2.7).



Figure 2.7. Distribution of workers by economic activity and household income quintile, 2002 and 2012

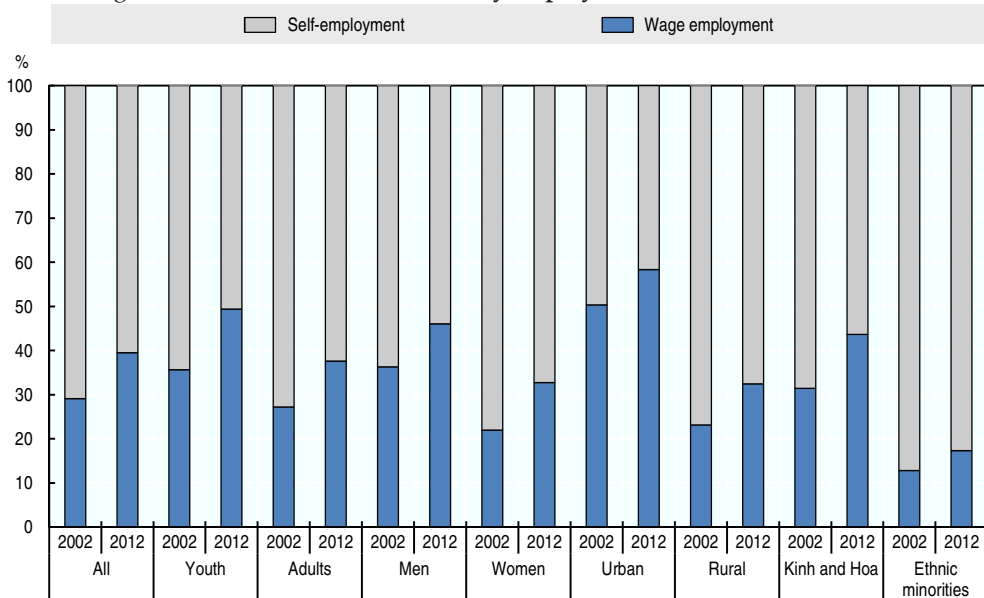


Note: Individuals aged 15 and above. Economic activities are aggregated based on the ISIC classifications: agriculture and mining (categories A and B), industry (categories C, D, E and F) and services (categories G to U).

Source: Authors' calculations based on VHLSS, 2012 and 2002.

Self-employment is the dominant form of employment across all groups. Steady rates of economic growth were associated with a decline in self-employment and an increase in wage employment. The distribution of workers by employment status is reported respectively across different categories of workers in Figure 2.8 and across income quintiles in Figure 2.9. In 2012, the large majority of workers (60.5%) were self-employed. However, between 2002 and 2012, the overall proportion of wage-employed workers increased from 29% to 39% and that of self-employed workers decreased from 71% to 60% (Figure 2.8). The persistently high rate of self-employment suggests a complex and dynamic picture with substantial heterogeneity among this category of workers. It comprises, for instance, relatively well-positioned workers, such as employers operating formal businesses, as well as workers with a high degree of vulnerability, for example, contributing family workers who belong to the informal economy, have no employment contract and do not enjoy legal or social protection. Certain forms of self-employment are expected to expand during upturns in the economy, such as employers operating small firms linked to domestic or global production systems.

Figure 2.8. Distribution of workers by employment status, 2002 and 2012



Note: Individuals aged 15 and above.

Source: Authors' calculations based on VHLSS, 2012 and 2002.

Figure 2.9. Distribution of workers by employment status and household income quintile, 2002 and 2012



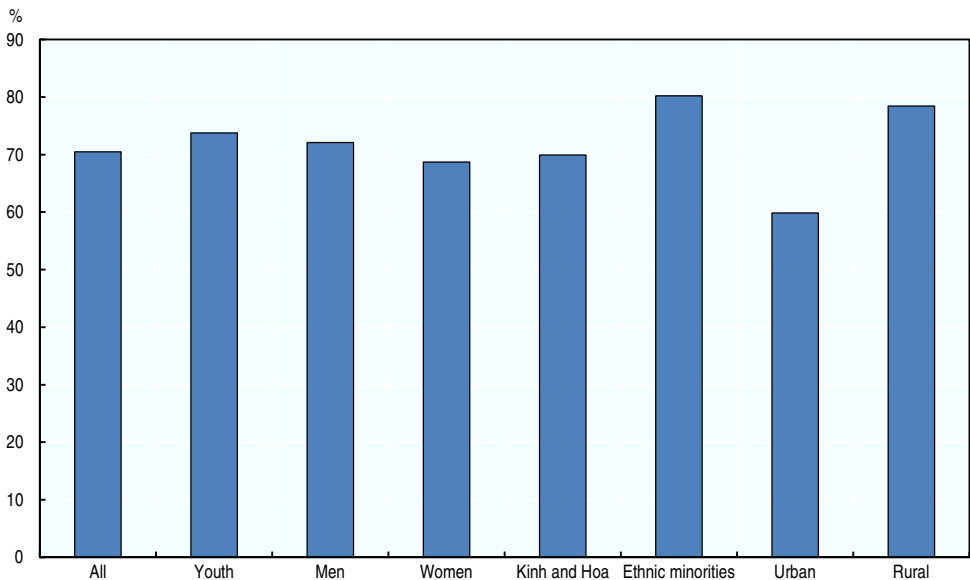
Note: Individuals aged 15 and above.

Source: Authors' calculations based on VHLSS, 2012 and 2002

Self-employment was especially pronounced among women, rural residents, ethnic minorities and households located below the median income. While self-employment is the dominant form of employment in Viet Nam, the 2012 incidence of wage jobs across groups (Figure 2.8) and income quintiles (Figure 2.9) shows that, compared to the national average, wage jobs were more prevalent among the richest households (54.0%), urban workers (58.3%), youth (49.4%), men (46.1%) and the Kinh and Hoa community (43.7%).

Contrary to traditional development models, rapid economic growth in Viet Nam has not diminished informal employment. Early theories of the informal economy held the view that informality was a temporary phenomenon that would dissipate as economies developed. Contrary to expectations, informal employment in Viet Nam persists, indicating a rather complex relationship between economic growth and informality. This is illustrated in Figure 2.10, which provide estimates of informal employment in 2012 for different groups of workers. The results show that the informal employment rate was very high in 2012, reaching almost two-thirds of total employment. Informality was also high among ethnic minorities, rural workers, youth and men.

Figure 2.10. Informal employment rate, 2012



Note: Individuals aged 15 and above.

Source: VHLSS data.

### B. Education policies and changing skills needs

Education is an important engine of growth in Viet Nam. It has contributed to progress in human development and supported structural transformation. Years of government investment in education have contributed to significant progress in achieving universal primary education and improving access to secondary education. Viet Nam also exhibits good gender and spatial education parity: almost half of students in both primary and secondary education are female, and no significant differences exist among regions or between urban and rural areas up to higher secondary education. Viet Nam was among the top performers in the Programme for International Students Assessment (PISA) for 2012 scoring higher than the OECD average (OECD, 2013a) (see Box 2.1).

Vietnamese education policies face new challenges. Rapid economic growth and structural transformation have created new educational challenges. At present, education and training systems do not adequately meet the needs for skilled labour (OECD, 2013a) and there are growing concerns about the capacity of education and skills policies to adjust to the fast-changing economy and to prepare the workforce for a modern economy. Issues of equity and quality also need attention.

Spending on education is relatively high compared to other LMICs in the region. The national education system in Viet Nam is largely public and spending on education amounted to 4.7% of GDP in 2012 (Figure 2.11). This high level is an outcome of a sustained policy of expanding primary and secondary school networks and hiring new teachers. The share of education in the national budget grew substantially from 7% in 1986 (World Bank, 2011) to 17.9% in 2012 (MoF, 2013). Viet Nam's spending per pupil in primary education in 2011 represented 27.6% of GDP per capita – the highest among East Asian countries (Figure 2.12) and higher than the OECD average of 23% (OECD, 2013c). The amount of extracurricular activities and high spending in private tutoring institutes is another rising problem in Viet Nam.

### Box 2.1. How competent are Vietnamese 15-year-olds?

The Programme for International Students Assessment (PISA) is a triennial international survey that evaluates education systems worldwide by testing the skills and knowledge of 15-year-old students. Coverage is very high: 510 000 students in 65 economies took part in 2012, representing about 28 million 15-year-olds at the global level. The test is designed to assess the extent to which students at the end of compulsory education are able to apply their knowledge to real-life problems and are equipped to participate fully in society.

Viet Nam was among the top performers in 2012. Average performance in reading among 15-year-olds was 508 points compared to the OECD average of 496 points. Girls performed better than boys with a statistically significant difference of 31 points (compared to the OECD average of 38 points). Average performance in mathematics was 511 points (compared to the OECD average of 494 points). Boys performed better than girls with a statistically significant difference of 10 points (compared to the OECD average of 11 points).

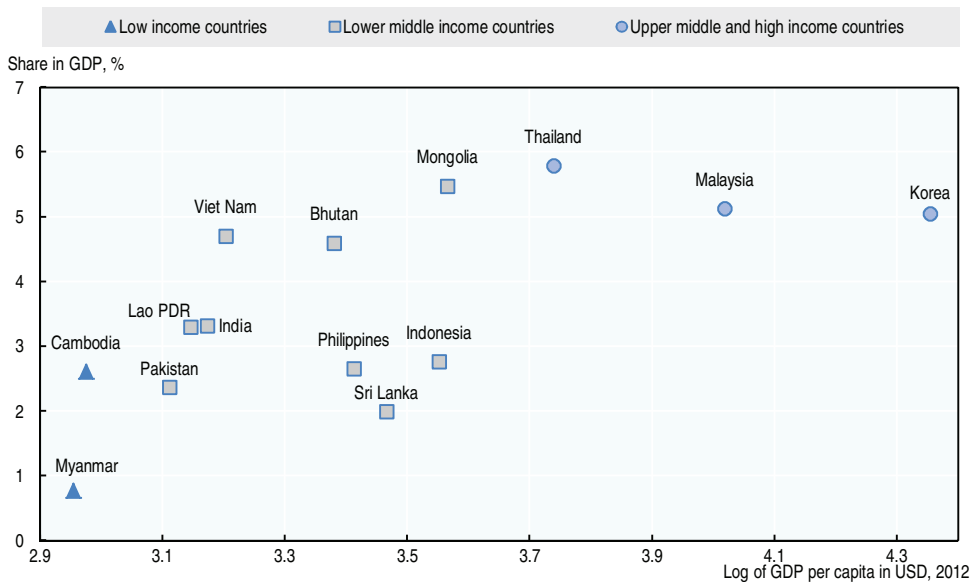
As expenditure per student by educational institutions increases, so does mean performance in PISA. Expenditure per student accounts for 30% of the variation in mean performance between countries (17% for the OECD sample). Furthermore, spending on education and GDP per capita are highly correlated. In Viet Nam, total expenditure per student by educational institutions aged 6-15 years-old amounts to less than USD 25 000 (PPP dollars). This is very low, especially compared to Austria, Denmark, Norway and Switzerland, where spending amounts to USD 100 000, and Luxembourg, where it reaches more than USD 190 000. Despite these differences the PISA results undermine the notion of a world neatly divided into highly developed, educated countries and emerging, low-educated countries. Instead, some emerging economies with low educational expenditure, including Viet Nam, are rapidly raising the level and quality of available education.

The socio-economic background of pupils is also an important determinant of educational outcomes. Analysis of performance in mathematics across OECD countries shows that more socio-economically advantaged students score 39 points (the equivalent of nearly one year of schooling) higher than less-advantaged ones. In Viet Nam and most other top-performing countries and economies, the difference is narrower, but still highly significant. Moreover, in Viet Nam, 13% or more of the overall student population is resilient, defying socio-economic odds to perform among the top 25% across all participating countries, taking into account socio-economic background. Interestingly, if all Vietnamese students benefited from average OECD socio-economic status, the country would improve its performance ranking significantly, climbing more than 10 positions.

Examination of the social inclusion indicator is also useful in this context. The indicator is computed as  $100 \cdot (1 - \rho)$ , where  $\rho$  is the intra-class correlation of socio-economic status (the between-school variance in the PISA index of social, economic and cultural status of students, divided by the sum of the between-school variance in students' socio-economic status and the within-school variance in students' socio-economic status). A high indicator value implies better social inclusion. The social inclusion index value for Viet Nam is 58.3 against the OECD average of 75.6. Only three other countries performed worse than Viet Nam: Mexico (56.5), Peru (54.2) and Chile (47.2).

Source: OECD, 2013a.

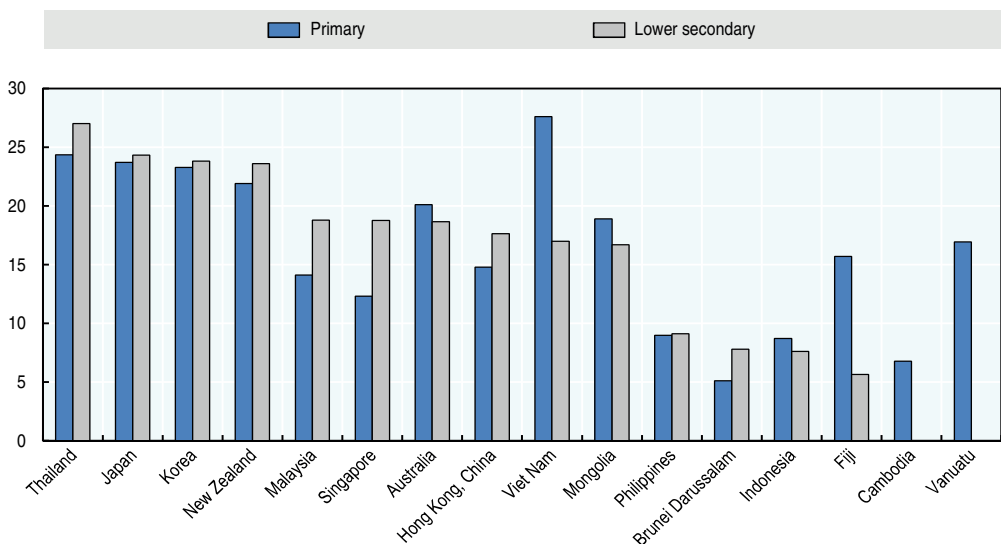
Figure 2.11. Government spending on education and training, in percentage of GDP, 2009-12



Note: Government spending on education and training not including spending from independent public agencies.

Sources: World Bank open data, 2013; MoF for Viet Nam.

Figure 2.12. Education expenditure per student in primary and lower secondary education, in percentage of GDP, Viet Nam and East Asian countries



Source: World Bank open data, 2013.

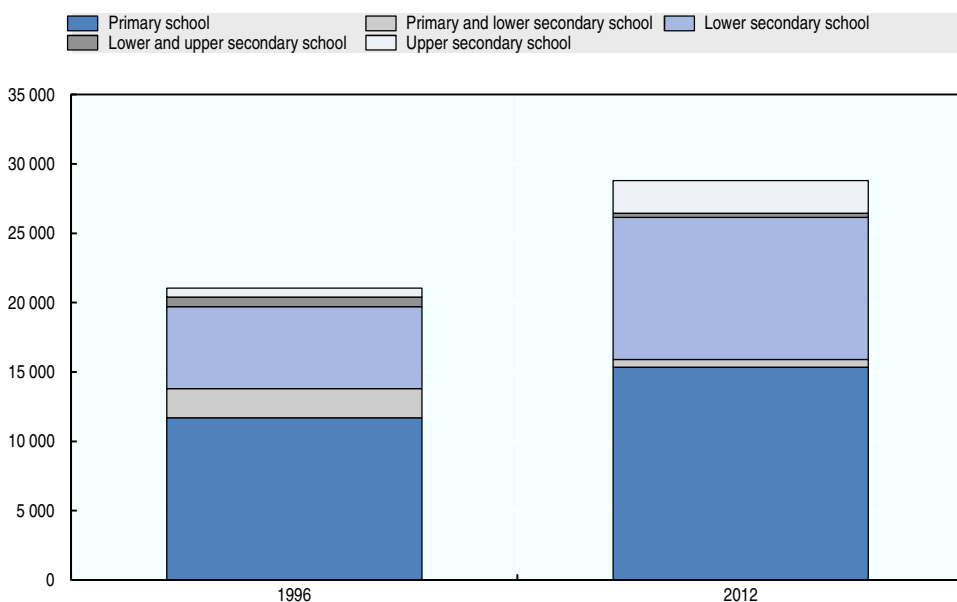
Investment in education to eradicate illiteracy and achieve universal primary education has paid off, but enrolment rates for non-mandatory levels and attainment rates for all levels remain low. In 2011, the literacy rate for individuals aged 15 and above was 93% according to VHLSS data. In 2012, the net enrolment rate was 92% for primary schools and 81% for lower secondary schools. However, the net enrolment rate was only 60% for upper secondary schools, which are non-compulsory. Meanwhile, the attainment rates for primary, lower secondary and upper secondary schools were 26%, 29% and 17%, respectively. A study on determinants of school dropouts concluded that the probability of dropping out is highly sensitive to changes in household per capita expenditure and the direct costs of schooling (Thanh and Long, 2005). Quality of education is also a serious issue that affects parental attitudes towards educational values. Cultural factors, such as early marriage or the lesser value accorded to female education in patriarchal cultures, are believed to explain lower rates of attendance among children of certain ethnic minority groups (World Bank, 2009).

Low teacher salaries result in low levels of motivation. According to the Viet Nam Institute of Educational Sciences (a research institute under the Ministry of Education and Training), the maximum teacher salaries are VND 3.5 million (USD 165) per month at primary to high school level and VND 5.1 million (USD 242) per month for lecturers at universities. As a comparison, a recent university graduate can expect to earn about VND 5.3 million (USD 250) per month in the private sector, while a supermarket cashier without qualifications can earn VND 3 million (USD 142) per month. In a 2012 survey, the Institute found that half of the 500 teachers surveyed intended to change career because of the low salaries. Teachers often organise private classes to improve their earnings; however, this practice leaves little time for training or professional development. Teachers may also accept “gifts” from parents to pay special attention to their children. This common custom further widens the inequalities between poor and wealthier children.

Efforts are being made to improve quality of education. The numbers of schools and teachers are being increased and quality-control mechanisms are being introduced. Between 1996 and 2012 the number of schools increased by 37% with the largest increase found in secondary schools (Figure 2.13). Over the same period, the pupil-teacher ratio declined significantly from 34.2 to 19.4 in primary schools, 27.9 to 15.8 in secondary schools and 25.9 to 18.3 in upper secondary schools. However, many schools still operate two to three shifts per day to accommodate all students. With less than 700 hours of mandatory class time per year, Viet Nam has one of the lowest primary school instructional

times in the world (World Bank, 2011). In 2003, the government introduced the Fundamental School Quality Level (FSQL), setting the minimum quality standard for all primary schools. However by 2007, only 30% of schools in Viet Nam had met those national standards (World Bank, 2011). In urban areas, many schools tended to have qualified teachers, satisfactory school management processes and good output indicators, but did not meet the minimum space requirements. In rural areas, many schools met the infrastructure and space requirements, but did not meet other standards. There is an apparent lack of quality control across all schools and an absence of national standards to ensure both quality of facilities and required professional competencies for effective teaching (ADB, 2009). Investment in resources is now increasing with a view to professionalising teaching and improving the quality of school facilities (UNESCO-IBE, 2011).

Figure 2.13. Number of primary and secondary schools, 1996 and 2012



Source: GSO, 2013.

Young people have a much higher level of education than older generations. An easy way to observe the dramatic change in levels of achievement in education is to compare the distribution of younger and older people by diploma. In 2012, young people between the age of 15 and 24 were much more educated than their elders and 80% had obtained some sort of diploma (Figure 2.14).



Figure 2.14. Distribution of level of achievement in education by age group, 2012



Source: Authors' calculations based on VHLSS, 2012.

Viet Nam enjoys a well-educated young work force, however returns to education are modest. Determining the effectiveness of the school system beyond mere literacy rates and educational attainment rate is a complex undertaking, especially when trying to relate an individual's educational outcome to their position in the labour market. For household heads, obtaining a diploma higher than primary school contributes only little and with a low and unstable level of significance to increased income over time. Even a focus on younger generations – who benefited from improvements in the educational system – shows only modest returns on education, lower than international standards (Baulch et al., 2012). These findings invite closer monitoring of education quality to ensure a return on investment in education and equal quality and opportunities for all.

Distribution of schools and teachers across regions has been equitable with poorest regions benefiting most from recent increases in school and teacher numbers. Over the last decade, 65% of new primary schools and 46% of new lower secondary schools were established in the Northern Mountain and Central Highland regions. In 2011, the Northern Mountains had the lowest pupil-teacher ratio (Table 2.2). Distribution of teachers and primary and lower secondary schools across regions was equitable in relation to numbers of children

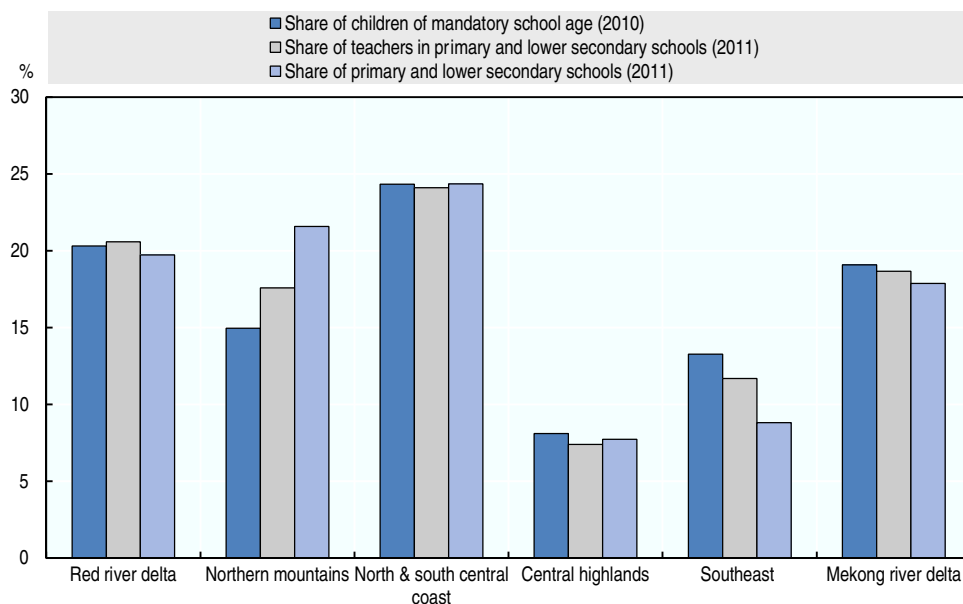
of mandatory school age, with the exception of the southeast – the richest region (Figure 2.15). At present, there is a primary school in every commune of Viet Nam and lower secondary schools exist in almost all rural communes. However, in 2012 upper secondary schools covered only 19% of all communes and remote places and ethnic minority communes were even less likely to have upper secondary schools (Table 2.3).

Table 2.2. Pupil-teacher ratio by region, 2011

	National	Red River Delta	Northern Mountains	Northern & Coastal Central Region	Central Highlands	Southeast	Mekong River Delta
All schools	17.8	18.0	14.2	17.6	18.9	21.6	18.4
Primary	19.4	20.3	14.3	18.3	19.8	25.6	20.7
Lower secondary	15.8	15.3	13.1	15.4	17.8	19.2	16.5
Upper secondary	18.3	18.6	17.0	20.9	18.5	17.5	16.0

Source: GSO, 2013.

Figure 2.15. Share of children, schools and teachers by region, 2010-11



Sources: GSO, 2013; VHLSS, 2010.

Table 2.3. Coverage of rural communes with secondary schools by geographical area, remoteness of place and prevalent ethnicity, 2012

%	Geographical area						Listed as being a remote place		Prevalent ethnicity	
	National	Coastal	Delta	Midlands	Low mountains	High mountains	Listed	Not listed	Ethnic minority	Kinh and Hoa
Lower secondary schools	95.0	98.6	94.8	87.8	95.7	95.6	95.2	94.9	95.3	94.9
Upper secondary schools	19.1	18.6	20.2	21.7	17.0	18.0	15.7	20.4	12.8	20.6

Source: GSO survey of communes, 2012.

The share of children not attending mandatory schooling is higher for ethnic minority children than for their Kinh and Hoa peers. As shown in Table 2.4, 12% of ethnic minority children reported not being enrolled in school, compared to only 6% of Kinh and Hoa children. Children of poor families (lowest two income quintiles) reported similar non-attendance rates. Girls had a higher average attendance rate than boys, but among ethnic minority groups, girls had a lower attendance rate. The large gap between net and gross enrolment rates for ethnic minority girls in primary education (87% and 101%, respectively) reflects the higher risks of grade failure and repetition in the corresponding grades (Table 2.5). The proportion of children out of school was most significant among older children (11 to 14 years old) of ethnic minority backgrounds and from poor families (Table 2.4). As mentioned previously, cultural factors may partially explain non-attendance among ethnic minority children, but factors such as poverty, distance to school, lack of self-esteem, language barriers, poor nutritional status and high opportunity costs when children are needed at home, are also important determinants (World Bank, 2009). Analyses performed using the Young Lives dataset (2002-09) indicated that children's aspirations are affected by the economic and educational backgrounds of their parents, highlighting persistent inter-generational linkages. Children from wealthier and more educated parents tend to have higher educational aspirations (see Chapter 1).

Table 2.4. Share of children of mandatory schooling age not attending school, 2012

%	National	Rural	Urban	Boys	Girls	Kinh and Hoa	Ethnic minority	Ethnic minority boys	Ethnic minority girls	The poorest	Quintile 2
Total	7.2	7.2	7.3	7.6	6.8	6.1	12.1	11.7	12.5	12.5	6.3
Age 6 to 10	6.7	6.3	7.6	6.8	6.5	6.0	9.7	8.9	10.6	9.8	4.7
Age 11 to 14	7.8	8.2	6.9	8.6	7.1	6.2	15.0	15.4	14.6	15.8	8.2

Note: Quintile based on income per capita.

