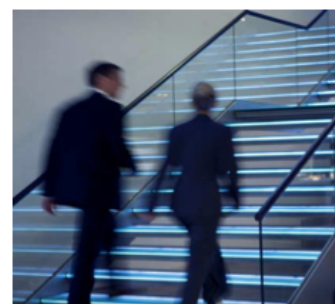


Establishing an Inclusive Business Private Equity Fund in **Vietnam**

A Market Scoping Study

April 2012





Establishing an Inclusive Business Private Equity Fund in Vietnam: A Market Scoping Study

Asian Development Bank

in partnership with **SNV - Netherlands Development Organization**

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ISBN XXX-XX-XXXX-XXX-X

Publication Stock No. RPTXXXXXX

Cataloging-In-Publication Data

Asian Development Bank and SNV.

Establishing an Inclusive Business Private Equity Fund in Vietnam: A Market Scoping Study
Mandaluyong City, Philippines: Asian Development Bank, 2012.

1. Inclusive Business. 2. Vietnam. I. Asian Development Bank. II. SNV

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Note: In this publication, “\$” refers to US dollars.

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 Printed on recycled paper.



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Abbreviations

ADB	Asian Development Bank
BoP	Base of the Pyramid
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CSIP	Center for Social Innovation Promotion
CSR	Corporate Social Responsibility
EVN	State Vietnam Electricity Company
FBA	Farm Business Advisors Program
FDA	Food and Drug Administration, United States
FDI	Foreign Direct Investment
FMCG	Fast moving consumer goods
GDP	Gross Domestic Product
GSO	Vietnam General Statistics Office
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
HCMC	Ho-Chi Minh City
HDI	Human Development Index
IBPE	Inclusive Business Private Equity Fund
IFC	International Finance Corporation
ILO	International Labor Organization
IRIS	Impact Reporting and Investment Standards
LIP	Low-Income Populations (interchangeable with BoP)
MOLISA	Vietnamese Ministry of Labor, Invalids, and Social Affairs

MPI	Ministry of Planning and Investment, Vietnam
NGO	Non-Governmental Organization
PSM	Private Sector Mapping
RETA	Regional Technical Assistance Project
SOEs	State Owned Enterprises
SNV	Netherlands Development Organization
TA	Technical Assistance
UNDP	United Nations Development Programme
USD	United States Dollars
VND	Vietnamese Dong
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute
WTO	World Trade Organization

Acknowledgements

This report was undertaken as a joint effort between the Asian Development Bank and SNV - the Netherlands Development Organization in support of the Regional Technical Assistance Project 6518, "Promoting Inclusive Growth through Business Development at the Base of the Pyramid." This updated final report builds on an initial draft report finalized at the end of December 2010 developed primarily by SNV with support and input from the Asian Development Bank. This final version was drafted and edited by W. Robert de Jongh, ADB Regional Team Leader for the aforementioned RETA and builds on the previous work led by the SNV team in 2010 that included W. Robert de Jongh (as SNV Project Manager), Javier Ayala, Inclusive Business Program Leader in SNV Asia, Manuel Fernandini, Sarah Howe and Maya P. Gorrez with additional inputs from Noah Beckwith. This report has been developed under the overall guidance and supervision of Dr. Armin Bauer, Principal Economist, Regional and Sustainable Development Department at the Asian Development Bank.

This report was also vetted and received valuable inputs from the ADB Country Office in Vietnam led by Mr. Ayumi Konishi and the Vietnamese Ministry of Planning and Investment (MPI). Its main conclusions were presented at a one-day investment forum organized by ADB, SNV and MPI in April 2011 that included twenty-seven representatives and country chief executive officers from private companies interested in receiving support from an Inclusive Business Private Equity Fund, fourteen representatives and CEOs of investment funds interested in participating in the project as sponsors or managers, seven representatives of bilateral development agencies, four representatives from government and public institutions, and the media. After the forum, based on the findings of this report, and subsequent due diligence, the ADB has confirmed their interest in developing an \$80 - \$120 million Inclusive Business Private Equity Fund for Vietnam and the Mekong (Laos, Cambodia and Thailand) and a related \$5-\$8 million technical assistance facility. The fund and the facility will be formally implemented in early 2013.



Executive Summary

Characterized by Goldman Sachs as one of the “Next 11” -- Vietnam has been characterized as one of the countries that has a high potential of becoming, along with the BRICS, one of the world’s largest economies in the 21st century. While real GDP per capita grew by over 6.6 percent annually between 1998 and 2010 and lifted over 26 million people out of poverty, 43.4% still live on less than \$2 per day and more than 65% on less than \$3 per day.¹ Despite public sector expenditure, foreign direct investment, and foreign aid, challenges of rising inequity, slowing growth, and fragile economic gains for the low-income segment have increased the interest to explore alternative market-based solutions -- solutions that contribute to long-term economic growth while materially and sustainably improving the livelihoods of the low-income segment. In short, “inclusive business” models that provide “development than sticks.” Acting on the idea of social and economic inclusion through the integration of the poor into mainstream business, the Asian Development Bank (ADB) is exploring the viability of an “inclusive business” private equity (IBPE) fund designed to support the development of business models that directly integrate labor, products and consumers from low-income segments of Vietnam’s society.

¹ World Bank. World Development Indicators, 2012.

Unlike social enterprises that often begin small and require a blend of patient capital and investment capital to grow and scale over long periods of time, inclusive businesses are part of a large company's core business strategy that help the company grow in the short term while integrating the low-income segment in their value chain as suppliers, consumers, distributors and/or employees in such a way that mutual value is created. For strategic and scalability reasons, they traditionally involve a large, well-established company that has identified a new business opportunity and/or challenge that can be addressed by integrating the low-income segment in their value proposition. While inclusive businesses have emerged as a meaningful contributor to inclusive growth in emerging markets in Latin America, Africa, and South Asia, market-based solutions of this type are still in their infancy in many parts of southeast Asia, including Vietnam.

As such, beyond the primary objective of conducting a market scoping study for the establishment of a USD 120 million private equity fund that would support inclusive business ventures in Vietnam (and potentially other markets in the Mekong region), this study also contributes to broadening the understanding of and potential for inclusive business development and the critical success factors required to make them grow and have a significant impact on the livelihoods of the poor. The analysis used a four-tiered approach that assessed: i) the need for inclusive business strategies in Vietnam; ii) the presence or absence of an enabling environment for inclusive business development; iii) the level of interest from the private sector in making their businesses more inclusive of the poor; and, iv) the current state of the private equity market in Vietnam and potential interest of institutional investors in inclusive business ventures.

The data and information gathered and analyzed for the market scoping study indicated that an inclusive business private equity fund is feasible in Vietnam (provided Laos, Cambodia and Thailand are integrated into a wider Mekong Fund to strengthen returns, diversify risk, and increase impact) due to the following major factors:

- **Diversity and growth:** The speed and diversity with which Vietnam's economy is growing (despite recent slowing) indicates a commensurate need for labour, suppliers and consumers that the BoP can fulfil;
- **Underserved domestic demand:** The size of the population and extent to which domestic demand for basic goods and services is under-served or entirely unattended in many parts of the country;
- **Viable pipeline and growing investor interest:** Companies are increasingly interested in private equity financing (a preliminary pipeline was developed through this study) and in both financial and social returns. Regional and local investors demonstrated a latent interest in impact investing provided it went hand-in-hand with their overall investment strategy;
- **Favourable policy environment:** Vietnam's proactive economic reforms lend themselves to an impact Investment fund that can foster a culture of inclusion as a standard business practice;

- **Potential for risk diversification:** The investment strategy proposes the diversification of risk across the Mekong, given the additional opportunities for social impact and financial returns in Laos, Cambodia and Thailand;
- **Increasing culture of inclusion:** The culture of inclusion is increasingly in practice among business leaders in Vietnam providing a foundation for leveraging inclusive business actions among their peers.

The main findings of the study are as follows:

More than 90% of interviewed firms expressed a preliminary interest in financing to develop inclusive business models. The companies participating in the study were also asked about their specific interest in financing designed to support business models that include low-income populations (specifically with regards to the possibility of an ADB fund with these characteristics); their answers were overwhelmingly positive. Of the 76 companies that participated in the study, 93% of these companies stated their interest in financing and expressed financing needs of up to USD 10 million. Due to the relative infancy of private equity in the Vietnamese context, companies initially expressed a preference for debt (and potentially other mechanisms such as credit guarantees) over equity for working capital and related investments that could be used to successfully engage with or target the low-income segment as a new aspect of their company's value proposition. That being said, the fallout on the stock-exchange, combined with interest rate hikes and more stringent lending conditions, is forcing companies to consider equity participation where previously it would have been shunned.

The purchasing power of the BoP in Vietnam exceeds USD 47 billion and represents a significant opportunity for good and services that meet their needs and improve their livelihoods. The cumulative purchasing power of Vietnam's poor (using USD 3 per day) is estimated to be as much as USD 47 billion and could represent a significant consumer market segment. In many instances, there has not been product differentiation or customer segmentation strategies in place to cater specifically to the low-income segment. As such, many critical needs and low-income consumer demands go unsatisfied. Evidence from company interviews suggested that while stereotypes about this segment exist, there is a nascent interest in focusing increasingly on this market segment and tailoring specific products and services to this growing consumer market, especially when dealing with export market fluctuations and slowing global demand.

Fund Managers in Vietnam were optimistic about the prospects for the development of a IB PE fund, provided there was a clear investment strategy, high profile anchor investors and partners, and high prospects for growth. While fund managers expressed a clear interest in the BoP marketplace (if it satisfied certain critical parameters for competitive returns), they also considered Vietnam competitive in labour intensive industries, high volume, low margin businesses that could be tailor-made to low-income needs, and specific basic services that have historically not reached the low-income population. Furthermore, when it came to an IB PE fund, fund managers were keen to look for ways to share the risk

with a major and reputable anchor investor or partner and mitigate risks through the involvement of a stakeholder that fully understood this market segment and could potentially provide technical assistance when needed.

Economic benefit and risk mitigation are the two most important drivers for company engagement of the low-income segment in Vietnam. More than 80% of Vietnamese executives interviewed identified economic benefit as the main reason for incorporating the poor in their company's value chain and as such consider this segment important to the future of their core business. The low-income segment was seen as either another consumer market segment or as a growing, but untapped source of unskilled labour or supply of raw materials. Just under half of the company executives considered risk mitigation as the second most important driver to engagement with the low-income segment – mitigation of supply chain risks (ensuring sufficient and stable supply of inputs, especially in the agribusiness sector), political risks, and/or reputational risks.

The prospects for growth of capital markets in Vietnam create a favourable environment for the development of an IB private equity fund, but improvements in transparency, corporate governance and increased awareness about BoP opportunities is critical for long-term success. Market analysis and fund manager interviews confirm that while capital markets in Vietnam are growing, they are not keeping pace with the rapidly increasing need for private investment. And, in the context of a BoP venture fund, given that there is a significant market opportunity to develop business solutions that contribute to inclusive growth in a number of critical sectors, additional liquidity within this emerging asset class would accelerate interest and development opportunities. At the same time, transparency, corporate governance and misperceptions about the BoP and their potential contribution to competitive business development need to be addressed in order to consolidate critical mass around the concept and the opportunity.

Working with the poor necessitates a new business paradigm in Vietnam. Doing business with the BoP requires specific engagement strategies quite different from those with traditional business partners. The informality with which many of the company-to-BoP agreements are implemented in Vietnam does not necessarily foster a culture of trust, commitment and a sense of responsibility towards carrying out the agreement's terms. Moreover, in a rapidly growing labour market where a boon in employment is present, employer-employee fidelity becomes a challenge as labour turnover becomes very high. In order for inclusive businesses to achieve some level of success, it is critical to address these intangible parameters that refer more to the cultivation of strong relationships with the poor based on formalities and principles of trust and respect that businesses would normally offer to traditional business partners. Therefore, companies will have to adapt their existing business paradigms based on an increased understanding of the poor's needs and priorities.

In Vietnam's fast-growing economy, employment presents the most immediate opportunity for social inclusion and economic growth, particularly in the agriculture and

manufacturing sectors. While the growth of the manufacturing sector is both rapid and diverse and provides a range of options to absorb Vietnam's labour force, the agricultural sector, which currently employs 49% of Vietnam's working population (a large percentage of which are poor), also offers unique business opportunities for inclusive business. Skilled labour is at a premium and companies often bear the cost of building human capital in an environment where labour retention rates are often low. Innovative strategies that develop skills, offer stable and increased employment opportunities, provide financial and non-financial incentives could contribute to labour retention, job performance and satisfaction, improved company productivity, and reduced retraining transactions costs.

As poverty in Vietnam is strongly correlated to geography, the informal markets that operate within these underserved areas offer an existing framework through which social and economic inclusion can take place and be expanded. The rural poor constitute the vast majority of Vietnam's BoP and not only are they located in areas where a lack of basic services hinder productivity, they are also distally located from investment capital that is disproportionately directed towards urban areas. Increasingly, inclusive business ventures in Vietnam have begun to seek ways to engage the rural poor, as they also comprise the largest available labour pool in the country. Furthermore, the informal markets of Vietnam provide fertile grounds for micro-enterprise investments as a means of social inclusion. Enhancing the systems already in place through formalization, micro-finance or improving supply chain efficiency provides a venue to integrate these sectors into the mainstream economy as producers or consumers.

Vietnam's policy incentives accelerate the inclusiveness of growing businesses. Vietnam's continuing economic reforms have provided the opportunity for the government to incorporate policies and incentives that promote social inclusion as a standard business practice. Policies have not only encourage a shift in company by-lines to include the improved socio-economic welfare of their workers, consumers, and suppliers, but they have also increasingly brought about a paradigm shift in corporate culture that embraces social inclusion as a way of doing business.

Given the favorable environment for inclusive business development in Vietnam, this study recommends the following:

Because of capital constraints, the establishment of a USD 120 million inclusive business private equity fund focused on Vietnam but including opportunities in the wider Mekong to mitigate risks, is timely. Acute credit constriction and the inability to raise funds from speculative investors on the capital markets is forcing the creation of an equity culture in Vietnam. Unsurprisingly, it has become more difficult than ever for SMEs to access financing from formal financial institutions in the post-crisis environment, let alone larger companies. Collateral constraints, poor accounting practices, non-banked cash flows and lack of information are creating cash constraints that are obliging companies to seek out financing partners for the longer term. Furthermore, given the depth of the Vietnamese economy,

the size of the population and extent to which domestic demand for basic goods and services is underserved or entirely unattended in many parts of the country, there is scope to deploy capital in private Vietnamese companies in target sectors identified in this study.

Results from this assessment warrant the development of an IB Private Equity Fund investment strategy based on optimal criteria that align with the ADB's private sector development and inclusive growth objectives. While the initial premise of the ADB's Regional Technical Assistance Project (RETA) was to establish a basket of investment funds following the completion of six market scoping studies in Asia, it is recommended to accelerate the development and approval of the Vietnam fund in order to help inform the development of future funds, learn from practical implementation experience, and assess practical feasibility, demand, and expected terms and conditions. Furthermore, it is recommended that the ADB examine the fund's objectives, investment criteria, expected returns and deal size, debt/equity mix, and more importantly the balance between financial and social returns anticipated for the BoP investment portfolio. This should also include a review of the original IRR and deal size criteria established for the conceptual stage of this IB PE fund development process.

The Inclusive Business Private Equity Fund Investment Strategy should find an appropriate balance between financial and social returns, sector alignment and prioritisation, degree of risk and innovation, and technical assistance integration. As with mainstream private equity and asset management companies, the development of investment strategy requires careful analysis of the opportunity and full consideration of the different business models and risks. The degree to which the fund satisfies both financial and social return expectations, lowers transaction costs by focusing on a narrow range of sectors and industries or seeks to promote innovation and early stage ventures to spur new and scalable solutions that can have highly competitive returns and broad impact on the low-income segment will depend largely on the defined objectives of the fund. Furthermore, risk mitigation measures like the integration of a technical assistance facility are also critical to the long-term success and scale of the investment portfolio.

Given the level of awareness of inclusive business models in Vietnam, a sustained awareness effort, catalysed through regular "Inclusive business investor fora" will be essential to accelerating interest in the model and demand for the fund. Due to limited awareness of impact investing experiences, successful and scalable inclusive business ventures and models, and current opportunities and experiences in Vietnam, it is recommended to organise a high-profile event regularly that not only leverages the results of this study, but bring together investors, BoP entrepreneurs, successful experiences from Vietnam and from relevant geographies in the region (and beyond). Successful case studies, funding models, and characterisation of the market opportunity in different market segments should be included in the forum. The flagship inclusive business investor forum held in April 2011 (using the preliminary findings of this study) demonstrated significant interest from the private and public sector, development agencies, and investors.

Engage the government on developing additional public policy incentives to accelerate the development of inclusive business models in Vietnam. While existing policy frameworks in Vietnam have spurred growth, investment and job creation, providing additional policy incentives that promote public – private partnerships, innovation, financing and technical assistance to incentivise companies to actively engage and participate in the BoP venture market opportunity would strengthen the enabling environment for inclusive business and their potential for scale. Furthermore, the salient challenge to achieve more consistent, rapid economic growth—and, crucially, more balanced growth—will be to further unlock both the productive and consumption forces of the domestic economy. In many parts of the country, physical infrastructure still impedes access to inputs, markets, appropriate financing and information. These shortcomings need to be addressed in order for productive sectors as a whole to move up the value chain.

Validate the need, operational and funding model for a Technical Assistance (TA) Facility to support the development and acceleration of inclusive business ventures in Vietnam. Considering the opportunities and enabling conditions for inclusive business in Vietnam, and given that many ventures will require some form of technical assistance given the limited development of large, scalable inclusive business ventures to date in the country and wider Mekong region, it is recommended to commission the development a TA Facility. The concept note should further validate and qualify the TA needs, how these relate to the types of inclusive business business ventures that would be considered in the investment strategy of the IB PE fund, and how the facility will be financed, administered, and leveraged by the IB PE fund and other current and/or future impact investment funds in Vietnam and the wider Mekong.

Carry out due diligence of potential companies, sectors and transactions including further financial analyses, financial projections, valuations, expected IRRs, risk assessments, and more robust validation of sector considerations. Based on the results of this study, the investor forum, company and fund manager follow-up and the preliminary pipeline developed, carry out a more robust due diligence exercise on the potential BoP venture opportunities identified while leveraging the JP Morgan framework (from their recent study) to further substantiate sectoral considerations once these have been prioritised by the ADB.

Interviews with some of the leading businesses in Vietnam revealed that although, at this time, inclusive business is viewed by companies as a byproduct of fulfilling their own needs for workers, suppliers, new markets and distributors, the openness to the concept of engaging with the BoP more purposefully to also address some of the poor's critical needs in addition to their own, indicates positive potential for inclusive business development. An inclusive business private equity fund that can ease the transition from traditional bottom-line business to socially inclusive business is an important head start into a new paradigm for a sustainable future.



I. Background

If globalisation is to succeed, it must succeed for poor and rich alike. It must deliver rights no less than riches. It must provide social justice and equity no less than economic prosperity and enhanced communication. It must be harnessed to the cause not of capital alone, but of development and prosperity for the poorest in the world. It must address the reactions of nationalism, illiberalism and populism with political answers expressed in political terms. Let us choose to unite the power of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations. Let us ensure that prosperity reaches the poor. Let us choose an enlightened way forward towards our ultimate, shared goal: a global marketplace that is open to all and benefits all.

Kofi Annan, former Secretary General of the United Nations, A Decade of Difference 1990 – 2000.

The ADB's Inclusive Business Initiative

Since 1990 the number of people in Asia and the Pacific living in extreme poverty, defined as earning less than USD 1 a day, has been reduced in half, to under 20% of the population. Cheap land and labor, globalization, technological innovation, and forward-looking policy interventions related to trade and social investment, have lifted hundreds of millions out of pov-

erty. However, despite the spectacular statistics, poverty and the vulnerabilities associated with it remain entrenched, exacerbated by rising inequity and growing social exclusion. And more importantly, when a wider definition of poverty is applied (less than USD 4/day), almost 3 billion people, roughly 82% of the Asian population is considered part of the Base of the Economic Pyramid (BoP) as defined by the World Resources Institute.² While the private sector has been a key contributor to the economic boom in Asia, it is increasingly clear that it has yet to fully realize its potential in creating shared value, which is to promote business models that integrate the low-income segment in unique and innovative ways that generate company growth while creating value for the low-income segment and directly contributing to poverty reduction.

As one of the key multi-lateral financial institutions operating in the Asia region, the Asian Development Bank (ADB), through its long-term “Strategy 2020” has defined inclusive growth as one of its three main strategic pillars, which aims to broaden economic and social opportunities for lower-income and excluded groups. Inclusive business represents one such inclusive growth opportunity that supports private sector development opportunities that contribute to economic growth and integration of the low-income segment into their value chains. This in turn improves their livelihoods by improving affordable access to goods and services and increasing their income and employment opportunities.

Since 2007, the ADB has taken proactive steps to further explore and develop the BoP concept as an important element of its private sector development strategy – focusing on leveraging lessons learned from the World Bank, IFC, and Inter-American Development Bank. One such opportunity is the regional technical assistance project “Promoting Inclusive Growth through Business Development at the Base of the Pyramid” that aims to assess the feasibility of developing regional and/or country-based impact investment facilities/private equity funds for BoP ventures in ten Asian countries (Bangladesh, India/Sri Lanka, Indonesia, Pakistan, the Philippines, and Vietnam/(Mekong which includes Laos, Cambodia and Thailand) while increasing awareness about the market opportunity for the same. As a strategic partner of this ADB initiative, SNV agreed to complete four preliminary drafts of these feasibility studies (Vietnam, Pakistan, India and Bangladesh) with support from the ADB and under the guidance and direction of the lead consultants selected by the ADB to finalize the studies. The expected impact of the overall ADB initiative is to create a new class of private equity funds looking at inclusive businesses to play a stronger role in promoting inclusive growth in the region.³

This first inclusive business investment fund market scoping study focused on Vietnam recognizes that as the country further accelerates its ambitious pace to achieve middle income status by 2020, it not only has to assure record growth, increased trade, foreign direct investment, and competitiveness, but also equity, equality of opportunity, and protection in

² World Resources Institute and International Finance Corporation. (2007). *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*. Washington, DC.

³ See *Promoting Inclusive Growth through Business Development at the Base of the Pyramid* (Project Note for the revised ADB TA No.6518-REG) and www2.adb.org/projects/Base-Pyramid/default.asp.

market and employment transitions. While Vietnam's rapidly expanding private sector and private equity markets, along with the state, have been the driver of an average of 7.4% economic growth per year for the past twenty years, the BoP still comprises more than 70% of the population.⁴ As such, unless both the pace and pattern of growth are addressed through specific policy and market interventions, there is a potential risk of increased inequity and unsustainable growth in the medium to long term. Providing medium-term capital at competitive rates that complement and build upon Vietnam's existing growth-centered private equity market could be a useful incentive in raising awareness about the market opportunity for inclusive business ventures while establishing a new asset class for investments that could catalyze new investments with competitive returns into this underserved sector.

In this regard, one of the key considerations that drives the analysis of this market scoping study is what are the critical success factors for inclusive business development in an emerging market like Vietnam that would provide sufficient deal flow and competitive social and financial returns for an inclusive business private equity fund like the one being considered by the ADB. Recognizing that the private sector is the major contributor to economic growth and employment creation, promoting a more dynamic and vibrant private sector consequently has a central place in renewed efforts to reduce poverty. Notably, expanding market access to all private sector actors and improving how markets function can lead to more jobs, better returns on goods sold, greater affordability of essential goods and services, and reduced exposure to risk. When integrating the poor in this approach, the outcomes can significantly influence the rate and pattern of economic growth.

Inclusive Business and Social Enterprise in Vietnam

Ashoka founder and CEO Bill Drayton first used the term "social entrepreneurship" in the early 1980s, and it continues to inspire images of audacious social change—the kind that sweeps away the old approaches to solving intractable social problems such as disease, hunger, and poverty. Like business entrepreneurship, social entrepreneurship involves a wave of creative destruction that remakes society. Although we will always need traditional social services— even more during times of great economic turmoil—social entrepreneurship focuses on changing the underlying dynamics that create the demand for services in the first place. Instead of treating society's distress, social entrepreneurship holds hope for eliminating the distress altogether. Although people generally agree on this broad definition of social entrepreneurship, confusion reigns over the specifics. Some observers believe that the social entrepreneur himself or herself is the linchpin of change, whereas others focus on the idea, the opportunity for change, or the organization that provides the muscle for scaling up to maximum effect. But which one of these four components comes first? Which one is most important for imagining change, launching an idea, accelerating diffusion, and sustaining impact long enough to create a wave of creative destruction?

Paul C. Light. Social Entrepreneurship Revisited. Stanford Social Innovation Review, Summer 2009.

The ADB actively supports both social enterprise and inclusive business development as important market-based and entrepreneurial solutions to create long-term and sustainable so-

⁴ World Resources Institute and International Finance Corporation. (2007). The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid. Washington, DC.

cial impact across Asia. For the purposes of this study, social enterprises are non-profit or for-profit entities whose primary mission is to create, sustain and relentlessly pursue social value (not just private value). As Professor J. Greg Dees suggested in his paper "The Meaning of Social Entrepreneurship," social entrepreneurs and the social enterprises they often lead recognize that "making a profit, creating wealth, or serving the desires of customers may be part of the model, but these are a means to a social end, not the end in itself. Profit is not the gauge of value creation; nor is customer satisfaction; social impact is the gauge."⁵ Social enterprises often start small, seeking to address root causes rather than symptoms of social and/or environmental problems through systemic change, and begin with modest investment -- a mix between patient (philanthropic) capital and financial capital (though the latter is often reserved for later stage growth and scalability if and when the social enterprise reaches this stage).

In Vietnam, social enterprise is considered a relatively new concept. Only two organizations have been actively promoting social enterprise -- the Center for Social Initiatives Promotion (CSIP)⁶ and SNV, through the SPARK program. While other efforts do exist, like the Impact Ventures Accelerator Program run by LGT Venture Philanthropy or the One Foundation who support social entrepreneurship efforts in Ireland and Vietnam, these are part of wider international or regional efforts. CSIP is a Vietnamese NGO that is committed to "building up an equitable, prosperous, and sustainable society by promoting high impact social innovations." They support early stage social entrepreneurs by providing a mix of seed capital (between USD 7 and 30K), technical assistance, and networking opportunities. Since 2008, they have supported 19 initiatives that have impacted more than 40,000 disadvantaged people in the community. The SPARK program on the other hand was developed by SNV in 2010 to support social enterprises by brokering capacity development, marketing, financial resources and scaling opportunities in order to accelerate their impact. Out of 200 applicants in 2011, seven companies were selected from wide array of sectors ranging from education and health to community building and waste management.

Inclusive business on the other hand focuses on larger, well-established, viable businesses who are a) seeking to accelerate growth by pursuing new market segments and/or distribution channels and/or b) focused on mitigating supply chain, labour and reputational risks. Inclusive business solutions address these opportunities and risks by integrating the low-income segment into the value chain of these companies in such a way that they create shared value -- on the one hand they contribute meaningfully to a company's bottom line by increasing profits and reducing costs, and on the other they provide income and employment opportunities for the low-income segment and access to goods and services that improve their livelihoods.

