

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Viet Nam	Project Title:	Improving Competitiveness Program
Lending/Financing Modality:	Policy-Based	Department/ Division:	Southeast Asia Department/ Viet Nam Resident Mission

### 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

The government set ambitious targets for poverty reduction in the Socioeconomic Development Plan, 2011–2015; poverty at the national level is targeted to fall by 2 percentage points each year during 2011–2015, and by 4 percentage points in the poorest communities, including those with high proportions of ethnic minority households. Achieving these targets will require a substantially higher rate of progress than achieved under the previous SEDP, and may be particularly challenging given the slowdown in economic growth. The country partnership strategy, 2011–2015 of the Asian Development Bank (ADB) supports the government’s poverty reduction agenda through the three pillars of inclusive growth, enhancing economic efficiency, and environmental sustainability. ADB’s assistance will help integrate the poor and other vulnerable groups and segments of society in the development process through better access to opportunities generated from higher growth, and protect them from the impact of climate change.

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

- Key poverty and social issues.** Viet Nam’s record on poverty reduction has been remarkable. Using a basic needs poverty line initially agreed in 1998, the poverty headcount fell from 58.0% in the early 1990s to 14.5% by 2008, and by these standards was estimated to be well under 10.0% by 2010. However, lack of competitiveness and low productivity are preventing the creation of higher value-added jobs, leaving most workers in low-wage employment. Employment has increased with Viet Nam’s impressive growth record. Larger domestic and foreign enterprises pay good wages. Wages for most low-wage households have not kept pace with inflation.
- Beneficiaries.** Expected beneficiaries include workers on low wages. This will benefit households remaining in poverty or just above the poverty line. Their needs can be addressed by the program as described in section A. The poverty rate in 2010 based on the new poverty line applied to the 2010 Viet Nam Household Living Standard Survey is 20.7%. The new 2010 poverty line is substantially higher than the original poverty line, reflecting improvements in the quality of the food reference basket and a higher allocation for basic nonfood spending, including housing and durables.
- Impact channels.** Through competitiveness enhancing reforms, this program will encourage investment to expand work opportunities in higher value-added sectors over the long run. In addition to longer term effects, macroeconomic policies under the program should have positive poverty and social impacts in the short run by promoting macroeconomic stability.
- Other social and poverty issues.** The SEDP provides for a number of well-targeted interventions aimed at assisting poor and near-poor households as well as communes and population groups with relatively high incidence of poverty. The national targeted program for poverty reduction for 2011–2015, called Program 135 Phase III, was approved in November 2011 by the national assembly. It targets poor households, especially within poor communes in ethnic minority and mountainous areas.
- Design features.** The program will support policy and institutional reforms to help Viet Nam raise its potential growth rate and through this a continued reduction in poverty. Finance sector reforms should contribute to getting the banking system on a stronger footing and enable better intermediation of savings for productive investments by the private sector. Fiscal and public investment management reforms should contribute to greater transparency and efficiency in the use of public funds at a time when fiscal revenues are under pressure. Reforms in the area of state enterprise management, anticorruption, and simplification of administrative procedures should enable increased efficiency in the allocation of productive investment by creating a more fairer business environment for all enterprises for a dynamic private sector that will keep getting crowded out.

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

- Impact channels of the policy reforms.** Reforms under this program are expected to have an overall positive effect on poverty and employment in the long run by improving productivity across key sectors.
- Impacts of policy reforms on vulnerable groups.** The EMCC-2 prior actions in the area of enhancing a transparent, efficient, and accountable public sector will likely have the following poverty and social impacts: (i) the issuance of decrees guiding the implementation of the amended Anti-Corruption Law is expected to have favorable impacts on poverty reduction and employment by reducing transaction costs for enterprises and in poverty reduction and targeted programs, and (ii) prior actions in the areas of SOE management should help speed up the SOE restructuring process. In the long run, SOE restructuring should help increase economic growth, employment, and

poverty reduction through more efficient use of resources, including labor.

In the areas of an enabling business environment, the EMCC-2 prior actions on amending the company income tax (CIT) and value added tax (VAT) laws will have positive impacts on poverty reduction and employment. Simplified VAT procedures included in the amended VAT law will help reduce transaction costs for enterprises and will have a favorable effect on economic growth and employment. Reduction in VAT for low-cost housing projects will likely have a positive effect on both construction business, where many poor people work, and on the welfare of the poor. Reduction in CITs applied to small and medium-sized enterprises (SMEs) will help reduce the tax obligations of enterprises, lessen potential layoffs, and increase wages. In the amended CIT law, the standard CIT rate is reduced from 25% to 22% in 2014 and to 20% in 2016. In addition, SMEs and agriculture-related enterprises enjoy even more preferable CIT rates. Thus, overall impacts on employment and poverty reduction from the trigger will be positive. The effects on poorer households will be higher than on better-off households.

3. **Systemic changes expected from policy reforms.** Competitiveness reforms will support inclusive growth and employment creation. A more fairer business environment for all enterprises will allow SMEs (formal and informal sector) to gain greater access to productive resources.

## II. PARTICIPATION AND EMPOWERING THE POOR

1. **Participatory approaches and project activities.** The government developed various regulations through broad consultation with stakeholders.