Source: Authors' calculations based on VHLSS, 2012.

Table 2.5. Net and gross primary and secondary school enrolment rates, 2012

%	National	Rural	Urban	Boys	Girls	Kinh and Hoa	Other ethnic groups		
							Total	Boys	Girls
Net enrolment rate <sup>a</sup>									
Primary	92.3	92.6	91.4	92.5	92.1	93.1	88.9	90.7	86.8
Lower secondary	80.9	80.0	83.3	79.8	82.0	83.7	68.7	68.0	69.4
Gross enrolment rate <sup>b</sup>									
Primary	100.4	101.4	98.0	100.3	100.6	100.1	101.8	102.2	101.4
Lower secondary	90.2	89.9	91.1	89.8	90.7	92.3	81.3	82.7	80.0

Notes: a) The proportion of children in school who have the right level of school age (e.g. number of children aged 6 to 10 in primary school over the total number of children aged 6-10).

b) Also known as the Attendance rate, this is the ratio in % of the number of children regardless of age in the corresponding level to the number of children of school age of the corresponding level (e.g. the number of children enrolled in primary schools as a proportion of the total number of children aged 6-10).

Source: Authors' calculations based on VHLSS, 2012.

The probability of attending lower and upper secondary education increases with wealth. Belonging to an ethnic minority negatively affects secondary, but not primary enrolment. Table 2.6 presents the proportion of people that have achieved at least a certain level of education by place of residence, ethnicity and wealth. A lower percentage of youth from the poorest households and ethnic minority backgrounds completes lower and higher secondary education. A regression analysis was performed to determine whether belonging to an ethnic minority affected secondary school enrolment. The results showed that belonging to an ethnic minority has a significant negative impact on enrolment at secondary level, even when taking into account personal characteristics, household income situation and educational level of the head of the household. A more detailed analysis on primary school enrolment by area of residence (urban/rural) showed that ethnicity does not affect net primary enrolment when income or poverty status is included as

determinants. In other words, at primary level, enrolment is affected by wealth and not ethnicity. In conclusion, with adequate social assistance all children could attend primary schools.

Table 2.6. Share of people at different levels of education by age group, residence, ethnic group and among the bottom quintile, 2012

% Age group <sup>b</sup>	National		Rural areas		Ethnic minority		The poorest <sup>a</sup>	
	Adults	Youth	Adults	Youth	Adults	Youth	Adults	Youth
Unfinished primary or no education	18.7	5.3	22.8	22.8	44.2	15.3	33.0	10.5
With primary education or higher level education	81.3	94.6	77.2	77.2	55.8	84.7	67.0	89.5
With lower secondary or higher level education	56.6	79.2	49.5	49.5	31.1	60.2	39.6	68.2
With upper secondary or higher level education	30.0	41.6	20.1	20.1	11.7	20.5	12.7	12.7

Notes: a) People in the first quintile (households ranked according to the level of income per capita). b) Adults: people between 25 and 64 years old; Youth: people between 14 and 24 years old.

Source: Authors' calculation based on VHLSS, 2012.

Progress in attendance has been observed across all regions. Over recent decades the gap in attendance has narrowed significantly between the richest provinces (Southeast and the Red River Delta) and the poorest regions with a large share of ethnic populations (Northern Mountains and Central Highlands) (World Bank, 2011). In 2012, only small gaps remained between enrolment rates among primary schools of different regions. However, lower secondary net enrolment rate was about 10 percentage points lower than the national average in the Mekong River Delta (Table 2.7).

Table 2.7. School enrolment rates per region, 2012

%	National	Red River Delta	Northern Mountains	Northern and Coastal Central Region	Central Highlands	Southeast	Mekong River Delta
Net enrolment rate							
Primary	92.3	94.0	91.6	94.1	88.2	92.5	90.3
Lower secondary	80.9	87.6	79.4	84.2	80.9	81.5	70.6
Gross enrolment rate							
Primary	100.4	99.3	100.2	101.4	97.7	99.1	102.6
Lower secondary	90.2	94.8	91.5	93.4	94.6	89.6	79.7

Source: Authors' calculation based on VHLSS, 2012.

Standardised test results show significant differences in performance between ethnic minority children and Kinh children. In 2007, a large-scale standardised test of grade 5 pupils found sufficient competency in reading (61%) and mathematics (87%) for independent learning at secondary level. However, in-depth analysis showed that three-quarters of Kinh students met the standard for reading, while less than half of ethnic minority children had sufficient competency, and 37% failed to attain this level. Similar differences were also observed for mathematics (UNESCO-IBE, 2011).

The widespread use of private tutoring may worsen existing gaps. Private tutoring is particularly widespread in Viet Nam. In 2006, 41% of children aged 6-18 years old were already receiving private tuition (Dang and Rogers, 2013). Today, academic attainment is increasingly dependent on extra classes. Although primary education is ostensibly free, an estimated 50% of households pay for extra tuition prior to entry into grade 1, and 70% for grade 5 and above. More than 70% of students attend after-school lessons in maths in the majority of the cases for four or more hours per week. Extra classes are considered essential for post-secondary education (UNDP, 2011). Better-off households tend to allocate more than one-third of education spending on private tutoring at secondary education level, while the poorest households spend 12% (UNDP, 2011). In addition, the custom of giving presents to teachers at the end of the year and on Teacher's Day places additional financial burdens on poor families (Ushiyogi and Takashi, 2007). Bribes and informal payments for school admission are pervasive and considered a normal part of the education process (UNDP, 2011). According to VHLSS 2012, the average amount spent per student by the poorest families (in the first quintile) for primary or low secondary schools varies considerably according to region, area of residence and ethnic groups.

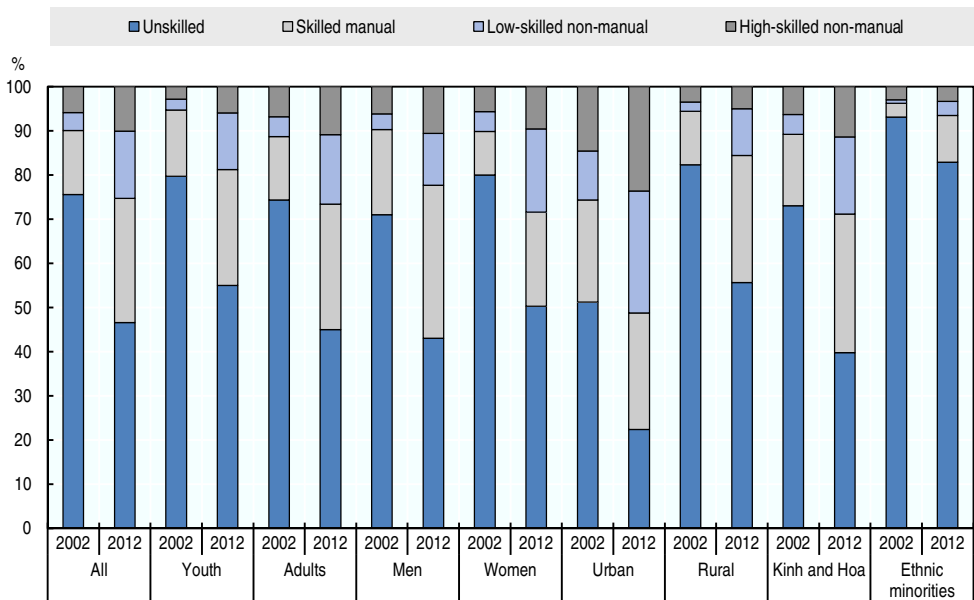
In the mid-1990s, Viet Nam devolved primary and secondary education spending to sub-national authorities and adopted the concept of "socialisation of education", which essentially means privatising social services. Thereafter, the burden of educational costs was shared between parents, schools and the government. In reality, however, expenses such as transport, textbooks, uniforms, "gifts", voluntary contributions and private classes have become increasingly burdensome for poorer households. As a result, enrolment in upper secondary and tertiary education drops off significantly for children of these households.

Inequality in education outcomes is strongly related to income, but also to school and teaching quality. An examination of inequality between and within schools for the period 2001-07 indicates that a larger proportion (60%) of the gap in learning performance stems from differences between students within schools (family background and socioeconomic status), but a relatively high

share (40%) is attributable to differences between schools. Important school-related factors in 2001 were teacher subject knowledge and training, school resources and full-day schooling (World Bank, 2011).

The number of skilled jobs is growing and a skilled workforce is increasingly central to Viet Nam's social and economic development. The prevalence of skilled jobs has increased in recent years. Between 2002 and 2012, the share of unskilled jobs decreased from 76% to 47%, and the share of skilled jobs, especially non-manual ones, more than doubled (Figure 2.16). Adults, women, urban residents, and Kinh and Hoa benefited, in particular, from this trend. Members of richer households also benefited more than individuals from poorer ones (Figure 2.17).

Figure 2.16. **Distribution of workers by occupation, 2002 and 2012**

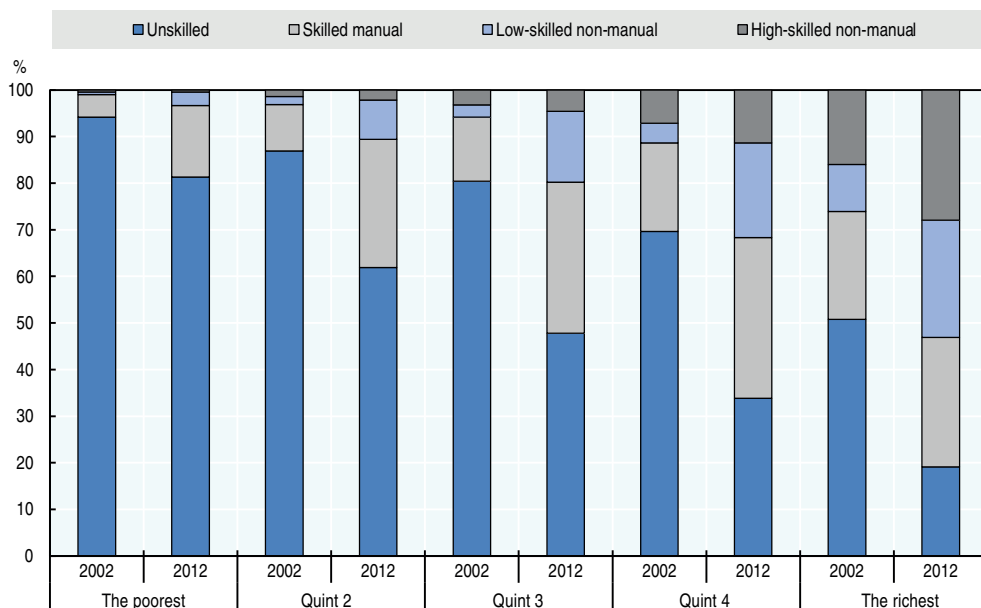


Note: Individuals aged 15 and above.

Source: Authors' calculation based on VHLSS, 2012 and 2002.

Distribution of skilled jobs remains highly unequal. Significant and persistent occupational segregation is a major concern in the labour market and affects several categories of workers. Youth, women, rural dwellers, ethnic minorities and poorer households, whose situation has improved substantially, remain disproportionately concentrated in unskilled jobs. Relatively few occupy higher positions, especially highly skilled non-manual ones.

Figure 2.17. Distribution of workers by occupation and household income quintile, 2002 and 2012



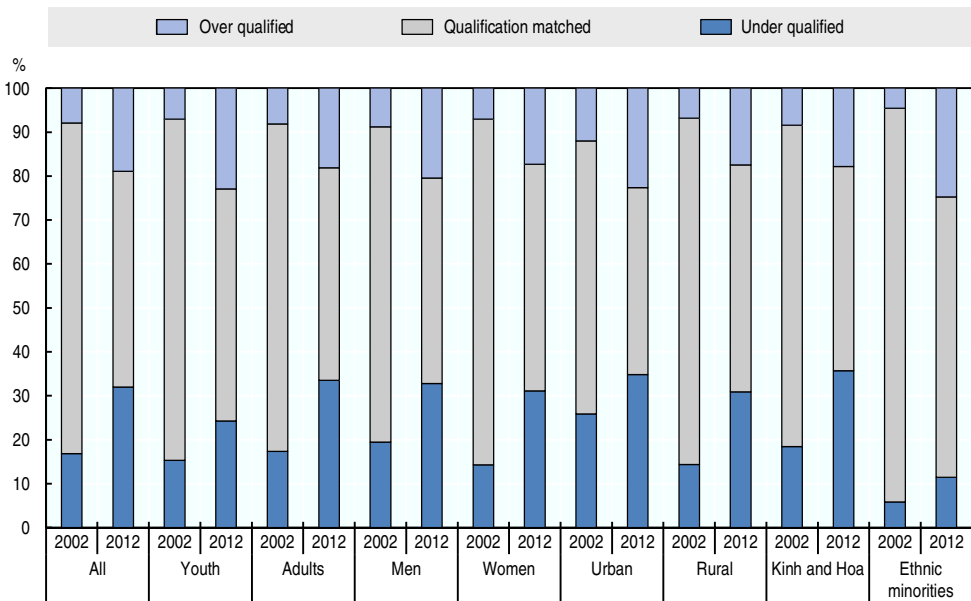
Note: Individuals aged 15 and above.

Source: Authors' calculations based on VHLSS, 2012 and 2002.

Skills mismatch is a serious challenge in fast-growing Viet Nam. Skills mismatches, measured in terms of over or under-qualification, are widespread and widening dramatically (Figures 2.18 and 2.19). In 2002, 25% of workers held jobs that did not match their level of education. This figure rose to 51% in 2012. The proportion of over-qualified and under-qualified workers doubled over this period from 8% to 19% for over-qualification and from 17% to 32% for under-qualification. The high and increasing prevalence of skills mismatches is a generalised problem affecting all categories of workers, although to different degrees. Over-qualification affects primarily young people, men, urban residents, ethnic minorities and workers outside the middle-class. Accordingly, these individuals are those whose skills are the most underutilised. Under-qualification is more prevalent among adults, men, urban dwellers, Kinh and Hoa, and richer families. However, between 2002 and 2012, under-qualification increased most among female, rural and middle-class workers.



Figure 2.18. Skills mismatch (normative approach) across different groups of workers, 2002 and 2012

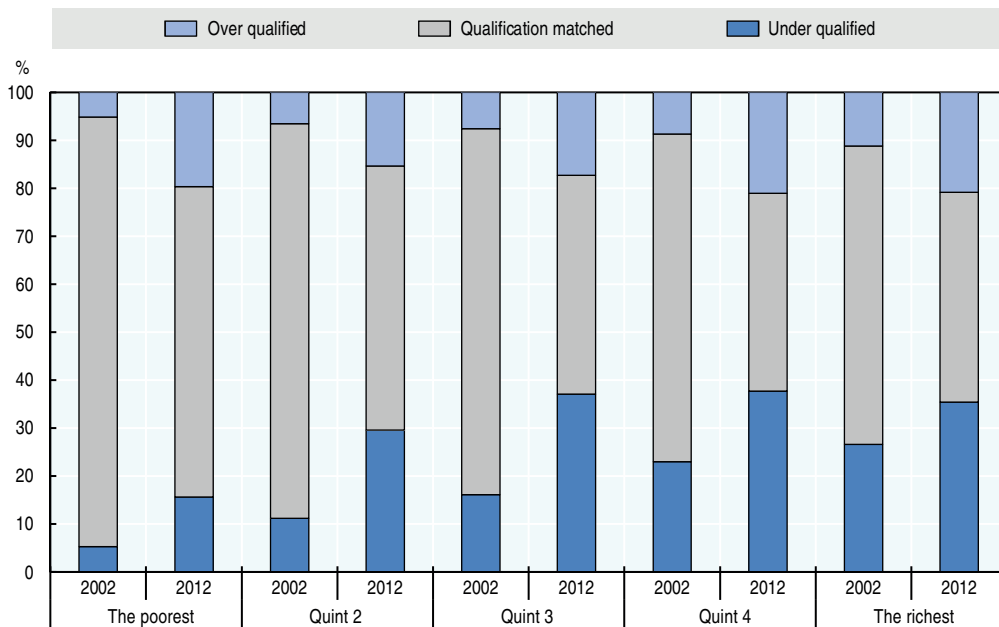


Note: Statutory working age population (men aged 15-60 and women aged 15-55). Based on ISCO-88 classification of occupations and ISCED classification of education levels, workers are classified as over-educated, well-matched or under-educated if their level of education is, respectively, higher, equivalent or lower than that required in their occupational skills category.

Source: Authors' calculations based on VHLSS, 2012 and 2002.

Skills mismatches are the result of gaps in education and skills policies, which have had difficulty keeping up with the evolving needs of the labour market. According to a 2012 survey,<sup>2</sup> 47% of firms (66% of international firms and 36% of local firms) consider that the education system has failed to supply skills needed for the workplace. Overcoming this challenge requires substantial efforts to increase access to education and, ultimately, to improve the quality of human capital in accordance with labour market requirements (OECD, 2013d).

Figure 2.19. Skills mismatch (normative approach) by household income quintile, 2002 and 2012

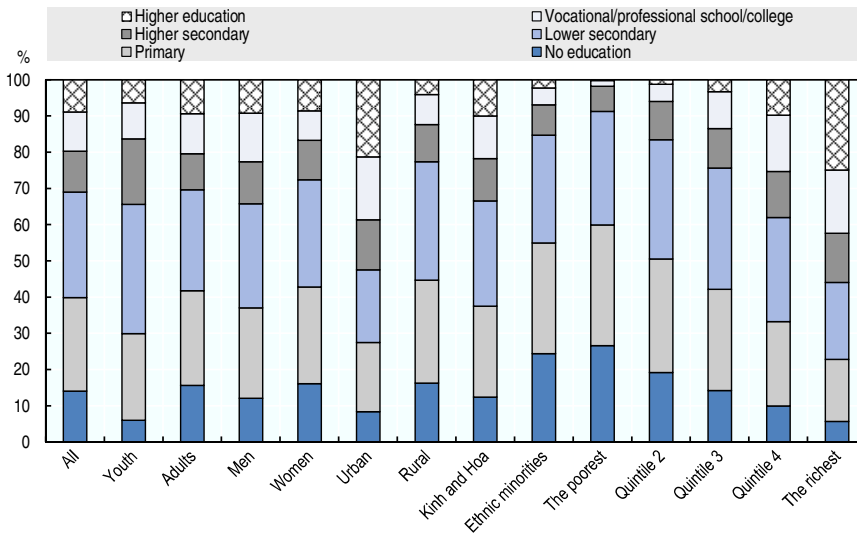


Note: Statutory working age population (men aged 15-60 and women aged 15-55). Based on ISCO-88 classification of occupations and ISCED classification of education levels, workers are classified as over-educated, well-matched or under-educated if their level of education is, respectively, higher, equivalent or lower than that required in their occupational skills category.

Source: Authors' calculations based on VHLSS, 2012 and 2002.

The workers most affected by under-qualification are those with the highest educational endowments. Urban workers, Kinh and Hoa, and richer families are more likely than other workers to have completed higher secondary education, vocational training or tertiary education, and also have the highest incidence of under-qualification (Figure 2.20). These particular groups of people thus tend to obtain easier access to jobs for which they do not have the necessary skills, but for which they might receive additional on-the job training.

Figure 2.20. Distribution of workers by highest level of qualification obtained, 2012



Source: VHLSS data.

New labour requirements and skills shortages and gaps have led to the reform of vocational education and training (VET). The *Doi Moi* reform process led to an increase in demand for skilled workers. Meeting this demand proved a challenge for Viet Nam's VET system, which was traditionally supply-driven. In response, the national assembly adopted a new law (MoJ, 2006), which established a comprehensive legal framework for VET. The 2006 law defines the different vocational training degrees (elementary, intermediate and collegial), regulates the organisation and functioning of vocational training institutions, defines the rights and obligations of organisations and individuals participating in vocational training activities, and incorporates several state policies on vocational training development. A national target programme on employment and vocational training for the period 2012-15 was also approved in 2012, with two components: *i*) renovation of vocational training; and *ii*) vocational training for rural labourers. A plan to modernise and expand VET is also embedded in the 2011-2020 Strategy for Vocational Education and Training Development (MOLISA, 2012) (Box 2.2).

### Box 2.2. Overview of targeted VET programmes

**Youth:** Viet Nam has devoted specific attention to the situation of youth through the implementation of a youth law (MoJ, 2005) and a youth development strategy for 2011-2020 (MOLISA, 2011). The youth law emphasises the importance of skills development and access to employment. It recognises the responsibility of the state to create opportunities and incentives for youth, especially from vulnerable groups, to complete their education, participate in vocational training and obtain adequate jobs. The youth development strategy forms part of a broader socio-economic development strategy and includes several ambitious targets for 2020 to improve the qualifications and employment situation of young people:

- Vocational training to be made accessible to the entire youth population.
- 80% of youth to reach senior secondary education.
- The youth workforce to be composed of 70% of skilled labour.
- 80% of youth to benefit from counselling and job search assistance services.
- 600 000 new jobs to be created annually for the youth population.

The combination of the youth law and the youth development strategy is expected to reduce the youth unemployment rate to less than 7% in urban areas and to less than 6% in rural areas. A specific programme has also been implemented for the period 2008-2015 to support vocational training and job creation for youth. The programme helps young people, especially young entrepreneurs and youth starting self-employment, to access preferential credits to attend vocational training. Its aim is to provide young people planning to start businesses with the necessary skills, and to increase access to counselling and job search assistance to 50% in 2010 and 75% in 2015.

**Rural labourers:** In 2009, Viet Nam approved a scheme on vocational training for rural labourers (MoJ, 2009). It aims to train on average 1 million rural workers each year, including 100 000 commune officials and civil servants, and to facilitate their transition to more productive sectors of the economy. The scheme plans to train 5.2 million rural labourers over the period 2011-15 and 6 million rural labourers over the period 2016-20.

**Women:** In 2010, Viet Nam introduced a five-year scheme to support women in vocational training and employment (MOLISA, 2010). The scheme seeks to raise awareness among women of regulations and policies related to vocational training and employment, to increase the share of female workers in total recruited vocational trainees to 40%, and to increase the proportion of female workers employed after attending vocational training to 70%. The Vietnam Women's Union plays an active role by delivering counselling and job search assistance services. It also provides employment to 100 000 women each year and delivers vocational training to half of this number.

**People with disabilities:** In 2006, Viet Nam organised a five-year scheme targeting people with disabilities (MOLISA, 2006). The scheme offered assistance in a number of areas, notably vocational training. About 80 000 participants were expected to access vocational training and subsequently obtain employment in different sectors of the economy.

### Box 2.2. Overview of targeted VET programmes (*cont.*)

**Ethnic minorities:** No specific VET programme currently exists for ethnic minorities. Instead, this group is targeted through other schemes, in particular the vocational training programme for rural labourers and the national target programme on sustainable poverty reduction. The government is currently working to develop vocational training policies for ethnic minority pupils and students.

Despite ambitious training objectives the proportion of untrained workers remains very high. The 2011-2020 Strategy for Vocational Education and Training Development aims to increase the rate of trained workers to 40% by 2015 and to 55% by 2020, extend the number of training institutions and vocational teachers, and increase and diversify vocational training curricula, especially for key national occupations. However, the share of untrained workers is very high and stagnated at around 83% between 2007 and 2012. Many employers are forced to hire unskilled workers and provide them with on-the-job training (OECD, 2013d).

## C. Minimum wage policy and employment growth

National minimum wage policies have been introduced to protect wage levels, in particular for the most vulnerable. While no separate minimum wage legislation exists in Viet Nam, the Labour Code (1994) and its subsequent revision (2012) contain specific provisions on minimum wage levels. A Ministerial Council Decision (1985) established the first definition of a minimum wage and a subsequent resolution of the 8th Central Committee of Viet Nam's Communist Party declared that the minimum wage formed "the basis for determining the wage level of workers and officials in different industries/sectors". According to the Labour Code (1994), wages are negotiated between employees and employers, but must not be set below the minimum wage prescribed by the state. The minimum wage system implements multiple rates which vary by sector – civil service, Vietnamese enterprise sector (including both state-owned and private enterprises), foreign investment sector – and by geographical area on the basis of living costs and level of development. The Labour Code revision (2012) introduced a new tripartite body, the National Wages Council, which represents the government, employers and workers, and provides advice on setting the minimum wage level. Since 2008, the Vietnamese government has adjusted the minimum wage on several occasions (Table 2.8).

Table 2.8. Minimum wages by sector and year, monthly in VND thousand

Regional minimum wages	Civil service sector (general minimum wage)						
	2008	2009	2010	2011	2012	2013	2014
1	540	650	730	830	1 050	1 150	1 150
2							
3							
4							
	Foreign direct investment sector						
	2008	2009	2010	2011	2012	2013	2014
1	1 000	1 200	1 340	1 550	2 000	2 350	2 700
2	900	1 080	1 190	1 350	1 780	2 100	2 400
3	800	950	1 040	1 170	1 550	1 800	2 100
4	NA	920	1 000	1 100	1 400	1 650	1 900
	Vietnamese enterprise sector including SOEs						
	2008	2009	2010	2011	2012	2013	2014
1	620	800	980	1 350	2 000	2 350	2 700
2	580	740	880	1 200	1 780	2 100	2 400
3	540	690	810	1 050	1 550	1 800	2 100
4	540	650	730	830	1 400	1 650	1 900

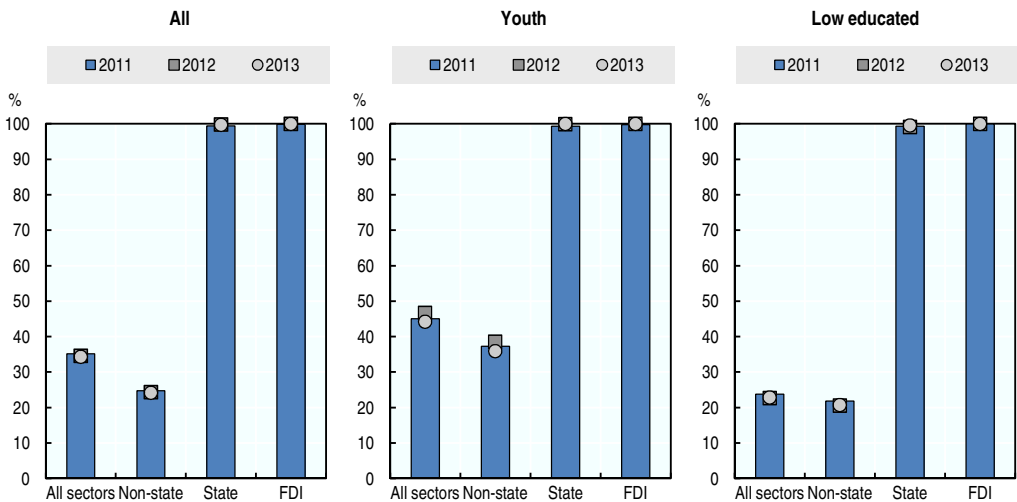
Source: MOLISA.

