Title: Ethnicity and Risk Sharing Network Formation: Evidence from Rural Vietnam

Inequality across ethnic groups remains a persistent challenge for Vietnam like in other developing countries. This paper focuses on a little known mechanism triggering interethnic inequality that is the formation of risk sharing networks, through which households share the risk with others thanks to transfers in gift, money or labour. Risk, and the necessity to cope with it is a pervasive feature of rural economic life, particularly in Vietnam’s mountainous areas, where ethnic minorities mostly live. There, the prevalence of natural risk, and its role in the persistence of poverty, is accentuated by climate change, by difficulties to cultivate fragile uplands, and low access to basic infrastructure. In this context, risk sharing arrangement is a dominant strategy to cope with shocks for rural poor.

This paper first investigates the differences in risk sharing networks between ethnic minorities and the Kinh majority. We show that ethnic minority groups are embedded in smaller risk sharing networks, implying a lower capacity to pool risks. Additionally, their networks are less diversified and are expected to be less efficient to cope with covariant shocks. This divergence is partly explained by differences in wealth and in the geographical environment. Ethnicity also plays a direct role and influences risk-sharing network formation through the effect preferences to form a link with people from the same ethnic group (inbreeding homophily) and the relative size effect of ethnic groups which condition opportunities to form a link. Inbreeding homophily is found to be stronger among the Kinh majority. This leads to the exclusion of ethnic minorities from Kinh networks, which are expected to be more efficient to cope with covariant risk because more diversified in the occupation and location of their members. This evidence suggests that inequalities among ethnic groups in Vietnam are partly rooted in the cultural and social distances between those groups.

Highlighting the implicit rule driving risk sharing network formation is necessary to design social protection policies. In particular, this paper claims for policies supporting rural households in coping with covariant shocks, especially households from ethnic minority group who are endowed with potentially less efficient risk-sharing network.