

## REPORT

# Landscape Study of Inclusive Business in Viet Nam



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**REPORT**

# **Landscape study of Inclusive Business in Viet Nam**



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## PREFACE

Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the pyramid making them part of the value chain of companies as suppliers, distributors, retailers, or customers.<sup>1</sup>

To meet the ambitions of the 2030 Agenda for Sustainable Development, the private sector will need to play a greater role in supporting development objectives. Inclusive businesses offer the opportunity to address development challenges and leave no one behind. While most private sector firms work with or sell to low-income people in some way or another, only few business lines provide low-income people with enhanced income opportunities or with goods and services relevant to overcome poverty and exclusion.

Governments can encourage more inclusive businesses to emerge and thrive through policies that generate greater awareness on these business models, recognise and reward them with targeted incentives, and facilitate services and investments that enable firms to be inclusive while meeting profit targets.

United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) teamed up in 2019 to support governments enhance the policy environment for inclusive business in ASEAN.

To do so, ESCAP and iBAN have, at the request of national governments, conducted national landscape studies and provided policy advice to help design and implement national strategies to promote inclusive business. This study is one of the five studies /advice (Cambodia, Indonesia, Malaysia, The Philippines and Viet Nam) that are being developed. ESCAP and iBAN have also helped sharing policy learnings across ASEAN member states.

The insights and recommendations contained in this landscape study, when implemented, will help Viet Nam maximize the contribution that the private sector can make for more inclusive growth and support the transformation of Viet Nam's economy into higher value-added activities.

Viet Nam's commitment, as chair of ASEAN 2020, to carry the torch of promoting inclusive businesses under the ASEAN umbrella in 2020 is be very valuable.

## ACKNOWLEDGEMENTS

This study has been prepared by the United National Economic and Social Commission for Asia and the Pacific (ESCAP), in cooperation with the Inclusive Business Action Network (iBAN), following a request from the Ministry of Planning and Investment of Viet Nam.

The work has been carried out by the United Nations ESCAP team of consultants, Armin Bauer and Hoang Mai, under the supervision of Marta Pérez Cusó, Economic Affairs Officer, Technology and Innovation Section, and with the support of Vivian Marcelino, Consultant, ESCAP. Mia Mikic, Director of the Trade, Investment and Innovation Division, and Jonathan Tsuen Yip Wong, Chief of the Science, Technology and Innovation Section provided the overall direction.

The study has been conducted in close cooperation with the Agency for Enterprise Development (AED), Ministry of Planning and Investment (MPI). The strategic stewardship and support for IB promotion provided by Mr. Le Manh Hung (Director General, AED), Mr. Nguyen Hoa Cuong (Deputy Director General, AED), Ms. Trinh Thi Huong (Director, Policy Department, AED), Ms. Lan Thi Nguyen (Deputy Director, Cooperation and AEAN Division, AED), and the AED team involved in this study, has been extremely valuable.

The study has also benefited from the insights provided by government officials from other ministries and their agencies at central and regional level, in particular the Central Institute for Economic Management (CIEM), MPI; the Ministry of Industry and Trade (MoIT); the Ministry of Science and Technology (MoST); the Ministry of Agriculture and Rural Development (MARD); and the Ministry of Labour and Social Affairs (MOLISA).

The information provided by business associations, including the Viet Nam Women Entrepreneurs Council (VWEC), the Viet Nam Association for Women Entrepreneurs (VAWE), the Viet Nam Business Associations for Small and Medium Enterprises (VinaSME), and the Viet Nam Chamber of Commerce and Industries (VCCI) has been very valuable.

Finally, this study has also benefited from the information provided by the 42 companies interviewed. Their interest in inclusive business models and their openness to share information about their business is highly appreciated. A note of gratitude also goes to the multiple facilitators, investors and other experts that contributed their insights and helped shape the assessment provided in the report.

# EXECUTIVE SUMMARY

## English

Viet Nam has been very successful in reducing poverty and improving living standards since the mid-1980s when the economic reforms under Doi Moi started. As it continues to develop, Viet Nam's robust economic and social performance of the past two decades will be challenged. To sustain high rates of economic growth, Viet Nam will need to focus on enhancing innovation, productivity growth, and company size (to address the missing middle). To sustain inclusive development, Viet Nam will also need to generate new well-paid income opportunities for low income people, and to provide more affordable and relevant goods and services, especially in housing and education (but also health, financial innovations, and energy).

Companies with inclusive business (IB) models can play a strong role in supporting such structural transformation. IB models promote inclusive growth by investing in innovative, commercially viable, and growing business models that provide, at scale, relevant and affordable goods and services, or enhanced livelihood opportunities, to people living at the base of the pyramid. These businesses promote social transformations as they have a large and deep social impact. Inclusive businesses bring triple wins for companies, the poor, and for the Viet Nam society.

The government of Viet Nam can support its national strategic economic and social goals of promoting innovation and inclusive growth and development at scale, by promoting enabling environments for inclusive business to emerge and develop.

In 2017, the leaders of ASEAN called for greater emphasis on creating an enabling environment for inclusive businesses in ASEAN Member States. Since then, six governments in the region have embarked on establishing IB promotion policies.

In 2019, to support the development of an enabling environment for inclusive businesses in Viet Nam, the Agency for Enterprise Development (AED) under the Ministry of Planning and Investment (MPI) requested the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) to conduct the present landscape study. The study includes a market study of current inclusive businesses in Viet Nam (with profiles of 18 real and potential IB models) and an assessment of the enabling environment. It also provides recommendations for promoting inclusive businesses.

The analysis of the enabling environment and the policy recommendations are based on interviews with 200 key stakeholders and four briefings and consultative workshops organized from April to December 2019.

The market study is based on structured interviews with business leaders and uses a composite rating tool to assess the company's IB line against 30 criteria to assess its commercial performance, social impact and innovation for addressing the needs of the BoP. For the market study, a longlist of 160 potential IB companies was established. Sixty firms were shortlisted, 43 were interviewed and 41 rated using a composite rating tool.

Among those, it found 9 real and 10 potential IB models, with a total revenue of VND 2,900 billion 2018 (USD 126 million) benefiting about 2.6 million poor and low-income people. These 19 companies expect to grow their revenue by 2023 to VND 4,800 billion (\$209 million) and their social reach to 3.5 million people. While the number of IB companies identified is small, their social reach is relatively high.

Companies with IB business lines are typically medium sized firms with good profit margins (often higher than that of comparable mainstream business) and their management shows a strong strategic intent to transform their business to achieve more and deeper social impact. The study only reviewed a limited number of firms. It is likely that the actual number of IB companies is much larger and that, once a strategy to promote IB and accredit IB is established, more companies with potential IB business models will come forward. Most of the identified IB models promote income generation activities that generate enhanced income opportunities to poor and low-income people. Thirteen of the 19 companies are in agribusiness value chains, and a third provide social and municipal as well as financial services. The study has identified market potential in agrobusiness and other income generation as well as in social and municipal service provision.

Many companies indicated interest to transform their current mainstream business into an IB business, to enhance their impact on the poor (doing good) and to generate further income and growth. This transition of existing business models into inclusive business models is important to scale-up social impact.

To raise the understating for such type of investments among the business community, and to encourage more companies do develop IB models, the government is considering possible programs to promote IB.

Based on the market study, the enabling environment and the indications of interest indicated by key stakeholders, IB could be promoted in Viet Nam through the following seven key areas:

1. Indicating a strategic commitment to IB, among others, through including IB in the 2020-2025 implementation plan of the Sustainable Private Sector Development (SPSD) Strategy;
2. Institutionalizing support for IB by establishing: a National IB Advisory Board to guide IB implementation at the national level; an IB unit in AED to serve as secretariat to the Board; and IB focal points in various government agencies and business associations.;
3. Promoting IB awareness through business associations;
4. Setting up an IB accreditation system at the regional level and doing IB accreditation jointly with 4 business associations
5. Providing IB business coaching to support companies upgrade their business models into IB models;
6. Establishing an IB risk-reduction fund for investors to facilitate financing to IB companies;
7. Promoting IB in the 2020 ASEAN Agenda chaired by Viet Nam.

The study recommends to implement these IB support programs through encouraging multi-stakeholder contributions and cooperation with different government ministries and agencies (especially under Ministry of Planning and Investment (MPI), Ministry of Agriculture and Rural Development (MARD), Ministry of Industry and Trade (MIT), Ministry of Science and Technology (MoST), business associations (particularly Viet Nam Women Entrepreneurs Council (VWEC)/ Viet Nam Association for Women Entrepreneurs (VAWE), Viet Nam Association for Small and Medium Enterprises (VinaSME), Viet Nam Chamber of Commerce and Industry (VCCI) and Viet Nam Young Entrepreneurs Association (VYEA), business facilitators, impact investors, and development partners.

The study proposes setting up a technical assistance facility in the amount of \$1.6 million and an IB risk reduction fund of \$25 million for an initial 4 years implementation period (2020-2023).



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## ABBREVIATIONS

ACCMSME	ASEAN Coordinating Committee on Micro, Small and Medium Enterprises	CSR	corporate social responsibility
ADB	Asian Development Bank	DFAT	Department of Foreign Affairs and Trade (Australia)
AED	Agency for Enterprise Development	DFI	development finance institution
AfD	Agence Française de Développement (French development cooperation agency)	EC	European Commission
APEC	Asia-Pacific Economic Cooperation	ESCAP	Economic and Social Commission for Asia and the Pacific
ASEAN	Association of South East Asian Nations	EU	European Union
B40	bottom 40 per cent income groups	FDI	foreign direct investment
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development - Germany)	FMO	Private sector and impact investment Agency of the Netherland's government
BoP	base of the (economic) pyramid	GDP	gross domestic product
BRA-HCMC	Agency for Business Registration in Ho Chi Minh City	GIZ	Gesellschaft für Internationale Zusammenarbeit (German agency for development cooperation)
BSA	Center for Business Studies and Association	HCMC	Ho Chi Minh City
CIEM	Central Institute for Economic Management	HDI	Human Development Index
CSID-HCMC	Center for Small Industry Development in Ho Chi Minh City	IB	inclusive business
CSIP	Center for Social Initiatives Promotion	IB-A	inclusive business activity
		iBAN	Inclusive Business Action Network
		IB-M	inclusive business model
		IFC	International Finance Corporation
		IPC-Hanoi	Investment Promotion Center for Hanoi and Northern Viet Nam



JICA	Japan International Cooperation Agency	SMESC	SME Support Center
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)	SNV	international NGO
KOICA	Korea International Cooperation Agency	SPSD	Sustainable Private Sector Development Plan
MARD	Ministry of Agriculture and Rural Development	UK	United Kingdom of Great Britain and Northern Ireland
MoF	Ministry of Finance	UNDP	United Nations Development Programme
MoIT	Ministry of Industry and Trade	UNIDO	United Nations Industrial Development Organization
MOLISA	Ministry of Labour, Invalids and Social Affairs	USA	United States of America
MoST	Ministry of Science and Technology	USAID	United States Agency for International Development
MPI	Ministry of Planning and Investment	USD	United States dollar
NATCED	National Agency for Technology Commercialization and Enterprise Development	VAWE	Viet Nam Association for Women Entrepreneurs
NGO	non-governmental organization	VCCI	Viet Nam Chamber of Commerce and Industry
PSAV	Partnership for Sustainable Agriculture in Viet Nam	VinaSME	Viet Nam Association for Small and Medium Enterprises
SDC	Swiss Development Corporation	VND	Viet Nam Dong
SDGs	sustainable development goals	VWEC	Viet Nam Women Entrepreneurs Council
SE	social enterprise	VYEA	Viet Nam Young Entrepreneurs Association
SE-I	social enterprise initiative		
SME	small and medium enterprise		

In this report \$ and USD refer to US dollars. An exchange rate conversion of USD 1 = VND 23,500 was used.



# I. INTRODUCTION

Viet Nam has been very successful in reducing poverty and improving living standards since the mid-1980s when the economic reforms under Doi Moi started. As it continues to develop, Viet Nam's robust economic and social performance of the past two decades will be challenged. To sustain high rates of economic growth, Viet Nam will need to focus on enhancing innovation, productivity growth, and company size (to address the missing middle). To sustain inclusive development, Viet Nam will also need to generate new well-paid income opportunities for low income people, and to provide more affordable and relevant goods and services, especially in housing and education (but also health, financial innovations, and energy).

Companies with inclusive business (IB) models can play a strong role in supporting these strategic objectives.

Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the pyramid making them part of the value chain of companies as suppliers, distributors, retailers, or customers.<sup>2</sup> While most private sector firms work with or sell to low-income people in some way or another, only few business lines provide low-income people with enhanced income opportunities or with goods and services relevant to overcome poverty and exclusion. These business lines are called inclusive business (IB) models.

By creating high bottom-line returns; relevant products, services and income opportunities for poor and low-income people; and scaled-up solutions for poverty reduction and social inclusion, inclusive business provide triple wins. They provide wins for the private sector, the poor, and for society and government. Promoting inclusive business is therefore a strategic avenue for governments seeking to promote a more inclusive growth that is beneficial for low-income groups.

To address in an effective way the needs of the poor, the government of Viet Nam is interested in supplementing public investments, with deliberate

private sector initiatives that deliver large scale social impact through financially sustainable business models.

In November 2017, during their annual summit meeting, the heads of states and leaders of ASEAN countries issued a statement<sup>3</sup> "... calling for greater emphasis on creating an enabling environment for Inclusive Businesses in ASEAN Member States...". Since then, various governments in the region (including Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, and Viet Nam) have embarked on establishing IB promotion policies and raising awareness on IB, and an increasing number of companies – supported by impact investors – have established commercially viable and profitable inclusive business lines creating innovative solutions for poor and low-income people. Viet Nam will be chairing ASEAN in 2020 and is interested in further promoting the IB agenda both through a national program for IB promotion, and at the regional level under its 2020 ASEAN leadership.

To support the development of such strategy, the Government of Viet Nam has requested the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN)<sup>4</sup> to conduct the present landscape study, which includes a market study of current inclusive businesses in Viet Nam and an assessment of the enabling environment, and provides recommendations for promoting inclusive businesses.

Section II clarifies the concept of inclusive business and the rationale for promoting IB. Section III analyses the social and economic context of Viet Nam and identifies market opportunities for IB. Section IV presents the key features of the IB market in Viet Nam, and Annex 2 provides examples of companies with real and potential IB models identified during the market study. Section V analyses the enabling environment for IB, and Section VI provides strategic recommendations for promoting IB in Viet Nam.



## II. UNDERSTANDING INCLUSIVE BUSINESS

### A. Defining inclusive businesses

Inclusive businesses are companies that: “provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers. In addition to these commercially inclusive activities, businesses may also pursue broader socially inclusive goals. Inclusive business should promote sustainable development in all its dimensions – economic, social and environmental” as adopted by ASEAN member states in the ASEAN Inclusive Business Framework and defined by the Inclusive Business Framework of the G20.<sup>5</sup>

While IBs can be found across all sectors and operate a broad range of business models, they have four key common features (see figure 1):

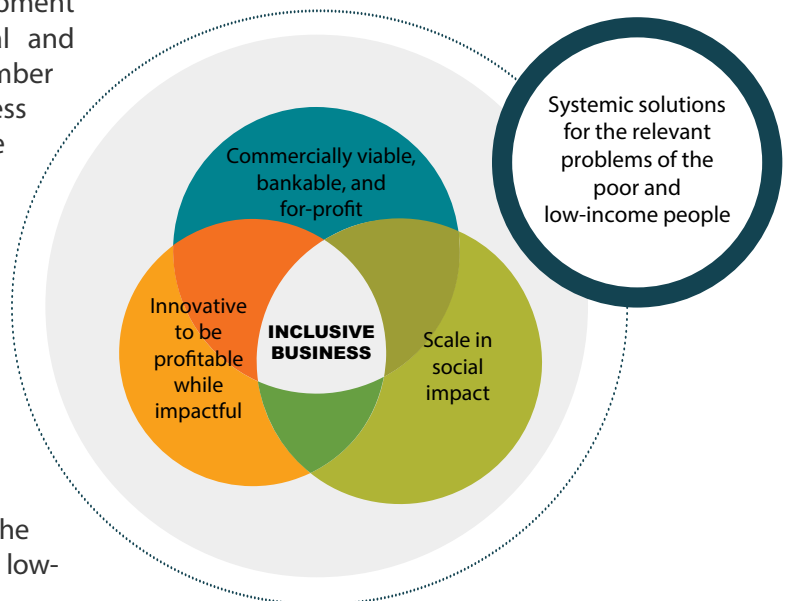
- Have commercially viable, bankable and for-profit IB Models that are core to business operations;
- Provide systemic solutions for the relevant problems of the poor and low-income people;
- Have scale in business operation, growth and social impact;
- Display degrees of innovation, needed to reduce risks, be impactful and profitable while engaging the BOP.

IB models deliver solutions to the BoP through two main ways:

- Providing goods and services to the BoP relevant to overcome poverty (and thus involve them as consumer) or
- Creating income opportunities for the BoP, to bring them out of poverty or substantially improve their economic basis, and engaging them as suppliers (e.g. in agrobusiness and tourism), laborers (in manufacturing), distributors (in trading) or as shareholders. Most IB engage the poor as income earners.

IB apply business innovations that reduce the risk of the poor in their relations with the market. IB reduce the risk by, for example, guaranteeing the loan repayments of the BoP, paying for essential parts of the business process required by the firms, staggering payments of product and services costs to meet the payment capacity of the BoP, or introducing delivery mechanisms that reduce the poor’s risks of high transport costs and losses.

**Figure 1. Defining inclusive business**



Source: United Nations ESCAP

### B. Characteristics of inclusive business

**IB models are specifically designed for improving the income and living standards of poor and low-income people.** To be inclusive, business models must not only work with or sell to the BoP but, more importantly, be specifically designed for improving the income and living standards of poor and low-income people.

Income-generating business models are inclusive when they generate better incomes (by paying substantially better than the market rate, increasing productivity or generating greater value added, and/or to diversify their income generation) and provide mechanisms that reduce the risks of the poor. Contract farming models that only pay the market rate are not necessarily an inclusive business model.

Business models providing goods and services to the BoP are inclusive when they provide relevant products at good (not only affordable) prices and with favourable delivery mechanisms.

**IB models can be found in multiple sectors.** IB solutions are often found in agribusiness but they can also be found in the delivery of essential social (health, education, job placement, social insurance) or municipal (housing, water, sanitation, energy) services, or in goods that are essential for the poor (e.g. nutrition products).

**Profit drives social impact and vice versa.** IB are mainstream businesses with the peculiarity of being innovative and deliberately addressing relevant problems of the BoP. In IB models, social impact and economic returns reinforce each other. Being a responsible business with good management governance paying taxes, respecting the laws and having high social and environmental safeguards is a precondition to be classified as an IB.

**IBs differs from social enterprises (SEs) and corporate social responsibility (CSR)** in terms of their focus and impact scale. CSR and SE are driven by the principles of impact first, while financial returns are secondary. SEs are often required to reinvest their profits into social obligations. In CSR activities, profits may not even be generated. IB also differs from SE and CSR in the scale of their operations and impact. Inclusive businesses are driven by growth, and inherently seek to scale up investments, returns and market penetration.

**A company can be a fully dedicated inclusive business or operate both regular and inclusive**

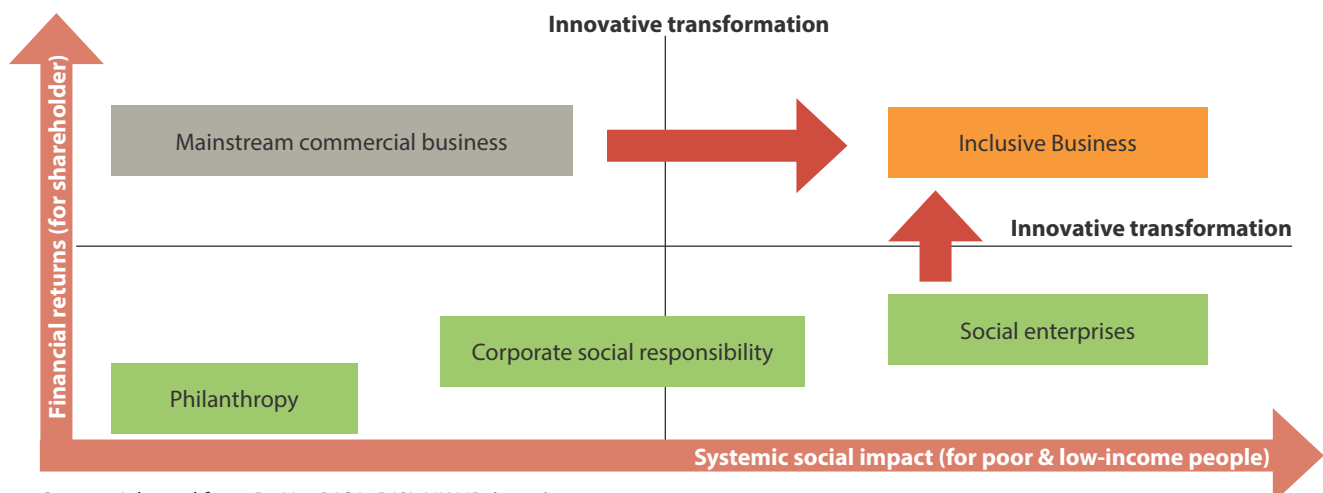
**business lines.** For example, some large and multinational companies also innovate for the markets of the poor and set up specific IB models for the BoP.

**IBs require high levels of innovation:** To serve the low-income market and make profit at the same time, companies must be innovative, particularly in their business design. In order to be inclusive, IBs often take on some of the risks of the BOP. IB companies reduce costs not through exploiting labour but by introducing innovations that enable the IB firm to move into higher value-added activities and/or that enable the IB firm to reduce the risks of involving the BOP in its value chain.

**Inclusive businesses models can be created by mainstream businesses and social enterprises.** Through transformative innovation, mainstream businesses can transform their business models into inclusive ones or introduce specific inclusive business lines. In addition, social enterprise can also transform their models to increase their commercial returns and achieve higher social impact (figure 2).

**IB models are mostly found in medium-sized companies:** To achieve business returns and social impact at scale and provide systemic solutions to the problems of the poor, IB need a certain size, be growth orientated, have market experience, and be willing to address business and social risks. IB models are therefore often found among medium sized enterprises with several years in the market, but smaller and larger companies can also have IB models. While IB promotion can be part of the SME development agenda, it fits better in the wider discussion for economic transformation in Viet Nam.

**Figure 2. Transitioning to inclusive business models**



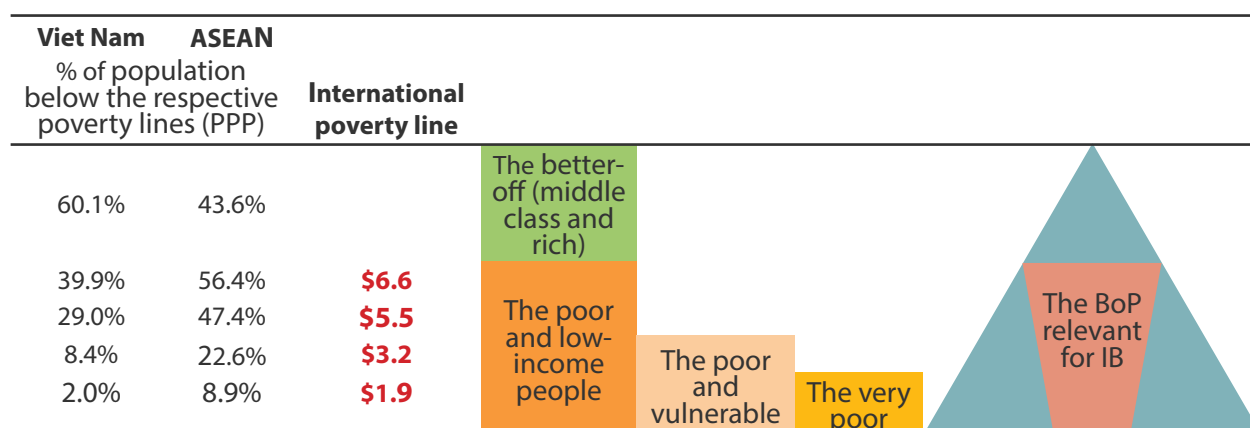
Source: Adapted from DaNa, DICA, DISI, UKAID (2018)



**IB models target the poor and low-income people.** The very poor and poor people in Viet Nam comprise 2 per cent and 6 per cent of the population (together 8 per cent). Targeting this market only is not commercially viable. Companies with IB business lines provide goods and services and income solutions to the poor and low-income people (a broader market base), which form the bottom 40

per cent of the income groups or the base of the economic pyramid (BoP) (figure 3). IB firms may not exclusively focus on the BoP, but they always have specific business lines with design features to target them, and in many cases the BoP are most beneficiaries of such investments. In Viet Nam, the BoP are those with household income of less than VND 14 million (\$600) per month (see table 2).

**Figure 3. The base of the economic pyramid in Viet Nam and ASEAN**



*Note: Based on World Bank PovcalNet data (Nov 2019 update). ASEAN data do not include Brunei Darussalam, Cambodia and Singapore as poverty data for these countries are not available in PovcalNet. Viet Nam poverty data are for 2016*

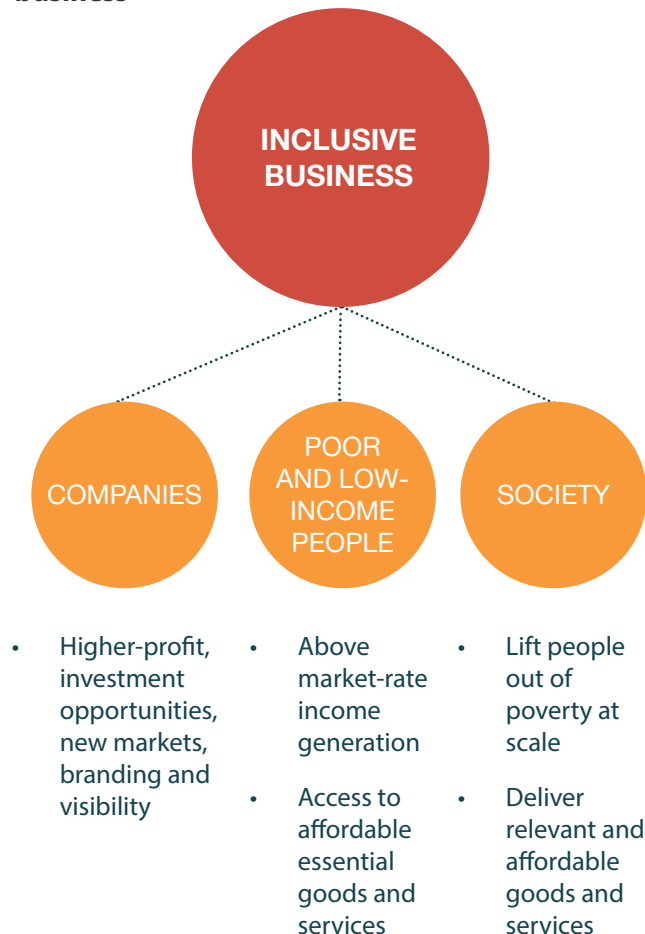
#### IBs can help structurally transform the economy:

IB business models provide new innovative business lines in key sectors with large unmet needs and help achieving impact at scale. As such IB companies are transformative for the economy and for society.

Inclusive businesses generate triple wins (see figure 4):

- For the poor and low-income populations: IB models create income generation opportunities above the market rate and/or expand access to essential goods and services.
- For companies: IB models offer higher-profit business and investment opportunities, help reduce risks, develop new markets and foster innovation. IB models also enhance the branding and visibility of companies.
- For governments: IBs help governments create jobs and address essential needs of the poor, low-income and vulnerable people. This includes the generation of income opportunities that lift people out of poverty at scale and the delivery of relevant and affordable goods and services (including education, health, water, energy and housing).

**Figure 4. Triple wins through inclusive business**



### C. Responsible and inclusive business

Responsible business conduct, as defined by the OECD<sup>6</sup>, entails above all compliance with laws, such as those on respecting human rights, environmental protection, labour relations and financial accountability, even where these are poorly enforced.

Responsible business conduct also involves responding to societal expectations communicated by channels other than the law, e.g. inter-governmental organisations, within the workplace, by local communities and trade unions, or via the press. These voluntary initiatives are often referred to as corporate social responsibility (CSR).

