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Aid Policies and Poverty Alleviation:

The Case of Vietnam

by

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Aid Policies and Poverty Alleviation: The Case of Vietnam*

Thu Huong Le and Paul Winters**

Abstract

Effective use of foreign aid for poverty alleviation requires optimally allocating aid among three strategies: promotion of economic growth, direct targeting of the poor and safety nets and transfers. This paper analyses the allocation of foreign aid to Vietnam by examining the poverty situation in Vietnam and drawing implications. The poverty situation and recent aid trends to Vietnam suggests there is an imbalance between aid that promotes economic growth and aid that directly targets the poor. The phenomenon is evident in both the sectoral aid disbursement and the disbursement by approach to poverty. Additionally, aid is not regionally directed in a manner conducive to poverty alleviation and is urban-biased.

Key Words: aid, poverty, Vietnam

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1. Introduction

Since the inception of foreign aid shortly after World War II, improving living standards has been a primary objective of many development assistance agencies. Despite the substantial efforts of the donor community, progress in reducing poverty in developing countries has been slow and often limited in scope. In its report on twenty-five years of development cooperation, the OECD stated: “The most troubling shortcoming of development aid has been its limited measurable contribution to the reduction – as distinguished from the relief – of extreme poverty, especially in the rural areas of both middle-income and poor countries” (OECD 1985). Given the increasing scarcity of aid and the persistence of poverty in developing countries, improving the effectiveness of aid in poverty reduction must be a donor priority.

Part of the difficulty in measuring the contribution of aid to poverty alleviation lies in the fact that poverty is a multi-faceted problem and there are a number of strategies that may be employed to address poverty. First, there is growing recognition that while economic growth is not a sufficient condition for ensuring poverty reduction it is a necessary condition. Aid that improves overall GDP per capita creates an environment conducive to poverty reduction, indirectly assisting the poor (Burnside and Dollar, 1997). Second, direct interventions, such as micro-credit programs, have the potential to increase the income of the poor and achieve the desired goal of poverty reduction provided the right economic situation. Third, in addition to these indirect and direct aid activities, aid may also be allocated to reduce the short-term effects of poverty through safety nets and transfers. Achieving an optimal balance of aid allocation among the various strategies is a difficult exercise. The purpose of this study is to examine aid allocation, the balance between aid strategies and the relationship between aid and poverty reduction. After developing a conceptual framework, we evaluate aid allocation in Vietnam.

Evaluating the effectiveness of aid on the alleviation of poverty assumes that this represents donor motivation for providing aid. While economic development and welfare of developing countries are often the stated objectives of foreign aid provision, donors in fact pursue a wide variety of objectives. Generally, two different motives for aid allocation are tested: recipient need and donor interest (Bowles, 1989; McGilivray and Oczkowski, 1991 and 1992; Tsoutsoplides, 1991; Gounder 1999). If recipient need is the basis of aid then it will be used to promote growth, alleviate poverty and lessen the inequalities between the developing and the developed countries. If donor interest is the motivation for aid, then aid will be used in the pursuit of the donor’s own self interest in terms of trade, security, and investment objectives. Maisels and Nissanke (1984) confirm and summarise the results of previous studies noting that bilateral aid is generally allocated to support donors' perceived foreign economic, political and security interests and aid flows from multilateral sources are allocated essentially on recipient need criteria.

The purpose of this paper is not to test donor motivation. Instead, we assume that the purpose of aid is to alleviate poverty. Based on this assumption, the allocation of aid within Vietnam between 1993 and 1997 is examined. If aid is allocated to alleviate poverty then a certain mix of indirect, direct and safety net measures should be used. Aid will be targeted to particular sectors, ethnic groups and regions where poverty is particularly severe. Through evaluating the specifics of allocation, the question of aid motivation is indirectly addressed. Additionally, the paper highlights the need to consider the role of direct and indirect aid in poverty alleviation. Finally, it informs policy on how aid should be allocated to alleviate poverty.

The remainder of the paper is organised into 4 sections. Section 2 highlights the different aid strategies for addressing poverty. Section 3 looks at the particular profile of poverty in Vietnam and draws implications for aid policies. Section 4 surveys the recent trends on aid to Vietnam and gives a broad assessment of the aid activities with respect to poverty reduction. Finally, section 5 presents the conclusions of the study.