⁵ Dees, J. Gregory. "The Meaning of 'Social Entrepreneurship'"

⁶ For more information on CSIP, please go to www.doanhnhannxahoi.org/index.php?lang=eng

For the purpose of this scoping study, inclusive business is defined as follows: Large corporations traditionally target consumers in the middle and high-income segment or focus on established suppliers, laborers and service providers from the formal economy. Inclusive businesses have found profitable ways to integrate the low-income segments into their business operations in a way that benefits these communities and creates sustainable livelihoods and shared value. The low-income segments fill one or more of four important roles:

- consumers: new markets for affordable goods and services;
- distributors: new distribution networks;
- suppliers: new sources of supply/inputs; and
- employees: new labour markets.

Therefore, based on this definition, the research framework for this market scoping study in Vietnam considered the following parameters of analysis that are known to be contributing factors that enhance the breadth of inclusive business opportunities:

A Viable "Customer Base:" There needs to be a large and productive target population at the base of the pyramid that could be considered as viable suppliers, consumers, and/or distributors or employees;

Potential Demand for Additional Inputs and Market Segments: There needs to be a cluster of industries that require additional and stable inputs (i.e. agricultural inputs, labour) into their value chain to accelerate their growth and competitiveness or new distribution channels necessary for deeper market expansion and penetration;

Public Policy Incentives that Support Inclusive Growth: There need to be existing public policy incentives that promote domestic and/or local consumption;

An Aware and Willing Business Community: There needs to be a cluster of domestic and/or international medium to large companies currently implementing, familiar with, or willing to implement inclusive business ventures;

Underutilized Local Supply: There needs to be an excess or underutilized supply of goods and services currently being provided by the BoP that, when formalized, could increase income and production for the BoP while contributing to business profitability;

Availability of Investment and Patient Capital: There is patient ("smart subsidies" used to increase BoP competitiveness through technical assistance and capacity development) and investment capital available to seed, support, and/or accelerate inclusive business ventures and in its absence, a private equity marketplace that has a demonstrated interest in this segment.

Because the enabling conditions for inclusive businesses are heavily context-dependent

based on the social, political, and economic landscape unique to a particular country, the aforementioned critical factors vary in their level of applicability and importance as the most significant contributors to overall feasibility and/or success. In this regard, not all of these factors, but rather a combination of the most appropriate factors need to be present for success to occur.

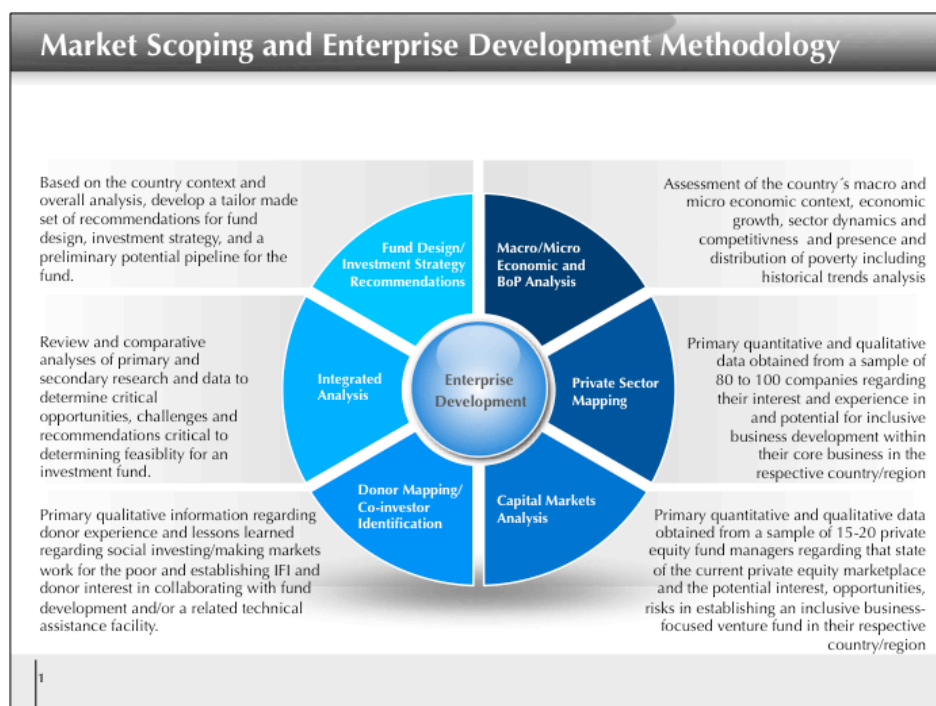
Purpose, Methodology and Approach

The purpose of the study was to conduct a market scoping analysis for the potential establishment of a local USD 120 million social investment fund to support inclusive business in Vietnam. The feasibility analysis was designed to address four primary areas of concern and answer key questions for the establishment of an inclusive business private equity fund:

- **Enabling Environment:** Assess if the current economic, market, and political conditions favor the development and growth of inclusive business in Vietnam; especially the critical success factors and constraints for inclusive business development and its impact on the BoP in these markets and more importantly if these markets are strong and growing (in order to provide a sustainable “client” base);
- **Market Opportunity:** Gather initial information on the need for BoP Ventures in Vietnam; in particular, what are the characteristics of the BoP, their context, tendencies, and trends that demonstrate if there is a need for inclusive business in Vietnam that could eventually contribute to yielding a viable and competitive pipeline of potential inclusive business investment opportunities;
- **Private Sector Interest:** Establish the degree to which private companies (both domestic and multi-national) are currently involved or willing to be involved in inclusive business, what they consider to be the perceived benefits, their interest in accelerating inclusive businesses by leveraging additional capital, and for those unfamiliar or uninterested in inclusive business, what they perceive to be the critical barriers to entry into this “emerging market”;
- **Private Equity Market Viability:** Assess the current state of the private equity market in Vietnam and determine the current potential interest of institutional investors in an inclusive business private equity, their willingness to capitalize and/or manage the fund, and their expectations for rates of return, risks, sector preferences, deal size, and term;

In addition to establishing demand for an inclusive business private equity fund in Vietnam, the feasibility study will also provide key recommendations for fund design parameters, return, and impact considerations, risks and risk mitigation measures, and critical success factors based not only on the experience of Vietnam, but from successful models and case studies being applied in Asia and other parts of the world.

Figure 1: Market Scoping Study Analysis Parameters



As per Figure 1 above, the market scoping study focused on a four-tiered analysis leveraging both primary and secondary sources of information. Primary information (both qualitative and quantitative) consisted of personal interviews with 76 companies (which also included surveys) in Hanoi, Ho Chi Minh City and other cities from a cross-section of the Vietnamese economy and 15 private equity funds, as well as some related stakeholders in Vietnam. Secondary research and information gathered was sourced from a mix of national government statistics (GSO on poverty, economic growth, foreign direct investment, etc) and cross-referenced with independent research and reports from established institutions such as the ADB, World Bank, World Economic Forum, J.P. Morgan, UNDP, Harvard Institute for Strategy and Competitiveness, and WRI, among others. Given that the focus of this private equity fund is different from more traditional private equity funds that would rely heavily on establishing a potential deal flow, ensuring that there are favorable investor perceptions and an enabling legal and regulatory environment, this feasibility study required additional analysis on the key drivers of and constraints to inclusive growth in Vietnam.

Survey Methodology

While the market scoping study relied on primary information from a non-randomized selection of companies and investment funds active in Vietnam, the results of the study do not allow statistical inference about any population of companies or investment funds in Vietnam. The results presented only refer to the firms involved in this study.

For Companies: In order to define a viable pipeline of companies for the fund that are interested in and/or already practicing inclusive business, an interview guide was developed to capture important information from the interviewees, with specific emphasis on two variables: (i) companies' interest and knowledge of inclusive business,, and (ii) companies' interest in accessing debt and/or equity financing for the support and growth of their business initiatives that include BoP populations. The interview guide included questions about specific aspects of the companies (employees, size, revenues, market share, products/services); the companies' relationship with the BoP (business model, stage of implementation, rational for working with low-income populations, obstacles encountered when working with, or considering working with, low-income populations, alliances established for inclusive business implementation); the companies' financing (past and current financing, interest in financing specifically focused on inclusive business development, specific characteristics of such financing); as well as whether or not the companies are interested in follow-up information with regards to financial and/or technical assistance for their inclusive business models. The interview guide was tested and refined through pilot tests with the first eight companies interviewed in Hanoi, Hung Yen, and Hai Phong.

Data collection instruments were also designed to accompany the interview guide. Considering that the interview guide consisted of mainly open-ended questions, a core data collection instrument was designed for quantitative information, which was also utilized for subsequent analysis. An additional data collection instrument was also designed for more qualitative data.

Company Sample Selection: In order to define a company sample, selection criteria were first determined; these included:

- o **Number:** 60 to 80 firms to be interviewed.
- o **Size:** Medium to large Vietnamese or multinational companies;
- o **Legal Criteria:** Focus on joint stock and limited liability companies;
- o **Interest in the poor:** Companies should be already working, or have interest in working with, the BoP;
- o **Business model:** Increased focus on business models with the poor as consumers and/or distributors as well as producers and/or employees were included;
- o **Industry sectors:** Sector diversity with an emphasis on including non-traditional sectors that have the potential for innovation within the inclusive business marketplace;
- o **Interest in financing:** As often as possible, these companies should be interested in financing to support a business model that includes the low-income segment.

Companies were both identified through the aforementioned pre-established criteria and consultations with Vietnamese business associations⁷ and were also identified through an open call published in two mainstream Vietnamese newspapers.⁸

For Private Equity Funds: In order to assess the potential viability for a BoP focused private equity fund in Vietnam, interviews were held with 14 private equity funds in Vietnam and with Grant Thornton who recently completed two Private Equity in Vietnam 2011 outlook reports based on surveys with 169 active private equity funds in Vietnam.⁹ The focus of the interviews was to capture important information about (i) industry attractiveness, (ii) investment obstacles, (iii) Vietnamese economic outlook, and (iv) social investing in Vietnam. Questions were focused both on the private equity market in general and private equity when applied to BoP markets. The interview guide included questions about the investment selection criteria, sectoral prospects, risks and opportunities, expected conditions and returns, in addition to interest in managing and prospects for raising capital for a BoP fund. As with the case with the company interviews, data collection instruments were also designed and used to accompany the standard interview guide. Private equity funds were also queried regarding their ability to raise capital for this fund and their interest in managing the same.

Investment Fund Sample Selection: In order to define the limited investment fund sample, selection criteria were determined as follows:

- o **Number:** 10 to 20 investment funds to be interviewed.
- o **Size:** Medium to large Vietnamese or multinational (foreign backed or regional) investment funds – ranging from USD 30 million to over USD 1 billion under management (average USD 100 million under management);
- o **Legal Criteria:** Focus on private equity, asset management, and social investment funds;
- o **Interest in the poor:** Funds operating in Vietnam generally do not list the BoP as a central focus of their investment portfolio – funds were selected based on potential interest and/or experience with ventures that may consider investments in the BoP;
- o **Business model:** A range of asset classes and risk profiles;
- o **Industry sectors:** Funds with either a diversified investment or focused sector approach (i.e. IT only);
- o **Interest in investing:** Where possible, identify funds that have either shown or may be interesting in considering BoP ventures investments.

⁷ Examples of Vietnamese business associations and awards consulted include: European Chamber of Commerce in Vietnam, The American Chamber of Commerce in Vietnam, Australian Chamber of Commerce in Vietnam, VNR500, and Sao Vang Dat Viet Awards, among others.

⁸ A "Request for Expressions of Interest for Companies in Vietnam" was published in Vietnam News (an English printed newspaper) and Vnexpress.net (a Vietnamese digital newspaper).

⁹ Grant Thornton Vietnam. (2011). Private Equity in Vietnam: Investment Sentiment and Outlook Quarter 2, 2011.

Because private equity funds in Vietnam are generally BoP-agnostic (they are focused on more growth and risk related criteria), funds were also identified based on their perceived track-record with companies that engage with the BoP or companies who have or are considering sustainability criteria in their investment strategy.



II. Poverty Analysis and Private Sector Support

While the Vietnamese government has taken important strides towards poverty alleviation through public policies including public sector spending and social investment, statistics show that there is still more to be achieved with regard to social and economic development within the low-income segment in Vietnam. Ethnic minorities, rural populations, migrant workers, and increasingly clusters of urban households have been particularly vulnerable, especially during economic downturns. At the same time, increasing domestic demand for goods and services coupled with better than average growth over the last decade have created enormous opportunities for the low-income segment – on the one hand as an increasingly skilled labor force and supplier of raw materials to keep pace with rising export and domestic demand, and on the other as a growing consumer market with greater needs and purchasing power.

Key Features of Poverty and Implications for Inclusive Growth

While Vietnam has made impressive gains in the fight against poverty over the past two decades, the key features of poverty in Vietnam can be characterized by five key aspects: pov-

II. Poverty Analysis and Private Sector Support

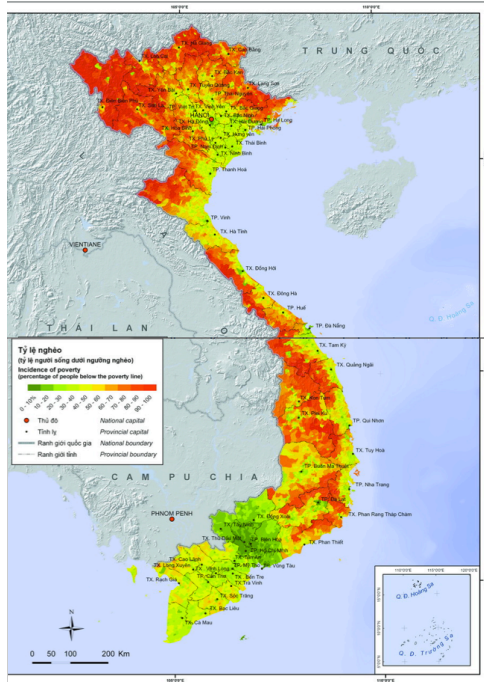


Figure 2

erty is more rural than urban, geographically constrained (as seen in Figure 2, ethnically specific, migratory and seasonal (with many near poor entering in and out of poverty through the course of the year given seasonal employment opportunities) and when some international poverty metrics are used (i.e. at the USD 3 per day norm for example) comprises an important majority of the population. Given both its dimension and complexity, there are a number of important elements that present an opportunity and a risk for inclusive business development and inclusive growth in Vietnam as characterized below.

National poverty line statistics demonstrate impressive poverty reduction results over the past decade, with important gains in the quality of life in many respects. Due to sustained economic

growth over the last twenty years, official poverty rates have declined significantly from 58 percent in 1994 to 14.5 percent in 2008 as per the General Statistics Office

estimates in 2010. Regionally speaking as noted in Figure 3, Vietnam has substantially exceeded the results of its neighbors and other important East Asian economies. Almost 30 million people have been lifted out of poverty (per the national poverty line) since the early 90s and for the most part the well-being of most of the Vietnamese population has measurably improved during this period.

Despite Vietnamese efforts to improve health, education, and poverty reduction, the Human Development Index places Vietnam within the lowest in the East Asian Region.

In 1990 the Human Development Index methodology was created to include new dimensions of social indicators within the global discourse surrounding poverty, which before was characterized solely by per capita GDP measurements. As stated by the Human Development Re-

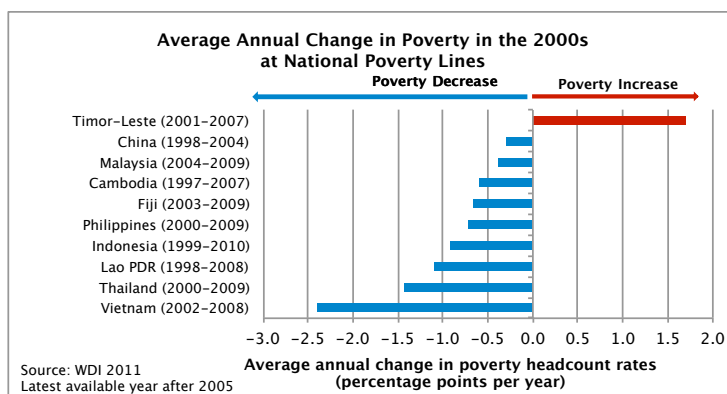


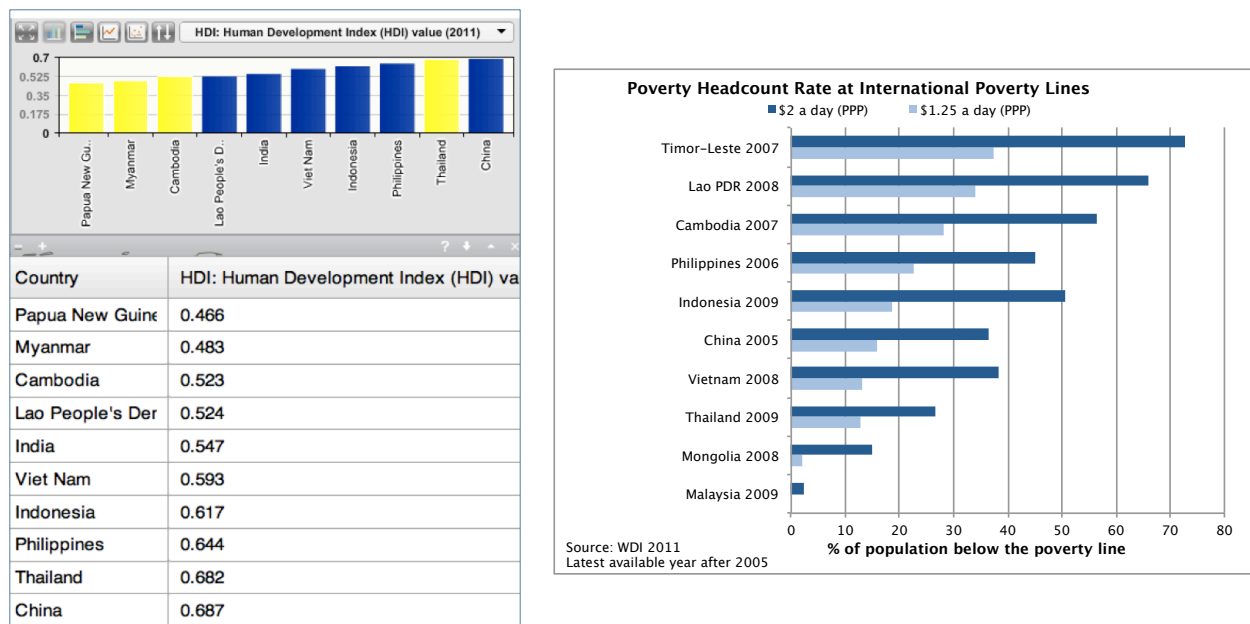
Figure 3: Over the past decade, Vietnam has shown the most impressive poverty reduction statistics according to national poverty lines as compared to many of its peers in the region. Much of this is attributed to important policy interventions, foreign direct investment, and increasing domestic consumption.

Source: World Bank Development Indicators 2011.

II. Poverty Analysis and Private Sector Support

port, “the HDI remains an aggregate measure of progress in three dimensions—health, education, and income”.¹⁰ According to the 2011 HDI, Vietnam ranks #128 out of 160 countries overall. Additionally, in the context of East Asia and the Pacific, Vietnam ranks #14 out of 20 countries. Vietnam’s HDI value for 2011 is 0.593, up from 0.435 in 1990; while this shows increased performance with regards to the index indicators, Vietnam continues to fall below the regional average. In Figure 4 below, comparative 2010 HDI data for nine selected countries is gathered, again indicating that Vietnam ranks well below the average for most East Asian countries and only just above Lao and Cambodia.

Figure 4. 2011 HDI and Poverty: Vietnam and other Key East Asian Countries



Source: Figure generated from UNDP Human Development Report 2011 data.

Although Vietnam has reached great achievements in reducing the poverty rate, the number of poor and hungry households remains relatively high. Additionally, Vietnam has to focus not only on decreasing the number of poor people, but also on the struggle with structural poverty barriers, such as the following:

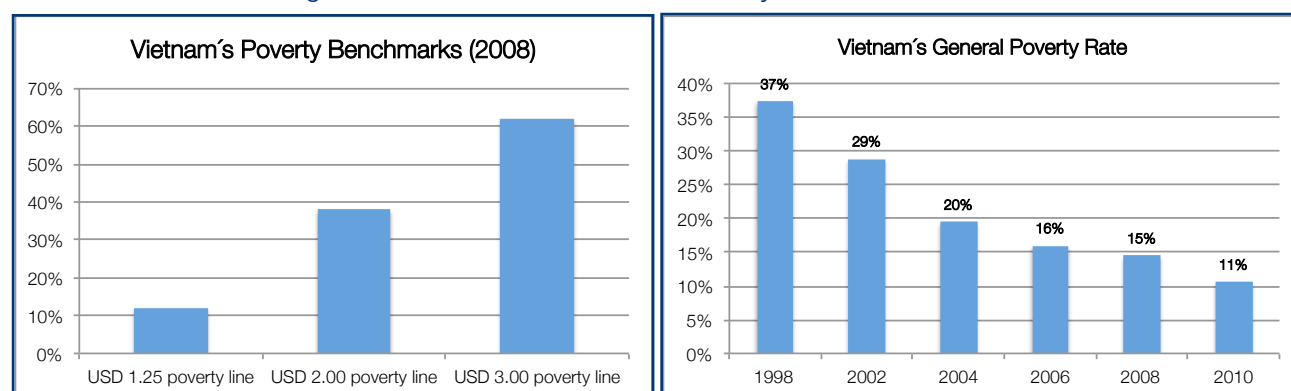
- Many Vietnamese households are not considered poor but maintain an income level nearly above the poverty line. Their incomes are unstable and they are vulnerable to unexpected life events, therefore, overall poverty reduction gains may not be sustainable in the long term.
- Most Vietnamese poor households have low levels of education and are concentrated in isolated regions with poor natural resources coupled with adverse natural conditions.

¹⁰ United Nations Development Programme. (2011). Human Development Report 2011, New York.

II. Poverty Analysis and Private Sector Support

- Most poor households are often totally dependent on natural resources gathering and subsistence level agricultural production.

Figure 5. Vietnam's World Bank Poverty Benchmarks 2008



Source: Figure generated from World Bank Poverty Net data.

Therefore, reducing the depth of Vietnam's poverty levels will require further efforts, with a specific focus on populations in rural areas, ethnic minorities, women groups, and the unskilled labor force. This change will be possible only with the effective implementation of an equitable and inclusive development strategy.

Vietnamese poverty rates in rural and urban areas show a marked difference, with rural poverty reaching levels over five times higher than those of rural poverty in 2008.

During the period 1998 – 2008, the urban poverty rate fell from 9% in 1998 to 3.3% in 2008 and the rural poverty rate followed the same tendency, decreasing from 44.9% to 18.7 % in the same period. While these statistics can be interpreted as a testimony to the improvement of the Vietnamese poverty rate during that period, they also reflect the noted difference between the reality of the country's urban and rural poor. The gap between rural and urban poverty is mainly explained by the following: i) in rural regions employment is generally restricted to agricultural labor, which currently employs 80% of the poor, while in urban areas there is a wider range of jobs, within the industrial and service sector markets, where the income for urban employees is more stable and is not vulnerable to natural disasters (such as droughts, floods and storms); ii) social services have not been extended to all rural regions; iii) it is more difficult for rural areas to access markets and market information, thus economic growth is likely to be concentrated in urban areas where market infrastructure already exists; iv) schools available in rural areas tend to provide a lower quality of education compared to their urban counterparts¹¹; v) the majority of rural poor households choose to work as self-sufficient farmers, which limits their productivity and competitiveness; and, vi) people who live in rural areas are more prone to diseases and have less access to health care services. (The

¹¹ "There are several different curricula in primary schools and each is associated with attendance for a different number of days per year. There is a 160-week curriculum for most pupils, a 120-week program for ethnic minority pupils, and a 100-week program for pupils in remote areas" (Australian Agency for International Development by the Centre for International Economics (2002). Vietnam Poverty Analysis. Canberra and Sydney. 2002.).

II. Poverty Analysis and Private Sector Support

following box presents Case Study 1 as an example of a Vietnamese company that incorporates rural BoP populations into their business model, both as producer and consumers.)

Vietnamese poverty is also characterized by regional disparities and uneven distribution -- almost half of North West region still lives in poverty. Geographical disparities in poverty exist, with the South East and the Red River Delta outperforming all other regions in poverty reduction with single-digit poverty rates of 3.5 percent and 8.1 percent respectively in 2008, down from as high as 40 percent and 61.4 percent respectively in 1993. The slowest progress is observed in the still high poverty incidence of 45.7 percent in 2008, down from 81 percent in 1993 of the North West region, which is characterized by a high population share of ethnic minorities and isolation from the national market. In between these two ends are the North East, the Central Highlands and the North Central Coast which shared a similar performance, falling slightly short of that of the South Central Coast.

Case Study 1: Duc Viet Joint Venture Company Limited

“Action is more important than words. Low income people will only believe in the benefits of working with Duc Viet when eye witnessing a successful example”

Mai Huy Tan, CEO, Duc Viet Joint Venture Company Limited

Duc Viet Joint Venture Ltd. (Duc Viet) focuses on the production and commercialization of high quality processed foodstuff and fresh meat. The company works with low-income populations within all parts of its value chain in Vietnam: as producers of raw materials for their production process, as actors within the distribution channel, as final consumers, as well as employees. The company understands the benefits, as well as the obstacles, of working with this population and is invested in this type of inclusive business model because of the economic benefits foreseen. The company hopes to optimize the potential of local farmers within the company's value chain while reducing the reliance on the single supplier of quality pigs. Additionally, Duc Viet also sees the benefits of building company image and promoting its brand while involving low-income populations in the company's value chain.

II. Poverty Analysis and Private Sector Support

BACKGROUND: Initially founded in 2000 as Duc Viet Ltd, Duc Viet Joint Stock Company (Duc Viet JSC) was founded in 2005 as a joint venture between a Vietnamese and German partner. As the first company processing German style sausages in the Vietnamese market, the company was well received by Vietnamese consumers, with sales in 2009 equaling approximately USD 7 million. In 2010, Duc Viet is in the top 200 companies to receive the Sao Vang Dat Viet (Golden Star) award from the Vietnam Young Business Association and has high hopes for 2011: 50% growth rate expectations with regards to revenue. The company currently has 200 employees among their factories, which include a pig slaughtering plant using German technology, a meat processing plant, a clean food processing plant, and a plant dedicated to processing spices and mustard.

BUSINESS MODEL: In an effort to achieve a greater stability of raw materials (pigs), and not become too reliant on the Thai supplier that currently supplies to Duc Viet, the company has decided to invest in the pig breeding business and the incorporation of more Vietnamese farmers into their value chain. The company invests in breeds, or high quality piglets, which are sold to local farmers. In addition, the company provides support for farmers to ensure that the pigs are raised according to Duc Viet requirements and standards. One hundred local low-income Vietnamese farmers are currently working with Duc Viet, and supplying 10% of the raw material demand, thanks to an alliance the company formed with the Provincial Women Union and Provincial Farmers Union to facilitate the integration of low-income populations into the company's value chain. Through this partnership, the Duc Viet training centre worked with the unions to offer training course for over nine hundred farmers on clean farming practices, necessary for certifying pig production for the company.