Sound policy design is necessary to establish the correct minimum wage level. Evidence indicates that minimum wage policies can have both negative and positive impacts. Sound policy design can help to maximise the benefits and reduce possible adverse effects. When set at a reasonable level in relation to local economic parameters, a minimum wage can protect the wage level of vulnerable workers and reduce wage inequality without adverse effects on employment. It can also have positive effects on worker productivity and reduce the number of beneficiaries dependent on social assistance, while increasing consumption and stimulating aggregate demand. The involvement of social partners (workers and employers) in this process usually contributes to a more balanced outcome. Negative although small employment effects may occur when the minimum wage level is set too high. In addition, complications also arise when aspects of the social protection system, such as pensions, disability payments and maternity benefits, are linked to the minimum wage level and

rise accordingly. While this may help maintain the purchasing power of social benefit recipients, in practice it often discourages governments from increasing minimum wages out of fear of adverse budgetary consequences.

Partial coverage of minimum wage legislation is a key issue in Viet Nam. To be effective, minimum wage legislation should cover a broad range of workers. However, in 2013, only 34% of workers in Viet Nam were legally entitled to receive the minimum wage (Figure 2.21). Coverage was very high among workers in the state sector (both civil service and state-owned enterprises) and foreign direct investment (FDI) sector, but low among workers in non-state sector (Vietnamese private enterprises). At present, eight out of ten workers in the non-state sector are not wage workers and are thus excluded. Legal coverage also varies across groups of workers with higher coverage for youth and lower coverage for low-educated workers.

Figure 2.21. Legal coverage of minimum wage legislation: Proportion of wage employed over the total employed population

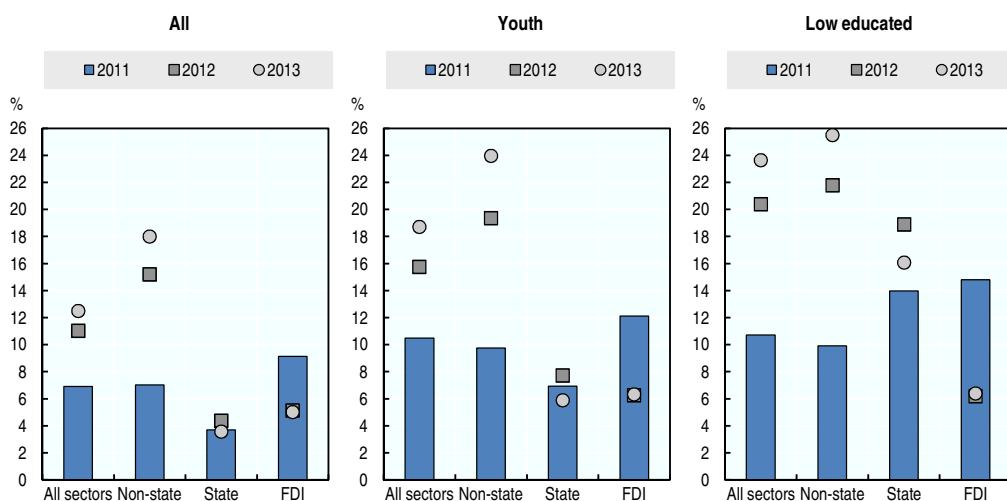


Source: Authors' calculations based on LFS 2011, 2012, 2013.

Compliance with legal minimum wage provision is quite high in Viet Nam, but has declined markedly in recent years. Non-compliance is of concern in the non-state sector and for groups such as youth and low-educated workers. Overall, only 7% of workers entitled to the minimum wage earned wages below this level in 2011, though the proportion rose to 12.5% in 2013. Compliance varies substantially across sectors and groups of workers. Non-compliance increased

rapidly in the non-state sector (from 7% in 2011 to 18% in 2013), but has remained stable in the state sector and increased in the FDI sector. Differences emerged by groups of workers, with youth and low-educated workers experiencing a higher and worsening level of non-compliance. Credible enforcement mechanisms are key to ensuring high rates of compliance, however labour inspection services in Viet Nam are often understaffed and penalties are weak with a lack of systematic and/or strong sanctions for non-compliance.

Figure 2.22. Minimum wage non-compliance: Share of workers entitled to receive the minimum wage whose earnings are below the minimum wage



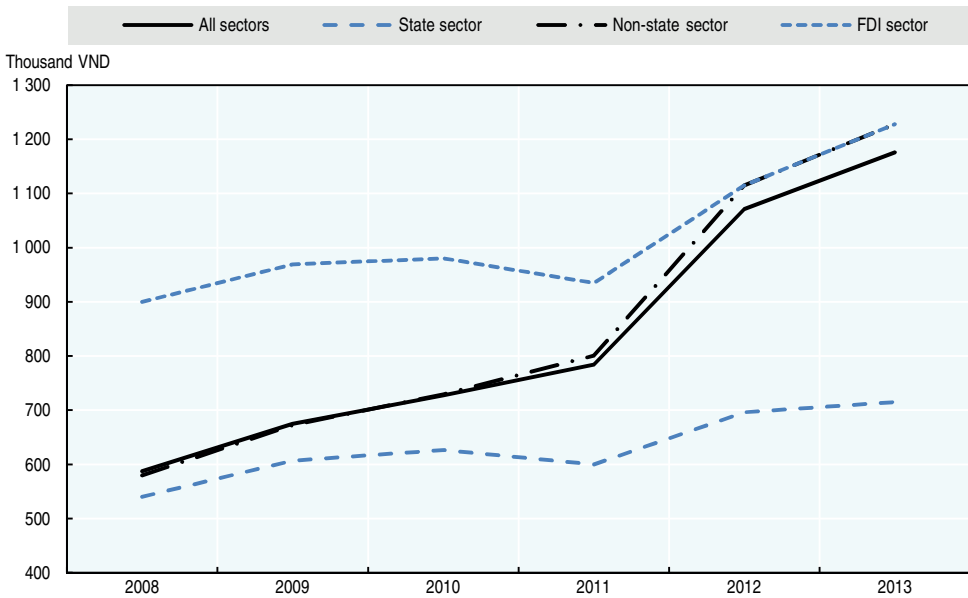
Source: Authors' calculations based on LFS, 2011, 2012, 2013.

Minimum wage levels in Viet Nam consider the needs of workers and their families as well as economic conditions and wage levels. Real minimum wages have grown over the last five years for all types of firm ownership, but at a slower pace in the state sector than in the FDI and non-state sector (Figure 2.23).

Minimum wages are non-binding in Viet Nam. Workers in FDI and non-state firms, youth and low-educated workers show a high tendency to earn wages close to the minimum wage. In the absence of a minimum wage, given the basic supply and demand model, the number of people willing to work for the prevailing wage would theoretically be equal to the number of people which firms would want to hire at that wage. A minimum wage below that level would be “non-binding” because an insufficient number of people would want to work. A minimum wage above that wage level would be “binding” because firms would be forced to pay a wage above the level they are willing to pay.



Figure 2.23. Changes in real minimum wages by firm ownership



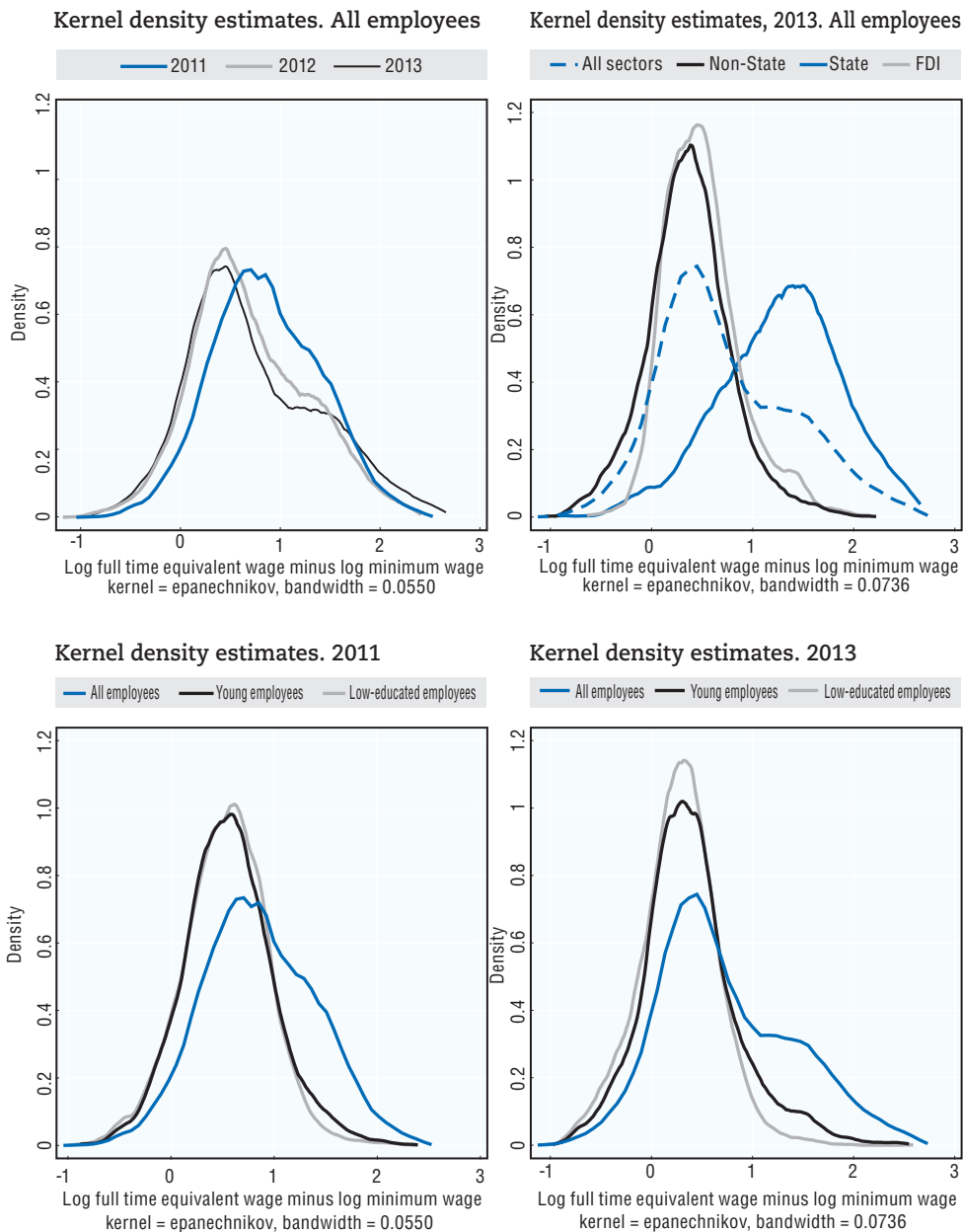
Notes: State sector = real general minimum wage; non-state sector = average of real regional minimum wages in the non-FDI sector; FDI sector = average of real regional minimum wages in the FDI sector; all sectors = average of computed real sectorial minimum wages weighted by the share of workers in each sector.

Sources: Authors' calculations using GSO, 2013b, World Bank WDI and Vietnamese legislation on minimum wages.

One way to assess whether minimum wages are binding is to use Kernel density estimates to plot the distribution of minimum wages (Figure 2.24). The plotted variable equals the difference between the log of the actual wage minus the log minimum wage for each worker. Workers at “zero” on the horizontal axis receive exactly the minimum wage (binding); those to the right of “zero” receive a wage above the minimum wage (non-binding); those to the left of “zero” receive a wage below the minimum wage (non-compliers). The results show that the majority of employers are willing to pay a wage higher than the minimum wage set by law.

The proportion of workers whose wages are close to the minimum wage level varies across firms and groups of workers. Figure 2.24 shows differences across firms and groups of workers. The proportion of workers who earn a wage close to the minimum wage was high for workers in FDI and non-state firms as well as for youth and low-educated workers.

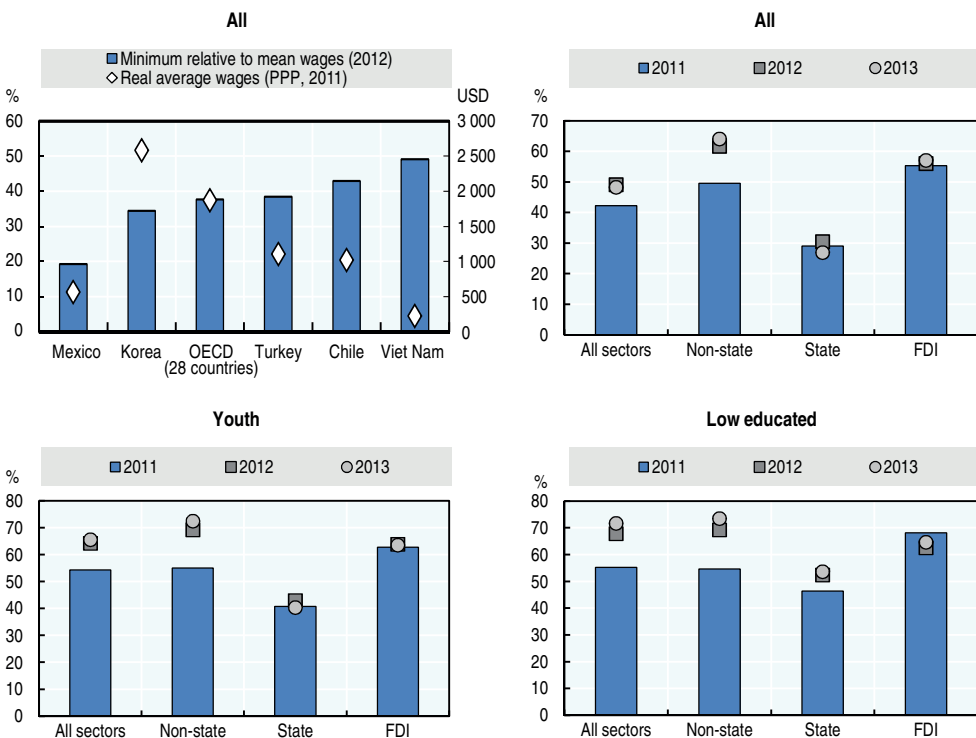
Figure 2.24. Distribution of wages around minimum wages



Source: Authors' calculations based on LFS, 2011, 2012, 2013.

Minimum wage to mean wage ratios are fairly high in Viet Nam compared to OECD countries, but seem to be driven mainly by low average wages. In 2012, the minimum wage to mean wage ratio was 49% in Viet Nam. This is high compared to OECD countries where minimum wage to mean wage ratios hover at around 40% (ILO, 2008, 2013). However, the real average wage in PPP was much lower in Viet Nam than in OECD countries (Figure 2.25). As a proportion of median wages, the minimum wage was 58% in 2012, notably higher than the ratio on average wages. The higher ratio of minimum to median wage compared to the ratio of the minimum to mean wage reflects a disproportionately high number of workers earning low wages. This implies that rising minimum wages would affect a large proportion of workers, resulting in positive impacts on poverty reduction, a decrease in inequality and a rise in aggregate demand.

Figure 2.25. Ratios of minimum wage to mean wages

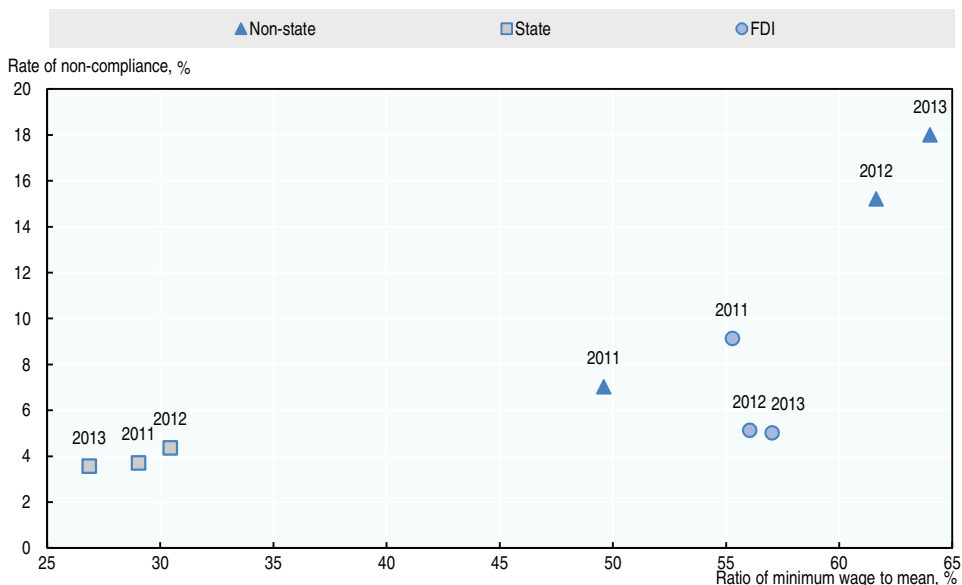


Source: Authors' calculations based on LFS, 2011, 2012, 2013 for Viet Nam; OECD Statistics for other countries.

Minimum wage to mean wage ratios varied substantially by firms and groups of workers. Ratios were lowest for workers in the state sector and highest for youth and low educated workers. In 2013, the minimum wage to mean wage ratio was 57% in the FDI sector and 64% in the non-state sector, compared to 27% in the state sector. The highest minimum wage to mean wage ratios were found for youth and low educated workers in all sectors, reflecting their lower average wages.

Higher minimum wage to mean wage ratio was associated with high level of non-compliance, but only in the non-state sector. Research in developing countries has found that low minimum wage levels tend to be associated with a relatively high degree of compliance, while higher minimum wage levels tends to be associated with lower levels of compliance (ILO, 2013). In Viet Nam, during 2011 and 2013 the minimum to mean wage ratio increased in all sectors and was particularly high in the non-state sector. Figure 2.26 presents the association between minimum wage levels and compliance rates in the three sectors. Non-compliance rose hand-in-hand with the minimum wage to mean wage ratio in the non-state sector. However, in the state sector and the FDI sector the minimum wage to mean wage ratio grew only moderately. Indeed, in the FDI sector a slow increase in the minimum wage to mean wage ratio was accompanied by an increase in compliance.

Figure 2.26. Ratio of minimum wage to mean wages and non-compliance rate



Source: Authors' calculations based on LFS 2011, 2012, 2013.

Minimum wage policy in Viet Nam tends to have small but overall positive employment effects, and no adverse employment effects on youth and low educated workers. Empirical analysis performed for this review on the employment effects of minimum wage policy showed that changes in minimum wage levels and in the ratio of the minimum wage to average wages has a small positive effect on the overall employment rate. These results are in line with previous empirical studies, which have shown statistically insignificant or small adverse or positive effects of minimum wages on employment in other developing countries (Chun and Khor, 2010; Comola and de Mello, 2009; ILO, 2013; Lemos, 2009, 2004; Ni, Wang and Yao, 2011). No statistically significant employment effects of minimum wage changes were found for youth and low-educated workers. Box 2.3 presents the methodology used to estimate the effects of minimum wages on overall employment and on youth and low-educated workers.

### Box 2.3. Methodology to estimate the employment effects of minimum wages in Viet Nam

Data from Labour Force Surveys (2011-13) was analysed to test the effect of changes in the minimum wage on employment. Minimum wage levels changed substantially over this period reporting an annual average increase of 24.5%. The rise in real minimum wages, although lower, remained substantial (Figure 2.23). The analysis followed the methodology used in ILO (2013), constructing a pseudo panel to follow cohorts over the observed period. Thanks to improvements in data quality, the study was able to analyse changes at the district level. As a result, a lower level of aggregation permitted construction of all variables and allowed accounting for fixed effects at the district rather than province level. As regional minimum wages are defined at the district level, this additional information also enabled the study to assign each worker the minimum wage applicable in the district where they reside, rather than a province average. The model was estimated as follows:

$$\ln(EMP_{ct}) = \alpha_0 + \alpha_1 \ln(MW_{ct}) + \alpha_2 X_{ct} + \varepsilon_{ct}$$

where  $EMP_{ct}$  represents the employment rate, that is the ratio of employment over the population in a district  $c$  at time  $t$ , which takes the values of 2011, 2012, 2013,  $MW_{ct}$  is the minimum wage indicator for each cohort, which is the average weighted real minimum wages of each district.  $X_{ct}$  accounts for a set of additional control variables which have been included progressively in the regressions. This includes variables to control for district characteristics, such as the percentage of population with primary education or below and the percentage of youth in each district. It also includes a proxy to account for economic activity and fluctuations in each cohort. As data on the unemployment rate of adult males or the gross national product (GNP) are not readily available at lower

**Box 2.3. Methodology to estimate the employment effects of minimum wages in Viet Nam (cont.)**

than national level, the Provincial Competitiveness Index (PCI) was substituted.\* The PCI is designed to assess the ease of doing business, economic governance and administrative reform efforts by local governments of 63 provinces and cities in Viet Nam. A higher PCI level is expected to have a positive effect on local employment and the variable controls for different economic conditions at geographical level.

A two-stage last square (2SLS) procedure was adopted to address the potential endogeneity of the minimum wage indicator. The degree of compliance with minimum wage legislation within a district was used as an instrumental variable.

**Table 2.9. Effect of minimum wages on employment**

Two-stage last square model

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Ln(MW)	0.055** (0.025)	0.046** (0.024)	0.046* (0.025)	0.093** (0.040)
Share of low educated workers		0.088*** (0.023)	0.091*** (0.023)	0.094** (0.032)
Share of youth			-0.027 (0.056)	-0.032 (0.075)
PCI				0.003* (0.001)
Constant	-0.647*** (0.171)	-0.624*** (0.169)	-0.616*** (0.181)	
Number of observations	2047	2047	2047	1363

Note: Standard errors are given in parentheses. \*p<0.10, \*\*p<0.05, \*\*\*p<0.01

Source: Authors' calculations based on LFS, 2011, 2012, 2013.

The same empirical models also provided estimates using the minimum wage to average wage ratio, so as to better account for the minimum wage level. In both cases, the estimated effect was positive and statistically significant, even if by a small magnitude. The employment rate was estimated for overall employment and separately for youth and low-educated workers, so as to take into account potential variation in employment effects for sub-groups such as youth and low-educated workers. The estimated effect was not statistically significant for both groups of workers.

Note: \* Some studies argue that economic activities have a lagged effect on labour demand changes. The study therefore controlled for lagged PCI. However, no substantial changes were observed in the results.

## Policy conclusions

Greater attention needs to be paid to the employment intensity of growth. Growth strategies also need stronger linkages with employment-friendly policies. Employment growth has lagged behind economic growth in Viet Nam. Increase in labour productivity was instrumental in making jobs pay decent wages, yet brought challenges in terms of new skills needs. Continuous efforts are essential to make education and vocational education training (VET) systems more responsive to rapidly changing labour market circumstances. With current available data it is difficult to assess the relevance and quality of vocational training, therefore indicators should be defined and monitored through regular surveys to evaluate the impact of training on employment outcomes.

Improved compliance and coverage can enhance the impact of minimum wage policies. Minimum wage policy has proven to be an effective way to protect low wage earners without inducing negative employment effects. In Viet Nam, partial legal coverage is an issue as existing minimum wage legislation protects only one-third of workers. To be meaningful, minimum wages need to cover a broad range of workers and must be enforced by credible mechanisms. At present, coverage is high among workers in the state and FDI sectors, but very low among workers in the non-state sector. Traditional policies such as taxation, social protection and minimum wages impact mostly on the formal sector, however the majority of non-state workers work in the informal economy, where such policies have no effect. As Viet Nam advances economically, informality may start to decline, but during the interim period more inclusive policies are needed to protect workers in self-employment or informal jobs, as well as ways to increase revenues. Labour inspection capacities should be strengthened, and should include a monitoring system with enforceable penalties in the event of non-compliance.

Reconciling value-added industrial development with skills and education policies can encourage greater sectoral mobility towards value-added activities. Structural transformation led to noticeable changes in labour sectorial allocation over the last decade, with a shift away from agriculture. Growth performance in Viet Nam was driven predominantly by productivity increases resulting from this structural shift. However, rising demand for new skills in new jobs outpaced existing supply, creating skills gaps and shortages. Skills mismatches are now widening and becoming a growing concern for Viet Nam. Education and skills policies are also struggling to meet the evolving needs of the labour market. Substantial efforts are therefore needed to increase access to education and to improve the quality of human capital in accordance with labour market requirements.

## Notes

1. Time-related underemployment exists when working hours of an employed person are insufficient in relation to an alternative employment situation in which the person is willing and available to engage.
2. Viet Nam Skills Toward Employment and Productivity (STEP) survey conducted by Viet Nam's Central Institute for Economic Management (CIEM) with the support of the World Bank.