2. Aid and poverty: An overview

Studies undertaken by Fields (1980), the World Bank (1990) and the UNDP (1990a) showed that countries that experienced sustained economic growth were more likely to experience a reduction in poverty. However, there is growing recognition that growth alone is insufficient to bring about a substantial reduction in poverty and more direct targeting of aid is necessary to fill the gap (Stewart 1985; Ahluwalia, 1990). In response, the World Bank has stipulated that poverty reduction is best achieved by pursuing a strategy that both promotes economic growth and directly assists the poor (World Bank, 1990). Assistance to the poor can come in the form of directly targeted measures that are designed to reduce poverty in the long run or transfers and safety nets that provide protection from short-term problems. An effective anti-poverty aid policy is likely to simultaneously utilise each of these three strategies: promoting growth, direct targeting and safety nets. Below each component of the poverty alleviation strategy is discussed in detail.

2.1 Promoting sustainable economic growth

While economic growth is a vital component to poverty reduction, some growth processes may reduce poverty more effectively than others and one role aid can play is to foster a pattern of economic growth that maximises poverty reduction. Given the prevalence of rural poverty, the low productivity and lack of human capital of the poor and the widespread unemployment and underemployment in developing countries, a pattern of growth that successfully reduces poverty requires policies that address these issues.

Given the widespread poverty in rural regions in many developing countries, aid designated for growth promotion should be oriented to support agricultural and rural development. While agricultural growth does not necessarily ensure poverty reduction, the balance of evidence at the global level, and for important specific countries such as

India, suggests that expanding farm output is associated with falling rural poverty (Lipton and Ravallion, 1994). The poor benefit directly because agriculture is the primary rural occupation and raising output restrains food prices, provides rural employment opportunities and increases agricultural incomes. There may be indirect benefits to the poor, particularly the urban poor, if, as some have argued, agriculture promotion leads to greater economic growth (Adelman, 1984).

To address productivity and employment concerns, aid can be directed towards improving human capital and towards promoting labour using activities. Investing in social infrastructure encourages economic growth by improving the knowledge, skills, and health status of the poor, thus improving the productivity of the labour force in the long run. Given the phenomenon of “jobless growth” in recent years, aid can be directed toward promoting growth policies that ensure employment expansion in both rural and urban areas.

Finally, a growth strategy must ensure financial and environmental sustainability through rationale investment and financial planning, improved resource management, and improved environmental awareness. This would require a strong public administrative and institutional capacity. Thus, to help with this task, aid is likely to assist growth if it focuses on good governance through activities aimed at building and strengthening the capacity of political, administrative and legal institutions and at enhancing the macroeconomic policies.

2.2 Direct targeting development assistance on the poor

The purpose of direct targeting is to focus assistance on specific segments of the population who are identified as poor in order to ensure they receive the benefits of general improvements in welfare. To effectively target the poor, it is necessary to understand the specific causes of poverty, or rather, the constraints that keep the poor from advancing. These constraints are too numerous to examine here and are quite often specific to certain countries and regions. Instead we focus on identifying target populations. Some possible methods of targeting are:

1. Geographical targeting

Aid can be channelled to locations where the majority of the poor live, generally rural regions. Integrated rural and regional development projects, which encompass social services, infrastructure and improving agricultural production, are recommended for regions with extensive poverty.

2. Targeting special groups

Depending on the local context, aid programs may focus on particular groups such as ethnic minorities, women, the landless or the unemployed. Special projects tailored to address the problems of these groups are required to ensure their participation in the opportunities created by growth.

3. Targeting needs

Aid can be focused on overcoming deficiencies in the living standards through provision of basic needs including minimum consumption requirements such as

adequate food, shelter, clothing, etc. and essential community services such as clean water, sanitation, educational facilities, health services and public transport.

One problem with targeting aid is that it is often difficult to identify the poor and to exclude the non-poor from the benefits of a program. The above measures are designed to improve the chances of directly assisting the poor by focussing on specific segments of society. An alternative is to design “self-targeting” programs that specifically encourage participation of the poor.

2.3 Safety nets and direct transfers to the most vulnerable in case of extreme needs

The purpose of safety nets and direct transfers is to protect people suffering from either a chronic incapacity to earn enough income to survive, or from a temporary decline in earning capacity created or exacerbated by natural phenomenon and other risks. While aid cannot reasonably cover all of these situations, a portion of aid should be reserved for these purposes.

2.4 Optimal aid strategy

Aid can be directed towards any of the three strategies discussed above and play a role in alleviating poverty. However, if aid were focused on only one of the strategies, for example economic growth, then poverty reduction may not occur or at least not as quickly as possible. This suggests that there exists an optimal aid strategy for maximising poverty reduction. The optimal strategy is a function of the poverty situation in the country, the country context and local government policies, but is likely to include a combination of the three strategies discussed above. While it is difficult *a priori* to identify such a strategy, in the following sections we examine the case of aid in Vietnam to determine whether the mix of strategies appears optimal or near optimal.