Additionally, the company is now working with a professional distribution company to develop a market expansion plan to the Central and the South regions where Duc Viet products are not as well known as in the Northern provinces. In addition to targeting higher income consumers via supermarkets, Duc Viet targets the large number of lower-income consumers in rural areas through traditional wet markets; currently the company reaches 17 provinces through this type of distribution channel. Duc Viet provides small distributors with coolers (USD 300 each) for keeping fresh meat and promotional materials, such as posters and training. Although, the CEO shared that this investment is currently break-even, he clarified that it helps to promote the Duc Viet brand in rural areas. The company hopes to enlarge its rural distribution network and hopes that as more rural farmers work with Duc Viet, they will also gain them as consumers.

ESTIMATED IMPACT: The Company hopes to grow to an annual supply of up to 120,000 piglets per year, which could have an impact on approximately 2,000 pig raising farmers in rural areas. In regards to the company's estimated gains, the CEO stated that the internal rate of return for this specific project is expected to be 30%.

FUNDING INTERESTS: The company stated an interest in debt financing of approximately USD 2 million for the breeding business model described above. This loan would be used for working capital (to buy materials for production), expanding the distribution channel, and technical assistance for targeted farmers. This loan would be used over 5 to 7 years with an interest rate less than current bank loan rate (at 4% p.a. for a loan in USD and 11% p.a. for a loan in VND).

II. Poverty Analysis and Private Sector Support

The BoP market in Vietnam is estimated to be in excess of USD 14 billion -- representing a significant consumer segment with important and largely underserved needs. As represented in Table 1 (which provides an estimation of the consumption by market segment in Vietnam), which has been constructed with available consumption expenditures by quintile share,¹² it is clear that of the total estimated consumption of USD 14 billion, 60% is spent on food and beverage (non-durable goods), 25% on transportation, and 18% on furniture. While non-food consumption comprises 40% of total expenditure, only 32% of that expenditure is used for education and healthcare, while housing comprises 7%. Compared to the top quintile, the wealthier Vietnamese spend 3 times more on health, 8 times more on housing, five times more on education, and 2.5 times more on food and foodstuffs than the lowest quintile of the population.

Table 1. Consumption Expenditure in Vietnam (By Quintiles and Food/Non Food Expenditures)						
		Quintiles(*)				
		Q1	Q2	Q3	Q4	Q5
Detail	100%	9%	13%	16%	22%	39%
Total (USD Million)	36,869	3,449	4,813	5,943	8,121	14,542
Eating & drinking (Food)	19,528	2,245	2,926	3,330	4,352	6,674
Food	4,714	890	928	922	949	1,025
Foodstuff	10,076	1,037	1,465	1,719	2,288	3,567
Fuel	1,057	136	164	186	246	324
Outdoor Meals	2,655	95	241	343	637	1,339
Drinking and smoking	1,005	87	128	161	232	398
Non-eating & drinking (Non Food)	17,342	1,204	1,888	2,613	3,769	7,867
Garment, hat, shoes, sandal	1,538	144	203	258	336	596
Housing, electricity & utilities	1,438	84	138	189	326	701
Furniture	3,070	228	354	469	660	1,360
Healthcare	2,365	251	331	407	571	806
Travel and communication	5,099	248	435	725	1,075	2,615
Education	2,264	179	303	384	498	900
Culture, sport, recreation	560	5	9	24	61	460
Other	965	65	115	157	241	387
(*): Quintile 1: lowest income quintile (poorest group). Quintile 2: low income quintile. Quintile 3: middle income quintile. Quintile 4: high income quintile. Quintile 5: highest income quintile (richest group) Source: Table generated from Vietnam General Statistics Office data.						

The Vietnamese government has taken an aggressive and active role in developing public policies that have contributed to economic growth and poverty reduction though success is fragile and challenges remain. According to the Asian Development Bank¹³, national and sector policies such as the Comprehensive Poverty Reduction and

¹² Quintiles statistics and calculations define a constant distribution of the population.

¹³ Asian Development Bank. (2006) Strategy and Program Assessment, Vie: Poverty Assessment. Final Document.

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Growth Strategy¹⁴, the National, Sectoral, and Provincial 10-Year Socio-Economic Development Strategy (2001-2010), the National Program on Fishery Development, the National Targeted Poverty Reduction and Job Creation Program, and the National Strategy for the Advancement of Women in Vietnam to 2010, in addition to others, have concentrated their efforts on: raising poor sectors' income by accelerating the growth of industry, services, agriculture, forestry, and fisheries. As noted in Table 2 below, these strategies have concentrated impact on poverty, most often located in rural areas, by ensuring food security; creating a business environment with increased equality; expanding and developing markets; raising the living standards of ethnic minorities; encouraging the development of small and medium-sized enterprises; improving the efficiency of state-owned enterprises; improving access to credit; expanding health and education services; improving gender equality; and, reducing the vulnerability of rural areas to natural disasters.

Table 2. Human Development Index Parameters 1980 - 2011

	Life expectancy at birth	Expected years of schooling	Means years of schooling	GNI per capita (2005 PPP\$)	HDI value
1980	55.7	8.6	4.3
1985	61.1	8.2	4.4
1990	65.6	7.8	4.0	0,855	0.435
1995	69.5	9.2	4.2	1,190	0.486
2000	72.0	10.3	4.5	1,583	0.528
2005	73.8	10.4	4.9	2,100	0.561
2010	75.0	10.4	5.5	2,672	0.590
2011	75.2	10.4	5.5	2,805	0.593

Source: Vietnam Human Development Report 2011.

Sector Dimensions of Poverty

Currently the majority of the BoP population is found within the agriculture and fishing industries, but opportunities exist for livelihood transitions that would allow this population to gain employment within other industries. In Vietnam the rural population accounts for 70% of the total population and most of this population are employed in the agriculture and fishing sector. Aggregated data from the GSO shows that 53% of the employed population is concentrated in the agriculture and fishing industries and 26% in the manufacturing and trade industries. As Table 3 shows, the agriculture sector, which employs the vast majority of the labor force earns just over USD 2.00 per day. This would mean that by international poverty standards, nearly half of Vietnam's labour force hover right at the poverty line despite being employed.

¹⁴ The CPRGS is an action program that translates the Government's Ten-Year Socio-economic Development Strategy and the Five-Year Socio-economic Development Plan, as well as other sectoral development plans into concrete measures with well-defined road maps for implementation. This is an action program to achieve economic growth and poverty reduction objectives. The Comprehensive Poverty Reduction and Growth Strategy are closely related to the national annual socio-economic development plans and the plans developed by different ministries, agencies, and sectors. Source: International Monetary Fund. (2004). Vietnam: Poverty Reduction Strategy Paper. IMF Country Report No. 04/25. Washington, D.C.

II. Poverty Analysis and Private Sector Support

Table 3. Employed Persons and Average Incomes by Sector (2009)

Table 3. Employed Persons and Average Incomes by Sector (2009)				
Industry	Employed People (2009) (Million / %)		Monthly Average In- come	Daily Average Income
	No.	%	USD	USD
Agriculture	21,950	49%	72.3	2.4
Manufacturing	6,306	14%	102.5	3.4
Wholesale & retail trade	5,372	12%	110.1	3.7
Construction	2,394	5%	103.1	3.4
Fishing	1,684	4%	72.3	2.4
Education and Training	1,401	3%	129.8	4.3
Other	5,808	13%		
Total	44,916	100%	108	3.6

Source: Table generated from Vietnam General Statistics Office data.

Opportunities for employment do exist for BoP employees, especially when examining the possibilities that exist within livelihood transitions from agriculture and fishing. For example, from the evidence gathered from companies during this study, many companies were addressing the need to train workers from agriculture-based labor to be employable in manufacturing operations, especially when companies move or start operations outside of urban areas.

Despite a lack of growth in the agriculture and forestry sector, this sector still presents an important opportunity for inclusion of the BoP as producers. Vietnam remains one of the leading global exporters of natural resource commodities. This indicates the importance of this sector to the export market and marks an opportunity for social inclusion. Table 4 below highlights the existing processing and exporting companies in Vietnam that currently or potentially provide a market for raw materials produced by rural farmers. Inclusive businesses in the agriculture sector could integrate small farm producers into their value chains through formalized agreements that secure a stable supply of raw materials for export companies, while at the same time producers are guaranteed a market for their produce.

Table 4. Processing and Export Companies for Major Agriculture Commodities in Vietnam

Table 4. Processing and Export Companies for Major Agriculture Commodities in Vietnam	
Product	Food Processors and Exporters
Rice	210+ companies. 11 largest companies account for 65% of the market share.
Rubber	35 largest companies account for 75% of the market share
Coffee	150+ companies. 20 largest companies account for 80% of the market share
Cashew nut	120+ exporters. 20 top companies accounts for more than 50% of the market share
Tea	630+ processing factories. 121 export companies and 12 top companies account for 50% of the market share.

Source: SNV primary information.

The market opportunities for the BoP as consumers are vast and growing, which makes a case for the design, distribution, and sale of goods and services specific to this segment of the population. Even at extreme poverty levels (defined as living on less than USD 1.00 a day) the poor consume goods and services, albeit on a smaller incremental scale than non-impovertished consumers.

Table 5. Purchasing Power of the BoP Population in Vietnam

Table 5. Purchasing Power of the BoP Population in Vietnam				
Poverty Line	Population share (%)	Population (Million)	Purchasing Power (USD Million)	Accumulated Purchasing Power (USD Million)
Less than USD1.25 per day	22.81%	19	8,846	8,850
Between 1.26 USD2.00 per day	27.67%	24	17,169	26,015
Between 2.01 and USD3.00 per day	22.61%	19	21,044	47,059
Above USD 3.00 per day (*)	26.91%	23	55,937	102,996
Total	100.00%	85	102,996	

(*) USD. 6.67 is the average daily income for professional workers according to the Ministry of Planning and Investments

Source: Table generated from World Bank Poverty Net and Vietnam General Statistics Office data.

(*) USD. 6.67 is the average daily income for professional workers according to the Ministry of Planning and Investments (MPI)

Source: Table generated from World Bank Poverty Net and Vietnam General Statistics Office data.

However, as Table 5 demonstrates, the large BoP population in comparison to the non-impovertished consumer population produces a cumulative purchasing power of about USD 47 billion that nearly approximates the purchasing power of those earning above USD 3.00 per day (close to USD 56 billion). From this standpoint, the market opportunities presented by the BoP as consumers is significant. In fact, Case Study 2 below offers an insight into a company that has grown due to its relationship with BoP consumers.

The market opportunities of the BoP as consumers of public services also represent opportunities for social inclusion within the marketplace. In the case of water, more than 62% of the Vietnamese populations have access through wells and rainwater; this figure for the rural population is 74%. According to the Human Development Report, the public health care coverage in Vietnam, measured by the number of physician per 10,000 people, is also very low compared to other countries in the region. Finally, the case of housing can include as much as 80% of the rural population, not only in regard to the construction of housing, but also for financial services and building materials.

The market for the BoP as consumers of durable goods also presents opportunities in different scalable areas. In the case of rural areas, the penetration of personal computers only reaches 5% of the market, compared to 11% at the national level. According to the GSO, the figures related to the low access to motorbikes, telephones, and refrigerators in rural areas, compared to those at the national level, may reflect inequality but at the same time represents enormous social inclusion potential through market driven initiatives for the poor.

Case Study 2: Dong A Joint Stock Company (JSC)

"Thanks to the local low-income population, Dong A has grown very well and was not at all affected by the recent financial crisis."

Truong Van Danh, CFO, Dong A Joint Stock Company

Dong A Joint Stock Company (JSC) is a Vietnamese joint stock company focusing on producing one product, Sam TV, which is considered as a low-cost TV for the low-income consumers. Since its establishment, the company has identified the low-income market segment, which they estimate to be about 15 million in Vietnam alone, as the target market for their product. The company has designed the production and sales/distribution processes keeping in mind their need to keep costs low so that this business model could be profitable, but without sacrificing the quality of their product.

BACKGROUND: Dong A JSC was established in 2005 and is the producer of the cheapest flat screen TV in Vietnam, Sam TV. With a production plant in the Binh Duong province, the Sam TV, which is the main product line of Dong A JSC, is produced automatically using a modern production line that was imported from Germany, Hong Kong, and Japan. The company's current annual production and sales is 500,000 units per year, which accounts for 30% of TV market demand in Vietnam. In 2009, the company did approximately USD 19 million in sales and it is expected that the growth rate for 2010 will be approximately 11%.

BUSINESS MODEL: The company's core business is producing low-cost TVs for the low-income market. When the company first launched their 21-inch flat screen TVs to market at USD 51, the cheapest flat screen on market was USD 67. Dong A JSC was able to make a difference in price by eliminating distribution costs, importing affordable equipments and spare parts directly from producers in bulk, and using the latest production technology for optimal productivity while still maintaining the quality at a high level. To additionally minimize costs, the company sells TVs directly at the factory by orders of a minimum of 100 pieces directly to distributors. The company has about 35 frequent buyers of SAM TV and has no control over the distribution of its TVs. It provides no credit to buyers and maintains a 2-year warranty scheme for all TVs nationwide. As final consumers are largely low-income consumers in rural and remote areas, Dong A offers a 30-day exchange policy to show the company's confidence in the good quality of its products.

The company estimates that 18% of Vietnam's population belongs to low-income populations; the company sees this as a mass market for Dong A JSC to serve in the coming years. Additionally, the company expects that the flat-screen TV volume needed in 2010 to meet market demand is approximately 1 million units. It is estimated that the value of this sector is USD 76.5 million, which shows that this market still has potential for Dong A JSC, especially because many other TV producers do not focus on this market. With this in mind, Dong A JSC plans to expand production to focus on increasing products for sale to low-income population consumers. The expansion would allow Dong A to increase its outputs of current production lines (flat-screen TV and Slim-fit TV) and to install a new production line (LCD TV). The expansion requires Dong A not only to invest in equipments but also in working capital (purchase of spare parts and materials). As shared by the CFO, its current capacity is much lower than the needs of the market.

ESTIMATED IMPACT: Currently the company maintains an average production of 500,000 units per year, and aims to increase this production to include another 250,000 customers within the low-income market segment per year. The company identified that many of its consumers are workers in industrial zones or people in rural and remote areas whom benefit from an affordable high-quality SAM TV.

FUNDING INTERESTS: The company is currently using debt and equity financing, totaling USD 6.15 million. Additionally, the company expressed interest in a debt financing at USD 6.5 million, but specified that it was looking for an interest rate at less than the current market rate. The company would use this loan for 10 years for the investment of equipments and machinery to be installed at its current plant and financing its working capital. The company estimates that this investment could earn 14% returns in 7 to 8 years.

Conclusion

Distilling conclusions regarding Vietnam's poverty situation is complexified by the use of different benchmarks for defining what it means to be impoverished. When using Vietnam GSO's adapted definition of earning less than USD 0.60 per day, the country's poverty rate is at 11%, while the use of the international minimum delimitation of earning less than USD 1.25 per day yields a higher rate. What is clear, however, is that apart from economic poverty, a large percentage of Vietnam's population are not receiving adequate basic services including education, health services, and infrastructure for them to become well integrated into the mainstream economy. Inclusive economic development strategically directed at the poor, with emphasis on how geography relates to poverty, is necessary in order to ensure the continued overall growth and wellbeing of Vietnam. Additionally, further incorporating the BoP into mainstream economic activities is advantageous, not only with regard to their potential as workers and producers within the economy, but also when analyzing this population segment as a market opportunity and virtually untapped consumer base.



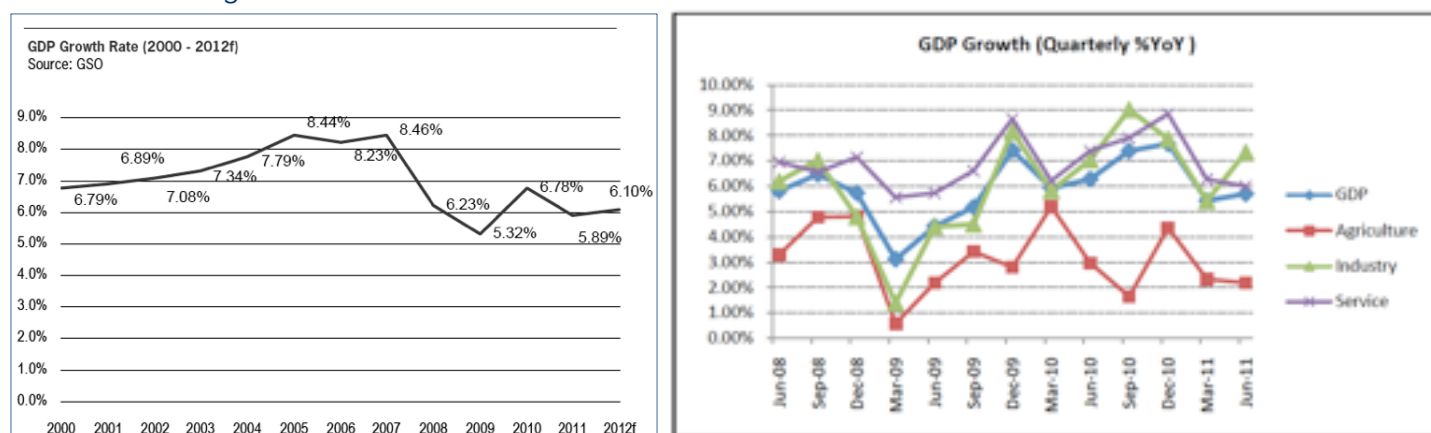
III. Macro-economic Analysis

Vietnam's suitability and readiness for social inclusion into mainstream business development is assessed using key economic parameters of growth, the overall business environment, and employment. The productive growth of an economy is an important determinant of inclusive business development as increased and/or sustained growth rates suggest the capacity to integrate new market participants in the form of low-income producers, consumers, and employees. In addition to GDP as the traditional indicator of growth, the assessment will also discuss the major industrial sectors in which growth has taken place, as well as key drivers for that growth. As a complement to economic growth factors, the conditions under which business takes place are equally important as qualifiers for social inclusion in mainstream business development. The assessment will examine the recent trajectory of Vietnam's performance in view of its continuing economic reform movement. With secure and sustainable employment as one of the main thrusts of social inclusion, the current status of Vietnam's labor force is also evaluated.

Macro-economic Background

Vietnam continues to be one of the fastest growing economies in the world over the last decade having sustained an average growth rate of 6.8% over the last seven years¹⁵. Despite a decrease in the last two years, a 5.9% growth rate in 2011 (see Figure 6), during one of the largest global economic downturns, is indicative of a robust economy able to weather significant market fluctuations that would otherwise be devastating. This earned Vietnam one of the largest growth rates in Asia -- in the last six years, Vietnam's GDP has more than doubled (from USD 53 billion in 2005 to 129 billion in 2012), exports almost tripled (from USD 32 billion to USD 96 billion) as did foreign direct investment (from USD 5.8 billion to USD 14.7 billion). Vietnam's economic development, marked by rapid and steep growth, can be related in large part to industrialization that has successfully transitioned the country's historical agrarian-based economy to one based on manufacturing of finished products. Over the past few years, as seen in Figure 6, this transition is more than evident as Industry and Service growth has averaged between 5 and 7 percent at the expense of growth in the agricultural sector.

Figure 6. Vietnam GDP Growth Rate from 2000 to 2012f and Sector Growth



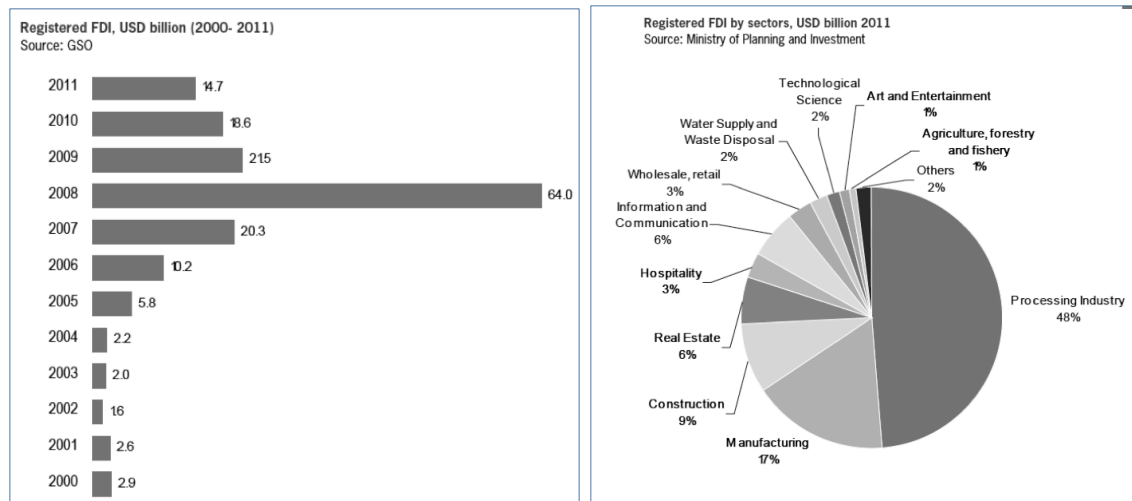
Source: Chart generated from GSO.

In addition to overall economic growth, the success of Vietnam's efforts to foster a more conducive business development climate is evidenced by a commensurate surge in foreign direct investments -- however, agriculture, a key sector to the BoP, receives less than 1% of total FDI. More specifically, during the period from 1988 to 2008 nearly 75% (approximately USD 119.1 billion) of the accumulated registered capital of FDI was allocated to two of the fastest growing sectors of Vietnam's economy: processing/industry (including oil and gas) and manufacturing activities -- as evidenced in the FDI by sector chart in Figure 7. In 2011, the total registered capital of FDI was USD 14.7 billion, 75% of which was committed to four industrial sectors: processing/industry(48%), manufacturing (17%), construction (9%), and real estate (6%). Less than 1% of foreign direct investment went to agri-

¹⁵ Grant Thornton Vietnam. (2011). Doing Business in Vietnam 2011: assisting astute investors make informed decisions. Guide to Doing Business in Vietnam 2011. Publication.

culture, forestry and fishery -- the most important sector to Vietnam's rural poor. The influx of FDI to Vietnam in recent years is a response to key factors, including: i) a better business climate after accession to the World Trade Organization in 2007; ii) an improved legal system; iii) public policies that motivate foreign investors, especially related to the labor market; and iv) Vietnam's continued fulfillment of its commitments to the international community. In addition, rising costs of production in China is cited as a major factor for seeking Vietnam as a more cost-effective alternative, particularly with regard to cheap labor available in manufacturing¹⁶.

Figure 7. Vietnam FDI 2000 - 2011 and FDI by Sectors 2011

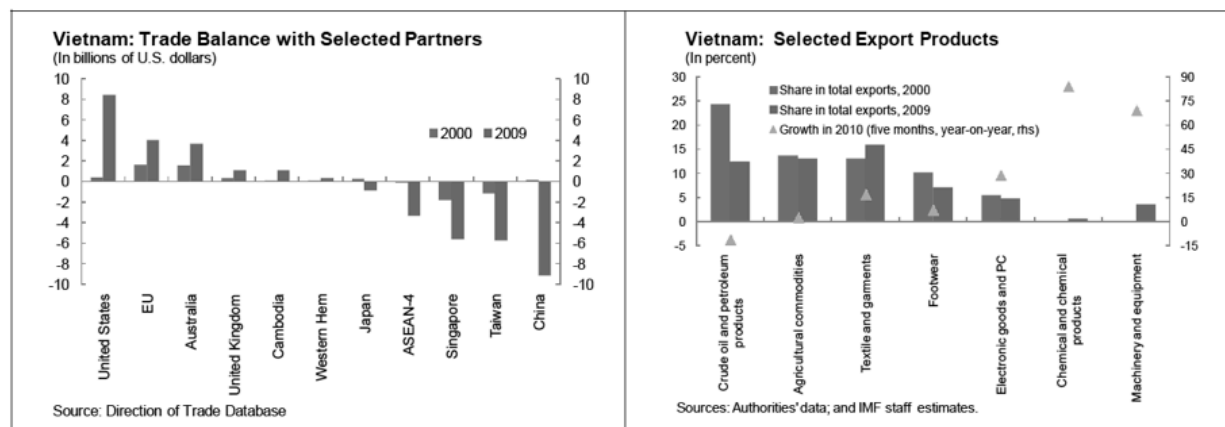


Source: Chart generated from GSO and MPI courtesy of Grant Thornton 2011.

Over the last fifteen years, the Vietnamese export sector has also exhibited 20% average annual growth. The value of exports rose tenfold from USD 5.4 billion in 1995 to USD 96.4 billion in 2012 (forecast). The export industry of Vietnam reflects the two significant changes in the country's recent economic history. First is the transition from an agrarian to manufacturing economic base and second is the sharp increase of foreign investments. In 1995 Vietnam exported USD 3.7 billion of raw materials or primary products accounting for 67% of total export value and only USD 1.8 billion of manufactured products accounting for 33% of total export value. However, by 2007, Vietnam exported USD 21.7 billion (45%) of primary products and USD 26.9 billion (55%) of manufactured products. The main share exports for 2009 and changes from the year 2000 reflect this trend (Figure 8). However, to date, Vietnam continues to be one of the world's leading exporters of agricultural products. (Case Study 3 highlights an example of how exports of raw materials can allow for inclusion of rural Vietnamese farmers). It is a major exporter of cashew nuts and peppers and the second largest exporter of rice and coffee after Thailand and Brazil, respectively.

¹⁶ Vietnam's Economy: Plus One Country. The Economist. September 2, 2010.

Figure 8. Vietnam Selected Export Products 2000 - 2009 and Trade Balance 2000 - 2009

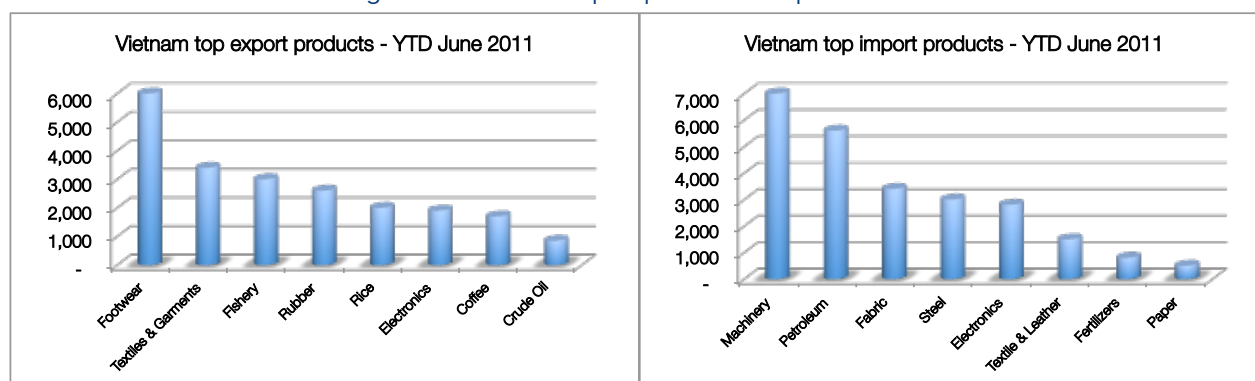


Source: Direction of Trade Database, IMF Staff estimates. Charts courtesy of the IMF.

