

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country and Project Title: Viet Nam/Third Financial Sector Program Loan, Subprogram 2

Lending/Financing
Modality:

Policy-Based

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

Viet Nam has remarkably reduced poverty incidence since starting its economic reform program, Doi Moi, in the late 1980s. This was achieved through sustained business-led growth in economic output and employment, combined with government-led targeted poverty reduction interventions. As outlined in its Socio-Economic Development Plan 2006–2010, the government is committed to developing the financial sector. This will indirectly contribute to poverty reduction by providing a sustainable framework for achieving sound financial reforms.

B. Poverty Analysis**Targeting Classification:** General intervention

Key issues. In its Five Year Socio-Economic Development Plan 2006-2010, the Government recognizes that inequalities remain in the society, which may hinder poverty reduction and economic growth. The Government is trying to reduce the poverty rates to 10-11% in 2010. Special efforts are given to children and on diversification of resources to implement the National Targeted Program on Poverty Reduction. Program on job creation is aimed to create opportunities for poor households to overcome poverty through policy assistance to increase production, access to land, credit, vocational training, job creation, agricultural output, and speed up training for the poor, especially women. Efforts are being made to improve access to basic social services of the poor through policies on medical care, education, clean water, housing, residential land and related infrastructure.

C. Poverty Impact Analysis for Policy-Based Lending

The financial sector plays a central role in mobilizing and allocating resources in a modern market-based economy and reforms supported under this and earlier programs have been integral to supporting Viet Nam's gradual transition to a market-based economy and to helping the government achieve and sustain high rates of economic growth. These, in turn, have been instrumental in the country's remarkable progress in poverty reduction. The overall poverty rate dropped from 58% in 1993 to about 14.8% in 2008. According to government projections, the current poverty rate is below 10%. Financial sector reforms aimed at mitigating risks of financial sector instability help reduce the vulnerability of the poor falling into poverty as a result of a financial sector crisis. This is supported by the recent International Monetary Fund study involving 65 developing countries. It found that (i) financial sector development raises economic growth and reduces poverty, (ii) financial sector development directly reduces poverty by raising the investment and interest incomes of the 20% poorest households, and (iii) financial sector instability directly reduces incomes of the poor thereby increasing poverty.^a

The impressive reduction in poverty in Viet Nam is largely attributable to sustained business-led growth in investment, output, and employment that have been made possible by the financial sector reform programs. Most of the new jobs in the last decade were created by the private sector. The majority of private sector investment has come from domestic enterprises.

Nexus between Financial Sector Development, Stability, and Poverty Reduction: A Regional Perspective.

Financial sector development helps reduce poverty through at least three channels: higher economic growth, financial sector inclusiveness of the poor and financial sector stability (Figure 1). Financial sector development allows different institutions to mobilize savings and redirect them to profitable investments. As a consequence, rates of private investment and household consumption increase over time leading to higher economic growth and poverty reduction.

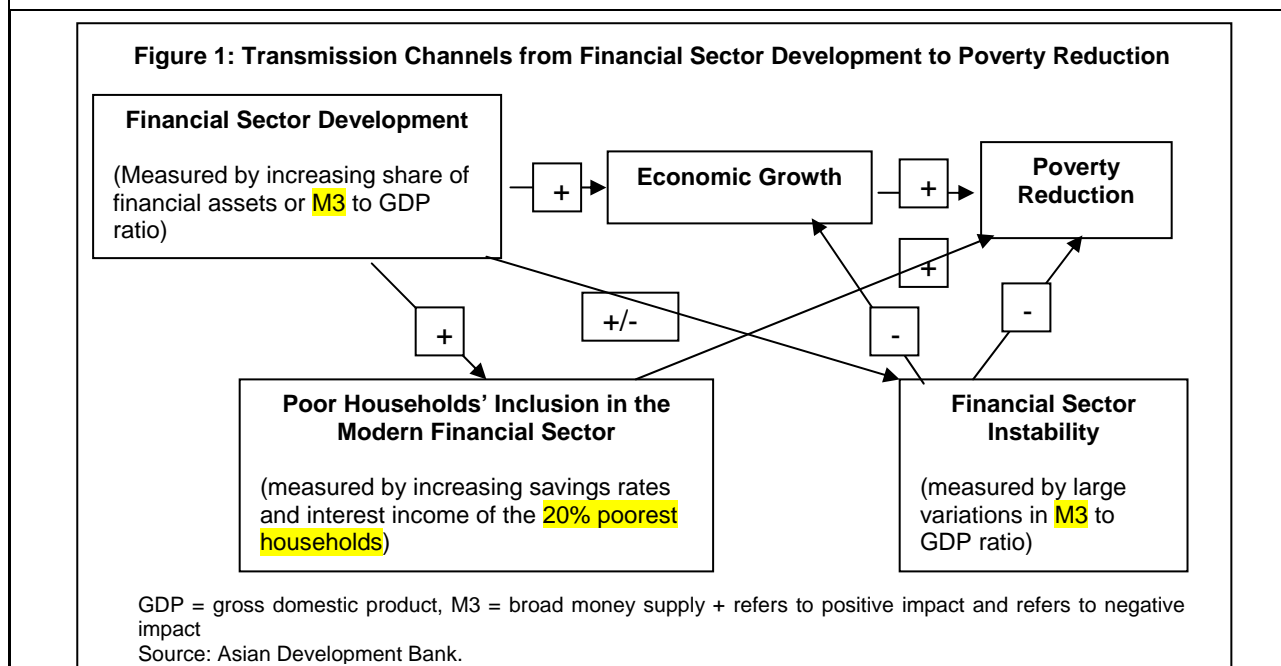
The second (and direct) channel is through improving the poor's access to the modern finance sector (i.e., inclusiveness of the poor). Financial sector development directly reduces poverty by facilitating transactions and allowing the poor to benefit from financial services primarily savings products that increase their lifetime income (through interest income) and enhance their ability to undertake profitable investments and other activities.