In essence, responsible business refers to the adherence to law, paying taxes, avoiding bribes, respecting employee and human rights, treating customers and other businesses ethically, and respecting the environment. Responsible business are not necessarily designed to address the needs of the low-income and marginalised groups.

Inclusive businesses go beyond having a responsible business conduct. Inclusive business models are consciously designed to provide at scale relevant solutions for low-income and marginalised groups. A company may have a responsible business conduct but engage only the middle- or upper-income groups or provide environmental solutions without impact on people. Such company would be a responsible business but would not qualify as an inclusive business.

On the other hand, to be accredited as an IB, the company has to follow a responsible business conduct, that is, to adhere to environmental

and social safeguards, and to practice good governance.<sup>7</sup> In summary, all IB companies are responsible businesses but not all responsible business are inclusive businesses.

While it is desirable that all firms develop a responsible business conduct, it is not needed that all firms develop inclusive business models. In fact, IB models are only found among some (often very few) companies.

Policies for promoting inclusive businesses and responsible business are also different. For instance, promoting responsible business conducts entails primarily defining and implementing the laws and regulations that underpin responsible business conduct (e.g. human rights laws, tax regulations). Promoting inclusive business entails primarily recognising these business models, providing support (e.g. facilitating access to business coaching and finance) to enable the transformation of mainstream businesses into inclusive business models. There are areas where measures to support responsible business and inclusive business may be combined. For instance, in providing awards for responsible business and for inclusive business in the same ceremony (however, the criteria to classify a business as responsible and as inclusive will be different); or awareness on responsible business conduct and inclusive business can be promoted by the same organisation. This study focuses on policy recommendations to promote IB.

### D. Types of inclusive businesses

Inclusive businesses are different from mainstream businesses (profit first), and from social enterprises and CSR activities (impact first) (figure 5).

**Figure 5. Types of businesses based on profit and social motives**

Business Approaches						Non-business Approaches	
Profit first/ only profit	No trade-off between commercial and social returns			Impact first		NGO projects and Philanthropy	Government programmes and others
Mainstream business	Inclusive Business			Business actors for social goods			
MB	IB model	IB activity	Social enterprise initiative	NGO- driven Social Enterprise	Traditional corporate social responsibility		
	Shared value						
MB	IB-M	IB-A	SE-I	NGO-SE	CSR	NGO	Other

Within IB, there are three distinct approaches<sup>8</sup> (see figure 5):

1. IB models are commercially viable, for profit, scaled up solutions for relevant problems of the poor. An IB model is a business line that is a core operation of a company. IB models are mostly medium-sized enterprises and are specifically designed for realizing both market returns and large-scale social impact.
2. IB activity is a commercially oriented CSR investment (mostly of larger firms) that has relevant scale and aims to pilot for the company a new core business line that can potentially scale-up and develop into an IB model.

Traditional CSR approaches (charity oriented) invest in activities that are not linked to the core business of the firm, while strategic CSR links these activities to the core business of the firm ensuring often better quality of the intervention with more relevant impact.

3. Social Enterprise initiative is a smaller IB line with often smaller impact. These initiatives are commercially viable and are implemented by for-profit and growing social enterprises with a clear objective to scale their impact and are distinct from NGO-driven social enterprises. In some countries, these SE initiatives are called social businesses.

Social enterprises (SEs) are often characterized, including in Viet Nam, by the need to reinvest profit in social purpose or back in the business. However, many companies do not wish to be restrained on the use their business profits, and therefore prefer not to register as social enterprise (see discussion on social enterprises in section 4.3).

All three IB types are equally relevant for promoting the IB agenda and should be considered when designing an IB incentive program.

IB models are difficult to identify because IB is a relatively new concept, because such models are not simply determined by sector, company size or year of establishment, because the social impact of such companies needs to be established, and because there is not yet an IB registration system.

In summary, IB are dynamic companies that innovate secure business returns and social impact. Hence promoting IB models is closely linked to the government agenda of further encouraging innovation, productivity, modernization, growing

SMEs, financial and environmental sustainability, and social inclusion. Encouraging transformation of businesses is a major objective of the new sustainable private sector development strategy of the Viet Nam government and business associations.

## **E. Implications for promoting inclusive business**

To promote inclusive business in Viet Nam, the following could be considered:

- Promoting a better understanding about IB to address misperceptions on what IB is, including through the involvement of business associations in dissemination activities and by establishing a transparent IB accreditation system.
- Clarifying the difference between NGO-driven social enterprises and social enterprise initiatives in the social enterprise decree currently being revised by the government (led by CIEM, MPI). The revised incentives for SE could also be made available for IB.
- Establishing a transparent system (the proposed IB accreditation system) for identifying real IB models and officially naming them real IB. In the past, some firms have called themselves IB only because they engaged the poor. A more rigorous definition that recognises IB as firms that not only engage the poor but also create solutions for them should be used.
- Linking the promotion of IB to the promotion of innovation. Innovation for the BoP is essential in IB. In this context, it would be useful if the promotion of innovation also considers the purpose of innovation. For example, most start-up innovations and new technologies are for the better off, and it would be useful to also promote innovations that address the needs of low-income populations.
- Providing public support to companies with strong strategic intent to do good while doing well to support them transform their social enterprise and their mainstream business models into IB. Companies and business associations consulted in the study have that business coaching, accreditation and branding, financing risk reduction for potential investors (in addition to information sharing, and priority procurement) are the most important support that government can provide.







### III. MARKET OPPORTUNITIES FOR INCLUSIVE BUSINESS IN VIET NAM

#### A. Poverty and livings standards in Viet Nam

Viet Nam has been very successful in reducing poverty and improving living standards. Through specific poverty reduction programs and pro-poor economic and social policies, as well as trickle-down effects from economic growth, Viet Nam reduced its poverty and vulnerability rate from over 70 per cent (in the mid-1980s when the economic reforms under Doi Moi started) to below 6 per cent (2018).<sup>9</sup>

Viet Nam has also made substantial progress in social indicators, such as access to quality education, health and social protection as well as in promoting gender equality. Viet Nam ranks 48 out of 157 countries on the human capital index (HCI), and second in ASEAN (behind Singapore). However, Viet Nam ranks less favourably in the Human Development Index (HDI). In 2018, Viet Nam ranked 118 out of 189 countries.

Poverty today is concentrated in rural highland areas of northern and central Viet Nam, and among some of the 53 ethnic minority groups. More broadly, society, government and also business groups are concerned about rising

income inequalities, affordability of social and municipal services, expanding income opportunities, widening geographical and rural/urban gaps, underusing the potential of women as entrepreneurs and consumers, increasing social exclusion in urban areas, and rising exposure of the poor to climate-induced risks and environmental pollution.

Viet Nam's national poverty line (monthly household incomes of VND 0.7 million in rural and VND 0.9 million in urban areas) and vulnerability line (monthly household incomes of VND 1 million in rural and 1.3 million in urban areas) are close to the international per capita per day poverty lines of \$1.9 and \$3.2 (table 1). In addition, the Ministry of Labour and Social Affairs (MOLISA) counts poor households based on 10-point deprivation index. In rural areas, households with monthly income below VND 0.7 million, or those with monthly household income between VND 0.7 million and VND 1.0 million and at the same time being deprived of minimum 3 out of 10 living standard indicators, would receive support from MOLISA. In urban areas, the income thresholds are less than VND 0.9 million to VND 1.3 million plus a deprivation of a minimum 3 out of 10 social indicators (table 1).

**Table 1. Income poverty in Viet Nam**

	The poor		The vulnerable (near poor)		Total poor and vulnerable
	rural	urban	rural	urban	
<b>National poverty line (VND million, per capita per month)</b>	<b>700,000</b>	<b>900,000</b>	<b>1,000,000</b>	<b>1,300,000</b>	
Incidence of poverty (% of population)	1.30	0.40	5.90		7.6
Number of poor	1.20	0.10	5.58		6.88
<b>International poverty line (USD per capita per day expenditures, PPP based)</b>	<b>&lt; USD 1.9</b>		<b>USD 1.9- 3.2</b>		<b>&lt; USD 3.2</b>
Incidence of poverty (% of population)	1.97		6.41		8.38
Number of poor and vulnerable people (million)	1.2		5.6		7.9

*Notes: Data are from MOLISA (for December 2018). The national poverty definition is given in Government Decision 59 on Multidimensional Poverty Benchmarks 2016-2020. International poverty data are from the World Bank PovcalNet - update 22 November 2019 (data are based on the 2016 national household and expenditure survey). The minor inconsistencies between the Government and World Bank are due to using different baseline and population data, i.e. registration data and population projection for 2018 in the case of government data, and household expenditure data with population data for 2016 in the case of the World Bank.*



According to MOLISA, by December 2018, the total number of very poor (1.3 million by 2019) is composed of 1.2 million income poor (90 per cent) and additional 0.1 million multidimensional poor. The multidimensional poor are not necessarily income poor and are, on a yearly basis, identified by the local community and then provided with social assistance. For 2016 the government set the average minimum living standard income benchmark at VND 1,000 to 1,500 million for rural (\$43-\$63 per capita per month), and VND 1,300 to 1,950 million (\$55-\$83) for urban areas.

Currently, the government of Viet Nam runs two major government poverty reduction programs<sup>10</sup>:

1. The 135 National Targeted Program on Sustainable Poverty Reduction focusing on ethnic minority areas and managed by MOLISA. The budget for programme for the period 2016 - 2020 is VND 41,449 billion, or USD 0.4 billion per year. Most of the budget (85 per cent) is spent on local infrastructure (schools, roads, hospitals, housing), while 15 percent goes to farmers mostly in the form of seeds and farm inputs. Limited funding (around \$60 per year per capita) goes directly to the poor. MOLISA implements its poverty reduction program with very few people. It has only 10 persons at the national level dealing with poverty reduction.

2. A multidimensional poverty program, established in 2016, in which local governments support poor people based on 10 indicators. This program, implemented in cooperation with MARD, provides mostly cash and other support for people affected by family or natural disasters and has one staff working on social affairs (including social protection, social assistance and poverty reduction).

The traditional poverty reduction programs mainly go to the extreme poor. The vulnerable poor and the low-income people are not targeted by these two programmes. As Viet Nam continues to develop and the group of very poor gets smaller, it will be increasingly important to also increasingly support the vulnerable poor and low-income groups (the bottom 40 per cent of income groups), to ensure a shared and balanced growth. Supporting vulnerable and low-income people will need new and different mechanisms and government initiatives.

In this context, there is potential for the private sector to contribute more and better to address vulnerability and support low-income people through inclusive business models. IB has the potential to provide: more well-paid jobs and income opportunities for low-income people in the rural and urban areas; social services in niche areas of education, health and social protection; and more access to low-cost housing, finance, energy, transport and other utility services.

**Table 2. Benchmarks used in this study for poor, low-income and B40 in Viet Nam**

	International poverty line (Expenditure per capita per day)		Income lines used in this study (Monthly household income) (2)		
	US\$	Percentage of population (1)	VND (million, roughly)	USD (roughly)	Percent of population (3)
Very poor	1.9	1.97	4.5	200	2
Poor (vulnerable)	3.2	8.38	7.0	300	8
Low-income	5.5	28.99	12.0	500	30
B40	6.6	39.88	14.0	600	40

Sources: (1) World Bank PovCalNet; (2) consultant team calculations and assumptions; (3) Viet Nam income and expenditure survey 2016.

Note: Data are from PovcalNet (World Bank, update 7 June 2019), based on the Viet Nam income and expenditure survey 2016. An exchange rate of VND 23,500 to USD 1 was used. For determining household income two income earners were used and 30 per cent extra income (remittances, social transfers, income in kind) was added. An average household size of 4.5 adults, children and elderly per household was used.

As per the latest population projections (July 2019), Viet Nam has a population of 94.4 million, living in 20.6 million households with an average household size of 4.6 people. Inclusive businesses target the bottom 40 percent income groups plus those with specific social needs. Based on the latest (2016) income and expenditure survey, the bottom forty per cent income group has a monthly household income below VND 14.4 million (approximately \$600/month or \$6.6/day per capita<sup>11</sup>). Low income people (around 29 per cent of the population) have a household income of about VND 12 million (approximately \$5.5 a day per capita), while the poor and very poor (about 8 per cent of the population) have a monthly household income up to \$7 million (\$3.2 a day per capita).

This study uses the following monthly household income benchmarks: VND 7 million (\$300) for the poor and very poor, VND 12 million (\$500) for low-income people and VND 14 million (\$600) for the bottom forty per cent income group (table 2). The rough benchmarks have been confirmed by government agencies and companies as adequate for a general approach. However, for poorer regions and agribusiness, lower benchmarks should be taken.

## **B. Economic development and the role of the private sector**

Viet Nam's economic development over the past 30 years has been remarkable. The country has transformed itself to one of the most dynamic economy in South-East Asia. Between 2002 and 2018, more than 45 million people were lifted out of poverty, and poverty came down to about 8 per cent (at \$3.2 international poverty line) and 2 per cent if the national poverty line is used. GDP per capita increased more than 2.5 times since the economic and political reforms started under *Doi Moi* (in 1986); it stood at USD 2,564 by end 2018. Growth rates have been persistently high at around 7 per cent in recent years, even if they are projected to moderate in the coming two years to 6.5 per cent. Indicators on inflation (stable below 4 per cent since a decade), external trade balance (recently infused by shifting investments to Viet Nam due to the US-China trade tensions), foreign direct investments (now accounting for about a quarter of all investments in the economy), balance of payment (surplus of 8.5 per cent of GDP), monetary and credit conditions (by June 2019 only 1.9 per cent of all bank loans were officially reported as non performing, and

5.9 per cent were declared as on risk to default), while all slowing due to cyclical changes, remain positive. Local demand is increasing, and the share of a wealthy (upper) middle class is expecting to rise from 13 per cent in 2018 to 26 per cent by 2026.<sup>12</sup>

However, the economy faces challenges in low industrial productivity, lagging progress in reforming state-owned enterprises, shrinking exports, accessing finance for agribusinesses and SMEs (especially long-term financing of 5 years and more), and in making the economy ready for the industry 4.0 revolution. Overcoming those challenges will be crucial for realizing the government's objective to transform Viet Nam into a modern industrial country by 2030 and a developed country by 2045.<sup>13</sup>

Viet Nam ranks 69 out of 190 countries in the World Bank's Ease of Doing Business index. It is in the bottom half for starting a business, paying taxes, trading across borders or resolving insolvency. Companies complain about too many regulations and, therefore, tend to remain small (or informal). Vietnamese people have a strong business mentality, but this does not necessarily imply growing their - mostly small - businesses. Furthermore, businesses often seek labour cost savings and selling to traditional markets rather than increasing productivity or exploring new markets and products.

Viet Nam has many micro and small companies but compared to the state sector (29 per cent) and the foreign direct investments (20 per cent) these contribute very little (9 per cent) to the economy's output. While the government emphasizes SME development, it has not yet found a mechanism that achieves results in increasing the productivity and value addition of this important sector. Independently of company size, and unlike other countries, Viet Nam is missing a dynamic enterprise culture focused on increasing productivity and growth through innovation and structural change.

Small and micro enterprises in Viet Nam, as in other countries, have little growth perspective, low productivity, invest little in innovation<sup>14</sup>, are often not integrated into value chains, have low profit margins (although there are extensions), pay little to their workers or suppliers, and after mandatory registration often do not start operations or close down quickly.<sup>15</sup> Most of these small companies do not qualify as IB, because of their low ratings in the business and innovation dimensions, in addition to their limited social reach. Viet Nam, as other

emerging economies, is experiencing a missing middle in its production structure, the share of medium-sized enterprises is relatively small (in the case of Viet Nam is smaller than the share of large enterprises).<sup>16</sup>

Large companies are the main drivers for growth, export and innovation in Viet Nam. These companies, however, face difficulties to identify and work with medium-sized suppliers.<sup>17</sup>

The Viet Nam Enterprise Support Law (law number 68) passed in 2014 defines the role and functions of various types of companies and clarifies the incentives to be given to SMEs. This law has related regulations for priority industries. The government considers SMEs development a priority and has established financing, market access, and business development assistance. In 2017, the government passed the SME Support Law, which foresees tax incentive, special credit lines, and technical support to SMEs. However, most of these programs release little funding and tend to be seen by the private sector as ineffective. Hanoi and Northern Viet Nam have more than 270,000 SMEs and a budget of only VND 100 billion per year. The budget reaches about a third of the companies, equally \$40 on average per company. The funds are mostly spent on trade promotion activities and training workshops.

There is an SME development fund, but the funds actually released to SMEs are still limited. The SME development fund, launched in April 2016 with an initial capital of VND 2 trillion (about \$89 million), provides loans up to VND 30 billion (\$1.3 million) per deal. By end 2017, only 20 of the 1000 SMEs that applied for a loan got financing worth VND 250 billion (against a target of 500 billion). Average loan size is relatively small. MPI, the executing agency, points out that many companies are not investment ready to meet the criteria of the fund.<sup>18</sup>

As the government is recently focusing on fiscal consolidation and substantially reducing external development borrowing, it will need to seek ways to increase the impact of available public funding. IB models help leverage private funding for larger impact. However, targeting some of the limited funds available from existing programme to promote IB models will require a lot of awareness and convincing. It might be easier to request additional resources for IB from government budget allocations and development partners.

A vibrant start-up scene is emerging in Viet Nam.

About 2,500 start-up firms have been established since 2016 and 92 companies have raised almost \$900 million investments in 2018<sup>19</sup>, about 3 times the financing raised in 2017.<sup>20</sup> The fintech industry attracted the highest amount of investment, followed by investments in the digital economy (e-commerce, travel tech, logistics and education tech). While the scene is vibrant, many new establishments fail to survive or grow. These start-up firms generally do not have an inclusion focus. As in other countries, start-ups mostly develop products for consumers in the upper middle- and high-income classes, or for environmental and technological innovations. The government – through MPI – is actively promoting the start-up scene. In summer 2019, it officially launched the establishment of *National Innovation Centers* to promote innovation and technology to support modernization and industry 4.0.

Public reform efforts seek to foster the private sector as the main growth engine for Viet Nam. To this end, the government has established a more regular and open dialogue with the private sector through the Viet Nam Private Sector Economic Forum. The IB agenda does not feature yet in high-level discussions such as the Viet Nam Private Sector Economic Forum.<sup>21</sup> The government also endorsed in October 2019 a new strategy for sustainable private sector development which MPI will implement. This is an opportunity to introduce the promotion of IB in this strategy's implementation plan.

### C. The social enterprise landscape

Social enterprises (SE) are commonly understood as companies with a mission of achieving social / environmental impact while operating a revenue-generating basis.<sup>22</sup> Traditional SE, unlike IB, while being revenue generating may not be fully commercial and still depend on grants to be viable. Furthermore, SE, unlike IB, may not necessarily focus on the social needs of the BoP but address, for example, environmental objectives or needs of people not at the BoP.

Three types of SEs can be distinguished:

1. Enterprises with a strong social/environmental motive, but small in scale and not commercially viable.
2. Commercially viable SE with small social impact and low profit margin, which often

do not register as SE but as mainstream business<sup>23</sup>, to have more freedom on how to use the profit generated. Such companies are included in the IB discussion as SE initiatives.

3. Enterprises that provide social or environmental solutions at large scale but have low commercial viability. These firms, typically found in developed economies, are often contracted by the government to provide social services (e.g. manage hospitals).

In November 2014, the concept of social enterprise was indirectly incorporated in the Viet Nam *Law on Enterprises* under article 10 (companies that provide services in public interest).

Following the 2014 Enterprise Law, the Government Decree number 96 (issued in 2015) further outlines rules and regulations for SE. The Decree refers to SEs as companies that: a) are officially registered with MPI, b) have as their main objective to provide a solution for social or environmental problems, or to serve public interests, and c) reinvest at least 51 per cent of the annual profit in the social and environmental mission of the company. It encourages the establishment of social enterprises, it states that it shall provide incentives to SEs, and clarifies that SE are businesses (not NGOs nor cooperatives) and therefore shall perform all corresponding rights and obligations as prescribed in the 2014 Enterprise Law. Among others the Decree further specifies that:

- SEs must publish their social and environmental commitment under the National Business Registration Portal (maintained by AED) and get that endorsed,
- SEs have the right to receive foreign funding, sponsorship and aid,
- SEs can receive special investment incentives,
- Social protection establishments, social funds, and charitable funds can convert into SEs,
- SEs that receive incentives, aid or sponsorships must provide annual reports on the assessment of the social impacts of their activities to MPI and to their provincial People's Committee, and
- Provincial People's Committees are allowed to monitor SEs headquartered in their vicinity.

Several of these criteria are perceived by some businesspeople as problematic, and may restrain investments in SE or companies from registering as SE.<sup>24</sup>

Current SEs in Viet Nam are characterized by small size, low profit margin, and business models that often address training and mentoring. A 2019 study of SEs in Viet Nam by the British Council, ESCAP and CIEM<sup>25</sup> indicates that SE in Viet Nam:

- Are most active in Northern Viet Nam, addressing problems of the indigenous mountain population;
- Are mostly small and micro organisations (60 per cent have a revenue below 5 billion VND)
- They are commercially oriented (64 per cent of those interviewed make a profit);
- Are dependent on grants and donations (33 per cent) as well as own funding, while only 15 per cent mobilize equity and loan funding;
- Are run by young and often women entrepreneurs (nearly half of social enterprise leaders are women, compared to 37 per cent of SME chief executive officers);
- Often address training and mentoring issues of the BoP or of small entrepreneurs;
- Sixty per cent of them are engaged in income generation activities; and
- Over a third of them work in agriculture, 15 per cent in social sectors (education, skills training and health), 7 per cent in child care and other social protection, 11 per cent in environment-related infrastructure (transport, energy, water), none in housing and other municipal services, 2 per cent in microfinance, and 18 per cent in service industries (hospitality, trade, creative industries, business consultancies), and 12 per cent in other service activities.

Many enterprises have expressed that they would like to receive specific support, which is not provided under the Enterprise Law, to be able to develop. SE do not have a lobby to request being included in incentives, as business association have not yet included the SE agenda in their mandate and as most SE are not members of business associations. The current business incentive system of Viet Nam does not include eligibility criteria on social impact. Hence, SE



have no comparative advantage in applying for business incentives.

There are also no specific incentives for SEs. There are general incentives for selected industries with societal value (SE could be included here) including:

- priority access to property;
- preferential policies to improve the workplace and the surrounding environment;
- subsidies for formal and technical training, trade and market expansion and the application of new technologies;
- interest rate subsidies;
- value-added tax exemptions;
- a corporate income tax rate of 10 per cent flat for 15 years, or corporate tax reduction of up to 50 per cent for 4 years and a 50 per cent reduction for subsequent years for companies investing in clean energy, environmental protection and waste treatment investments; and
- a special corporate tax reduction of up to 50 per cent for companies employing, at least 30 per cent of their staff, people with disabilities.

When the government included SE in its priority investment area program, it hoped that many companies would emerge that address in scale social and environmental needs. However, the number and, therefore impact, of SE has not kept with expectations. According to government sources<sup>26</sup>, in 2018, 80 SEs registered to be recognised as a SE, and in 2019, 54 SEs were officially granted the registration as an SE. The low number of companies that have registered as SE may be due to, as in other neighbouring countries, the reluctance of social entrepreneurs to register as SE to have more control about the use of their profit or because they prefer to operate in a more informal way. Another reason is that several organisations – especially those connected to NGOs - perceive profit making as something unethical do not want to be seen as a company. As other studies note, the number of organisations self-identified as social enterprises or conducting social activities is much larger.<sup>27</sup>

A number of stakeholders interviewed in the context of this report argue that more financial incentives, a better tax treatment of SE, and freeing SEs from the obligation of reinvesting

profit would encourage more companies to register as SE. To increase the scale of social impact, the government could also actively support enterprises that operate commercially and at scale and deliberate target social impact. Such support could help transform NGO-driven and small SEs into larger and more profitable social enterprise initiatives (SE-I) and later into IB models. The government – through CIEM – is currently reforming the SE regulations, and this could be an opportunity to recognise IB as a complementary route to support social impact within the SE regulations. This would need to be accompanied by promoting increasing awareness among SEs on the need for scaling business and its commercial return, to create social impact in scale, and how SE can further address the actual social needs of the poor and low-income people through investments beyond capacity building.

#### **D. Implications for promoting inclusive business**

Viet Nam's current poverty reduction strategy focuses on the very poor and the government is discussing its new vision for development and social inclusion after 2020. Inclusive business could become an additional, deliberate and complementary government approach to encourage the inclusion of low-income people in business models and thus leveraging private sector resources to support social development. As MOLISA programmes focus on the very poor only, efforts to reduce poverty among vulnerable and low-income people through IB may be better championed by another government agency closely related to the private sector, such as AED under MPI. Nonetheless, given their expertise of in poverty reduction, it would be useful to involve MOLISA (and MARD) in the promotion of IB – especially in the IB accreditation system.

There are still a limited number of private firms addressing the social needs of the poor such as in health, education, housing and municipal utilities, and energy access. The private sector has not yet fully seen the opportunities that the BoP market offers. Entrepreneurs and government agencies would benefit from having more information and awareness on the potential of the BoP market for stimulating growth without exploitation, and for engaging in a new more inclusive development path.

## IV. MARKET STUDY OF INCLUSIVE BUSINESS IN VIET NAM

### A. Methodology

#### 1. Overall study of the inclusive business landscape in Viet Nam

The landscape study of inclusive business in Viet Nam has three major parts: a market study with companies that implement IB models, an assessment of the enabling environment (done through interviews with key informants), and policy recommendations (based on discussions with government and other stakeholders). The market analysis with companies was based on interviews, an analysis of business information available online, and further information from the business community

For the analysis of the enabling environment and identifying key policy recommendations, interviews, briefings, consultative workshops, and discussions with key national stakeholders were organized from April to December 2019.

Overall, about 200 stakeholders were interviewed, including government officials, private sector representatives, business leaders, investors, facilitators and other experts to help inform the analysis and recommendations contained in this report. A total of four workshops and accreditation seminars have been carried out in Hanoi and Ho Chi Minh City to discuss the concept of inclusive business, possible policies to promote IB and the accreditation of IB (figure 6).

**Figure 6. Overview of activities carried out to inform this study**

200 interviews	Key national stakeholders including government officials, private sector representatives, business leaders, investors, facilitators and other experts
4 Workshops	<ul style="list-style-type: none"><li>• <b>Inclusive Business Policy Forum for Viet Nam</b>, organized in partnership with AED and the CIEM of the MPI – Hanoi, 15 October 2019,</li><li>• <b>Workshop on Inclusive Business Accreditation</b>, organized in partnership with AED and the CIEM of the MPI – Hanoi, 14 October 2019.</li><li>• <b>Business Roundtable on Inclusive Business</b>, organized in partnership with AED and VINASME - Ho Chi Minh City, 10 October 2019</li><li>• <b>Workshop on Inclusive Business Accreditation</b>, organized in partnership with AED and VINASME - Ho Chi Minh City, 8 October 2019.</li></ul>
41 companies assessed	Market study: <ul style="list-style-type: none"><li>• Longlist of 160 potential IB companies</li><li>• Shortlist of 60 potential IB companies</li><li>• 43 companies interviewed</li><li>• 41 companies assessed</li></ul>

#### 2. The market study

The market study was based on semi-structured interviews with business leaders, interviews with key informants and an analysis of information available online.

For the market study, a longlist of 160 potential IB companies was established. The companies were referred to the consulting team by sector and IB/ social enterprise experts, business associations, and other companies. They were also identified through

desk review. To identify inclusive business it is key to examine the social impact that they have. The government company registration system could not be used to identify potential IB companies, as it does not register companies as IB and the indicators used (e.g. company size or employment) do not reveal the social impact of the companies.

Viet Nam had over 710,000 registered companies by the end of 2018.<sup>28</sup> There are also about 22,000 social impact businesses, which include mostly NGOs and cooperatives, and start-ups with business models

that provide solutions for the poor.<sup>29</sup> Based the criteria applied in this study, most of these mainstream business and social impact business would not qualify as IB as they would not target low-income and marginal groups, may not be commercially viable, or may have a limited social impact.

The objective of this study is not to assess all companies (the time frame and resources would not allow this) but to identify some of the companies that have a large social impact. The study only reviewed a limited number of firms. It is likely that the actual number of IB companies is much larger and that, once a strategy to promote IB and accredit IB is established, more companies with potential IB business models will come forward.