Vietnam's export products through mid-2011 reflect an ongoing shift from an agricultural/input driven economy to an increasingly manufacturing-dependent one.

As per Figure 9 below, footwear, textiles and garments now comprise the top two export products, overtaking fisheries, rubber and coffee. However, taken in combination, Vietnam's total agricultural export products still comprise the majority of exports in 2011. As per Case Study 3, the opportunity to continue to develop inclusive business models in the agricultural sector that create employment for the poor while supply agribusinesses with critical inputs can continue to thrive if export-driven growth remains sustainable. At the same time, the development of a skilled labor pool (from an unskilled labor pool), especially from rural families who migrate to cities looking for seasonal or long-term opportunities in the manufacturing sectors, can present inclusion opportunities provided adequate vocational education or company-sponsored training programs are available.

Figure 9. Vietnam Top Imports and Exports 2011



Source: Chart generated from GSO.

Case Study 3: Nestlé Vietnam Limited

"Our business is naturally 'inclusive'. We purchase Robusta coffee directly from rural Vietnamese farmers and export it to 23 Nestlé factories around the world, a business that contributes to 25% of our global revenue. We therefore rely upon a steady and quality supply from our rural Vietnamese farmers."

Vu Tran Quoc Tuan, External Affairs Manager, Nestlé Vietnam Limited

Nestlé is one of the largest consumer packaged goods companies in the world. With an employee base of approximately 280,000 people, the company operates in over 50 countries. Worldwide, Nestlé operates by a solid corporate principle that in order to be successful in the long-term it must create value both for its shareholders and the society at large. This pledge operates under the banner of "Creating Shared Value", and directly affects the company's core business activities.

In Vietnam, Nestlé Vietnam Limited (Nestlé) operates under the same principles, with a specific focus on the company's relationship with rural Vietnamese farmers. The company purchases Robusta coffee directly from rural farmers and exports it to 23 Nestlé factories worldwide. Nestlé is fully committed to its work with the low-income populations involved in the company's value chain and recognizes that increased income for rural farmers means a more consistent supply of quality coffee for the company.

BACKGROUND: Nestlé was first established in Vietnam in 1916. These same offices were closed again in 1975, and re-opened in 1995. Nestlé currently operates three main factories in Dong Nai and 2 other factories in Long An and Cung Yen. The company has approximately 1,400 employees and has invested USD 75 million in Vietnam since 1993. In 2009, Nestlé estimated their revenue to be above USD 10 million, with an expected revenue growth for 2011 at 30%.

The company is aware that the Vietnamese coffee industry plays an important role in the company's business activities; 25% of the company's global revenue is generated from coffee exports from Vietnam. As a principal supporter of coffee production in the Dak Lak Province, one of the country's largest Robusta producing regions, the company also recognizes the importance of its direct relationships with agricultural suppliers. Reflecting a nationwide effort to increase coffee exports to 1.16 million tons (USD 2.4 billion) by 2020, by not only by increasing productivity but also the quality of the country's export product, Nestlé is committed to investing in the development of this product.

BUSINESS MODEL: Operating through public-private partnerships, Nestlé works with agricultural producers, government, and NGOs to deliver innovative solutions to sustainable farming practices in Vietnam. Since 1999, Nestlé has joined with the Vietnamese Government and farmers as direct partners within the coffee supply chain. In an alliance with the Vietnamese Government, Nestlé provides technical assistance and training for farmers as part of a more holistic program to help farmers improve the productivity and quality of their crops. In addition, together with the GTZ (German Society for Technical Cooperation), Nestlé has implemented a pilot project for best practices in coffee cultivation and processing, to support and implement sustainable coffee production in the Dak Lak province. This unique project involves many actors within the local coffee sector: the Department for Agriculture and Rural Development, the Agricultural Extension Centre, Cafe-Control, the Western Highlands Agro-forestry Sciences and Technical Institute, the Central Highlands Soil Research Centre, and the Vietnam Coffee & Cocoa Association.

Additionally, Nestlé benefits from shared experiences and best practices from other regions, which helps to deliver real benefits to agricultural communities working within the company's value chain. In the region, Nestlé is currently financing research and development efforts in coffee production in Thailand, which have already identified 7 out of 20 coffee strains the company plans to promote for widespread, export-oriented coffee production. Nestlé is also the principal supporter of Farm Business Advisors Program (FBA) in Cambodia, which since its inception in 2005, has enabled 60 rural Cambodian entrepreneurs to start small farm advisory businesses that have helped 4,500 small-scale farm households increase their net income by 27%.

ESTIMATED IMPACT: The company is currently working with 1,000 rural farmers in Phu Nong province, whom receive training from Nestlé, in addition to the provision of coffee trees and Nestlé's pledge to purchase coffee directly from the farmers. The company expects that rural Vietnamese farmers could reach similar income gains as their Cambodian counterparts.

FUNDING INTERESTS: When presented with possible financing, Nestlé expressed an initial interest in USD 3-5million for 4 to 5 years in order to strengthen the company's current coffee supply chain. The company signaled that the FBA model, already successfully established in Cambodia, could be adopted to Vietnam, in order to improve the recruitment and training of farmers, provision of trees, and the direct purchasing process.

Opportunities and Challenges for Private Sector Development in Vietnam

In the last five years, while Vietnam has improved its Doing Business ranking in the past few years, 2012 has seen Vietnam's ranking fall 8 places to number 98 in the world.¹⁷ While Vietnam has made significant progress in the last ten years, comparisons between 2012 and 2011 reflect declines in rankings in starting a business, registering property, getting credit, paying taxes (Vietnam lost 22 places in the global rankings in this aspect), trading across borders, and resolving insolvency. Despite many important reforms, the IFC and World Bank Enterprise Surveys (2009), which is based on interviews with 1,053 firms in the country, suggest that many improvements can be made in a number of areas. For example:

- 53% of firms expected to give gifts to public officials "to get things done" -- more than twice the global average;
- Only 12% of investments are financed by banks, and 3.8 percent of investments are financed by equity or stock sales;
- While 47% of firms use banks to finance working capital expenditures, companies need 217.7% of the loan amount on average for collateral;
- 90% of firms are of private domestic ownership with 69.1% of the firms being held by the largest owners on average;

¹⁷ The World Bank and The International Finance Corporation. (2012). Doing Business 2012. The World Bank. Washington, DC.

- 55.6% of firms are competing against unregistered or informal firms in the country, with 14.3% suggesting that their competitors in the the informal sector are a major constraint
- 16.7% of firms have an internationally-recognized quality certification and only 30.1% of firms have their annual financial statements reviewed by external auditors.
- 88.2% in the proportion of total sales that are domestic sales (and conversely, 20.5% of firms are exporting at least 1% of sales directly or indirectly) – 63.2% of firms use material inputs and/or supplies from foreign origin.
- 43.5% of firms offered formal training and 65.6% of workers were offered formal training by their respective employers.

Notwithstanding these challenges, Vietnam has implemented a number of critical reforms and related actions that have positively impacted its enabling environment for business development over the past two decades. These include but are not limited to the following:

National Level

- A new State Constitution approved in 1992 reinforced the socialist oriented market economy of the country.
- 22 countries have acknowledged Vietnam's market economy, as a means to accomplishing several commitments and bilateral agreements, including the WTO.
- Fiscal policies have been decentralized, which has improved the Government's social spending on health, education, and infrastructure.

Sub-National Level

- Improvements were made to encourage labor market liberalization, which allowed the mobility of employees from "less productive" to "more productive" jobs, reduced labor segmentation, transaction costs, and imperfections within the labor market.
- Support from the Government for rural development, helped to reduce the regional poverty differences within rural areas.
- Integration to the global economy and membership to the WTO in 2006 allowed a significant inflow of foreign direct investment¹⁸ and captured global "know how" and technology, which promoted the transition into industrial labor.
- Intellectual property legislation was strengthened in 2006, which helped Vietnam to comply with international agreements on trade related themes.
- Industrialization allowed Vietnam to change the structure of its economy from an agriculture-based economy to a more manufacturing-based economy.

¹⁸ According to a survey conducted by the Asian Business Council, Vietnam ranked third for investment attraction among Asian nations in the 2007-2009 periods, after China and India.

- A more active private sector role created new enterprises and jobs¹⁹, and increased industry competitiveness.
- Establishment of a regulatory framework for small and medium sized enterprises simplified procedures for business registration and improved the business climate.

Local Level:

- Redistribution of agricultural land and government agricultural technical assistance provided farmers important incentives to increase agricultural productivity and promote market access through exports.
- The revised Law on Forest Protection and Development, approved in 2004, provided a framework for better social and community-based forestry and recognized forest use as a right of households, communities, and other sectors.

The proactive steps the government of Vietnam continues to take towards economic reform is, by and large, succeeding in attracting foreign investors and increasing investor confidence overall. However, the lack of infrastructure in terms of what is considered basic elsewhere, mainly a steady and reliable supply of electricity and a developed road system, mars an otherwise positive track record. According to the European Union Economic Counselors:

A majority of investors believe that there is significant room for improvement in terms of infrastructure in Vietnam. A survey published in November 2011 by the auditing company Grant Thornton Vietnam, affirms that up to 77% of investors consider the limitations of infrastructure to be a problem while 67% say that access to loans remain a problem in the current business environment. The survey took comments from more than 200 investors and investment-consulting specialists in Vietnam.²⁰

Additionally, according to Transparency International²¹, Vietnam can be characterized by ineffective government policies, high levels of corruption, a lack of accountability and transparency, a lack of citizen participation in decision-making, high levels of indebtedness, and weak capacities within the local government. Nevertheless, business development is expected to expand in Vietnam in view of continuing economic reforms. In addition, external situations such as increasing production costs in competing countries (notably in China) make cheap labor costs in Vietnam an attractive proposition to foreign investors bent on maximizing their bottom line.

Despite the growing importance of the manufacturing base, agriculture and forestry employ 49% of the total labor force (roughly 22 million people). The four economic activities with the highest contribution to Vietnam's GDP – manufacturing, wholesale and retail

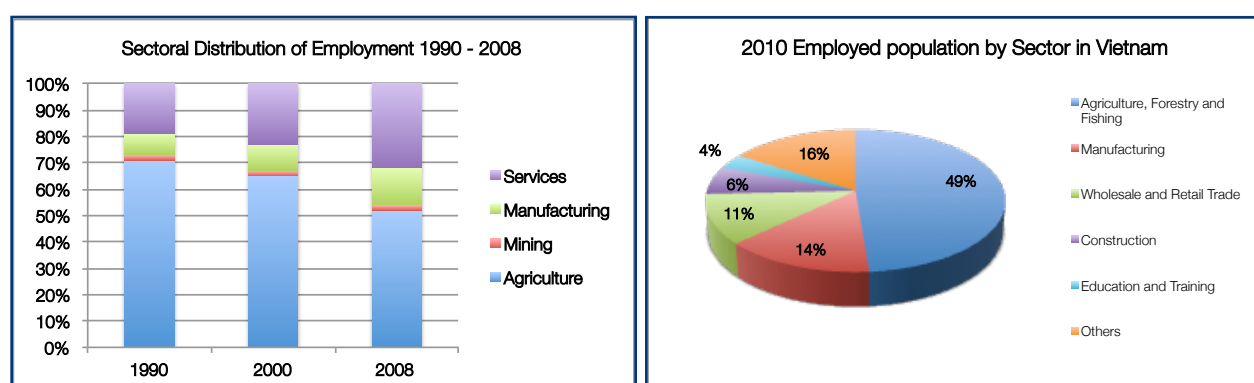
¹⁹ According to the European Union Economic Counselors, in 2009 the private sector in Vietnam created 76,400 new enterprises.

²⁰ European Union Economic and Commercial Counselors (2010). Report on Vietnam. Website: www.delvnm.ec.europa.eu

²¹ Website: <http://www.transparency.org>

trade, agriculture and forestry, and construction –collectively absorb 80% of Vietnam’s labor force (see Figure 10). Although agriculture and forestry has reduced in overall GDP market share, it remains the largest employer in the country employing 22 million people, representing 49% of the total labor force. The second most important economic activity in terms of job creation is manufacturing with 6 million employees (14%). According to the Asian Development Bank²², the growth in the manufacturing sector, wholesale and retail trade, and agriculture have together led to better employment distribution that benefit the poor. However, it must be noted that of the one million people that enter the labor force each year, two to three hundred thousand are moving annually out of agriculture in search of jobs in non-farming activities.²³

Figure 10. Sectoral and Annual Distribution of Employment by Sectors 2010



Source: GSO (2012) – latest available statistics are for 2010.

In terms of FDI, it is important to note that although the manufacturing and real estate sectors cumulatively received as much 75% (USD 119.1 billion) of the accumulated registered capital of FDI during 1988 to 2008, it still accounted for less employment (15% of total labor force) than the agriculture and forestry sector that received only 14% of the registered capital of FDI for that period yet employed 50% of the total labor force (Table 6).

Table 6. Foreign Direct Investment projects licensed (1998 - 2008 by economic activity)

Economic Sector	Number of projects	Registered capital (Mill. USD)	% Registered capital	Employment (Millions of people)	% Employment
Total	10.981	163.607	100%	43,58	100%
Manufacturing	6.778	81.248	50%	6,31	14%
Real estate, renting business activities	1.788	37.895	23%	0,25	1%
Mining and quarrying	126	10.584	6%	0,43	1%
Hotels and restaurants	308	8.971	5%	0,83	2%

²² Asian Development Bank: Strategy and Program Assessment, Vie: Poverty Assessment. Final Document Stage. February 2006. Page 12.

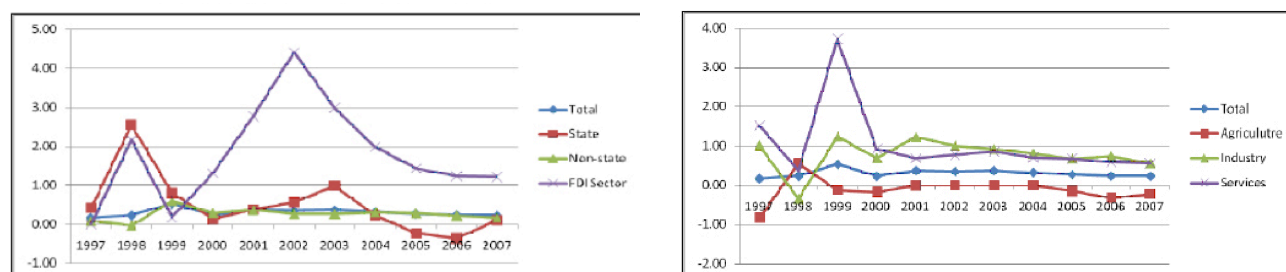
²³ MOLISA et al 2009.

Economic Sector	Number of projects	Registered capital (Mill. USD)	% Registered capital	Employment (Millions of people)	% Employment
Construction	396	7.300	4%	2,39	5%
Transport; storage and communications	295	6.954	4%	1,22	3%
Agriculture and forestry	535	3.601	2%	21,95	50%
Electricity, gas and water supply	31	1.941	1%	0,22	1%
Recreational, cultural and sporting activities	116	1.689	1%	0,13	0%
Health and social work	61	994	1%	0,40	1%
Financial intermediation	66	925	1%	0,00	0%
Wholesale and retail trade; Repair of motor vehicles, motor cycles and personal and household goods	137	697	0%	5,37	12%
Fishery	162	535	0%	1,68	4%
Education and training	113	234	0%	1,40	3%
Community, social and personal service activities	69	39	0%	0,98	2%

Source: Table generated from Vietnam General Statistics Office data.

Job growth, foreign direct investment and export promotion go hand in hand -- as such, falling demand in the international market poses a risk to sustainable employment, especially in rural areas in Vietnam. In 2007, Vietnam's export sector (which includes both agricultural, forestry, and manufacturing products) created over 31 million jobs or 72% of all employment in Vietnam. These numbers reflect the importance of the Vietnamese export sector in job generation and income generation. Primary products exports employed around 24 million people, which represents 76% of the total jobs created by the export sector. At the same time, while it is clear that foreign direct investment has been the main driver of employment generation over the last ten years -- with employment levels growing by an annual rate of 21.7 percent between 2000 and 2007, economists argue that the employment elasticity of growth over this period provides warning signs that Vietnam could face a scenario of jobless growth (with capital-intensive investment) if it does not exceed an average growth rate of 8.5% in the coming years as can be seen in the two graphs below.

Figure 11. Employment Elasticities of Growth, 1997 - 2007 in Vietnam



Source: Charts courtesy of Making Markets work Better for the Poor II (2010)

Notwithstanding the challenges around jobless growth, Vietnam has yet to fully realize its potential in labor-intensive manufacturing which could offer unique opportunities for inclusion. According to the ADB, the role that exports of manufactured products play in the Vietnamese labor market is not being exploited as would be expected²⁴. In 2007 this sector employed 24% (7.6 million people) of all the people working in the export sector. Manufactured articles created 6.3 million jobs, machinery exports employed 1.2 million people, and chemical and related products exports demanded around 30 thousand workers. According to the Asian Development Bank, “Vietnam has untapped export potential in labor-intensive manufacturing. Further liberalization of the services and manufacturing sector will create employment opportunities for surplus labor from the deprived rural areas.”²⁵ In other words, Vietnam has a large, untapped potential to promote labor-intensive export industries in order to create jobs and reduce poverty rates.

Two additional considerations within employment that are important to mention are labor wages and the informal market sector in Vietnam, of which little is documented.

Due to regional and global competition for high-productivity and low wage markets, Vietnam wages for skilled and unskilled workers often hover around USD 2.00 per day contributing to underemployment. In 2010, the minimum wage for unskilled workers in Vietnam ranged from \$40.50 to \$54.50 per person per month for local companies and \$55.50 to \$74.40 for foreign invested companies making it highly competitive among its peers in the region.²⁶ The government readjusted these wages after a series of labor strikes over previous wages that earned workers as little as under USD 2.00 a day. In this regard, underemployment is a concern particularly for skilled workers with wages that barely keep workers hovering at the global poverty line. In the current Vietnamese economy, being employed does not necessarily equate to the reduction of one’s poverty. With increasing standards of living commensurate to economic growth, the tendency to maintain Vietnam’s competitive edge through inexpensive labor may run counter to social inclusion imperatives, which mandate livelihoods that reduce poverty.

The informal economy and related markets potentially employs as many as 12 million farm and non-farm households and may be contributing as much as 50% of GDP. While there is little to no information available on the informal market sector of Vietnam that is comprised of unreported and untaxed business transactions. Best estimates place its value at an additional 50% of GDP and its composition at 10 million farm households, 1.7 million non-farm micro-enterprises, and an undetermined number of small and medium-sized enter-

²⁴ Asian Development Bank: Strategy and Program Assessment, Vie: Poverty Assessment. Final Document Stage. February 2006. Page 23.

²⁵ Asian Development Bank. (2006) Strategy and Program Assessment, Vie: Poverty Assessment. Final Document Stage.

²⁶ Grant Thornton (Vietnam) Ltd. (2010). Doing Business in Vietnam 2010: assisting astute investors make informed decisions. Guide to Doing Business in Vietnam 2010. Publication.

prises²⁷. A more recent comparative study that focused on characterizing the informal markets of Hanoi and Ho Chi Minh City showed that for these two centers of commerce: i) the informal market is the leading job provider among urban labor markets; ii) the markets are mainly in trade (principally the sale of food and drinks), manufacturing (food items) and services (hotels, restaurants, taxis); iii) the informal market responds to the demand created by households for their own consumption; iv) the sector is comprised mostly of unskilled self-employed workers who achieved a lower level of education than those engaged in the formal market²⁸. Through this, albeit, qualified study, it can be discerned that the informal market can constitute a target population for social integration especially as consumers of raw materials, which they have identified as a problem area being in short supply.

Sector Growth in Private Sector Efforts with Potential Poverty Impact

When analyzing GDP growth per sector, labor demand, and company density by industry, a short-list of preliminary industries emerge for further review and analysis within the BoP funds investment strategy – especially when considering BoP models that integrate the poor as employees. As detailed extensively in this study, four economic activities represent 64% of Vietnamese economy; in order of importance these are: a) Manufacturing of 24.5%, b) Wholesale and retail trade of 17%, c) Agriculture and forestry of 17%, and, d) Construction of 9%. As these four pillars of economic growth absorb 80% of Vietnam's labor force, further analysis reveals important opportunities for BoP integration.

Agriculture: As mentioned previously, agriculture is one of the most important economic sectors with regard to Vietnam's GDP growth (contributing slightly more than 20% to the GDP and accounting for 25.26% of total exports of Vietnam in 2010) and the largest contributor to job creation, as it employs approximately 22 million people or 49% of the workforce. The principal products of Vietnamese exports are: rice, coffee, green tea, rubber, pepper and cashew nuts. In 2009, Vietnam is considered the:

- Second largest rice exporter in the world. Vietnam exported 6.8 million tons, and received 3.2 billion USD, using 14 million laborers. Main destination markets for rice are Asia and Africa.
- One of the top 10 rubber exporters in the world. Vietnam exported 731 thousand tons of rubber (1.226 billion USD), using nearly half million laborers.
- Second largest coffee exporter in the world. Vietnam exported 1.18 million tons of coffee and received 1.8 billion USD in 2010 (up from USD 660 million in 2000) , creating jobs and income for more than 600,000 people. 85% of the country's production is collected from small farmers. Moreover, Vietnam exports 95% of its production.

²⁷ Asian Development Bank: Strategy and Program Assessment, Vie: Poverty Assessment. Final Document Stage. February 2006.

²⁸ Nguyen, Thi Thu Huyen et.al. 2010. Comparing the informal sector in Vietnam and Africa. Forthcoming chapter in The Informal Sector in Vietnam: A focus on Hanoi and Ho Chi Minh City. Hanoi: The Gioi Editions.

- Largest exporter of cashew nuts. Vietnam exported 177.000 tons of cashew nuts (846 million USD). It creates jobs and income for more than 500,000 people including about 200,000 farmers.
- Largest black pepper exporter in the world (having 5% of the global market share). Vietnam exported 128,000 tons of pepper (425 million USD in 2010).
- Fifth largest tea exporter in the world. Vietnam exported 117.000 tons (197 million USD).

Manufacturing: Over the past decade, this sector has continually made significant contributions to Vietnam's GDP and export growth. From 1996 to 2008, this sector had an average growth rate of 8%. According to statistics provided by the General Statistics Office (GSO), in 2008 this sector was the second most important with regard to job creation and employed around 6 million employees, equaling 14% of total jobs for that period. Inside the manufacturing sector, there are four activities that stand out for their contribution to economic growth and job creation:

- In 2010, the textiles and garments industry generated the biggest inflow of foreign currency, which totaled USD 11.2 billion. (the sector has had an average growth rate of 20% over the last decade). This sector also grew due to an internal campaign that motivated Vietnamese citizens to buy domestic products. The workforce in this sector includes more than 3 million people and an additional 2 million in related industries (more than 30% of all industrial employment).
- Footwear is another important activity within Vietnam's manufacturing industry. Goods are produced mainly for exports and Vietnam is considered the fourth largest manufacturer of footwear in the world. In 2010 the value of footwear exports in Vietnam valued at approximately USD 5.1 billion. This sector employs more than half of million laborers. Within less than a decade, the industry has nearly tripled its value in exports (from USD 1.5 billion in 2000).
- The electronics industry is also important within the Vietnamese manufacturing industry. The electronic industry has the goal to create 300,000 jobs by the year 2020. This industry is currently growing at 27% per year, reaching export revenue of USD 3.6 billion in 2010 (from 782 million in 2000).
- The information technology industry in Vietnam employs approximately 200,000 people, of which, most work in computer and electronic assembling. Vietnam has around 30 computer assembling companies; among them are IBM, HP, Canon, Panasonic, Hitachi, Fuji, and others. The total revenue of this industry in 2009 was USD 6.2 billion. Vietnam has the goal for the year 2015 that this industry will generate revenue of USD 17 billion.

Fisheries: The fisheries industry also has an important role in Vietnam's economy. Ranked as the fifth-largest exporter of seafood in the world, in the year 2010 the income generated by the exports of this sector was USD 5.0 billion. Shrimp was the leader with USD 1.68 billion. The destination of these exports was diverse and reached approximately 150 countries, in-

cluding the Europe Union (26%), Japan (18%) and USA (17%). This sector generates approximately 1.68 million jobs, 4% of Vietnam's total employment.

Furniture and Wood Products: Currently, Vietnam has more than 1,500 wood processing enterprises centered in Ho Chi Minh City, Dong Nai and Binh Duong. Over the past five years, the export value of this industry has grown to USD 3.4 billion (from USD 1 billion in 2004) as rising demand from the US, Korea and Japan has accelerated growth over the past five years.

Retail: Currently Vietnam has 8,300 markets and around 400 supermarkets. This sector contributes 16% of the country's GDP or 67 billion in 2009, and employs a workforce of approximately 5.4 million people.

Table 8 below summarizes the top players and company density in select industries and their respective contribution to employment generation. Considering Vietnam's competitiveness as a source of cheap, but skilled and productive labor combined with agricultural production and manufacturing, a preliminary indication of potential sectors where anchor companies could engage in inclusive business business ventures is provided for consideration. Further sectoral analysis would be required to extrapolate the potential opportunity for inclusive business investments and impact on the poor in each of these industries.

Table 7. Numer of Companies, market share and chartered capital for Key Industries

No	Industry	Top players	Average chartered capital of the top 5 players (*)
1	Rice	~210 companies. 11 largest companies account for 65% of the market share.	90 billion VND
2	Rubber	35 largest companies account for 75% of the market share	432 billion VND
3	Coffee	156 companies. 20 largest companies account for 80% of the market share	199 billion VND
4	Cashew nut	~120 exporters. 20 tops companies accounts for more than 50% of the market share	120 billion VND
5	Pepper	5 largest companies accounts for more than 40% of the market share.	65.2 billion VND
6	Tea	635 processing factories. 121 companies export. Top 12 companies account for 50% of the market share.	n/a
7	Garment & Textile	Over 2000 companies.	108 billion VND
8	Footwear	More than 500 enterprises. 20 largest companies account for 80% of the market share	149 billion VND
9	Fishery	20 largest companies accounts for 30% of the market share	324 billion VND
10	Retail	Intensive competitors between leading Vietnamese companies and international players.	400 billion VND

Source: SNV Private Sector Mapping: Vietnam

Case Study 4: Gentraco Joint Stock Company

Vietnam is one of the largest rice exporters in the world with the exporting volume of 4 million tons in 2008 and 6 million tons in 2009. Among rice exporters, Gentraco Joint Stock Company is the 5th largest in Vietnam, exporting rice to 44 international markets. Additionally, Gentraco JSC is interested in the opportunity of supplying high-quality rice to the domestic market, but in order to do this, the company needs to strengthen its supply chain and production areas. The company has already started a pilot project to include Vietnamese rice farmers, with participation from various local actors as well, to assure a more consistent high-quality supply of rice.