3. An analytical description of poverty in Vietnam

Vietnam is chosen as a case study for a number of reasons. First, after decades of severe wars and facing serious economic stagnation in the early 1980s, an economic reform process known as *doi moi* (renovation) was initiated in December 1986. The reform process has resulted in impressive achievements in recent years and Vietnam has reached an annual average real GDP growth rate of 8.1 % (UNDP, 1997a). Second, because of changes in public policy and international status, sizeable inflows of foreign aid have been attracted from abroad, with aid increasing from US\$148 million in 1986 to US\$1,015 million in 1997 (UNDP, 1998b). Finally, living standards in Vietnam have improved considerably and poverty has been reduced by more than 35% since the mid-1980s (UNDP 1998a). Despite the rapid economic growth and improvement in living standards, in 1993 50.9% of the population, approximately 37 million people, lived in poverty (World Bank 1995a).

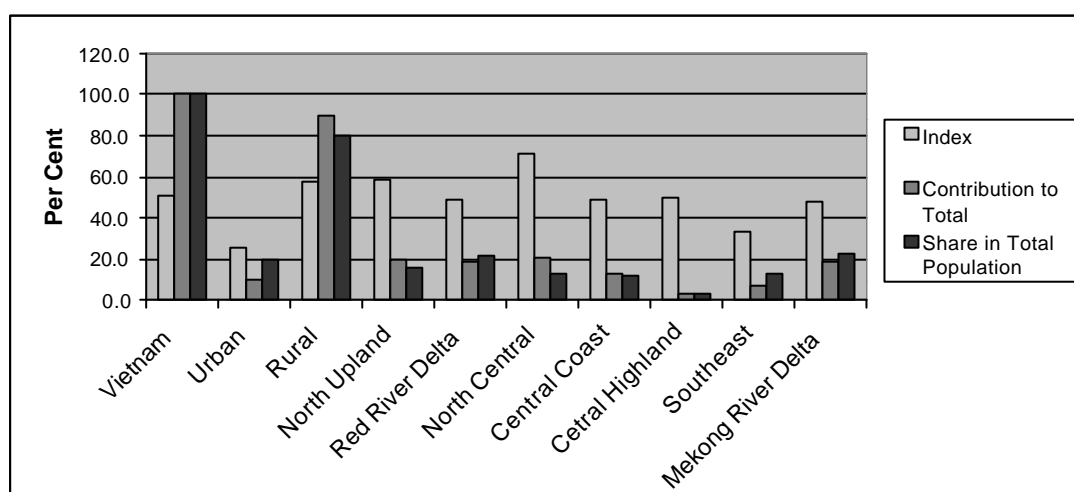
Research conducted by the UNDP concluded that while there were many factors contributing to poverty in Vietnam, five broad recurring and interrelated causes are hindering the remaining poor from obtaining the benefits created by high growth rates

(UNDP 1997b). These include: (1) isolation (geographic, linguistic, social, intellectual); (2) inability to manage risks (from typhoons, flooding, pests, illness, unplanned births, price fluctuations); (3) lack of access to available resources (particularly land, credit, technology and useful information); (4) inadequate participation in the planning and implementation of government programs; and, (5) lack of sustainability (financial and environmental). In this section, we examine the characteristics and causes of poverty in Vietnam and draw implications for aid policy.

3.1 The characteristics and causes of poverty in Vietnam

The most recent and comprehensive study of poverty in Vietnam is a 1995 study by the World Bank (1995a). Based on data from the Vietnam Living Standard Survey (VLSS), the World Bank used household consumption expenditure data to construct rural and urban poverty lines. According to this study, the poverty line for rural areas is an annual consumption expenditure of 1,040 thousand dong (at 1993 prices) and for urban areas is 1,293 thousand dong. Figure 1 shows that 51% of the population of Vietnam are poor and 90% of those live in rural areas. The incidence of poverty is much higher in rural areas than in the urban, 57.2% compared to 25.9%, implying that poverty in Vietnam is a predominantly rural phenomenon.

