SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country: Viet Nam
Project Title: Financial Sector Development and Inclusion Program

Lending/Financing Modality: Programmatic policy-based loan
Department/Division: Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

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

Since the early 1990s, Viet Nam has made remarkable progress toward reducing poverty, in both absolute and nationwide terms. The poverty rate (based on a purchasing power parity of $1.90 per day) declined from 50% in the early 1990s to an estimated 3% in 2015, lifting approximately 50 million people out of poverty. During 1993–2012, the average income of the poorest 40% of the population grew at an annual rate of 9%, one of the highest rates globally. Nonetheless, challenges remain. Many people living in urban areas remain poor and vulnerable to significant economic shocks, and poverty remains significantly higher in remote rural areas. Viet Nam’s high economic growth, which has been a primary driver of poverty reduction, may be unsustainable. Key impediments to inclusive and sustainable growth include (i) low productivity and inefficient resource allocation, (ii) unequal access to economic opportunities and social services, and (iii) unsustainable resource utilization and vulnerability to climate change.

The Government of Viet Nam’s Socio-Economic Development Strategy (SEDS), 2011–2020 envisages Viet Nam’s transformation into a modern, productive, and equitable market economy, with the number of poor households reduced by an average of 2%–3% per year. Within this framework, the government set out ambitious goals to address the impediments to inclusive and sustainable growth. The government’s strategy includes plans to: (i) restructure state-owned enterprises; (ii) reform the inefficient capital markets that fail to provide adequate and inclusive intermediation in the economy; and (iii) strengthen public financial management to ensure more efficient usage of the government’s budget for social development spending and infrastructure projects. The Financial Sector Development and Inclusion Program (FSDIP) and the SEDS intersect in the first strategic pillar of the country partnership strategy, 2016–2020 of the Asian Development Bank (ADB), which promotes job creation and competitiveness. The FSDIP will support the SEDS and its 5-year implementation plan, the Socio-Economic Development Plan, 2016–2020 by increasing the soundness, efficiency and inclusiveness of Viet Nam’s financial sector. This will be achieved by assuring financial stability, broadening and deepening the capital markets for enhanced financial intermediation, and promoting financial inclusion, which will both support capital market development and ensure the more equitable distribution of economic benefits arising from the SEDS.

B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence

1. Key poverty and social issues: Empirical evidence suggests that financial sector development plays a vital role in facilitating economic growth and poverty reduction. The proposed program will broadly impact inclusive economic growth. A more stable financial system will boost investor confidence and attract foreign investment, driving faster economic growth. At the same time, a deeper and more developed capital market will ensure the more effective and efficient intermediation of domestic resources toward social spending. Financial inclusion is also a critical element of inclusive growth, as access to finance can enable economic agents to make long-term consumption and investment decisions, participate in productive activities, and endure unexpected shocks.

2. Beneficiaries: The program is classified as general intervention, and as such does not define a target group of beneficiaries by income level or location. However, marginalized groups are expected to benefit from the program as they are often the most vulnerable to financial shocks and declining growth rates.

3. Impact channels: Financial sector development and financial inclusion helps reduce poverty and income inequality through at least three channels (section C).

4. Other social and poverty issues: None.

5. Design features: The FSDIP includes the following pro-poor features: (i) it establishes a pathway for the eventual development of a comprehensive national financial inclusion master plan; (ii) it supports the upgrading of informal microfinance institutions (MFIs) to formal MFIs, making available larger individual loan amounts and reducing administrative burdens to access; and (iii) it introduces two pro-poor financial products—microinsurance, which provides a cushion against unexpected loss, and alternative payment systems, which increase the access of the poor to financial services at a lower cost.
C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reform(s): Empirical studies have demonstrated the close relationship between financial sector development and poverty reduction (footnote 1). Financial sector development helps reduce poverty through at least three channels:

   (i) Higher economic growth: Using data from 47 countries from 1976 to 1993, Levine and Zervos calculated that on average, 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. Similarly, an increase of one standard deviation in initial banking development would increase output growth by 0.7 percentage points per year. Combining stock-market liquidity and banking development over the same period would increase real per capita gross domestic product (GDP) by 31%. Contractual savings also play a significant role in fostering economic development. Using the same dataset, research indicates that an increase of one standard deviation 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. By increasing links between the contractual savings and other financial subsectors, the economy can benefit further from lower information and transaction costs, risk pooling, more efficient capital allocation, and enhanced intermediation.