BACKGROUND: Originally founded in 1980 as a state-owned company, Gentraco Joint Stock Company was renamed and equitized in 2006. Gentraco Joint Stock Company operates 4 member companies, which concentrate on the following products and services: seafood, rice, agricultural products, automobile industry (trading and maintenance), IT products, consumer goods, distribution, and transportation. The company ranks 31st in Top 500 Vietnamese largest companies with an export volume of 250,000 to 300,000 tons per year (and 3 rice production plants), approximately US\$23 million in sales, and 600 employees. In 2010, the company hopes to grow 25% with regards to revenue.

BUSINESS MODEL: The company plans to increase its domestic market presence, by provision of high quality rice (perfume and sticky rice), which creates two to three times more profit for the company compared with ordinary rice. Gentraco has been working with farmers in its high quality crops project since 2009 in order to secure the supply and quality of these products and to create a secure material zone with an applied company-farmers cooperation model. Bound by agreements showing the company's commitment to buy harvested crops at competitive price and farmers' commitment to sell their crops to Gentraco only, the company is able to expand the paddy areas growing its high quality seeds. The company plans to run this project in 9 years with three phases: 1st phase (2008 - 2009): pilot with 200 ha; 2nd phase (2010 - 2012): expand the paddy field for another 2,000 ha; 3rd phase (2013 - 2017): further expand the paddy field to 15,000 - 20,000 ha.

The company explained that active stakeholders within the business model are necessary in order to help the company to closely monitor the farmers during the harvest seasons to ensure that they do not harvest the crops and sell to other buyers. Five main actors play an active role in the business model:

- i) Company: provides seeds and materials for contracted farmers, solve any arisen issues, and buy outputs from farmers with a price 5% higher than the market price. The required investment for a hectare of paddy field is estimated at USD 360.
- ii) Scientists (agricultural institutes): provide scientific information and training courses for farmers, and well as forecast issues related to cultivation. Gentraco invites a selected number of scientists to cooperate with the company on this project.
- iii) Extension centres: support Gentraco to collect the harvested crops from farmers (groups) and are paid VND 5,000/ton (USD 0.25/ton) collected. Technical support will be also provided throughout the project by extension centres to ensure the cultivation techniques are well respected. These tasks are partly financed by Gentraco.

- iv) Farmers: cultivate rice using the seeds and technical procedures received from Gentraco, and sell outputs to the company. Ten to thirty farming households are organized in one group/club/cooperative to work with Gentraco.
- v) Local authorities: monitor, control, and provide support for both farmers and the company to keep the business model running smoothly.

ESTIMATED IMPACT: The company recognizes that the low-income business model allows them to create a brand of rice characterized by consistent high quality and estimates a 25% expected revenue increase for the company in the next year. The farmers have also gained from participating in this project while at the same time not having to invest many of their own resources, considering that Gentraco supplies most of the materials in credit. With regards to the number of farmers participating in the project, the following was identified by the company: within the first phase of the project, the company worked with approximately 200 farming households, in the second phase of the project, this is expected to increase to approximately 2,000 households, and during the third phase of the project, this number could increase to as many as 15,000 to 20,000 farming households.

FUNDING INTERESTS: Thus far, the company has been using its own funds and bank loan to support the model, which has total approximate USD 51,000 for the pilot period (phase 1). The company plans to use a similar financing model to continue the project (phases 2 and 3). When the possibility of ADB funding was discussed with the firm, they expressed interest in approximately USD 2 million for working capital financing in the form of debt to be used over 5 years. The company said they would require an interest rate more favorable than commercial rates to scale the business project via the third phrase of work with low-income farmers.

Conclusion

Based on the data and analysis presented in this section, the current state of Vietnam's economy lends itself to inclusive business development despite its ongoing challenges with infrastructure development, basic services, social inequities, and transparency. In order for the economy to continue on its present growth trajectory, the country needs to leverage the possibility that the agricultural sector has for presents for economic and social inclusion, while advancing beyond product assembly manufacturing in order to produce high-quality goods for the global market. Moreover, beyond offering cheap labor, Vietnam needs to increase competitiveness through other strategies such as producing goods and services that can contend in the global marketplace. Finally, more emphasis should be placed on the potential that informal markets and government policy initiatives can have with regard to inclusive growth.



IV. The Inclusive Business Market

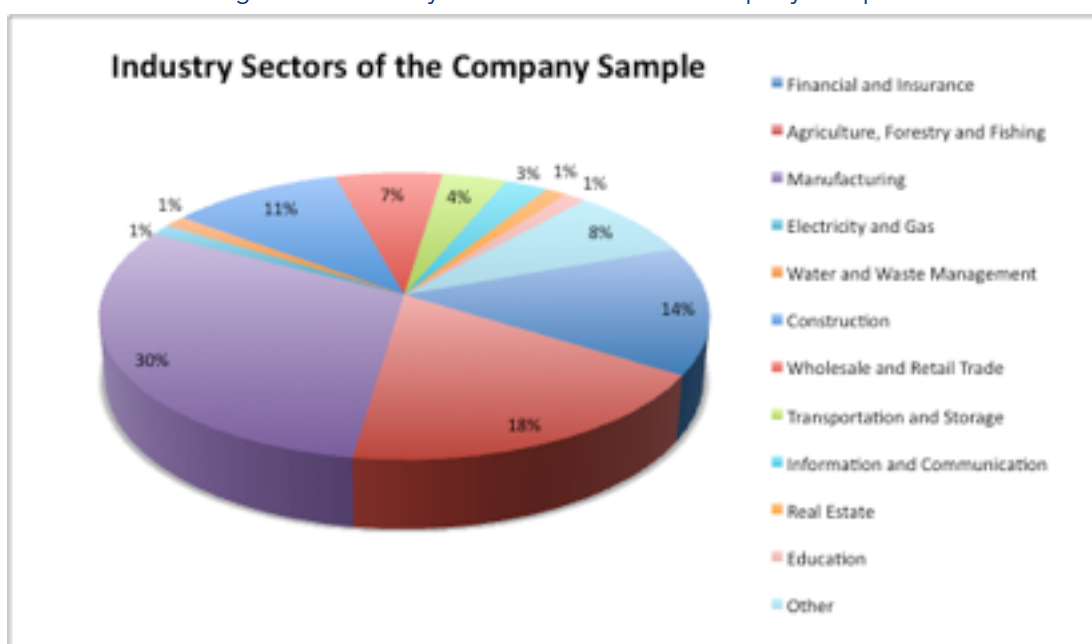
Overview of Inclusive Business in Vietnam

As part of the larger framework of this feasibility study, the Private Sector Mapping (PSM) component was developed to establish the critical drivers, success factors, barriers, challenges, and opportunities of working with the BoP in Vietnam. The project focused on personal interviews with 76 companies in a variety of industries and sectors that include low-income populations within their value chains in order to determine their compatibility with this new kind of investment opportunity. It includes (i) crucial themes within the inclusive business arena in Vietnam, providing insights into the market opportunity and needs; (ii) business potential for inclusive business in Vietnam, and, (iii) highlights of potential sectors within which inclusive business can develop in Vietnam. All of the data presented within this section is primary information gathered through the PSM component and from on-the-ground interviews with fund managers, companies and other related stakeholders unless otherwise indicated.

Analysis of Company Sample

The company sample included a diverse range of industries, company sizes, and types of relationships with the BoP. 76 companies were interviewed in Hanoi, Ho Chi Minh City, and eleven other provinces in Vietnam. All subsequent analysis presented in this report is based on the data retrieved and analyzed from these companies. Care was taken when assembling the company sample to assure a balance between various sectors. As shown in Figure 12, the companies are primarily concentrated in Manufacturing (23 companies); Agriculture, Forestry, and Fishing (14 companies); Financial Services and Insurance (11 companies); Construction (8 companies); Other (6 companies); Wholesale and Retail Trade (5 companies); Transportation and Storage (3 companies); Information and Communication Technology (2 companies); Education (1 company); Real Estate (1 company); Electricity and Gas (1 company); Water and Waste Management (1 company).

Figure 12. Industry Sectors of the PSM Company Sample



Source: SNV Private Sector Mapping: Vietnam

The company sample also focused on medium to large national or multinational companies, with a final data set containing 54 national firms (71%) and 22 multinational firms (29%). With regard to size, the companies were distributed as follows:

- Characterized by their 2009 sales²⁹, 35% of firms identified their company sales to be less than USD 10 million; 25% of firms identified their company sales to be between USD 10 and

²⁹ 72 out of the 76 companies interviewed were able / willing to identify the size of the company, thus the data presented is based on these 72 firms.

25 Million; 15% of firms identified their company sales to be between USD 25 and 50 Million; and, 25% of firms identified their company sales to be more than USD 50 Million.

- Characterized by number of employees³⁰, 31% of firms identified having between 100 and 499 employees, 30% identified having between 500 and 999 employees, 23% identified having under 100 employees, 14% identified having over 2,000 employees, and 6% identified having between 1000 and 1999 employees. The average number of employees identified by the firms was approximately 1085 employees.

Additionally, 52% of the companies identified themselves as joint stock companies, 37% as limited liability companies, and 11% as other, which included a state owned bank, a non-profit micro-finance institution, a public-liability company, as well as a few companies that simply identified themselves as “foreign owned.”

Key Findings and Trends

The companies interviewed often consider the BoP as essential actors within their value proposition and were interested in the opportunity to access an impact investment fund. As can be inferred from the response rate received from companies interviewed, many firms in Vietnam still remain unaware of the framework of the inclusive business concept. But, although the concept itself may be new to them, many companies have already been working with the poor within their value chain for some time. In fact, when asked whether or not the commitment to incorporate the poor was part of the companies’ mission or strategy, the response was overwhelmingly positive:

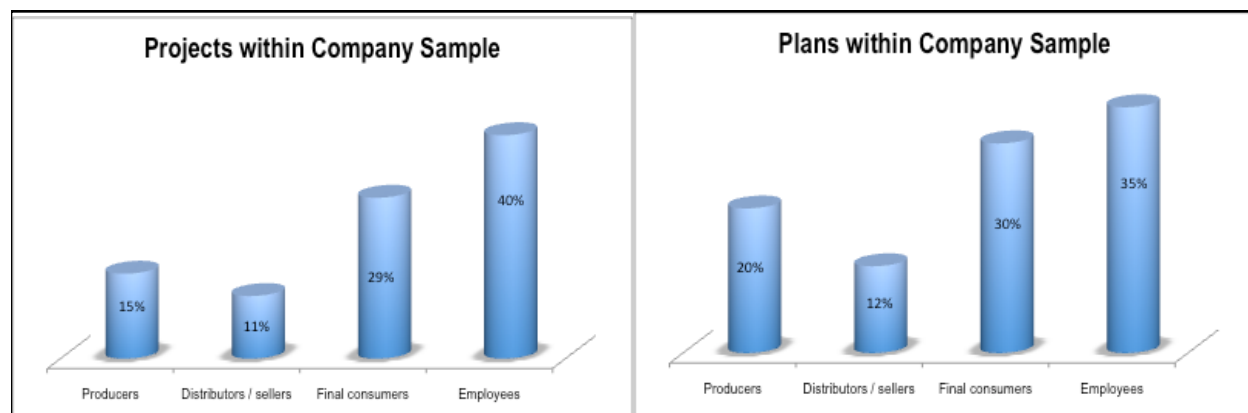
- 92% of companies identified that low-income populations are incorporated into their mission/strategy, although many companies clarified that this is still somewhat informal, while 8% of firms stated that they do not include the poor within their mission/strategy.
- Additionally, 74% of the companies interviewed have some form of Corporate Social Responsibility (CSR) program or policy, revealing that a majority of companies emphasize social issues affecting their stakeholders.

In general, the companies interviewed exhibited an encouraging attitude; a majority of the companies expressed a genuine interest in strengthening their engagement with the BoP and some commented that they would continue their business plan/project with the poor regardless of the availability of a financing opportunity. With regard to the potential opportunity to benefit from a social investment fund to pursue business ventures with the BoP, 97% of companies requested follow-up information about financing opportunities related to inclusive business models.

³⁰ 71 out of the 76 companies interviewed were able / willing to identify how many employees the firm currently has, thus the data presented is based on these 71 firms.

The companies interviewed expressed a stronger preference in considering the BoP as employees and consumers rather than as suppliers or distributors. The majority of companies surveyed identified working with, or having an interest in working with, the BoP. As defined by the companies themselves, Figure 13 below shows the percentage of companies that currently work with, or have plans to work with the BoP whether as producers of raw-materials, sellers or distributors of the companies' goods/services, final consumers of the companies' good/services, and employees.

Figure 13. Projects / Plans with BoP as Defined by Interviewed Companies



Source: SNV Private Sector Mapping: Vietnam

Companies identified working with the poor as employees most often (Case Study 5 on page 76) offers an example of how BoP ventures include employees from LIP populations), followed by consumers, then producers, and finally, distributors, which was the least common way of incorporating low-income populations into the companies' value chain.

Within the sample, the majority of firms said that their project was in the development stage (expansion or replication). Only five companies identified not currently having a project and/or business model that included the BoP. But, of these five, four companies did identify having plans and/or ideas in place for incorporating the poor into their business model in the future. The fifth, DHL Express Vietnam, was assumed to have some low-income employees, various CSR activities in place that concentrate on poor populations, as well as an interest in financing, thus the company was included in the final company sample.

Business Potential for Inclusive Business in Vietnam

The survey shows that the companies interviewed are working with the BoP in various ways across their value chains. A large number of the companies understand the incentives of working with the poor, as well as the constraints, and are using this knowledge to create and define new business models. They are looking beyond traditional business approaches and developing new models that are able to leverage the "problems" or "irregularities" of the BoP market into business opportunities. A few of these new business models or business strate-

gies are described below in more detail, and interestingly, many address the obstacles and risks identified in the section above.

Companies are investing in skills development of low-income workers in labor-intensive industries. Companies in labor-intensive industries are aware of the importance of well-trained and loyal employees and are investing in employee training and education for employees from low-income populations. For example, when interviewed, Linfox Logistics identified having approximately two thousand employees in Vietnam, including direct and indirect employees, of which approximately 90% are considered poor. The company is aware of the risks faced with these employees, which include longevity of service and employee training. The company is interested in financing in order to develop a training center for low-income employees; the company's hope is that with better-equipped employees, the risks identified will be reduced.

Companies in Vietnam are working with the poor as producers to strengthen their product supply chain. Once companies realized that poor producers are valuable and effective business partners, companies have been able to create cost-efficient, local, and reliable supply chains for necessary raw materials. Nestlé Vietnam Limited relies on a steady and quality supply of Robusta coffee from rural Vietnamese farmers in order to source twenty-three Nestlé factories around the world with Robusta coffee. The company has taken great care to put processes and programs in place to support these farmers, such as good agricultural practices, which provides support to farmers in areas such as irrigation, fertilizer management and coffee quality, entrepreneurial skills, and environmental sustainability in the process of producing Robusta coffee beans³¹.

Companies are bringing higher awareness to their BoP consumers through tailor-made marketing communications. Often products require the accompaniment of an educational marketing communication strategy in order to relay possible product benefits to customers. Companies can leverage non-traditional alliances and communication channels in order to persuade customers to buy their product. When marketing energy saving and low energy light bulbs, which are often double the cost of a normal light bulb, Phillips understands the need to advocate for their products in terms of articulating the specific benefits to consumers (lower electricity payments) that offset the initial cost of the product. Philips now trains its distributors in product specifications so that they can sell the products more effectively. When selling Philips's products, the distributors are able to educate consumers while influencing their buying decisions. (See Case Study 5.)

³¹ Nestlé. Webpage: <http://www.Nestlé.com>.

Case Study 5: Philips Electronics Vietnam Ltd

Energy efficiency is the easiest and most practical way to help alleviate the world's energy crisis, and in the household level, help reduce electricity bills and expense for lighting cost. The green business lighting in Vietnam delivers the very same principle where TLD Long Tube and SFLI Energy saving bulbs are energy-efficient, eco-friendly and affordable lighting solutions for BoP.

Heru Muskita, Financial Controller, Philips Electronics Vietnam Ltd

Traditionally, low-income populations use mostly fuel-based lighting, which is inefficient, poor quality, and hazardous for health and environment, not to mention very expensive (often accounting for up to a third of total household income), Philips Electronics Vietnam Ltd advocates the use of energy saving light bulbs / low energy light bulbs. Two years ago, the company introduced to Vietnam the TLD Long Tube and SFLI Energy saving bulbs, which are energy-efficient, eco-friendly, and affordable lighting solutions for low-income people. The company believes that better lighting leads to better working and studying environments, which lead to improved performance of the workforce, and therefore significant increases in quality of living of poor households.

BACKGROUND: Royal Philips Electronics established its presence in Vietnam in 1992. In 2002, the company officially formed Philips Electronics Vietnam Co. Ltd (Philips), based in HCMC. The company has primarily focused on light industries and commercial activities, but has also become one of the country's leading healthcare, lifestyle, and technology companies. Philips, which estimated their 2009 revenue at USD 25 to 50 million, has posted a positive business growth of 60-80% over the last three years. The company has 200 employees in HCMC and Hanoi, and 120 employees in their factories, of which 90% are LIP.

BUSINESS MODEL: Philips' "green business" model, implemented in Vietnam two years ago, entails the marketing of energy saving light bulbs consisting of long tube or TLD and SFLI. These bulbs cost double the cost of "regular" bulbs but have 2 to 3 times longevity than many other lighting products. While the "high-income" market in Vietnam (i.e Hanoi and HCMC) has already switched to low-energy lighting, the "middle and low income" markets still require further education on the financial and long-term benefits of these low energy bulbs. Considering the fact that 60% of the company's sales are still dominated by HCMC and Hanoi, Philips is working with 13 distributors that cater to the poor (or less than middle income consumers) to expand their market penetration. The company has enhanced efforts to increase product awareness and knowledge on the long-term benefits of Philips energy-saving lighting products through seminars and conventions for current distributors. The company expects that the distributors, while in contact with consumers, will be able to educate them and influence their buying decision. Additionally, Phillips has developed a strategic partnership with EVN (State Vietnam Electricity) in order to make the products more easily available to low-income markets. EVN is eager to promote the greater use of energy saving bulbs and helps distribute Philips' products to the rural network with an additional subsidy to allow affordability amongst the poor.

On a global level, Phillips is also part of "Lighting the Bottom of the Pyramid", a global initiative in collaboration with the International Finance Corporation. They have developed a commercial solu-

tion to bring modern lighting services to 1.6 billion within the low-income market, by developing alternative off-grid lighting systems of higher quality and much lower energy requirements than the fuel-based systems. Additionally, apart from the energy efficient lighting solutions, Philips has also begun to market technology that enhances access to basic healthcare on a global level. The first pilot project was officially launched in India in July 2005, and has since been replicated in Africa, and entails a custom-built 'tele-clinical' van equipped with appropriate diagnostic devices and medicines. It combines Philips' capabilities, technologies and expertise with the knowledge and experience of various for-profit and non-profit governmental and non-governmental organizations active in the field of healthcare to provide free or extremely affordable on-site medical consultations for users.

ESTIMATED IMPACT: Philips hopes to benefit from the low-income market, while bringing necessary, innovative, and affordable solutions to the poor. Although the company was unable to define the expected return from the low-income population business model, Philips Electronics Vietnam Ltd expects a 50% growth in revenue for 2010.

FUNDING INTERESTS: Although the current "green business" is being funded from the company's global offices in the Netherlands, the company identified that working capital financing might be required at approximately USD 2-3 million. This loan will be used over 5 years to i) support "green business", through, for example, modernization of lighting at schools, streets, community and commercial centers through replacements of old lighting systems; ii) mobile healthcare solutions: a tele-clinic in a van which can tour the remote areas to bring high quality diagnostics.

Companies have begun leveraging non-traditional distribution networks. In order to lower costs and reach more customers with a broadened distribution network, companies are partnering with local populations as sellers and distributors. Through Coca-Cola Beverages Vietnam Ltd.'s "Route to Market" program, rural entrepreneurs become distributors, converting into a competitive advantage for the company by allowing further penetration into rural markets (as described in Case Study 6). Depending on the product or service, innovative distribution strategies have the twin benefit of creating employment for low-income entrepreneurs while also being able to offer access to a new product or service. While the value proposition is to increase the penetration into rural markets while leveraging the low-income segment and offering a suite of products tailored to their needs including drinking water and energy drinks.

Companies are creating enhanced offerings for their consumers. Understanding the potential of the poor as a market segment, companies are developing ways to reach low-income populations as consumers. Products are being developed specifically for this market; whether by simply changing pricing schemes or by product design tailored to a different consumer reality, products have become more affordable and accessible for this market. Interflour Viet-

nam Limited is an example of a company that sees value in providing a higher quality product to the poor; the company identifies as the only flour mill in Vietnam that offers fortified flour. When interviewed, the company identified the importance of making a profit while contributing to Vietnam's low-income populations' dietary needs through an affordable high-quality product. Dong A Joint Stock Company has also tailored their product to the poor. Producing Sam TV, a flat screen TV that wholesales at approximately USD 51, the company has found ways to cut costs and invest in production technology in order to create a product customized to the economic capacities of poor. (Another example of enhanced offerings is provided in the Case Study 6.)

Companies are creating alliances with a variety of stakeholders. Success with business models that incorporate low-income populations often requires collaboration with other stakeholders. Companies have joined forces with many different actors for the implementation of their business models. Gentraco Joint Stock Company (case study on page 63) is an example of a company that has clearly defined the key stakeholders within their business model. When asked about their business model, the company defined a collaborative partnership among five key players: i) the company, which provides seeds and materials to the farmers and also buys the final product; ii) farmers that cultivate rice and sell all outputs to the firm; iii) agricultural extension institutes that provide training courses for the farmers; iv) extension centers that collect the harvested crops from farmers; and finally, v) local authorities that monitor and support farmers and the company. The company is conscious of the fact that this multi-actor business model has allowed them to achieve a higher quality product.

Case Study 6: Coca-Cola Beverages Vietnam Ltd.

"Coca-cola domestic distribution relies heavily on the grassroots network to reach market areas and rural consumers. Through "Route to Market", rural entrepreneurs are given the opportunity to become distributors. We partner with hundreds of independent mini-distributors thereby supporting local enterprise development and broad-based economic empowerment. Our goal is for these distribution networks to be available in all smaller cities in 64 provinces in Vietnam by 2014."

Lakshman Peiris, Country Commercial Manager, Coca-Cola Beverages Vietnam Ltd

As the world's largest drink maker, the company's market penetration in more rural areas relies heavily on a grassroots distribution network to reach rural consumers. Through the world's largest beverage distribution system, consumers in more than 200 countries enjoy the company's beverages at a rate of nearly 1.6 billion servings a day. Independent studies show that Coca-Cola generates 10 additional jobs in industries such as ingredients, packaging, distribution and retailing for every direct Coca-Cola employee. With over 1,500 direct employees

in Vietnam the beverage company is indirectly creating more than 15,000 local jobs in the country.

BACKGROUND: Coca-Cola Beverages Vietnam Ltd. (Coca-Cola) started its operation in 1994 as three different entities, namely Coca-Cola Beverages Hanoi Ltd, Coca-Cola Non Nuoc Soft Drinks Company Ltd and Coca-Cola Beverages Vietnam Ltd. and was merged in 2001. The company is the authorized bottler of all Coca-Cola products in Vietnam. With bottling plants in Ha Tay, Da Nang, and Ho Chi Minh City, the company provides consumers with Coca-Cola, Sprite, Fanta, diet Coke, Schweppes, and new products which include Minute Maid Splash juice, Joy bottled drinking water, and Samurai energy drink. On a global scale, Vietnam is a very important growth market to The Coca-Cola Company. They have already invested more than USD 200 million in the country and in conjunction with the bottler, they have further committed to an additional USD 200 million investment over the next 3 years. The company estimated that in 2009, it did over USD 50 million in sales in Vietnam.

BUSINESS MODEL: In the last three years, Coca-Cola has been running a distribution model called Route to Market, a wide reaching distribution model that provides opportunities for sellers in rural markets to become distributors. Through this model, Coca-Cola partners with hundreds of independent mini-distributors to ensure coverage and penetration to the wider market of Vietnam, thereby supporting local enterprise development and broad-based economic empowerment. Coca-Cola's goal is for these distribution networks to be available in all smaller cities in 64 provinces in Vietnam by 2014. Their focus is to ensure that these partners have the potential to grow and generate real wealth whilst remaining a source of competitive advantage for the company. This Route to Market model has evolved to allow the company to stay in touch with local needs and requirements. Although, to ensure a sustainable business model in Vietnam, larger independent distribution partners also play a key role in the route-to-market. Coca-Cola also partners with the National Women's Union to train female pushcart operators, as well as to provide them access to discounted beverages to help them to get their small mobile businesses up and running.

ESTIMATED IMPACT: The impact of the Route to Market program for Coca-Cola is a self-sustaining distribution chain that encourages longevity of business. Using this model in Vietnam, Coca-Cola expects a 30% revenue growth for 2010.

FUNDING INTERESTS: The company is interested in USD 1.5-3 million for 2 to 3 years to strengthen the Route to Market model.

