# SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

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| Country: | Viet Nam | Project Title: | Financial Sector Deepening Program |
| Lending/Financing Modality: | Programmatic policy-based loan | Department/ Division: | Southeast Asia Department<br>Public Management, Financial Sector, and Trade Division |

## I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: general intervention

### A. Links to the National Poverty Reduction and Inclusive Growth Strategy, and Country Partnership Strategy

Viet Nam's historical growth pattern in 1993–2008 can be considered to be pro-poor, with gross domestic product (GDP) per capita increasing by an average 6.1% annually and poverty falling by 2.9 percentage points each year to be well below 10% by 2010.[a] These reductions are largely attributable to sustained business-led growth in output and employment, complemented by targeted poverty reduction interventions. Key milestones include; passage of the Revised Land Law in 1993[b] and the Enterprise law in 2000,[c] and the ascension to the World Trade Organization in 2007. According to the United Nations Development Programme (UNDP), Viet Nam is likely to achieve most of its Millennium Development Goals by 2015 (footnote a). In short, Viet Nam has lifted over half its population out of poverty within 20 years. However, recent upgrades to Viet Nam's monitoring systems to incorporate current expenditure patterns indicate that focused efforts to alleviate poverty must continue.[d] A joint effort between the World Bank and the General Statistics Office found that while poverty rates continued to decline, poverty levels in today's terms were higher than previously estimated—20.7% in 2010 declining to 17.2% in 2012.[e] Returning Viet Nam to high and sustained economic growth, which has been a primary driver in poverty reduction, will require macroeconomic stability along with structural reforms, including the restructure of poorly performing state-owned enterprises (SOEs), recapitalization and strengthening of the banking industry, and the development of a more efficient capital market.

To meet these goals, the Socio-Economic Development Strategy (SEDS), 2011–2020 outlines a plan to transform Viet Nam into a modern, productive, and equitable market economy with an average annual reduction in the number of poor households of 2%–3%.[f] Within this framework, the government has embarked on an ambitious goal of restructuring SOEs, tackling the large overhang of nonperforming loans, and removing bottlenecks that impede growth in the capital market. The Sector Road Map for the Strategic Development of the Vietnamese Capital Market (Road Map), which is part of the SEDS, serves as a master plan for long-term capital market development. The country partnership strategy, 2012–2015 of the Asian Development Bank (ADB) for Viet Nam as well as the proposed subprogram 2 of the Financial Sector Deepening Program (FSDP) are aligned with the Road Map and aim to strengthen the legal, regulatory, and institutional frameworks and market infrastructure to sustain the financing of productive investment.[g] The Road Map includes measures to improve money market efficiency and deepen the capital market for enhanced financial intermediation, which is essential for raising economic efficiency and competitiveness. Under the FSDP, money market development will help the government better manage inflation through monetary interventions, while a deeper government bond market will anchor commercial financing and provide long-term funding to much-needed infrastructure projects and social expenditures. The ongoing rationalization of the government's debt issuance and management processes will complement these efforts, leading to lower financing costs and increased fiscal space that could be allocated to social development goals.

### B. Results from the Poverty and Social Analysis during Project Preparation or Due Diligence

1. **Key poverty and social issues**. Due diligence was not performed in support of the proposed subprogram 2. The FSDP is likely to have a broad impact on (inclusive) economic growth. Higher growth rates and expected lower financing rates will also bolster available government resources, enabling it to increase spending on social expenditures. A robust finance sector will also help protect the economy from exogenous shocks, which are becoming more common in increasingly global markets, with serious implications for the poor.
2. **Beneficiaries**. A target group of beneficiaries was not identified because this program is classified as general intervention. While the group of beneficiaries that indirectly benefits from proposed reforms is broad, marginalized groups often are the most vulnerable to declining growth rates or financial shocks because they are poorer, have fewer savings, and often occupy low-skilled positions. By catalyzing private sector investment, economic growth, and job creation, the program indirectly helps remove their constraints.
3. **Impact channels**. Finance sector development helps reduce poverty through at least three channels (described in more detail in Section C).
4. **Other social and poverty issues**. None.
5. **Design features**. The program is part of ADB's comprehensive support to the Government of Viet Nam designed to ensure completion of the economic and social objectives of the SEDS. This support embodies a whole-of-sector approach that encompasses SOE reform, finance sector development, and an increase in the availability of credit to all segments of the private sector.

**C. Poverty Impact Analysis for Policy-Based Lending**

1. Impact channels of the policy reform(s): Empirical studies have demonstrated the close relationship between finance sector development and poverty alleviation.[h] Finance sector development helps reduce poverty through at least three channels:
a) **Higher economic growth.** The link between economic growth and finance sector development, as measured by private credit and stock-market liquidity, is well known and has been empirically supported. Using data from 47 countries from 1976 to 1993, Levine and Zervos calculated that on average, a one-standard-deviation increase in initial stock-market liquidity would increase a country's per capita growth by 0.8 percentage points per year over this period.[i] Likewise, a one-standard-deviation increase in initial banking development would increase output growth by 0.7 percentage points per year. Combining stock-market liquidity and banking development over this same period would have increased real per capita GDP by 31%. Contractual savings also play a significant role in fostering economic development. Using this same data set, research indicates that a one-standard-deviation increase in total insurance premiums to GDP would increase real per capita GDP growth by 0.47%, with even higher effects in countries with lower to middle levels of development.[j] By increasing links between the contractual savings and other financial subsectors, the economy can further benefit from lower information and transaction costs, pooling of risk, more efficient capital allocation, and enhanced intermediation.
b) **Finance sector inclusiveness.** The second channel, access to finance, is direct. Finance sector development reduces information and transaction costs and therefore (i) allows more entrepreneurs, especially those less well off, to obtain external finance; (ii) improves the allocation of capital; and (iii) has a particularly large impact on the poor. When the poor have greater access to financial services, they can increase their lifetime incomes through the use of such basic savings products as bank accounts and special-purpose savings products, e.g., pre-need accounts and pensions.
c) **Finance sector stability.** The third channel is indirect. Finance sector development generally increases sector stability, which benefits the poor, since poor households are much more vulnerable to sector instability than the rich. Poor households have fewer and less diversified financial assets than the better-off, and are more exposed to the negative macroeconomic impacts that normally accompany a financial crisis. Reforming and strengthening the finance sector to enhance stability will help reduce the risk of the kind of financial crises that can have an outsized negative impact on the poor and force the near-poor into poverty.