Figure 1: Poverty by Region, 1993 (headcount index)



Source: World Bank 1995a

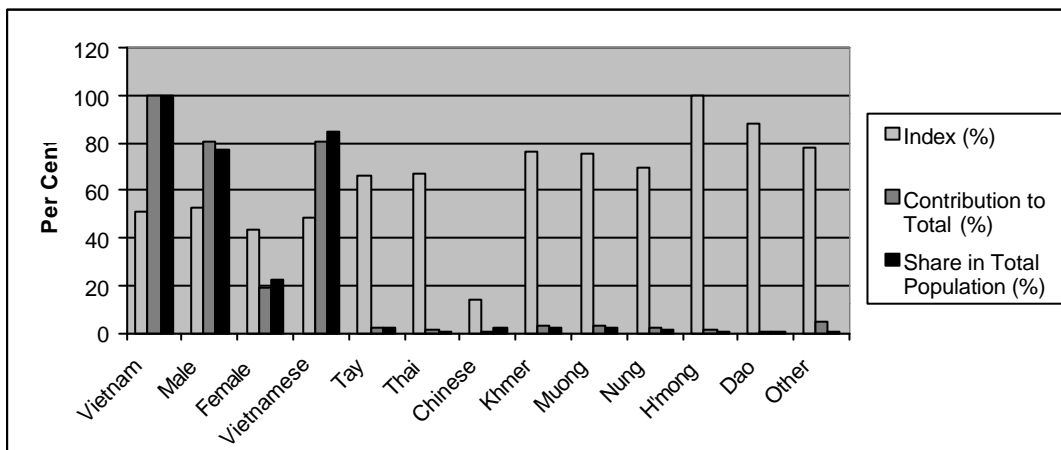
Vietnam is divided into seven economic regions: the Northern Upland, Red River Delta, North Central, Central Coast, Central Highland, Southeast, and the Mekong River Delta.¹ Across regions, the headcount index of poverty ranges from a high of 71% in the North Central region to a low of 32.8% in the Southeast region. The North Central region has the highest number of poor with 20.8% living in this region. The Northern Upland region is next with 19.3% of the total poor. Although 50.1% of its population

¹ This is the old system of administrative division. Since the beginning of 1997, this system has been changed. Nine new provinces were separated from the old ones, making the total number of central administration units to 62 provinces and cities instead of 53.

are defined as poor, the Central Highland contributes the least percentage to the total (3.3%) because of its small population.

The incidence of poverty is higher in rural areas and in the northern and mountainous regions compared to those in the south. This is likely because poor rural regions, especially mountainous ones, tend to be the most disadvantaged in terms of basic infrastructure, are more remote from market centres and information sources, lack basic social services, and suffer from frequent natural disasters such as typhoons, drought, floods and landslides. The southern regions tend to have more favourable weather conditions, better soil quality, more land per capita and more experience in commercial production. Data from the General Agricultural and Rural Survey finds that of the communes² surveyed, 12% do not have passable roads, 46% do not have local markets, 77% have a secondary school, 60% have access to electricity and only 1% have access to safe water (GSO, 1996). Aggregated data from the VLSS confirm these results, noting that 38% of communes in the Northern Upland and 20% in the North Central province are “infrastructure poor” compared to 6% in the Southeast and none in the Red River Delta (World Bank, 1995a).

Figure 2: Poverty by Gender and Ethnic Group (headcount index)



Source: World Bank 1995a

Figure 2 breaks down poverty by gender and ethnic group. Interestingly, the poverty incidence among male-headed households is much higher than that of female-headed households (53.1% compared to 43.6%). This is unusual for developing countries and further research is required to understand the reasons behind this difference.

There are 54 ethnic groups in Vietnam, of which the Kinh (Vietnamese) is dominant, accounting for almost 85% of the population. Poverty is not distributed proportionately among different ethnic groups. The minority groups (except the Chinese) have higher incidence of poverty than the national average, particularly the H'mong (100%), Dao (88.5%), Khmer (76%) and Muong (75%). Those groups mainly

² Commune is the lowest administrative unit in Vietnam. Like other administrative units, it is governed by the elected People's Committee.

inhabit the remote and mountainous areas in the Northern Upland, North Central and the Central Highland. The Chinese, who mainly live in the commercial centre of Cho Lon, Ho Chi Minh City have the lowest incidence of poverty among the minority groups with only 14%.