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## 2. Improving social cohesion through employment-friendly policies

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## Chapter 3

# Building an inclusive social protection system

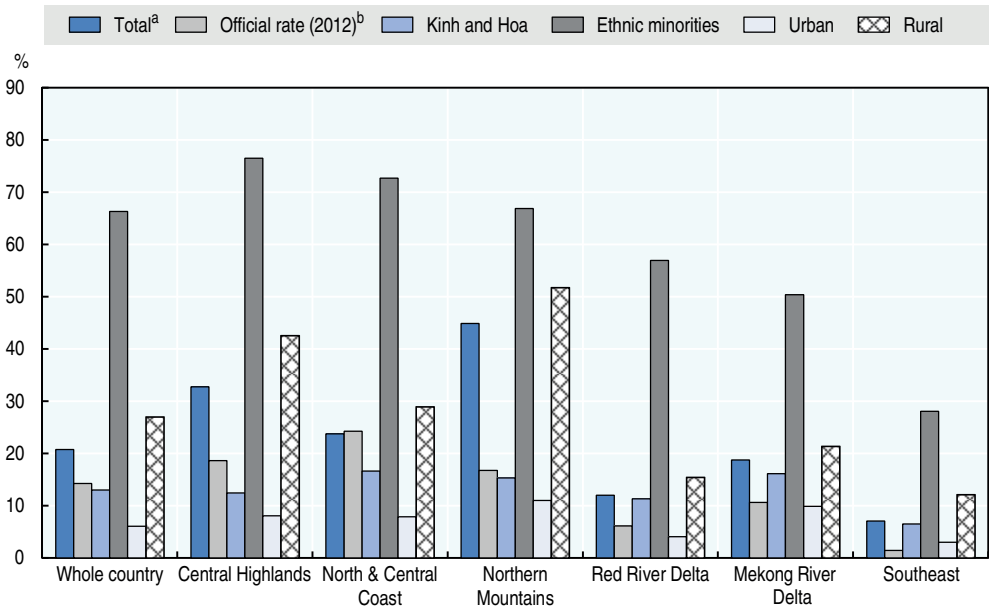
This chapter examines public spending on social protection policies in Viet Nam over the past decade. It analyses coverage of public social services with a view to identifying gaps and also discusses challenges to ensuring equitable delivery of social protection services in Viet Nam.

Delivery of social protection services can play a major role in reducing vulnerability and narrowing inequalities between different socio-economic groups. Although it is difficult to isolate the contribution of social policies to improved living standards, this chapter attempts to analyse the effect of social policies on social outcomes, particularly social cohesion, by examining the sufficiency and equity of public service provision. Sufficiency of social protection refers to both supply-side factors – including public social spending – and demand-side factors – such as coverage of the population in need. Equitable delivery of social protection services can be defined as the capacity of all beneficiaries to receive the same quantity and quality of services, regardless of their characteristics.

#### A. Sufficiency

The poverty rate has decreased sharply for the whole population, including ethnic minorities. However, poverty persists in relative terms and has deepened for ethnic minorities and certain regions. The total incidence of poverty (based on consumption) declined from 58.1% in 1993 to 14.5% in 2008. Latest figures (based on a new poverty line defined in 2010) show that poverty continued to decrease from 20.7% in 2010 to 17.2% in 2012. However, comparison by region and ethnicity (Figure 3.1) shows that poverty levels are significantly higher in the Northern Mountains, Coastal and Central Highlands regions, all of which have a higher concentration of ethnic minority groups (World Bank, 2013). In 2010 the share of minorities among the poor accounted for 47%, an increase of 20% from 1993 (based on the new poverty line set in 2010), with 66% living below the new poverty line compared to only 12.9% of the Kinh majority population (World Bank, 2013).

Figure 3.1. Poverty rates by region, place of residence and ethnicity, 2010



Note: a) Poverty rates defined using GSO/WB poverty line based on consumption. b) Official rate refers to GSO poverty estimates based on income and updated by CPI.

Source: Authors' calculation based on VHLSS, 2010.

Viet Nam has made significant progress towards achieving the UN Millennium Development Goals for health. Since the 1990s, the malnutrition rate has been reduced by half among children under 5 years old. Progress towards targets for reducing child and maternal mortality rates has reached 90%. The HIV prevalence rate has increased, but remains below 0.3% of the population and is expected to stabilise by 2020. The mortality rate for malaria has fallen by 68%. However, the mortality rate for tuberculosis has decreased by only 28%, well below the MDG target (Table 3.1). Since the mid-1980s, Viet Nam has embarked on economic reforms to shift the country towards a market economy. As a result, the country is adopting market-based mechanisms to deliver public services. Health care services, in particular, are relying increasingly on insurance principles to facilitate access to the whole population.

Table 3.1. Health sector progress towards achieving the Millennium Development Goals

Indicator	MDGs 1990-2015	Baseline	2012	2015 goal	Source
Under-5 underweight rate (%)	MDG 1: Reduce poverty & hunger	41.0	16.2	20.5	NIN
Infant mortality (per 1 000 live births)	MDG 4: Reduce child mortality	44.0	15.4	14.8	GSO
Under-5 mortality (per 1 000 live births)		58.1	23.2	19.3	GSO
Rate of immunisation against measles (%)		55.0	96.4	100	MoH
Maternal mortality rate per 100 000 live births	MDG 5: Improve maternal health	233	69	58.3	GSO
Share of women giving birth with a trained health worker		86	97.9	96-98	MoH
Contraceptive prevalence (%)		73.9	76.2	82	GSO
Share of women giving birth after three antenatal visits (%)		87.9	89.4	80-87	MoH
HIV prevalence rate (% people aged 15-49 years old)	MDG 6: Combat HIV/AIDS, malaria and other diseases	0.004 (1991)	0.45 (2011)	Not specified	EP
Malaria prevalence rate (per 100 000)		96	49	Achieved	MoH
Malaria mortality rate (per 100 000)		0.031	0.010	Achieved	MoH
Tuberculosis prevalence rate (per 100 000)		375	225	187	WHO
Share of population using improved drinking water (%)	MDG 7: Access to safe water and basic sanitation	57	92 <sup>a</sup>	78.5	WHO/ UNICEF JMP
Share of rural population using sanitary latrine (%)		37	78 <sup>a</sup>	68.5	

Note: a) in 2011.

Source: MoH/HPG, 2013.

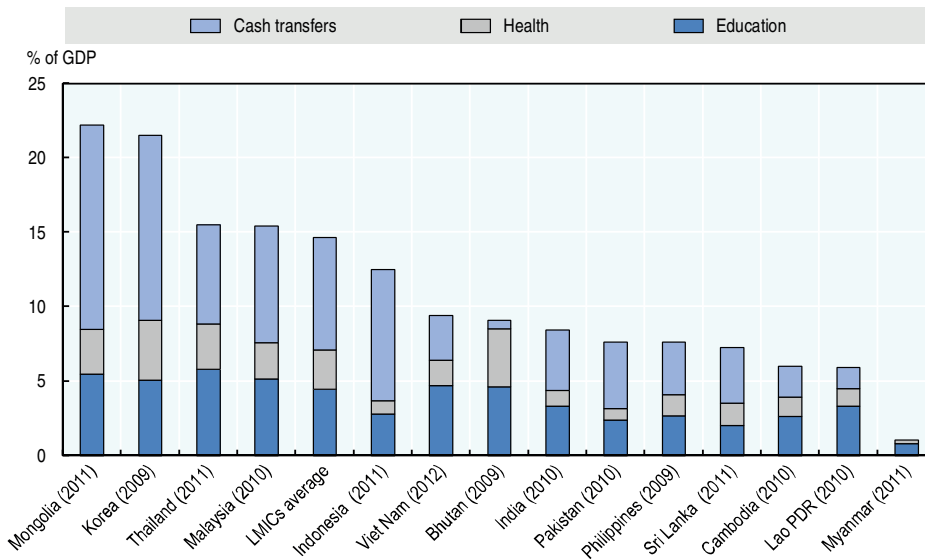
### Public social spending

Overall social expenditure in Viet Nam is not particularly high compared to other lower middle-income countries (LMICs). In 2012, state social expenditure on social protection (cash transfers), health and education amounted to about 9.4% of GDP. Total state social expenditure, including science, culture, sport and family planning, amounted to 9.9% of GDP (Table 3.A1 in Annex). Figure 3.2 shows total public social spending as a share of GDP for Viet Nam, other countries in Asia and LMICs for which data are available. In Asia (with the exception of Mongolia, which provides universal child benefits), the share of total public social spending in GDP for LMICs ranges from 4.4% in Lao PDR



to 12.5% in Indonesia. Viet Nam is close to the regional average with 9.4%, but low compared to other LMICs where social expenditures represent an average of 14.6% of GDP.

Figure 3.2. Public spending on education, health and social cash transfers<sup>a</sup> among Asian countries and the average of lower middle-income countries<sup>b</sup>, in percentage of GDP



Notes: a) Government spending on education, health, cash transfers (including pension and allowances, not including spending from independent public agencies). b) Countries listed from low to high-income countries (GDP per capita). The LMICs average includes a complete dataset for the period 2005-12.

Sources: Authors' calculations based on World Bank open data, 2013, and MoF, 2013, for Viet Nam (see Table 3.A1 in Annex).

Public spending on health and education has grown rapidly over the past decade. Public spending on health as a share of GDP doubled from 0.8% in 2004 to 1.7% in 2012. In education, this share increased by 50% from 3.3% in 2004 to 4.7% in 2012 (Table 3.A1 in Annex). This growth was not observed for public spending on social protection in the form of cash transfers. It is worth noting that social protection spending on education, health and other sectors is accounted for separately under the respective sectors, which leads to underestimates of total spending.

Viet Nam's public spending on health and cash transfers is rather low by international standards, but spending on education is slightly above average. Figure 3.2. compares the level of spending on education, health and cash transfers. In 2012, Viet Nam's public spending on education (4.7% of GDP) was higher than the average for LMICs in Asia (3.5%) and slightly above the average for all LMICs (4.4%). Public spending on health (1.7% of GDP) was average compared to Asian countries, but significantly lower than the average for all LMICs (2.6%). Finally, social protection in the form of cash transfers to households, including pensions and social allowances, is much lower (3.0% of GDP) than other Asian countries (4.8% average) and LMICs globally (7.6% average).

In 2011, total public spending on social protection amounted to 5.2% of GDP. Public spending on social protection includes total spending on cash transfers and subsidies within national poverty reduction programmes (1.2%) and social insurance and social assistance paid by the state (2.9%) and managed by Viet Nam Social Security (VSS) (1.1%). Public spending on poverty reduction programmes (NTPRP, Programme 135, Programme 30 and others projects managed by ministries) accounted for 1.2% of GDP. Table 3.2 shows the breakdown of these expenses for the period 2006-11. Other spending, mostly on infrastructure (building schools and health care centres, improving access to clean water and environmental hygiene, constructing roads and expanding the electric network), amounted to 0.3% of GDP. Table 3.A2 in the Annex presents a breakdown of social protection expenditure, distinguishing between benefits specific to poverty reduction programmes and those managed by the state and VSS.

The scope of social assistance is limited, but its budget represents an important share of the total state budget for social protection. Social assistance (cash transfers and allowances) consists mostly of cash allowances to vulnerable groups excluded from the labour market. Two other programmes distribute cash allowances as lump sums to poor households struck by natural disasters and as cash allowances to people who participated in the National Revolution (people with merit). The latter accounts for nearly one-third of the total state budget for cash transfer programmes.

Pension and social insurance benefits accounted for the highest share of spending in 2011, estimated at 2.3% of GDP. VSS is responsible for distributing pension and social insurance benefits. The decline in pension benefits as a share of GDP between 2007 and 2011 was due to the gradual reduction in the number of pensioners covered by the state budget and the slow growth in the

number of new pensioners covered by VSS. As pension rights require 20 years of contributions, only workers who worked in the public sector prior to 1995 currently receive a pension on reaching retirement age. Other participants receive lump sum payments.

Table 3.2. Social protection spending by main programmes, 2007 and 2011

	In VND billions		As a share of GDP	
	2007	2011	2007	2011
<b>Social protection spending (general)</b>	<b>49 436</b>	<b>111 295</b>	<b>4.0</b>	<b>4.0</b>
Cash transfers <sup>a</sup>	2 972	13 978	0.2	0.5
Social insurance benefits, including pensions <sup>b</sup>	33 781	63 662	2.7	2.3
Allowances to people with merit <sup>c</sup>	11 849	24 178	1.0	0.9
Other <sup>d</sup>	834	9 477	0.1	0.3
<b>As part of poverty reduction programmes</b>	<b>7 137</b>	<b>33 064</b>	<b>0.6</b>	<b>1.2</b>
Health insurance	1 213	10 230	0.1	0.4
Education fees	754	6 666	0.1	0.2
Credit subsidies	3 008	7 172	0.2	0.3
Other <sup>e</sup>	2 162	8 996	0.2	0.3
<b>Total</b>	<b>56 573</b>	<b>144 359</b>	<b>4.5</b>	<b>5.2</b>

*Notes:* The table was constructed during preparation of Resolution 15-NQ/TW on key issues of social policies for period 2012-20; figures were updated and differ slightly from Table 3.A1 in Annex.

*a)* Includes monthly cash benefits, disaster emergency allowances, subsidies to low-income people and electricity subsidies (since 2011).

*b)* Includes pensions paid to people who retired before July 1995 (paid from the state budget) and pensions paid to people who retired after July 1995 (managed by VSS).

*c)* People who contributed to the National Revolution.

*d)* Exemption of irrigation fees, contributions to VSS unemployment insurance (since 2009), aid to public employees and officials working in difficult areas (since 2011), support for flood prevention works, resettlements of ethnic minority groups (since 2009), support for the elaboration of social and economic plans in rural areas (since 2009), aid to communes in the border of Laos and Cambodia (since 2009), support for the development of new rural aid policies (since 2010), and support for aquaculture and production in islands (since 2010).

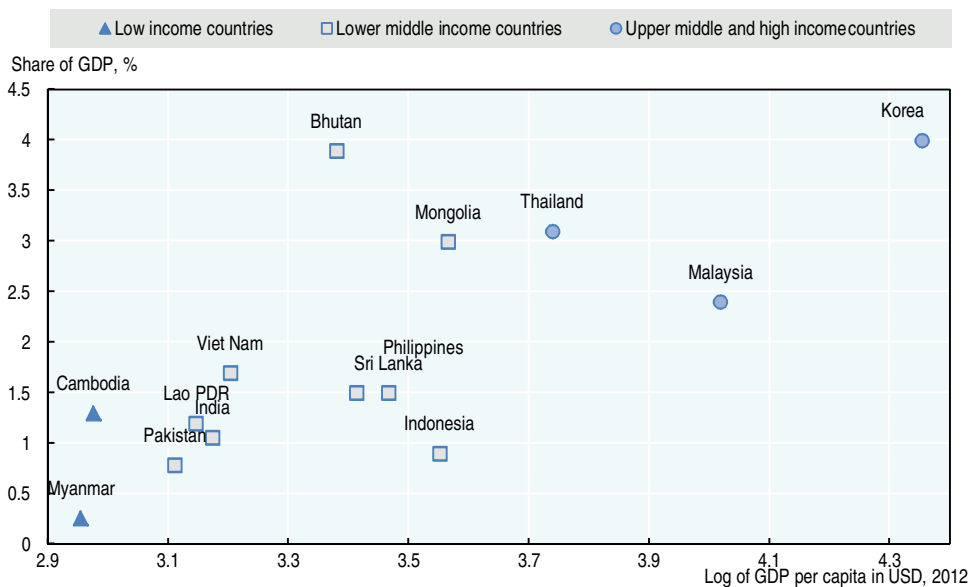
*e)* Programme 135, Programme 30a (since 2009) and National Targeted Poverty Reduction Programme (NTPRP).

*Source:* MOLISA, 2013.

Out-of-pocket payments for health care by households more than doubled from 2005 to 2012. Their share in total expenditure decreased, but still represented 49% of total health expenditure. Total public and private health expenditure amounted to 6.6% of GDP in 2012 (WHO, 2013). Public spending on health was 1.7% of GDP. Government expenditure on health was about average for LMICs in the region (Figure 3.3). Government expenditure accounted for

42.6% of total health expenditure in 2012, while non-government expenditure accounted for 57.4%. Most non-government expenditure (48.8%) came from out-of-pocket payments (Figure 3.4). Public sector expenditure nearly quadrupled from 2005 to 2012. In an effort to reduce the role of the state in direct financing and introduce market-based mechanisms, the share of health insurance in financing health expenditure increased from 8.8% in 2005 to 15.8% in 2012, although not as rapidly as expected. The government aims to continue this trend with a view to reaching universal coverage by 2020. Accordingly, out-of-pocket payments by households are expected to decline.

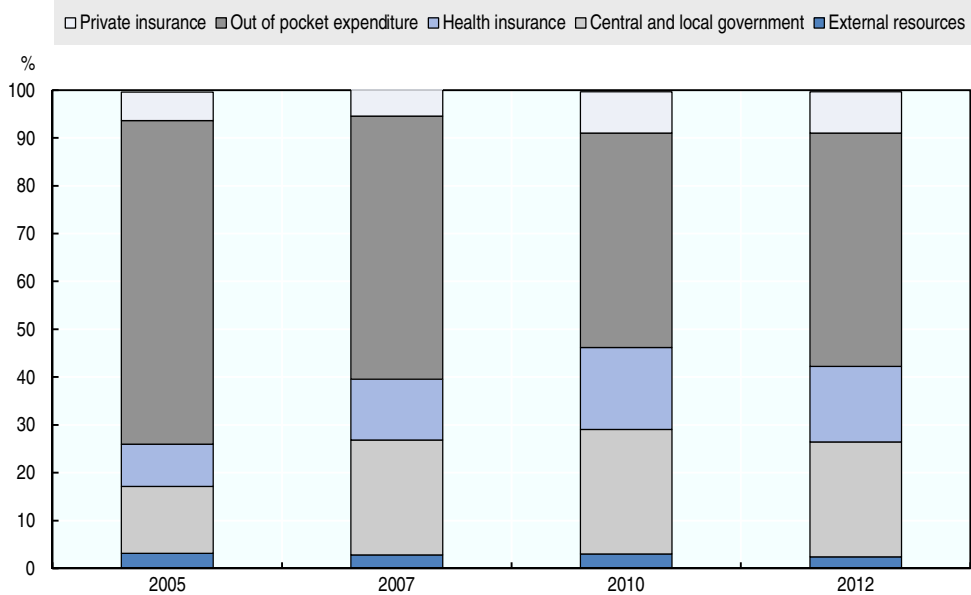
Figure 3.3. Government spending on health as a share of GDP, latest data available, 2009-12



Notes: Sum of government spending on health, not including spending from independent public agencies.

Source: World Bank open data, 2013, except for Viet Nam (see Table 3.2).

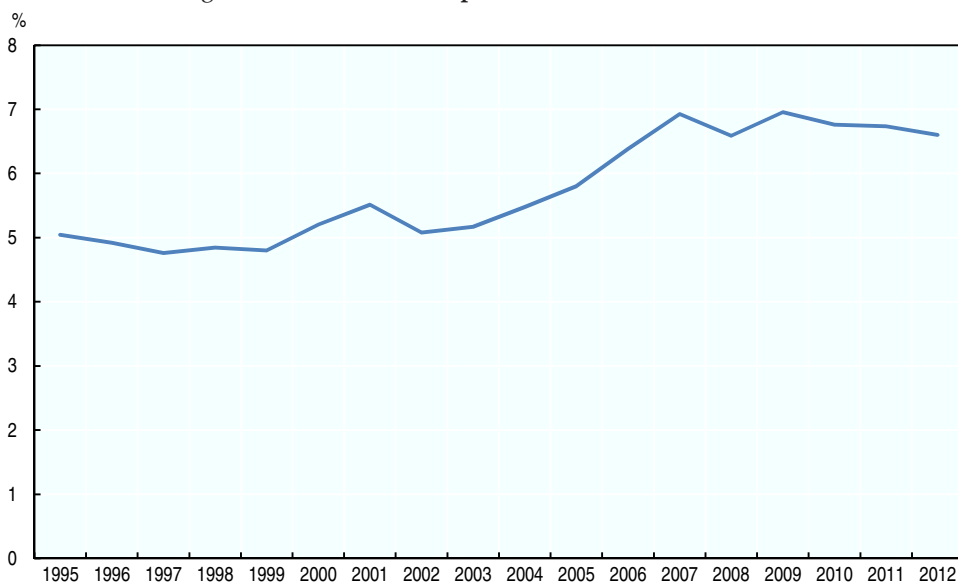
Figure 3.4. Sources of financing as a share of total health expenditure



Source: WHO, 2013.

The transition towards a market-based health care system introduced incentives for health care providers to increase revenues, but led to serious financial debts for Viet Nam Health Insurance. With the establishment of health insurance in 2002, hospitals were granted autonomy to manage their resources and staff. Voluntary health insurance was introduced in 2003 and mass-organisations, particularly the Women's Union and the Fatherland Front were invited to support government efforts to broaden coverage. In 2005, co-payments for health insurance claims (under VND 7 million) were eliminated to increase its attractiveness. Reform of hospitals and healthcare providers began in 2006. These provided strong incentives for hospitals to expand services to obtain additional revenues, and many public hospitals undertook joint ventures with the private sector to acquire high-tech equipment (MoH/HPG, 2008). As a result, total health spending increased from 5% to 7% of GDP between 2002 and 2007 (Figure 3.5). However, providers made little progress towards improving efficiency, particularly regarding the cost of medical services (MoH/HPG, 2009), and in some cases abused the health insurance reimbursement system. These factors, combined with insufficient risk pooling (large proportion of newly enrolled people had chronic or serious illnesses), led to deficits for Viet Nam Health Insurance in 2006, which reached VND 1.8 trillion or 0.1% of GDP in 2007.

Figure 3.5. Total health expenditure as a share of GDP



Source: World Bank open data, 2013.

A series of new measures were implemented in recent years to improve efficiency and ensure better control over abuses, but financial sustainability is a challenge. Insurance premiums increased significantly, the participation of mass organisations in health enrolment ceased and co-payments were re-introduced. The government also expanded coverage through subsidies, at the same time extending capitation to district hospitals and moving away from reimbursement. Capitation is a fixed amount paid by the health insurance fund to providers every month per enrolled patient regardless of the number of treatments and treatment types. The amount is calculated based on the expenditure of the previous year. Capitation shifts the financial risks to providers and gives them stronger incentives to become more efficient and control costs, but perpetuates unequal spending between poorer and better-off provinces.

#### Coverage of social protection services

Social assistance was initially limited to poor people with no working capacity and no relatives to support them, but has since been expanded to cover a broader category of beneficiaries. Social assistance in Viet Nam consists

of regular cash transfers to vulnerable groups (poor, poor elderly, poor single mothers, poor children with HIV) and emergency cash relief in the event of natural disasters (flood, typhoons) or economic crises. They also include the distribution of monthly allowances to help households (not necessarily poor) that include family members with disabilities, elderly people above 80 years old and people who participated in the National Revolution (people with merit). According to MOLISA, in 2010, more than half (54.3%) of the 1.4 million beneficiaries were elderly persons (Table 3.3). The results of the 2012 household survey suggest that the number of beneficiaries has recently doubled to approximately 2.3 million.

Table 3.3. **Social cash transfers beneficiaries, 2010**

	Beneficiaries	Distribution (%)
Children	160 000	11.6
Elderly people	750 000	54.3
of which >80 years old, including health insurance	90 000	6.5
People with disabilities	340 000	24.6
Others	130 000	9.4
<b>Total</b>	<b>1 380 000</b>	<b>100</b>

Source: MOLISA, 2010.

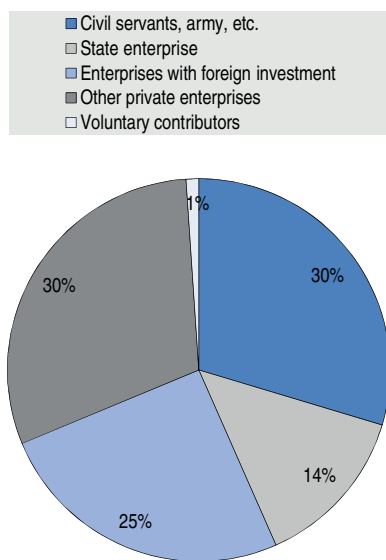
Social assistance coverage has expanded but most of the working poor are still excluded. Distribution of monthly benefits does not appear to target the poorest households. Social assistance benefits range from VND 180 000 to VND 540 000 per month (between USD 9 and USD 26), depending on the number of beneficiaries in a household. This represents only a small share (about 6.7% according to VHLSS, 2012) of a household's total expenditures. Emergency benefits and one-time lump sums represent about 1.0% of recipients' total expenditures.

Social insurance consists of compulsory and voluntary schemes. Compulsory scheme benefits include maternity leave, sickness, pension, work-related injury, occupational hazards, health insurance and survivorship benefits and cover people with formal labour contracts. Established in 2008, voluntary schemes are intended for all other workers especially those in the informal sector, however benefits are limited to pension, health insurance and survivorship benefits. Both systems function as pay-as-you-go schemes and require a minimum contribution calculated on the minimum wage. Social

insurance and health insurance are managed independently by Viet Nam Social Security (VSS). Social insurance was reserved for workers in the public sector until 1995.

Employee participation in social insurance has increased in the private sector in line with the development of private enterprises. Since 2000, strong growth and rapid development in the private sector have led to an increase in employee participation in social insurance. Participants from the public sector, including employees of state-owned enterprises, accounted for nearly half (44%) of contributors (Figure 3.6). There were approximately 9.1 million contributors in 2011 of which 96 000 (or about 1%) participated in the voluntary scheme.

Figure 3.6. Distribution of participants in social insurance schemes



Source: VSS, 2013.