2. Impacts of policy reform(s) on vulnerable groups: The program will have no adverse impact on vulnerable groups.

3. Systemic changes expected from policy reform(s): Systemic changes will occur as the level of systemic credit risk, and associated nonperforming loans, begins to decline. This will serve as a catalyst to boost economic activity and will enable the financial system to provide the necessary financial support, such as lending. In addition, reforms to the government bond market will provide long-term benefits because this market is the foundation on which all private sector debt issuance and activity is built.

**II. PARTICIPATION AND EMPOWERING THE POOR**

1. Participatory approaches and project activities: Program design and reform measures have undergone substantive stakeholder consultations before implementation, and will continue during ADB review missions. Monitoring features built into the design and monitoring framework are discussed in Section VI.
2. Civil society organizations (CSOs): As a general intervention, targeted at fundamental reforms to the financial markets, CSOs would not be expected to participate at this stage.
3. The following forms of CSO participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA): Not applicable.
☐ Information gathering and sharing ☐ Consultation ☐ Collaboration ☐ Partnership
4. Participation plan. ☐ Yes. ☒ No. – Not applicable.

**III. GENDER AND DEVELOPMENT**

Gender mainstreaming category: no gender elements.

**A. Key issues.** Not applicable

**B. Key actions.** Gender benefits of capital market development are likely to be indirect and influenced by a number of determinants that are beyond the program.
☐ Gender action plan ☐ Other actions or measures ☒ No action or measure

**IV. ADDRESSING SOCIAL SAFEGUARD ISSUES**

**A. Involuntary Resettlement** **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI
1. Key impacts: The program requires no construction or rehabilitation, is not expected to require land acquisition, and therefore has no potential to cause loss of assets, resources, or income.

2. Strategy to address the impacts: not applicable.
3. Plan or other actions: not applicable.

☐ Resettlement plan
☐ Resettlement framework
☐ Environmental and social management system arrangement
☒ No action
☐ Combined resettlement and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Social impact matrix

**B. Indigenous Peoples** **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts: Is broad community support triggered? ☐ Yes ☒ No
2. Strategy to address the impacts: not applicable.
3. Plan or other actions.

☐ Indigenous peoples plan
☐ Indigenous peoples planning framework
☐ Environmental and social management system arrangement
☐ Social impact matrix
☒ No action
☐ Combined resettlement plan and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Indigenous peoples plan elements integrated in project with a summary

## V. ADDRESSING OTHER SOCIAL RISKS

**A. Risks in the Labor Market**

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). The impact is medium since the program is expected to contribute to sustained economic growth and employment creation.

☒ unemployment ☐ underemployment ☐ retrenchment ☐ core labor standards

2. Labor market impact. No changes to labor market policies are envisaged.

**B. Affordability**

The program will not affect access to goods and services by the poor and other vulnerable groups.

**C. Communicable Diseases and Other Social Risks**

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): NA.

☐ Communicable diseases ☐ Human trafficking
☐ Others (please specify) ______________

2. Risks to people in project area: not applicable.

## VI. MONITORING AND EVALUATION

1. Targets and indicators: Minimum economic growth rates, which are necessary to meet poverty reduction targets, have been established in the SEDS and will serve as performance benchmarks for the FSDP. The level of nonbank finance sector intermediation will also be monitored and tracked.
2. Required human resources: The mission team, executing agency, and implementing agencies will closely monitor the performance as prescribed by the design and monitoring framework.
3. Information in the project administration manual: not applicable (policy-based lending).
4. Monitoring tools: not applicable (policy-based lending).

[a] The World Bank. 2012. *Well Begun, Not Yet Done: Vietnam's Remarkable Progress on Poverty Reduction and the Emerging Challenges*. Washington, DC.

[b] This law granted households five basic new rights—to transfer, exchange, inherit, rent, and mortgage their land.

[c] Citizens were allowed to establish and operate private businesses with limited intervention from government officials.

[d] The increase reflects improvements in the quality of the food reference basket and a higher allocation for spending on essential nonfood products, including housing and durable goods.

[e] The World Bank. 2014. *Well Begun, Not Yet Done: Vietnam's Remarkable Progress on Poverty Reduction and the Emerging Challenges*. Washington, DC.

[f] The government aspires to achieve a higher middle-income status with per capita income of at least $3,000 as well as significant improvements in human development and poverty reduction by 2020.

[g] ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

[h] G. Jeannwney, S. Kpodar, and K. Kpodar. 2008. *Financial Development and Poverty Reduction: Can there be a benefit without a cost? Working Paper #62.* Washington, DC: International Monetary Fund.

[i] R. Levine and S. Zervos. 1998. Stock Markets, Banks, and Economic Growth. *The American Economic Review*. pp. 537–558.

[j] M. Arena. 2008. Does Insurance Market Activity Promote Economic Growth? A Cross-Country Study for Industrialized and Developing Countries. *The Journal of Risk and Insurance*, Volume 75. No. 4, pp. 921–946.

Source: Asian Development Bank.