Table 1: Distribution of Demographic and Social Indicators by Expenditure Quintile

	Poor	II	III	IV	Rich	Total
Household size	5.3	5.1	5.1	4.9	4.5	5.0
Children per family	2.5	2.2	1.9	1.6	1.3	1.9
Literacy (% adult)	79.2	86.8	88.8	89.7	94.2	88.1
Years of schooling (mean/adult)	5.1	5.7	6.1	6.5	8.0	6.4
Low birth weight (%<2.5 kg)	6.9	7.5	5.3	3.8	3.8	5.6
Total fertility rate (child/woman)	4.9	3.8	3.5	2.4	1.8	3.3
Stunting (children, 24-35 m)	69.0	62.6	48.8	43.7	29.2	54.0
Piped water (% access)	0.7	0.9	4.0	10.5	36.8	10.6
Electricity (% access)	28.7	39.0	44.2	54.7	73.0	47.9

Source: World Bank 1995a

Table 1 presents the distribution of some selected demographic and social indicators across different expenditure quintiles. All demographic and social indicators show that a lack of human capital – good education, skill, good health and adequate nutrition – and a lack of access to basic social services – clean water and electricity – are correlated with poverty. In addition, a high fertility rate (4.9), and thus rapid population growth, is positively correlated with poverty.

3.2 Implications for aid policies

Based on the above analysis, a number of implications for aid intervention with respect to poverty alleviation and poverty reduction can be discerned.

First, there is a need to ensure sustainable economic growth. Recent high levels of growth in Vietnam have been associated with a widespread reduction in poverty. Maintaining this level of growth requires good governance, which facilitates social and institutional development (World Bank 1995b). Participation of the population, particular the poor, can contribute to program sustainability and broaden ownership and commitment

Second, as poverty in Vietnam is predominantly a rural phenomenon, aid should emphasise agricultural growth and rural development. The fundamental causes of rural poverty are limited land and capital, inadequate off-farm employment opportunities, and lack of technology (Nguyen 1993) and aid should address these areas.

Third, removing and reducing isolation, particularly of the poorest regions which are the Northern Upland, the North Central, and the Central Highland, is essential to ensuring equal participation in the development process. Both basic physical infrastructure (roads, public transport, communication facilities, information system,

etc.) and social infrastructure (illiteracy eradication, primary education, language training, health care services) should be provided to these areas.

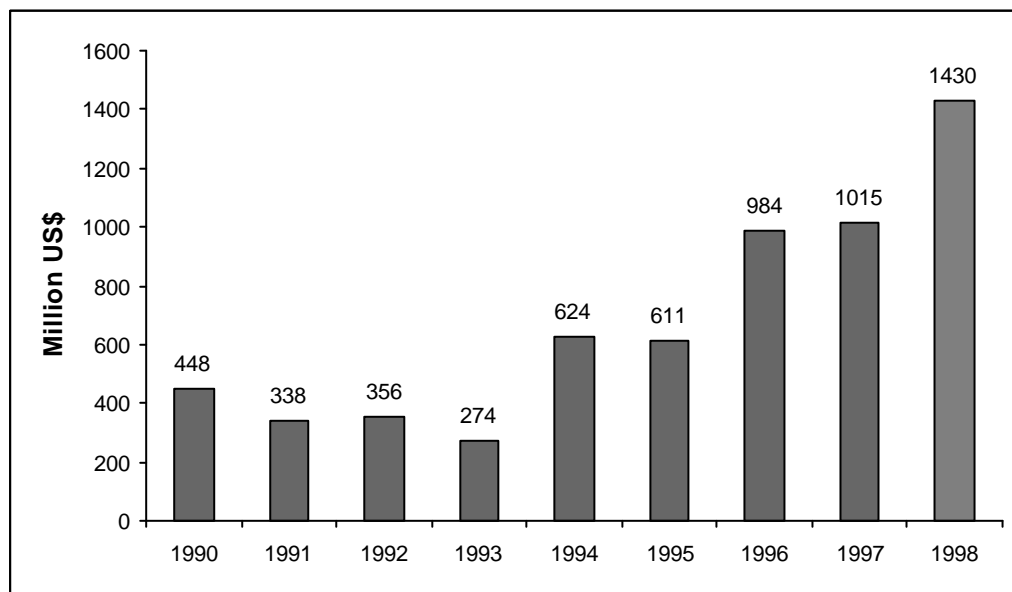
Fourth, increasing the ownership of and access to resources is essential to improving livelihoods. Land allocation and management; credit programs; investment in education, health care, nutrition and family planning; and job training are all possible areas where aid can break the vicious circle of poverty.

Fifth, good management and prevention of risks is essential to minimising risks faced by the poor. Given the sources of vulnerability in Vietnam are mainly from wars, severe floods, drought, typhoons, crop pest infestations, pre-harvest lean seasons, economic recession and changes in the terms of trade (Walle, 1998), a portion of aid should be reserved for emergency relief and limiting the effects of these risks.