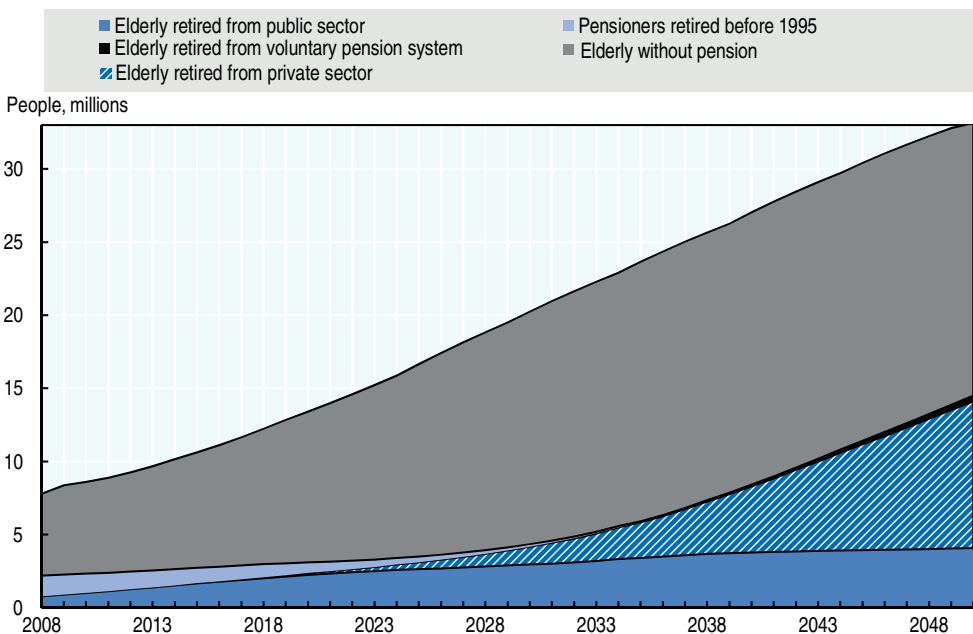
Social insurance coverage of the labour force remains limited, covering just 16.4% of the total workforce and 38.7% of all employees. According to VSS administrative data and VHLSS (2012), employees of small family businesses accounted for the majority of those without coverage. The remainder were workers on short-term contracts or employees in enterprises that evade social contributions.



Many workers currently reaching retirement age have not contributed sufficient years to receive a pension. To receive pension benefits workers must make contributions over a period of 20 years. Many workers joined the pension scheme after 1995 and have not made the required contributions. Under current regulations, they are therefore not eligible for a pension and will receive instead a lump sum. The number of lump sums distributed by VSS annually more than doubled over the period 2005-10 (VSS 2013).

In the absence of policies aimed specifically at expanding pension coverage, estimates show that currently about 73% of the elderly do not benefit from any pension income. Over the next two decades over 79% of the elderly will not receive any pension income even if coverage of workers progresses well. The share of elderly with pension will progress very slowly as participation of informal workers is likely to remain low. To date, voluntary participation in the pension system has been insignificant, because of issues relating to affordability and lack of awareness and conviction regarding possible benefits. The coverage gap of people in pension age (women 55 years old and men 60 years old and above) will also remain wide for many years to come (Figure 3.7).

Figure 3.7. **Micro simulation of the pension status, 2008-50**



Source: Castel, 2010.

Average pension benefits will also decline in coming decades. Current contributors are among the better off and a large share of retirees since 1995 (63.1%) have benefited from a particularly generous pension formula reserved for public sector employees. The pension formula in the private sector is more balanced in actuarial terms (the present value of a retiree's pension benefits is closer to the present value of his or her contributions) and benefits are accordingly lower. As the share of private sector retirees in the total number of pensioners increases, the average pension benefits will decrease. In 2011, the average pension benefit of public sector retirees was equal to about USD 128 per month, while the average pension benefit of retirees from other sectors was about USD 108 per month (VSS, 2013). Because many factors enter into the calculation of pension benefits (e.g. gender, number of years of contributions, individual incomes), it is not possible to attribute the entire difference in these two amounts to the variation in the pension formula. The widespread practice among enterprises of under-reporting wages to VSS will also contribute to the decline in pension benefits. This is a particularly worrying trend as it not only reduces the amount of contributions paid to VSS, but also reduces the wage base on which pension benefits are calculated. As a result, many future pensioners will likely receive the minimum pension (equal to USD 50.4 in 2012).

Widespread tax avoidance contributes to low social insurance coverage. According to household survey data, in 2012 about 80% of the labour force (aged between 15 and 65 years old) in Viet Nam consisted of farmers or self-employed workers. Very few of these people participated in the voluntary pension system. Moreover, among dependent workers, half of them were employed by household businesses. Most of these units are not required to register for tax or social insurance. Consequently, very few of these employees participate in the social insurance system. Finally, many workers in the formal sector (23.9% in 2006) are hired on a temporary basis and are not registered for social security (Castel and Trung-Thanh, 2012). As a result, only a small share (16.9%) of the workforce participated in social insurance in 2012. Many enterprises in the formal sector under-report staff wages to VSS to avoid paying full social insurance contributions. In 2006, less than half of the wages actually paid were reported (37.7% in private domestic enterprises and 46.9% in FDI firms). Workers also benefit from this practice as some enterprises paying lower contributions paid higher net wages under the counter (Castel and Trung-Thanh, 2012). (See Chapter 4 on fiscal policy for more information on taxes).

Low benefits, low participation and low tax collection threaten the social contract and social cohesion. Low worker coverage hinders the distribution of pension income to elderly retirees. At the same time, the vast under-reporting of

wages results in low social security benefits and small pension incomes. Workers in the informal sector remain unconvinced of the benefits of participation and employees in the formal sector often believe that evasion is the best choice. As a result, coverage and benefits remain persistently low and the system appears caught in a vicious circle. In such cases, the system could fail to strengthen social cohesion and could eventually become bankrupt, as occurred in Latin America in the 1980s.

Viet Nam is facing a rapid demographic transition and new reforms are needed to improve the coverage rate and financial sustainability of social insurance schemes. The drop in the fertility rate from 6.6 births per woman in 1975 to 1.8 in 2012 means that the share of the population aged 60 and above is expected to reach 35% in 2050 (Castel and Tong, 2012). This rapid aging of the population along with the transition from a rural to a more urbanised economy and the decline in the number of multi-generational families underlines the need to develop a modern social insurance system. Accordingly, the government is revising the Social Insurance Law of 2006. New reforms and policies to improve the system's coverage and long-term financial sustainability are expected to be introduced in 2015. If nothing changes, the pension system will start running deficits in about two decades (Castel and Tong, 2012). The government can, however, significantly slow down the growth in pension expenditures by adjusting pension income at lower rates than the growth of the minimum wage. In the context of the reform planned for 2015, the government can also equalise the retirement ages of men and women and gradually increase them both to 65 years. This measure will also improve the financial position of the pension system by increasing the average pension age of participants and the length of contribution (the average number of years that people contribute before claiming a pension) (Castel, 2010).

The government is analysing various policy options to expand coverage of the elderly with pensions and encourage participation. Proposals are being discussed to expand the distribution of non-contributory pensions for the elderly. However, the proposed policy is costly and cannot cover all elderly retirees. Providing the equivalent of VND 180 000 (or USD 8) in 2030 to all retirees above the standard retirement age in rural areas would cost 0.5% of GDP (Castel and Tong, 2012). The introduction of matching contributions is also under consideration to encourage the participation of workers in the informal sector. Other policies under discussion include plans inspired by recent experiments in China, such as the use of binding family commitments (a pension is granted to an elderly retiree if all adult children contribute) and a top-up of pension income by the state (Wang, Chen and Gao, 2011). However, inclusion of these policies in the new 2015 law has not been confirmed.

Viet Nam aims to achieve universal health insurance coverage by 2020. At present, several programmes subsidise participation for about half the population, enabling 67% to have health insurance. Access to care through health insurance is very broad. Ambulatory care, rehabilitation, and advanced diagnostic and curative services in registered establishments are reimbursed up to a ceiling equivalent to 40 times the minimum wage. However, a 20% deductible rate is imposed on all visits. This is reduced to 5% for people officially registered as poor and is removed for children under 6 years of age. Health insurance registration varies according to the region, but most people are registered with local commune health care facilities and, consequently, require referrals to access higher levels of health care at provincial and central hospitals. For insured patients who bypass lower-level referral facilities, the co-payments are 30% for district hospitals, 50% for provincial hospitals, and 70% for central and tertiary hospitals.

The health care system is organised into four levels. Commune Health Centres (CHCs) deliver primary care services including vaccinations, prenatal care and safe delivery. District hospitals and regional polyclinics deliver basic in-patient treatment and emergency care, and also act as a referral transition point between services levels, in particular in the case of health insurance beneficiaries. However, patients paying direct user fees when seeking care at higher level hospitals are not obliged to follow the referral system. Provincial and specialised clinics provide higher levels of in-patient and out-patient medical services. National and central hospitals provide the highest level of care with intensive specialisation (including traditional medicine) and modern technologies.

Hospital overcrowding is a rising concern. There are large gaps in quality between the different levels of care. As a consequence, users are self-referring to provincial or higher levels of care in spite of higher fees (Somanathan, Dao and Tien, 2013). Bed occupancy, particularly at central hospitals, now exceeds 100%, and overcrowding in tertiary hospitals for specialties such as oncology, paediatrics, cardiology, gynaecology and endocrinology, is widespread (MoH/HPG, 2013). Improving the quality of medical examinations and treatment at district hospitals and grassroots facilities is considered a key issue in reducing hospital overcrowding. Accordingly, the government is supporting the development of a large network of health care institutions and is encouraging medical practitioners at higher levels to take temporary secondment jobs at district hospitals and grassroots health care centres. Plans are also under development to better equip district hospitals and to strengthen technology transfers between national and provincial hospitals and local facilities.

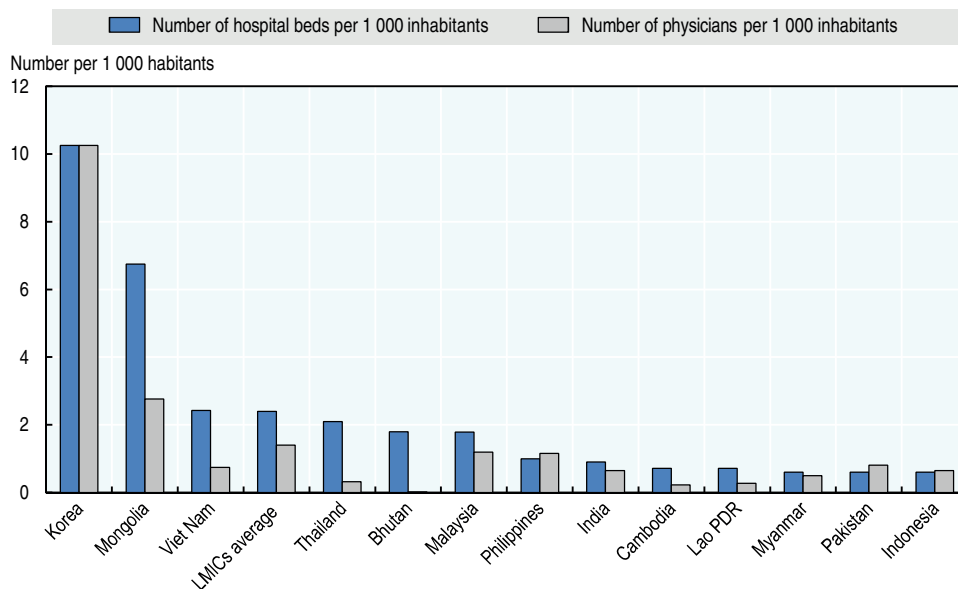
The government is continuing its efforts to improve the health of people in remote places and disadvantaged areas. The government's strategy consists of scaling up successful models in environmental health management implemented in recent decades, including the promotion of hygienic practices, family planning and prenatal and newborn screening, the prevention of infectious and parasitic diseases, and the fight against malnutrition.

The government has expanded health insurance coverage through the distribution of subsidies. Providers have moved away from reimbursements towards fees for services and extended capitation to district hospitals. According to VHLSS data for 2012, health insurance coverage has reached 66.8% of the total population. In addition, nearly 60% of all district hospitals switched to capitation. However, the transfer of health financing onto users was only partially achieved because the state subsidised about half of health insurance revenues (50.1% in 2010, see Table 3.10).

Health insurance coverage is high because large sectors of the population are automatically enrolled and subsidised by the state. The state fully subsidises health insurance fees for the registered poor, people from ethnic minorities, children under 6 and elderly persons over 85 years. It also funds the health insurance fees of recipients of social allowances and various special groups, such as veterans. These persons are automatically enrolled in health insurance and receive a free health insurance card. The state also partially subsidises the near poor and students who enrol in voluntary health insurance scheme. All other voluntary participants and wage employees for whom participation is mandatory pay full health insurance premiums. Figure 3.11 shows the proportion of people covered by socio-economic group.

Health care service coverage is extensive. According to the Ministry of Health data for 2012, all communes had a CHC, 76% had a doctor, 93.4% had an obstetrics or paediatrics assistant doctor or a midwife, and 96.6% of rural villages were served by a village health worker (MoH/HPG, 2013). Hospitals are, however, overcrowded. The main reason is the relatively low number of physicians per capita. Compared to other LMICs in Asia, Viet Nam's number of hospital beds per capita is about average at 2.43 in 2012. The average number of physicians per 1 000 habitants (0.7) is, however, lower than the average observed (1.4) for the whole group of LMICs (Figure 3.8).

Figure 3.8. Number of hospital beds and physicians per 1 000 habitants in selected countries in the region



Note: LMICs average includes: Bhutan, Cabo Verde, Egypt, El Salvador, Georgia, Ghana, Guatemala, India, Indonesia, Lao PDR, Lesotho, Moldova, Mongolia, Morocco, Pakistan, Paraguay, Philippines, Sri Lanka, Ukraine, Viet Nam and Zambia.

Source: World Bank open data, 2013.

## B. Equity

Social protection consists of a set of policies designed to reduce poverty and protect vulnerable people against external shocks that could cause significant income losses. Social protection in Viet Nam regroups labour market policies such as unemployment benefits, vocational training and credit schemes (see Chapter 2); social insurance including contributory pension and health schemes; and social assistance in the form of cash transfers and national poverty reduction programmes. Poverty reduction programmes include infrastructure development, health and subsidies for education and food for the poor, and targeted programmes for ethnic minorities and people living in remote areas. This section examines the equity of social protection programmes.

Poverty reduction programmes reach targeted beneficiaries. Since the 1990s, Viet Nam has implemented several large national poverty reduction programmes targeted at the poorest households and ethnic minorities living

in rural and mountainous areas. They include the National Targeted Poverty Reduction Programmes (HEPR 1998-2005, NTPRP 2006-2010); the Programme for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (Programme 135); and since 2009, the Rapid and Sustainable Poverty Reduction Programme (Programme 30a). The main goal of these programmes is to develop infrastructure in the poorest regions and increase capacity among poor and ethnic minority households to generate income by helping them to better access public services (e.g. health insurance, education, training and agricultural extension services), financial services (e.g. preferential credit without collateral) and housing and basic needs (e.g. clean water). Line ministries and local authorities also implement similar programmes in areas not targeted by national targeted programmes.

From 2009 to 2012, poverty reduction programmes were implemented in four out of five communes in rural areas, which have a significantly higher proportion of poor households. Programme 135 covered communes with a strong ethnic minority presence (62%) and those located in high mountainous areas (59%) and remote places (58%) (Table 3.4). Communes where Programme 135 and NTPRP were implemented reported a significantly higher proportion of poor households than other communes (41% versus 19% for Programme 135 and 19% versus 10% for NTPRP). Programme 30a targets districts with the highest official poverty rates and the highest proportion of “near poor” households. The near poor are defined as households with an income per capita lower than 1.3 on the official poverty threshold. In 2010, this amounted to a monthly income per capita between USD 21 and USD 27 in rural areas and between USD 26 and USD 32 in urban areas. In 2012, 59% of districts included in the programme had half or more of their population living in poverty and 90% had half or more of their population living in poverty or close to the poverty line.

Table 3.4. Coverage of poverty reduction programmes by commune characteristics, 2009-12

	Total	Geographical type					Remote area <sup>b</sup>		Prevalent ethnicity	
		Coastal	Delta	Midland	Mountains		Yes	No	Ethnic minority	Kinh and Hoa
					Low	High				
NTPRP <sup>a</sup>	78.6	70.0	73.3	76.5	82.5	91.7	90.0	74.5	92.4	75.3
P-135	18.8	15.0	4.9	3.5	20.1	58.8	57.5	5.1	61.6	8.8
Both	18.0	12.9	4.4	2.6	18.9	57.6	55.1	4.8	60.2	8.1
NTPRP or P-135	79.4	72.1	73.7	77.4	83.7	92.9	92.4	74.8	93.8	76.1

Notes:

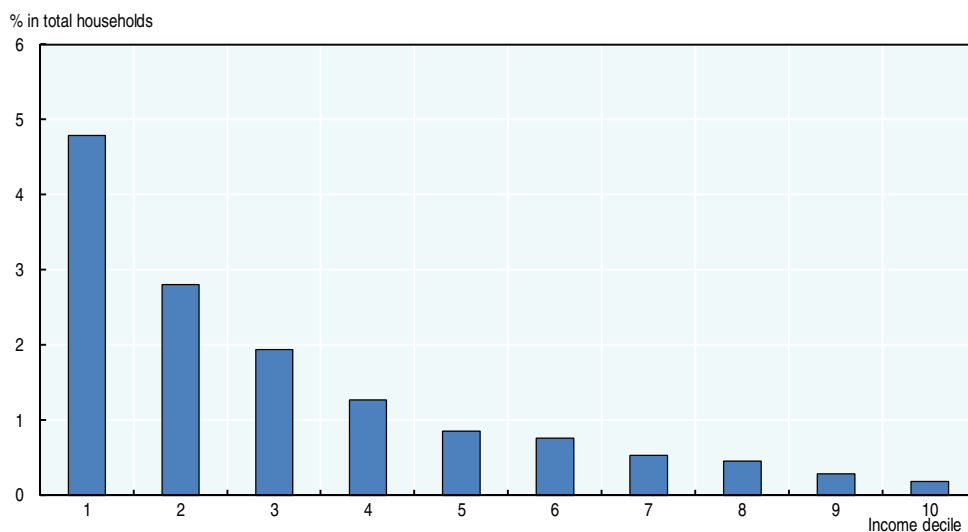
a) NTPRP and other government poverty reduction programmes.

b) Officially classified as remote places and as such entitled to geographical targeted policies.

Source: GSO, 2012 commune surveys.

The coverage rate of those registered as “poor” by the administration is high, but a large gap remains between the registered poor and the number of actual poor. According to VHLSS 2012, households officially registered as poor in rural areas had almost universal coverage (98%) (Figure 3.9), while households of ethnic minorities in rural areas also had extensive coverage (77%) (Table 3.5). Although almost all registered poor households benefited from poverty reduction programmes, nearly 40% of the bottom 20% households, who are effectively poor, were not covered (Table 3.6). About one-quarter of households in the third quintile were also among the beneficiaries, which points to inclusion errors; however, this could also be an outcome of programmes such as health insurance subsidies, which are not intended exclusively for the poor (Box 3.1). Another consequence of the poverty registration gap is the deepening of regional inequalities (Figure 3.10). Evaluating the effectiveness of the poverty registration system is further complicated by a lack of coherent definitions across communes and regions. For example, Hanoi and Ho Chi Minh City manage their own social programmes and use higher income thresholds to determine beneficiaries.

Figure 3.9. Share of households officially registered as poor, by income decile, 2012



Source: VHLSS, 2012.



**Table 3.5. Percentage of households benefiting from poverty reduction programmes, by registered poor and ethnicity, 2012<sup>a</sup>**

	Total	Urban	Rural
All households	29.1	10.6	37.0
Registered poor <sup>b</sup>	97.5	92.3	98.0
Not registered poor	18.1	7.0	23.6
Ethnic minorities	73.2	40.5	76.5
Kinh and Hoa	22.6	9.4	29.1

Notes: a) Participation in 2011 or 2012, without distinction between types of programmes (i.e. Programme 135, NTPRP or other poverty reduction programmes). b) Households officially registered as poor in 2011 or 2012.

Source: GSO VHLSS, 2012.

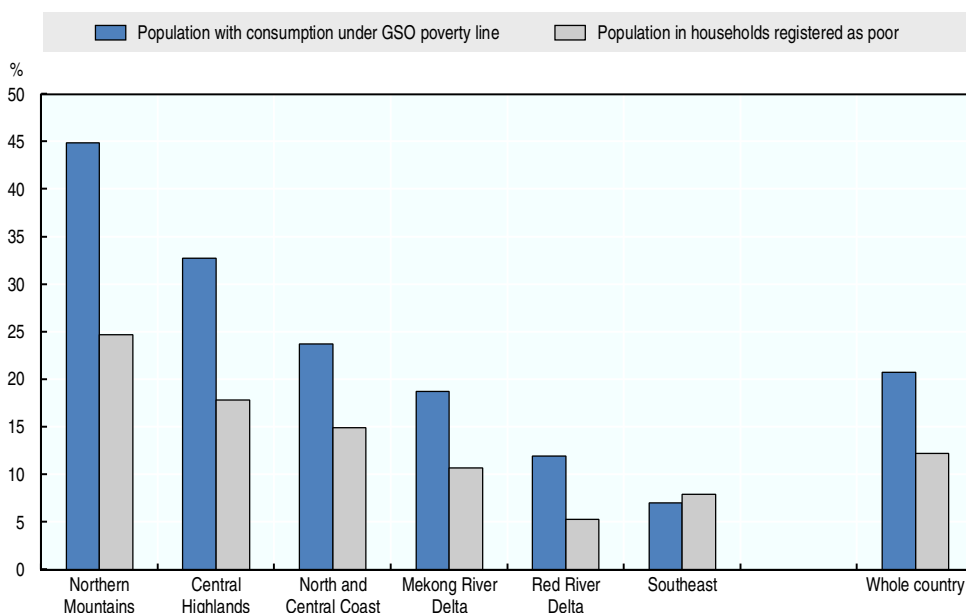
**Table 3.6. Percentage of households benefiting from poverty reduction programmes, by income quintile, 2012**

	The poorest	Quintile 2	Quintile 3	Quintile 4	The richest	Total
All households	61.7	39.1	27.6	18.4	11.8	29.1
Urban	26.9	12.0	8.6	6.8	4.7	10.6
Rural	68.6	45.8	36.5	27.4	19.6	37.0

Notes: The poorest refers to 20% of the poorest households (by income per capita) in the corresponding area.

Source: VHLSS, 2012.

Figure 3.10. Poverty rates and proportion of people registered as being poor, by region



Source: VHLSS, 2010.

### Box 3.1. The challenge of poverty measurements and targeting

The main issue with means-tested benefits concerns the process used to identify “registered poor” households. As an example, in 2012, 62% of the poorest 20% of the population (by income) were not registered as poor. The official registration process takes place at local levels where households with an income per capita lower than a certain threshold (lower in rural than in urban areas) are listed as poor. This threshold is decided through a combination of surveys and community discussions. The approach aims to identify who is poor within each community and appears to work well (World Bank, 2007). However, since the number of poor households registered as poor also depends on budget allocations, final decisions can exclude households who are effectively poor at the national level. As a result, the final list is not completely accurate and necessarily excludes a portion of poor people.

Three poverty lines are used in Viet Nam:

1) The poverty line measured by MOLISA for the registered poor list:

- Income per capita of VND 400 000 per month (USD 20.8 per month) in rural areas
- Income per capita VND 500 000 per month (USD 26 per month) in urban areas

**Box 3.1. The challenge of poverty measurements and targeting (cont.)**

Method: This approach uses a bottom-up process combining local surveys (proxy means test) with village-level discussions, using income to measure well-being. It constructs the poverty list at the commune level and determines eligibility for targeted programmes and social assistance. This list is closely aligned with budget considerations and poverty reduction targets, included in the Socio-Economic Development Plan (SEDP).

2) GSO poverty estimates based on income and official poverty lines updated by CPI (before 2006 for urban and rural food poverty lines); and for international comparison: USD 1.25 and USD 2 based on expenditure.

Method: This approach is based on successive rounds of VHLSS (1993, 1998, 2002, 2004, 2006, 2008, 2010, 2011, 2012), consistent survey design and is used to monitor poverty over time. It is independent of budget considerations and targets.

3) GSO-WB poverty estimates based on a “basic needs” poverty line established in the early 1990s. The new 2010 poverty line is VND 653 000 per person per month.

Method: This approach is based on successive rounds of VHLSS (1993, 1998, 2002, 2004, 2006, 2008, 2010), consistent survey design and is used to monitor poverty over time. Data and methodology are available to outside researchers and the results are externally validated.

In 2012, monthly cash transfers were effective in reaching the bottom 20% of households. According to VHLSS 2012, the three social assistance cash transfer programmes – monthly benefits for vulnerable groups, emergency transfers and allowances for people who participated in the National Revolution – covered 10.1%, 1.6% and 4.3% of all households, respectively (Table 3.7). Monthly cash transfers were distributed to 37.5% of the registered poor and 21.2% of the poorest households. Although by design these programmes target some individuals that are not necessarily poor (e.g. people with disabilities and elderly persons above 80 years old), coverage was clearly lower among better-off households, except for individuals who participated in the Revolution. It is difficult to obtain more detailed information on the coverage gap as VHLSS does not provide adequate data on whether a person should be a beneficiary.

Table 3.7. Coverage of social cash transfers in 2012 as a percentage of total households

	All	Urban	Rural	Ethnic minorities	Registered poor	The poorest	Quintile 2	Quintile 3	Quintile 4	The richest
Monthly benefits	10.1	5.5	12.1	19.3	37.5	21.2	14.6	8.5	7.0	4.1
Emergency transfers	1.6	0.4	2.1	3.1	4.5	4.2	1.7	1.8	0.6	0.5
People with merit <sup>a</sup>	4.3	2.5	5.1	3.3	3.4	3.2	4.5	4.3	5.3	4.1

Note: a) Monthly allowances to people who participated in the National Revolution.

