2022 Vietnam Poverty & Equity Assessment
From the Last Mile to the Next Mile

Report launch
April 28, 2022
The poverty and equity agenda is no longer only about raising minimum living standards and tackling chronic poverty; it is also about creating new and sustainable economic pathways for a more aspirational population.

**Last mile**
Policies to target poverty where it still exists

**Next mile**
New strategies to help those already out of poverty to achieve economic security and high-quality living standards.
Part 1.

A Decade of Significant Progress, but *Last-Mile* Challenges Remain
A decade of successful poverty reduction – 2010-2020

Consistent reduction in poverty across different measures

Distribution of economic classes (population in millions)

Source: GSO and World Bank.

Profile of households transformed

Higher education completion

<table>
<thead>
<tr>
<th>Education Level</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>No education</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Primary</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Lower Secondary</td>
<td>6.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Upper Secondary</td>
<td>4.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Vocational</td>
<td>3.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Tertiary</td>
<td>3.0</td>
<td>4.7</td>
</tr>
</tbody>
</table>


More households engaged in the manufacturing or services sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>11.6</td>
<td>9.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.2</td>
<td>8.3</td>
</tr>
<tr>
<td>Services</td>
<td>9.6</td>
<td>13.1</td>
</tr>
</tbody>
</table>

Drivers of poverty and inequality changes

Source decomposition of poverty

Urban and rural areas

Source decomposition of inequality

Urban and rural areas

Note: Poverty rate based on the WB LMIC Poverty line ($3.20/day 2011PPP).
Source: World Bank staff calculations using VHLSS.

Note: Inequality as measured by GE(0).
Source: World Bank staff calculations using VHLSS.
Remaining challenges, chronic groups

- Remote regions
- Reliant on low-productivity agriculture
- Other vulnerable groups (disabled, ethnic minority, elderly)
Poverty declined impressively but remains persistent in some areas far from vibrant economic centers.

Source: World Bank staff and GSO calculations
Ethnic minorities are far more likely to work in agriculture...

...where they are less productive than Kinh, even for the same crop...

...while earning lower non-agricultural income...
Faster growth at the top of the distribution towards the latter part of the decade

Household consumption growing faster at the top

Economic mobility 2016-2018

Note: Measures based on real household consumption per capita.
Source: PovcalNet.
COVID-19: A game changer?

The Delta wave of COVID-19 lowered poverty reduction projections.

COVID-19 also cast light on some other challenges

- Inequality in both monetary and non-monetary dimensions
- Ability to cope and adapt
- Gender differences
- Education continuity gaps
- Digital divide
- Safety nets for informal workers
Part 2.
The Next Mile is the road ahead
Education equity can help break intergenerational poverty traps

1. Education completion still varies by family background.
2. Variation widens at higher levels of education.
3. When a child's outcomes are tied to family backgrounds, intergenerational outcomes are persistent.
4. There is still room to improve equity in education completion.
Vietnam outperforms in terms of human capital development...

... but achievement is unequal

Ethnic minority children fall out of schooling earlier than other children.


Human Capital Index by quintiles

Private expenditure on education varies

Figure 4.16. Expenditure of wealthier families on compulsory education (primary and lower secondary)

Human capital matters not just for economic growth but also individual mobility:

There is evidence that your parents’ outcomes determine your own in Vietnam

*Note:* Other study materials include paper, pens, bags, and notebooks.

Sustaining upwards economic mobility

1. Expanding a middle class requires different strategies than tackling poverty
2. Vietnam needs a high-skill and high labor productivity transition
3. However, some characterizations of the labor market, especially for youth need to be addressed
4. This requires continuing improvements in higher education, digital skills, and private sector innovation and competition
Vietnam needs a productivity-led growth path to reach higher levels of prosperity

Annual productivity growth of nearly 7 percent is required to achieve high-income status by 2045

To increase labor productivity, productivity in the services and industry sectors must increase.
There are some aspects of the labor market that may challenge a high-productivity transition

**Aging population**

![Graph showing the share of total population over 65 (%) against GDP per capita constant (2010 US$) for various countries.](image)

*Source: WDI.*

**Employment by occupation skill category**

![Graph showing the share of employment (%) for high-skilled, medium-skilled, and low-skilled workers against the year.](image)

*Source: World Bank staff calculation using LFS surveys.*
Continuing transformations in education and labor market can ensure youth potential is fully maximized

HCl vs full utilization-adjusted HCl


Education levels (grouped)

Source: World Bank staff calculations using LFS.
Guarding against shocks

1. Households face risks, and for the poor, this can be poverty traps

2. About 10 percent of households still self-report worsening conditions

3. The social protection system can be broadened in coverage and services to better guard against shocks
Shocks are varied (health, income, environmental)  
For the most vulnerable, they can become poverty traps

**Covariate shocks:** affect many more people, such as a natural disaster or an economic shock

**Idiosyncratic shocks:** affect a single individual or household, such as illness or accident

![Graph showing share of districts with high risk](image)

- **At least one out of 6 risks**
- **Precipitation (variance)**
- **Temperature (variance)**
- **Wind (variance)**
- **Air pollution (PM 2.5)**
- **Share of population exposed to high flood risk**
- **SPEI drought**
Modernization of social protection can be considered in several areas

Following improvements are needed:

- More effective social assistance for poorer households
- Greater coverage of social insurance to protect all households from all risks
- A more flexible and adaptable delivery chain for both social assistance and insurance

Vietnam’s social protection system:

- Underfunded and fragmented
- Implementation issues are an important constraint
- Some risks are addressed, but coverage is limited
- Some risks are not adequately addressed

![Chart showing benefits as a share of welfare among the lowest quintile for LIC, LMIC, UMIC, HIC, World, Vietnam]
Financing for the future

1. **Who benefits from current public spending and who pays taxes?**

2. **How can the public investments needed to help Vietnam transition to a high-income country be financed?**

3. **Can this financing be done in an equitable manner?**

4. **Who will benefit from the new spending?**
Fiscal policy reduces household income inequality
Potential for fiscally neutral reforms that reduce inequality

1. **Increasing direct taxes and reducing social security contributions** can lower inequality, while maintaining the same revenue level.

2. **Broadening income tax base** would lower inequality, while increasing tax revenues.

3. **Direct cash transfers** are more effective at reducing inequality than electricity subsidies, yet almost as much is spent on the subsidies as the transfers.
Policy for the way forward

**Last mile**

1. Target poverty where it still exists, and target better
2. Use digital infrastructure and tools to reduce economic distance to remote areas
3. Facilitate ethnic minority transition to the off-farm jobs
4. Improve education and technology on agriculture

**Next mile**

1. Ensure equitable education quality
2. Continue improving higher-education quality and access
3. Address coverage gaps in SP
4. Investments are needed to modernize social protection and tax administration capacity
Thank you