4. Aid and poverty alleviation in Vietnam: An evaluation

This section analyses the recent trends in aid to Vietnam. Given limitations in data availability, it is not possible to directly assess the effectiveness of aid in poverty alleviation. However, by examining the pattern of aid allocation, we can determine how poverty was addressed and can diagnose possible problems and shortcomings associated with aid allocation.

Figure 3: Foreign Aid Disbursements



Source: UNDP Aid Survey for 1990-1997, MPI forecast for 1998 (UNDP 1998b)

4.1 Recent trends in aid to Vietnam

Aid to Vietnam has increased rapidly within the last decade. The total aid disbursements from all sources reached over US\$1 billion in 1997 and was expected to reach US\$ 1.4 billion in 1998 (see Figure 3). Between 1990-1998, aid rose by an average annual rate of 23.8%. Accordingly, the aid/GNP ratio rose from 4% in 1991 to 12% in 1996 (World Bank 1998b). The increasing trend in aid disbursement appears to have been fairly broad-based, covering most types of project-related aid, including infrastructure projects and technical assistance.

Table 2. Regional Distribution of aid in Vietnam 1995-1997

Region	Aid (US\$ million)			Share of Provincial Allocation (%)			Aid per Capita (US\$)		
	95	96	97	95	96	97	95	96	97
Northern Upland	38.8	65.4	92.1	16.8	17.5	21.4	2.98	5.02	7.08
Red River Delta	78.4	89.6	100.4	34.1	24.0	23.3	5.32	6.08	6.81
<i>RRD exc. Hanoi</i>	37.2	51.3	49.9	16.2	13.7	11.6	3.03	4.17	4.06
<i>Hanoi</i>	41.2	38.3	45.5	17.9	10.3	10.6	16.79	15.60	18.52
North Central	27.0	45.4	59.8	11.7	12.2	13.9	2.65	4.46	5.87
Central Coast	14.3	40.7	41.1	6.2	10.9	9.5	1.79	5.12	5.17
Central Highlands	12.8	25.8	14.7	5.6	6.90	3.4	3.86	7.77	4.44
Southeast	31.9	64.1	83.7	13.9	17.2	19.4	3.25	6.53	8.53
<i>SE exc. HCMC</i>	20.7	35.0	40.3	9.0	9.4	9.4	4.40	7.44	8.56
<i>Ho Chi Minh City</i>	11.2	29.1	43.4	4.9	7.8	10.1	2.19	5.68	8.48
Mekong River Delta	27.0	42.2	43.9	11.7	11.3	10.2	1.62	2.54	2.64
Total	230	373	431	100	100	100	3.04	4.93	5.69

Source: UNDP Aid Survey (UNDP 1998b)

Data on aid is classified by the UNDP as “central” aid, which is used for national purposes such as balance of payments, “nation-wide” aid, which is spent across the nation for purposes such as national immunisation programs, and “provincial” aid, which is spent in particular regions. Table 2 provides a summary of the regional (provincial) distribution of aid in Vietnam for 1995-1997 including specific data for Hanoi and Ho Chi Minh City, the two biggest urban authorities. The data show that the two biggest urban authorities receive a higher share of aid than their share of population, especially Hanoi where only 3.2% of the total population live but where in 1997 10.6% of aid was allocated. This suggests a strong urban bias in aid allocation. Recall from Figure 1 that 90% of the poor reside in rural areas.

The Southeast region receives the highest amount of aid per capita for 1997 (\$8.53) but has the lowest incidence of poverty for any region in Vietnam (See Figure 1). The share of aid going to Northern Upland and North Central Coast, which are the poorest regions of the country, gradually improved in terms of aid per capita between 1995-1997. The main reason for the improvement in the Northern Upland region was

the large aid disbursement for the bridge rehabilitation program funded by JICA of Japan. Although the poor Central Highland experienced a drop in aid in 1997, there are signs that aid allocation has gradually improved in the past four years – aid allocated to the three poorest provinces increased from 35% to 42% between 1994 and 1997. However, if aid were regionally directed toward poverty alleviation then a positive relationship would be expected between poverty incidence and aid per capita. The correlation between poverty incidence and average aid per capita for 1995-1997 is found to be negative (-0.26).³ Although there are signs of improvement in the regional distribution of aid, there is clearly scope for further improvement.