Source: Authors' calculations based on VHLSS, 2012.

About 70% of cash transfers reached poor households in the poorest regions of the Northern Mountains and Central Highlands. In total, for all regions, almost 60% of beneficiaries were among the poor (considered as those registered as poor households in the bottom 20%). The highest share of poor households among beneficiaries was found in the Northern Mountains region (79%). The relatively lower share of poor among the beneficiaries in the regions of the Southeast and Red River Delta is probably due to specific programmes implemented in Hanoi and Ho Chi Minh City that use a higher poverty line to determine eligibility (Table 3.8).

**Table 3.8. Distribution of social cash transfers by region between poor and non-poor households and by residence, 2012**

	Total	Red River Delta	Northern Mountains	North and Central Coast	Central Highlands	Southeast	Mekong River Delta
Poor households <sup>a</sup>	58.6	41.0	79.2	63.7	71.7	33.9	55.8
Other households	41.4	59.0	20.8	36.3	28.3	66.1	44.2
Urban	15.1	13.6	7.8	11.7	12.2	41.9	18.6
Rural	84.9	86.4	92.2	88.3	87.8	58.1	81.4

Note: a) households that are registered as poor or among the 20 % poorest households (based on income per capita).

Source: Authors' calculations based on VHLSS, 2012.

Most participants in social insurance are young and among the better off. In 2012, about 59% of participants lived in urban areas. According to VHLSS 2012, the majority of social insurance contributors were under 40 years old and more likely to be among the richest 40% regardless of age (Table 3.9). In fact, 67% of people who belong to the middle class do not have social insurance.

**Table 3.9. Distribution of participants in social insurance by quintile and age group, by age group share in urban areas**

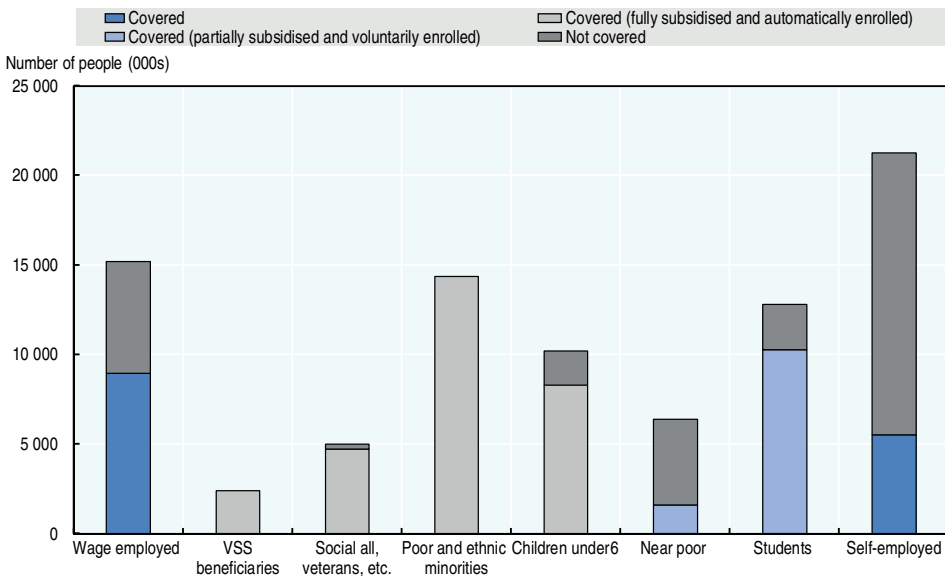
	The poorest	Quintile 2	Quintile 3	Quintile 4	The richest	Share in total	Share in urban <sup>a</sup>
under 40 yrs	4.0	11.5	19.1	26.5	39.0	67.4	59.9
>40 yrs old	2.4	6.1	10.4	25.1	56.0	32.6	40.1
Total	3.5	6.7	16.3	26.0	44.5	100	67.3

Note: a) share of participants of corresponding age group in urban areas.

Source: Authors' calculations based on VHLSS, 2012.

As for health insurance, universal coverage of students should be achieved in the close future, however coverage of the near poor remains low. In 2011, the coverage rate for students was already 80%. Enrolment became mandatory in 2012 with the state subsidising 30% of health insurance premiums for students. The state also subsidised between 30% and 70% of health insurance fees for eligible near poor (defined as households with an income per capita lower than 1.3 times the official poverty threshold). Universal coverage of this group might be more difficult to achieve, however. In 2011, only 25% was covered by health insurance (Figure 3.11). This group corresponds roughly to 6.8 million persons identified in VHLSS 2010 as being poor but not officially registered as poor (excluding automatically enrolled people from ethnic minorities). Despite the high level of state subsidies, the low rate of coverage among the near poor suggests that lack of participation in health insurance may not be related to issues of affordability.

Figure 3.11. Health insurance coverage by group of population, 2011

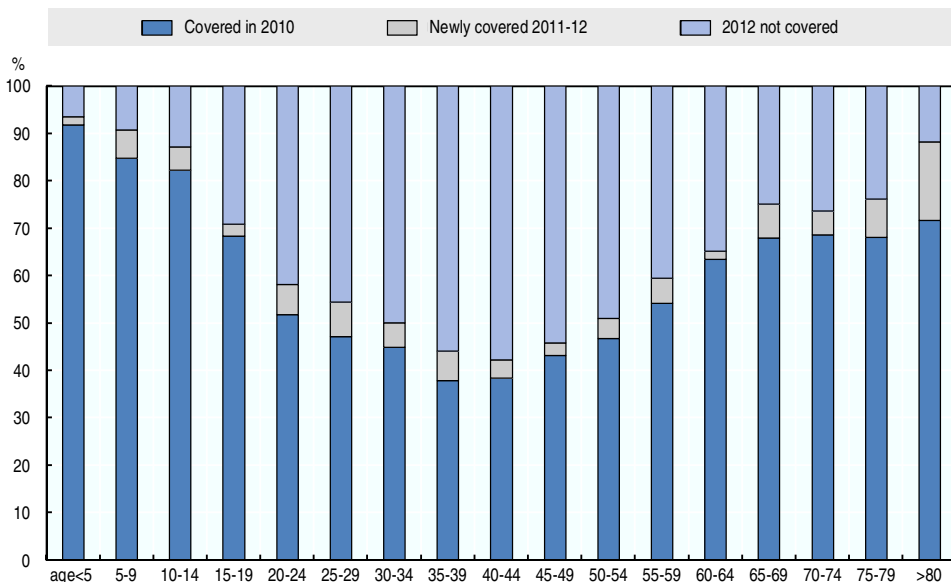


Source: Authors' calculation based on MoH, 2013.

Wage employees in small businesses, farmers and self-employed comprise the majority of people without health insurance. Figure 3.12 shows the distribution of health insurance coverage across age groups. In 2012, the coverage gap was highest among people of working age (between 20 and 55 years old)

for all occupations. Nearly half (47.1%) of respondents to household surveys in 2006 indicated that they did not participate in health insurance because they were in good health or because they were not interested in the services offered. Only one in five respondents cited affordability as a reason (Castel et al., 2011).

Figure 3.12. Health insurance coverage by age group, 2010-12



Source: Authors' calculations based on VHLSS, 2010 and 2012.

Health insurance spending on health care benefits is not distributed equally among the insured. In 2010, state budget transfers (the health insurance premiums paid to health insurance on behalf of people automatically enrolled and subsidised) accounted for half of health insurance revenues. The amount of health insurance spending corresponding to the subsidised populations also represented half of total health insurance spending. However, if health care utilisation was equally distributed across the insured, this share would be much closer to the weight of the subsidised populations in the total number of insured (71.7% in 2010). In contrast, employees and pensioners, who represented one-fifth (20.4%) of participants, accounted for more than one-third (34.4%) of total spending. The share of health expenditures among voluntary participants was twice their relative weight among the insured (15.5% vs 7.9%) suggesting serious issues of adverse selection (Table 3.10).

Table 3.10. Health insurance revenues and expenditures, 2010

	No. of insured	Revenues	Expenditures	Balance
	in million	in VND trillion		
<b>Total</b>	52.4	25.5	19.1	6.5
Employed in formal sector and pensioners	10.7	11.2	6.6	4.6
Groups subsidised by the state	37.6	12.8	9.6	3.2
Voluntary participants	4.2	1.5	3.0	-1.4
<b>Total share</b>	100	100	100	
Employed in formal sector and pensioners	20.4	43.9	34.4	
Groups subsidised by the state	71.7	50.1	50.1	
Voluntary participants	7.9	6.1	15.5	

Source: MoH, 2013.

Following the creation of the health insurance system, poor populations have tended to under-utilise health care services. This imbalance was particularly evident in the case of state-funded transfers to the Health Care Fund for the Poor. Resources made available in poor and mountainous provinces were underused and the unspent funds were used to cover deficits in the insurance funds of cities and richer provinces. As a result, a policy created to enable cross-subsidies from the rich to the poor through fund pooling, instead helped to channel funds to richer regions (MoH/HPG, 2008).

The approach used by the health insurance to fund district hospitals and Commune Health Centres (CHCs) perpetuates inequalities in health care usage between poor and more affluent communities. District hospitals and CHCs depend heavily on the amount of resources health insurance makes available to them. Whatever the reimbursement mechanism used (capitation or fee for service), the amount transferred to a district hospital or a CHC at the beginning of each year is, in practice, determined by the number and type of insured persons registered at that facility. For example, less funds are provided per “registered poor” than per wage employed. This is because poor people tend to make significantly lower use of health care facilities for reasons relating to opportunity costs or geographical, cultural and financial barriers. This process does not consider the age structure of the insured population in the area (although health expenditures per capita increase with age) or the health status of the population making less use of the facilities. Consequently, health care facilities that register a higher proportion of subsidised poor and vulnerable populations receive relatively lower levels of financing.

New national standards have been established in 2012 to stimulate improvement in the quality of community health care services. Higher national health standards have been set with the aim of making significant improvements in health care quality at commune level. In 2010, eight out of ten CHCs met national health standards, but with new standards; in 2012, fewer than six out of ten satisfied the new requirements. Table 3.11 presents the targets for 2015.

Table 3.11. **Health service indicators**

	2010	2011	2012	2015 (target)
Number of doctors per 10 000 persons	7.2	7.3	7.5	8.0
Proportion of villages served by village health workers (%)	78.8	82.9	81.2	90.0
Proportion of communes with a doctor (%)	70.0	71.9	76.0	80.0
Proportion of communes with obstetrics/paediatrics assistant doctor or midwife (%)	95.6	95.3	93.4	95.0
Hospital beds per 10 000 persons (excluding CHCs <sup>a</sup> )	21.7	22.5	24.3	23.0
Proportion of CHCs achieving national health benchmark <sup>b</sup>	80.1	76.8	74.1	60.0

Notes: a) Commune Health Centre. b) The new benchmarks were established in 2012. The data for 2011 and 2012 indicate achievement for a mix of old and new standards.

Source: MoH/HPG, 2013.

Regional health care coverage and quality gaps appear between the richest and poorest regions. No province reports an immunisation rate of children lower than 93%. The proportion of CHCs with a physician and the share of rural villages with a health worker are also high across all regions. The presence of a paediatric or an obstetric doctor or a midwife is, however, much less common in the Northern Mountains, the Central Highlands and the North and Central Coast. Similarly, the proportion of CHCs that fulfil national health standard requirements is particularly lower in those regions (Table 3.12).



Table 3.12. Public health care provision by region, 2012

	Total	Red River Delta	Northern Mountains	North Central Coast	Central Highlands	Southeast	Mekong River Delta
Children under age 1 fully immunised	95.9	97.7	95.5	97.1	96.5	93.3	95.0
CHCs <sup>a</sup> meeting national standards <sup>b</sup>	74.1	90.3	53.0	68.5	61.9	90.7	87.1
CHCs with physician	93.4	92.2	95.1	94.5	97.0	99.1	96.7
CHCs with obstetrics/ paediatric doctor or midwife	76.0	78.7	66.4	68.8	69.7	83.4	87.2
Rural villages with health worker	96.6	98.0	96.3	97.9	98.1	96.6	90.8

Notes: a) Commune Health Centres. b) data indicate achievement for a mix of old and new standards (new benchmarks were applied in 2012).

Source: MoH/HPG, 2013.

Inequalities in the utilisation of health care are not observable at aggregate levels. Differences appear only in relation to the number of out-patient visits (Table 3.13). By quintile, the number of visits per capita for medical treatment and pregnancy increases along with growth of household living standards. However, higher level of health care use among better-off households does not necessarily reflect significantly higher risks of ill health among the poor, as the better-off can overseek medical attention. The gap between quintiles of number of in-patient visits per capita is, in fact, much smaller.

Table 3.13. Number of in-patient and out-patient visits per capita for medical treatment or during pregnancy, 2012

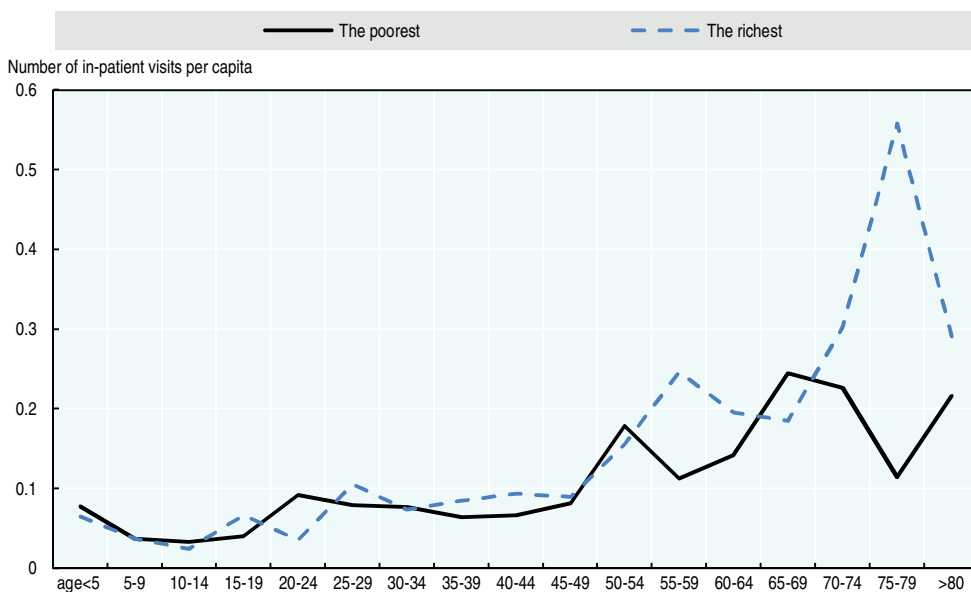
	The poorest	Quintile 2	Quintile 3	Quintile 4	The richest	Total	Ratio poorest on total
Total	1.07	1.32	1.36	1.49	1.52	1.35	0.70
In-patient	0.10	0.10	0.09	0.09	0.10	0.10	0.98
Out-patient	0.77	1.03	1.06	1.14	1.10	1.02	0.70

Note: Quintile based on income per capita.

Source: Authors' calculation based on VHLSS, 2012.

Inequalities of use are more apparent by age group in the number of in-patient visits per capita, particularly among the oldest. As health deteriorates with age, comparison by age group of the number of in-patient visits per capita provides better evidence of possible inequalities in access to health care. Figure 3.13 reproduces the number of in-patient visits per capita (for treatment or pregnancy) of the 20% poorest and 20% richest people. As expected, the number of in-patient visits per capita increases with age for the richest as well as for the poorest. However, in the case of the richest group, the number of in-patient visits of persons aged 70 and above is higher than for persons aged 65 to 69 years; this is not the case of the poorest group. These results suggest that poor older persons in Viet Nam do not seek care or face stronger obstacles to accessing care.

Figure 3.13. Number of in-patient visits (for treatment and pregnancy) per capita by wealth and age group, 2012

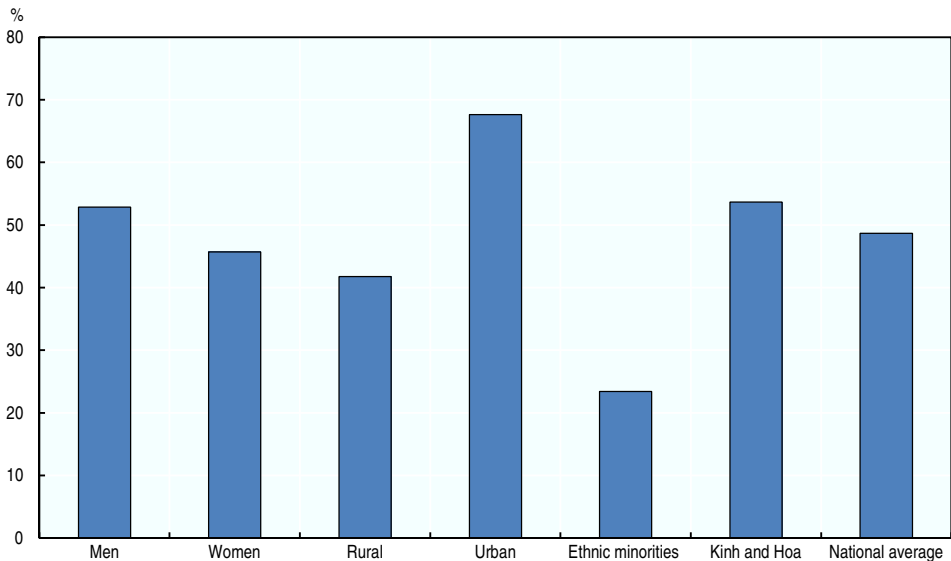


Source: Authors' calculation based on VHLSS, 2012.

Secondary and tertiary hospitals are overcrowded with district hospitals playing a gate keeper role. This results in unequal access to high-level care. In cases of referral to higher levels of care, health insurance deducts the cost of the referral from the capitation package of facilities where the patient is registered.

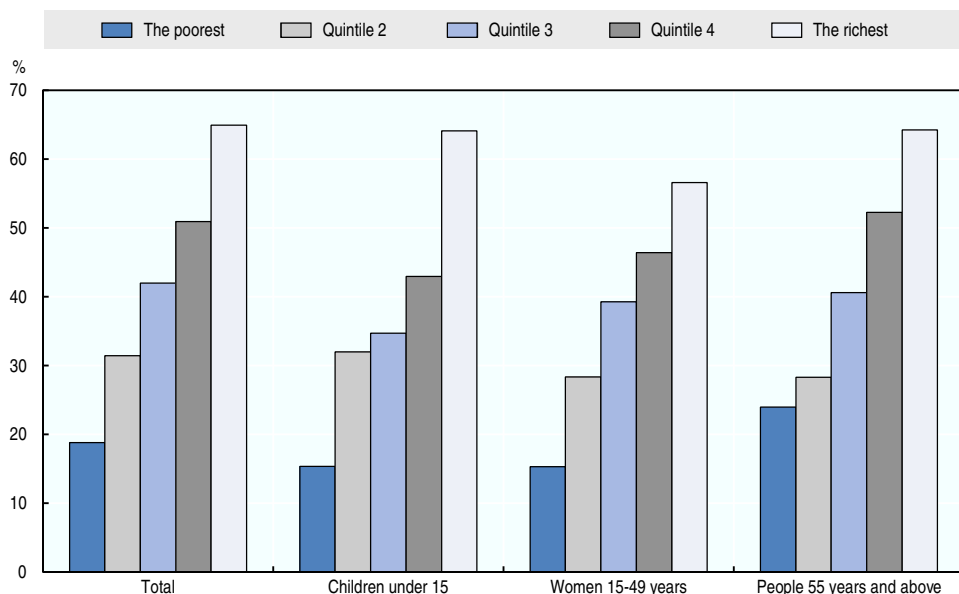
District hospitals and CHCs therefore, have few incentives to refer patients to secondary and tertiary levels (Somanathan, Dao and Tien, 2013). As a result, the average proportion of in-patient visits to provincial, national and other higher levels of care, out of the total number of visits to public sector facilities, varies with household living standards. Figure 3.14 compares the share of in-patient visits at secondary and tertiary levels between different population groups. Kinh and Hoa populations have more access (54%) to high-level care than ethnic minorities (22%). Figure 3.15 presents, moreover, the proportion of visits at secondary and tertiary levels by rural residents by quintile and age group. Slightly more than one-quarter (27%) of in-patients visits made by people of the first quintile are for high-level care. In contrast, the use of high-level care by the richest people (56%) is higher than the national average. Access to high-level of care is also unequal for women of reproductive age (14% compared to 53%), children (14% compared to 50%) and people of 55 years and above (27% compared to 52%).

Figure 3.14. Share of high-level care in total in-patient visits (for treatment and pregnancy) by ethnic groups, gender and residence, 2012



Source: Authors' calculations based on VHLSS, 2012.

Figure 3.15. Share of high-level care in total in-patient visits (for treatment and pregnancy) by age group and quintile of rural residents, 2012

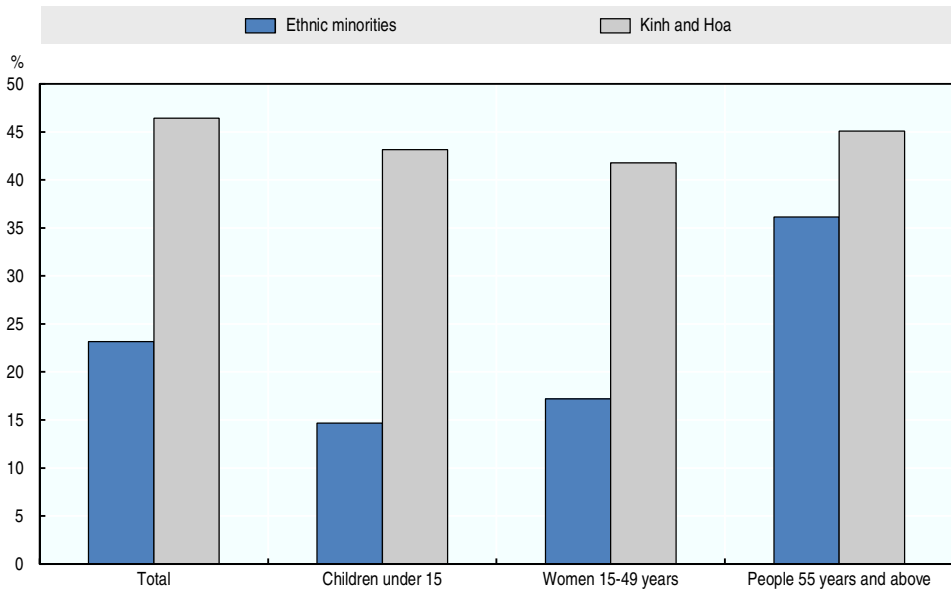


Note: Quintile based on income per capita.

Source: Authors' calculations based on VHLSS, 2012.

Similar inequalities in access to high-level care are observed between ethnic minorities and Kinh and Hoa populations. Access to higher level of care is much lower for ethnic minorities than for the rest of the population: ethnic minorities account for 23% of in-patient visits at secondary or tertiary hospitals, while Kinh and Hoa populations account for 46%. The gap is particularly significant in the case of children (15% vs. 43%) and women of reproductive age (17% vs. 42%).

Figure 3.16. Share of high-level care in total in-patient visits (for treatment and pregnancy) by age and ethnic groups in rural areas



Source: Authors' calculations based on VHLSS, 2012.

Better-off households spend almost four times more on health care than the poorest households. Private and public financial support for uninsured health care spending is not particularly progressive. Little information is currently available regarding the distribution of total health spending per capita, as the health insurance system is yet to undertake thorough analysis of patterns of insured claims regarding disease, age group, medical services and so on. The information reported in household surveys only provides data on out-of-pocket health expenditures, which in 2012 amounted to USD 45 per capita. Table 3.14 presents spending levels by quintile and type of expenditure. The last column shows the amount of financial aid (public and private) received by households to cover health spending. In relation to total out-of-pocket payments, financial aid is relatively more important for the richest households. However, aside from this group, private and public financial support represent slightly more than one-fifth of household out-of-pocket payments regardless of living standards.

Table 3.14. Total out-of-pocket health spending per capita in dollars and related financial aid, 2012

Total out-of-pocket health expenditure per capita in USD and financial aid							
	Expenditures						Revenues
	Total	Out-patient	In-patient	Drugs	Others	Insurance	Financial aid
Total	45.0	16.2	17.3	7.5	0.8	3.2	10.1
The poorest	23.8	7.7	10.4	4.1	0.2	1.4	5.3
Quintile 2	33.9	11.4	14.0	5.5	0.4	2.6	7.2
Quintile 3	39.0	15.0	13.5	6.1	0.7	3.7	8.8
Quintile 4	50.8	17.9	19.2	8.8	0.7	4.2	11.4
The richest	85.1	32.4	31.9	14.5	1.5	4.8	19.6
In % of total health expenditures							
Total	100	36.0	38.4	16.7	1.8	7.1	22.4
The poorest	100	32.4	43.7	17.2	0.8	5.9	22.3
Quintile 2	100	33.6	41.3	16.2	1.2	7.7	21.2
Quintile 3	100	38.5	34.6	15.6	1.8	9.5	22.6
Quintile 4	100	35.2	37.8	17.3	1.4	8.3	22.4
The richest	100	38.1	37.5	17.0	1.8	5.6	23.0

Source: Authors' calculations based on VHLSS, 2012

## Policy conclusions

Sustained and inclusive economic growth needs to remain high on the policy agenda. In the context of continuing structural transformation and rapid economic growth, equitable distribution of income gains across different population groups represents a challenge for Viet Nam. Social inclusion as defined in this review refers to the provision of certain rights to all individuals and groups in society, such as decent work, education and training, health care or adequate housing. In Viet Nam, strong economic performance has led to income gains for the majority of the population and a remarkable decline in poverty, but the poorest have benefited least and there are rising concerns over persistent poverty among certain groups of the population. Vulnerability among the rising middle class is also a matter of concern in the absence of universal coverage of social protection schemes. Fast growth therefore needs to be accompanied by careful macroeconomic and fiscal management in combination with effective redistributive policies.