The potential IB companies in the longlist were screened for their social impact and strategic intent and a shortlist of 60 potential IB companies for possible interviews was established. Of the 60 shortlisted companies, 43 were interviewed and 41 rated.<sup>30</sup> Once the concept of IB becomes better known in Viet Nam and is promoted by the government, more companies providing services to the poor and low income people might come forward to either establish new business lines or change their business to better address the needs of the poor.

Efforts were made to balance the sectoral, regional, and company size composition in the list of firms interviewed, and to find IB models in the social, urban development and infrastructure sectors. In terms of sector, the market in Viet Nam shows a clear

priority for IB models in agribusiness: 32 of the 43 interviewed companies were in agribusiness (table 3). In terms of geographical location, companies were identified across Viet Nam. About a third of the 43 companies assessed created their impact in northern Viet Nam, 40 per cent in southern Viet Nam, 20 per cent in central Viet Nam and 5 per cent country wide (table 3). In terms of company size, 6 of the 19 IB companies are large companies, 9 medium-sized, and 4 small companies (Table 6). It is likely that there are more companies, especially large and medium sized ones, that could qualify as potential IB. It should be noted that some medium and larger firms were not interested in participating in the study – these firms indicated that they would consider exploring the notion of developing an inclusive business model once the government starts promoting inclusive businesses.

Firm interviews were conducted based on a semi-structured guide, where questions were adjusted during the interview. Interviews took on average one hour and a half and, in some cases, additional questions were asked in a follow up face-to-face or phone discussion. The interviews were held in English and Vietnamese – depending on the company.

The consultant team applied the IB rating criteria to identify whether a company is a real or potential IB. The assessment identified 9 companies that have actual IB models and 10 companies that have potential IB models.<sup>31</sup> The profiles of 18 of these companies are provided in annex 2.

**Table 3. Number of companies assessed in the market study, by sector**

	Total	Agro-business	Manufacturing and crafts	Education, skills training and job placement	Health	Social protection	Urban services	Energy	Transport	Finance	Tourism	Trade	Other services
Longlist of potential IB companies	160	55	55	3	3	0	1	5	0	9	8	3	18
Shortlist of potential IB companies	60	33	2	2	2	0	1	5	0	7	3	2	3
Companies interviewed	43	32	4	1	1	0	0	1	0	1	2	0	1
Companies rated on the IB readiness (1)	41	30	4	1	1	0	0	1	0	1	2	0	1
Real and potential IB found	19	12	3	0	1	0	0	1	0	1	1	0	0
Real IB	9	4	3	0	0	0	0	1	0	1	0	0	0
Potential IB (interested in and ready for structural transformation)	10	8	0	0	1	0	0	0	0	0	1	0	0
Non-IB companies (mainstream businesses and NGO-driven social enterprises)	22	18	1	1	0	0	0	0	0	0	1	0	1

Notes: This study only assessed a sample of the 700,000 registered companies in Viet Nam for their IB potential.

(1) The companies assessed were rated as real IB, potential IB or non-IB companies.

### 3. Rating inclusive businesses

A composite rating tool with clear criteria and relevant benchmarks was used. The composite rating tool assesses the company's IB line against 30 criteria along three broad categories: commercial performance, social impact and innovation for addressing the needs of the BoP. Each criteria is rated from 1 to 6 (based on a pre-established guidance with different targets depending on sector and size of the company) and allocated a weight to provide an overall scoring for each IB line.

The rating tool for this market study was developed based on IB rating tools used in other countries but

the criteria and benchmarks have been adjusted to the Viet Nam context. For instance, in Viet Nam companies tend to put less emphasizes on business innovations and the generation of social depth and systemic transformation. In response, those weighting criteria were increased to give companies with strong social interest more opportunity to be included in the rating. At the same time, smaller businesses with good social impact and acceptable commercial performance would be eligible for IB, if the weight commercial rating would be reduced. The rating system was adjusted accordingly. The IB rating criteria<sup>32</sup> and weights are summarized in Table 4 and detailed in Annex 1.

**Table 4. Rating criteria used for the market study of IB in Viet Nam**

IB strategic intend:

B40 engagement model:

company type: IB (SE-I, IB-A, IB-M), non IB (MB, CSR, NGO-IB)

		Sector benchmark	Company actual	Rating by company (H,M,L)	Rating by accreditation team (1-6)	Score (weight x rate)
<b>The commercial return</b>	<b>40%</b>				<b>maximum</b>	<b>2.40</b>
Company (size, profitability, bankability)	10%					0.60
IB business line (revenue, growth, addressing business risks, profitability)	20%					1.20
Company governance	5%					0.30
ES safeguard standards	5%					0.30
<b>The social impact of IB model</b>	<b>46%</b>				<b>maximum</b>	<b>2.76</b>
Reach (beneficiaries now and future, targeting income groups, women empowerment)	19%					1.14
Depth and relevance	15%					0.90
for supplier (labor, distributor) models (income before and after, comparison with market rate, comparison with competitor, sustainability of income increase and addressing business risks of poor)	15%					0.90
for consumer models (relevance of the product, affordability of the product, delivery mode and addressing risks of the B40)	15%					0.90
Systemic change for poverty reduction and inclusion	12%					0.72
sector impact	4%					0.24
geographical impact	3%					0.18
gender	2%					0.12
relevance and transformation	3%					0.18
<b>Innovation</b>	<b>14%</b>				<b>maximum</b>	<b>0.84</b>
Business	5%					0.30
Technological	3%					0.18
Social (CSR, ...)	3%					0.18
Environment	3%					0.18
<b>Total</b>	<b>100%</b>				<b>maximum</b>	<b>6.00</b>

To qualify as an IB business lines, companies must have: (a) an overall rating > 3.2, (b) a business rating > 1.4, (c) a social impact rating > 1.5, (d) an innovation rating > 0.4, (e) a governance rating of minimum 0.15, and (f) a ES rating of minimum 0.15. The company also needs to have an IB strategic intend rating of minimum 3.



To better adjust to market realities, the IB rating methodology uses slightly different company parameters for company size and reach of social impact, than those used in official classification of businesses with regards to company size and employment. For rating revenue and growth, the company size parameter has been adjusted depending on the sector. For rating social reach, the number of people in the company's value chain (either as suppliers and workers, or as

consumers of goods and services) rather than number of employees was used. The assessment also analysed the targeting of those beneficiaries by income group and sex. Specific benchmarks have been developed for Viet Nam and agreed through two accreditation workshops. These benchmarks have been used as a reference for the IB rating. Table 5 summaries the company size categorization by revenue and reach used in this study.

**Table 5. Classification of companies by size used for the market study of inclusive business in Viet Nam**

	Household and micro enterprises	Small companies	Medium-sized companies	Large companies
<b>Viet Nam official definition (1)</b>				
Assets (VND billion)	<10	10-20	20-100	>100
USD (mio)	<0.5	0.5-1	1-5	>5
Revenue (VND, billion)				
Agriculture, manufacturing, construction	<3	3-50	50-200	>200
Trade, services	<3	10-100	100-300	>300
Employment (number of people)	<10	10-50	50-250	>250
<b>Definition used for the market study of IB in Viet Nam (2)</b>				
Revenue (VND billion)	<10	10-50	50-100	>100
Reach (value chain and other direct BOP beneficiaries per year)				
General understanding				
Income generation	<100	100-500	500-2,000	>2,000
Selling goods and services	<500	500-2,000	2,000-10,000	>10,000
Sector specific benchmarks				
Agribusiness	<100	100-500	500-2,000	>2,000
Manufacturing	<100	100-500	500-1,000	>1,000
Microfinance	<1,000	1,000-5,000	5,000-15,000	>15,000
Utility services (water, energy)	<500	5,00-3,000	3,000-10,000	>10,000
Health and education	<300	300-1,000	1,000-3,000	>3,000
Housing	<200	200-500	500-2,000	>2,000
Trade, other services	<1,000	1,000-3,000	3,000-10,000	>10,000
IB rating	0	1-2	3-4	5-6

*Note: (1) Viet Nam Enterprise Law 2014. (2) Definition proposed based on discussions with companies, business associations, governments and other experts*

A short write-up of the IB case was prepared for each company based on the information provided by the firms during the interviews. Annex 2 provides a summary of those write ups, which were approved by the companies to be published in this study. The company summaries do not constitute any type of endorsement by the United Nations, iBAN or the Government of Viet Nam. For confidentiality reasons, this study does not publish individual company data (beyond the write-ups). The market analysis is provided at sector and thematic levels (chapter IV).

During the company interviews, the consultant team also provided suggestions to some of the companies' management on how to change the business to become more relevant for IB. Many companies expressed strong interest in a business coaching facility.

In addition to this study, the consultant team has also provided practical guidelines to support the promotion of IB, including a guidance note for IB accreditation, terms of reference for institutionalizing IB support, a concept note for approaching development partners for business coaching and other technical assistance work.

The initial findings of the study were shared in a forum and a business roundtable seminar with about altogether 120 participants from government agencies, companies, business associations, impact investors, business facilitators, and development partners. Comments received have been incorporated in this report.

## B. Key findings of the market study

The landscape study included an assessment of selected IB business opportunities in Viet Nam. The consultant team initially identified 160 companies with potential IB business models, shortlisted 60 for further assessment, interviewed 43, rated 40 and found 9 real and 10 potential IB cases (table 7).

The following analysis is based on the 19 identified potential and real IB models. It is likely that there are more firms having or developing potential IB business models that were not identified in this study. The assessment is aggregated at the sector and thematic levels and, for confidentiality reasons, does not report data that can be attributed to a specific company.

IB in Viet Nam mainly focus on supplier models

and creating social impact through increasing rural income. The in-depth assessment of the 19 rated IB models (table 6) reveals that:

- Most IB models are in agribusiness (13), followed by 3 in manufacturing and crafts and 1 each in health, energy, finance and tourism.
- By impact area, 15 IB models benefit the BoP through income generation activities and 4 through essential goods and services.
- Most firms (13) involve the poor and low-income people as suppliers, 5 as consumers, and 1 as shareholders (in addition to supplier or labourer).
- By IB type, 18 models qualify as IB model, one model as a SE initiative and none as IB activity.
- By geography, nine companies create social impact in northern Viet Nam, four in the South, three in central Viet Nam, and 3 have models selling goods and services at the national level. One firm focuses on urban areas while the remaining 18 benefit mainly rural people.
- By business size, in 2018, four companies had small IB models (revenues below VND 20 billion), nine had medium-sized IB models (revenues between VND 20 billion - 50 billion) and six had larger IB lines (revenues above VND 50 billion).

In Viet Nam, most IB business models are in agribusiness and there are very few examples in social sectors or municipal services. However, the findings of the landscape study indicate that there is market potential for IB beyond agribusiness. There are unmet needs in education, housing, health, social protection, communication technologies, and financing that the private sector is attending to, although mostly with business models for the emerging middle class and not for low-income people.

The 19 IB companies expect strong revenue growth from VND 2,995 billion (\$127 million) in 2018 to VND 4,727 billion (\$210 million) in 2023. This is a 65 per cent increase in only 5 years, or 13 per cent on average per year. Based on these growth projections, most companies will develop medium to large IB lines businesses (table 6). The growth projections may not be fully materialized but they indicate that firm managers see a solid business potential in IB.

**Table 6. Characteristics of real and potential inclusive business in Viet Nam, 2019**

Company size (revenue in VND, billion, 2018)	Small (< VND 20 billion)		Medium (VND 20-50 billion)		Large (> VND 50 billion)	
Number of companies	4		9		6	
Growth (revenue in VND billion, 2023)	Small (< VND 20 billion)		Medium (VND 20-50 billion)		Large (> VND 50 billion)	
Number of companies	2		3		14	
Geographical impact area	North	South	Central	National	Rural	Urban
Number of companies	9	4	3	3	18	1
BoP engagement model (1)	Supplier	Laborer	Distributor	Consumer	Shareholder	S/L + SH
Number of companies	13	1	0	5	1	2
Type of social impact	Improve income			Enhance access to relevant services and goods		
	15			4		

*Note: The company with a shareholder model is at the same time implementing a supplier model, and many companies with supplier models also engage the poor as laborers. However, for consistency purposes, in this table double counting was avoided.*

While the number of IB companies identified in this landscape study is relatively small, their social impact is quite large. The 19 IB benefited in 2018 about 2.6 million people in 632,000 households. Among these and logically, consumer IB models reach much more households than income IB models. Given the companies' growth projections, social reach is also expected to substantially increase by 26 per cent in 5 years. By 2023, it is expected that the 19 IB models will benefit 3.5 million people. The success of promoting IB should be assessed based on the social impact that these companies bring, rather than on their revenue or the number of companies with IB models.

The estimated revenue growth of the 19 IB models (67 per cent) is substantially higher than that of the non-IB companies interviewed (38 per cent). The estimated social reach growth among IB models (34 per cent increase in number of persons reached) is also higher than that of the non-IB companies interviewed (26 per cent). Among the 19 IB companies assessed:

- In 2018, 13 agribusinesses companies with 11 supplier and 2 consumer models have brought income opportunities above the market rate to 1.8 million people in 444,900 households, and will increase this by 2023 to 2.5 million people in 607,450

households;

- In 2018, the 3 manufacturing and craft companies brought income opportunities above the market rate to 1,500 households (6,150 people) and will further increase this to 3,450 households (14,145 people) by 2023.<sup>33</sup>
- One health company is expected to provide services for 800 HIV/AIDS patients in 2020 and 1000 HIV/AIDS patients in 2023;
- One energy company provided high-quality and affordable cooking stoves to 25,000 families and will increase this to 30,000 by 2023;
- One microfinance bank will increase access to financial services to 205,000 families by 2023, up from 160,000 in 2018; and
- The IB models creating impact through essential consumption of the BoP will reach 2.6 million people by 2023 (up from 2.0 million in 2018), while those creating income for the BoP will reach 0.9 million people in 2023 (up from 0.6 million in 2018).

**Table 7. Revenue and reach of inclusive business companies in Viet Nam**

	Number of companies	Revenue				Social reach			
		2018	2023	2018	2023	2018	2023	2018	2023
		Billion VND		Million USD		Households (million)		People (million) (1)	
<b>All companies rated</b>	<b>40</b>	<b>11,584</b>	<b>16,861</b>	<b>492.9</b>	<b>717.5</b>	<b>0.690</b>	<b>0.919</b>	<b>2.8</b>	<b>3.8</b>
Non IB	21	8,629	12,044	367.2	508.1	0.058	0.072	0.2	0.3
Potential and real IB	19	2,955	4,817	125.7	209.4	0.632	0.847	2.6	3.5
Real IB	9	2,019	3,389	85.9	147.3	0.215	0.298	0.9	1.2
Potential IB	10	936	1,428	39.8	62.1	0.417	0.549	1.7	2.2
IB by route to impact									
Income models	15	1,428	2,218	60.8	94.4	0.146	0.211	0.6	0.9
Consumer models	4	1,531	2,599	65.1	110.6	0.486	0.636	2.0	2.6

Note: (1) For income and some consumer models, beneficiaries were calculated as average number of family members, as it is assumed that the income is shared within the household. For consumer models in health and microfinance, the beneficiaries were calculated as individual impact gainers.

As expected, IB companies have larger and deeper social impact and stronger IB intend than mainstream businesses. In addition, they are also more profitable and more innovative. In Viet Nam, average commercial rating of IB companies is 1.49 compared to 1.22 for the non-IB

interviewed, and average innovation rating is 0.43 and 0.34 respectively. The better performance of companies with IB business lines vis-à-vis mainstream businesses is driven by higher social impact rating but also by better commercial<sup>34</sup> and innovation<sup>35</sup> performance (table 8).

**Table 8. Aggregated results of inclusive business rating and strategic intend (average)**

	Number of companies	Strategic IB intend	IB rating			
			Overall	Commercial	Social	Innovation
All companies rated	40	2.9	2.80	1.45	1.24	0.40
Potential and real IB	19	3.4	3.42	1.70	1.60	0.48
Real IB	9	4.3	3.51	1.58	1.80	0.49
Potential IB	10	3.3	3.33	1.81	1.41	0.47
Non-IB	21	1.9	2.25	1.22	0.92	0.34
Maximum possible		6	6.00	2.88	2.94	0.84
IB benchmark		≥ 3	3.20	1.30	1.50	0.40



While agrobusiness and handicrafts are currently the main sectors with IB models in Viet Nam, there is scope for IB investments in health, education training and job placement, urban services (housing, water, sanitation), microfinance and other services.

Since 2012, the International Finance Corporation (IFC)<sup>36</sup> maintains a global consumption database for Inclusive Business.<sup>37</sup> The data are based on household income and expenditure surveys of 92 developing countries and show unmet social needs and purchasing power of the BoP.<sup>38</sup> The data allow to estimate the potential demand of the BoP for goods and services provided by the private sector. While the data are not recent (they are calculated based on 2010 global purchasing power parity with household data mostly from 2012), they show consumption power of the lowest income group (those with daily per capita expenditures below \$3; the low-income group (between \$3 and \$8), the middle-income group (\$8-\$23) and the high-income group (above \$23).

The IFC data for Viet Nam show that those with daily expenditures below \$3 are about 59.3 million people (68 per cent of the population in 2012) and those between \$3 and \$8 are 25.6 million people (29 per cent of the population). The B40 (i.e. the bottom 40 per cent income group) spend relatively more on food, education, and health. In 2012, those with daily expenditures below \$3 (68 per cent of the population) spent a total of VND 396.8 trillion (about US\$ 21.3 billion). This expenditure included VND 242.7 trillion (\$ 13 billion) on food, VND 6.9 trillion (\$ 374 million) on low-cost housing, VND 1 trillion (\$ 231 million) on water and sanitation, VND 14.2 trillion (\$ 763 million) on education, and VND 14.1 trillion (\$757 million) on health. Hence, there is already a sizeable market for companies providing health, education, housing services and even quality food to address hidden hunger.<sup>39</sup>

This study has not identified IB companies in the health, education, housing and water sectors, despite the fact that the poor and low-income

people in Viet Nam demand such products. This suggests that, even if the government provides essential social services, there are substantive opportunities for companies to develop business lines that are relevant for the B40.

To realize business opportunities and address the unmet needs of the BoP, companies seeking to develop IB models need to innovate to deliver products of high relevance for the BoP, at more affordable prices and provided through mechanisms relevant for the BoP. These services would not compete with government services but rather complement them where government services are not available or not accessible for the BoP.

In summary, IB companies can play a catalytic role in the government's objective of encouraging the private sector to become more dynamic and productive and supportive economic growth and low-income groups. The strong innovation performance of IB business models also suggests that promoting IB would help promoting more innovation in private sector development, a topic of high strategic importance currently in Viet Nam. Against this context, it is important to identify such innovative IB companies among the many other mainstream companies and to encourage more IB models to emerge and grow.

The IB models reviewed in this report are more innovative than the non-IB models. However, there is room for income generating IB models (e.g. agribusinesses) to be more innovative to be able to substantially increase the income for rural households. More than half of the businesses that would qualify as IB companies wish to develop their business model to increase reach, social depth, systemic change impact, and to grow their business and return on investment. In this context, it is important to provide those businesses with strong intent and potential the necessary coaching and support to grow, develop more inclusive business lines and have a greater social impact.







## V. BUILDING AN ENABLING ENVIRONMENT FOR INCLUSIVE BUSINESS

The enabling environment for IB requires the contribution of several actors (institutions and influential individuals) that can provide relevant information for IB, adequate policies and incentives, facilitate access to finance and develop the capacity of business leaders and their supply

chain to develop IB models (figure 7). This chapter discusses the contribution that different actors, including the impact investing industry, can make towards building an enabling environment for IB in Viet Nam.

**Figure 7. G20 Inclusive Business Ecosystem Framework**



*Source: G20, 2015: Inclusive Business Framework*

## **A. Government champions to promote inclusive business**

The Ministry of Planning and Investment (MPI) is the central government agency designing new socio-economic development programs. MPI is a powerful ministry with close links to all ministries and related agencies at national and provincial level. MPI also runs its own socioeconomic programmes and works in close cooperation with the Ministry of Finance. MPI has been tasked to develop an implementation plan for the Sustainable Private Sector Development (SPSD) strategy approved by the Prime Minister in October 2019.

The Government's policy is to promote sustainable development of private sector, and harmonize business performance with social responsibility as well as environmental and natural resource protection (Decision 1362/QĐ-TTg 2019 approved by the Prime Minister on 11 October 2019). Such harmonious relations between social impact (for low-income people) and bottom-line return is at the core of the Inclusive Business concept. The Agency for Enterprise Development (AED), under MPI, is responsible for developing a program for supporting private enterprises applying sustainable business models, including IB. This programme will be designed for the period 2021-2025.

The Agency for Enterprise Development (AED), under MPI, is the central agency for registering and promoting SMEs, and for formulating private sector development policies and programs. AED currently emphasizes private sector reforms for enhancing innovation, productivity, inclusiveness, sustainability, and transformation in the context of the Industry 4.0 revolution, the green and circular economies and other innovation agenda. Together with its three regional centers for SME promotion, AED provides business training, awareness raising, and market support. AED also works closely with the Agency for Business Registration in MPI. In addition, AED is closely linked to the implementation of the Enterprise Development Fund and to banks (given its experience in setting up financing schemes for SMEs). Finally, AED represents the government in the ASEAN Coordinating Committee on Micro, Small and Medium-sized Enterprises (ACCMSME).

AED senior leadership has been actively engaged

in the elaboration of the landscape study and has nominated the Policy Department to officially be the government's focal point for IB promotion. To institutionalize IB support within the government, it is suggested that AED forms an IB unit under the policy department with a dedicated workplan.<sup>40</sup> AED's three regional SME promotion centers in Ho Chi Minh City, Danang and Hanoi (which respectively serve southern, central and northern Viet Nam) are interested in coordinating IB accreditation at regional level. AED is currently requesting MPI's approval for introducing IB in the implementation plan for the new SPSP Strategy and endorsement for its future IB work. Hence, AED – as part of MPI – would be the best coordinating champion for the IB agenda in the government.

On all policy relevant issues, AED closely cooperates with the Central Institute for Economic Management (CIEM), one of the two think tank agencies under MPI.<sup>41</sup> CIEM was the main driver behind Viet Nam's social enterprise regulations and is the main agency providing policy advice for making possible changes to the Enterprise Law and its regulations. CIEM is currently in the process of introducing some reforms to the social enterprise regulations under this law, and has indicated interest to link SE incentives to IB. Given its mandate and experience, CIEM's participation in the IB accreditation system and in the national IB Advisory Board would be very valuable.

The Ministry for Agriculture and Rural Development (MARD) is an important stakeholder in the IB discussion. Its agribusiness department currently focuses mainly on promoting larger firms that can stipulate further agricultural growth and exports. However, the ministry is also interested in the opportunity of making rural growth more inclusive, by promoting medium-sized and larger agribusinesses to develop more IB models. MARD's Partnership for Sustainable Agriculture in Viet Nam (PSAV) programme works with agribusiness in value chains and is part of the regional Grow Asia initiative, which actively encourages IBs. Given the importance of agribusiness in IB, a more formalized cooperation between MARD and AED on IB promotion would be useful. MARD could participate – perhaps through PSAV – in the IB accreditation system and could receive some funding for IB awareness raising activities through MARD.



The Ministry of Industry and Trade (MoIT) is responsible for industrial policies and trade promotion and is currently strongly engaged in the state-owned enterprise reform agenda. MoIT's three regional *Centers for Supporting Industries Development* (CSID) are interested in promoting IB, particularly in getting engaged in the IB accreditation boards and helping with information sharing on IB.

Innovation is critical for the success of IB firms. While innovation is often only visualized and discussed in terms of technological innovation, innovation can also be non-technological (e.g. introduction of new modes of organization or business models, accessing new markets). While IBs often introduce technological innovations, the introduction of business innovations are particularly important to ensure social impact and revenues at the same time. The *National Agency for Technology Entrepreneurship and Commercialization* (NATEC) under the *Ministry of Science and Technology* (MoST) showed strong interest in this approach on innovation. NATEC could provide valuable contributions to IB promotion if officially invited to participate in the national IB Advisory Board. It would also be valuable to engage selected experts from productivity institutes under MoST and partners under NATEC in the regional IB accreditation boards.

## B. Business associations

Business associations share information sharing, provide socioeconomic and industry policy advice, and represent their members in discussions with the government. There are three key areas where business associations can play a leading role in promoting IB:

- At strategic level, business associations could represent the private sector in the national IB Advisory Board. On a rotating basis, one business association could co-chair the IB Advisory board.
- Business associations have agreed to be involved in the IB accreditation at regional level. This would enhance ownership of the results of the IB rating and facilitate better understanding and communication to the companies involved in this rating. The business associations could also work

with AED and other government agencies to hold regular IB awards.

- A business association, representing the four main business associations involved in IB, could implement the proposed IB business coaching facility (see chapter VI).

Viet Nam, like other countries, has many business associations representing different sectoral interests. For promoting IB, it is important to engage voices representing women entrepreneurs<sup>42</sup>, young businesspeople, established and larger scale businesses, and small and medium enterprises. In Viet Nam, five business associations, representing those four sections of society, are interested in promoting IB.

The two women associations could be the most active associations in promoting IB. The Viet Nam Women Entrepreneurs Council (VWEC), established in the 1990s, has about 3000 members (of which about 10 per cent are larger companies) and is institutionally under Viet Nam Chamber of Commerce and Industry (VCCI). The Viet Nam Association of Women Entrepreneurs (VAWE), established in 2014, has about 5,000 members, most of them CEOs of SMEs, and is institutionally independent. VAWE and VWEC work closely together. Both organizations run – often together – large advocacy projects for promoting innovation among low-income entrepreneurs. Women have a very strong role in the Viet Nam society and particularly businesswomen are respected for their committed and socially oriented business work, balancing business returns and social benefit in their value chain. While companies run by women often take less risks than those run by men, and hence might innovate less, it may be easier to encourage female business leaders to transform into IB given their strong social interest. To promote IB it will be critical to engage the two associations representing women in a strategic way. The leaders of VWEC and VAWE and their management teams are highly interested in the IB agenda, and they have strong implementation capacity. VAWE and VWEC could jointly lead the business association participation in the IB initiative, and VinaSME being the co-leader.

VinaSME also has a strong role to play. VinaSME is the institutional business association for SMEs. With more than 62,000 members, many of them

medium-sized firms, VinaSME can reach many potential IBs. About 20 per cent of VinaSME's annual budget is financed by the government, while the rest comes from other partners. There is a perception among national stakeholders that VinaSME is less effective in implementing information sharing programs than VCCI. However, the leadership of VinaSME has a strong interest in promoting IB as a strategic opportunity to modernize smaller enterprises and help them grow. VinaSME could co-lead together with the joint VVEC/VAWE lead, the activities implemented by business associations. Funding could be allocated to VinaSME for doing IB advocacy work, VinaSME could be involved in the regional IB accreditation, and one-quarter of the business coaching activities could be implemented in companies proposed by VinaSME.

Young businesspeople are leading proponents of IB development in other ASEAN countries (e.g. Myanmar or Cambodia). In Viet Nam, many young entrepreneurs are interested in social enterprise and tech start-ups. As a result, the Viet Nam Young Entrepreneurs Association (VYEA) and other associations for young entrepreneurs, are less active in embracing the IB agenda. Given the interest of the youth in inclusive growth and modernization, VYEA could be a team member of the regional accreditation boards and be involved in IB advocacy activities.

The Viet Nam Chamber of Commerce and Industry (VCCI) has about 4,000 members, most of them larger companies, and is the apex body of business associations in Viet Nam. VCCI is partly government financed and successfully implements many advocacy programs. VCCI hosts the Viet Nam Business Council for Sustainable Development (VBCSD)<sup>43</sup> and holds annually the Viet Nam Corporate Sustainability Forum. VCCI was the first institutional promoter of IB in Viet Nam and was working in 2014-2016 with SNV and AED on the first IB promotion program in the country. Since then, VCCI has somewhat withdrawn from the IB agenda to create more room for other topics such as circular economy, digital economy, start-up promotion, renewable and sustainable businesses etc. However, the VCCI management remains interested in the IB agenda and offered to institutionalize an IB focal point in VCCI. VCCI could be included in the national IB Advisory board and the regional IB accreditation work, as well as IB advocacy work.