Table 3. Top Ten aid Sectors 1993-1997

Sector	1993	1994	1995	1996	1997 (planned)
Economic management	6	1	1	1	3
Development administration	-	7	7	-	9
Natural resources	-	-	-	9	10
HRD	5	4	5	7	6
Agriculture, forestry and fisheries	3	2	2	4	4
Area development	-	10	8	8	5
Industry	8	8	9	10	-
Energy	9	-	-	3	1
Transport	10	9	4	2	2
Communications	7	-	-	-	-
Social development	4	5	6	5	8
Health	1	3	3	6	7
Disaster preparedness	-	-	10	-	-
Humanitarian aid and relief	2	6	-	-	-

Source: UNDP CD Rom '1997 Development Cooperation Report' (UNDP 1998c)

Note: Sectors in bold are the ones that attract most of aid money (at least 3 times in the top ten list during the period)

Table 3 notes the sectors that attracted the largest amount of aid between 1993 and 1997. The major concentration areas of recent aid disbursement have been economic management; development administration; human resource development; agriculture, forestry and fisheries; area development; industry; energy; transport; social development and health. Most aid disbursements have been devoted to the effort of promoting economic growth. This is shown by the fact the top receiving sector was economic management for three consecutive years (1994-1996). Furthermore, efforts to promote economic growth were also directed both at developing the human resource potential and at creating the required physical infrastructure. While the former (including human resource development, social development and health) received priority during 1993-1995 these became less important in 1996 and 1997 when the energy and transport sectors attracted large amounts of aid. These two sectors have seen the most noticeable change in aid direction: in 1993, they were ranked ninth and tenth,

³ A simple linear regression of aid/capita with poverty as an explanatory variable yields a slightly negative and insignificant coefficient on poverty (coefficient = -0.03, t-stat = -0.60) and thus confirms this result.

but in 1997, they jumped to the two top positions. Agriculture, which was ranked second and third during 1993-1995, fell to the fourth in 1996 and 1997. Together with the recent focus on physical infrastructure (whose available data do not break down into rural and urban infrastructure and thus do not indicate clearly how much aid has been spent on rural infrastructure), this may suggest aid is shifting away from a pattern of growth that is rural development oriented.

4.2 Balance among the three approaches

The overview of recent trends on aid to Vietnam shows that aid intervention activities have adopted the three-pronged strategy to poverty alleviation. It is, however, much more difficult to form a view of the relative emphasis given to each component. In working towards an answer, we categorise all aid activities into three groups according to the way they tackle poverty and use the value of aid disbursement as a measure of the current emphasis given to each of the three components.⁴ There is a fine line in some cases between what should be classified as disbursement for the promotion of sustainable economic growth and what should be classified as disbursements for direct targeting of the poor so we explain the methodology here.

Foreign aid to Vietnam has been categorised by sector and sub-sector by the UNDP (1997a). Using this categorisation, defining safety nets and transfers is the most straightforward. Specifically, aid disbursements for humanitarian aid and emergency relief are considered in this category. To calculate the amount of aid that directly targets the poor, we rely on the mechanism of targeting (geographical, sectoral and needs) and whether the effect on the poor is likely to be direct or indirect. Based on this, direct targeting measures include the following sectors and sub-sectors: primary schooling and non-formal education, area development, drinking water and sanitation, and housing. The amount spent on the remaining sectors and sub-sectors is therefore for the promotion of sustainable economic growth.⁵

Table 4. Estimated Aid Disbursement by Approach to Poverty (thousands of USD)

Approach to Poverty	1993	1994	1995	1996	1997 (planned)
Promotion of economic growth	136,517 49.9%	435,585 69.7%	452,256 73.9%	809,249 82.2%	1,075,452 85.2%
Direct targeting on the poor	93,353 34.1%	150,639 24.1%	156,830 25.6%	158,661 16.1%	181,962 14.4%
Safety nets and direct transfers	43,908 16.0%	38,409 6.2%	2,739 0.5%	1,7054 1.7%	5,384 0.4%
Total	273,778	624,633	611,825	984,964	1,262,798

Source: UNDP CD Rom '1997 Development Cooperation Report' (UNDP 1998c)

⁴ Details of the way we categorise aid disbursements are available in Le (1999).

⁵ These include: economic management, development administration, natural resources, secondary, tertiary and technical education, agriculture, forestry and fisheries, industry and energy, domestic and international trade, transport, communication, culture, crime prevention, urban development, social legislation and disaster preparedness.