Inclusive Business Proposals and Potential in Vietnam

Although the Vietnamese economy is largely export-driven, it is relatively diverse, and the near 90+ million-strong population (2011) translates into robust and strengthening domestic consumption. The salient challenge to achieve more consistent, rapid economic growth—and, crucially, more balanced growth—will be to further unlock both the productive and consumption forces of the domestic economy. In many parts of the country, physical infrastructure still impedes access to inputs, markets, appropriate financing and information. These shortcomings need to be addressed in order for productive sectors as a whole to move up the value chain. Additionally, there is much ‘reputation building’ to be done by Vietnamese companies domestically and internationally. ‘Made in Vietnam’ is not synonymous with quality as a brand. Domestically, this often leads consumers to choose more expensive imports over Vietnamese product if they can afford to. Internationally, some producers and importers are wary of significant exposure to Vietnam because of poor reliability. That said, the backlash against certain Chinese goods, such as toys and dairy products, within and beyond China has been carefully watched by Vietnamese industry, and there is an awareness of the opportunity to exploit increasing disenchantment with Chinese producers and business relationships in some sectors. As the outline of target sectors demonstrates below (and export statistics summarized in Table 8), many of the investment opportunities for the IB Fund will be found in agriculture and light manufacturing, but there may be some interesting and very BOP-relevant opportunities in services, including healthcare and education:

Table 8: Statistics of Main Export Products 2005 - 2011

Unit: mil. USD

No.	Main exports	2005	2006	2007	2008	2009	2010	Jan-Sep 2011
	TOTAL VALUE	26,500	39,826	48,561	62,685	57,096	72,237	69,732
1	Fishery products	2,739	3,357	3,763	4,510	4,251	5,018	4,346
2	Fruits and vegetables	235	259	305	407	439	460	465
3	Cashew nut	502	503	653	911	847	1,135	1,038
4	Coffee	735	1,217	1,911	2,111	1,731	1,851	2,201
5	Tea	97	110	130	146	179	200	148
6	Pepper	150	190	271	311	348	421	630
7	Rice	1,407	1,275	1,489	2,894	2,664	3,248	2,966
8	Coal	669	914	999	1,388	1,317	1,611	1,198
9	Crude oil	7,373	8,264	8,487		6,195	4,958	5,528
10	Plastic products	350	479	710	921	808	1,049	974
11	Rubber	804	1,286	1,392	1,603	1,227	2,388	2,283
12	Handbags, purses, suitcases, headgear and umbrellas	-	503	633	-	731	959	929
13	Bamboo and rattan products	-	191	221	225	179	203	144
14	Wood and wooden products	1,562	1,932	2,404	2,829	2,598	3,436	2,835
15	Textiles and garments	4,838	5,834	7,749	9,120	9,066	11,210	10,393
16	Foot-wears	3,040	3,591	3,994	4,767	4,067	5,122	4,650
17	Ceramic products	-	274	330	343	267	317	253
18	Computers, electrical products, spare-parts and components thereof	1,427	1,708	2,154	2,638	2,763	3,590	2,768
19	Insulated wires and cables	523	704	883	1,001	885	1,311	1,016

(Source: General Statistics Office of Vietnam/General Department of Vietnam Customs)

Agriculture: The base of agricultural products in Vietnam is much more diverse than in Cambodia, with crops and raw materials ranging from coffee, tea, cardamom, pepper, acacia, cassava, fresh fruits and vegetables, to fisheries, horticulture and floriculture. Indeed, as the world's second-largest coffee producer, Vietnam is 'on the map' as an agricultural player in a way that Cambodia is not (Case Study 4 on page 62) is an atypical example). Nevertheless, significant challenges need to be overcome for the agriculture sector to achieve more rapid and consistent growth and, crucially, for small-holder farmers to capture more of value and income from their output.

Given the likelihood of several fund investments in agro-processing, working through portfolio companies will provide opportunities to address some key challenges to the sector, of which the following should be highlighted:

- **Weak processing capacity:** Resulting in many raw materials and unfinished products being shipped to Thailand for processing;
- **Value chain dislocations:** Due to poor logistics, transportation and distribution networks. For example, avocados sell for USD 0.20/kilo at harvest points, but USD 2/kilo in Hanoi and HCMC, and often arrive spoiled;
- **Weak supply chains:** Medium-sized producers and aggregators are realising the need to foster more consistent supply chains by building lasting relationships with individual farmers and co-operatives. Consistency and quality of supply are enormous challenges in Vietnam;
- **Contract enforceability:** In order to achieve iii above, processors and aggregators must rely on relationships rather than contract enforcement. Farmers often have little or no understanding of contracts and they are certainly not enforceable through the courts. The only way of preventing farmers from selling to the highest bidder, regardless of signed contracts, is for purchasers to build trust, price competitively and offer security and reliability through 'repeat business';
- **Poor co-operation among farmers:** Top-down collectivization and "co-operatization" have generally been unsuccessful in Vietnam. This leaves individual small-holders more susceptible to predatory purchasers and lenders. If, however, bottom-up organisation is encouraged through Fund portfolio companies with a view to establishing equitable, lasting relationships, the chances of success could improve;
- **Rudimentary growing techniques:** Most Vietnamese agriculture is un-mechanised, seed quality is often poor, and hardware and machinery is lacking. Again, to strengthen supply chains, processors need to offer technology and know-how as part of their engagement with farmers;
- **Erratic land distribution:** Land is distributed to farmers by the government, but is often random and, when deemed necessary for industrial plants or infrastructure projects, simply appropriated. Because land is the only asset most farmers hold—and even that is tenuous—purchasing relationships are random, production is inconsistent, crop timing is variable and pricing fluctuates considerably.

Agro-processing: Not surprisingly, the demographics of Vietnam have fuelled demand for processed fruits, vegetables and, above all, fish sauces. Fish and agro-processors have realized that in order to compete with imported products, which often sell for ten times more than domestic equivalents, they must improve quality, presentation and packaging. This, in turn, means addressing many of the challenges listed above. In order to move up the value chain, increase market share and develop export markets, agro-processors also need to invest in compliance and traceability systems, certifications and production best practices. Marketing, branding and packaging also need improvement. Opportunities to provide high-end niche and organic products have not gone unnoticed by Vietnamese producers, but they require know-how and, in some cases, technology. From a transaction and exit perspective, consolidation in agro-processing is slowly taking hold. Because of supply chain constraints, larger players are looking to purchase smaller players to increase market share. This is a significant proxy indicator for pent up demand for processed goods, suggesting enormous growth potential for the sector. Finally, downstream from agro-processing, there will be opportunities for the IB Fund in fast moving consumer goods (FMCG) in two particular areas: re-packaging and distribution for export and for the domestic market.

Agricultural inputs: As in Cambodia, Vietnamese agriculture is hampered by poor quality inputs, including seeds, fertilizer, pesticides, tools and hardware. In some ways, the impact in Vietnam is more serious because farmers are often tricked by intermediaries into purchasing fake, adulterated or noxious products. Traditional herbal medicines for animals and pesticides for plants that are safe to use are in desperately short supply. The demand for quality factor inputs is vast, and there are opportunities for several players to aggressively grow companies who build reputations on high-quality, reliable and, above all, safe products. Again, this will require portfolio company engagement with farmers to establish relationships, and provide training on usage and best practices.

Fisheries: There is significant potential for fisheries and fish-processing in Vietnam. Once again, however, consistency of supply and quality control are significant obstacles for local producers. Shrimp aggregators and processors tend to own their own farms, but output is rarely sufficient so they are forced to purchase from individual farmers and households. With burgeoning demand for seafood, fish products and sauces, there is an opportunity to work through investee companies to develop new models of aggregation and contract farming. Moreover, the fact that two fish processors have gained pre-approval status from the US Food and Drug Administration (FDA), meaning that inspection is not required when product arrives in the United States, has highlighted to the sector the relationship between investment in technology and best practices, and the development of export markets.

Healthcare: The Vietnamese are enormous consumers of healthcare and pharmaceuticals, both in rural and urban areas—indeed, Vietnam is the second-highest self-medicating country in the world. One of the main problems with the geography of healthcare in Vietnam is that the best care is concentrated in urban centres, particularly Hanoi and HCMC. There is burgeoning demand for better healthcare at lower socio-economic echelons and, of course, at

the base of the pyramid. However, those reliant on free public healthcare—the vast majority of the population—have little choice but to wait for attention, sometimes for day. The quality of the care they receive is highly variable. Recent analysis of the Vietnamese healthcare sector suggests that those in the upper segments of the BOP are willing and able to apportion some of their disposable income to quality healthcare. The three areas for which there is particularly strong demand include:

- Oncology consultancy and cancer treatment;
- Maternal healthcare; and
- Paediatric healthcare.

Because the public healthcare system is strained, and medical professionals are not well paid, many doctors see patients privately as a way of increasing their incomes. Thriving groups of medical professionals have sprung up in urban areas that are fully private. There is, however, vast under-served, or entirely unattended, demand in the rural areas. Due diligence suggests that the IB Fund will be well-placed to help doctors and private clinics to formalise and develop hub-and-spoke structures through which to serve marginalised communities and the rural poor. Further, such investments would probably require USD 5m - USD 10m, providing a counterweight to smaller investments in the Vietnamese portfolio. Some of the current issues in healthcare are as follows:

- The privatisation of primary healthcare as a strategy for alleviating pressure on public resources has become topical. In addition to hub-and-spoke approaches mentioned above, investment will be required in clinics serving mostly lower-income groups in secondary and tertiary towns and cities.
- As the healthcare conversation in Vietnam has started to focus on affordability, new models for financing and delivery of care have sprung up. Some financial institutions are realising that the market for pooled healthcare products and risk-adjusted models for coverage provision to lower-income groups could be a huge growth area. Tele-medicine and remote diagnostics models are also emerging. The IB Fund could well find opportunities to invest in financial institutions, most likely MFIs, that are specifically targeting access for the poor as their growth strategy.
- Professionalisation of hospital management and clinic administration, particularly children's hospitals, may generate additional deal flow.

Education: Demand for better quality education is burgeoning in Vietnam, and not just among middle and upper classes, nor only in urban centres. Particularly in the language school segment, there are many 'cowboy' institutions offering appalling quality instruction, but the problem extends to primary and secondary education and professional education. The standard of instruction is especially poor in the social sciences, entrepreneurship and business education, with a dearth of well-trained graduates coming through the ranks. As such, there are good prospects for the IB Fund to invest in education franchises and school chains at various levels—primary, secondary, professional—in rural and urban areas alike. A hub-and-

spoke approach may also prove effective in extending reach to rural areas and lower-income groups.

Sanitation: The government is very focused on the urgent need to improve sanitation and waste-water management at the peri-urban and rural levels. Importantly, space is being created for the private sector to participate through outsourcing. Public-private partnerships (PPPs) would be complicated for the IB Fund, because the government tends to retain control of what it considers the most strategic or lucrative parts of operations, but once full outsourcing begins, there could be opportunities to invest up to USD 10m in this sector. State-of-the-art machinery and know how are in short supply.

Small Hydro and Clean Energy: Whilst many small hydroelectricity opportunities will, in themselves, be too large for the IB Fund, there will likely be opportunities to deploy up to USD 10m, accompanied by project finance in a consortium. Some aggregators have begun to roll-up small hydro opportunities across communities. The build-operate-transfer (BOT) approach could well prove effective in this sector. The government needs additional capacity and supply which, realistically, can only come from the private sector. In addition to opportunities in waste-to-energy, there may be cleaner production plays possible in light manufacturing. An example cited during due diligence was a lighting company that needs USD 5m to modernise operations, introduce new technology and reduce reliance on fossil fuels to reduce costs.

Light Manufacturing: The manufacturing sector has not fully recovered from the downturn of 2009-2010. Investment has dried up, competition with Chinese producers is vigorous and the high import-content of almost all manufactures makes the cost base very high. The closure of a Sony assembly plant in 2010 dealt a strong blow to the sector: the closure was not attributed to poor labour quality, rather high import costs vis-à-vis other South-East Asian countries. As such, the opportunity in Vietnamese manufacturing is to invest in technology, know how, improve efficiency and productivity and, above all, to focus on quality and reliability. Domestic producers of components and parts are in desperately short supply. Over time, manufacturing will also need to move up the value chain in order to reduce import dependence.

The retail exports that Vietnam has gained a reputation for may also provide prospects for the IB Fund, including clothing, shoes and other leather goods, furniture, wooden flooring and so on. Again, quality and reliability are the key to developing entrenched export relationships. There are some examples of Vietnamese exporters competing in South-East Asia and beyond in flooring, press-board, and wood composites such as MDF. However, establishing reliable supply chains from sustainably-managed forests is challenging, presenting another opportunity for BOP-orientated Fund involvement. That being said, manufacturing need not only be focused on export markets. Differentiation among local brands is increasing and consumers are becoming more discerning, causing local producers to move up the value chain in order to compete. Supply and service chains need strengthening, however, and particularly in the

case of furniture, the potential BOP impact of investments could be significant as it relates to labour.

Packaging and Distribution: The quality of processing, packaging, branding, presentation and marketing is very poor in Vietnam compared to many other Asian countries. This puts Vietnamese products at a disadvantage. As Vietnamese consumers become increasingly brand-conscious, demand for good packaging and distribution systems will increase. Companies can also achieve cost savings by not having to ship product abroad for packaging.

Garments: The garment sector is clearly a significant contributor to GDP and a very labour-intensive industry. Owing to volatile demand in Vietnam's main export market, the United States, it is a risky sector. That said, there may be selected opportunities to invest in garments. In a USD 4 billion industry of which the import content accounts for USD 3.6 billion, import substitution is badly needed to reduce costs and boost competitiveness. Moving up the value chain is also important in order to compete with China, which has abundant domestic supply of materials and accessories.

As some of the worst labour conditions and lowest wages in Vietnam are probably found in its garment factories, unskilled and semi-skilled workers, many of whom migrate from rural areas, often live in atrocious conditions in industrial zones, frequently with little or no access to affordable housing, clean water and nutritious food.

As such, because the IB Fund's theme of improving people's lives at the base of the pyramid, there is clearly a win-win to be achieved by changing the garment manufacturing model somewhat. Moreover, one problem for manufacturers is that the work is so tedious that staff tend to move on after one year. If firms are serious about moving up the value chain, they need to invest in training and retain staff, which can translate into higher wages and better conditions. Again, investments in the Vietnamese garment sector are by no means straightforward, but the IB Fund should be on the lookout for opportunities to work with forward-looking, innovative management teams who come to recognise the relationship between loyal, well-treated labour and the ability to manufacture reliable, good-quality product.

Financial Services: As the lax, urban-centric lending which marked the boom has dried up post-crisis, financial institutions are being forced to innovate. They have begun to realise the value proposition of providing tailored to financial products domestically. The IB Fund could well find, or help to create, opportunities to invest in MFIs and other financial institutions looking to penetrate rural areas by developing the following products:

- Agricultural finance products, such as factoring, reverse-factoring, commodity-based finance, warehouse finance and so on;
- Crop insurance, disaster insurance and vulnerability schemes;
- Micro-health insurance; and
- Mobile banking and tele-banking.

Case Study 7: Linfox Logistics

"Given the fast moving nature of the job, there is a pressing need for greater investment in practical skills training to improve efficiency and quality of work performance. Our staff is 90% low-income populations whom are locally recruited. We hope to see longevity of service, as this population is able to earn income while staying close to their families. We are optimistic to see an increased demands for logistical service which will lead to greater opportunity for local employment".

Samuel Conroy, Vietnam Operations Manager, Linfox Logistics

Linfox Logistics (Linfox) is one of Australia's largest privately owned companies with 16,000 skilled personnel providing supply chain management solutions to many of South East Asia's and Australia's largest organizations. The company is committed to hiring local employees in the countries in which it works; in fact, out of 16,000 employees worldwide, only nine are expatriates. In Vietnam, the company is particularly committed to developing skills of their employees, of whom, 90% comes from low-income populations. Linfox ensures that employees undertake a wide range of courses and receive education, which the company believes to benefit the Linfox business, as well as each individual's career.

BACKGROUND: Operating in Vietnam since 2005, Linfox provides warehousing, transportation, and supply chain management services. The company's operations include a range of specialist distribution centers in the Bac Ninh, Da Nang and Binh Duong provinces, a fleet of purpose designed and built vehicles, and highly skilled personnel. In Vietnam, Linfox has approximately 1,800 employees, a number that is increasing almost every day due to their work with current clients that include companies in fields such as, retail (Tesco), industrial (mine support work, steel cartage, fuel/petrol) and fast moving consumer goods (Unilever and P&G). In 2009, the company's registered revenue in Vietnam was estimated at USD 10 to 25 million and expects an increase of revenue between a 10 - 15% for 2011.

BUSINESS MODEL: Low-income populations employed by Linfox work in warehouses, with most employees doing one of the following activities: (i) bundling: employees are based in the warehouse in the Binh Duong province and are approximately 80% women whom earn approximately the minimum salary requirement for carrying out simple repetitive tasks; or, (ii) porting/loaders; young men earning minimum wage who load cartons on to trucks. The company relies on out-sourced recruitment for these positions and employees are trained for each position. In fact, Linfox makes significant investment in employees' career development and training through Linfox's learning and development program, Linfox College, which is designed to enhance the knowledge and capabilities of employees in order to ensure an experienced and highly skilled workforce. Linfox is aware that longevity of service can be a risk when working with low-income employees, especially considering the investments made by the company to train new employees, thus the company is interested in exploring opportunities to strengthen support and provision of income for low-income populations closer to their home provinces, possibly in collaboration with NGO's or other civil organizations. The company has also envisioned a training center used to capacitate low-income populations. With this model, they would be able to fill all entry-level positions with low-

income population staff members, while reducing turn over and subsequent recruitment and training costs.

ESTIMATED IMPACT: At this time, Linfox is has identified that the company is interested in the long-term returns for their company with regard to quality and longevity of employees. With regards to impact within the employee populations, low-income populations benefit from employee training, creating a more skilled and qualified workforce.

FUNDING INTERESTS: In the past, the company has been entirely self-funded through Linfox general operations budget, but the company did express interest in financing for a training center. Approximately USD 500,000 would be used over for 5 years, with the majority of the investment being used as follows for the rent of a suitable facility.

Conclusion

Based on the interviews conducted with some of Vietnam's major companies, there is a keen interest in BoP engagement, a willingness to explore the potential of inclusive growth, as well as interest in financing for this new type of business model. Although many companies recognized that the BoP is an essential part of their business model, in some cases this model still lacks sufficient emphasis on "social inclusion" or creating an "inclusive business". These existing relationships serve as a framework around which inclusive strategies can be improved and leveraged, given that companies are already working with the BoP as employees, suppliers of raw materials, sellers of their goods, or consumers. This case is further substantiated by the fact that the majority of companies stated that economic benefits come from working with the poor. Given the correct enabling conditions, companies such as those mentioned above, aligned with BoP populations and other non-traditional business partners and allies, can act as mechanisms of change within the private sector to promote a new kind inclusive and impactful growth in Vietnam.



V. Financing Inclusive Business

For several years, momentum has been building among select private investors to focus on a new type of asset: impact investments – investments intended to create positive impact beyond financial return. These “impact investors” have been motivated by the view that their invested capital can be utilized to generate positive social and/or environmental change, and until recently have mostly been operating independently from mainstream financial markets in doing so. In recent years, participants in the impact investing market have recognized the common threads across their respective activities and a larger movement has begun to emerge. As this movement gathers steam, we recognize the potential for impact investments to attract a larger portion of mainstream private capital and anticipate that more investors will seek to generate positive social and/or environmental impact when making investment decisions. In fact, we believe that impact investing will reveal itself to be one of the most powerful changes within the asset management industry in the years to come.

Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

While inclusive business investment in Vietnam is extremely nascent, Vietnam does have a robust private equity market that can provide a useful guide to the potential opportunities and risks of establishing such a fund in Vietnam. At the same time, there is an emerging industry around impact investing in other parts of the world that can provide useful information with regard to the establishment of an impact investment fund in Vietnam. As such, this section (i) explains the wider concept of impact investing, current trends and potential returns from

other experiences; (ii) discusses the current state of capital markets in Vietnam; (iii) presents a consolidated summary of perspectives from select fund managers about the viability of the inclusive business private equity fund; (iv) describes preliminary investment strategy consideration and illustrative pipeline of potential deals; (v) provides preliminary recommendations for possible fund investors, as well as initial fund design parameters; and finally, (vi) discusses possible operational risks that may be present during execution.

The Market Opportunity for Impact Investing

Impact investing is an “emerging asset class” targeting viable opportunities at the Base of the Pyramid. Over the past few years, while the private equity market in Vietnam has been providing opportunities for growth for many Vietnamese companies, a new asset class has been emerging on a global scale – it is called impact investments. Impact investments “are investments intended to create positive impact beyond financial return...and generally aim to improve the lives of the BoP³²” and more importantly serve as an important backdrop to the development of an inclusive business private equity fund in Vietnam supported by the ADB. Impact investments as such are the financial corollary of inclusive business – as these investments seek to improve the livelihoods of the low-income segment while generating competitive financial returns by expanding access to quality, competitive and affordable basic services, through increased employment opportunities, and/or by sourcing inputs from low-income suppliers.³³ Generally speaking, impact investments globally have tended to favor business sectors that meet basic needs (agriculture, water and low-cost housing) or supply basic services in education, health, energy and financial services.³⁴

Impact Investing often support mainstream and proven business models that have been adapted for the Base of the Pyramid. Impact investing generally provides liquidity for BoP market opportunities traditionally underserved by existing and mainstream business models or not fully addressed through public services. As such, the BoP “market” is often excluded as a segment from traditional business models or added on with limited understanding of their real consumer and/or cultural needs. Notwithstanding, literature ranging from C.K. Prahalad’s *Fortune at the Bottom of the Pyramid* to the WRI’s and IFC’s *The Next Billion* in addition to extensive studies on micro-finance reveal that the BoP population will often manage their finances to buy affordable products or services improving their productivity and reliability of income.³⁵ SNV’s extensive experience developing more than 100 BoP ventures in Latin America also suggests that while many inclusive business ventures require innovation and/or adaptation of traditional and proven business models, impact investment and patient

³² Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

³³ Investing for Social & Environmental Impact: A Design for Catalyzing and Emerging Industry. Monitor Institute 2009.

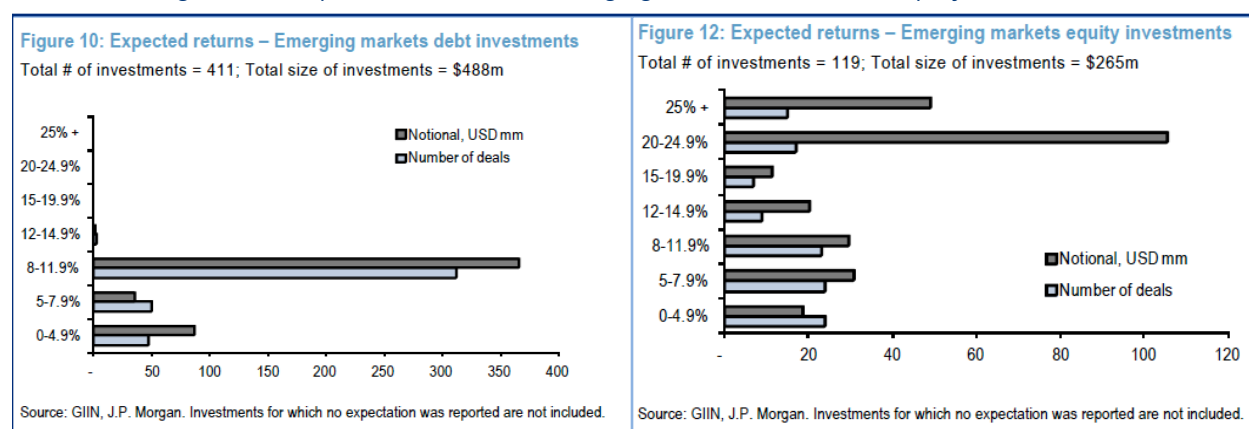
³⁴ Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

³⁵ Ibid.

capital can often be used as an incentive to overcome what are often initially perceived as insurmountable challenges.³⁶

Preliminary analysis of 530 BoP investments in emerging markets by J.P. Morgan reveals that impact investments are generating competitive returns in both equity and debt contexts. While impact investing has been characterized by the Monitor Institute as an “emerging industry” and by J.P Morgan as an “emerging asset class,” recent studies have revealed preliminary (but not representative) data about the potential expected returns of BoP investments from a limited sample of 119 emerging market equity investments and 411 emerging market debt investments from around the world.³⁷ While the sample should not be considered representative of all BoP investments around the world, it does suggest that roughly 73% of debt investments have returns between 8 and 12%, and that 30% of equity investments have returns over 20%. In the case of Vietnam, where impact investing in the BoP is still emerging, these preliminary findings from the global context may be important in defining expected returns in the design of the inclusive business fund.

Figure 14. Expected Returns in Emerging Markets: Debt and Equity Investments



Source: J.P Morgan. (2010) Impact Investments: An Emerging Asset Class.

Impact Investing opportunities are not confined to a limited number of sectors, but estimates of potential growth in certain sectors suggests significant opportunities. Business model innovation at the base of the pyramid occurs in a wide variety of industries ranging from micro-finance and micro-insurance to off-grid renewable energy solutions (like biogas) and certified agricultural production. Depending on the business model or archetype considered for inclusive business (i.e. BoP as consumer, employee, distributor or supplier), different sectoral preferences might emerge. For example, a region with a heavy concentration of rural poverty may consider agricultural investments that integrate the BoP into their value chain as suppliers as these models may increase the supply, quality and stability of agribusiness supply chains focused on specialty commodities while providing market access to

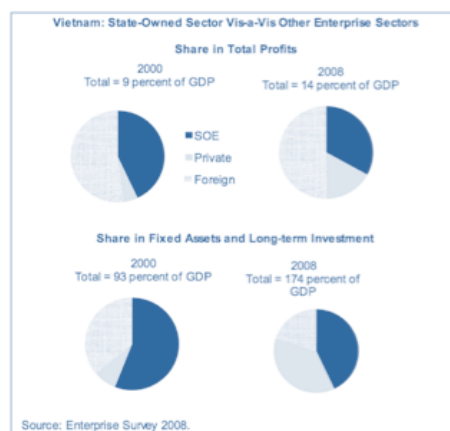
³⁶ Inclusive Business: Creating Value in Latin America. SNV and the World Business Council for Sustainable Development, May 2011.

³⁷ Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

the rural poor.³⁸ Another context where a region's competitiveness is heavily dependent on a low-cost labor supply may consider inclusive business ventures in vocational skills training (to enhance the skills level and quality of output of the local labor supply), low-cost housing (to ensure the low-income labor force has affordable housing that is at a short distance from the industrial park to reduce travel time and costs and improve labor satisfaction), or simply employ low-income workers directly (while ensuring adequate labor conditions). Furthermore, when trying to establish the market opportunity for BoP ventures in a particular sector, recent analysis reveals for example in low-cost housing that the potential invested capital required could be anywhere between USD 214 and USD 786 billion US dollars, while the potential profit opportunity could be between USD 177 and USD 648 billion.³⁹

Creating better conditions for the development of a local private sector and equitization of state-owned companies are growing in importance on Vietnam's ambitious economic reform agenda. The government has recognized that one of the key pre-conditions for private sector and further economic development is an enabling institutional, legal and regulatory framework. Recent reforms are aimed at tapping into the significant potential contribution of SMEs for job creation, technology innovation, diversified exports and economic decentralization, broadening the base of tax payers, and the related positive impact on poverty reduction. The Government has expressed a strong commitment to gradually remove obstacles for businesses and create a level playing field for enterprises from all economic sectors. As such, the lack of access to term financing is not only one of the main impediments to their business growth, but it also threatens their survival. While both local and international investment funds have recently mushroomed in Vietnam, they tend to focus on large companies and real estate projects, while local SMEs are below the typical size of their investments.

Figure 15. Vietnam: State-Owned Sector vis-a-vis other Enterprise Sectors⁴⁰



Source: IMF, 2010.

³⁸ Inclusive Business: Creating Value in Latin America. SNV and the World Business Council for Sustainable Development, May 2011.

³⁹ Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

⁴⁰ International Monetary Fund, Staff Report for the 2010 Article IV Consultation, July 7, 2010.

In addition to the emerging class of investments that are feasible in relation to BoP populations, it is important to understand the specific potential that this group has as a market segment, and what they present to funds focused on the poor as consumers. In 2009, the World Economic Forum published the report “The Next Billions: Unleashing Business Potential in Untapped Markets”⁴¹ which addresses five ways to work with the BOP populations, attempting to discover the fortune at the bottom of the pyramid, both for companies and populations.