The four business associations expressed interest in promoting the IB agenda and allocating some of their own funds to promote IB. However, they would need additional funding for these activities.

### C. Potential inclusive business facilitators

Various agencies and programs of development partners provide technical assistance to companies (especially for SME promotion and start-up facilitation). Some of these agencies could include in their work the provision of IB-relevant services and support companies with the potential to develop IB models. The agencies presented below have expressed interest in supporting IB models in their future medium-term investment plan. While the current training programs offered by them do not necessarily provide the IB business coaching, some of these agencies could add to their current training offer services on how to transform business lines into IB models, especially in agribusiness. The following are examples of agencies and programmes relevant for facilitating IB in Viet Nam.

Oxfam, an international NGO, has a global IB program but it is not implemented in Viet Nam. Between 2014 and 2018, Oxfam established a global Enterprise for Development Fund (impact investment program), financed by the Netherlands and others, and invested in 40 companies globally, of which two (valued \$0.3 million and \$0.2 million) were in Viet Nam. In addition, it has two ongoing programs providing business development support to companies (especially in agribusinesses), and helping companies organizing farmers in their value chains. Under these programs, Oxfam has supported more than 40 companies in Viet Nam, and maybe 30-40 per cent of those companies could qualify as potential IB. However, the programme has no specific IB focus. Oxfam is open to promote IB within its programmes. Oxfam would also be interested in supporting IB accreditation, information sharing, and participating in the meetings of the IB Advisory Board.

The Center for Social Initiatives Promotion (CSIP) is a local NGO, with a \$0.5 million annual budget and financed by Oxfam (30 per cent), Bread for the World (20 per cent) and others. Since 2018, CSIP has provided capacity building for about 20

companies per year, primarily in the start-up and early growth phase. CSIP is also a strong promoter of social enterprises. Of the 70 companies CSIP has supported, only a few would qualify now as IB, while most would be social enterprises or mainstream tech start-ups. CSIP is interested to focus more on IB in their future portfolio and include elements of the IB accreditation criteria in their work. CSIP could be involved in IB awareness activities and in adjusting IB accreditation to be used also for SE.

The Center for Business Studies and Assistance (CBSA) is a business association based in Ho Chi Minh City with about 500 business members, that provides business consulting services for high-profile start-up companies with a focus on digital economy. CBSA has no emphasis on IB, and very few of the companies they advise would qualify as potential IB. In their view, society and government are more interested in high-profit start-up innovations rather than in IB innovations. CBSA is interested in learning more about the IB concept but, currently, would not be comfortable providing IB advice to companies, especially on how to scale and deepen social impact. It is suggested to include CBSA in some training and awareness raising activities on IB.

The Partnership for Sustainable Agriculture in Viet Nam (PSAV) is a program financed by the *Grow Asia* initiative<sup>44</sup> and implemented in cooperation with MARD. PSAV runs nine task forces, eight of them focus on specific commodities (coffee, tea, vegetables and fruits, fisheries, livestock, rice, spices and pepper) and one on agro-chemicals. PSAV currently works with 80 companies, most of them large-scale and many foreign-owned. PSAV staff have a good understanding of IB and are pleased to see a renewed interest on IB in the country, including the leading role of AED-MPI and the active outreach of MARD. Given the strong knowledge on IB in PSAV, MARD's focus on growth and scale but limited emphasis on social inclusion and innovation, and the fact that PSAV is a program under MARD, MARD could nominate PSAV as the focal point for IB implementation in agribusiness development. PSAV could also represent MARD in the proposed regional IB accreditation and the national IB advisory boards.

SNV, the Netherlands Development Organization, conducted, in 2014, the first IB landscape study of Viet Nam for ADB and AED. It also implemented

between 2014 and 2018 a \$5 million technical assistance with a small investment facility on IB. This Inclusive Business Accelerator was financed by the development programs of governments of UK and the Netherlands. The program supported 24 companies and the advocacy work was done in cooperation with AED and VCCI. Some of the companies initially supported would not qualify as IB under today's criteria, and others have closed or transformed into mainstream businesses. Since 2017, SNV is focusing its work more on environment and climate change. SNV continues to be interested in IB and appreciates a renewal of the agenda in Viet Nam. SNV would be interested in committing a target for IB support in its new development assistance program.

AgriTerra is a consulting agency and facilitator for agribusiness. Focusing on smallholder development and cooperatives, it works particularly with larger and multinational firms to improve farmers productivity in the companies' value chains. AgriTerra has worked since 2017 with 20 cooperatives<sup>45</sup> where it particularly improves business innovations in the marketing, organizational and institutional development of the cooperatives among their cumulatively 2000 farmers. AED could engage AgriTerra to provide insights when preparing its IB workplan 2020-2023.

#### **D. Inclusive business investors and the impact investing industry**

Viet Nam is largely a cash-based economy. In 2019, about 95 per cent of the payments were made with cash and gold.<sup>46</sup> Banking services are not available everywhere and financial products are limited. SMEs and agribusinesses have problems in accessing finance, as banks perceive or assess them to be risky investment. Most companies still use their own, friends and family resources to expand their operations and, as a result, tend to remain small or establish new businesses that are also small. The government wishes to increase financial inclusion, and rapidly expand e-finance services across the country.

Various government-sponsored schemes support SME and agribusiness financing. There is also a dedicated SME-support fund and an agricultural (and agribusiness) development bank. However, actual realization of credit applications is very

small. Setting up new credit line support systems is not recommended. Instead, for companies to better access institutional finance, it would be more advisable to establish a facility that reduces the risk for investors and helps unleash available finance.

Viet Nam has various venture capital funds, investing mostly in tech start-ups.<sup>47</sup> Investments in new industries have only started to emerge recently. A 2019 study by Grant Thornton on the private equity market in Viet Nam estimates USD 1.6 billion of private equity investment commitments in 38 deals in 2018. Nearly three quarters of the deals were made in start-ups, mostly tech and financial services. According to the study private equity investors see strong business opportunities in fintech, education, green energy, health and pharmaceuticals, e-commerce and logistics. The investment opportunities would be predominantly in business lines that benefit the emerging middle class and climate and environmental services, that do not target the BoP. Within private equity market, venture capital is also rapidly growing. At the 2019 Viet Nam Venture Capital Summit, 18 venture funds pledged new investments of \$429.2 million between 2019 and 2021, particularly in fintech and e-health, logistics and e-commerce.

Viet Nam's start-up ecosystem has been developing with around 3,000 companies and

40 venture capital firms.<sup>48</sup> Leading Vietnamese corporations (e.g. FPT, Viettel, Vingroup and CMC) have also increased their support for local start-ups. According to the *Topica Founder Institute*, in 2018 Vietnamese start-ups received \$889 million worth of capital from both domestic and foreign investors, tripling the value recorded in 2017 and six times the value of 2016.

However, most of private equity and venture capital investments are not in IB models, as the investments do not target the poor and low-income population groups.

Currently, there is no reliable data on the amount and source of investments into IB models. Such analysis could be made once there is an agreed definition of what IB is and IB accreditation is introduced.

There are several angel investors active in Viet Nam but they do not have an explicit focus on social impact. The 2019 Viet Nam VC summit suggested that angel investors in Viet Nam are mostly investing in tech start-ups. There are however some angel investors that do not expect commercial returns, and they invest mostly (small funds) in traditional CSR and in NGO activities. The potential of angel investors to finance IB models and commercially viable SEs (i.e. IB initiatives) could be explored further under the IB strategy.

**Table 9. Impact investing in Viet Nam**

	Private impact investors	Development finance institutions
Investments made between 2007 and 2014 (cumulative, \$ million)	25.8	1,394.6
Investments made since 2016	19.4	906.5
Deals	23	50
Number of deals made since 2016	17	33
Percentage of deals made since 2016	75%	65%
Deal size (\$ million)	1-5	10-50
Deal size since 2016 (million \$)	1.1	27.9
Active investors	10	6
Preferred sectors	ICT, financial services	Financial services for SME promotion, tourism, energy, manufacturing
Financial instruments	70% equity, 30% debt	75% debt

Source: GIIN and Intelicap, 2018



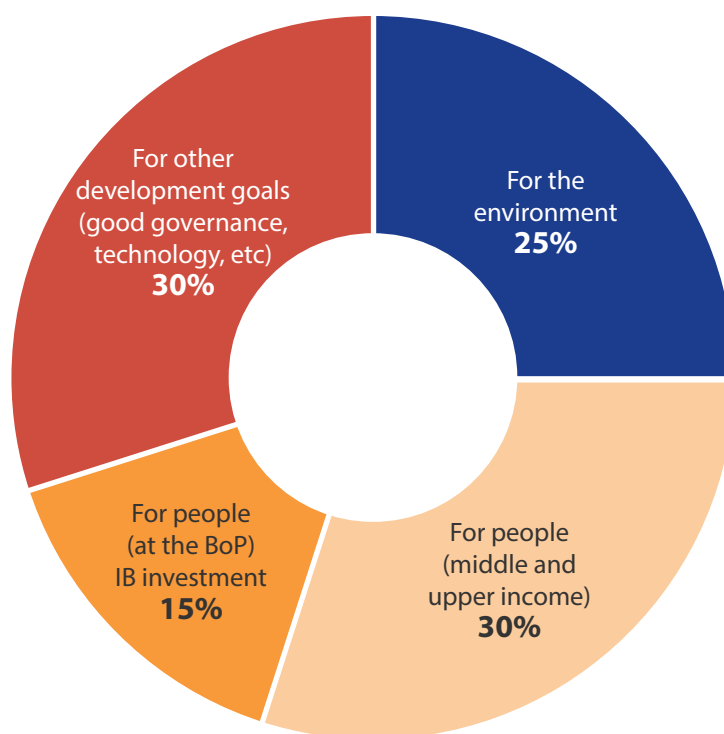
Impact investments are investments made with the intention to generate social and environmental impact alongside financial returns. A 2018 report by the Global Impact Investing Network (GIIN) on impact investment in Viet Nam estimated USD 1.426 billion have been invested in impact investment deals between 2007 and 2018 (table 9), largely by six development finance institutions (DFI) and by ten private impact investors.<sup>49</sup> Most deals have been made since 2015, with an average deal size since then of 1.1 million (17 deals) for private impact investors, and \$28 million (33 deals) for DFIs. There is a big difference between the investments made by DFIs and those made by private impact investors. DFIs make larger deals (\$10 million to \$50 million) mostly in finance, energy, tourism and infrastructure sectors, while private impact investors make deals of \$1 - \$5 million mostly in microfinance and ICT. Agribusiness, the economic sector with greatest relevance for income generation for the BoP, is not served by neither the private impact investors nor the DFIs. Impact investors active to date in Viet Nam are, among others the Asian Development Bank (ADB), AVPN, IFC, FMO, IIX, Insitor, LGT, Insignia, Lotus Impact,

Proparco, Trusting Social, Uberis, VIISA, and Yola. While about half them have offices in Viet Nam, others serve the market from outside, especially from Singapore. Impact investors have stated that there is a lack of investable deals.

Other impact investing reports by CSIP (August 2019)<sup>50</sup> and AVPN (March 2019)<sup>51</sup> refer to similar data from GIIN. The Viet Nam Field Support Services Project, on behalf of Global Affairs Canada, is commissioning in 2020 an Advance Study of the Impact Investment Ecosystem in Vietnam.

Impact investing provides funding to initiatives that have a positive social, economic, or environmental impact, or a combination of these (figure 8). They do not necessarily target to low-income people). The information shared by impact investors and other key stakeholders in Viet Nam in the context of this study suggests that impact investments are largely on technology and environment projects, while investments in projects that address the needs of low-income people may represent a third of the projects and a quarter of the investments. This is a very broad estimate based on the information received during consultations and interviews.

**Figure 8. Inclusive business investments within impact investment (percentage of investment, broad estimation for Viet Nam)**



*Note: Estimates based on literature review and discussions with investors and experts in Southeast Asia*

## **E. Development partners interested in inclusive business**

Various development partners support the aims of the IB agenda at the strategic level. These include ADB, the French Development Cooperation Agency (Afd), the Department of Foreign Affairs and Trade of Australia (DFAT), the European Commission (EC), GIZ, the Japan International Cooperation Agency (JICA), the Korea International Cooperation Agency (KOICA), the Swiss Development Corporation (SDC), USAID (United States of America) and various United Nations organisations, including ESCAP, UNDP and UNIDO. However, except for iBAN and ESCAP, by the end of 2019 no agency had a specific programme for providing technical assistance on IB.

The lack of awareness about and experience in promoting IB, competition with other development priorities (e.g. environmental sustainability), and preference to wait for the government to endorse the IB agenda help explain the limited presence of technical assistance programmes to support IB. External support for financing the IB agenda could be made available, if MPI, at the strategic level, and AED, at the technical level, formally approach development partners.

The following development partners are interested in IB, and could be approached by AED as a priority for mobilizing support for IB:

- USAID is financing a large package for private sector support of \$20 million for the next four years. USAID could include IB as part of that program and finance some IB technical assistance (in particular, the business coaching and the business associations cooperation).
- iBAN and ESCAP will provide some limited support to promote IB in the 2020 ASEAN agenda, through the development of

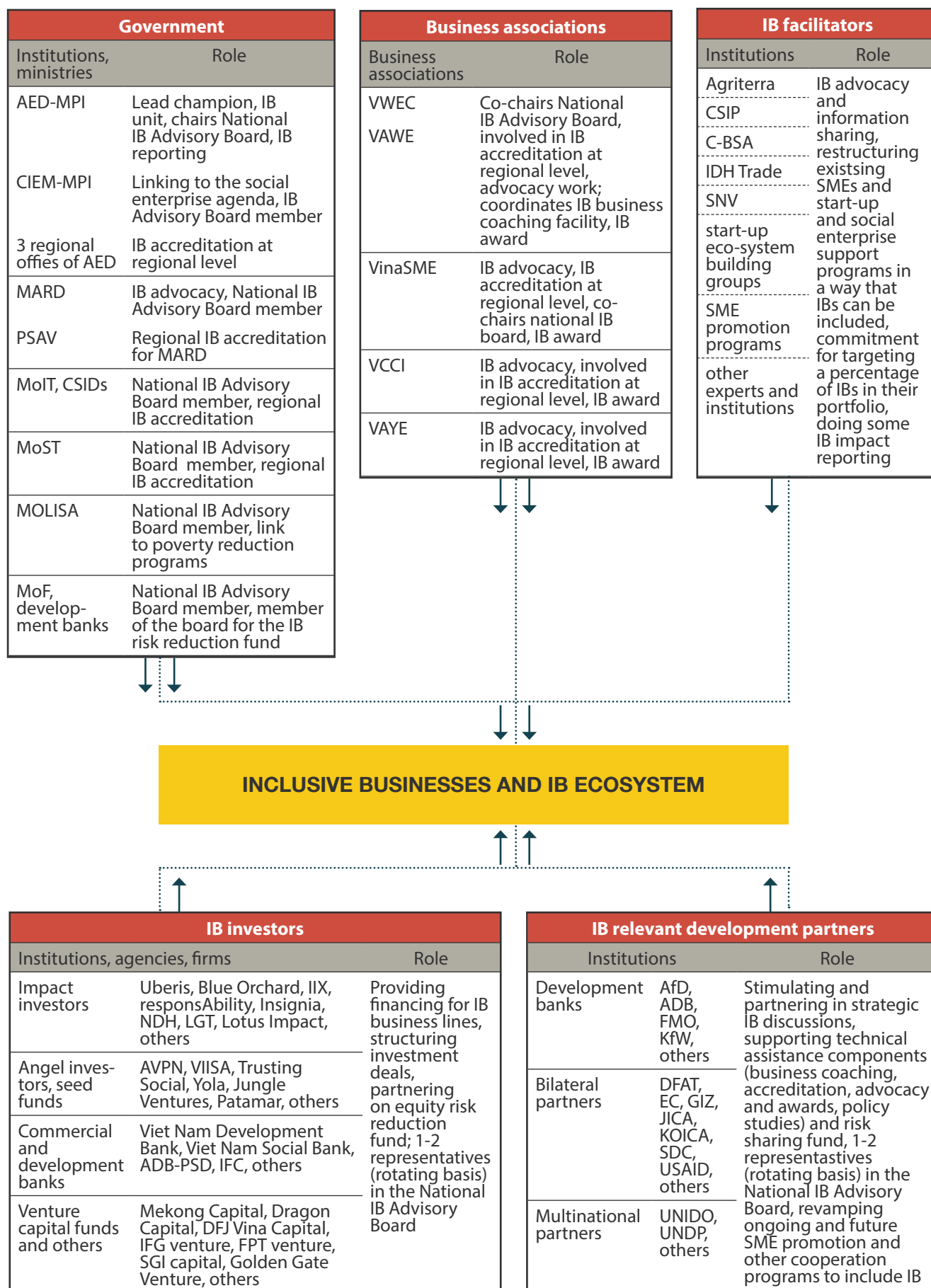
ASEAN guidelines on IB promotion policies and on the organization of the 3rd ASEAN IB Summit.

- The Swiss Development Cooperation, DFAT, the EC, KOICA (and eventually also JICA) could be approached to support some IB related technical assistance work, or cost share financing, for example for advocacy, further policy studies, and IB institutionalization.
- ADB and Afd showed some interest in investing in the IB risk-reduction fund through a public sector loan.
- UNDP and UNIDO could potentially be good promoters of the IB agenda although concrete support for the IB agenda has not yet materialised. UNDP's global Business Call to Action programme promotes IB mainly among larger enterprises. Establishing a focal point for IB promotion within the UN system and developing an action plan to include different UN agencies programmes to support IB would be very useful. Potentially, UNIDO could support business coaching activities, and UNDP could support further policy studies (e.g. on prioritizing IB in public procurement) or an IB monitoring system that identifies private sector's contribution to the BoP.

## **F. Involvement of various stakeholders in inclusive business promotion**

Various actors can be engaged to create an enabling environment for promoting IB in Viet Nam (figure 9). These actors could participate in a national IB Advisory Board that would guide the promotion of IB in Viet Nam. Most of these institutions have indicated interest in participating in such Board.

**Figure 9. Actors promoting inclusive business in Viet Nam**









## VI. STRATEGIC RECOMMENDATIONS TO PROMOTE INCLUSIVE BUSINESSES IN VIET NAM

This chapter provides recommendations to encourage the emergence and growth of more IB models in Viet Nam. The current private sector development policy of the Government of Viet Nam aims to promote responsible and inclusive business. Policies for promoting inclusive businesses and responsible business are different in nature. Promoting responsible business conducts entails primarily implementing the laws and regulations that underpin responsible business conduct while promoting inclusive business requires recognising these business models and supporting the emergence of inclusive business models. These recommendations have been discussed with the government, business associations and other stakeholders, and are supported by those institutions. Some recommendations will require financing. Selected development partners have indicated

interest to support IB promotion in Viet Nam.

This study focuses on policy recommendations to promote IB. Promoting inclusive business entails primarily recognising these business models and providing support (e.g. facilitating access to business coaching and finance) to enable the transformation of mainstream businesses into inclusive business models. There are areas where measures to support responsible business and inclusive business may be combined.

### A. Inclusive business in the ASEAN context

Various countries in ASEAN have set up – or are in the process of doing so – specific IB promotion policies and programs (figure 10).

**Figure 10. Policy instruments implemented or under consideration to promote inclusive business in Asia**

Explicit IB strategies and strategic commitments	
Linked to main development strategies of the country, national development or industry development plans	Cambodia, Malaysia, Myanmar*, The Philippines
As part of poverty reduction programs	Shanxi Province (China) <sup>1</sup> , Pakistan*
Dedicated IB institutions	
IB focal points	Cambodia, Myanmar, Malaysia*
IB steering committees or advisory boards	Cambodia*, Myanmar, Malaysia*
IB units	Cambodia, Indonesia*, Malaysia*, Myanmar, The Philippines
IB information dissemination through business associations	Cambodia*, Malaysia*, Myanmar*
IB accreditation	Cambodia*, Shanxi Province (China), Malaysia*, Myanmar*, The Philippines
IB business coaching facilities	Cambodia*, Myanmar*, Malaysia*, Shanxi Province (China)
IB investment (credit lines) or risk reduction funds	Shanxi Province (China), Cambodia*, Malaysia*, Myanmar*
IB investment incentives as part of the national priority investment law	Cambodia*, Myanmar*, The Philippines
Prioritizing IB in public procurement	Cambodia*, Malaysia*, Myanmar*, The Philippines
Dedicated IB impact reporting	Cambodia*, Shanxi Province (China)*, Malaysia*, Myanmar*

Notes:

\* The policy instrument is being considered (as of November 2019).

<sup>1</sup> In 2017, the province of Shanxi in the People's Republic of China (China-Shanxi) started implementing an agrobusiness support program in which IB have a prominent role for poverty reduction. The program was supported by an ADB loan.

Some countries in Asia also have specific social enterprise promotion legislation that can link to the IB agenda (Malaysia, Thailand, Singapore). Other countries have strong CSR regulations (India, Indonesia), and some of them (India, Cambodia, Singapore, Thailand) are interested in using CSR and philanthropic spending in a more transformative way (and invest in IB could help achieve this). Other countries are interested in promoting IB as part of their foreign direct investments (China, Japan, Republic of Korea, Thailand, and Singapore).

## B. Seven strategic priorities to promote inclusive business in Viet Nam

Based on the market study, the enabling environment and the indications of interest indicated by key stakeholders, IB could be promoted in Viet Nam through the following seven key areas:

1. Indicating a strategic commitment to IB, among others, through including IB in the 2020-2025 implementation plan of the Sustainable Private Sector Development (SPSD) Strategy;
2. Institutionalizing support for IB by establishing: a National IB Advisory Board to guide IB implementation at the national level; an IB unit in AED to serve as secretariat to the Board; and IB focal points in various government agencies and business associations;
3. Promoting IB awareness through business associations;
4. Setting up an IB accreditation system at the regional level;
5. Providing IB business coaching to support companies upgrade their business models into IB models;
6. Establishing an IB risk-reduction fund for investors to facilitate financing to IB companies;
7. Promoting IB in the 2020 ASEAN Agenda chaired by Viet Nam.

In addition, the promotion of IB in Viet Nam in the

future could also comprise:

- A system to prioritize accredited IB in public procurement system;
- Exploring other financial and non-financial incentives for IB as part of the investment law;
- Including IB in specific SME promotion and agribusiness programmes;
- Setting up a coherent impact monitoring and reporting system on the private sector's contribution to sustainable development; and
- Conducting further policy analysis on: IB in agribusiness, on women empowerment and gender promotion through IB, linking social enterprise reforms to the IB agenda, or upscaling social enterprises through IB.

The following sections discuss in more detail each of the seven strategic priorities to promote IB in Viet Nam.

### 1. Strategic commitment through the new sustainable private sector development plan

In October 2019, the Prime Minister of Viet Nam approved the Sustainable Private Sector Development (SPSD) Strategy and has tasked the Ministry of Planning and Investment (MPI) – in particular AED in cooperation with CIEM – to design an implementation plan (Decision 1362/QĐ-TTg 2019). Decision 1362 aims to boost the development of sustainable private sector businesses through 2025, with a vision to 2030.

The SPSPD aims to support an enabling environment for businesses, develop competitive and sustainable businesses and support SMEs. Specific objectives of the strategy include increasing the innovation capabilities of firms, growing the income of employees and firms contribution to the state budget.

Inclusive businesses, while not explicitly mentioned in Decision 1362, are very relevant for the SPSPD agenda as these firms seek a double bottom line while applying a responsible business conduct. For instance, promoting inclusive business would contribute to the six areas of

actions highlighted in decision 1362.

1. Promoting IB would enhance the business environment to promote sustainable business.
2. The promotion of IB is also a mean to encourage enterprises to apply sustainable business models.
3. Supporting inclusive business is one avenue to support medium-size enterprises that seek to bring social impact alongside economic returns. Inclusive business also support smaller firms operating in their value chains as suppliers or distributors.
4. Inclusive business contribute to improving labour productivity and corporate governance. Having a good governance rating is conditional to be accredited as an inclusive business. Furthermore, to do good while doing well, IB invest in human resources to enhance their productivity and to develop their suppliers and distributors.
5. To be able to serve the low-income market and remain competitive, inclusive business invest in technological and business innovations. Promoting inclusive business is an avenue to promote science, technology and innovations that bring more inclusive and sustainable outcomes.
6. The promotion of IB, as suggested in the recommendations of this study, will require the active participation of business associations. Business associations can play a catalytic role in promoting IB by getting engaged in IB accreditation, helping with IB advocacy and information, and supporting business coaching with stronger sustainability objectives.

The SPSP implementation plan will clarify the role of the private sector in promoting inclusive and environmentally sustainable results, establish targets, and lay out support programs to encourage private sector's contribution to inclusive and sustainable development.

MPI could develop principles for responsible business and corporate social responsibility, and clarify the role social enterprises and IB can

play in promoting inclusive and sustainable development.

For strong and balanced economic development, a country needs responsible businesses as well as different types of business, from mainstream businesses – which are important for generating tax revenues, providing income opportunities and supplying goods and services – to social enterprises and inclusive businesses – which are important for supporting more balanced economic growth.

Promoting responsible business conduct and the emergence of different types of businesses, requires differentiated and targeted policies. For instance, promoting responsible business conduct is primarily about implementing the laws and regulations that underpin responsible business conduct. On the other hand, the emergence of social enterprises requires a clear definition of SE and a supportive enabling environment. Similarly, more business leaders may invest in IB models if they were aware of their potential and if they received coaching for developing such inclusive business models.

AED and CIEM could clarify such different types of businesses and include targeted actions for promoting IB in the SPSP implementation plan.

Inclusive business is still a new concept for many actors in Viet Nam. There is scepticism about the potential to be profitable while engaging the BoP in higher value chains through innovation, rather than through cost reduction approaches. Such scepticism is often based on lack of information and understanding, and overcoming them would require more information and advocacy, that enhances clarity on what IB is and shares examples of good IB models in Viet Nam.