Increased transparency in the process for registering officially poor households would help to strengthen the social contract. There is a significant gap between the officially registered poor and the number of actual poor. Although the list of registered poor is generated through consultations and community discussions, it also depends on budget allocations, which exclude households who are effectively poor. Better communication on this issue is necessary to avoid tension and unrest. In the long term, a larger contribution base will be needed to expand social benefits for the poor and ensure coverage for all those in need.

Better access to health care services for the poor, ethnic minorities and those living in rural areas would help to improve health outcomes among these groups. Health insurance coverage reached nearly 67% in 2012. All ethnic minorities, registered poor, children under 6 and elderly people over 85 automatically receive coverage. However, analysis of health care utilisation by income quintile and ethnicity shows that the richest households and the Kinh and Hoa population enjoy the largest share of high-level care. CHCs that meet national standards are also less accessible in the poorest Northern Mountains and Central Highland regions.

Mandatory and voluntary social protection coverage should be expanded and developed to cover the middle class. About 67% of people in the middle class are not covered by social insurance. The majority work in the informal sector. Voluntary social insurance schemes are under-developed with limited benefits, and are not yet an attractive option. Better enforcement of taxes and social contributions is needed in order to increase the contribution base and expand the coverage of social insurance.

A specific concern is the very low pension coverage of elderly retirees, which is projected to get worse without policies aimed at expanding coverage. Voluntary schemes will need to be better promoted and pension income controlled at a lower rate than the growth of the minimum wage to improve the financial position of the pension system. Gradually increasing the retirement age needs to be considered.

## Annex

Table 3.A.1. Viet Nam's total state budget on social expenditures, 2004-12

Unit: VND billion

	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Total social expenditures</b>	55 185	61 475	78 060	92 030	114 020	148 831	179 836	222 792	322 561
Education and training	25 343	28 611	37 332	43 997	53 560	69 320	78 206	99 369	152 590
Health	6 009	7 608	11 528	12 688	14 384	19 354	25 130	30 930	54 500
Social protection <sup>a</sup>	17 282	17 747	22 157	27 229	37 137	50 266	64 128	78 090	96 624
Others <sup>b</sup>	6 551	7 509	7 043	8 116	8 939	9 891	12 372	14 403	18 847
<i>As a share of GDP<sup>c</sup></i>									
GDP	779 338	914 001	1 061 565	1 246 769	1 616 047	1 809 149	2 157 828	2 779 880	3 245 419
<b>Total social expenditures</b>	7.1	6.7	7.4	7.4	7.1	8.2	8.3	8.0	9.9
Education and training	3.3	3.1	3.5	3.5	3.3	3.8	3.6	3.6	4.7
Health	0.8	0.8	1.1	1.0	0.9	1.1	1.2	1.1	1.7
Social protection	2.2	1.9	2.1	2.2	2.3	2.8	3.0	2.8	3.0
Others	0.8	0.8	0.7	0.7	0.6	0.5	0.6	0.5	0.6
<i>As a share of state budget current expenditures</i>									
Total state budget current expenditure	187 353	229 092	268 410	336 313	411 836	508 029	586 317	706 428	850 385
<b>Total social expenditures</b>	29.5	26.8	29.1	27.4	27.7	29.3	30.7	31.5	37.9
Education and training	13.5	12.5	13.9	13.1	13.0	13.6	13.3	14.1	17.9
Health	3.2	3.3	4.3	3.8	3.5	3.8	4.3	4.4	6.4
Social protection	9.2	7.7	8.3	8.1	9.0	9.9	10.9	11.1	11.4
Others	3.5	3.3	2.6	2.4	2.2	1.9	2.1	2.0	2.2

Notes: The state budget on social expenditures presented here does not include capital expenditures on infrastructure in the context of poverty reduction programmes.

a) Cash transfers, pension and allowances. b) Sectors of science, culture, information, sport, family planning. c) 2010 GSO GDP figures.

Source: MoF, 2013.



Table 3.A.2. Transfers to households from social insurance and pension system, 2007-11

	2007	2008	2009	2010	2011
<b>A. VSS payments</b>					
<b>1. Old-age pensions to people who retired after 1995</b>					
Number of old-age pensioners retired after 1995	555 552	636 976	719 855	809 537	892 616
Average benefit per year (VND thousand)	1 297	1 441	1 444	1 815	1 907
Total transfers to old-age pensioners (VND billion)	8 648	11 012	12 475	17 635	20 429
<i>in % of GDP</i>	0.7	0.7	0.7	0.8	0.7
<b>2. Total payments <sup>a</sup></b>					
Number of pensioners (old-age and others) after 1995	692 658	790 272	NA	NA	97 1986
Total transfers (lump sum included) (VND billion)	12 350	17 547	NA	NA	26 505
Total short-term benefits (VND billion)	2 115	3 005	NA	NA	5 169
<b>Total transfers from VSS funds (VND billion)</b>	<b>14 465</b>	<b>20 552</b>			<b>31 674</b>
<i>in % of GDP</i>	1.2	1.2			1.1
<b>B. State budget transfers to pensioners who retired before 1995</b>					
Number of people retired before 1995 <sup>a</sup>	1 439 020	1 413 396	NA	NA	1 319 042
State budget transfers (VND billion)	19 316	23 511	26 461	28 881	31 988
<i>in % of GDP</i>	1.5	1.5	1.5	1.3	1.2
<b>C. Total transfers to households from social insurance and the pension system</b>					
Total number of pensioners	2 131 678	2 203 668	NA	NA	2 291 028
<b>Total transfers to households (VND billion)</b>	<b>33 781</b>	<b>44 063</b>			<b>63 662</b>
<i>in % of GDP</i>	2.7	2.7			2.3

Note: a) Figures in grey cells are authors' estimates based on the ILSA pension model forecast.

Sources: VSS, 2009, 2013; MOLISA, 2013; ILSA pension model, 2009 and authors' calculations.

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## Chapter 4

# Fiscal policy and the social contract

This chapter examines the role of fiscal policies in fostering social cohesion in Viet Nam. The first section discusses the importance of fiscal legitimacy for the social contract. The second section provides an analysis of the effect of personal income tax (PIT) and public transfers on income inequalities. The last section examines the links between fiscal decentralisation – transfers from central to local government – and regional disparities.

Fiscal policies such as taxes and transfers can play an important role in reducing income inequalities and regional disparities, and are thus traditionally considered a pillar of social cohesion. There exist several schools of thought on the link between fiscal policies and development. The first is primarily concerned with economic growth. It views fiscal policy as a distortion of incentives for investment and employment and advocates for a smaller role of the state. The second view considers fiscal policies as a tool to amplify the effects of automatic stabilisers to help economies converge more quickly towards long-term potential levels of employment and growth. The third position, which this report supports, views fiscal policy as the link between citizens and the state and at the heart of the social contract, whereby fair and effective taxes underlie the provision of high-quality public expenditure (OECD, 2008).

Effective social spending is believed to contribute to improvements in well-being and human development and reductions in high levels of inequality, which may otherwise hinder economic growth (Berg and Ostry, 2011). Taxation also mobilises citizens to participate in debate over taxation levels and use of tax revenue, making governments accountable for their actions and thereby determining the parameters of a genuine social contract.

Effective tax collection depends significantly on the strength of the social contract. A healthy social contract is determined by the provision of adequate and good-quality public services, supported by a transparent and progressive tax system. Wider belief in the effectiveness and fairness of the tax system lowers the level of tax evasion and raises the level of tax revenue. High levels of fiscal legitimacy – the belief that the tax and public spending system is fair – exist when tax and transfer systems are effective in addressing inequality, public services are delivered equitably and there is a reasonable level of public trust in the government’s management of the fiscal system (OECD, 2008). Fiscal legitimacy determines the potential to increase fiscal margins, which allow governments to improve the quality and delivery of public services and strengthen the social contract.

### A. Fiscal legitimacy

Effective and equitable fiscal policies are essential to preserve the social contract. Fiscal policies such as taxes and transfers are essential tools to ensure sustainable funding for social programmes and public investments; they also contribute to reducing income and spatial inequality. However, trust and

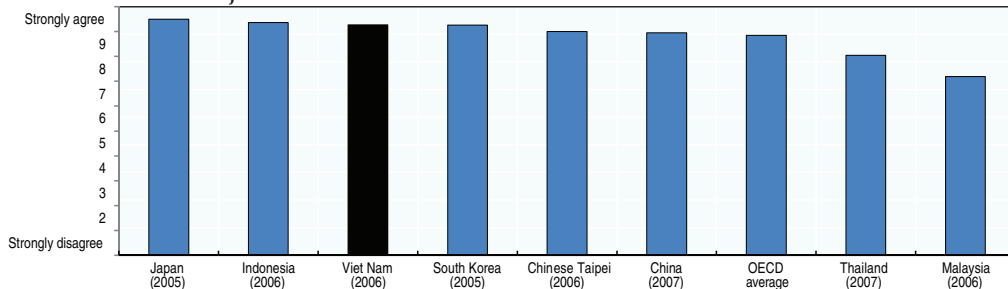
confidence in fiscal institutions are essential to ensuring fiscal performance and preserving the social contract. The level of trust in the government's fiscal responsibility is often driven by the extent to which taxes and transfers play a redistributive role. When taxation fails to bridge the gap between richer and poorer individuals it undermines fiscal legitimacy, and this can damage the social contract.

Trust in government's handling of budgetary issues is improving, but challenges remain. Trust in authorities is one of the key indicators to measure fiscal legitimacy. Although corruption remains a challenge in Viet Nam (NORAD, 2011), overall trust in authorities regarding budgetary issues is high. According to the Public Administration Performance Index (PAPI) 2013 results, 74% of respondents believed in the accuracy of budget information – an improvement on both 2011 and 2012. This confidence level hints at a small first step towards civic participation in fiscal policy making, which can serve as a platform for strengthening the social contract. Notwithstanding the above positive trend, only 37% of respondents nationwide were aware of the decision to publish commune budgets. Awareness of commune land-use plans also remains low at 20% year-on-year (PAPI, 2011, 2012, 2013).

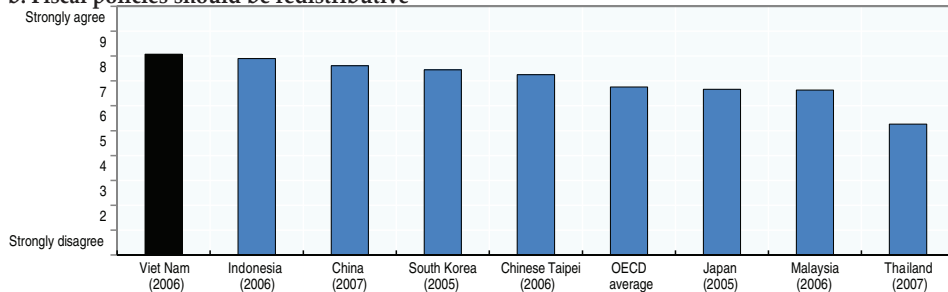
Most Vietnamese consider tax evasion unjustifiable, but under-reporting of wages is widespread. An overwhelming majority of respondents (irrespective of gender, educational level, age or ethnicity) state that cheating on taxes is never justifiable. The average score of 9.3 (on a scale from 1 “always justifiable” to 10 “never justifiable”) is surpassed only by Japan and Indonesia (Figure 4.1a). Attitudes against tax evasion are crucial for the functioning of the fiscal system. The lower revenues in developing countries, often due to inefficiencies and evasion (Bastagli, Coady and Gupta, 2012), limit the scope for redistributive social spending. Despite good tax morale in Viet Nam, the practice is different. In 2006, only 32.5% of workers' wages in registered enterprises were reported to the Viet Nam Social Security (VSS). The practice of under-reporting wages stems from the calculation of social security contributions “from the wage set down in the worker's employment contract”, which is not adjusted in case of raises (Castel and To, 2012).

Figure 4.1. Attitudes towards fiscal policies, average scores

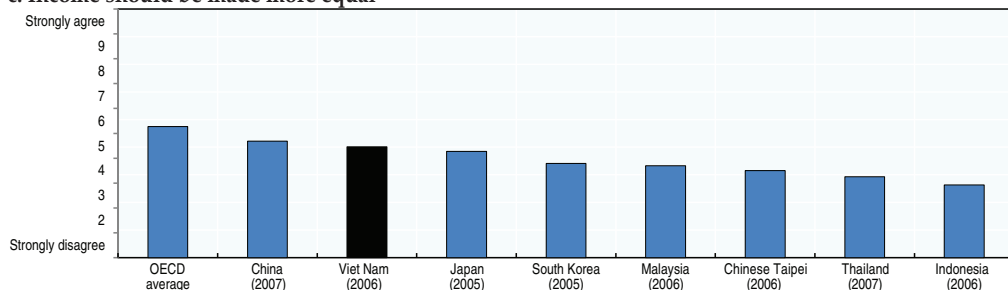
**a. Tax evasion is never justifiable**



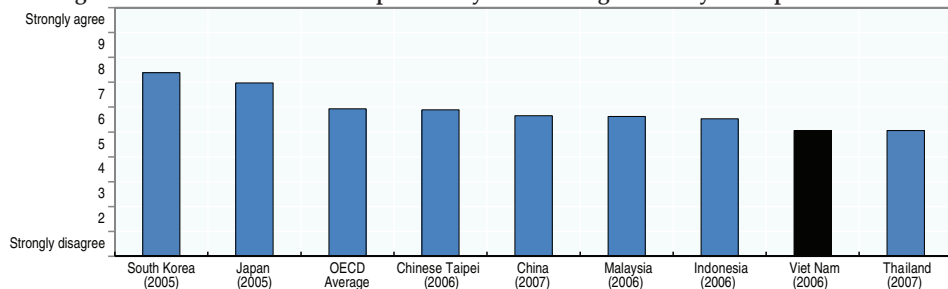
**b. Fiscal policies should be redistributive**



**c. Income should be made more equal**



**d. The government should assume responsibility for ensuring that everyone is provided for**



Notes: Interviews were conducted face-to-face. This method can distort responses as opposed to anonymous questionnaires (McGee, 2006). The OECD average is composed of Australia, France, Germany, Hungary, Japan, Netherlands, Norway, South Korea, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

Source: Authors' calculations based on World Values Survey.



A strong social contract has particular relevance for Viet Nam in the context of recent rapid socio-economic changes. Profound structural changes have affected not only the economy, but also households in terms of income and social mobility. The way in which taxes are collected and expenditures are allocated – the social contract – will be a determining factor in sustaining inclusive growth and ensuring social cohesion. The fiscal system is therefore closely linked to the legitimacy of reform processes. Such processes can be further improved by introducing participatory elements such as better transparency and publication of the commune’s budgeting processes. These types of practices increase the linkages between fiscal policies, state building and social cohesion (OECD, 2008). In this regard, support for redistributive fiscal policies is very high among the Vietnamese, compared to other Asian countries and OECD countries (Figure 4.1b-d).

## B. Taxes, transfers and income inequality

Fiscal policy – the revenue and spending of governments’ budgets – is a core instrument to establish political equilibrium in a society (OECD, 2010). Traditionally, it is an important tool to reduce income inequalities and regional disparities and foster social cohesion. In OECD countries, fiscal policies (both taxes and transfers) reduce the Gini coefficient on average by 15 points (OECD, 2011). In Latin America, this effect is far less pronounced with a reduction of only 2 Gini points (OECD, 2008). This very low impact can be attributed to the slight effect of transfers. In developing countries social spending is a more appropriate instrument for redistribution than taxes. Thus, taxes should provide governments with the revenue required to design redistributive transfers, making fiscal policies progressive (Emran and Stiglitz, 2007).

### The effect of taxes on inequality

Viet Nam has not fully exploited the potential of personal income tax (PIT) to generate revenues and reduce inequality. PIT has two underlying objectives – to generate revenues for the state and to reduce income inequality (Castelletti, 2013) (see Box 4.1). This is especially true for OECD countries where PIT accounts for a significant share of total revenues and reduces the Gini coefficient by up to 4.5 points (Joumard, Pisu and Bloch, 2013). The limited role of PIT in achieving redistribution in developing countries is well documented (Bastagli, Coady and Gupta, 2012; Bird and Zolt, 2006). PIT in developing countries is neither comprehensive nor progressive, and concerns mainly formal wage workers (Bird

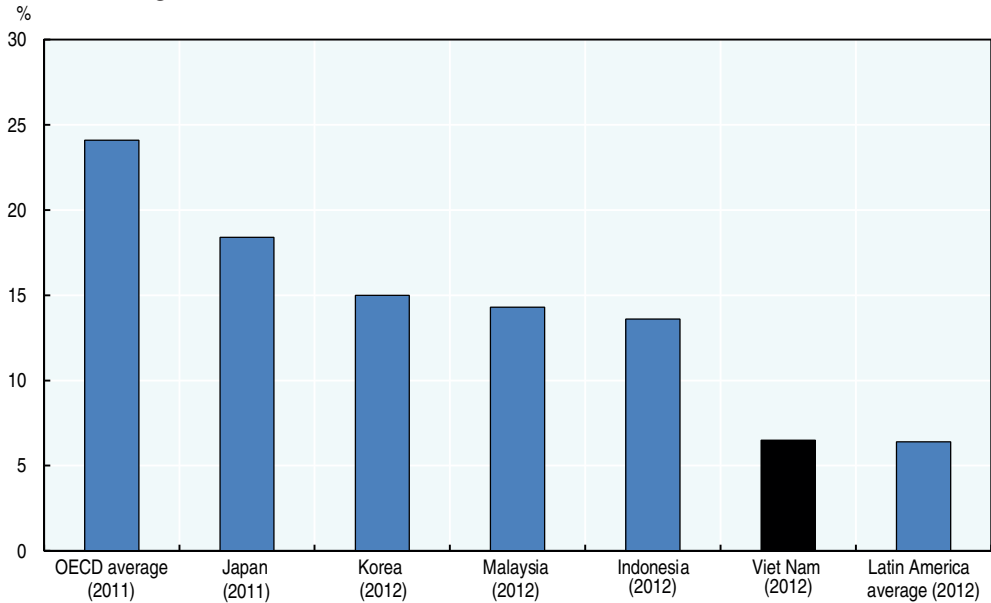
and Zolt, 2006). Given the high share of informality (in the case of Viet Nam 70.5% in the non-agricultural sector) PIT constitutes only a minor share of total revenues from taxes (and also in terms of GDP). Representing 6.1% of the state budget, PIT is only the fourth source of revenue in Viet Nam, far behind corporate income tax and value added tax (Table 4.1). This value is less than half the observed PIT levels in more developed Asian countries (Figure 4.2).

Table 4.1. State budget 2012

		% of GDP	% of State budget
	State budget revenues and grants (I+II+III)	22.9	
I	Current revenues		
I.1	Taxes	19.6	85.8
	Corporate income tax	6.6	28.8
	Personal income tax	1.4	6.1
	Land and housing tax	0.0	0.2
	Business license tax	0.0	0.2
	Registration tax	0.4	1.6
	Value added tax	6.0	26.1
	Domestic excise tax	1.3	5.8
	Natural resources tax	1.3	5.7
	Agricultural land-use tax	0.0	0.0
	Import-export tax, excise tax and environmental protection tax on imports	2.2	9.7
	Environment protection tax	0.4	1.7
I.2	Fees, charges and non-tax	1.6	6.9
	Fees and charges (include gasoline fee)	0.3	1.1
	Land rents	0.2	1.0
	Miscellaneous revenues	1.1	4.7
II	Capital revenues (revenues from sale of state-owned houses, land user right assignment)	1.4	6.2
III	Grants	0.2	1.1

Source: MoF.

Figure 4.2. Taxes from individuals as a share of total tax revenues



Sources: MoF (Viet Nam); OECD (2014a) (Asian countries); OECD (2014b) (Latin America and OECD average).

#### Box 4.1. Personal income tax system in Viet Nam

The personal income tax system (PIT) is applicable to the whole population. Taxes are levied on income from the following sources: wage employment, self-employment income from business and production, capital investment, capital transfers, transfers of real property, royalties, franchising, winnings or prizes, receipt of inheritances and receipt of gifts. The following sources of income are exempt from taxation: real estate transferred between legal and blood-relations, scholarships, overseas remittances, pensions paid by the Social Insurance Fund and income from charities.

The gross wage is not completely subject to personal income taxes. To obtain the taxable income a number of deductions have to be made from the gross income subject to taxes. The most important deductibles are the contributions to the mandatory social insurance system, which are obligatory for wage workers.<sup>a</sup> Furthermore, in 2012 each taxpayer has a personal relief of VND 48 million per year (or VND 4 million per month), which applies irrespective of the months worked.<sup>b</sup> Taxpayers are in addition entitled to a dependant relief of VND 1.6 million per month, per dependant.<sup>c</sup> Recognised dependants are children below the age 18, adult children who are studying, disabled children who are incapable of working, spouses incapable of working, parents or other household members beyond working age and incapable of working. There is no limit for the number of dependants, yet they can be attributed only to one taxpayer, who needs to have documentation to justify this status.

Box 4.1. Personal income tax system in Viet Nam (*cont.*)

Viet Nam's PIT system is composed of seven grades, which increase progressively. The tax grade is determined on the basis of the taxable income, which is the gross income excluding reliefs and other deductibles. The tax rate is calculated as follows: an individual with an annual taxable income of VND 130 million, for example, fits in Grade 3. Subsequent tax payments are structured as follows: VND 60 million x 5% + VND 60 million x 10% + VND 10 million x 15%.

Tax grade	Taxed income per year (VND million)	Taxed income per month (VND million)	Tax rate (%)
1	Up to 60	Up to 5	5
2	Between 60 and 120	Between 5 and 10	10
3	Between 120 and 216	Between 10 and 18	15
4	Between 216 and 384	Between 18 and 32	20
5	Between 384 and 624	Between 32 and 52	25
6	Between 624 and 960	Between 52 and 80	30
7	Over 960	Over 80	35

*Notes:*

a) In 2012 the social security contributions paid by the employee were 9.5% of the gross wage (this rate increased to 10.5% in 2014). Social security contributions are obligatory only from wage employees; self-employed workers can contribute voluntarily. In 2012 the voluntary social security contributions paid by self-employed were 20% of the gross wage (this rate increased to 22% in 2014) and an additional 1.5% of the minimum wage for the health insurance. Other deductible payments are contributions to charity organisations, contributions to voluntary retirement funds, deduction from business income (expenses arising from the creation of taxable income).

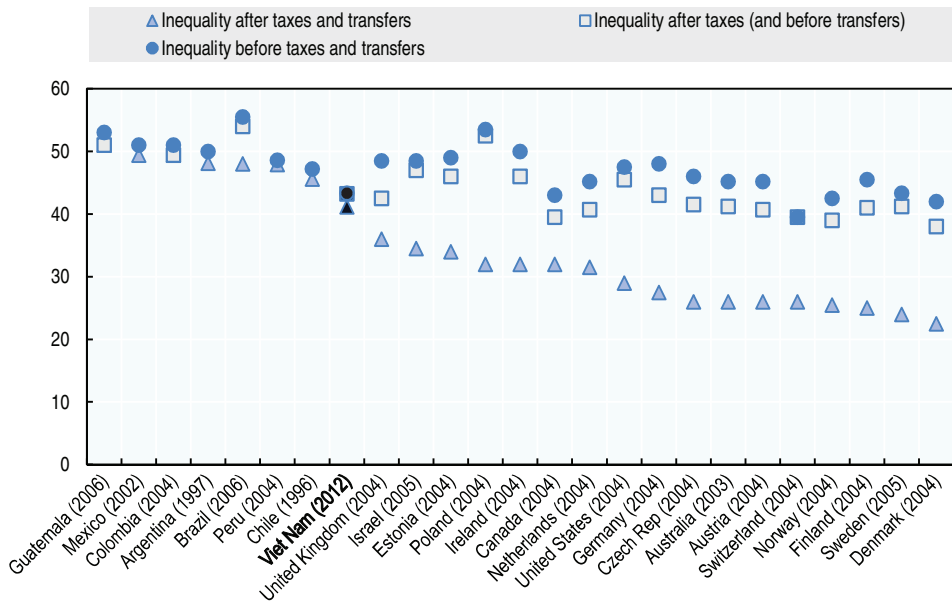
b) Since 2013, taxpayers are entitled to a personal relief of VND 108 million per year.

c) As of 1 July 2013, dependent relief increased to VND 3.6 million per month.

Source: MoJ, Personal Income Tax Law No. 04/2007/QH12.

Personal income tax (PIT) has little effect on redistribution in Viet Nam. Analysis using VHLSS income data shows that PIT has practically no influence on inequality reduction, with the Gini coefficient reducing by 0.1 points (on a scale from 0 to 100) (Table 4.2). Public transfers have a small effect on inequality reduction (Figure 4.3).

Figure 4.3. Inequality before and after taxes and transfers



Sources: Viet Nam: authors' calculation based on VHLSS, 2012; OECD, 2008 (Argentina, Chile, Mexico and Peru); OECD, 2013 (remaining countries).

The existing PIT system has the potential to reduce inequality, if well enforced. Two scenarios were created to simulate the effect of the PIT system on reducing inequality under full enforcement (Box 4.2). The results show that in the case of full enforcement, the Gini coefficient could potentially reduce between 0.8 and 1.5 points (Table 4.3). This is comparable to Latin American countries that achieve on average an inequality reduction of 1.0 point. However, this is still below the OECD average of 4.5 points.

Table 4.2. Effect of the PIT on inequality, real vs. potential

		Reduction in Gini coefficient
Real effect		0.1
Potential effect if PIT fully implemented	Net scenario	1.5
	Gross scenario	0.8

Source: Authors' calculations based on VHLSS, 2012.