2. **Civil society organizations.** Mass organizations, professional associations, and local nongovernment organizations are invited to provide comments on all draft regulations.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

Information gathering and sharing  Consultation  Collaboration  Partnership

4. **Participation plan.**  Yes  No. This policy loan supports very high-level structural reform policy actions.

## III. GENDER AND DEVELOPMENT

Gender mainstreaming category: no gender elements.

### A. Key issues.

There is a growing understanding among researchers and policy makers that increasing the degree of economic equality of women and men in most cases correlates positively with the competitiveness and gross national income of a country. Women play a crucial role in the transition towards an efficient market economy, as illustrated by the World Economic Forum (WEF) Global Gender Gap Index (GGGI 2011). The report illustrates a positive association between competitiveness and gender equality by plotting their GGGI against their Global Competitiveness Index.

Viet Nam ranks 73rd out of 136 countries in WEF's GGGI for 2013, where the four determining measures are (i) economic participation and opportunity, (ii) educational attainment, (iii) health and survival, and (iv) political empowerment. In the Economist Intelligence Unit's Women's Economic Opportunity Index 2012, Viet Nam is ranked slightly lower, at number 87 out of 128 countries. Here the rating is based on indicators in five different categories: (i) labor policy and practice, (ii) access to finance, (iii) education and training, (iv) women's legal and social status, and (v) general business environment.

**B. Key actions.** Program-supported reforms are expected to have a positive impact on gender equality. Two specific examples:

Lack of access to information on tax regulations and, linked to that, lack of networks for women entrepreneurs is stated in the 2006 International Finance Corporation Doing Business report. In addition, a joint United Nations Industrial Development Organization and Viet Nam Chamber of Commerce and Industry (VCCI) study (Gender Related Obstacles to Vietnamese Women Entrepreneurs) found that while 20% of male entrepreneurs in their study had paid someone (unofficial) to facilitate taxation, only 9% of women entrepreneurs had made unofficial payments to facilitate taxation. Therefore, amendments to the Tax Administration Law should help remove obstacles faced by women entrepreneurs. The EMCC will look at including a gender-disaggregated indicator to the upcoming tax administration survey.

There are indications that women entrepreneurs see business registration procedures as more of an obstacle than their male counterparts. A joint International Labor Organization and VCCI study on women entrepreneurship found that 64% of female entrepreneurs said their company had a business license compared to 70% of male entrepreneurs. This might be explained by limited awareness of woman entrepreneurs about registration processes or it may be that a larger percentage of woman entrepreneurs plan to keep their businesses small. Further simplification of business registration procedures through adaptation of online registration processes should have a positive impact in this area. The EMCC will explore with the Business Registration Office the opportunities to track the gender impact more closely.

Gender action plan  Other actions or measures  No action or measure

<b>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</b>	
<p><b>A. Involuntary Resettlement</b></p> <p>1. Key impacts. The program will not have an investment component, and none of the policy actions under the program are expected to result in involuntary resettlement.</p> <p>2. Strategy to address the impacts.NA</p> <p>3. Plan or other Actions.</p> <p><input type="checkbox"/> Resettlement plan</p> <p><input type="checkbox"/> Resettlement framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement</p> <p><input checked="" type="checkbox"/> No action</p>	<p><b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p><input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Social impact matrix</p>
<p><b>B. Indigenous Peoples</b></p> <p>1. Key impacts. No Impact. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts.NA</p> <p>3. Plan or other actions.</p> <p><input type="checkbox"/> Indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	<p><b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p><input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p>
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<p><b>A. Risks in the Labor Market</b></p> <p>1. Relevance of the project for the country's or region's or sector's labor market indicated as high (H), <u>medium (M)</u>, and low or not significant (L).</p> <p><input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards</p> <p>2. <b>Labor market impact.</b> ADB and the World Bank are finalizing a study which looks at SOE employment and retrenchment policy issues in Viet Nam. Preliminary findings indicate that SOEs may be nearly 33% overstaffed. Employees in SOEs also enjoy higher wages than those in nonstate enterprises. This means that SOE restructuring may lead to some downsizing. The government has an established set of policies and institutions to deal with SOE redundancies, including unemployment insurance (economic, matching, and training benefits), compensation for structural redundancy, and eligibility for early pension. The findings and recommendations of the study will be presented to authorities to inform policy development.</p>	
<p><b>B. Affordability.</b> Not applicable</p>	
<p><b>C. Communicable Diseases and Other Social Risks</b></p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or <u>not applicable (NA)</u>:</p> <p><input type="checkbox"/> Communicable diseases <input type="checkbox"/> Human trafficking</p> <p><input checked="" type="checkbox"/> Others (please specify) NA</p> <p>2. Risks to people in project area. No applicable</p>	
<b>VI. MONITORING AND EVALUATION</b>	
<p>1. <b>Targets and indicators.</b> The design monitoring framework contains no specific poverty indicators.</p> <p>2. <b>Required human resources.</b> ADB staff time will be used to track indicators in the design monitoring framework.</p> <p>3. <b>Information in the project administration manual.</b> This is a program loan so no project administration manual is required.</p> <p>4. <b>Monitoring tools.</b> This program loan contains no specific monitoring tools</p>	

Source: Asian Development Bank