

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country and Project Title: **Vietnam – Microfinance Development Program (MDP)**

Lending/Financing
Modality:

Policy-based lending

Department/
Division:

Southeast Asia Department/Financial
Sector,
Public Management, and Trade Division

I. POVERTY ANALYSIS AND STRATEGY

A. Link to the National Poverty Reduction Strategy and Country Partnership Strategy

About 72% of Viet Nam's population lives in rural areas, where agriculture (that accounts for 54% of the national workforce) is the economic mainstay. Government's national poverty reduction efforts have thus adopted a multi-pronged approach of: modernizing agriculture and value-added agro-processing; promoting non-farm household businesses; and increasing employment opportunities through geographically dispersed industrialization and SME promotion. These efforts have led to the significant reduction of poverty; hence Vietnam is poised to meet Millennium Development Goal 1 (MDG1) by 2015.

In the 2003-2010 Comprehensive Country Poverty Reduction Strategy, the expansion of microfinance (MFI) delivered by NGOs was mentioned as an objective. ADB's Country Partnership Strategy 2011-2015 (under development) highlights the microfinance sector as a key area for ADB assistance. A recent ADB JFPR Technical Assistance project has enabled significant policy and regulatory reforms to be instituted through laws that allow licensing of MFIs to be regulated credit institutions. Likewise, provision of micro-credit by the government has expanded significantly in the last decade. The Viet Nam Bank for Social Policies (VBSP), a government lending institution, now accounts for almost 70% of micro-credit delivery in Vietnam.

The government's 5-year Socio-Economic Development Plan (SEDP) 2011-2015 aims to reduce the poverty rate by 2% each year. To achieve this objective, the government will continue to create conditions for strong economic growth, while also implementing social and poverty reduction programs. Even though microfinance as a sector is not explicitly mentioned, several measures recently taken by the government strongly indicate that microfinance will remain an important poverty reduction tool. These include: (i) the integration of microfinance institutions and the microfinance sector in the new Credit Institutions Law passed in June 2010; (ii) the formation of the National Microfinance Steering Committee and the drafting of the Microfinance Strategy and Roadmap for 2010-2020; and (iii) planned reforms towards promoting a robust and vibrant market-based microfinance sector.

The proposed sector development program will assist the government to pursue the development of a vibrant, sustainable, inclusive and responsive microfinance sector in support of its aim towards poverty reduction.

B. Poverty Analysis Targeting Classification: General intervention (GI)

Key issues.

The poverty rate, measured by the international standard, has decreased remarkably from 58% in 1993 to 14% in 2008 (GSO, 2009). In absolute terms, Viet Nam has lifted some 35 million people out of poverty from 1993 to 2008, nearly 6,400 people every day. There are, however, still 12.5 million people living below the poverty line and poverty reduction achievements remain precarious and are not yet sustainable. Poverty in Viet Nam is mainly a rural phenomenon, with the poverty rate in rural areas being 5 times higher than in urban areas in 2008 (18.7% versus 3.3%). Given the fact that 72% of the population lives in rural areas, the rural poor account for 94% of the total number of poor people.

One of the constraints to poverty reduction has been limited responsive and adequate financial services in rural areas, which represents a mere 17% share of total bank credit, and where less than 20% of the population has access to any kind of institutional finance services. Access to microfinance services can help poor women and men build viable small businesses, pursue economic opportunities and income-generating activities, and reduce vulnerability to external shocks or contingencies. Improved access and efficient provision of services can enable the poor to smoothen their consumption, manage their risks better, build assets, develop microenterprises, and enhance their income-earning capacity. The MDP will therefore directly contribute towards poverty reduction efforts in Viet Nam by strengthening the microfinance sector ability to outreach and serve to rural and low income households.

Design features. By strengthening policy and regulatory frameworks, institutional capacity and supporting infrastructure, the MDP will enable the microfinance sector to better outreach and serve low income households.

C. Poverty Impact Analysis for Policy-Based Lending

1. Discuss the impact channels of the policy reform(s) (direct and indirect, short and medium term) to the country and major groups affected

The policy reforms supported by the project will have a direct impact on poverty by increasing the access of women and men in low income households to quality, affordable, inclusive and sustainable microfinance services, including credit, saving and insurance. The multi-pronged approach will support the creation of a conducive policy and

regulatory environment for inclusive and sustainable microfinance; strengthening of supervisory and regulatory capacities of microfinance regulators (SBV and MoF); strengthening of credit institutions providing microfinance services (VBSP, PCF and MFIs); and developing the infrastructure for the microfinance sector. These policy actions will enable the microfinance sector to expand rural outreach and promote pro-poor innovation in delivering services, as well as ensure customer protection and risk protection.

2. Discuss the impact of the policy reform(s) on vulnerable groups and ways to address it/them (refer to social analysis)

The MDP design will positively impact on vulnerable groups by directly expanding their access to microfinance services through supporting policy and regulatory reforms towards a more inclusive and sustainable microfinance sector which can better outreach and serve poor and marginalized clients. Refer social analysis and strategy below.

3. Discuss how the policy reform(s) contribute(s) to poverty reduction, pro-poor growth, and the Millennium Development Goals.