- **Affording access rather than ownership:** Companies may need to discover “who can use the product” instead of “who can buy the product”. A BoP person does not necessarily have to buy the product in order to get access to and benefit from it.
- **Monetizing hidden assets:** There are three types of hidden assets with high potential to unlock economic value: i) Undocumented capital (i.e. property rights not legal; ii) Personal and community resources; iii) Underutilized assets (i.e. civil society and SMEs).
- **Bridging the gap in public goods through private enterprise:** Private intervention can catalyze and bring efficiency to the creation and delivery of public goods and services to the BoP.
- **Scaling out versus scaling up:** Companies need to re design the process globally moving from scale up model towards a scale out. Scale up is designed for high density areas and most of the BoP populations are scattered groups.
- **Governing through influence rather than authority:** BoP business models require companies shifts into de management process in order to achieve a profitable operation due to potential collecting and distributing increasing costs in scattered markets.

Additionally, the JP Morgan report about impact investments provides further evidence and opportunities with regard to BoP markets: (i) BoP markets are not always well served or are under served by traditional business models; (ii) BoP people not always can access to government’s basic services programs; (iii) increasing opportunities exist to achieve impact and efficiency complementing government, business, and NGO’s with market driven solutions to poverty.

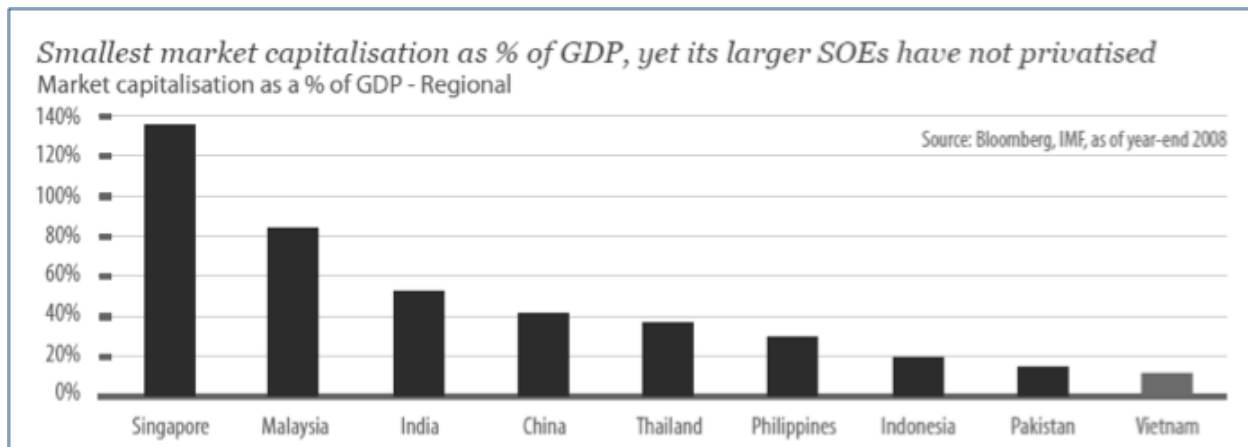
Private Equity and Inclusive Business relevance in Vietnam

The development of the Vietnamese equity and debt capital markets in recent years has responded to the growing need for financing, but the need still exceeds the supply of capital. As witnessed through the increasing amount of FDI arriving to Vietnam, it is clear that the Vietnamese economy is experiencing an increased need for financing. For ex-

⁴¹ World Economic Forum, “The Next Billions: Unleashing Business Potential in Untapped Markets”, 2009, Switzerland

ample, the total capitalization of Vietnam's listed securities markets has risen to USD42.4 billion (35% of GDP at December 2011). At the end of December 2010 the total capitalization was USD35 billion, 50% of GDP. The HOSE index decreased by 27.46% and the HNX index fell by 48.6% in 2011. The average market price earnings ratio was about 7.4 as at 31 December 2011, compared with 11 at the end of 2010. Up to December 2011, there were 695 enterprises listed on both markets, 133 enterprises listed on UPCoM, 102 securities companies (brokers) and 47 Vietnam. The number of stock investors has also increased sharply. By mid year 2011, the number of trading accounts reached over 1.1 million, much higher than the 3,000 recorded in late 2000. The number of trade-in accounts held by foreign investors also increased to 15,569 accounts in 2011; over four times that of 2006. Despite this volatility, funds interviewed are bullish on the stability and growth of capital markets in Vietnam following the financial crisis, and in particular, still feel there is far greater demand for capital than supply as mentioned by many companies interviewed as part of this market scoping study.

Figure 16. Small market capitalization as % of GDP - Asia Regional



Source: Bloomberg, IMF, 2008.

Although the Vietnamese capital market has witnessed incredible growth over the last decade, it is still in somewhat early stages with regard to its potential for growth. As is characteristic of young capital markets, the bulk of investment comes from small-scale investors, with most foreign trades being made by institutions while most of the local trades made by individuals (in absolute numbers). Additionally, Vietnam does not currently have a pension or mutual fund industry, which could represent larger and more focused investments within capital markets.

Most funds still maintain a strong level of support for the investment attractiveness of Vietnam, but do signal that investment allocations will continue to be varied. According to recent study published by Grant Thornton, 59% of respondents study rated Vietnam as more attractive as compared to other investment destinations, which indicates a decrease from the 1st quarter of 2011 over the responses gathered in 2010⁴². Additionally, the study

⁴² Ibid.

asked participants which asset class in their Vietnamese investment portfolio they would be increasing or decreasing in 2011 versus 2010 – 53% of respondents indicated an increased allocation of investment funds to Vietnam. Positive outlooks in terms of sector opportunities were highest among education, healthcare, oil, gas and natural resources and retail (all recording a positive outlook from more than 50% of respondents)⁴³.

According to the Global Venture Capital Private Equity Country Attractiveness Index⁴⁴, Vietnam possesses critical advantages in terms of labor costs and productivity but lags behind in corporate governance, financial reporting and administrative efficiency.

Developed by IESE and Ernst and Young, the Index provides useful benchmarking of the state of the Vietnamese capital markets as compared to other Asian countries in the region. It suggests that Vietnam will continue to have a strong global position in the production of agricultural commodities but needs to make important improvements in transparency and global economic integration. The 2011 report suggests that Vietnam has gradually improved its ranking since 2007 (from number 62 to number 53) and that the report's SWOT analysis continues to suggest that the abundance of natural resources (like rice, coffee and tea), comparatively low labor costs, political stability, a strong entrepreneurial culture and strong and growing domestic demand contributes to a favorable outlook moving forward. Weaknesses include a nascent working population lacking practical experience in various sectors, underdeveloped financial markets, bureaucracy, and financial reporting not yet in line with international standards. Key opportunities mentioned in the report are that a rise in the standard of living will create increasing demand for products and services, particularly from urban centers, exports to the US, China and ASEAN are increasing through bi-lateral and multi-lateral trade agreements, infrastructure demand is on the rise and Vietnamese enterprises have a greater appetite for operational and financial improvements.

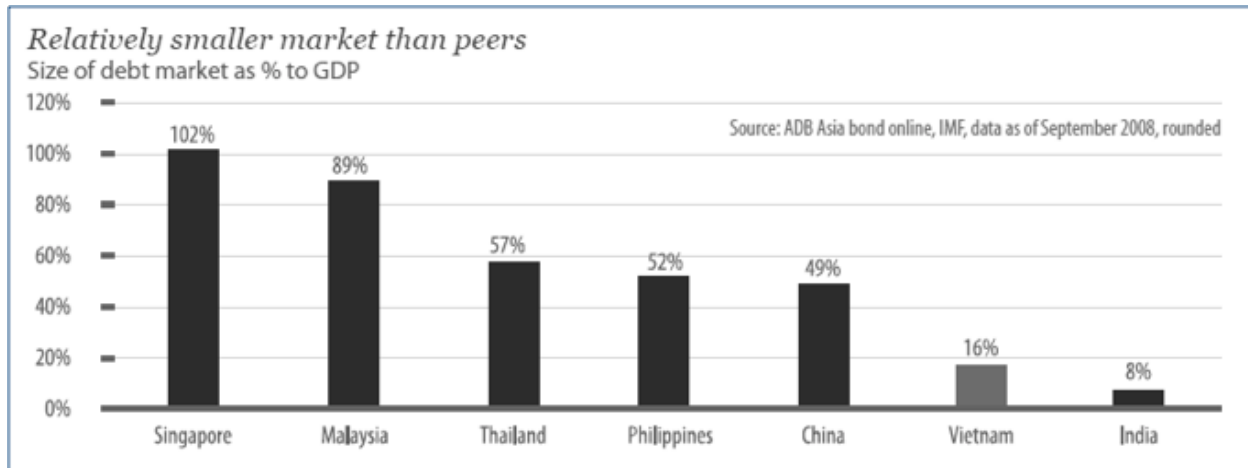
In spite of rapid development, Vietnam debt capital market remains small compared to its regional peers with a huge upside potential (see Figure 17). The ratio of outstanding bonds to GDP is 16%, which is below the regional average. This is partly because the debt capital market is largely dominated by many small outstanding government bonds and the Vietnam Development Bank (VDB) bonds, (more than 500 outstanding bonds with the average of less than USD 20M equivalent) which account for 80-85% of total outstanding bonds. The government bonds (listed in HNX for trading) are issued in maturities of 2, 3, 5, 10, and 15 years with the 5 year bonds having the highest level of liquidity, which in the majority are in local currency with less than 5% being denominated in USD.⁴⁵

⁴³ Ibid.

⁴⁴ Groh, Alexander, Heinrich Liechtenstein, Karsten Lieser. The Global Venture Capital and Private Equity Country Attractiveness Index, 2011. IESE Business School of the University of Navarra and Ernst and Young, 2012.

⁴⁵ Vietnam Primer. VinaSecurities, August 2009.

Figure 17. Size of Debt Market as % to GDP



Source: ADB and IMF, 2008.

Bank loans can only meet about 70% of the financial need presented in Vietnam. Grant Thornton confirmed this through a survey project that included 169 selected participants within the investment, stating in their 2nd quarter report of 2011 that 65% of respondents indicated that debt finance was difficult or extremely difficult to obtain (see Figure 17). This compares with 75% of respondents indicating difficulties in obtaining finance in the 2nd quarter of 2009⁴⁶. The lack of debt financing additionally affects private equity transactions within the domestic arena. Grant Thornton states that, "...47% of respondents indicated the importance of debt finance to private equity transactions"⁴⁷. Thus signaling that the current situation with regard to access to finance in Vietnam, whether as debt or equity, is likely to continue as an obstacle to further investment, or at the least, an important factor when making investment decisions.

Economic Policy and Performance is often driven by a focus on growth at all costs. In this somewhat fragile political context, there is a question mark over policymakers' willingness to implement the hard-hitting austerity measures required to stabilise the economy. The corporate sector has certainly felt the full force of tightened monetary policy and interest rate hikes, and the evidence suggests that it has been sufficient to quell the speculative activity—both corporate and personal—which led to the boom and bust cycle of 2006-2009. Yet high oil prices have left the government little choice but to increase subsidised retail prices for fuel and electricity which, naturally, affect the poor most severely. A fundamental impediment to more effective policy making is the government's fixation on a perceived binary relationship between either achieving high growth rates or addressing fundamental structural and systemic imbalances in the economy. Party dogma that double-digit growth must be achieved

⁴⁶ Nestlé. (2011). Private Equity in Vietnam: Investment Outlook Quarter 2, 2011.

⁴⁷Ibid.

at all costs and is critical to poverty alleviation—not, in itself, untrue—means that price and currency stability are foregone or not confronted vigorously enough. For example, domestic credit creation has slowed somewhat since the economic downturn, but the government has only reduced its target from 23% in 2010 to 20% in 2011, not nearly tight enough to quell inflationary pressures. Further inflationary pressures will be produced by consistent budget deficits in the region of 5% of GDP over the next three-to-five years, and although the return to near-double digit growth rates will boost government revenue, high oil prices and expenditure on social welfare programmes and infrastructure projects will keep the budget firmly in the red.

While inflation has been on the rise over the past few years, inflation has helped improve wages for low-income farmers. In the context of the IB Fund's focus on people living at the base of the pyramid, it is important to disaggregate Vietnamese inflation figures. They can be misleading. Ironically, high inflation has actually benefited rural farmers because their products are commanding much higher prices. The population segment that is being most affected by inflation are rural migrants who generally are forced to accept the lowest-paid factory jobs in peri-urban areas. With 41% of the Vietnamese inflation basket comprised of food, the proportion of this demographic's expenditure on food once in conurbations is probably somewhere in the range of 40%-60%. In contrast, the rural poor and less-vulnerable urban poor, even with marginally higher incomes, are significantly less affected by high food prices.

Over-dependence on the United States and China as primary markets for Vietnamese products increases their vulnerability to economic recessions in those countries. To a worrying extent, given the export-dependence of the Vietnamese economy and, further, the reliance on strong demand from two particular trading partners—China and the United States—the medium and long-term GDP growth prospects are beyond the country's control. Diplomatic sparring with China certainly does not help matters, although to date this has not significantly affected commercial and investment corridors. The salient question is whether there is a significant slowdown in the Chinese and American economies, which would rapidly reduce demand for Vietnamese exports. For this reason, it will be important for the IB Fund's investment portfolio in Vietnam to be carefully balanced between domestic and external sources of demand.

Business sentiment in Vietnam was at an all time low, but is now improving. According to the Financial Times,⁴⁸ not only was the Vietnamese stock market the third-best performing in the world in the first quarter of 2012 with daily trading volumes up three to four hundred percent, but government changes in monetary policy have contributed to a decrease in inflation and better currency stability, and further reforms in the banking sector and state-owned enterprises will accelerate privatizations (SOEs account for 60% of GDP in Vietnam).⁴⁹ Before

⁴⁸ Financial Times (2012). Vietnam Emerges from a Tough Few Years, April 15, 2012.

⁴⁹ Ibid.

this recent improvement, the real estate market had fallen considerably and was expected to continue to do so, forcing some real estate players to issue bonds to raise capital, in some cases 20% or higher. The speculative activity which caused the Ho Chi Minh Stock Exchange Index to sky-rocket from 250 to 600 in 2008 has ended, and the Index now hovers in the mid 400s. Worryingly, during the boom, both corporate and individual speculators were borrowing money from banks and interest rates of 10%-12% with a view to making 40%-60% returns in short periods on the stock exchange. Although the boom and bust cycle has been painful, four particular aspects of the fallout are critical and, ironically, positive from the IB Fund's perspective:

1. **An unprecedented focus on company value:** Many businesses have collapsed and continue to do so in the wake of the crisis. For the first time, the government has allowed them to fail—including, importantly, bloated SOEs. This unprecedented willingness to tolerate bankruptcies has taught businessmen an essential lesson in the difference between underlying company value and short-term profit, a lesson not limited to public companies.
2. **Recalibration of valuations:** Historically, penetrating Vietnamese businesses has been challenging for external shareholders not just because of lack of transparency, but due to owners' unrealistic valuation expectations fuelled by the boom years. The challenges of borrowing where once liquidity abounded have forced owners to reconsider valuations and restructure in order to attract much-needed capital.
3. **Greater openness to equity:** Vietnamese businesses have traditionally used debt to fund growth. Equity is not as unfamiliar as in Cambodia and Laos, but Vietnamese businesses owners are generally much more comfortable with debt. The fallout on the stock-exchange, combined with interest rate hikes and more stringent lending conditions, is forcing companies to consider equity participation where previously it would have been shunned. The IB Fund will therefore be well placed to invest in businesses using equity, quasi-equity and debt, which will provide a welcome counter-balance to debt-based transactions in Cambodia and, possibly, Laos.
4. **The structure of post-crisis indebtedness is important:** It is noteworthy that indebtedness levels are much higher in the corporate sector than in the personal sector. Speculative activity in the latter was, by and large, confined to business people in HCMC and Hanoi who had significant disposable income to bet on stocks. It will take a long time for banks to regain confidence in the financial viability of all but their largest clients. This, again, will help the IB Fund to access transactions which would have been almost impossible pre-crisis.

Another feature of the current business climate in Vietnam is also significant. The government is emphasising the importance of industrialisation both for job creation and to reduce

the import-content of exports, which remains stubbornly high (see below). Given the structure of the Vietnamese economy, successful industrialisation will necessarily require the inclusion of the SME and sector and non-SOE sector more generally into the supply chains of larger companies and public-sector projects. As the government has set about achieving this, the degree of weakness of commercial and infrastructural linkages between larger businesses and the SME sector, mirroring similarly fragile linkages between the two largest conurbations, HCMC and Hanoi, and rural areas, has been thrown into relief. As a result, there is a growing realisation in government and the private sector that supply chains, value chains and the interface between the SME sector and larger businesses, let alone export markets, needs urgent attention and strengthening. This dynamic is beneficial for the IB Fund because portfolio companies will be much more minded than before to invest time and resources into establishing robust supply chains and business relationships to improve consistency and quality of product.

Case Study 8: Kim Hang Aluminum Plastic JSC

Until the recent financial crisis, Kim Hang Aluminum Plastic JSC (Kim Hang) had focused on international markets, which accounted for 59% of its annual revenue. The economic downturn has a negative impact on its export performance and Kim Hang had decided to focus on the domestic market. Since 2008, it has aimed not to export more than 40% of its annual revenue and has concentrated on the low-income domestic market segment. The company hopes to expand its distribution to 75% of the country.

BACKGROUND: Kim Hang is a Vietnamese joint stock company producing aluminum & stainless steel household appliances. The company was originally founded in 1986 as a household business and in 1994 was registered as a limited liability company. In 2007, the company was equitised to become Kim Hang Aluminum Plastic JSC. Kim Hang produces up to 500 types of aluminum & stainless steel products including household appliances and indoor and outdoor decoration wares. The company has a nation-wide distribution network with branches in Can Tho, Nha Trang, Da Nang, Hanoi, and HCM City. Additionally, it exports to 16 countries with its major markets being the US, Netherlands, Denmark and Japan. In 2009, the company did approximately USD 18 million in sales and it is expected that the growth rate for 2010 will be about 15%.

BUSINESS MODEL: In Vietnam, the consumer goods (including household appliances) industry is crowded with the presence of many local and international brands, yet the demand has increased sharply because of better living standards. For better health and safety, consumers prefer stainless steel cooking wares to traditional products or non-qualified products manufactured by informal businesses. While people with higher income are looking for international products, lower income consumers choose high quality products with reasonable prices. In order to compete and be successful in this market, players in this industry need to focus not only in quality but also in price of the products. Kim Hang has diversified its products targeting medium-income and low-income consumers. As shared by the Vice CEO, Kim Hang has reduced the cost of products not by reducing the quality but by designing multiple purpose items. For instance, a set of low cost cooking pans consists of 4 pots and 2 lids that can be used in all 4 cooking pots. By reducing the number of pan lids, the cost can be reduced without sacrificing quality.

The company has participated in the “bringing Vietnamese goods to rural areas” program where it sells products to consumers in rural areas, many of which are low-income population. Additionally, its current distribution channel works with up to 400 sellers in a number of provinces. It estimated that 10-15% of these sellers are low-income people who have the fund of around US\$1,000 for trading different products, including Kim Hang's. These sellers are located in rural areas targeting farmers or people in remote areas.

The company is now interested in providing credits to these rural sellers as part of its strategy to target the domestic market. With more rural sellers having funds to do business, Kim Hang could sell more of its products through this network. It has a plan to expand its distribution network to 75% of provinces in Vietnam using this inclusive business model. It would plan to invest in each province around \$78,000 in the form of credit (in both goods and monetary terms) to rural sellers in Kim Hang's distribution network. With the credit given, they can buy more low cost products, including Kim Hang's products, to sell to the poor in their trading area.

ESTIMATED IMPACT: The company's inclusive business program has the following expected impacts: improve the life conditions of the LIP in rural areas by providing them with low-cost and quality household appliances for their daily use. With the potential funding, it could work with 2,000 sellers (in 75% of the provinces in Vietnam) who will in turn distribute quality and low cost products to thousands of poor consumers in their trading areas. The expected return of this business model for the company is about 20%.

FUNDING INTERESTS: The company is interested in working with the ADB fund with a loan for approximately USD 2 million. This loan would be used as working capital over 5 years for the expansion of the company's distribution channel in 48 provinces over the country by providing credit for low-income rural sellers. Although, the company did specify that it expects to receive an interest rate lower than the current commercial rate.

Other Financing Opportunities for Inclusive Business

There is an existing track-record of inclusive business ventures and SME investments in Vietnam. While the private equity market for inclusive business ventures in Vietnam is largely under development a very small minority have been active to date (see Table 8), there has been a larger pool of investment funds focused on SME development in Vietnam. These include, for example, Mekong Enterprise Fund, Mekong Enterprise Fund II (MEF II), Vietnam Equity Fund, Blue Waters Growth Fund (BWGF), and the Mekong Private Sector Development Facility (MPDF III) covering Vietnam, Lao PDR, and Cambodia. A short description of each of these funds and/or facilities can be found below:

Table 9. Examples of Impact Investing in Vietnam	
Program/Facility	
Making Markets Work Better for the Poor (M4P) & the Vietnam Challenge Fund (VCF)	
Institutions	<ul style="list-style-type: none"> Funded by the Asian Development Bank and the UK Department for International Development. Executed by the Ministry of Planning and Investment
Objectives	<ul style="list-style-type: none"> Aims to increase participation of the poor in three thematic areas – public private partnership in infrastructure services, value chains, and private sector employment. Focus on systemic change – changing the incentives that the market system in Vietnam provides to participants so that markets work better and fairly for the poor.
Type	Technical Assistance & Grants
Size	<ul style="list-style-type: none"> The Vietnam Challenge Fund (VCF) Component: USD 3 million The Action Research Funding Component: Grants from the USD 525,000 fund will be awarded to research institutes The Capacity Building Component: The total funding of USD 230,000
Strategy	<ul style="list-style-type: none"> The Action Research Funding Component provides an instrument for addressing government failure. The Vietnam Challenge Fund (VCF) provides instruments for engaging with the private sector to innovate business models and technologies that will improve pro-poor outcomes. The Capacity Building Component will be used to support relevant training, seminars, and workshops aimed at improving the market conditions for the poor.
Programme for Innovative Partnerships for Development (IPD)	
Institutions	DANIDA - Embassy of Denmark, Hanoi.
Objectives	<ul style="list-style-type: none"> Seeks to engage companies and organizations in advancing strategic Corporate Social Responsibility and Social Responsibility Innovation. Develops competencies of local IPD partners and promotes proactive CSR activities due to the considerable additionality of such partnerships.
Type	Technical Assistance & Grants

Size	<p>The program contributes to three overall phases:</p> <ol style="list-style-type: none"> 1. Contact Phase: maximum of USD 22,000 / DKK 125,000 CSR Facility: 90% share of expenses BoP Facility: 60% share of expenses 2. Study Phase: maximum USD 62,000 /DKK 350,000 CSR Facility: 75% share of expenses is BoP Facility: 60% share of expenses 3. Project Phase: CSR Facility: maximum USD 885,000 / DKK 5 million (90% share of expenses) BoP Facility: maximum USD 530,000 / DKK 3 million (60% share of expenses)
Strategy	<ul style="list-style-type: none"> • Strategic CSR facility: Danida supports partnerships that promote better working and living conditions for employees, their families, the local community, and society at large. • Base of the Pyramid (BoP) Facility: Danida supports partnerships that develop Socially Responsible Innovation and include the poor living at the BoP as consumers, producers, or business partners.
<p>Source: Table generated from information found at: IPD: http://www.ambhanoi.um.dk/en/menu/Developmentpolicy/The+IPD+Programme/. M4P: http://www.markets4poor.org</p>	

The Swiss State Secretariat for Economic Affairs (SECO) provides the following brief description of each of the aforementioned funds in Vietnam:

Mekong Enterprise Fund (MEF): MEF is a 10-year USD18 million private equity fund established in 2002. Managed by Mekong Capital in Ho Chi Minh City, its focus is on investments in well-managed private SMEs in Vietnam. The Fund's Official Net Asset Value was approximately USD37 million at the end of 2007. The average annual revenue growth rate of the Fund's investee companies has been 34.5% within the period of investment, while their average annual net profit reached approximately 46.9%. MEF strives to add significant value to the companies in which it invests. This is done through supporting them, building up their management teams, making improvements to financial reporting systems and increasing operational efficiency – all of which is intended to lead to faster growth and successful listings of the companies' shares on a stock market. Technical assistance provided to investee companies played a pioneering role in introducing best practices such as Lean Manufacturing, Six Sigma and Activity Based Costing to the Vietnamese business community. Besides SECO (represented by SIFEM), investors are chiefly developing finance institutions, including the Asian Development Bank (ADB), the Finnish Fund for Industrial Cooperation (Finnfund), the Belgian Investment Company for Developing Countries (BIOS) and the Nordic Development Fund (NDF). Further information is available at: www.mekongcapital.com

Mekong Enterprise Fund II (MEF II): As the successor fund to MEF, MEF II is a USD 50 million private equity fund, launched in June 2006. The Fund invests into the most well managed private companies in Vietnam, mainly those which have a serious plan to list on a stock exchange in Vietnam, and which have demonstrated a high level of commitment to continuous improvement with a typical investment size of USD 4 – 6 million per investment. The expected lifespan of the Fund is 10 years. When the Fund makes an investment, it expects to hold the investment for 5 to 7 years. As with MEF, MEF II puts an emphasis on adding significant value to investee companies through post-investment assistance projects, particularly in areas that

will contribute to profit growth and improve opportunities for exits. MEF II has 25 shareholders, including emerging markets funds, family offices, high net worth individuals, financial institutions and government-related agencies, mostly investors of MEF. SECO invested a total of USD 5 million into the fund. Further information is available at: www.mekongcapital.com

Vietnam Equity Fund: The Vietnam Equity Fund is a private equity fund, managed by Finansia Fund Management. Its primary investment focus is Vietnamese State Owned Enterprises (SOEs) that have equitized or are in the process of equitization. Equitization refers to the process of selling SOE shares to employees and outside investors. It will seek to add value through advising investee companies in areas such as improving financial structuring and corporate governance, and preparing for a listing. By investing in equitizing or equitized SOEs it will contribute to the improved management of these enterprises, as well as to the transformation of the Vietnamese economy into a market-oriented economy. The Fund has a capital of EUR 15 million and expects to make investments in the range of EUR 500,000 to EUR 1 million, although it will consider smaller investments in companies identified as candidates for more significant investment at a later date (“facilitating investments”). Besides SECO, four other development finance institutions have invested in the Vietnam Equity Fund: the “Deutsche Investitions- und Entwicklungsgesellschaft” (DEG), the Finnish Fund for Industrial Cooperation (Finnfund), the Norwegian Investment Fund for Developing Countries (Norfund), and Proparco (France). SECO’s investment into the fund totals EUR 2 million. Further information is available at: <http://www.finansa.com>

Blue Waters Growth Fund (BWGF): The Blue Waters Growth Fund, managed by the Small Enterprise Assistance Fund (SEAF), is a USD 20 million equity investment fund, investing into private sector SMEs in Vietnam at an early stage of their expansion, using an innovative risk-sharing investment strategy, complemented with comprehensive and demand-driven technical assistance. The BWGF seeks to provide the growing Vietnamese private sector with a cash flow based lending instrument, answering to an extensive and largely unmet market demand for SME finance. Typical investment size is between USD 100,000 and 2 million, thus below the typical investment size of MEF I and II. Initially structured as a closed-end 10- year life fund, it is intended that the BWGF be converted into a finance company upon achievement of an adequate track record. BWGF managed to raise USD 20 million, with the initial investors being SECO (USD 7 million), FinnFund (USD 7 million) and FMO (USD 6 million). The involvement of other investors, which either enter into a due diligence arrangement or have shown interest in joining, are expected to bring BWGF’s size to approximately USD 30 million. Further information is available at: www.seaf.com

Green Credit Trust Fund (GCTF): The Green Credit Trust Fund (GCTF) is an instrument for the promotion of SME investments that result in a positive impact on the environment. GCTF facilitates access to finance for SMEs with insufficient collateral by guaranteeing 50% of credits granted to the SMEs. If a company achieves certain environmental improvements, measured against pre-defined indicators, GCTF reimburses up to 25% of the investment costs. The environmental improvements to be achieved as well as the indicator are determined and subsequently verified by the Cleaner Production Centre (VNCPC), which received technical assistance under a SECO/UNIDO project. The green credits are provided by local banks, which are

responsible for handling the credits and the possible reimbursement of the investment costs. Thus, GCTF does not directly subsidize credits or provide direct, ex-ante subsidization for investments; instead it relies on an incentive structure. The aim of the GCTF Vietnam is to facilitate SME investment in Cleaner Production Technology and thereby to contribute to the improvement of the economic, environmental and social performance of Vietnamese SMEs. It is also expected to promote sustainable finance and the introduction of environmental risk assessments in the credit risk assessment procedures of banks. Potential synergies exist with the equity investment funds, which may introduce possible beneficiary companies to GCTF. SECO's contribution amounts to CHF 5 million. Further information is available at: http://vncpc.org/gc/html/home_english.html

Two interesting examples (described by SECO and DANIDA) of growing interest in complementing private equity with technical assistance are reflected in the development of IFC's Mekong Private Sector Development Facilities (I, II, and III) as described below and DANIDA's Global Competitiveness Facility for Vietnamese Enterprises:

Background of the Mekong Private Sector Development Facility (as described by SECO): The first 5-year cycle of the IFC-led MPDF was launched in 1997. It focused on facilitating access to finance by private firms, helped improve local service providers, and conducted policy research. Through its support of business services more than 1000 managers and over 800 bank personnel have been trained, and it had compiled and disseminated 12 substantive reports on private sector policy issues. Starting in 2003, MPDF II has aimed to create a business-enabling environment, provide capacity building for local service providers that offer management training, and improve access to finance for SMEs. To increase impact, the focus has been on three sectors of particular importance to the national economies: garments and handicrafts, tourism and agribusiness. Several independent evaluations have concluded that MPDF I and II have been highly successful. The overall budget of MPDF III is USD 50 million, with SECO contributing USD 4 million for five years. Other donors of MPDF III include the European Commission, Finland, Ireland and New Zealand. The third five-year cycle of the program will be implemented between 2008 and 2013.

