

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: Second Small and Medium-Sized Enterprises Development Program

Lending/Financing Modality: Program Loan      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

The government has integrated the small and medium-sized enterprises (SMEs) development plan (SMEDP) 2006–2010 in the Socio-Economic Development Plan (SEDP) 2006–2010, to promote SMEs, which will contribute to economic growth, labor generation opportunities, and in turn income-based poverty reduction. The SMEDP 2006–2010 presents a vision, principles, and specific targets for SME development. The direct contribution of the SMEDP 2006–2010 to key SME development objectives that can have a positive impact on poverty reduction and pro-poor growth are (i) increasing the number of SMEs by 22% per annum, (ii) increasing the number of newly established SMEs in disadvantaged provinces by 15% in 2010, (iii) increasing direct exports by SMEs to 3%–6% annually, and (iv) creating 2.7 million new jobs during 2006–2010 through SMEs.

The government is preparing a new SEDP for 2011–2015 for approval by the National Assembly in early 2011. In line with this, the Ministry of Planning and Investment is drafting a new SMEDP for 2011–2015 for inclusion in the SEDP. The new SMEDP will continue supporting an enabling economic, social, and legal environment to enhance the quality and efficiency of SME operations; and to promote the employment, poverty reduction, and other social objectives of the government. The country strategy and program of the Asian Development Bank (ADB) for Viet Nam for 2007–2010 identifies poverty reduction, growth, and private sector development as key priorities.<sup>b</sup> It also aims to foster social inclusiveness, enhance management of the environment, and improve governance. With regard to SME development, removing bottlenecks to accelerate business development is a core theme of ADB's operations. The first SME program 2004–2009 supported the government's continued reform efforts to increase private sector investment and employment. The number of new enterprises registered has more than doubled since 2003. The contribution of the private sector to employment and gross domestic product also increased rapidly as the sector generated almost all the new employment created over the time period.

#### B. Poverty Analysis

**Targeting Classification:** General intervention

##### 1. Key Issues

Viet Nam has experienced notable success in achieving rapid and sustained economic growth and poverty reduction since the early 1990s. Real gross domestic product growth averaged 7.6% per annum during 1991–2007 and grew at 6.2% in 2008. The overall poverty rate declined to an estimated 14.8% in 2008 compared with 37.4% in 1998 and 58% in 1993 (Table 1). The impressive reductions in poverty achieved in Viet Nam are largely attributable to sustained business-led growth in output and employment, complemented by targeted poverty reduction interventions.

**Table 1: Poverty Rate and Per Capita Income**

Item	1993	1998	2002	2004	2006	2008	2010
Poverty rate (\$1 a day, %)	58.0	37.4	28.9	24.1	16.0	14.8 <sup>a</sup>	10.0 <sup>b</sup>
GDP per capita (current price, \$)	189.0	361.0	440.0	554.0	724.0	1,042.0 <sup>c</sup>	1,166.0 <sup>c</sup>

GDP = gross domestic product.

<sup>a</sup> The World Factbook: <https://www.cia.gov/library/publications/the-worldfactbook/geos/vn.html#Econ>.

<sup>b</sup> Target set in Socio-Economic Development Plan 2006–2010.

<sup>c</sup> International Monetary Fund estimates.

Sources: General Statistics Office and International Monetary Fund.

Although Viet Nam made remarkable progress in poverty reduction in the past 15–20 years, much remains to be done. The absolute number of people living in poverty is still large. By the end of 2008, about 13 million people were living on less than a dollar a day.<sup>a</sup> The incidence of poverty varies significantly across regions; in rural areas and among ethnic minorities, the poverty rates are still as high as 40%–50%. Moreover, since the number of near-poor people is large, the vulnerability of the population to poverty is high.

##### 2. Design Features

The first subprogram if the Second SME Development Program will help the government carry out a broad range of policy reforms needed for the successful implementation of the SEDP 2006–2010 and SMEDP 2006–2010 in particular. These reforms will strengthen the business environment to reduce administrative costs of doing business, making it easier for enterprises to enter the market and to become more competitive, and hence stimulate economic growth. Business development and economic growth will create new jobs, raise incomes, and make more resources available

for social protection. Poor regions, ethnic minorities, and poor and near-poor people in rural and urban areas are likely to benefit from new jobs, higher incomes, and increased availability of resources for social protection.

### 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 main positive impact on poverty of the policy reforms supported by the program will be indirect. The program will take a medium-term approach. The first subprogram will support short-term policy actions and the second will support the government's medium-term reform efforts. Based on the findings of several surveys and studies on binding constraints for private sector and SME development, the program will support policy actions to (i) strengthen the framework for promoting SME development; (ii) strengthen the framework for competition policy; and (iii) enhance business access to finance. All of these areas will contribute to growth prospects, labor generation, and poverty reduction.