A key challenge to enhance clarity on IB is to find an adequate name for IB in the Vietnamese language. Based on the three principles of IB (commercial viability, systemic social impact in scale, and innovation), and three different understandings of targeting (i.e. targeting the poor, systemic solutions for the BoP, engaging the people), IB is translated in multiple manners, including:

- business innovation for the poor (đổi mới kinh doanh cho người nghèo),

- inclusive business innovation for most of the society (Đổi mới kinh doanh toàn diện cho phần lớn xã hội),
- inclusive business (Kinh doanh (business) bao trùm (inclusive)),
- social business (kinh doanh (business) xã hội (social)),
- integrating the poor in business (kinh doanh (business) hòa nhập (integration)),
- business having commercial returns and social impact (doanh nghiệp tạo ra lợi nhuận thương mại và tác động xã hội), or
- social enterprise (doanh nghiệp xã hội)

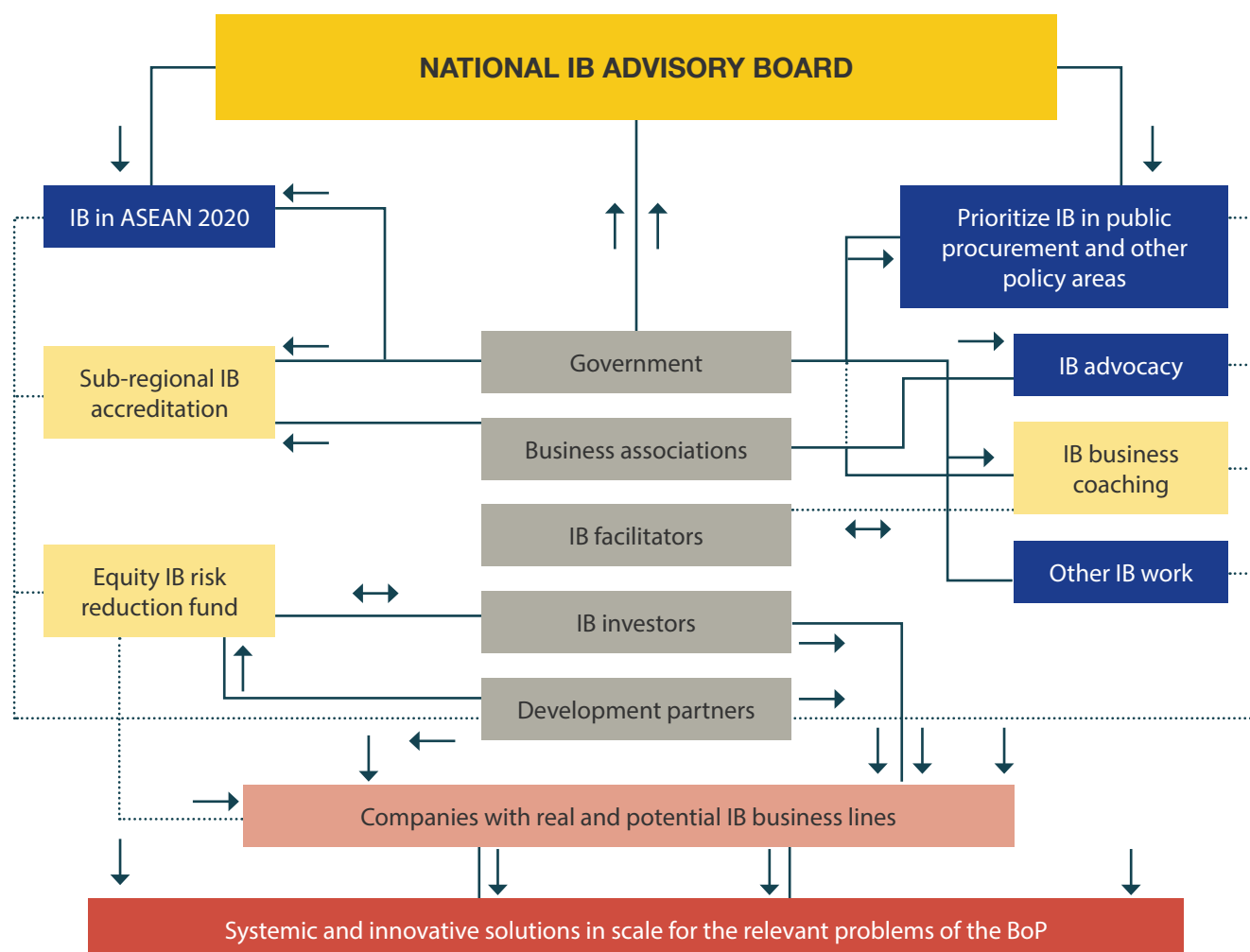
The government will need to adopt one adequate name to refer to IB and mainstream only the chosen name in all its communication. The name should emphasize business (kinh doanh),

inclusiveness (bao trùm), and innovation (đổi mới). It should refrain from referring to poverty (as IB is about the B40 not the poverty group only), social enterprises or social business (as IB investments go much beyond the social sector), or business philanthropy.

The strategic commitment for promoting a better enabling environment for inclusive business in Viet Nam could be encapsulated in a national strategy containing the seven strategic priorities namely (strategic commitment, institutionalisation, awareness, regional IB accreditation, business coaching, risk-reduction fund and IB in the ASEAN 2020 Agenda). The strategy could be called “chiến lược đổi mới kinh doanh bao trùm”. In English, the strategy for an IB enabling environment in Viet Nam could be abbreviated IBeeV.<sup>52</sup>

Figure 11 below gives an overview of the proposed IBeeV strategy and who would be responsible for implementing the various IBeeV programmes.

**Figure 11. The IBeeV strategy – route to impact**





## 2. Institutionalizing support for inclusive business

IB support could be institutionalized through three bodies: an IB unit in AED, IB focal points in various government agencies and business associations, and a national IB Advisory Board to steer and coordinate IB implementation. In addition, IB accreditation teams could be set up in two or three regions of Viet Nam.

**The IB unit:** A dedicated IB unit in AED, chaired by the Director for Policy Development in AED. The unit will be responsible for coordinating all IB related matters in Viet Nam within the government, with the business community, as well as with impact investors, IB facilitators, and development partners. The unit, with two or three staff, will serve as the secretariat for the IB Advisory board, report annually on the status of IB implementation, organize every 1-2 years an IB forum, support IB accreditation, and IB awareness (including through maintaining a national website on IB).

**The IB focal points:** IB focal points will be established in selected government agencies and business associations. On the private sector side, the major women business associations (VAWE and VWEA), the Viet Nam Small and Medium Enterprises Association (VinaSME), the Viet Nam Chamber of Commerce and industry

(VCCI), and the Viet Nam Young Entrepreneurs Association (VYEA) have indicated interest to establish an IB focal point in their organizations. On the government side, IB focal points can be established at the regional AED offices under MPI, and the regional departments and national agencies of the MoIT<sup>53</sup>, MARD<sup>54</sup>, MoST<sup>55</sup>. AED may wish to approach those agencies and officially ask them to nominate IB focal points. These focal points will be the first point of contact for potential IB companies. They will also be involved in IB accreditation and in providing information and generating awareness on IB.

**The national IB Advisory Board:** The above mentioned IB focal points from business associations and government agencies as well as representatives from selected business coaching agencies, impact investors, and development partners will form a national IB Advisory Board to steer IB implementation. The Board will meet three to five times a year and guide at the strategic level the implementation of the IB action plan and endorse the annual budget for IB implementation. The composition of this multi-stakeholder Board is shown in table 10. To establish the national IB Advisory Board, AED would need to formally ask the relevant institutions to nominate a focal point and organise the first meeting of the National IB Advisory Board, maybe in the first quarter of 2020, with an agenda that discusses the strategic vision for IB and concrete actions to promote IB.

**Table 10. Composition of the National inclusive business Advisory Board**

Government (9-13 members)		Business associations (8-9 members)		Others (8-12 members)	
2	AED (chair)	2	VAWE+VWEA (co-chair)	2	Impact investors (rotating)
1-2	CIEM	1-2	VinaSME (co-chair)	2	Facilitators (rotating)
1-2	MARD	1	YEAV	2	Development partners (rotating)
1-2	MoST/NATEC	1	VCCI	X	Financing partners
1-2	MoIT	3	Business association representatives from regional accreditation boards	2	IB companies (rotating)
3	Government representatives from regional accreditation boards				Observers

### 3. Promoting inclusive business awareness

Inclusive business is an unknown and often misunderstood concept in Viet Nam. Hence the need for information dissemination and advocacy around IB. A program for IB awareness raising would include seminars and workshops on IB; a website on IB where all relevant institutions can contribute; film, radio and social media features; and participation in IB discussions at the ASEAN level.

Business associations would play a central role in raising IB awareness and advocating IB solutions among their members. The women business associations (VWEC and VAWE) and VinaSME –and to a lesser extent VCCI and YEAV– are interested in sharing information on IB. They are committed to provide some small contributions from their own funding as well as staff time. However, resources are required to develop IB information material and conduct IB promotion activities.

It is recommended that the government co-finances the IB promotion implemented by business associations. The funding would be allocated to lead business association (VWEC/VAWE or VinaSME have showed strongest interest in IB promotion), who would then coordinate the implementation of IB awareness activities with (and transfer funding to) other business associations.

### 4. Institutionalizing inclusive business accreditation at regional level

The government, through AED, is considering setting up an IB accreditation system in three regions in Viet Nam, to test the accreditation system and further demonstrate the impact of IB. Working at the regional level would provide a close understanding of IB companies and enable the targeting of potential financial and technical support.

IB accreditation would be voluntary. Viet Nam already has a compulsory registration system for SMEs and large firms that collects key economic and employment information to capture the economic and social impact (e.g. in terms of employment creation or revenue generation) of firms (whether mainstream or inclusive). To complement this, it would be valuable to have

a voluntary accreditation system to recognise those new inclusive business models that provide additional valuable social impact for low-income and marginalised groups. Such accreditation system would record the economic and social impact through a more comprehensive assessment based on clear and transparent criteria.

To ensure fairness, all companies can volunteer to apply for IB accreditation, as long as they meet the criteria. Moreover, IB accreditation would be done jointly by representatives from government and business associations, based on the IB accreditation tool piloted in this study. The IB accreditation would be given to specific business lines, not necessarily to the whole business, and would be checked every 2-3 years. To avoid unfair competition between those classified as IB and those not, initially the only advantage IB companies will get is business coaching and IB branding. Financial and other incentives will only be provided if the firm effectively transforms its business model into an inclusive one. Financial incentives are only provided once the firm has demonstrated its social impact, as agreed initially. The performance of the firm is reviewed periodically.

IB accreditation would be coordinated by AED and its regional offices. The accreditation team would discuss about 20 potential IB cases per 2-day meeting twice a year, while the consultant would assess 30-40 companies twice a year.

The process of IB accreditation comprises four steps:

1. Disseminating information about IB accreditation and making a call for potential IB cases, through business associations;
2. Doing a preliminary assessment of potential IB cases, through a consultant;
3. Vetting the preliminary IB assessment, deciding on whether the model is a potential, a real or not an IB model, and discussing potential support for the company (this step is carried out by the IB accreditation board); and
4. Informing the companies about the results of the accreditation and linking

accredited IB companies to support schemes (e.g. business coaching and risk reduction financing). IB awards may also be provided.

AED would initially coordinate IB accreditation in two geographical areas: Ho Chi Minh City for IB models on Southern Viet Nam, and Hanoi for potential IB companies in northern Viet Nam. From 2021 onwards, AED would consider a third regional accreditation in Da Nang for central Viet Nam (Da Nang). Until then IB companies from central Viet Nam would be assessed through the Hanoi or Ho Chi Minh City exercises. Also, selected representatives from business associations and government agencies in central Viet Nam would participate in the IB accreditation exercised in southern and northern Viet Nam.

More information about the implementation procedures for IB accreditation is in Annex 1.

The regional IB accreditation boards would include (see table 11):

- From government: two representatives of AED and its regional office; one representative each from the Ministry of Industry and Trade, MARD, MoST<sup>56</sup>, or their specialized institutions and programs (e.g. NATEC, PSAV); and one or two government representatives from central Viet Nam;
- From business associations: one representative from each local branch of the VAWE/VWEC, YEAV, VCCI, and VinaSME, and from business associations from central Viet Nam;
- In addition, on a selective basis and depending on the businesses discussed, two or three representatives of relevant business facilitators (such as BSA-HCM, CSIP Hanoi). Furthermore, the consultant assessing the potential IB companies would also be part of the accreditation team.

**Table 11. Composition of the regional inclusive business accreditation boards (Hanoi, Ho Chi Minh City)**

Government		Business associations		Others	
1	AED or CIEM (chair)	1	VAWE/VWEC (regional), co-chair	1	Consultant team (secretariat to chair and co-chair)
1	AED regional office	1	VinaSME (regional), co-chair	2-3	Representatives from potential facilitators (for advisory only)
1	MARD regional office (or PSAV)	1	YEAV (regional)		
1	MoST (or NATEC) regional office	1	VCCI (regional)		
1	MoIT regional office	1	Business association representative from central Viet Nam		
1	Government representative from central Viet Nam				

## 5. Providing inclusive business business coaching

It is recommended that the government establishes a business coaching facility to support accredited potential IB companies to transform their business into IB or set up a separate IB business line.

Individualized business coaching can have various forms: providing initial for developing IB models; strengthening social impact and setting-up monitoring and reporting mechanisms; deep dive business advisory services for transforming a mainstream business into IB or for setting up a new business line; or business advisory services for marketing, investment structuring, deal financing.

The actual content of business coaching will be agreed between AED and the company, with support from the leading business association.<sup>57</sup> Business coaching can be engaged through the implementing agency<sup>58</sup> or directly by the company and then reimbursed by the facility. Companies would share the cost of the business coaching services.

Business coaching is only available for (selected) accredited potential and actual IB companies. It will be proposed by the IB accreditation team, endorsed by AED and implemented by highly qualified business experts. Demand based and specialized

business coaching is different from more general business training currently implemented by business associations and facilitators. It requires highly qualified business experts. To enhance private sector ownership, AED will outsource the coordination of IB coaching to a business association.<sup>59</sup>

## 6. Establishing an inclusive business risk-reduction fund

The government could explore with the Ministry of Finance and selected development partners the establishment of a fund to reduce the risks of investing in IB models. Through this fund the government would co-invest (15 to 20 per cent of the total investment value) in the first phase of an IB business. The financing would reduce the investment risk and help unleash actual financing from impact investors into accredited IB companies. The fund<sup>60</sup> is not a credit line, not a guarantee, not an equity investment nor a subsidy. Rather, the government investment is in the form of equity (or quasi loan) and if the investment achieves the planned social outcomes but does not meet the agreed financial returns, the government investment would be converted into a grant. Otherwise, it would be paid back (without interest) starting from year 2 of the project implementation and completing the repayment by year 5. An example of how a risk reduction facility works is provided in box 1.

### Box 1. Risk reduction facility for investing in inclusive business models – example from an ASEAN country

An impact investor was in a two-year discussion with a company providing low-cost housing. The company is profitable, and the business case is in line with the impact investors' objective. The company has successful experience in building a small number of houses (200 units) and wanted to scale up to 1000 houses. The investment would have been to buy the land and carry out the initial land development for the 1000 housing project, while the actual cost for building would be financed through the company's own funding and the houses built and sold in a staggered way. Housing for the poor is an important social good in that country, and the highest cost share is buying land.

The company wanted to buy a large plot at once because the land price would be lower, the housing would then be more affordable for the poor, and the business achieve a higher return. The impact investor, while trusting the company's ability to build 200 houses, was reluctant to invest in a 1000 housing project because of the company's lack of experience in handling such a bigger project. The impact investor finding that the deal with the company was 90-95 per cent ready, suggested the government co-invests 15 per cent of the total land costs through the risk reduction facility. Total investment costs for purchasing the 5 hectares land (housing for 1000 families) and doing some initial investments for land development was USD 2 million, of which the government should shoulder \$0.3 million as an initial equity investment (patient capital to be repaid within 5 years) through the risk reduction facility.

The agreed rate of return for the risk reduction deal was 20 per cent, while actual calculations between company and investor gave a profitability of over 30 per cent. The proposed agreement between the investor and the government would be that if the houses in phase 1 of the total investment (200 houses) sell at a profit margin less than 15 per cent, the government financing would be transformed into a grant. However, if the houses sell at a profit rate higher than 15 per cent, the government share would be repaid by the investor as a loan. The likelihood that the return would be lower than initially calculated was estimated by the two partners at less than 5 per cent. Even if the investment would not be financially successful in the first two, it would be successful from a social perspective as it would allow to build 200 houses in the first year and 250 more houses in the next year, more than double than the initial project.



The IB risk-reduction fund could be established under the budget of AED or under one of the poverty focused development banks<sup>61</sup> or the SME fund. An investment Board will be sufficient to decide which IB deals to support, as the impact investors will do the actual due diligence on the IB company. Development partners will be the main investors and, while setting up the fund, they will do an initial due diligence of eligible impact investors and banks that can access the fund. Decisions on deal financing will be made by the Investment Board comprised of AED, five representatives from the national IB Advisory Board (three government, one

business associations), one representative each from the Ministry of Finance and a development bank, and a representative from the development bank financing the IB risk-reduction fund.

The risk reduction fund will require \$25 million to co-invest in 18 smaller deals (of \$0.2-\$1 million each), 24 medium sized deals (of \$1-3 million each), and 15 larger deals (above \$3 million each) (see table 12). For implementing the IB risk-reduction fund, AED will approach various development partners for financing and the Ministry of Finance for its endorsement.

**Table 12. Inclusive business risk-reduction fund**

Investments	Number of investments per year	Years of implementation	Average unit costs (million \$)	Investment total (million \$)	Financial contributions		Financing from risk reduction facility (million USD)	
					Investor's financing share (%)	Share from risk reduction fund (%)		
							Total	Per deal
Up to 18 small deals (\$0.2-1 million)	6	3	1.0	18.0	80%	20%	3.6	0.20
Up to 24 medium sized deals (\$1-3)	8	3	2.0	48.0	85%	15%	7.2	0.30
Up to 15 large deals (>3 million)	5	3	5.0	75.0	85%	15%	11.3	0.75
<b>Subtotal (investment cost)</b>	<b>57</b>		<b>2.5</b>	<b>141.0</b>	<b>80%-85%</b>	<b>15%-20%</b>	<b>22.1</b>	<b>0.39</b>
Management fee (3%)							0.7	
Contingencies (10%)							2.3	
<b>Total</b>							<b>25.0</b>	<b>0.44</b>

## 7. Promoting inclusive business in the 2020 ASEAN agenda

Since 2016, the ASEAN community has put Inclusive Business under the working agenda of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME). ACCMSME is a standing technical working group under the ASEAN Economic Ministers.

In August 2017, the ASEAN Economic Ministers endorsed the ASEAN Inclusive Business Framework to strengthen enabling policy environments for IB in ASEAN member states, to foster regional

collaboration, and to connect ASEAN visions for growth and development. The ASEAN IB framework is based on six principles:

- IB is primarily a private sector activity,
- a common understanding of IB should be promoted,
- specific emphasis will be made on the promotion of IB models,
- IB models will highlight the development of SMEs as proponents of IB or as part of the value chain of IB models,

- v. government support (in establishing conducive rules, regulations and definitions; enhancing access to financial resources and providing financial incentives; raising awareness; and strengthening the capacity of the BOP and of IB) will be crucial,
- vi. IB serves as a cross cutting theme of private sector engagement for social impact and economic empowerment.

Within this framework, IB promotion is integrated under the five strategic goals to develop SMEs. The recommendations outlined in this report for promoting IB promotion in Viet Nam (i.e. strategic focus, institutionalizing support, promoting IB awareness, IB accreditation, providing IB business coaching, IB risk reduction financing, and IB advocacy and knowledge promotion) align with the five strategic objectives of the ACCSME agenda as indicated in Table 13 below:

**Table 13. Inclusive business promotion under ASEAN and in Viet Nam**

ASEAN Strategic Goals for SME development (SAPSMED 2025)	Key action areas for promoting IB in Viet Nam
A) Promoting productivity, technology and innovation	<ul style="list-style-type: none"> <li>• Provide IB business coaching</li> </ul>
B) Increase access to finance	<ul style="list-style-type: none"> <li>• Establish an IB risk-reduction fund and promote impact investments</li> </ul>
C) Enhance market access and internationalization	<ul style="list-style-type: none"> <li>• Institutionalize support for IB, which provide market access for the BOP and SMEs,</li> <li>• Provide IB business coaching</li> </ul>
D) Enhance policy and regulatory environment	<ul style="list-style-type: none"> <li>• Create a coherent IB strategy and action plan as part of the government's sustainable private sector development plan;</li> <li>• Conduct further policy analysis IB policy studies such as on targeting IB in existing SME development and poverty reduction and social programs</li> </ul>
E) Promote entrepreneurship and human capital development	<ul style="list-style-type: none"> <li>• Promote IB awareness through business associations</li> </ul>

In the chairman statement of the ASEAN summit of 27 November 2017, the heads of states of ASEAN "... called for greater emphasis on creating an enabling environment for inclusive businesses in ASEAN Member States ...". Following this call, various countries have prepared landscape studies on the status of IB and its enabling environment and have established IB promotion policies. Viet Nam is one of 6 ASEAN member countries<sup>62</sup> that responded to call for IB action and is currently in the process of preparing a national strategy as well as programs to promote IB. In 2019, ASEAN leaders have commended public and private efforts to promote inclusive businesses and have called for further collaboration in this area.<sup>63</sup>

During the Second ASEAN Inclusive Business

Summit<sup>64</sup>, held on 1 November in 2019, alongside the 2019 ASEAN summit, various governments urged ASEAN to continue to provide platforms for discussion and cooperation on IB and to explore ways to further support inclusive business promotion among ASEAN Member States, especially on IB policy development and IB accreditation, and to promote increased private-public partnerships.<sup>65</sup> Initial activities identified include the development of ASEAN guidelines for the promotion of IB to guide policy development across Member States.

Viet Nam, as the Chair of ASEAN for 2020, has supported the development of the ASEAN Guidelines for the Promotion of Inclusive Business, which were approved by the ASEAN Economic Ministers in August 2020.<sup>66</sup>

### C. Implementation arrangements

The promotion of IB must be a joint endeavour of government and business associations, and the implementation of the IBeeV Strategy will be carried out by various teams. IB advocacy work will be implemented through business associations (with some support from government). IB accreditation will be implemented through joint regional IB accreditation teams. The business coaching facility would be anchored in one business association and coaching will be provided by highly experienced business consultants. The IB risk-reduction fund will be implemented by an Investment Board. Further policy work – including IB work in the context of ASEAN 2020

- will be coordinated by AED. For executing the technical assistance related activities, AED will approach development partners for financing, and conclude co-operation arrangements with the implementing partners and IB agreements with the supported companies.

Implementing the IBeeV strategy would require about \$26.5 million (VND 620 billion) for 3 years, of which \$1.5 million (ca VND 33 billion) would be for technical assistance (mostly for business coaching and IB awareness activities) and \$25 million (VND 587 billion) for establishing the risk-reduction fund. Table 14 provides an overview of the cost estimations for promoting IBeeV during the period 2020-2023.

**Table 14. Estimated cost for promoting inclusive business in Viet Nam (2020-2023)**

	USD (million)	VND (billion)
<b>Technical assistance facility</b>	<b>1.55</b>	<b>33.09</b>
Institutionalizing IB support and other policy work	0.13	3.05
Promoting IB awareness	0.38	9.01
IB accreditation	0.11	2.70
IB business coaching	0.69	16.22
Promoting IB in ASEAN (during Vietnam chairmanship 2020)	0.04	0.94
Other policy work	0.05	1.18
Contingencies (10%)	0.14	3.31
<b>Risk reduction investment fund</b>	<b>24.98</b>	<b>587.09</b>
Fund investment in up to 57 small medium and larger deals	22.05	518.18
Fund management fee	0.66	15.55
Contingencies	2.27	53.37
<b>Total</b>	<b>26.53</b>	<b>620.18</b>

To finance those activities, AED will request financial support from development partners.<sup>67</sup> For the technical assistance work, development partners may finance for all activities under one facility (preferred), or selected activities. For implementing the risk reduction fund, AED will approach various development partners for financing and the Ministry of Finance for its endorsement.<sup>68</sup>

The strategy designed for an initial implementation of three years starting in April 2020 and could be extended for a second phase. If the proposed SPSPD program, where IB

support would be anchored at a strategic level, is finalized by MPI by early 2020 and approved by the Cabinet of Ministers by March 2020, the implementation of the IB promotion program could start in April-May 2020. AED has already prepared a concept note for operationalizing IB implementation under SPSPD. In addition, AED is already in the process of approaching selected development partners for financing various activities under the IB operational plan. AED will also prepare – perhaps by April 2020 - an action plan with concrete commitments from various supporters of the IB agenda for implementing IB between 2020 and 2023.

## VII. CONCLUSIONS

Viet Nam has been very successful in reducing poverty and improving living standards since the mid-1980s when the economic reforms under Doi Moi started. As it continues to develop, Viet Nam's robust economic and social performance of the past two decades will be challenged. To sustain high rates of economic growth, Viet Nam will need to focus on enhancing innovation, productivity growth, and company size (to address the missing middle). To sustain inclusive development, Viet Nam will also need to generate new well-paid income opportunities for low income people, and to provide more affordable and relevant goods and services, especially in housing and education (but also health, financial innovations, and energy).

Companies with inclusive business (IB) models can play a strong role in supporting such structural transformation. IB models promote inclusive growth by investing in innovative, commercially viable, and growing business models that provide, at scale, relevant and affordable goods and services, or enhanced livelihood opportunities, to people living at the base of the pyramid. These businesses promote social transformations as they have a large and deep social impact. Inclusive businesses bring triple wins for companies, the poor, and for the Viet Nam society.

To assess the potential of IB in Viet Nam to achieve national innovation, economic and inclusive development objectives and to explore relevant avenues to promote IB in the country, in May 2019, the Government of Viet Nam –through the Agency for Enterprise Development, Ministry of Planning and Investment– decided to conduct a landscape study of inclusive business with the support of ESCAP and iBAN.

The study found 9 real and 10 potential IB models, with a total revenue of VND 2,900 billion 2018 (USD 126 million) benefiting about 2.6 million poor and low-income people. Most of these business models provide enhanced income opportunities to poor and low-income people in agribusiness value chains. These 19 companies expect to grow their revenue by 2023 to VND 4,800 billion (\$209 million) and their social reach to 3.5 million people. While the number of IB companies identified is small, their social reach is relatively high.

The IB models reviewed in this report are typically medium sized firms with good profit margins, more innovative than the non-IB models, and their management shows a strong strategic intent to transform their business to achieve more and deeper social impact. Many of these companies want to transform their current mainstream business into an IB business, not only to enhance their impact on the poor (doing good) but also because an IB model can also generate further income and growth.

The study has also found that IB is an unknown and often misunderstood concept in Viet Nam. There is a need to generate awareness on IB among the business community. The good news is that business associations, especially those representing the interest of women and SME entrepreneurs, have expressed interest in promoting awareness on IB.

Impact investors, development partners and business facilitators are also interested in supporting IB. However, there are relatively few impact investors active in Viet Nam focusing on IB (impact investors note that there is a lack of investable deals); development partners are not yet funding IB promotion. The study recommends addressing this challenge through publicly financing business coaching for potential IB companies and establishing a risk-reduction fund for impact investors (and banks) investing in IB.

To raise the understating for such type of investments among the business community, and to encourage more companies do develop IB models, the government decided to explore programs to promote IB.

Based on the market study, the enabling environment and the indications of interest indicated by key stakeholders, IB could be promoted in Viet Nam through the following seven key areas:

1. Indicating a strategic commitment to IB, among others, through including IB in the 2020-2025 implementation plan of the Sustainable Private Sector Development (SPSD) Strategy;
2. Institutionalizing support for IB by



establishing: a National IB Advisory Board with representatives from various stakeholders to guide IB implementation at the national level; an IB unit in the Policy Division of AED to serve as secretariat to the Board; and IB focal points in selected government agencies (MPI, MoIT, MoST, MARD) and business associations;

3. Promoting IB awareness through business associations;
4. Setting up an IB accreditation system at the regional level and doing IB accreditation jointly with 4 business associations
5. Providing IB business coaching to support companies upgrade their business models into IB models;
6. Establishing an IB risk-reduction fund for investors to facilitate financing to IB companies;
7. Promoting IB in the 2020 ASEAN agenda chaired by Viet Nam.

The study recommends implementing these IB support programs through encouraging multi-stakeholder contributions and cooperation with different government ministries and agencies

(especially under MPI, MARD, MoIT, MoST), business associations (particularly VWEC/VAWE, VinaSME, VCCI and VYEA), business facilitators, impact investors, and development partners.

The study proposes setting up a technical assistance facility in the amount of \$1.6 million and an IB risk reduction fund of \$25 million for an initial 4 years implementation period (2020-2023).

Viet Nam, as the Chair of ASEAN 2020, will promote IB in the ASEAN agenda including: policy guidelines for promoting IB and guidelines for accrediting IB models. If financial resources are available, it will also organise the Third ASEAN Inclusive Business Summit in 2020.

AED-MPI is highly committed to promoting IB in Viet Nam and will initiate and lead the suggested recommendations to achieve strong results for low-income people, for businesses, and for the Viet Nam.

To support the promotion of IB in Viet Nam, more detailed implementation guidelines for promoting IB have been developed separately, and initial discussions seeking support and funding for IB promoting have been held with various development partners.

## ANNEX 1. METHODOLOGY FOR RATING AND ACCREDITING INCLUSIVE BUSINESSES

In addition to the landscape study, a guidance note for implementing IB accreditation has been prepared for AED. The note, prepared by Dr. Armin Bauer, international expert on IB, provides information on the background, rationale and principles of IB accreditation in Viet Nam and provides detailed tools to conduct IB accreditation.

The key features of IB accreditation are briefly summarized in this annex.

**Definitions:** Inclusive businesses are commercially viable business models of private sector companies that provide scaled-up, innovative, and systemic solutions to the relevant social problems of the bottom 40 per cent population groups.

**Criteria for identifying potential IB companies:** To identify potential IB companies, five initial questions should be asked:

1. Is the **strategic intend** of the company a commercially viable business lines that creates scaled-up, innovative, and systemic solution to the relevant problems of low-income people? Is the business line consciously designed to create such solutions?
2. How **commercially viable** is the IB business line and the company?
3. What is the **social impact** of the business line in terms of reach (scale, targeting), depth (income increase; relevance, price and delivery mechanisms of the goods and services provided for low-income people), and systemic transformation for low-income people?
4. Which **innovations** has the company introduced to address business risks and help the B40?
5. What **systemic transformations** is the company willing to undertake to become an IB?