### Box 4.2. Calculating the potential impact of the Vietnamese PIT, assuming full enforcement

The real effect of personal income tax (PIT) on income inequality is calculated using information on tax payments from the VHLSS 2012. The result – PIT’s low impact on inequality – can be due to several reasons: first, the design itself of the fiscal policy allows for the majority of the people to benefit from tax relief; second, PIT is not properly enforced and therefore there is a high level of tax evasion; and third, taxes are misreported in the VHLSS.<sup>a</sup> The effects of the last two reasons are difficult to isolate. The progressivity of the PIT can be tested on the basis of the PIT system (Box 4.1) and the existing income distribution. Applying the “rules of the game” to the income reported in VHLSS it is possible to estimate the taxes that each individual should pay, and thus the potential impact of the PIT system when taxpayers fully comply.

Calculations to estimate the effect of “full enforcement” also rely on the income reported in the VHLSS. As all the household surveys are based on self-reported information, the VHLSS’ measurement of income is to an extent imperfect. Hence, the net income may be overestimated due to potential tax evasion and tax misreporting.

Taking into account these limitations, two scenarios have been developed to assess the full potential of PIT. The scenarios disregard the taxes reported in the VHLSS and calculate the PIT that individuals are supposed to pay according to the tax legislation. The first scenario or “net scenario” assumes that the income reported in the VHLSS is the net income and that individuals pay their taxes. The second scenario or “gross scenario” assumes that individuals do not pay their taxes, and therefore the income reported in the VHLSS is the gross income. Consequently, taxes have to be deducted from this gross income. These two scenarios enable estimation of an upper and lower bound of the potential inequality reducing effect of PIT.<sup>b</sup>

*Notes:*

*a)* The VHLSS captures the tax payments declared by households in 2012, and not the tax payments of individual income earners. If Viet Nam’s tax system is to be analysed in the future it is advisable to improve the capturing of tax payments in the VHLSS. The minimum requirement for this improvement should be to report PIT taxes at an individual level and to split payments made by wage income and self-employment income.

*b)* Full enforcement assumes no behavioural responses by tax payers to the enforcement of the tax legislation. This is done in several other studies due to lack of data on the structure of the economy and people’s behavioural responses to taxes (Bastagli, Coady and Gupta, 2012). However this “is likely to overstate the amount of redistribution as taxes and transfers typically affect incentives to work and save” (Joumard, Pisu and Bloch, 2013). Behavioural changes by workers and employers are to be expected if tax payments are enforced, as the parties involved will try to shift the additional costs to each other.

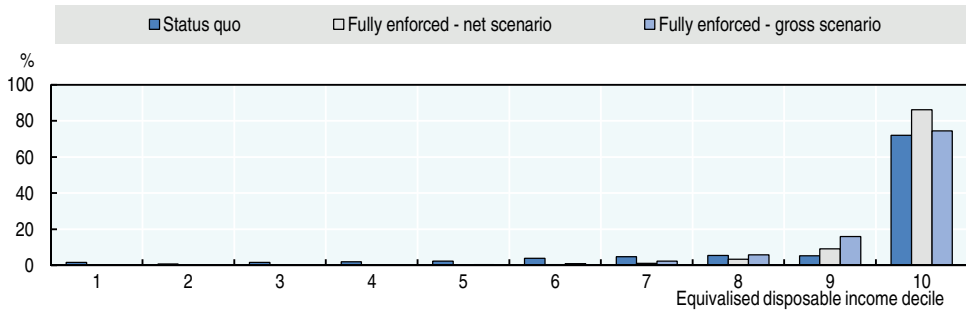
The current PIT system in theory is progressive in terms of household tax contributions, but the amount of taxes paid as a share of disposable household income is highest among the poorest. The total amount of taxes paid by households in each decile increases with higher deciles (Figure 4.4a), with 72% of total PIT revenues generated by the top 10% of income distribution. However, when looking at tax payments as a share of disposable household income, the bottom 10% have the highest burden (Figure 4.4b). More taxpayers can be found in the centre deciles than at the top, and the number of taxpayers among the bottom deciles is rather high (Figure 4.4c). There is however potential for PIT to be more progressive. Analyses of the two scenarios of full PIT enforcement show that the amount of taxes paid as a share of tax revenues and as a share of disposable household income, and the number of taxpayers per decile are progressive. The top deciles always contribute most to the total tax revenue and register the highest number of taxpayers.

Relatively few people pay taxes due to high levels of tax relief. The low number of taxpayers is a consequence of personal and dependant relief, which are set rather high compared to the average income level and even the minimum wage. In 2012 personal relief was VND 4 million per month,<sup>1</sup> twice the highest minimum wage in the private sector and 3.8 times higher than the minimum wage in the public sector. Personal relief is meant to ensure that a PIT system is fair and acceptable. However, if relief levels are set too high, state revenue will be low and the PIT system will lose its purpose and become effectively a “high income earners tax” (Liu et al., 2012). Indeed, if the Vietnamese PIT system were to be fully applied according to the law it would resemble more a “high income earners tax” than a general PIT tax. With current data limitations it is difficult to assess whether the current PIT design has the potential to be truly progressive and reduce inequality or whether it is driven mostly by high reliefs.

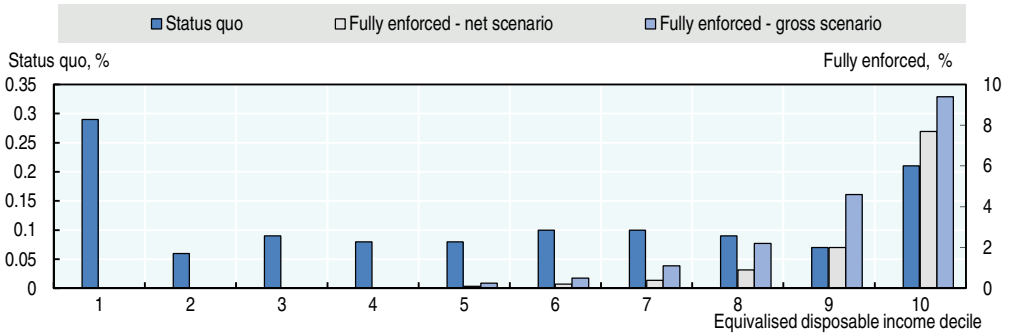
The current PIT system relies heavily on wage earners and does not reflect the actual labour market situation. In 2010, taxes from salaries and wages accounted for 74% of total revenues from PIT (Liu et al., 2012), but wage workers comprised only 30.4% of all workers (VHLSS 2012). This discrepancy can be explained by the weak capacity of authorities to collect taxes and reach household businesses and individuals, especially if transactions are done in cash. Given the high presence of informality in Viet Nam, PIT constitutes only a minor share of total tax revenues; consequently the inequality reducing effect is low due to low compliance. It should also be noted that the redistributive effect of PIT in developing countries is systematically lower than in OECD countries (Bird and Zolt, 2006).

Figure 4.4. Viet Nam's personal income tax system

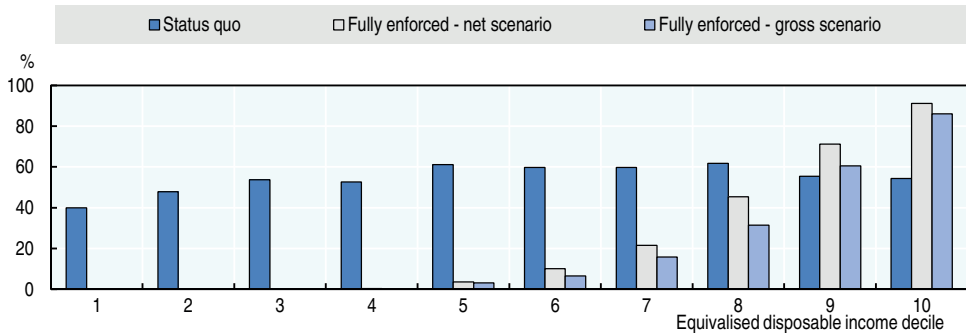
**A. Aggregated amount of taxes paid by households as a share of total tax revenues, by decile**



**B. Taxes as a share of disposable income, by decile**



**C. Percentage of tax paying households, by decile**



Source: Authors' calculations based on VHLSS, 2012.



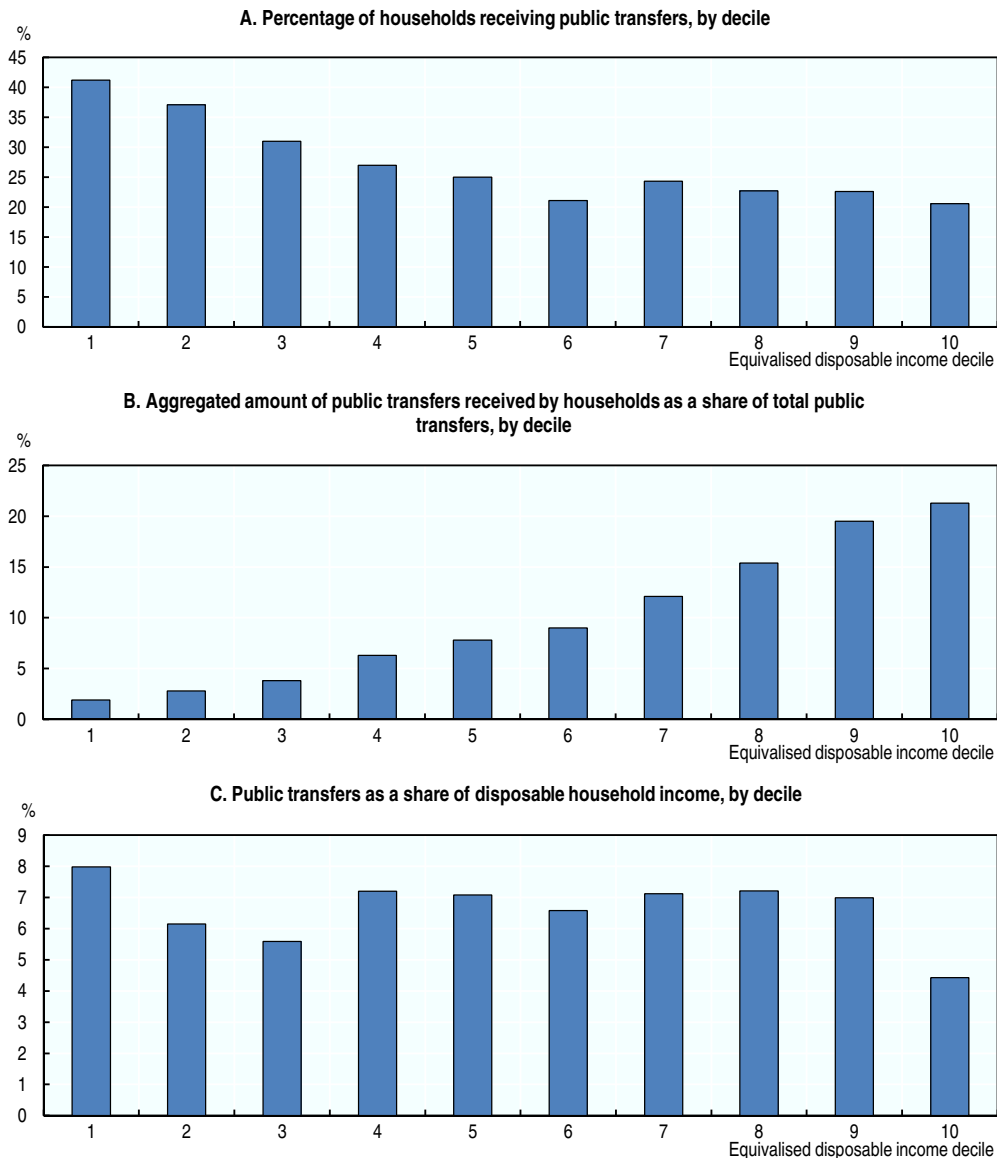
## The effect of public transfers on inequality

Public transfers are underutilised as a tool for redistribution in Viet Nam. The largest share of inequality reduction in OECD and non-OECD countries can be attributed to social spending. Conditional cash transfers in Latin America and some African countries have proven to be effective fiscal policy tools to reduce inequality (Bastagli et al., 2012). The targeting of the poor plays an important role in the success of these programmes. In Viet Nam, free access to health services and education, as well as fee exemptions, form part of redistributive policies (see Chapter 3 for a detailed analysis of Viet Nam's social protection system), but cash transfer programmes targeted at the needy are underdeveloped. Direct cash transfers – which are the focus of this chapter – constitute 11.4% of the state budget's current expenditure, equivalent to 3% of GDP (MoF, 2013). This level is below the average for other lower middle-income countries (7.6% of GDP).

The public cash transfers system in Viet Nam is regressive. The rich carry a higher burden of the tax system, but are also at the receiving end. Although more households at the bottom of the income distribution receive public cash transfers than at the top (Figure 4.5a), the system is regressive because the amount of public transfers received by each decile (as a share of total spending on public cash transfers) increases with each decile (Figure 4.5b). Analysis of the share of public transfers in disposable household income gives a mixed picture (Figure 4.5c). The transfers constitute a larger share of disposable income for the bottom decile than the top, but the difference is not significant and the share is similar to that of the centre deciles (about 7%).

Despite being regressive, public cash transfers achieve a reduction in the Gini coefficient of 2.1 points. Figure 4.3 shows the effect of transfers by comparing inequality after taxes and before transfers with inequality after taxes and transfers. The transfer effect is much higher than the effect of taxes, confirming “that the expenditure side of the budget is the appropriate instrument for redistribution” (Emran and Stiglitz, 2007). International comparison shows that Viet Nam fares worse than OECD countries, but achieves levels comparable to Latin America, with the exception of Brazil which performs unusually well. In developing countries, the role of taxes should be more focused on generating revenues “to make the overall incidence of the fiscal system progressive through targeted expenditure programs” (Emran and Stiglitz, 2007).

Figure 4.5. Public transfers in Viet Nam, by decile



Source: Authors' calculations based on VHLSS, 2012.

Targeting social spending towards vulnerable groups will help reduce inequality. It is encouraging to see that even a regressive cash transfer system reduces inequality by 2.1 points. This indicates that improved targeting towards the poor will probably have an even stronger effect. Allowances for people with merit (war invalids and relatives of revolutionary martyrs) constitute the core of cash transfers, which amount to a third of government social cash transfers (see Chapter 3). A gradual and natural reduction (due to demographic trend) of the total budget for allowances to people with national merits could potentially provide some budgetary margins to reallocate transfers towards more targeted poverty reduction programmes.

### C. Fiscal decentralisation and spatial disparities

Fiscal decentralisation can be instrumental in strengthening fiscal legitimacy. Fiscal decentralisation refers to resource re-allocation to sub-national governments, including delegation of funds from line ministries to decentralised levels (European Commission, 2007). In principle, fiscal decentralisation is believed to improve accountability and responsiveness in providing social services. Decentralised institutions can provide space for people to participate in local decision making, and are generally assumed to better address the needs of local constituencies. Political, administrative and fiscal decentralisation is considered to hold great potential for development and many developing countries have embarked on this course.

Fiscal transfers are a dominant feature of public finance in decentralised governments and aim to ensure equity and maintenance of national standards for public services across sub-national regions. Pro-poor fiscal transfers can help reduce spatial inequalities. Fiscal decentralisation was implemented in Viet Nam in 2004 following the enactment of the State Budget Law in 2002. The law was expected to improve social service delivery at province, district and commune levels by giving more budgeting and spending autonomy to local governments. It introduced a new mechanism for expenditure assignments whereby provinces can allocate spending responsibilities to lower-level governments. However, some studies report that fiscal decentralisation has had an adverse effect on resource-strapped provinces and districts or has contributed to strengthening fiscally better-off provinces over poorer ones (Fritzen, 2006; Nguyen-Hoang, 2008).

### The state budget governance structure

Viet Nam is a unitary state with a single party that rules over all organs of government, politics and society. The territory of Viet Nam is organised into 58 provinces and five major cities, which have provincial status. The provinces are regrouped into non-administrative macro-regions. Each province is divided into districts (698 at present), which are in turn divided into communes. Each level of government has its elected People's Council, which is administered by a People's Committee. The Prime Minister is the head of the Central government and the National Assembly serves as the Council. Major legislations, including the annual budget, are approved by the National Assembly, which holds two sessions a year. The National Assembly works through Committees, the most important of which are the Standing Committee and the Finance and Budget Committee. The latter discusses the government's budget proposals before they are formally submitted to the National Assembly.

Strengthening public finance management is a government priority, and a series of reforms have taken place since 2000. Several laws have been enacted to establish a public finance management legal framework. These include the State Budget Law (2002), the Procurement Law, the Tax Administration Law, the Law on Value Added Tax (VAT), the Public Debt Management Law (2010), the Accounting Law and the Auditing Law. A new electronic Treasury and Budget Management Information System (TABMIS) is now being extended to all provinces to improve transparency of government operations, including public procurement. The State Audit of Viet Nam (SAV) was made independent of the government and reports directly to the National Assembly. Through these reforms, Viet Nam has succeeded in raising national revenues from 14% of GDP in 2005 to 27% of GDP in 2011 (Table 4.3). Local capacities to raise revenues have also increased.

Table 4.3. Total state budget revenues by macro-region (in million VND)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Northern Mountains	7 092 795	9 433 543	12 529 575	15 611 345	20 424 790	30 256 544	39 676 893	39 794 603	45 492 818
Red River Delta	39 457 972	41 409 812	50 703 291	60 182 519	82 286 980	106 338 068	134 685 741	172 679 138	184 529 013
Northern Central	4 477 021	5 627 312	6 834 809	7 856 985	10 593 808	12 789 932	16 621 850	16 831 726	16 858 566
Central Coast	8 990 829	13 200 305	15 094 866	18 833 536	24 043 420	27 870 153	38 497 393	46 699 391	52 409 225
Central Highlands	1 967 731	3 322 689	4 430 499	5 991 685	7 629 042	8 784 328	10 821 726	13 197 991	13 970 122
Southeastern	88 788 086	97 054 662	119 511 871	138 200 766	169 865 353	184 966 552	206 646 860	258 022 279	266 312 976
Mekong River Delta	10 540 481	14 327 167	17 924 478	19 484 771	21 742 081	24 230 872	30 871 367	32 033 982	35 380 594
Total	161 314 916	184 375 490	227 029 389	266 161 606	336 585 474	395 236 449	477 821 830	579 259 111	614 953 314
Total as % of GDP (in constant LCU)	-	-	14%	16%	18%	21%	24%	27%	27%

Source: MOF, 2013 for revenues; GSO for GDP.

The National Assembly together with the Provincial People's Councils plays a central role in budget allocations and transfers from central to local government. Local budget revenues include income collected from taxes that belong to the provinces (e.g. land and housing taxes, license tax, natural resources tax and user fees) and transfers from the central government. Targeted transfers aim to support the implementation of new programmes issued by the central government and to cover damages from natural disasters or other large-scale accidents beyond the financial means of local authorities. General transfers aim to help lagging regions which have limited capacity to raise their own revenues. Decisions on central budget allocations to provinces depend on several criteria, but rest principally on population numbers and development levels of the geographic areas concerned (urban, rural, mountainous, islands, etc.). Although the budgeting process is consultative, the National Assembly is empowered to make and amend the laws related to finance and budget, and therefore has the final say on state budget revenue and expenditure including transfers.

The budget planning process uses a mix of top-down and bottom-up approaches, but sub-provincial level consultations remain marginal. The fiscal year in Viet Nam runs from 1 January to 31 December. According to the procedure laid out in Decree No. 60/2003 and Circular No. 59/2003, on 1 May the Prime Minister reports to the National Assembly on budget allocation norms and spending priorities for the coming year. The PM then issues directives to ministries, central agencies and local governments regarding the yearly planning and budgeting exercise. The Ministry of Finance (for recurrent expenditure) and the Ministry of Planning and Investment (for capital expenditure) issue circulars with guidelines on the budget formulation process. Following these guidelines, line ministries and provincial governments prepare budget proposals for submission by 20 July. Budget negotiations take place during August for final submission to the government in September and to the National Assembly in October. The PM announces the allocations to line ministries and provinces by 2 November, on the basis of which the provinces then make allocations to districts.

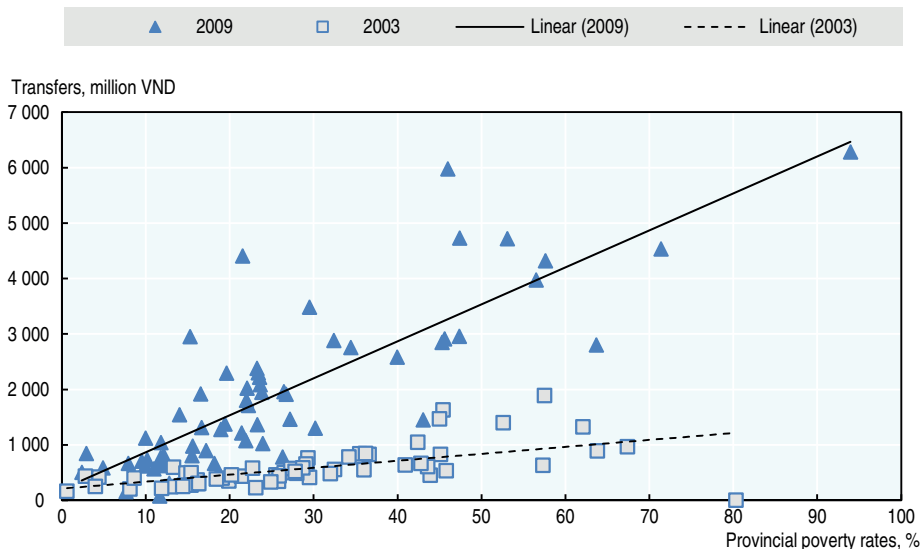
The State Budget Law, in principle, decentralised the state budget system. Budget allocation was decentralised across government with 45% of public spending decisions made at the provincial level and below (World Bank, 2007). Fiscal decentralisation also gave more taxing and spending powers to sub-national governments. Provincial governments can now take decisions on investment plans depending on their available resources. The intention was to grant greater responsibilities to local government to manage and execute

their budgets, while the central government ensures balance and equity in development between regions through macro-regulations and transfers. The National Assembly decides on the overall state budget structure and level of expenditures for important sectors such as training and education, science and technology. Local People's Councils take decisions on local budgets and sectoral budgets not decided by central government.

In practice, decision making regarding the state budget remains heavily centralised. The entire budget-planning process takes about six months, but provincial governments have less than five weeks to prepare their budgets from the date the MoF and MPI circulars are issued. This leaves little margin for proper consultations with district and commune levels. Many academics (Fforde, 2003; Fritzen, 2002) agree that, in reality, the process is more about deconcentration (decision making remains centralised) than devolution (decision making is decentralised) and that communes and grassroots levels do not participate in planning and implementation (Wit, 2007).

The fiscal transfer system has been progressive, allocating more resources to poorer provinces over time. As part of decentralisation, equalisation mechanisms were put in place to transfer budgetary resources to provinces to meet overall national development objectives. Effective and equitable fiscal transfers from central government to the provinces are considered as part of the social contract. By allocating more central budgetary resources to lagging provinces, the aim is to better address local needs through decentralised budget management. Analysis shows that the correlation between net transfers and poverty rates at province level is positive and gets steeper over time. The fiscal transfer system in Viet Nam is progressive, providing more resources to poorer regions (Figure 4.6). Comparison of the situation before and after the State Budget Law shows that fiscal transfers are more pro-poor, a promising sign that the government is addressing the issue of regional disparities and attempting to strengthen the social contract.

Figure 4.6. Fiscal transfers and poverty rates by province, 2003 and 2009



Sources: 2003 provincial poverty rates: Nguyen, 2009; 2009 provincial poverty rates: Lanjouw et al., 2013; Fiscal transfers: MoF, 2013.

Although fiscal transfers are pro-poor, their effect on public service improvement is less evident. Fiscal transfers while being pro-poor must also translate into improved public services. However, perceptions of the quality of public service delivery in Viet Nam (one of the PAPI dimensions, see Box 1.2 in Chapter 1) are weakly correlated with fiscal transfers in the respective provinces. However, poor regions suffer from such low-quality public services and poor infrastructure that transfers may not be sufficient to make much difference. While more rigorous analysis is needed on the link between transfers and public service delivery, it is clear that pro-poor transfers do not automatically translate into improved public services. Local decision making and institutional challenges also need to be addressed. Improving transparency of allocation formulas from province to lower levels and increased participation at commune level in decision making is necessary to translate expenditure into better service delivery. Indeed, one study found little significant change in the impact of fiscal decentralisation from province to lower levels on fiscal, economic and health outcomes, except where there was a high prevalence of underweight (low weight for age) and wasting (low weight for height) (Uchimura, 2012).



## Policy conclusions

Re-designing fiscal policy to ensure progressivity would unlock its potential as a real redistributive instrument. At present, the PIT system in Viet Nam has little effect on redistribution. The design is progressive in theory, but is undermined by high tax relief levels with few people actually paying taxes, thereby compromising the essential revenue-generating function. Tax avoidance due to high levels of informality and under-reporting of wages is widespread. Improving enforcement of social contributions from employers and personal income tax collection would enlarge the tax base and maximise the potential of the tax system as a redistributive mechanism.

Maintaining a geographical focus in public investment can reduce persistent inequalities in basic infrastructure, housing conditions and economic opportunities, and increase potential for regional economic growth. Inequality varies substantially across regions and is spatially concentrated in poor areas, such as the Central Highlands and Northern Mountains. Fiscal transfers to provinces have been pro-poor but there is little evidence that these have translated into improved public services. Districts and communes have limited involvement in budget planning and decision making. The budgetary process should allow enough time to include commune-level consultations. Budget allocations could be further decentralised through participatory planning mechanisms at commune level to ensure public services meet the needs of the local population.

## Note

1. This value was increased to VND 9 million per month as of July 2013.

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