Increased access to microfinance services for poor women and men will result in increased household income, which in turn will improve other aspects of living, such as education, health and women's empowerment. Thus, the MDP contributes directly to the achievement of the first MDG. Indirectly, MDG #2 (Universal Education), #4 (Child Health), #5 (Maternal Health), and MDG #3 (Gender Equality and Women's Empowerment) will also be positively impacted.

II. SOCIAL ANALYSIS AND STRATEGY

A. Findings of Social Analysis

Two decades of solid GDP growth around 7-8% per year has brought Vietnam out of the low income country group to join the middle income country group. Poverty is a rural phenomenon and increasingly associated with ethnic minorities. Both the poverty headcount (percentage of the population living below the poverty line) and poverty gap, which measures the seriousness of poverty, are higher among ethnic minorities.

The primary beneficiaries of MDP are key government microfinance regulators and service providers. Secondary beneficiaries are in turn poor women and men that the microfinance sector serves. There is high demand for microfinance amongst poor and vulnerable groups to generate increased income and buffer households from economic and social shocks. Hence increased access to quality microfinance services has a direct positive impact on poor and vulnerable groups. However, there remains a need to build the capacity of poor and vulnerable groups in financial literacy and effective use of credit.

MSDP will contribute to poverty reduction among ethnic groups by supporting policy reforms and data systems for credit institutions to better outreach to and serve ethnic group and other marginalized clients. For example:

- Strengthening of VBSP to a market-based, self-sustaining microfinance service provider offering a range of services. (VBSP operates in all poor communes, many of which have a large population of ethnic groups.)
- Strengthening the PCF network and expanding its scope and geographic coverage, as well as transforming its apex institution - Central Credit Fund (CCF) - into a cooperative bank.
- Promoting transformation of unregulated microfinance providers to licensed and regulated MFIs so that they can mobilize more resources to reach more clients.
- Encouraging the expansion of microfinance outreach, especially to the rural areas by providing appropriate fiscal, regulatory and other incentives.
- Promoting pro-poor innovations in delivering microfinance services to reduce costs and expand outreach.
- Ensuring customer protection and promoting risk protection for the poor

MDP will also adopt a strong gender-inclusive approach (refer below).

No social risks are anticipated from MDP.

B. Consultation and Participation

1. The project was prepared in a close consultation with key institutional stakeholders in the microfinance sector, including the State Bank of Vietnam (SBV), MOF, MOLISA, VBSP, CCF, VBARD, The Banking Academy, VWU, MFWG and other development partners. Field visits were also conducted at various stages to meet with microfinance clients and service providers in rural areas.

2. What level of C&P is envisaged during the project implementation and monitoring?

☐ Information sharing ☒ Consultation ☐ Collaborative decision making ☐ Empowerment

3. Was a C&P plan prepared? ☐ Yes ☒ No

C. Gender and Development**Key issues.**

Viet Nam has strong national commitment to gender equality and women's empowerment, as reflected in the 2006 Law on Gender Equality, and a complex national women's machinery system across government. The recently approved National Strategy for Gender Equality 2011-2020 which provides specific targets to credit institutions to provide credit to 80% of female laborers in poor areas and ethnic minority regions by 2015, and 100% by 2020.

Increasing equality of access to appropriate microfinance services for women plays a significant catalytic role in promoting women's economic empowerment as well as positive flow-on impacts to women's and families' livelihoods and wellbeing. The Viet Nam microfinance sector has traditionally involved strong participation of women and the Viet Nam Women's Union as a conduit or direct provider. As of end-2008, 94% of active microfinance clients in Viet Nam were female. However, women's access to formal large-scale financial services remains unequal, as is reflected by the fact that in 2010, only 35% of borrowers from the VBSP were women. There also remain data gap from a gender perspective in the microfinance sector. Improved data collection would ensure a significant catalytic role of the microfinance in promoting women's economic empowerment. The MDP will formulate rules and regulations to require licensed MFIs to report microfinance client data, which is disaggregated by sex. It follows that the MDP is categorized as having Some Gender Benefits (SGB).

Key actions. Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

☐ Gender plan ☒ Other actions or measures ☐ No action or measure

The MDP will address the lack of reliable sex-disaggregated data to promote gender awareness, analytical capacity of formal microfinance providers and support access to microfinance by women.

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary resettlement	No impact	No strategy required	<input checked="" type="checkbox"/> None
Indigenous peoples	Indirect positive impact from improved microfinance outreach and service delivery.	No IP plan required, however design includes strengthening of microfinance client data disaggregated by ethnicity.	<input checked="" type="checkbox"/> Other action
Labor <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	Improved microfinance will indirectly leads to greater livelihood and flow-on employment opportunities	No strategy required	<input checked="" type="checkbox"/> No action
Affordability	Improving the affordability of microfinance services is a key objective of MDP	No additional strategy required	<input checked="" type="checkbox"/> No action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others (conflict, political instability, etc.)	Not applicable		<input checked="" type="checkbox"/> No action

IV. MONITORING AND EVALUATION

Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? ☒ Yes ☐ No