2. Discuss the impact of the policy reform(s) on vulnerable groups and ways to address it/them (refer to social analysis) Although poverty reduction has been profound in Viet Nam, progress across regions has been uneven. Poverty remains much higher and increasingly concentrated in ethnic minority communities. Although rural poverty is also declining, the majority of the poor continue to be in rural areas. Regional differences in poverty rates remain wide. Mountainous areas are much poorer than the lowlands and the southeast region. From 2002 to 2006, the northwest region reduced poverty by 19 percentage points and the central highlands by 23 percentage points—they are the poorest regions in the country. However, this contrasts sharply with average national rates of poverty reduction. The program can directly contribute to poverty reduction in these regions through its support for the government's SMEDP 2006–2010, which targets increasing the number of newly established SMEs in disadvantaged provinces by 15% in 2010, as well as through progress to create 2.7 million new jobs in 2006–2010, some of which will be in disadvantaged areas.

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

The program will directly support the government's efforts to achieve sustainable pro-poor growth through policy actions that will contribute to the development of a more competitive, expanded, and diversified environment for private businesses and SMEs. Policy implications are discussed earlier.

## II. SOCIAL ANALYSIS AND STRATEGY

### A. Findings of Social Analysis

While the policy actions under the program will target SMEs and businesses in Viet Nam in general, they are likely to have a relatively larger impact on the poor, ethnic minorities, and rural population. The reason is that SMEs comprise nearly 97% of enterprises in Viet Nam, and most SMEs are small enterprises using local employees. Many SMEs are located in rural areas where the incidence of poverty is high. Household surveys show that rural areas account for 73.3% of the total population but 93.6% of the poor. Ethnic minorities make up 13.5% of the total population but 44.4% of the poor.

No social risks are anticipated with the program. The program is assigned as category C in terms of impact on indigenous people.

### B. Consultation and Participation

1. Provide a summary of the consultation and participation process during the project preparation.

Extensive consultations were undertaken during program preparation and through the government's private sector and SME working groups, and the Viet Nam Development Forum. These consultations will continue during formulation of the program under the current project preparatory technical assistance and during program implementation. Workshops will be held to build consensus on the program measures. During implementation, ADB expects to continue supporting stakeholder dialogue on private sector reforms, especially through the envisaged senior coordinating body to be established by the government.

2. What level of consultation and participation is envisaged during project implementation and monitoring?  
☒ Information sharing    ☒ Consultation    ☐ Collaborative decision making    ☐ Empowerment
3. Was a consultation and participation plan prepared? ☒ Yes    ☐ No

During the project preparatory technical assistance stage, a stakeholder workshop was organized in May 2009. Draft policy actions of the program were discussed among government agencies concerned including the Ministry of Planning and Investment, the Ministry of Finance, the State Bank of Vietnam, and stakeholders and development partners, including the Viet Nam Association of SMEs and Viet Nam Chamber of Commerce and Industry, among others. The formulation of the program is based on extensive formal and informal stakeholder consultations.

### C. Gender and Development

#### 1. Key Issues.

The government is committed to gender-sensitive policy development. Viet Nam has an advanced regulatory framework to support gender equality under the Gender Equality Law. According to the draft SEDP 2011–2015, 83% of women are taking part in economic activities in 2010, nearly equal to men's participation of 85%. Viet Nam ranks 31st in the world and first in the eight countries of the Association of Southeast Asian Nations in terms of women's participation in Parliament. Viet Nam has made good progress in eliminating gender disparities in recent years and is on track to achieve the Millennium Development Goal target for gender equality. The program will help establish and implement policies to promote SME and private sector development and job opportunities for both men and women. However, certain components of the program will benefit women. Based on a report by the International Finance Corporation on Vietnamese women entrepreneurs, the preparation of the SME Development Plan supported by the program may particularly encourage women business entrepreneurs.<sup>c</sup> The Central Institute for Economic Management-Institute of Labour Science and Social Affairs survey on enterprises operating in the manufacturing sector also finds that the proportion of women employees, including in senior positions, increases as enterprises grow. The program will benefit women not only by supporting government efforts to increase the number of enterprises, but also by easing constraints on growth of enterprises.

2. **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/measures    ☐ No action/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	No involuntary settlement will be required	<input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan <input 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"/> No Action
Indigenous peoples	No impact	No impact on indigenous peoples foreseen	<input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined indigenous peoples plan and resettlement plan <input 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"/> No action
Labor <input checked="" type="checkbox"/> Employment	Positive impact	A more viable SME sector will likely	<input type="checkbox"/> Plan <input type="checkbox"/> Other action

opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards		generate more jobs in general.	<input checked="" type="checkbox"/> No action
Affordability	Positive impact	A more viable SME sector will make SMEs more competitive, and this will likely improve product quality and reduce prices.	<input type="checkbox"/> Action <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.), please specify	No impact	None	<input type="checkbox"/> Plan <input type="checkbox"/> Other action <input checked="" type="checkbox"/> No action
<b>IV. MONITORING AND EVALUATION</b>			
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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No			

<sup>a</sup> Based on the poverty measure calculated by the Ministry of Labor, Invalids, and Social Affairs, 11.3 million people were living below the official poverty line in 2008.

<sup>b</sup> ADB. 2006. *Country Strategy and Program: Viet Nam, 2007–2010*. Manila.

<sup>c</sup> International Finance Corporation. 2006. *The Voices of Vietnamese Women Entrepreneur*. Washington, DC.

Source: Asian Development Bank.