   (ii) Financial inclusion: The second channel, access to finance, is direct. Finance sector development reduces information and transaction costs and therefore: (a) allows more entrepreneurs, especially those less well off, to obtain external finance; (b) improves the allocation of capital; and (c) has a particularly large impact on the poor. When the poor have greater access to financial services, they can increase their lifetime incomes by using (a) basic savings products, such as bank accounts; and (b) special-purpose savings products, such as pre-need accounts and pensions.

   (iii) Financial stability: The third channel, financial sector stability, is indirect. Finance sector development generally increases sector stability, which benefits the poor, since poor households are much more vulnerable to sector instability than are wealthy households. 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 reduce the risk of the type of financial crises that 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 policy reforms envisaged under the program are not expected to have any adverse impacts on poor and vulnerable groups.

3. Systemic changes expected from policy reform(s): Enhanced financial stability and capital market development will boost economic activity by fostering increased intermediation, and providing private sector capital for economic restructuring. This will free up scarce government resources to support social development spending. By increasing financial inclusion, the program will promote inclusive growth by increasing the share of the population with access to financial services. These achievements will ultimately contribute towards achieving a number of Sustainable Development Goals (SDGs), including eliminating extreme poverty (SDG1), achieving broader economic and social goals by promoting shared economic growth (SDG8), and reducing inequalities (SDG 10).

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities: Substantive consultations have been undertaken with the government and a wide range of stakeholders, including the private sector, civil society, and development partners as part of the program preparation process, which will continue during the ADB review missions.

2. Civil society organization participation during implementation: Information sharing (medium) Collaboration (medium) Partnership (not applicable).

3. Participation plan: Yes, No: Not applicable.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: FSDIP, Subprogram 1 is categorized as having some gender elements. The program will upgrade semiformal microfinance services operated by sociopolitical organizations such as the Vietnam Women’s Union (VWU) to licensed MFIs. The VWU has over 15 million members, the majority of whom are women. The 300 microfinance operators under the VWU account for 80% of the semiformal microfinance providers in Viet Nam. Thus far, only one fund, the Tao Yeu May (TYM) Fund, has been licensed as a formal MFI, and their performance has been impressive. From 2010–2015, the TYM Fund lent a total $49 billion to 620,646 women. 2% of TYM Fund members are women of extreme poverty and highly vulnerable. 60% of TYM Fund women clients have escaped poverty within 6 years of borrowing from the fund. Upgrading more microfinance providers under the VWU to formal MFIs will enable more women to access financial services such as savings and microinsurance, which are not available from semiformal organizations. The program also supported capacity training in microinsurance for potential agents and Ministry of Finance regulators, 74% of whom are women.

A. Key issues: Not applicable.

B. Key actions: Gender action plan Other actions or measures No action or measure
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement

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.

☐ 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

1. Key impacts. An assessment of the program’s policy actions indicates that it will not impact any indigenous peoples’ communities.

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
☒ 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, region’s, or sector’s labor market: ☒ unemployment (low) ☒ underemployment (low) ☒ retrenchment (low) ☒ core labor standards (low)

2. Labor market impact: Over time the program is expected to generate higher economic growth and enhance financial inclusion, both of which are employment positive and should therefore increase employment. Otherwise, the program is not expected to have any detrimental impact on the labor market.

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:
   ☐ Communicable diseases (not applicable) ☐ Human trafficking (not applicable) ☒ Others (not applicable)

2. Risks to people in project area: No communicable diseases or other social risks are associated with this program.

VI. MONITORING AND EVALUATION

1. Targets and indicators. Performance indicators and targets have been included in the design and monitoring framework. At the outcome level, these indicators include measures to monitor progress in enlarging the capital market and the participation of institutional investors. Additional measures have been included to evaluate the government’s success in expanding the number of alternative retail payment channels and in improving access to finance by the poorest 40% of adults. The design and monitoring framework will be supplemented by periodic monitoring by mission teams and a midterm review.

2. Required human resources. Not applicable.

3. Information in the project administration manual. Not applicable.