**Process for identifying IB.** There are four key steps for identifying companies with potential IB models:

- **Informing companies:** Business associations (and government) inform selected companies with potential IB models about the

accreditation system.

- **Voluntary application and initial questionnaire:** Companies who want to be accredited as IB can voluntarily apply by filling out an initial questionnaire. The information in the questionnaire is assessed by an independent consultant and additional information may be gathered through phone calls. Companies with business lines that could qualify as IB are shortlisted as potential IB.
- **Interviewing and assessing companies with potential IB models:** Shortlisted companies are interviewed based on a detailed interview guide. A detailed questionnaire, a preliminary IB rating based on a transparent accreditation rating tool, and a 1-2 page write up of the company is completed by the assessment team with information gathered from the interview. This information is given to the regional IB Accreditation Board, composed of representatives from government and business associations, to make the final decision on IB accreditation.
- **Formal IB accreditation:** The IB Accreditation Board at the regional level makes the final decision based on the information provided and the composite rating tool with transparent criteria and targets (see figure A1.1). The company write up may be shared with the company on a confidential basis; but the detailed IB rating is not shared with the company. Thereafter, an IB award ceremony may be held to recognise accredited IB models and AED agrees with the accredited IB companies possible support.

**The IB accreditation system.** IB accreditation is voluntary; focuses on new inclusive business lines (not the whole company); uses the same criteria and weights, but different targets, for small and large firm; considers the growth of the IB model as outlined in the firm's business plan; and assesses three key dimensions (i.e. business case and financial returns, social impact, and innovation to achieve poverty reduction). Accreditation uses a transparent composite rating tool (see table A1).

**Table A1. Inclusive business rating criteria**

Name of company:						
Location: Head office:				Impact area:		North
Sector (subsector):						
Date of interview:				Date of rating:		
IB business line:						
IB strategic intend:				Rate:		6
BoP engagement model:						
IB type	IB (SE-I, IB-A, IB-M), other (MB, CSR, NGO-IB)					IB-M (P)
		Sector benchmark	Rating by consultant	Rating by company	Rate (1-6)	Score
The commercial return		40%				2.40
Company	10%				X	0.60
Size	4%				6	0.24
Profitability	3%				6	0.18
Bankability	3%				6	0.18
IB model	20%				X	1.20
Revenue (today)	5%				6	0.30
Growth (3 years)	6%				6	0.36
Addressing business risks	5%				6	0.30
Profitability	4%				6	0.24
Company governance	5%				6	0.30
ES safeguard standards	5%				6	0.30
The social impact of IB model		46%				2.76
Reach	19%				X	1.14
Beneficiaries	8%				6	0.48
Targeting	7%				6	0.42
Women empowerment	4%				6	0.24
Depth and relevance	15%				X	0.90
For supplier (labor, distributor) models	15%				X	0.90
Before - after	4%				6	0.24
Market rate and competitor	6%				6	0.36
Sustainability for BoP, addressing the BoPs' risks	5%				6	0.30
For consumer models	15%				X	0.00
Relevance of product (incl. Income increase)	6%					0.00
Affordability of product	4%					0.00
Delivery mode, addressing the BoPs' risks	5%					0.00
Systemic change for poverty reduction and inclusion		12%			X	0.72
Sector impact	4%				6	0.24
Geographical impact	3%				6	0.18
Gender	2%				6	0.12
Relevance and transformation	3%				6	0.18
Innovation		14%			X	0.84
Business	5%				6	0.30
Technological	3%				6	0.18
Social (CSR, ...)	3%				6	0.18
Environment	3%				6	0.18
Total		100%			X	6.00
Challenges and suggestions:						
Comment:						
Suggestion for possible IB agreement						
To qualify as an IB business lines, companies must achieve at the same, (a) an overall rating > 3.2, (b) a business rating > 1.4, (c) a social impact rating > 1.5, (d) an innovation rating > 0.4, (e) a governance rating of minimum 0.15, and (f) a ES rating of minimum 0.15.						
Strategic intend				3	3	6
Total			minimum	3.20	2.80	6.00
Business (commercial + business + technology)			minimum	1.30	1.58	2.88
Social (social impact + social innovation and CSR			minimum	1.50	1.44	2.94
Innovation (sum of innovation)			minimum	0.40	0.44	0.84
Governance			minimum	0.15	0.15	0.30
ES safeguard			minimum	0.15	0.15	0.30

## ANNEX 2. PROFILES OF COMPANIES WITH INCLUSIVE BUSINESS MODELS

This annex provides the profiles of the 18 companies assessed in this market study that have real and potential IB models and that have agreed to have their profile published (table A2).<sup>69</sup> The descriptions summarize the results of the company interviews and following IB assessment and IB rating. The companies have vetted the write-ups and provided their consent for their profile to be published.

The information given in the company write ups is based on the data provided by the companies, and data provided by the companies to or stored by the company registration, labour, social protection and tax agencies. Neither the government nor ESCAP/iBAN take any responsibility for the correctness of the company information.

**Table A 2. List of profiled companies**

	Company	Sector	Mode of BoP engagement	Impact through	Classification
1	Bio King	Agribusiness	Consumer	Income generation	IB model
2	Bobi craft	Handicraft	Labourer and supplier	Income generation	IB model
3	Dakoda	Agribusiness	Supplier	Income generation	Potential IB model
4	East-West Seed	Agribusiness	Supplier	Income generation	Potential IB model
5	Glink	Health	Consumer	Access to essential goods and services	Potential SE initiative
6	Green Gen	Energy	Consumer	Access to essential goods and services	IB model
7	Hamona	Agribusiness (coconut water)	Supplier	Income generation	Potential IB model
8	HTC	Agribusiness (tea)	Supplier	Income generation	IB model
9	My Lam	Agribusiness (tea)	Supplier	Income generation	IB model
10	Pepsi	Agribusiness (potato)	Supplier	Income generation	Potential IB model
11	Quang Vinh	Ceramics	Labourer and supplier	Income generation	IB model
12	Sao Thai Duong	Agribusiness	Supplier	Income generation	Potential IB model
13	TMTM Moringa	Agribusiness (Moringa)	Supplier	Income generation	Potential IB model
14	Traphaco Sapa	Agribusiness (herbs)	Supplier	Income generation	IB model
15	TYM	Microfinance	Consumer	Access to essential service	IB model
16	Viet Trang	Manufacturing (crafts)	Supplier	Income generation	IB model
17	VinaSamex	Agribusiness (spices)	Supplier	Income generation	Potential IB model
18	WeatherPlus (former Agrimedia)	Agribusiness	Consumer	Access to essential service	Potential IB model
19	Company not featured	Agribusiness	Supplier	Income generation	Potential IB model

These are only a few examples of companies with potential IB models, initiatives and activities that might be found in the Viet Nam.



## 1. Bio King

**The company:** Founded in 2011, BioKing's mission is to apply micro-bio solutions in agriculture to enhance agricultural product values with a long-term view to change the way how agriculture is implemented in Viet Nam. In Viet Nam, inputs costs for agricultural production are very high, and extensive use of chemical pesticides and fertilizers cause inefficiencies, waste, and negative effects on people's health and the environment. Against this context, the company introduced micro-biology products and solutions used in biological and organic agriculture at favourable prices. Its products enable farmers to achieve higher productivity at a lower cost than traditional farming and can be used for a variety of plants (rice vegetables, fruits). The use of micro-biology products and solutions can increase Vietnamese agricultural products' competitiveness, improve consumers' health, protect the environment and reduce impact of climate change.

**IB business** and the company's core business are the same. Bio King is currently a potential IB that seeks to enhance its impact on its poor and low-income customers. To do so, Bio King is considering to introduce some changes to its current business model, such as: (1) focus on organic inputs that enable low-income farmers to change their cultivation methods, increase efficiency, product quality and healthy food; (2) increase the involvement of the poor and low income in its distribution system, and (3) sell more to that market segment. This will increase income opportunities for the poor.

**Commercial results:** In 2018, the company generated VND 10-12 billion (\$0.4-\$0.5 million) in revenue, with no substantial growth since 2016. Currently, it is seeking an ambitious upscaling plan to grow its sales by 50 to 100 per cent per year over the coming 3 years to respond to increasing demand for organic, safe, and non-chemical products. Net profits stand at 20 per cent, which is higher than the average net profits in the agribusiness sector. The company has not borrowed so far but may seek loans or investments for production expansion.

**Social impact:** By 2018, BioKing's products reached about 20,000 farming households nationwide, particularly in the Mekong delta region. The company is projecting to increase

its reach to 30,000 farming households by 2023 and 39,000 by 2025. Most of the farmers using the company's products are from poor and low-income groups (but no specific data is available). The company works closely with the farms and fruit gardens in every step of the cultivation process, with a view to bringing biological, non-chemical products to the consumers. Its products are of good quality, affordable and reduce farmers expenses on inputs by 20-50 per cent. For example, in rice growing, normal production cost per hectare is VND 20-30 million, but using BioKing products would cost only VND 10-15 million for a similar quantitative output with much higher value addition of the product. Including the cost reduction and the better paid product, the company estimates that the income of the farmers using BioKing Products have increased 30-50 per cent between 2015 and 2018.

**Innovations for the poor:** There are various innovations and changes in business processes the company may wish to introduce to better serve the market of the B40:

- One of BioKing's business innovations is its distribution system of 500 agencies nationwide, trained directly by and working closely with BioKing. About 80 per cent of those agencies are run by women, and 30 per cent by low-income people; the later share the company wishes to increase. In addition, the company sells its products through the shops of Dai Thuan Thien, a sister company with the same founder.
- BioKing focuses strongly on R&D and has the competitive advantage of possessing biological technology, technical processes, and solutions that can serve many market needs. The company maintains a team of highly skilled researchers, engineers and technical consultants. The founder was a researcher at Can Tho University, a leading university in the Mekong delta region.
- BioKing discontinued providing credits to farmers, due to farmers' repayment problems. To move towards a real IB model, the company could innovate on better ways to support financing for the poor farmers and link that to its core business.
- The company could also use its innovation

potential to design products that further enhance its impact on the environment and its protection.

**IB readiness and recommendations:** BioKing is a company with a strong IB intend. It seeks to make changes to its current successful business to grow more and have a stronger social impact. The company was rated as an IB, although it could introduce new innovations to strengthen the impact on the poor and low income to strengthen the IB dimension of the business. Such innovations could be laid out in a business agreement and some business coaching could be provided to the company to fine tune these innovations. Afterwards, some risk reduction financing to investors seeking to invest in the company may be welcomed. Once it becomes a full real inclusive business, the company could serve as a strong example for the IB discussion in Viet Nam, especially since it is well respected in the business community.

## 2. Bobi craft

**The company:** Bobi Craft established in 2011. The company produces and exports branded premium hand crochet children toys and accessories using top quality material (wool, organic cotton, acrylic yarn) in Viet Nam. All Bobi products are manufactured in line with the EN71 standard, the set of safety requirements for toys sold in the EU. The company's strategy is focused on quality, design, and concept to bring wool and fabric craft to a stage of art as well as supporting the poor, the low-income, and disadvantaged people, especially persons with disability, by providing them with on-the-job training and employment. The company aims to become a leading company in the field of crafts produced from wool and other fabrics in three key sectors: home decorations, gifts, and children toys.

**The IB model:** The company involves the B40 as suppliers and laborers. Bobi Craft provides households with materials, training, and tools.

**The commercial performance:** In 2018, the company achieved a revenue of about VND 50 billion, about 20 per cent more than in 2016, and by 2023, the company expects sales in the amount of VND 60 billion. The gross profit margin is about 25 per cent, which is higher than the sector average. To achieve further growth, the company plans

to expand export markets, and to invest in new technology, designs, materials and products. The company follows high environmental and social safeguard standards, adopting a "zero waste" policy, enhancing the recycling of materials, and using no chemicals in the production. Until now, the company has not borrowed from banks but rather from family members.

**Social impact:** In 2018, the company worked with more than 400 producers in Ba Ria, Da Lat, and Ho Chi Minh city, including handicapped persons (especially the blind), farmers with free time, and women staying at home. Of these, 80 persons are full-time staff of the company, and the rest provide goods on a part time basis from home. Most of the producers (98 per cent) are women; and as part of its business philosophy, the company has a specific objective to empower women, so that they can work from home and become financially independent. The company has also a policy to support the handicapped persons through a monthly allowance paid additional to the salary (VND 300,000-500,000). On average, a full-time producer can earn a monthly salary between VND 6-10 million (\$250-\$450), plus overtime payment, as well as social and health insurance (for the employees only, not the suppliers). Combined salary and overtime payment could reach VND 20 million or around \$800 per month in total. The salary is paid based on the number of working hours and products. The salary for the craftsmen doing handmade products in the sector is not low; for Bobi Craft, labour cost is the main production cost. The income received is significant, especially for handicapped persons.

**Innovations for the B40:** The company strives for enhancing business, social, and environmental innovations that may benefit the poor. It was the first company in this sector to highly specialize into production stages and standardize the quality to ensure safety of materials (softness, durability and technical standards), improve quality and stability of products, and increase labour productivity.

**IB readiness and recommendations:** The company just meets the overall IB rating benchmark to qualify as IB model, although ratings for commercial viability and innovations for the B40 are somewhat low. It has a strong commitment to continue its mission of improving the lives of low-income and handicapped people. The company may benefit from some initial

business coaching to improve bottom line returns, product and market diversification, and social impact (especially reach and depth of income opportunities for the B40 in their value chain).

### 3. Dakado

**The company:** Dakado Group Production was formed in 1991 as an agribusiness in Dak Lak province. In 2010, when the group was officially registered with the local Peoples' Committee, the group consisted of 100 initial members. Out of this group, in 2007 the Thu Nhon Limited Company was established as the first officially licensed company of the group. It had 40 per cent of its capital (equivalent to \$0.2 million) granted by the World Bank. Dakado-ThuNhon is a production and trading group specializing in producing avocado, pepper, and macadamia (a new high-quality crop introduced in 2016). It has two processing factories in Ho Chi Minh city (officially licensed in 2015, named KADO VN JSC) and in Dak Lak province (in the central highlands region). Its products meet the quality standards of HACCP, Vietgap, Global Gap (for avocado and macadamia), and Rainforest (for pepper). Avocado is sold mostly in domestic market and traded to China and Cambodia; pepper is 100 per cent exported, and macadamia will be sold to mostly domestic market and partially to official export market.

**The potential IB business line:** In 2016, the company introduced an intercropping model of avocado with pepper to increase the income for the farmers. With some modifications to increase its social impact, this business line could qualify as IB.

**The commercial results:** In 2018, the company revenues reached VND 50 billion (\$2.1 million), doubling the revenues over the past 3 years. It expects to reach a revenue of VND 100 billion (\$4.2 million) in 2023. Eighty per cent of the revenues come from the potential IB business line (i.e. avocado and pepper intercropping). Profits from avocado are 10-20 per cent, while they are only 1-2 per cent for pepper. The net profits of the company are about 5 per cent. The company reinvested – together with the farmer groups - in new varieties of higher productivity. For example in 2016 it invested in 100 hectares avocado trees and in 2018 in 20 hectares macadamia trees. In

2019, the company had fixed assets of about VND 20 billion, doubling that of 2016. The company is bankable and has outstanding short-term loans at interest rate of 8-10 per cent and intends to borrow VND 10-20 billion of long-terms loans for investment.

**The social impact:** From 300 households in 2016, Dakado Group is now working with around 1000 households (300 intercropping avocado and pepper, 500 avocados, and 200 macadamia), and it is planning to double the number of contract farmers and upscale social reach to 2,000 farmers by 2023. About 60-70 per cent of the farmers are women, and 90 per cent are from poor or low-income households. Macadamia farmers are very poor ethnic minorities in Eakar and Eahleo district of Dak Lak province. By working with the company and applying intercropping of avocado and pepper, the farmers could potentially increase their income within 3 years by 8-10 per cent. Income increased 6 per cent in pepper, 20 per cent for Dakado avocado and 5 per cent for normal avocado. For inter-cropping, each hectare of land will produce 2-3 tons of pepper which will sell for VND 50,000 per kg, of which 40-60 per cent are input costs, and 15 tons of avocado at a price of VND 15-20,000/kg with 30 per cent input costs. This results in a net income of around VND 180-270 million per year per hectare. Each household has 0.5-1 ha of land on average which are intercropped with avocado (half of the land area) and pepper (the other half). On average, each household earned \$400-800 per month, depending on the land area available. For pepper, the company pays the farmers around 6-8 per cent higher than the market if the products have no excess of plant protection input and meet the safety standard (85-90 per cent of the products get this extra payment). For avocado, the company pays 20 per cent higher than the market if it meets the quality standard, i.e. VND 25-27,000 versus VND 20-22,000 per kg. For macadamia, the price will be 5 per cent higher than market rate due to good quality seeds. However, the production is only starting.

**Innovations for the BoP:** The company provided the farmers with seeds, fertilizers, a demonstration farm, and technical training on safe production (proper use of plant protection and fertilizer inputs). Under a program financed by the World Bank, the company subsidized 40 per cent of the input costs for the farmers. Furthermore, the

company introduced innovations in processing and packaging technology (e.g. drying instead of freezing, automatic packaging), developed new products (e.g. frozen avocado, roasted macadamia, roasted cashew nuts) and is trying to engage in the production of avocado oil, avocado powder, energy bar, nuts milk. Dakado follows environmental standards to meet clean production standards, training farmers on the proper use of plant protection inputs and fertilizers.

**IB readiness and recommendations:** The intercropping business line of Dakado is rated as a potential inclusive business model, as it substantially improves the income of many farmers. However, the company could innovate more to increase the value addition that can be shared with the farmers. The company may also wish to build on a stronger growth path and expand its market, so that it can develop more material zones and increase the number of poor farmers it is sourcing from.

#### 4. East-West Seed

**The company:** East-West Seed (EWS), a Netherlands firm, is one of the ten largest vegetable seeds companies in the world, working with and selling to 19 million farmers in 60 countries, and having more than 12,000 contract growers globally. In Asia, EWS is particularly active in Thailand, Indonesia, The Philippines, India, Myanmar and Viet Nam, among others. In Viet Nam, the Viet Nam Company Ltd was established in 1995 as a joint venture and the first hybrid tomato was released in 1996. Since 2012, the company is independent as a 100 per cent foreign invested company; it goes by the name East-West Seed (Hai Mũi Tên Đỏ). It is one of the main providers of vegetable seeds in the country. The company currently has a factory in Binh Duong province, for seed processing. It produces quality seeds that are known to be strong, highly diseases resistant, cost reducing, and high yields. The company's mission states to providing the best vegetable varieties that will help increase the income of vegetable farmers, and promoting the availability of quality, nutritious and safe vegetables for consumers. East-West Seed has been maintained its top position (number one among 13 global seed companies) in the Access

to Seed Index. In addition, on 17 October 2019, the World Food Prize was awarded to the founder of EWS, reflecting on four decades of successful work on contributing to improve livelihood of vegetable farmers in Asia and beyond.

**The IB business:** The company's business philosophy is to focus on smallholder vegetable farmers, selling high quality seeds and providing appropriate farming knowledge, to help them grow better crops, realize higher yields and earn more income. In the current business model, given the large reach of smallholders and the strong strategic intent to do better for the poor and low-income people of Viet Nam, EWS can be considered as a mainstream business that has the potential to transform into an IB model.

**The commercial results:** The company has a good commercial performance and good growth. It does not wish to disclose its financial performance to the public.

**Social impact:** The company works globally with about 12,000 contract growers for hybrid-seeds, most of them low income farmers, and is training every year about 100,000 farmers. In Viet Nam, it sells its seeds through dealerships to more than 100,000 Vietnamese farmers (mostly smallholders) country-wide and provides them with some training. While EWS does not systematically track data on targeting its customers and on the income increase of their farmers; the company estimates that farmers can increase their income by 10-15 per cent when using EWS product compared to traditional seed suppliers. Due to its focus on tropical vegetable seeds, EWS is uniquely positioned to develop and market vegetable seeds that help farmers reducing risks due to climate change. The company's crop shifting and intercropping programs demonstrated to help farmers improve their income by 50-100 per cent on average. Some successful examples include:

- Support for shifting from rice to sweet corn in Tien Giang province, increasing income from VND 25 million in 3 months to VND 65 million/ha. in two months.
- Introducing hot pepper to replace rice in Soc Trang and Tra Vinh, generating income increases from VND 40 million to VND 205 million per ha per year.



- Shifting from black pepper to papaya in Dong Nai province, generating annually VND 365 million per ha from papaya, while black pepper alone – with highly fluctuating and falling prices – generating very low income.
- Shifting from sugarcane to cucumber, increasing income by over 3 times.
- Intercropping of papaya and black pepper, reducing the costs for inputs, and increasing income for farmers.
- The training seminars run by the company in cooperation with local agricultural promotion officers attracted a large number of farmers (e.g. 5,000 farmers got training in growing hot pepper (chili)).

**Business innovations for the B40:** EWS was the pioneer company introducing high quality seeds in Viet Nam. Strongly focusing on R&D, the company has developed many local high-quality, high-yield varieties for the Viet Nam (and Southeast Asia) market. The company follows high social and environmental standards. Its seeds are strong and highly resistant against diseases, reducing chemical pesticides and fertilizers, thus protecting the environment. It is one of 30 companies meeting environmental standards in Binh Duong province. EWS maintains extensive social activities financed through its CSR programs, such as Simon N. Groot scholarship to build the next generation of Vietnamese farmers, field trips, internships, career talks, job fairs for students, and support for farmers affected by floods.

**IB readiness and recommendations:** Given the company's strong commercial performance, its large reach, the good potential for increasing farmers' income, and the company's work to adapt to climate change through shifting cultivation and intercropping, East-West Seed qualifies as a potential inclusive business model. To become a real IB, the company may consider: (a) improving the elements of targeting low-income and poor people in its business strategy, (b) introducing innovations to further enhance the income for the poor and vulnerable farmers, (c) setting up a lean impact monitoring system in their sales program, (d) addressing production costs and risks of the farmers beyond seeds; and (e) combining its environmental and climate adaptation innovations with programs for the poor.

## 5. Glink

**The company:** Glink, started in 2009 as a community-based organization under the Health Policy Innovation project funded by USAID. In 2010, the NGO was then officially registered as a limited liability entity. In 2017, the project transformed into a social enterprise as it opened the first private consulting room to provide HIV examination and treatment services officially licensed by HCMC's Department of Health. Glink currently runs a total of 5 consulting rooms in the Northern, Central and Southern regions of Viet Nam. The company provides diverse services for HIV patients and related-HIV services, including HIV treatment with anti-retroviral therapy (ARV), post-exposure prophylaxis (PEP) for those potentially exposed to HIV to prevent becoming infected, and pre-exposure prophylaxis for those highly at risk to prevent HIV infection, screening tests for sexually transmitted infections, and prevention of opportunistic infections, as well home-based services.

**The IB business:** The current business model of the company, although addressing an important social need, does not target the B40 income groups. The target clients are people from the Lesbian, Gay, Bisexual and Transgender (LGBT) group (mostly gays), who can pay for HIV treatment. Nearly all the patients treated by the company are from better off income groups. The LGBT community, while being able to pay for the service, are subject to social stigma, discrimination, and violence. LGBTs affected by HIV face even worse discrimination. When they get HIV treatment in state-owned hospitals, personal information is often disclosed, which the patients do not want. For the company, meeting the demand of its client group of not disclosing personal information is critical. Currently, the company is a mainstream business. However, the company could transform into an IB if the management has a strategic intent and identifies a good business case to target (also) the poorer income groups as clients.

**Commercial performance:** In 2018, the company revenues reached VND 12 billion (\$520,000) with annual growth rate of 25-30 per cent over the past 3-year period. The company estimates to grow 30 per cent in the next 3 years to ensure service quality. Its net profit margin is 22-25 per cent. Glink aims highly at sustainability, gradually

reducing dependence on international donors and NGOs and increasing service-based revenues. The percentage of revenues generated from its services increased from 20 per cent in 2016 to 45 per cent in 2018 and it is estimated to rise to 75 per cent in the next 3 years. To do so, Glink is completing a franchise model by 2020 to expand to other localities, Glink would contribute 51 per cent of the capital and control the quality of the services provided. The market is large and almost untapped by private medical units. In HCMC, about 50,000 persons are under HIV/AIDS treatment (according to data from the Health Insurance Office), of which 10-15 per cent of demand private services to avoid social discrimination. In Hanoi and Can Tho, for example, the number of HIV patients is 18,000 and 3,000 respectively, around 25-30 per cent of whom are gay. The company has not borrowed (and will not) from the bank but will mobilize money from shareholders and use profits for investment. Some of the patients themselves are willing to support and invest in Glink.

**Social impact:** Glink has provided HIV treatment for 500 LGBT persons in HCMC so far. As a CSR activity, Glink cooperated with some donor-funded projects to provide free testing for accumulated 7,000 persons. The company also occasionally provides students with emergency PEP. Overall the number of clients is still small (100), although the number beneficiaries is much higher (100 treatments plus 1000 consultations and free HIV testing in 2018). Under the current model, the number of clients will not increase much by 2023 (perhaps to 200 treatments and 2000 consultations). Each patient must pay Glink VND 950,000 per month for ARV treatment, and VND 33-35,000 per day for medicine, totaling around VND 2 million (\$800-\$900) per month. These costs are not affordable for the B40. The company has currently no solution to integrate the B40 as part of their clients; rather it refers to the need for the poor to use health insurance service from state-owned hospitals and clinics.

**Innovations for B40:** Glink is different from the other two private companies providing HIV treatment and prevention (My Home, Gallant) because: (a) it targets patients in a niche market (the gay group), while other companies do not have a specific targeting strategy; (b) it provides friendly health services by professional staff and doctors also from the LGBT group; (c) keeps private information confidential, and (d) does

proactive communication, PR and marketing activities through social media, Facebook (its HIV group in Facebook has 2,850 members); (e) engages in policy advocacy with provincial government authorities (regulations are in place but implementation is still a challenge; and (f) it advocates for private-public cooperation between state and private hospitals and clinics to ensure the best treatment for HIV patients.

**IB readiness and recommendations:** The service Glink provides is from a social point of view highly relevant but, currently, the company is not an IB. This is because the company does not include the B40 in its targeting and has no specific design features to address affordability. However, Glink could potentially transform into an IB by setting up an additional business line for the B40. This is especially because Glink seeks to grow further; escape the social enterprise trap of low reach, revenue and growth; and achieve a stronger industry/sector transformation impact. There are needs and business opportunities in the B40 market. Targeting (also) the B40 market would require exploring new business approaches such as (1) Cost cross-subsidization from wealthier clients and from other financing sources, or (2) developing a business line for the poor by adjusting the HIV treatment service to a shorter time to reduce the costs. The company can do more to improve its social reach and depth with targeting the poorer income groups and perhaps also more women. If the company decides to introduce some of the suggestions mentioned above, it could become an IB. Then the company should be eligible for some business coaching. Glink is also a very good case for prioritizing IB in public procurement.

## 6. Green Gen

**The company:** Green Generation (GreenGen) is a company selling biomass cookers to remote areas in Northern Viet Nam. The company was established in 2012 as a joint stock company and has scaled-up its business since 2015. The company's senior management has a strong strategic intent for using an inclusive business approach to provide solutions for the efficient use of renewable energy, especially biomass energy, for low-income people in rural areas of Viet Nam.

**The business model** is based in the observation

that in rural Viet Nam over 60 per cent of households still use traditional open-fire wood stoves for their cooking needs to prepare food for the people and for animals. Poor and low-income households prefer firewood and agricultural residues (such as rice husk, straw, corncob, and leaves) over cooking gas due to lower costs, especially for long-term cooking purposes, and better availability. However, there is low public awareness about health and environmental risks caused by inefficient burning of biomass. Green Generation developed an affordable improved cookstove that is appropriate and relevant for the cooking needs of the poor. The business model of the company is a service model, where the company engages the B40 as consumer.

**Commercial returns:** The company sold 25,000 units in 2018, up from 20,000 units in 2017. It is the second biggest of five cooking stove companies and is the largest in rural and semi-urban northern Viet Nam, its priority market. Given high last-mile logistical cost to reach consumers in remote mountainous area, the company faces challenges to grow its revenue. It is therefore experimenting also with other forms of energy provision (biomass to fuel, using rice husk to make flooring tiles) where the poor could be engaged in income models.