Table 4 presents a picture of the allocation of aid based on data on aid disbursement by sector. From these figures, the overall trends in aid can be summarised as follows:

- The dominant part of total aid disbursement falls into the first category, the promotion of economic growth. Aid under this category grows consistently from about 50% in the total aid in 1993 to 85% in 1997.
- Activities that directly target the poor are declining with the current share at only 15%.
- Safety nets and direct transfers are only a minor part of the total aid. The safety nets component declines sharply with the current share being almost zero (0.4%)
- While there is not yet a clear understanding of the optimal allocation between these three components for effective poverty reduction, the balance that emerges during 1993-1997 shows a clear bias toward the promotion of economic growth without substantial targeting of the poor.

Table 5. Estimated Aid Disbursements for Promotion of Economic Growth

Component	1993	1994	1995	1996	1997 (planned)
Good governance	25,566 18.7%	189,312 43.5%	169,618 37.5%	300,377 37.1%	204,323 19.0%
Industrial development	19,855 14.5%	44,900 10.3%	23,468 5.2%	142,154 17.6%	359,306 33.4%
Rural development	40,347 29.6%	107,389 24.7%	116,512 25.8%	89,003 11.0%	112,531 10.5%
Social development	19,256 14.1%	43,087 9.9%	50,741 11.2%	57,540 7.1%	55,793 5.2%

Source: UNDP CD Rom '1997 Development Cooperation Report' (UNDP 1998c)

Note: The percentages do not add to 100% since other growth promotion sectors are not included.

To investigate the pattern of growth that aid is promoting, we divide the value of aid disbursement for growth promotion (in Table 4) into 1) good governance, 2) industrial development, 3) rural development, and 4) social development.⁶ The results presented in Table 5 reveal that economic growth was increasingly supported by a focus on good governance beginning in 1994. However, the amount of aid spent on this sub-group has recently fallen to 19%. Within the broad economic growth target, aid spent on promotion of rural and social development accounts for about 30% and 14% respectively in 1993. Over the period, the proportion of aid spent on these two sectors was declining (rural development 10.5% and social development 5.2%). Finally, there has been a much stronger emphasis on industrial development, particularly through large-scale energy projects, in recent years.

⁶ These are defined as follows: 1) good governance = economic management and development administration; 2) industrial development = industry and energy; 3) rural development = agriculture, forestry and fisheries; and, 4) social development = secondary, tertiary and technical education and culture, crime prevention, urban development and social legislation.

5. Conclusions and policy implications

The historical experience with aid and current conventional wisdom about aid allocation suggests that three types of aid are necessary for addressing poverty in developing countries: aid promoting sustainable economic growth, aid that directly targets the poor and aid that provides transfers and safety nets for immediate relief from poverty. Maximising the benefits of aid in terms of poverty reduction requires determining an aid allocation that is balanced between these three strategies. The optimal balance is likely to depend on the structure of poverty within the country, the policies of the developing country government and other country specific factors. Based on a careful examination of poverty within Vietnam, we determine whether aid allocation is optimally directed at poverty reduction. The survey of recent trends on aid to Vietnam has led to the following observations:

- Aid is distributed disproportionately across regions with regard to their poverty incidence. Poverty is based in the remote, rural areas of the north, but donors still seem to have a strong preference for providing assistance to the urban centres, rather than to some of the more isolated and impoverished regions. Very few projects were targeted toward rural and remote areas, where most of the poor live.
- In terms of sectoral distribution, aid disbursements have been devoted to the effort of promoting economic growth through improving institutional structures and, more recently, promoting industrialisation. Agriculture, which is closely related to rural development and rural poverty in Vietnam, has recently received proportionately less aid money. Social development though it was initially an aid priority, tends to fall in importance in recent years.
- There appears an imbalance between aid that promotes economic growth and aid that directly targets on the poor. This phenomenon is present in both the trends in sectoral aid disbursement and the estimated aid disbursement by approach to poverty. There is likely an over emphasis of aid on promoting economic growth while measures aimed at directly targeting the poor only play a minor role.
- Although it is not required that a considerable amount of aid be provided in the form of safety nets and direct transfers, the proportion of aid for this component seems to be very low in recent years. The danger of the poor being left behind from the benefits of general economic growth and the risk of the poor being exposed to frequent natural disasters suggest increasing this component.

The shortcomings of aid allocation in Vietnam suggest that either poverty reduction is not the primary donor motivation in allocating aid or that there is a failure in aid management. Given the multiple sources of aid and complexity of poverty, directing aid toward poverty reduction is a difficult task. Assuming poverty reduction is the purpose of aid, then ensuring proper aid allocation requires that each donor be provided with information on poverty incidence and on other donors aid allocation. This information can be used to inform donors of potential areas of neglect.

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