The third channel is through the impact of financial sector development on financial sector stability. Financial sector instability undermines poverty reduction because poor households are much more vulnerable than the rich to unstable and malfunctioning financial institutions.

Financial sector development can also cause episodes of financial sector instability that hurt the poor. Financial sector instability can arise at different stages of the financial development process. For example, financial system instability may arise during the earlier stages of financial sector development if the prudent financial regulatory and enforcement architecture is inadequate. Improper policy responses to financial crisis can hurt the poor.

Financial sector development is associated with economic advancement in Asia. The experience of Asian economies is consistent with international empirical findings on the nexus between financial sector development, growth, and poverty reduction. Figure 2a shows a scatter diagram relating financial sector development to economic development

of several east Asian economies. In East Asia, the positive correlation between financial sector development and economic advancement is strong—the correlation coefficient between the two indicators is high at 0.95. At one end of the spectrum, Cambodia and the Lao People's Democratic Republic have low per capita incomes and low financial sector development. At the other end, the Republic of Korea and Malaysia have higher per capita incomes and more advanced financial sectors.



II. SOCIAL ANALYSIS AND STRATEGY

A. Findings of Social Analysis

Key issues. No social risks are anticipated with this program. Indirect social impacts include improvement in the systems of banking, securities, insurance, and anti-money laundering. The program is categorized a C as it has no impact on indigenous peoples.

B. Consultation and Participation

1. As part of program preparation, several stakeholder consultations were undertaken including the various sector agencies and private sector.

2. What level of consultation and participation is envisaged during program implementation and monitoring?

☐ Information sharing ☐ Consultation ☐ Collaborative decision making ☐ Empowerment

3. Was a consultation and participation plan prepared? ☐ Yes ☒ No

C. Gender and Development

Key issues. The government has initiated efforts to incorporate gender mainstreaming in its national policy and through legislative changes. In 2006, the National Assembly approved the Law on Gender Equality. Viet Nam ranks first in the Association of Southeast Asian Nations on the percentage of women in the National Assembly. Viet Nam's efforts to close the gender gap and invest in human resources has resulted in its ranking of 109th out of the 177 countries on the gender development index. The participation of women is increasing in the nonagriculture sector in particular areas with high technical demands, manufacturing, business, household business, and science and technology activities. Life expectancy has increased by more than 6 years for both men and women. While Viet Nam's Socio-Economic Development Plan includes gender perspectives, it recognizes that a gap still exists in terms of women's rights to equality. In including gender mainstreaming in national policy formulation, the government has initiated a strategic measure to achieve the objective of gender equality. One of the various projects being implemented across Viet Nam focuses on addressing the challenges faced by women—the joint program on gender equality between the United Nations and the Government of Viet Nam. This program aims at implementing, monitoring, and evaluating the Law on Gender Equality of November 2006 and the Law on Domestic Violence Prevention and Control of February 2007. To realize the strategy, the National Plan of Action for the Advancement of Women for 2006–2010 was developed with specific objectives, indicators, and measures.

Key actions. The program does not include a specific action plan to address gender issues in the financial sector as the program was designed in 2006. However, given the significance of the issue and the need for the financial sector program to appropriately respond to sector-specific gender issues through program gender design features,

| consideration will be made in the forward program for gender analysis upon consultation with the Government of Viet Nam. | | | |
|--|-----------------------------------|------------------------------|---|
| <input type="checkbox"/> Gender plan <input type="checkbox"/> Other actions or measures <input checked="" type="checkbox"/> No action or measure | | | |
| 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 | None | <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input checked="" type="checkbox"/> Combined resettlement plan and indigenous peoples plan <input checked="" type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Environmental and social impact matrix <input checked="" type="checkbox"/> None |
| Indigenous peoples | No Impact | None | <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input checked="" type="checkbox"/> Combined indigenous peoples plan and resettlement framework <input checked="" type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Indigenous peoples plan elements integrated in project design with a summary <input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Environmental and social impact matrix <input checked="" type="checkbox"/> None |
| Labor <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards | | | <input type="checkbox"/> Plan <input type="checkbox"/> Other action <input checked="" type="checkbox"/> No action |
| Affordability | | | <input type="checkbox"/> Action <input 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.) | None | None | <input type="checkbox"/> Plan <input type="checkbox"/> Other action <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? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | | |

^a S. G. Jeannwney and K. Kpodar. 2008. Financial Development and Poverty Reduction: Can there be benefit without a cost? *IMF Working Paper # 62*. Washington, DC. The authors estimated quite large coefficients on the financial sector development variables – a 10% increase in the broad money (M3) to gross domestic product ratio raised the incomes of the 20% poorest households by between 3% and 5%.

Source: Asian Development Bank.