**Social impact:** The product is highly relevant to improve the living conditions of the B40 and reduce their daily costs for cooking. Customers are mostly the poor and low-income families. Each cookstove is retailed at the price of VND 180,000-350,000 (\$7-\$15) depending on the size of the unit, which is very affordable for low-income people. Using GreenGen stove saves 50-60 per cent of firewood compared to traditional firewood stoves. Cooking with GreenGen stoves is also cheaper than using LPG gas (one tank of 12 kg LPG gas costs about VND 350,000 which on average lasts for 3-4 months use in rural households). As most of the inputs used is residue biomass (such as fallen branches), using biomass is typically cheaper in rural areas. The stoves also reduce cooking time, which is usually the task of women and children, and the exposure to harmful indoor smoke thanks to efficient combustion. The company currently employs 12 full time workers in the production line (and 20 in high season), most of them are low-skilled and aged people.

**Innovations:** In addition to the technological

innovation of a more efficient and smoke free cooking stove that can also be used outside, the company has also introduced various business innovations. It uses multiple marketing and distribution channels such as direct selling, online selling, telephone selling, using post offices network, or attending trade fairs. It avoids middlemen by working directly with retailers living in villages who sell to end users. It reaches out to its target customers in the rural areas through coordination with community-based organizations such as Women's Union, Farmers' Union and Youth Union for awareness training and product dissemination. As the sale is highly seasonal, mostly between October and February (70 per cent of sales) when poor clients with no stable income still have money, the company is also exploring new ways to introduce a more time balanced sale system.

**IB eligibility and suggestions:** For qualifying as IB, the company has a relatively low revenue and reasonable returns. Given the highly relevant and affordable product of the company for the poor, and the strong IB intent, and despite of the still small commercial returns, the company is rated as an inclusive business model. Solutions for cooking energy find strong demand in the market and are very relevant for the BoP people. The company, having a unique model of delivering energy services, can further enhance its systemic impact on the sector and the geographical dimensions of poverty. The key challenge for growth, larger reach remains its distribution system. To increase revenue and commercial returns for the company, it might be worthwhile for the company to engage further in additional business lines with other forms of energy generation.

## 7. Hamona

**The company and the IB business:** Hamona is a food/fruit business, processing and branding ready to drink coconut. The company was founded in 2013 and has since then shown robust growth.

**Commercial performance:** In 2018, the company had a revenue of about VND 25 billion (approximately \$1 million), and it plans to increase sales to VND 70 billion (\$3 million) by 2023. The profit margin of the company is around 15 per cent. The company is bankable and is currently looking for new investments in the amount of \$1

million.

**Social impact:** The company currently sources coconuts from about 300 farmers and is planning to increase that to about 600 farmers by 2023. Farmers producing for Hamona are mostly low income (50 percent of suppliers) and better off farmers (30 per cent), while the company sources less from poor households (20 per cent). Hamona has a transformative impact in the sector, as many other companies try to imitate the success story of the company. However, only Hamona pays slightly more than the market rate and other companies have less social depth. Besides paying slightly more than the market rate, Hamona provides farmers with price-guaranteed contracts, which provides them more income security in comparison with traditional middleman verbal contract.

**Innovation for the B40:** The coconut product and the presentation of the coconut in the market is a special innovation of the company. The company is branded, it is a well-known product in the local and foreign market. Hamona also supports farmers to focusing on the quality and quantity of their products. Beyond these business innovations, the company has so-far scarcely introduced innovations to reduce risks of its farmers but is open to explore more.

**IB readiness and recommendations:** The company is rated as a potential IB company, with IB ratings closer to mainstream business and slightly below the benchmarks for qualifying as IB. It shows particularly need for improvement in business innovation for the benefit of the B40, and social depth rating. On the other side, the company has a good commercial performance rating, and shows strong IB strategic intend of the management. Hamona could further innovate to increase social depth and innovation for the B40. Some minor IB business coaching might help orienting the company more towards IB.

## 8. HTC

**The company:** HTC is a leading agricultural trading and producing group in Viet Nam for tea, spices, and herbs. Its tea branch is one of the five or six tea companies with organic certification and three companies with Fair Trade certification in Viet Nam. It is among the biggest highland, organic and fair-trade tea producers in Viet Nam.

The tea line of the company, founded in 2001, is particularly relevant for the IB discussion. The tea business line started in 2004, with the company establishing an ecosystem of tea producers in Viet Nam by forming strategic partnerships in the high-quality highland tea areas, building 20 factories, and selling 8,000 tons of tea per year to international markets. HTC is the founding member of the Viet Nam Organic Agricultural Association.

**Rationale for the IB business line:** Many of the tea growing areas in Viet Nam are in the poorest and mountainous regions, where a large percentage of the population are poor ethnic minorities. Lack of employment, non-existent infrastructure, and poor education are common problems in these areas. Different to tea production in other countries, where the poor are engaged as low paid laborers, the company emphasizes an outgrower model where the B40 are engaged as suppliers earning higher than as workers in traditional tea estates. The companies provides those tea growers, who otherwise have very low income (many of them used to exchange tea for rice or sell it at very low price), with stable income opportunities above the market rates.

**Commercial bottom line:** In 2019 the company had an annual revenue of about VND 300 billion (\$13 million) with a production area covering 11 provinces mostly in northern Viet Nam. The annual growth rate of revenues over the past 3 years has been 5 per cent and it is expected that it will remain unchanged in the next few years. As volume of tea production has stabilised, the company will now focus more on quality, branding, and packaging (rather than on increasing production volume) to increase their revenue. The profit margin of the company is 8 per cent gross and 5 per cent net, which is average of the tea sector in Viet Nam. The company is bankable and plans to invest VND 50 billion (\$2,2 million) for upgrading equipment and production line to improve quality, around 30 per cent of which will be from loans. It has invested significantly in technology, research and development to create diverse types of specialty tea by conducting research in the seeds, processing technology and farming techniques and engaging foreign tea experts.

**Social impact:** The company works directly with about 8,000 households or 16,000-21,000 persons (on average 2-3 persons per household



are engaged in tea production). Most of these households are poor, vulnerable and ethnic minorities groups and 80 per cent of the people reached are women. In addition, the company has about 400 full time workers. Farmers working with HTC can earn 7 million VND per month on average (or \$10 a day). The company pays about 20 per cent more than the other conventional tea producers and pays higher than most other organic tea companies. The company is guaranteeing the purchase of the tea products from the farmers at prices higher than the market price. The company can pay higher prices due to its higher value-addition and the international demand for high-quality, organic produce. As a result, the tea has become a “cash crop” that provides stable income for the poor farmers.

**Innovation:** The company invests highly in sustainability and follows high environmental and social safeguard standards. The company has set up a value chain model that shares the benefits with the farmers by providing them with training in advanced farming techniques and by ensuring quality control for meeting organic and fair-trade standards. It also increases productivity of the farmers through input and better farming technology and processes. Furthermore, the company has a strong CSR program, investing in community infrastructure and education projects.

**IB readiness:** HTC has high ratings for commercial performance and social impact, in particular social reach and strong strategic intent, and qualifies as an inclusive business model. HTC is a successful IB company, and it may wish to explore providing business coaching to other less successful potential IB companies. Furthermore, the company may wish to explore diversifying its business model or provide other or additional income opportunities, for example through alternative tourism.

## 9. My Lam

**The company and the IB business line:** My Lam, founded in 2009, started its inclusive business line in 2016, when it developed a safe, sustainable and quality tea value chain based on close linkage between the farmers and the company. It has a 430 ha. production area in 3 communes in Yen Son district, Tuyen Quang province. The company's strategy is to invest in tea production that meets

the EU standards of non-organic food safety and hygiene and has Rainforest Certification. The company provides inputs such as fertilizer, pesticides, seeds and training, to the farmers 10-15 per cent lower than the direct market purchase price. It also commits to buy 100 per cent of the products at stable prices much higher than before, and slightly better than the going market rate in similar areas. The inputs provided by the company improve production yield by 6-10 per cent, and reduce somewhat the negative environmental effects compared to traditional tea farming. The company sells most of its black and green tea (90 per cent) to Unilever, a multinational company, which then further processes and exports it to Europe.

**The commercial performance:** In 2018, the company had a revenue of about VND 70-75 billion (\$3 million), with 430 hectares of production area. The products include both green and black tea, mostly (90 per cent) for the export markets through Unilever. The annual growth rate of revenues over the past three years was 5 per cent and this is expected to remain unchanged in the coming five years, as the company will not expand its production area and prices for its tea are not increasing much. The profit margin of the company is 8-10 per cent which is slightly higher than average in the tea sector in Viet Nam. The company has two production facilities of black and green tea and plans to invest \$500,000-700,000 for upgrading machinery and equipment.

**Social impact:** The company works directly with about 500 farmers, most of them come from the poor and vulnerable households with about 0.6 hectares of land. Eighty per cent of the farmers reached are women. Most of the workers in the factories are also women and 60 per cent of the lower and higher management team in the company is composed of women. The production method introduced reduces the costs the farmers pay for plant protection materials by 20 per cent. Each contract farming household produces about 15 tons of tea per year, with a stable price of VND 5,200-5,700 per kg (before the price was fluctuating between VND 3,000-5,000 per kg). Each household could earn about VND 7 million per month (around \$3 per day). This is slightly higher than the price paid by other companies in the lowlands (VND 4,000-4800 per kg).

**Innovations:** The company has set up an

innovative linkage model between the company and the farmers where farmers participate in the production teams, the supervision committee (which supervises product quality and pesticides level), and the financial committee (which monitors the input costs and the sale prices) in a transparent and participatory manner. The farmers participate in the management of the company by supervising the quality of the products, the inputs, and the costs, and is well informed about the market price. The farmers in each group can also control the product quality of other groups in a cross-checking mechanism.

**IB readiness:** The company is not fully reaching all required IB rating thresholds. Particularly it could do better in achieving social depth and introducing business innovations that benefit the B40. However, given the company's strategic intent to change the business to be more inclusive, we rated the company as an IB case. To become a stronger IB model, the company may wish to explore: (a) diversifying its direct sale rather than depending on Unilever, (b) going organic to achieve much higher prices, and (c) expanding the participation of its suppliers into a shareholder model.

## 10. Pepsi

**The company:** Pepsi is a global conglomerate with a revenue of about USD 67 billion worldwide in 2019 driven by a complementary food and beverage portfolio that includes Frito-Lay, Gatorade, Pepsi-Cola, Quaker and Tropicana. In Viet Nam, the potato supply for its snacks manufacturing mainly depended on imports in the past. However, since 2008, the company has developed its potato material zone in Don Duong and Duc Trong districts of Lam Dong province and recently adding Dak Lak province (both in the Highlands region), cooperating with farmers to increase the local supply of potatoes.

**The IB business line:** As part of its global "sustainable farming" program, the company introduced in Viet Nam new high-yield potato seeds, and established a contract farming system where it provides seeds and fertilizers in advance to the farmers, and trains them on scientific farming techniques. It also established demonstration farms, introduced an advanced misting system to reduce water usage, and has

committed to purchasing produce based on prices agreed with the farmers at the beginning of the cropping season. The company also shares risks and losses with the farmers if the farmers incur losses. PepsiCo potato contract farming production is in the central highlands, while in Northern Viet Nam the company has worked with farmers through traders.

**The commercial results:** Pepsi's potato contract farming sourcing increased 12 times from 2008 to 2018, providing from 60 to 70 per cent of the necessary potato supply for the company's snacks factory (the rest being imported). Average yield increased four times (from 5.6 tons to 24.3 tons per ha). The company's next three-year plan is to increase the farming area to 1,000 hectares by expanding to other provinces in the Central Highlands and Northern region; and increase domestic supply for production in Viet Nam to 100 per cent.<sup>70</sup>

**The social impact:** The number of contract farmers in PepsiCo's direct value chain increased nearly 10 times from 60 households in 2008 to 580 households in 2018. In addition, there are more than 400 farmers in the Northern area that the company is sourcing from through traders (note: these farmers would not be counted as part of the immediate reach of the IB business model, since they earn less than the Pepsi contract farmers). The company does not have a specific policy targeted at poor or low-income households; however, most of its contract farmers have average landholdings of only 0.6 ha, and can hence be seen as poor farmers. With potato production under PepsiCo, in Don Duong province for example, each farmer can earn annually on average about VND 75 million per hectare. Given an average available land area of 0.6 ha, each household can thus earn about \$200 per month.

**Innovations for the B40:** The company maintains two seed research centres and has introduced new seeds with high yield in Viet Nam that are highly resistant to diseases. These seeds reduce production costs of farmers and increase yield and income. The company also introduced advanced technology in farming: sprinklers and drip irrigation which save water versus conventional shower irrigation (saving approximately 1.4 million m<sup>3</sup> annually), and quality fertilizer with lower costs and higher production efficiency. PepsiCo follows high social and environmental

standards integrated into its sustainable agriculture program to protect the health of farmers, control waste disposal, ensure minimal wages, no use of child labour, etc. The company also has a strong CSR program linked to its core business. For example, PepsiCo cooperated with Tan Nong (a Dutch company) in a project in Lang Giang, a poor district in Bac Giang province in the North, to provide seeds and fertilizers to the potato farmers and thus increase their income through higher yield and reduced costs.

**IB readiness and recommendations:** Pepsi could be considered as a very good case for a potential IB model. To transform from a mainstream company with a potential IB business line to a real IB company, PepsiCo Viet Nam may wish to increase its direct sourcing from better paid contract farmers and reduce buying from traders who do not pay well to the farmers. They may also innovate to further increase income opportunities for the farmers (for example through inter-cropping), and eventually, enhance the share of the added value given to the farmers so that they can earn much more than the market rate. It could use its CSR more strategically to test such models that deepen social impact and income opportunities for the poor. Given that PepsiCo has a very good reputation and strong and strategic market impact, the company could play a much more active leading role in promoting Inclusive Businesses in Viet Nam, especially since, at the global level, Pepsi is already a champion in this area.

## 11. Quang Vinh

**The company:** Quang Vinh Ceramic Company Limited was established in 1994 as a leading ceramic company in the traditional ceramic village of Bat Trang in Hanoi. The company's history goes back to the late 1980s, when a cooperative of ceramic makers was formed to supply products, as a subcontractor, to export companies. Today, the company has a production workshop in Bat Trang and a factory in Quang Ninh province. Its strategy is to focus on innovation solutions to develop high value, innovative, and technology-intensive products for high-end markets. Almost all (95 per cent) of its products are for export markets such as Japan, Australia, the United States, and the European Union.

**The IB model:** Given its strong strategic IB intent, good and transformative social impact, high commercial viability, and innovations for the B40, the company can be considered as an IB model.

**The commercial performance:** In 2018, the company had a revenue of VND 50 billion (\$2.2 million), up around 25 per cent since 2016. Sales are expected to grow 10-15 per cent per year in the next few years and may reach VND 75-100 billion in 2023. By developing new and creative products which can get a premium price in the export markets, and by innovating on production efficiencies, the company achieves a net profit margin of 10-15 per cent, which is higher than the average in the handicraft sector. The company is bankable and, as an exporting company, it can borrow at 4 per cent interest rate for loans in dollars, which is much lower than interest rates for VND loans.

**The social impact:** The company employs more than 200 laborers (95 per cent are women) in its factory in Quang Ninh. All come from poor households. Each worker is paid VND 5-6 million per month (\$200-250). In addition to paying a salary 5-7 per cent higher than other companies, Quang Vinh Ceramic has an excellent welfare system for its workers beyond government requirements, including social and health insurance, a learning promotion fund and vocational orientation for the workers' children, summer vacation camps, and small loans (VND 3-20 million) with zero interest for housing repairs and family economic development, payable over many years. The company has a large female labour force (and suppliers), given that men usually work in better earning coal mines in Quang Ninh. The company also developed technological innovations and reformed production process to reduce the heavy workload for women (e.g. using lifting equipment for heavy objects, semi-automatic machinery, loading equipment, reducing smoke, dust and keeping the environment clean).

**Innovation for the B40:** Innovation is a priority for the company, but most of the innovations are technology related. Quang Vinh got the first prize for its super thin and super light ceramic products in a creativity contest for Quang Ninh province, and the second prize in a competition on designs for export handicraft products in Hanoi. The factory in Quang Ninh has got the status of "science and technology enterprise" certified

by the Ministry of Science and Technology since 2017. Through technological solutions, the costs for input materials have decreased by 35-40 per cent and energy expenses have also been reduced by 25 per cent. The company has been experimenting with new materials, designs, technologies, and products which are highly artistic and fashionable. Quang Vinh Ceramic has also successfully restored the ancient bricks of Bat Trang. The company follows high environmental and social standards through clean production, protecting the environment, reducing the noise and emissions, ensuring labour safety in the working place, complying the regulations on working time, child labour, and waste treatment. The company utilizes excess heat from the furnaces for drying as a measure to save energy. In addition, the company is implementing an ambitious project to develop a traditional village culture tourism centre with a pilot model in Bat Trang. This aims at promoting Vietnamese handicrafts, develop cultural tourism, preserve traditional values, and generate employment.

**IB readiness and recommendations:** Based on the IB rating benchmarks, Quang Vinh qualifies as an inclusive business model with a good overall rating, and particular strengths in technology innovations and gender focus. Some (small) business coaching would help increasing the social impact further. Given the high commercial viability, the company is also a good investment case for an IB risk reduction financing. However, going forward, to become a stronger IB model, the company may wish to explore how it could enlarge its reach (engaging more people) and find commercially viable ways to pay even better than currently.

## 12. Sao Thai Duong

**The company:** Established in 2000, Sao Thai Duong is among the top five companies specialized in production of products from herbal plants with three categories: cosmetics (40 per cent), functional foods (40 per cent), and herbal medicine (20 percent), mostly sold in domestic market. Its products meet the good manufacturing practices of the World Health Organisation (GMP-WHO) and the company is aiming to meet the good manufacturing practices of the European Union (GMP-EU) and obtain organic certifications.

**The IB business:** Since 2009, the company has started to develop material zones and sourcing two thirds of its inputs directly from local producers. It is sourcing nearly 70 different inputs (such as ginger, turmeric, lemongrass, lemon, mint, holy basil, polycias, pinellia, and other indigenous plants in Ha Nam, Nam Dinh, Bac Giang, Hung Yen and other provinces in North Viet Nam. This part of the company's business and the processing of herbal products in three factories is a potential inclusive business line.

**The commercial performance:** The company had a revenue of over VND 100 billion (around \$4.5 million) in 2018 and an annual growth rate of 10-15 per cent over the past three years. It plans to maintain this growth rate over the next few years, to face strong competition in the sector from both domestic and foreign companies. The company has an ambitious investment plan for a high technology factory in Ha Nam province (in addition to the existing two factories) with a total investment capital of \$30 million (phase 1 to be completed in 2020 with investment of \$13 million, 70 per cent of comes from long-term bank loans). It also plans to invest nearly \$4 million in a material zone and processing factory in Son La province. The company has good bankability but would need some support in borrowing from the government-sponsored science and technology funds offering favourable rates at half of the usual market rate.

**The social impact:** In 2018, Sao Thai Duong worked with around 400 households as suppliers and 400 factory workers (hence a total social reach of 800). It is planning to upscale sourcing to 700 farmers by 2023, while the number of laborers will remain the same (increasing its total reach to 1,100 people). The company does not apply specific targeting to source from poorer farmers and does not keep any data on their income, but these farmers are typically low income farmers. To meet quality requirements of its produce, the company provides training on advanced farming processes and techniques (cultivation, harvesting), and on the proper use of plant protection inputs; this is in cooperation with experts from Herbal Medicine Institute, Hanoi University of Pharmacy. As a result of the company's engagement, the farmers could double their income compared to when they worked before in traditional crop (rice and corn). The farmers in the Sao Thai Duong value chain have today revenue of VND 5-6 million (ca



\$250) per month; while as rice and corn farmers they used to earn VND 3 million 3 years ago. The income increase comes from the higher value (better price) for shifting the cultivation, and from increased yield (about 50-100 per cent of the income increase). Factory workers receive a monthly salary of VND 7 million (\$300), which is also higher than the local average salary of VND 5 million. Factory workers also have social and health insurance, as well as other social benefits, thus the staff turnover is very low.

Currently, the company is seeking international expertise and funding to help farmers (in terms of techniques, practices, seeds and fertilizers) grow organic medicinal herbs according to European and USA organic standards. The company has been buying organic herbs but is now investing in growing its own organic herbs in the Northern mountainous region of Viet Nam. The company will provide technical assistance and seeds from this organic material area for free to the farmers in their value chain. However, in addition to investing its own resources, the company would require additional financial (and technical) support to run and upscale such program.

**Innovations for the BoP:** The company has introduced business, technology, social and environmental innovations:

- Innovations in business processes comprise piloting new business models such as retail pharmacy store chains and organic products supermarkets. It has a large distribution network through pharmacy stores, supermarkets, trade centres, airports, tourist areas and e-commerce channels (Lazada, company website and Facebook fanpage).
- Technological innovations include the company's strategic focus on adopting new technology to create new products with a specialized R&D department. It has established close collaboration with local research institutes and universities (e.g. Hanoi Polytechnic University, Hanoi University of Pharmacy, Hanoi Medical University, Hospitals) and international experts to build its GMP factory, support technological development, implement a national science and technology research project, design mechanical, electricity, plumping, energy management, and energy saving techniques;

develop collaborative leadership skills.

- The company has done multiple CRS activities, including providing free health examination and cataract operations, and building schools for poor people. As part of its CSR program, the company recently founded the "Class Bookcase" program, offering books and bookshelves for rural children, and for young businesspeople and academicians in rural areas. This program attracted thousands of business participants who raised nearly \$ 0.5 million worth in donations of books.<sup>71</sup> The total CSR contribution of Sao Thai Duong is estimated at VND 1 billion in 2019.
- The company also invests in environmental sustainability and follows high environmental and social safeguard standards. It provides training to farmers on the proper use of pesticides and plant protection inputs to meet the strict standard related to herbal medicine. The company met ISO 14000 on environment standards and pays high attention to energy saving and waste treatment.

**IB readiness and recommendations:** Under the IB rating system, the company is just above the threshold for an IB model and the strategic IB intent is just medium. The company is therefore rated as a potential inclusive business model. To become a full IB model the company could introduce innovations for the poor (such as risk sharing modalities), enhance its social depth (by paying higher than its competitors), and support greater social transformation (perhaps by introducing specific approaches to empower women).

### 13. TMTM Moringa

**The company:** TMT (established in the 1990s) is a large company with a current revenue of about \$50 million. The company has two business lines: a seafood production (Ta Nguyen Seafood) with import export facilities that does not qualify as IB, and a moringa production (TMTM). The company is considering transforming part of its current moringa business (also qualified as a mainstream business) into an inclusive business line.

**The two IB business lines:** Moringa is a new super food with very high nutrition value growing in dry areas otherwise not used for crop production.

TMTM was set up in 2012 as a dedicated approach to improve nutritious food and to benefit poor farmers. In the current business model, TMTM enriches chocolates (and some noodle products) with moringa flavour. Moringa chocolates for high paying consumers, especially in Japan, is the main part of the business. TMTM sources the moringa inputs from about 10 farmer groups of 8-10 farmers each. The present business line is highly profitable but small in social reach. It also has very limited potential to expand revenue and reach. Challenged by its low social reach and the fact that the company currently works with more than 4,000 moringa farmers through its CSR program but engages only 100 in its immediate supply chain, and considering the huge potential to expand reach and markets, the company owner is considering adding a new IB business line. In addition to chocolate for wealthy clients, the company wants to also produce nutrition foods (a special porridge) for undernourished children in international refugee camps, and baby and children food (porridges and noodles) for schools, temples and private consumption in the local market. This would increase substantially the sourcing from moringa farmers and would also increase the revenue and profit margin of the company.

**Commercial performance:** With the current business model (chocolate production) TMTM had a revenue of VND 17.5 billion (\$0.75 million) in 2018, up from VND 2.3 billion in 2012 and 9.2 billion in 2015. Revenue in the current business model could be expanded to about VND 40 billion (\$1.7 million) by 2023. While profitability is good, net profit is low, because the company spends substantially on CSR (moringa seedlings and training).

In the new business model (the company would have two business lines, one for the upscale market (chocolate for the better off and Japanese people) and one for the mass market (children in Viet Nam and in refugee camps world-wide). Projections of the new business model shows a substantial increase in revenue to about VND 240 billion. Also, the net profit would be four times higher than in the current scenario. Furthermore, social reach would go up from 100 currently to 2,160 in the new model.

**Social impact:** In the current business model (moringa in chocolate), the company is working with 100 households; it could expand this in the

coming 5 years marginally to 160 farmers. The new IB model would combine expansion of chocolate and adding a new business line of children food. This would imply sourcing from more than 2,200 farmers by 2023 (10 times the projections for the current line).

Moringa farmers are very poor farmers with about 0.5 ha land per farm. They are mostly women selling moringa in the local market at low rates. Although moringa is a super food which could bring high incomes, the farmers selling their produce in the market achieve a very low price due to the little value addition they give to their produce. One bag of moringa sells in the market at only 4500 VND. TMTM is currently working with many women through its CSR model. However, this does not guarantee major income increase for the women. Rather they achieve low prices when directly selling moringa in the market. With the new IB model many more women would be engaged by TMTM as suppliers and they would earn – through TMTM - substantially (20 per cent) more than now.

**Innovations.** In the current model, the company is providing moringa trees and training to about 3,000 farmers as part of its CSR activities. The cost of CSR is relatively high and negatively influencing the profit margin for the company. At the same time, the impact for the farmers is low because they sell their produce in the local market without much value addition. TMTM management is considering transforming its CSR into a business that could benefit 2,000-30,00 poor farmers in a more financially sustainable way. Other innovation coming from TMTM comprise technology and environmental innovations.

**IB readiness:** TMTM is a very good example on the benefits that transitioning from a mainstream business to an inclusive business can bring for the poor, for the company, and for society. While the current business of TMTM would not qualify as an inclusive business (IB overall rating of 3.1 innovation rating of 0.3, and social impact rating of only 1.2), the new business model would perform very well as IB (overall rating of 3.8, social impact rating of 1.6 and innovation rating of 0.5). There is a strong rationale to use business coaching (including public procurement support for marketing to refugee camps, schools, hospitals), IB branding, and IB risk reduction funds for a company like TMTM.

## 14. Traphaco Sapa

**The company and the IB business:** Traphaco Sapa, founded in 2001, is a subsidiary of Traphaco Company, a firm with a revenue of about VND 1,800 billion engaged in herbal medicine. The company is a member of UEBT (Union for Ethical Biotrade) and member of Lao Cai Safe Agricultural Productions Association.

**The IB business:** Traphaco Sapa specializes in the production of herbal medicine, with production area in Sapa and Bat Xat districts of Lao Cai province. For producing herbal medicine, a company needs to have high quality stable and larger scale inputs of herbs. However, due to the remoteness of the mountainous region, access to such material is challenging. While the traditional crops in those regions with large poor ethnic minority groups also include indigenous herbal plants, these are not necessarily harvested at large scale and often only sold in the nearby markets at low rates. Traphaco Sapa uses a more commercial approach to herbal production. It provides the farmers with the seeds, training (both in class and in the field training) and farming techniques. It commits to purchase the products from the farmers at the price 30 per cent higher than the local market price. Main products purchased are “artiso” (artichoke), “che day” (a type of herbal tea), and “duong quy” (ashweed), which Traphaco Sapa transforms into herbal medicine. The company is also expanding into other herbal plants, herbal vegetables, and agricultural product chains.

**Commercial performance:** In 2018, the inclusive business line’s revenue was about VND 50 billion (\$2.2 million). While there was not much revenue growth over the past 3 years, the company hopes to achieve VND 75 billion (\$3.3 million) by 2023. The gross profit margin is 7 per cent, which is slightly lower than the industry average of 10 per cent. The investment need in this sector is high to meet strict quality standards, resulting in high depreciation expenses and low profits in earlier years. The company invested in high technology to meet the strict standards of the sector, the Ministry of Health, and the WHO. It applies quality management systems such as GACP, ISO, and GMP-WHO. The company is bankable and is currently serving a bank loan of \$1 million for construction of a GMP factory in Lao Cai.

**Social impact:** The company works currently with

300 households and expects to work with 500 households by 2023. About 140 households grow artichoke under a contract farming arrangement, and 160 farmers grow other herbal plants. The company currently does not have a plan to increase the number of artichoke farmers as the demand has been stabilized but will increase those growing other herbal plants.

