SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Socialist Republic of Viet Nam	Project Title:	Subprogram 1 of Financial Sector Deepening Program
Lending/Financing Modality:	Policy-Based Loan Programmatic Approach	Department/ Division:	Southeast Asia Regional Department Financial Sector, Public Management, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: General intervention

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

Viet Nam's historical growth pattern in the period 1993–2008 can considered to be pro-poor, with gross domestic product (GDP) per capita increasing by an average of 6.1% annually and poverty falling 2.9 percentage points each year. The poverty headcount, based on the cost of a consumption basket allowing a daily intake of 2,100 calories and some nonfood expenditures, declined from 58.0% in the early 1990s to 14.5% by 2008, and was estimated to be well below 10% by 2010.[1] These reductions are largely attributable to sustained business-led growth in output and employment, complemented by targeted poverty reduction interventions. Progress has also been made toward achieving the Millennium Development Goals. Yet despite this remarkable progress, Viet Nam's task of poverty alleviation is far from complete.

In recognition of this, 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. Specifically, the government hopes to achieve an average annual reduction in the number of poor households of 2%–3%. To meet these goals, the Socio-Economic Development Strategy 2011–2020 (SEDS) laid out a plan to transform Viet Nam into a modern, productive, and equitable market economy. The Sector Road Map for the Strategic Development of the Vietnamese Capital Market, which is part of the SEDS, serves as a master plan for long-term capital market development and addresses market infrastructure bottlenecks that impede capital market growth. In line with the country partnership strategy, 2012–2015 of the Asian Development Bank (ADB), the Financial Sector Deepening Program (FSDP) aims at strengthening legal, regulatory, and institutional frameworks and market infrastructure to sustain the financing of investment.[2] The Sector 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 FSDP, money market development will help the government better manage inflation through monetary interventions, while a deeper government bond market will anchor commercial issuance and provide long-term funding to much-needed infrastructure projects and social expenditures. The ongoing rationalization of debt management and issuance 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 PPTA or Due Diligence

1. Key poverty and social issues. While significant progress has been made, more needs to be done to deepen the financial sector and establish the vibrant nonbank financial institutions that Viet Nam must have to meet its long-term investment and poverty reduction targets. This program 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 financial sector will also help to protect the economy from exogenous shocks, which are becoming more common in increasingly global markets, with serious implications on the poor.
2. Beneficiaries. While the group of beneficiaries that indirectly benefits from proposed reforms is broad, marginalized groups often are most vulnerable to declining growth rates or financial shocks as 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 addresses their constraints.
3. Impact channels. See section C.
4. Other social and poverty issues. None.
5. Design features. Capital market reforms under the FSDP will lead to an increased availability of lower cost credit. Diversification away from predominantly bank-dominated financial intermediation expands alternative sources of credit, thereby helping to limit the systemic impacts of economic shocks. Capital markets can also stimulate healthy

[1] The World Bank. 2012. *Well Begun, Not Yet Done: Vietnam's Remarkable Progress on Poverty Reduction and the Emerging Challenges*. Washington, DC.
[2] ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

competition with the banking sector and help to lower financing costs. The FSDP provides complementary support to Subprogram 2 of the Second Small and Medium Enterprise Development Program, which will make economic growth more inclusive and expand investments in rural manufacturing and small to medium-sized enterprises by strengthening regulatory and policy frameworks, and by enhancing access to finance, including the provision of credit enhancements. The FSDP will provide a wider enabling environment by addressing infrastructure bottlenecks, reducing the government's borrowing costs, and further enhancing the private sector's ability to mobilize funding.

C. Poverty Impact Analysis for Policy-Based Lending

Empirical studies have demonstrated the close relationship between financial sector development and poverty alleviation.[3] Financial sector development helps reduce poverty through at least three channels:

1) **Higher economic growth.** The link between economic growth and financial 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 the 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.[4] 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 GDP per capita growth by 0.47% with even higher effects in countries with lower to middle levels of development.[5] 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.
2) **Financial sector inclusiveness.** The second channel, access to finance, is direct. Financial 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) exerts 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 such as pre-need accounts and pensions.
3) **Financial sector stability.** The third channel is indirect. Financial sector development generally increases financial sector stability, which benefits the poor, as poor households are much more vulnerable to financial 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 financial sector to enhance stability will help reduce the risk of the kind of financial sector crises that can have an outsized negative impact on the poor and force the near poor into poverty.

II. PARTICIPATION AND EMPOWERING THE POOR

All reform measures have undergone substantive stakeholder consultations before implementation. Regular policy dialogue with all relevant stakeholders for each of the program components, including with the Ministry of Finance, central bank, and the private sector will take place during ADB review missions.

What forms of civil society organization participation is envisaged during project implementation?
Not applicable.

☐ Information gathering and sharing ☐Consultation ☐Collaboration ☐ Partnership

Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

☐ _Yes. ☒ No.

The FSDP is a general intervention to support financial sector development.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: No gender elements.

A. Key issues.

Viet Nam ranked 48 out of 141 countries in the Gender Inequality Index, ahead of its neighbors Indonesia (106), the Philippines (77), and Thailand (66).[6] Female labor force participation stands at 72.3%, one of the highest rates in the

[3] 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.

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

[5] 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.

[6] United Nations Development Programme. 2013. *Human Development Report 2013 – The Rise of the South: Human Progress in a Diverse World*. New York.

region, although many female workers are unpaid family workers (53.5%). The country has a strong national commitment to gender equality and women's empowerment, as reflected in the 2006 Law on Gender Equality and the targets adopted in the National Strategy on Gender Equality (2011–2020).

B. Key actions. The development of capital markets is likely to be gender neutral, with indirect benefits arising from new opportunities in accessing markets, employment opportunities, and financial resources. No specific adverse impacts on women are expected.

☐ 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. The program has no component that would adversely affect indigenous people.
Is broad community support triggered? ☐ Yes ☒ No

2. Strategy to address the impacts. Not applicable.

3. Plan or other actions. Not applicable.

☐ 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. 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. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA):NA

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

2. Describe the related risks of the project on people in project area. Not applicable.

VI. MONITORING AND EVALUATION

1. Targets and indicators: The impact of the FSDP will be "sustained financing of productive activities supports economic growth." 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 financial 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 PAM: Not applicable (policy-based lending).
4. Monitoring tools: Not applicable (policy-based lending).

Source: Asian Development Bank.