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## Approaches to Modelling Vulnerability to Poverty in Rural Households in Thua Thien Hue Province, Viet Nam

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### Abstract

Economic reforms have transformed Viet Nam into one of Asia's fastest growing countries which has achieved impressive progress on cutting poverty. The success of its agricultural sector remains a key factor for maintaining this positive trend since the majority of the population still lives in the countryside. Idiosyncratic and covariate shocks pose a threat to the rural economy and can cause households to fall back or deeper into poverty. However, positive shocks like the recent price surge for food crops also offer opportunities. Modelling the reactions of rural households to shocks presents a challenge. Several steps are necessary. Firstly, a good understanding of the Household's decision-making processes, his income portfolios and his coping capacity are needed. Secondly a good concept to build such models that incorporate vulnerability in the criterion function is needed. Thirdly, a good empirical data base is necessary.

This paper focuses on the third aspect, namely the collection of data and the formulation of respective household models which are typical for the farm household systems in Thua Thien Hue Province in Central Viet Nam. In this study primary data from 718 households were collected. Results of a descriptive analysis indicate that two groups of typical farm households can be identified: Those households who are exclusively engaged in own agricultural activities and those who are engaged in both own agriculture and off-farm employment. The first group accounts for a larger share of households in the mountainous areas of the province which is predominantly inhabited by ethnic minorities. Major shocks by which households were affected in a reference period of 5 years are unusually heavy rainfall, flooding and illness of household members. Shock-affected households applied different coping activities such as borrowing from different sources, taking up of additional occupation and adjusting their agricultural production portfolio. A considerable share of households did nothing when a shock occurred. The outcome of the study points to the importance of a more profound analysis of the effect of shocks on farm households and their risk coping behaviour.

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