All farmers are from ethnic minorities. Seventy per cent of the supplying farmers are women and 50 of company laborers are women. It is estimated that around 20 per cent of the farmers are poor and very poor, and 30 per cent low-income, while 50 per cent of the farmers are from the top 60 per cent income group. Artichoke farming yields the highest income. While rice or corn farmers in the region earn VND 50-70 million per hectare per year (\$3,000), artichoke farmers can earn three to four times more (VND 250 million). Furthermore, the company pays much better prices to its farmers (VND 2,200 per kg) than other herbal companies in other provinces such as Da Lat (VND 1,600 per kg). The company has tried to keep a premium price paid to the farmers despite market fluctuations.

**Innovation for the B40:** Traphaco Sapa is one of the few companies to plant high value indigenous plants in its material area for herbal plants. The company has a very close and good relationship with its farmers and the local government. It is reducing its dependence from the mother company, increasing sustainability and profitability, by diversifying its own production into functional foods from herbal plants and developing new products and services in the health sector. It has created a media center on herbal medicine where 20 ethnic people work to raise awareness and knowledge and to promote market demand for herbal medicines. The government is trying to attract other companies to the province using the model of Traphaco Sapa as an example.

**IB readiness and recommendations:** The company is rated as an IB model with a strong strategic IB intent. Going forward, the company may wish to improve its targeting of the poor as suppliers, and further diversify into higher value produces, to increase revenue, expand market access, and enhance productivity. Under the proposed IB support program, the company may benefit from business coaching, specific IB branding, and eventually also from an IB risk

reduction co-investment with an impact investor or bank.

## 15. TYM

**The company:** Tinh Thuong One-member Limited Liability Microfinance Institution (TYM MFI) was initially established in 1992 by the Vietnamese Women's Union (VWU) to implement the Government's Poverty Alleviation Program. In 2010, it became the first licensed MFI in Viet Nam. There are four microfinance institutions in Viet Nam licensed by the State Bank (and many additional microfinance projects implemented by NGOs) and TYM is one of the largest MFIs in the country.

**The IB business model:** TYM offers a wide range of financial services (credit, savings) and social services (training, capacity building, community support, business development) to its clients in 13 provinces and cities in rural and semi urban areas of Viet Nam. It has diverse loan products such as policy loans for women living below poverty lines, loans for near-poor households, multi-purpose loans, business development loans, construction loans, and investment loan. To make its lending more sustainable, TYM has mobilized deposits from its members and the public using market-based interest rates and simple transaction mechanisms (transactions close to clients' homes, minimal paperwork required). At the end of 2018, TYM had a savings balance of VND 1,265.5 billion, which represent 85 per cent of its outstanding loans.

**Commercial performance:** At the end of 2018, TYM had an outstanding loan portfolio of VND 1,497.1 billion (USD 65 million). The company is expecting to grow new clients by 10 per cent a year to about an outstanding loan portfolio of VND 2,000 billion by 2023 (USD 100 million). The average loan per client was VND 9.8 million (\$400), with no collateral requirement. TYM has a very low bad debt rate with only 0.01 per cent loan defaults. In 2018, TYM's income was about VND 281 billion (\$11.963 million), the financing expenses were VND 229 billion (\$9.7 million), and the profit before and after tax was 51.2 billion (\$2.179 million) and VND 43 billion (\$1.834 million) respectively. The company has a good profit margin of 15 per cent (2018).

**Social impact:** TYM is committed to a double-

bottom line (economic and social returns) business philosophy and has a strong intent to have a social impact. By the end of 2018, TYM had provided various microfinance services to about 160,000 clients, and 104,357 clients had an outstanding loan portfolio. All loans go to women, mostly poor and low-income customers (80 per cent), while 10 per cent of the loans go to poor women and 10 per cent to women from better-off families – often larger amount loans for small businesses. The interest rate ranges from 0.08 per cent per week (or around 4.8 per cent per year) to 0.21 per cent per week (or around 10 per cent per year) for microfinance loans. This is affordable to the poor and low-income people. In sum, TYM estimates that through their investments, 120,000 women escaped poverty and 7,000 became micro entrepreneurs.

**Innovations:** TYM is constantly improving and diversifying its services to meet the needs of its clients with different levels of income. It has piloted innovative services for the poor such as the loans for disaster risk recovery in coastal provinces of Nam Dinh and Nghe An that targeted women affected by natural disaster to invest in livestock raising, production, business, trading, fishery, forestry and trading. It has also introduced a new technology-based approach for training and interacting with clients through a two-way messaging system (providing TYM's clients flexibility to access financial literacy and business training content without interfering with their production, sales, farm work or family care). In addition, TYM has tried new microfinance products (e.g. for climate change resilience and adaptation), changed procedures to improve client's access, adopted the Central Bank's core banking system and introduced new banking technologies (e.g. piloting cashless money transfer, pioneering mobile outlets). To meet increasingly strict regulations from the State Bank of Viet Nam for formal microfinance institutions, the company has invested to upgrade its infrastructure of MIS (management information system) and financial security.

**Strong social orientation:** TYM follows a clear social mission detailed into general goals, largely considered in the decision and strategic planning processes. The company is also very active in providing social activities for women. A positive spill over of these social activities is that they have reduced the investment risks of TYM while



improving the living standards of their clients. To date, TYM has provided 150,000 training sessions designed specifically for women, 30,000 health checks for members, college scholarships for 1,500 students from low-income families, 133 housing constructions, and 200 community projects implemented to improve infrastructure, health and education in the communities.

**IB readiness and recommendations:** TYM has a very high overall IB rating, a very good social impact rating, and an excellent innovation rating. It has a large social impact (in terms of reach, depth and systemic transformation) and a very good commercial performance. The company has a very strong IB strategic intent and a strong focus on women empowerment and gender equality. TYM is a very good example for IB, for women empowerment, and for transitioning philanthropic social work to commercially viable approaches with large social impact. Some measures to promote the IB case of TYM would be to help with branding the company as an IB, with expanding its market reach, and with facilitating special treatments (as an IB company) in the company's discussions with State Bank microfinance regulations. Finally, the closeness to the Viet Nam Women Union could be used to raise awareness with the government that making business and social impact can go together and is providing more triple wins for society, the poor, and a company's bottom line.

## 16. Viet Trang

**The company:** Viet Trang was formed in the 1970s as a household business in Nga Son district, Thanh Hoa province, and was officially registered in 2001 as Viet Trang Handicraft Company. The company specializes in handicraft products made from natural materials such as seagrass, jute, water hyacinth, and corn leaves. The whole company is an inclusive business model.

**The IB line:** The company's business strategy, is to work directly with farmers, and not through agents, thus sharing the risks and profits directly with the farmers. To ensure employment and income for the farmers, the company is willing to accept lower profit margins. Viet Trang provides the farmers with materials, training, and tools. The company aims to empower local women and disadvantaged groups, protect natural resources and preserve traditional craftsmanship through

the creation of high quality and sustainable natural fibre handicraft products. Thanks to the good cash flow (clients deposit 30 per cent of the order as upfront payment) and no outstanding loans, the company has a good bankability.

**The commercial performance:** In 2018, the company achieved a revenue of VND 20 billion (almost \$1 million), doubling that of 2016. It plans to double or even triple its revenue to VND 40-60 billion (\$2-3 million) by 2023 by developing new customers, products, designs and expanding to other craft villages. Despite of the company's good expansion plans, such big growth expectations may be a bit optimistic. It has a net profit margin of 5 per cent. The profit margin may seem low but it is a good profit, given that the company actively balances profit margins, good employment and income for the craftsmen, and the preservation of traditional craft villages.

**Social impact:** By 2018, the company worked with 500 supplying households in the traditional craft village of Nga Son district in Thanh Hoa province and employed 30 full-time staff. Supplying households may double to about 1,000 by 2023, if the company achieves the envisaged growth rates. Most (85 per cent) of the suppliers are women, and most of them are young women working part time due to other family obligations while elderly women mostly work full-time. While the company has no specific targeting mechanism and does not maintain data on the income of its suppliers and the use of such income, the management estimates that these are low-income households. The company generates 40 per cent additional income for these households. On average, households working part time could earn VND 3-4 million and full-time craft workers could earn a monthly salary of VND 4 million per month. Their income has increased 50 per cent compared with 3 years ago. In high seasons, Viet Trang can pay the craftsmen 15 per cent higher than the market rate, but in low seasons prices are lower and income earning opportunities also.

**Innovation:** The company is investing in designing new products and designs, automating the production process, IT, and digital marketing. It does not use dyes and 95 per cent of its inputs are from natural materials. The company also runs a CSR program providing, among others, skill training related to handicrafts for low income and persons with disability in this district and other

localities.

**IB readiness and recommendations:** Viet Trang qualifies as an inclusive business model. The company's management shows a high IB strategic intent and has a strong social orientation. While the company just passes the IB threshold, it needs improvement on social depth and commercial viability as well as business innovations. Viet Trang crafts would need business coaching to improve its business model and achieve even higher impact. The advisory services would also need to emphasize that social impact can be achieved through enhancing the business returns and vice versa, and no trade-off between the two is needed if the company invests in increasing productivity and value addition.

## 17. VinaSamex

**The company:** VinaSamex was established in 2012. It sources cinnamon, star anise and other spices from farmers in Lang Son and Yen Bai provinces in Northern Viet Nam. It processes and exports them to high-end export markets such as the EU, USA and Japan. The company focuses on high quality products meeting international certifications and does not use chemical fertilizers, pesticides and herbicides. It applies high international standards such as HACCP, Organic, and Fair Trade.

**The IB business model:** Most of the farmers in the northern mountainous region of Viet Nam are poor and do not have a stable income. Many of these areas have the poorest and hardest reached communities in Viet Nam, with large percentage of the population being from ethnic minorities groups. The farmers usually sell their products to the middlemen who will in turn sell to the Chinese market with high price fluctuation or price pressure, leaving little margins for the farmers. To ensure high quality products, the company follows high quality requirements in all stages of production, preservation, and transportation of the spices and herbs. The company provides (against payment from the farmers) the seeds, training in farming technique, harvesting and preservation tools, labour safety tools, packages to ensure safety, production models, ensures quality control to conform to quality standards of international certifications, and commits to buy from the farmers 100 percent of their products.

**Commercial performance:** The company

expects a very good growth of annual revenue (20 per cent growth over the next 3 years). The net profit margin of the company is 7 per cent. The company has ambitious expansion plans for production capacity and new factories in Yen Bai, Lao Cai, and Lang Son provinces in North Viet Nam. In addition to VND 50 billion (over \$2 million) of outstanding bank loans, the company plans to borrow an additional \$1 million for each new factory, which may be somewhat risky due to a high level of leverage.

**Social impact:** The company is working directly with 1,409 households (contract farmers), most of them (60 per cent) are poor and vulnerable and around 60-80 per cent of the persons engaged are women. Nearly all income beneficiaries of the company are from ethnic minority groups. With the new factories, the company expects to reach additional 1,500 farmers by 2023, expanding its total reach to nearly 3,000 farmers. Farmers working with Vinasamex can earn VND 4-5 million per month on average (or \$7 a day), which is relatively low. However, the company is paying about 10 per cent more than farmers get from the middlemen in local markets.

**Innovation:** The company applies production standards of HACCP, Organic, and Fair Trade to achieve higher prices for its produce. Otherwise it has few business innovations that reduce the risks of the poor and low-income people. It also does not have a larger CSR program.

**IB readiness and recommendation:** The IB company rating is slightly below the accreditation threshold. While the company is doing well in social reach, it has – according to the IB rating – some challenges with social depth (payment above the market rates) and business innovations designed to benefit the B40. Nevertheless, the company was classified as potential IB model given its large reach, good commercial performance, and its strategic intent and commitment to change towards IB. It is very timely to provide business IB coaching to the company, as it is in the process of doing a major new investment. A possible IB risk reduction investment could be linked to the successful implementation of recommendations to enhance social depth and business innovations.

## 18. WeatherPlus (former AgriMedia)

**The company:** WeatherPlus, established in

2014 as AgriMedia<sup>72</sup>, is a company specializing in providing weather forecast and agriculture solutions. The company supplies weather and agriculture technological solutions and services, that help prevent the risks of natural disasters on agriculture and optimize the farming calendar. It was the first private company licensed to provide weather forecast services in Viet Nam. The company targets all farmers, including the poor and low-income households.

**The IB business:** The company's business model is also the IB model. The company provides information on weather, market prices and trends, agricultural products price, and farming techniques for farmers. Weather and market information are critical for the farmers in Viet Nam as agriculture is subject to natural conditions and weather and market risks. The company has a large and updated database including information collected from statistics office, agricultural and plant protection bureaus and other official sources. The information delivery channels are diverse, including SMS, a call centre, website, email, and phone applications.

**The commercial performance:** In 2018, the company reached a revenue of around VND 50 billion (\$2.2 million). The company estimated to maintain an annual 15-20 per cent growth rate in the coming years and targets a revenue of VND 70 billion by 2023. The revenues come from two main sources; a) SMS service on weather, agriculture, hydropower, tourism, prevention of natural disasters; and b) non-agricultural telesales services for telecommunication companies, among others. While the market is very large, the potential customers' awareness and willingness to pay is still low. Pre-tax profit margin is 30-40 per cent. The company has not borrowed from the bank and has a strong financial capacity. It plans to mobilize from international funds such as the Innovation Fund of GIZ. The company finds it difficult to access the government natural disaster prevention funds.

**The social impact:** The company is currently selling to about 1.85 million paying customers (December 2019) and is expecting to increase this to 4 million paying customers by 2023.

While the number of paying customers is still small, the company has at least 10 million phone subscribers. While the company has no income data of users yet, its strategy is directed toward the low-income people by offering an affordable price to this group, by providing information specifically relevant for them, and by adopting the distribution channels so that the B40 can better access the company's service. The monthly subscription fee via SMS is just VND 15,000 (\$6), and there are also daily (VND 500-1000 per day) and weekly packages to meet different consumer needs. The price of service packages varies based on the duration (daily, weekly, monthly), the type of agricultural products, the level of information fluctuation and the cost of collecting the information.

**Innovations for the B40:** For enhancing social impact, the company operates a free call centre 16/7 in collaboration with VINAPHONE. This phone application provides the weather, agriculture price and market information and in-depth technical advice from leading experts in hydrology and agriculture in Viet Nam. Each month 3,000-5,000 calls are made on average and in critical times this can reach as high as 10,000 calls. In addition, the company provides free SMS to warn about natural disasters such as storms and floods. For example, during a storm in August 2019, the company sent 10 million free SMS per day to people living in provinces affected by the storm. The company also implements charity activities to support poor people in highland provinces and offers scholarships for students.

**IB readiness and recommendations:** Among the data service providers in Viet Nam, Agri-Media and is the only one with specific features targeting the B40. The company is a potential IB model. To become a real IB model it would need to further increase revenue and enhance its reach and targeting of the B40. It could also innovate on specific products for women. Furthermore, the company may wish to do some research on the actual impact of data provision on people's income and living conditions and their ability to mitigate risk. For such impact assessment, the company could get assistance from the proposed business coaching facility.

## ENDNOTES

<sup>1</sup> Adapted from the G20 and ASEAN definition of inclusive businesses (G20, 2015 and Association of Southeast Asian Nations 2017a)

<sup>2</sup> Definition of inclusive businesses adopted by ASEAN member states in their ASEAN Inclusive Business framework (Association of Southeast Nations, 2017a).

<sup>3</sup> Association of Southeast Asian Nations, 2017b.

<sup>4</sup> The Inclusive Business Action Network (iBAN) is a global initiative supporting the scaling and replication of inclusive business models. Through its strategic pillars iBAN blue and iBAN weave, iBAN manages an innovative online knowledge platform ( [www.inclusivebusiness.net](http://www.inclusivebusiness.net)) on inclusive business and offers a focused Capacity Development Programme for investment seeking companies and policymakers in developing and emerging countries. iBAN is jointly co-funded by the German Federal Ministry for Economic Cooperation and Development and the European Union. It is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Since 2017 iBAN supports the ASEAN Secretariat and ASEAN member countries to promote inclusive business as part of their industrial policies.

<sup>5</sup> G20, 2015 and Association of Southeast Asian Nations, 2017a.

<sup>6</sup> <https://www.oecd.org/investment/toolkit/policyareas/responsiblebusinessconduct/>

<sup>7</sup> In this study, companies are only classified as inclusive business if their environmental, social and governance (ESG) rating is at minimum 3 out of 6. See criteria used for the market study of IB in Viet Nam in table 4.

<sup>8</sup> G20 Framework on Inclusive Business: <http://www.g20inclusivebusiness.org/>

<sup>9</sup> This is based on the \$3.2/day ppp international poverty line. <https://www.worldbank.org/en/country/vietnam/overview>

<sup>10</sup> All information and data are from interviews with MOLISA and internal and public reports.

<sup>11</sup> The PovCalNet data are expenditure-based. Calculating poverty through expenditures may be more accurate but in Viet Nam the government uses income data.

<sup>12</sup> Data are from recent World Bank reports on Viet Nam and Asian Development Bank, 2019.

<sup>13</sup> As noted by the President of Vietnam chamber of Commerce and Industry at the Viet Nam Entrepreneurs' Day 2019 (Vietnamplus, 2019).

<sup>14</sup> An ADB study of 2015 found that SMEs in Viet Nam invest only 0.3 per cent of their turnover in research and innovation, compared to 5 per cent in India and 10 per cent in South Korea.

<sup>15</sup> AED data on business registrations indicates that out of the 131,275 newly registered companies in 2018, 34,010 resumed operations from a former year, and 63,625 (48.5 per cent) suspended operations, resulting in only 33,640 companies starting new. Over 93 per cent of those companies with failed operation are small enterprises.

<sup>16</sup> OECD/ ERIA, 2018.

<sup>17</sup> For example, companies in the Samsung export processing zone, established in 2016 near the Chinese border, imports most of its pre-products from the Republic of Korea, China and elsewhere, despite an active search for suppliers from Viet Nam.

<sup>18</sup> Based on information provided during interviews with key national stakeholders.

<sup>19</sup> This is about \$10 million per company, suggesting that those start-up business lines are not small at all.

<sup>20</sup> <https://e.vnexpress.net/news/business/economy/investment-in-vietnamese-startups-triples-in-2018-3870040.html#:~:text=According%20to%20a%20report%20recently,million%20were%20struck%20in%202018.>

<sup>21</sup> This is perhaps because of time overlap between this IB study and the preparation for the Forum. For ensuring, the inclusion of IB in the Viet Nam Private Sector Economic Forum 2021, VCCI



and MPI, the main promoters of the Forum, may also need to be more sensitized to the IB agenda.

<sup>22</sup> There is no single definition for social enterprises. A common definition is: 'Business activity that is primarily motivated by social good where profits are reinvested towards a social cause (British Council, CIEM and ESCAP, 2019).' Moreover, 'in Viet Nam, the term social enterprise is used to refer to a business that is created to address or solve a critical social or environmental problem in a financially sustainable and potentially profitable way (British Council, CIEM and ESCAP, 2019).'

<sup>23</sup> The study by the British Council, ESCAP and CIEM (2019) identified that only 15 per cent of respondents are registered as social enterprises under the Enterprise Law 2014.

<sup>24</sup> Based on information provided during interviews with key national stakeholders

<sup>25</sup> British Council, ESCAP and Central Institute of Economic Management, 2019.

<sup>26</sup> As per discussions with key stakeholders during the elaboration of this study.

<sup>27</sup> See for example, British Council, Central Institute of Economic Management and Centre for Social Initiatives Promotion (2012) and British Council, ESCAP and Central Institute of Economic Management (2019).

<sup>28</sup> See <http://www.mpi.gov.vn/Pages/sachtrangdoanhnhghep.aspx>

<sup>29</sup> UNDP and National Economics University, 2018.

<sup>30</sup> Some of the proposed interviews did not materialize because of lack of interest by the company, and lack of time to conduct more interviews.

<sup>31</sup> A potential IB is a company that does not fully reach the required IB scoring but has a strategic intend and business plan to develop an IB model.

<sup>32</sup> The criteria and methodology were discussed with government agencies and business associations, and were presented to a wider audience through two accreditation

seminars in Ho Chi Minh City, 10 October and Hanoi, 14 October 2019. IB accreditation guidelines have been developed to support the introduction of IB accreditation.

<sup>33</sup> Note that for income models in manufacturing and agrobusiness, the benefit is going to the number of people in the household, while the beneficiary (income earner from the job opportunity the company is providing) might be only one person in the household.

<sup>34</sup> Commercial assessment criteria included revenue and growth, profitability, business risk awareness, bankability, quality of company governance, and adherence to social and environmental safeguards.

<sup>35</sup> The innovation rating looked at size, quality and relevance of business for the BoP, technological, social, and environmental innovations.

<sup>36</sup> The IFC invests worldwide annually USD 1-2 billion in IB deals designed to help the BoP clients. This represented 17 per cent of total IFC long-term lending between 2013-2018. See: [https://www.ifc.org/wps/wcm/connect/6520a542-ddf3-4e33-817a-5327beb49f31/Inclusive+Business\\_Two+pager\\_Aug+16.pdf?MOD=AJPERES&CVID=mT-hTtR](https://www.ifc.org/wps/wcm/connect/6520a542-ddf3-4e33-817a-5327beb49f31/Inclusive+Business_Two+pager_Aug+16.pdf?MOD=AJPERES&CVID=mT-hTtR).

<sup>37</sup> See [https://www.ifc.org/wps/wcm/connect/c6b8cace-e7b3-4d05-b693-fdc4767aa289/ConsumptionDataBrochure\\_May2015.pdf?MOD=AJPERES&CVID=IKbEyVR](https://www.ifc.org/wps/wcm/connect/c6b8cace-e7b3-4d05-b693-fdc4767aa289/ConsumptionDataBrochure_May2015.pdf?MOD=AJPERES&CVID=IKbEyVR).

<sup>38</sup> The IFC defines the BoP as those with daily expenditures below \$8.

<sup>39</sup> The government's 2019 socio-economic statistics indicate that about 70,000 families are undernourished or affected by hidden hunger.

<sup>40</sup> The terms of reference for the IB unit are already prepared.

<sup>41</sup> The other being the Institute for Investment Policy and Strategy (IIPS).

<sup>42</sup> There are two women associations, VAWE and VWEC, which have agreed to work closely together. In this study, these are perceived as one stakeholder.

<sup>43</sup> VBCSD was established in 2010 as one of 69 members of the World Business Council for Sustainable Development, a global organization representing some of the 600 largest companies in the world. In the last 10 years, the World Business Council for Sustainable Development was a strong promoter of the global IB agenda under a shared value approach.

<sup>44</sup> Grow Asia is a regional multi-stakeholder platform headquartered in Singapore working in six Asian countries, including Viet Nam. Grow Asia has 44 working groups organized around cross-cutting issues (e.g., agrifinance) or value chains (e.g., coffee). The objective is to improve smallholder productivity and profitability, and the environmental sustainability of agribusinesses. The program is financed by the governments of Australia (DFAT), Canada (DFADT), Germany (GIZ, iBAN), Switzerland (SDC), IDRC-CRDI, and the World Bank.

<sup>45</sup> Viet Nam has about 15,000 cooperatives with 10 million members. During interviews, stakeholders have noted that many of those cooperatives are not effective in raising productivity and/or have a political purpose.

<sup>46</sup> See <https://www.bloomberg.com/news/articles/2019-05-27/vietnam-s-next-revolution-a-cashless-society-for-the-masses>

<sup>47</sup> See <https://www.ft.com/content/cbe426bc-adc4-11e9-8030-530adfa879c2>

<sup>48</sup> As reported by AED and <https://vietnamnews.vn/economy/521225/venture-capital-funds-commit-almost-half-a-billion-dollars-to-vn-startups.html>

<sup>49</sup> This data, however, could be even 30 percent higher because GIIN data only comprise self-reported information by companies to GIIN, and there are many private investors and banks that do not report to GIIN.

<sup>50</sup> CSIP and Government of Canada, 2019.

<sup>51</sup> AVPN, 2019.

<sup>52</sup> This abbreviation would be similar to the naming of the IB promotion strategy in Cambodia (IBeeC). Using such term is not only easy to memorize and could be harmonized throughout ASEAN countries, it also has the nice connotation that many need to work together (like in a bee house) to make IB a reality.

<sup>53</sup> MoIT could also decentralize IB implementation through its provincial agencies, such as the Center for Sustainable Industry Development (CSID) in Ho Chi Minh City and elsewhere.

<sup>54</sup> MARD could also subcontract IB related concerns to its Partnership for Sustainable Agriculture in Viet Nam (PSAV) program.

<sup>55</sup> MoST could also place the responsibility for IB implementation with NATEC.

<sup>56</sup> The Partnership for Sustainable Agriculture in Viet Nam (PSAV) is a program under MARD financed by the Grow Asia initiative. PSAV is working with companies that more likely have potential IB models or could be transformed into IB.

<sup>57</sup> The business association participation would help, among others, encourage more consistent support, bring in a broader pool of insights (particularly bring in the private sector perspective), increase opportunities for learning and ownership.

<sup>58</sup> The implementing agency is yet to be determined. The proposal being considered is to be for the IB business coaching to be organized under AED, where the coaching coordination will would be outsourced to a consultant.

<sup>59</sup> Note that coordination through business association would deliberately be way beyond the constituency of the respective business association and include all companies. The national IB Advisory Board chaired by AED, where all four major business associations are members, would oversee the implementation.

<sup>60</sup> The risk reduction fund could include financial instruments such as risk guarantees, early growth phase co-investment, result-based financing tools, collateral reducing instruments, and special conditions for utility businesses with longer maturity of loans. By encouraging additional equity investments in the fund or the individual deals, the fund would also help diversify the investments and reduce the risk of investors.

<sup>61</sup> The Asian Development Bank and the AfD could be interested in financing this fund.

<sup>62</sup> The other countries being Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, and Viet Nam.

<sup>63</sup> ASEAN Chairman's Statement of the 35th ASEAN Summit, 3 November 2019 <https://asean.org/storage/2019/11/Chairs-Statement-of-the-35th-ASEAN-Summit-FINAL.pdf>

<sup>64</sup> <https://artnet.unescap.org/sti/events/second-asean-inclusive-business-summit>

<sup>65</sup> Association of Southeast Asian Nations, OSMEP, iBAN and ESCAP (2019).

<sup>66</sup> <https://asean.org/storage/2020/08/Joint-Media-Statement-of-52nd-AEM-FINAL.pdf>

<sup>67</sup> Development partners that might be interested in supporting IB promotion (or parts of it) could include DFAT, EC, GIZ, JICA, KOICA, SDC, UNIDO, UNDP, and USAID.

<sup>68</sup> Initial discussions with ADB and AfD showed their potential interest in financing the risk-reduction fund through a public sector loan.

<sup>69</sup> Out of the 40 companies interviewed, 19 companies were found to have real or potential IB models. Eighteen these potential or real IB models are profiled in this annex. One company did not want its model to be profiled but agreed for its models to be incorporated in the overall rating and assessment.

<sup>70</sup> <http://tradecircle.vn/infographic-hanh-trinh-10-nam-thuc-hien-du-nong-nghiep-ben-vung-cua-pepsico-foods/> and interview notes

<sup>71</sup> For further information, please see: (a) VOV5.vn- Alibaba Hoang (<http://m.vovworld.vn/vi-VN/khach-moi-cuathuc-de-the-he-tre-hieu-biet-vov/boi-dap-tri-van-minh-se-la-tuong-lai-cua-dat-nuoc-516431.vov#ref-http://m.facebook.com>), and <http://m.vovworld.vn/vi-VN/khach-moi-cua-vov/boi-dap-tri-thuc-de-the-he-tre-hieu-biet-van-minh-se-la-tuong-lai-cua-dat-nuoc-516431.vov#ref-http://m.facebook.com>), (b) Clip Hương (<https://www.facebook.com/TusachlophocHaiHau/videos/1989075721381656/>); (c) Truyền hình Nam Định (<https://www.facebook.com/TusachlophocHaiHau/videos/1721865271436037/>); and VTV (<https://drive.google.com/file/d/0B53Q31ZiUwEyZzBnZkdXMm9NWk0/view>).

<sup>72</sup> In 2019, the company was renamed into WhetherPlus.





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