Mekong Private Sector Development Facility (MPDF III) covering Vietnam, Lao PDR and Cambodia.

Objectives: The overall goal of MPDF is to support the development of a dynamic private sector in Vietnam, Cambodia and Lao PDR. MPDF builds on its extensive experience by focusing its efforts to bring about an improvement in the investment climate and in firm level competencies, thereby contributing to sustainable economic growth and poverty reduction.

Approaches: MPDF III focuses its advisory services on five program areas:

- **The Business Enabling Environment programme** seeks to improve the framework

conditions for business by supporting the development and implementation of key policies, regulations and institutions at the national and provincial level.

- **The Access to Finance programme** aims to expand SME's access to finance by improving the financial infrastructure and strengthening financial institutions.
- **The Sustainability programme** encourages the adoption of sustainable business practices by local private firms.
- **The Supply Chain Linkages programme** seeks to increase the value added in selected agribusiness supply chains.
- **The Access to Infrastructure programme** provides capacity building to SME service providers and banks. This will help to increase private sector participation in the provision of public services.

The regional approach of MPDF III allows to adapt projects that have proven successful in one market and apply them to the other two countries. The regional approach is a response to the increasing regionalization of private sector activities in the Mekong region. The multi-sector approach allows synergies between the different areas to be exploited. The program links into other initiatives supported by SECO, such as the Better Work Program, executed jointly by the International Labour Organization (ILO) and the International Finance Corporation (IFC), the Vietnam Cleaner Production Centre, and SECO's support to improving financial infrastructure within the Financial Sector Program.

The Global Competitiveness Facility for Vietnamese Enterprises (GCF) (as described by DANIDA): The Global Competitiveness Facility for Vietnamese Enterprises (GCF) is a grant facility funded by DANIDA under the Business Sector Program Support. The aim of the facility is to increase the competitiveness of non-public Vietnamese businesses in export-oriented business sectors in targeted provinces through better access to relevant business services and exposure to innovative business models. During the first phase of 5 years (2006 to 2010) GCF has supported a total of 96 initiatives including 4 projects in National Business and Trade Initiatives, 29 projects with Business Associations and 63 projects with Business Development Service providers in 4 provinces of Ha Tay, Nghe An, Lam Dong and Khanh Hoa in various sectors such as Aquaculture, Bamboo & Rattan, Fisheries, Flowers, Handicrafts, Tea, Tourism, Vegetables etc., and disbursed grants of over VND 115 billion thru 2010. Based on the success of the first phase, the Danish and Vietnamese governments have agreed to continue support to improve the competitiveness of the export-oriented sectors.

With a grant budget of DKK 63 million (equivalent to VND 216 billion), GCF is expected to provide matching grants for 40-50 projects that: provide solutions/services to challenges faced by several small businesses, household enterprises and farmers; are innovative and offers new services not already available in the 8 target provinces (Nghe An, Thanh Hoa, Khanh Hoa, Phu Yen, Lam Dong, Dac Lac, An Giang and Can Tho); improve export possibilities for several small producers, preferably within agricultural value chains. The emphasis of GCF is on innovative projects, creating new services and piloting new business models that can be replicated by others with less risk. GCF strives to reduce the financial risk for Vietnamese en-

terprises and non-public organizations embarking on forward looking and innovative project ideas that identify and introduce new technologies and business models apart from access to new markets.

Experience of Fund Managers with IB Finance

As part of this feasibility study, 15 fund managers were interviewed in order to gather more in depth information about their views and opinions with regards to the opportunity, risks, and challenges of an Inclusive Business Venture Fund in Vietnam.

In general, the outlook of these fund managers in relation to the opportunity of an investment fund focused on inclusive business ventures is positive. Although, as expected, the majority of the funds in Vietnam have not yet invested in ventures focused on social impact, the funds interviewed provided various indications that point toward fund feasibility. In fact, of the funds interviewed only three firms mentioned prior involvement with business ventures focused on social impact, while nine of the fund managers said that they would be interested in investing in this type of venture if presented with a good opportunity and three stated that they would not be interested at all in investing in social impact ventures. Additionally, all but one company said their fund tends to look for financial outcomes over social impact within their investments, but at the same time, all funds stated that they would respect blended social and economic returns, thus, indicating an openness to explore BoP venture investments focused on this blended return model.

While fund managers were receptive to this new type of investment, the interviews revealed critical success factors that the fund managers indicated as necessary for the the fund. The fund managers identified that in general, when making investment decisions, management, growth, and transparency are the three most common elements identified for success. Although, possibly due to the innovative nature of inclusive business ventures, the funds interviewed indicated that they would also put great weight on the viability and track record of the business, when making investment decisions about business ventures that include poor populations. Additionally, when asked about obstacles for an inclusive business investment fund, the majority of fund managers interviewed seemed unsure of what the obstacles to this type of investment would be, but indicated that technical assistance, access to capital, and the capacity of poor populations could be obstacles for success.

High returns, partnering with other investors, and a viable deal flow were considered the critical drivers for raising capital for a potential Inclusive Business Venture Fund. When asked about the main drivers for raising capital for a fund focused on inclusive business, the majority of respondents outlined the importance of growth (high returns) and hedged risk through partnerships with other investors or anchor investors. ADB participation in the fund was viewed, as stated earlier, as an important incentive to securing additional investment partners. Some of the funds interviewed as part of the study's primary research also expressed a need to have an accompanying technical assistance facility that could serve

as a risk mitigation strategy for certain BoP investments, stating that for many investors, the novelty of the BoP space, new or different business models, and unproven track records may be seen as a barrier to entry into this new market.

Fund managers interviewed agreed that USD 20M seed money from the ADB would be very helpful for the fund management company to start the investment, proving the viability of the model. In fact, ten of the fifteen funds interviewed gave positive feedback about the prospects of raising the capital needed for the fund. Grant Thornton suggested that there is sufficient captive capital in the marketplace, that raising financing for this fund should be easier than what the wider trend suggests. According to Grant Thornton, the reputation of SNV and ADB, in addition to the focused strategy of the fund and related expertise attached to the fund, could be very appealing to investors. In fact, they suggested that eight to ten funds would be interested in exploring opportunities with a fund like this and would be additionally interested in a blended (debt and equity) fund model.

Various industry sectors have been identified as high potential with regards to increased returns, on either the financial or social impact scale, or both. When asked about industry attractiveness for an Inclusive Business PE Fund, fund managers first indicated that labour-intensive industries, such as manufacturing, construction, or agriculture would be high potential industries. Second, they signaled towards financial services and education as other industries that could create financial and social impact. Finally, industries that concentrate on high volume and low margins were also indicated as good areas for investment. This information was somewhat consistent with the information provided by Grant Thornton, whom signaled that education was identified in general as the most positive sector for investment, which they deemed consistent with the domestic demand for improved skills and a move away from government provision of education.⁵⁰ Grant Thornton also signaled that agriculture, financial services (esp. microfinance), retail, healthcare, and hospitality industries would also be interesting BoP venture investment opportunities⁵¹. As seen in Table 9, this is only partially consistent with general trends in public investments by sector according to GSO estimates. This may reaffirm general perceptions of the BoP in Vietnam is seen largely as a vast labour pool that can be leveraged through labour intensive industries or seen as an growing opportunity for services around vocational skills development.

Table 10. Public Investments by Sector of Activity (in Billions of VND)

Sector	2005	2007	2008	2009	2010
Agriculture, forestry, and fishery	11,545	13,355	15,060	16,858	18,521
Mining and quarrying	13,624	15,225	16,290	19,265	21,213
Manufacturing	13,518	24,096	12,284	24,751	26,957

⁵⁰ Grant Thornton.

⁵¹ Grant Thornton. (2010). Interview with SNV.

Sector	2005	2007	2008	2009	2010
Electricity, gas, steam and air conditioning supply	23,598	26,059	26,250	48,168	52,952
Water supply, sewerage, waste management and remediation activities	6,672	7,282	7,510	11,156	12,224
Construction	6,795	8,975	9,966	13,301	14,679
Wholesale and retail trade; repair of motor vehicles & motorcycles	2,057	2,444	3,290	6,245	6,601
Transportation and Storage	33,431	36,319	47,062	52,032	57,203
Accommodation and food service activities	684	850	1,065	3,589	3,853
Information and communication	9,003	11,028	11,443	16,016	17,712
Financial, banking and insurance activities	718	1,546	2,061	4,244	4,352
Real estate activities	1,615	3,089	3,303	6,101	6,870
Professional, scientific and technical activities	2,126	3,781	4,346	5,610	6,013
Administrative and support service activities	2,635	3,027	3,307	4,687	5,472
Activities of the Communist party and related activities	10,767	14,606	17,940	21,407	25,116
Education and Training	8,789	10,503	10,769	10,202	11,539
Human health and social work activities	5,448	6,470	6,989	8,236	8,555
Arts, entertainment and recreation	3,412	5,296	5,440	7,240	7,649
Other Activities	5,198	4,038	4,638	8,424	8,804
TOTAL	161,635	197,989	209,013	287,534	316,285

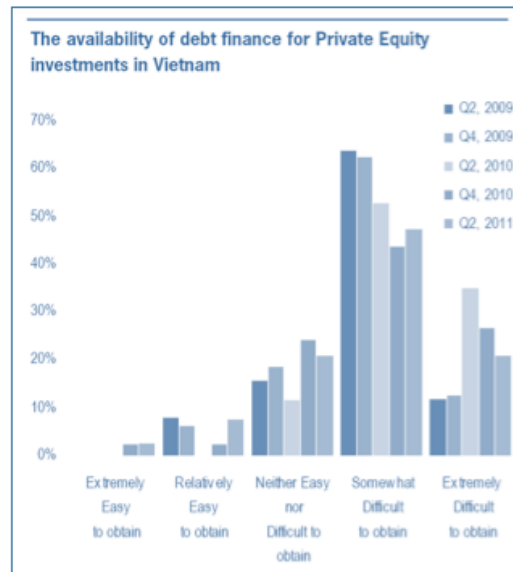
Source: GSO (2012)

The economic downturn of 2009-2010 has shaken Vietnam's financial community, altered the financing landscape and affected the business mindset. Access to cheap debt, unbridled issuing of corporate bonds and their subsequent treatment as assets rather than liabilities all helped to fuel the unsustainable boom of the mid-2000s. Unsurprisingly, along with sharp increases in interest rates, commercial banks have tightened lending policies, collateral requirements have become far more stringent and access to capital for the private sector is challenging for all but the strongest companies. It is important to distinguish between this dynamic and the SOE sector. Although the government has tolerated some SOE failures, there is no question that politically-directed lending to SOEs perceived to be strategic, regardless of their health, continues.

The acute credit constriction and the inability to raise funds from speculative investors on the capital markets is forcing the creation of an equity culture in Vietnam.⁵²

De-listings from the bloated stock exchanges are common, as companies seek to sell stakes at private equity-level valuations. The whole concept of company value is subject to re-evaluation, and in addition to being compelled to open their ownership structures to external partners, business owners have less power to resist the critical managerial and operational

Figure 18. Availability of debt finance for Private Equity Investments in Vietnam



Source: Grant Thornton, chart courtesy of Grant Thornton, 2011.

changes that the former introduce to increase transparency and drive efficiencies. Unsurprisingly, it has become more difficult than ever for SMEs to access financing from formal financial institutions in the post-crisis environment, let alone larger companies.⁵³

- **Collateral constraints:** The smaller the company, the greater the struggle to provide acceptable collateral. Proof of land ownership can be especially challenging for small-holder farmers.
- **Poor accounting practices:** Accounts are generally managed and presented so as to minimise tax liabilities. Sales are heavily discounted and costs are bloated to show little or no profit. It is difficult to gain an accurate financial picture of a business.
- **Non-banked cash flows:** Many SMEs route cash flows outside of official bank accounts. Generally, a company's principal bank account is used to receive payments

⁵² Grant Thornton. (2011). Private Equity in Vietnam: Investment Outlook Quarter 2, 2011.

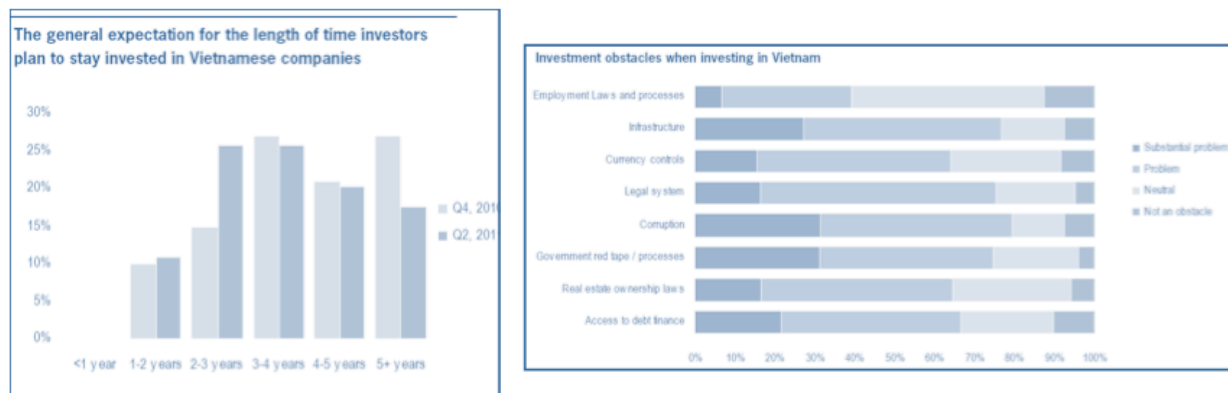
⁵³ For the purposes of this report, the term 'SME' is used for convenience. The reference is really to the medium-sized enterprises or 'lower mid-caps' that the IB Fund will be targeting, or enterprise able to absorb \$1m-\$10m of debt, quasi-equity or equity.

- from customers, but not to deposit revenues or pay suppliers and staff. As a result, banks are even more reluctant to consider cash-flow based lending.
- **Lack of information:** The pervasiveness of the debt culture means that SMEs are often unfamiliar with financial products and which might be appropriate for them.

Again, regardless of size, cash constraints are obliging companies to seek out financing partners for the longer term, requiring, in turn, greater openness and a willingness to professionalize.

Fund Managers continue to recognize corruption and infrastructure as the main investment impediments in Vietnam -- challenges not easily overcome during the short-term investment cycles they generally manage. According to the most recent Grant Thornton survey of fund managers in Vietnam, corruption, government red tape and infrastructure remain the most important obstacles to investment in Vietnam -- followed closely by the legal system and real estate ownership constraints. Notably, access to finance is seen as an important problem by almost 70% of those surveyed as seen in Figure 18 on page 92. Figure 19 below reveals the general expectation for the length of time investors in Vietnam plan to stay invested in Vietnamese companies -- the majority has a relatively short term view of staying invested for 4 years or less, with less than 20% being willing to stay invested in 5 years or more. When considering the parameters for the IB PE Fund, it will be important to bear in mind the short-term mindedness of investors and the investment obstacles that are often exacerbated when considering BoP market opportunities.

Figure 19. Investment Obstacles and average preferred investment term of Vietnamese investors



Source: Grant Thornton, Chart courtesy of Grant Thornton, 2011.

Based on its maturing international track record, impact Investing has the potential to generate competitive financial and social returns in Vietnam. While an assessment of capital markets in Vietnam and identifying preliminary demand for BoP venture financing was important to providing an initial assessment of supply and demand, the global impact investing track record provides complementary evidence to support the growing interest and viability in developing successful inclusive business ventures. Impact investing research suggests

significant market opportunities exist for BoP venture development in emerging markets with attractive financial and social returns. The growing experience of the impact investing movement and networks like GIIN could provide critical inputs into the development of the Inclusive Business fund, the development of performance monitoring tools (for both social and financial returns through GIIRS and IRIS), and successful experiences, case studies and business models that could catalyze further interest in the marketplace in Vietnam.

The prospects for growth of capital markets in Vietnam create a favorable environment for the development of a Inclusive Business fund, but improvements in transparency, corporate governance and increased awareness about BoP opportunities is critical for success. Market analysis and fund manager interviews confirm that while capital markets in Vietnam are growing, they are not keeping pace with the rapidly increasing need for private investment. And, in the context of a BoP venture fund, given that there is a significant market opportunity to develop business solutions that contribute to inclusive growth in a number of critical sectors, additional liquidity within this emerging asset class would accelerate interest and development opportunities. At the same time, transparency, corporate governance and misperceptions about the BoP and their potential contribution to competitive business development need to be addressed in order to consolidate critical mass around the concept and the opportunity.

Investment Funds Managers in Vietnam were optimistic about the prospects for the development of an Inclusive Business fund, provided there was a clear investment strategy, high profile anchor investors and partners, and high prospects for growth. While fund managers expressed a clear interest in the BoP marketplace (if it satisfied certain critical parameters for competitive returns), they also considered Vietnam competitive in labour intensive industries, high volume, low margin businesses that could be tailor-made to low-income needs, and specific basic services that have historically not reached the low-income population. Furthermore, when it came to an Inclusive Business investment fund, fund managers were keen to look for ways to share the risk with a major and reputable anchor investor or partner and mitigate risks through the involvement of a stakeholder that fully understood this market segment and could potentially provide technical assistance when needed.

The Inclusive Business Fund Investment Strategy should find an appropriate balance between financial and social returns, sector alignment and prioritization, degree of risk and innovation, and technical assistance integration. As with mainstream private equity and asset management companies, the development of investment strategy requires careful analysis of the opportunity and full consideration of the different business models and risks. The degree to which the fund satisfies both financial and social return expectations, lowers transaction costs by focusing on a narrow range of sectors and industries or seeks to promote innovation and early stage ventures to spur new and scalable solutions that can have highly competitive returns and broad impact on the low-income segment will depend largely on the defined objectives of the fund. Furthermore, risk mitigation measures like the integra-

tion of a technical assistance facility are also critical to the long-term success and scale of the investment portfolio.

A preliminary deal flow identified through this survey established preliminary demand for social investment while also identifying a need for technical assistance to mitigate inclusive business implementation risks. A majority of both domestic and multinational companies confirmed their interest in and/or current engagement with the BoP and their potential need for financing, the need for relevant partnerships with key stakeholders that could support their outreach efforts with the BoP, and access to reliable technical assistance. Companies also provided examples of current activities with the BoP, their level of interest in bringing these to scale, and some of the critical obstacles and opportunities. From the overall sample of companies interviewed, more than 20% had sufficient interest to want to share additional information to be integrated into a preliminary pipeline for eventual consideration in an inclusive business fund.

As part of the framework of the overall feasibility study, the market scoping exercise has been conducted in order to determine the preliminary viable pipeline of BoP investment in Vietnam. Table 11 below provides a brief summary of the potential types of BoP investment opportunities that were identified through the private sector mapping process and are described in more detail in case studies throughout this study. Even though the information contained in this table and the case studies are preliminary and would require proper due diligence and further analysis, they demonstrate the kinds of companies and the types of business models that may represent an eventual pipeline of investments for the Inclusive Business Fund.

No	Company Name	Industry	Revenue (Million USD)	2010 Revenue Growth	Funding Needs	BoP related
1	InterFlour Vietnam	Agriculture	10-25	~30%	USD 1.5 million	InterFlour's products are mainly used by the poor
2	Nestlé Vietnam	Food & Beverage	10-25	~30%	USD 5 million	Nestlé's suppliers are farmers
3	Coca Cola Vietnam	Food & Beverage	50	~30%	USD 3 million	Coca Cola's distributors and users are the poor.
4	Phillips Electronics	Energy & Manufacturing	50	50%	USD 3 million	Philips' products are mostly used by the BoP
5	LinFox Logistics	Logistics	10-25	10%-15%	USD 500K	90% of LinFox employees are from the BoP
6	TMA	IT	18	10%-20%	USD 2 million	Some of TMA's projects are for mass population (Mobile Banking System, Education for Farmers)
7	Rang Dong JSC	Manufacturing	50	23%	USD 5 million	Manufactures lighting and vacuums. Buys some materials from BoP

V. Financing Inclusive Business

8	Dong A JSC	Manufacturing	USD 19M	11%	USD 6.5 million	Dong A's employees are from the BoP
9	Kim Hang Alumni Plastic JSC	Manufacturing	USD 18M	15%	USD 2 million	Kim Hang's distributors and customers are from the BoP
10	Kien Long bank	Banking & Finance	USD 19M	120%	USD 5.2 million	Kien Long Bank micro finance/credit products are for the BoP
11	FPT Elead	IT	USD 100M	30%	USD 10 million	FPT Elead aims to target low-income customers. A small part of their employees are from the BoP
12	Goldsun	Manufacturing	USD 18M	26%	USD 3 million	Goldsun's customers are from the BoP
13	Gentraco JSC	Agriculture, Forestry & Fishing	USD 23M	25%	USD 2 million	Gentraco's suppliers are farmers
14	Nha Be Garment	Manufacturing	USD 77M	17%	USD 10 million	NhaBe's employees are mainly from the BoP
15	Duc Viet	Food & Beverage	USD 7M	50%	USD 2 million	DucViet's suppliers and employees are from the BoP
16	ANTESCO	Fruits and Vegetables	USD 7M	~20%	USD 2.5 million	Employees and suppliers from BoP
				TOTAL	USD 63.2 million	
Source: SNV Private Sector Mapping: Vietnam						

Competition from the donor community and lack of awareness about the BoP opportunity are the greatest risks to the successful development of an Inclusive Business fund. While there has been significant progress toward reducing extreme poverty in Vietnam, the “near poor” still represent a significant majority of the population. Yet, awareness with regard to the opportunity the BoP presents for business development opportunities remain low. This could in turn affect the number and quality of inclusive business investments critical for a viable investment pipeline. At the same time, increased donor interest in the impact investing concept could be useful in increasing non-reimbursable contributions for the research and development and start-up phase of new BoP ventures, but at the same time could dilute investee interest in investment capital.

Based on the integrated assessment of fund manager perspectives, capital market analysis, pipeline viability, potential capital needs and returns, and degree of risk, there is credible but preliminary evidence to support the establishment of a social investment fund in Vietnam. While capital markets in Vietnam are still maturing by international standards, the demand for investment exceeds the supply of capital, especially when considering a new segment focused on developing inclusive business ventures. Furthermore, a majority of fund managers consider a BoP fund a viable opportunity for which there is potential to raise complementary investment to capitalize the fund.

Suggestions for an ADB co-financed Inclusive Business Fund

While Section III of this market scoping study presented a case for sectoral prioritization when considering the opportunities for BoP investment, the following criteria have been included to provide guidance on the strategic choices to be made when developing the fund's investment strategy:

This fund implies an innovative and new way of doing business in Vietnam, using private equity and debt capital to focus on Inclusive Business while fusing both financial and social returns, therefore the structural guidelines and investment strategies for the fund go above and beyond what might be considered traditional guidelines. In fact, J.P. Morgan suggests that this type of financing is actually a new type of emerging asset class with four distinct needs, which include: (i) a unique set of management skills; (ii) organizational structures which accommodate this skill set; (iii) cooperation with industry organizations, associations, and educational bodies; and, (iv) the adoption of a new set of benchmarks or assessment ratings⁵⁴. Thus, the following presents preliminary parameters for the fund design, as well as guidance on the strategic choices to be made when developing the fund's investment strategy, keeping in mind the unique needs of this type of investment.

Considering impact investing criteria, should the investment strategy be impact first, finance first, or a blend of both? When developing the investment strategy, the fund manager should establish the main driver of fund performance – are financial returns more important than social returns (and as such greater financial returns consider more modest social impacts), or can social returns be the driver with more modest financial gains. This decision significantly affects the types of business models, sector choices, deal size, and expected returns that the fund will have but will be critical in either demonstrating proof on concept that inclusive business models can be highly profitable or that inclusive business models can be highly impactful and provide scalable solutions for the low-income segment. Finding the right balance between both, and developing the instruments to monitor what the blended benefits and returns will be, are important factors to bear in mind.

Recommendation: Considering the need to demonstrate proof of concept within the ADB and sufficient returns to make the investment attractive, the investment strategy should be a “blended fund” (integrating “finance first” and “impact first” aspects) and set specific benchmarks for impact in order to ensure that the portfolio of investments can meet both financial and social expectations. These up-front targets should establish a commensurate and proportionate social return (in terms of affected livelihoods) that would differentiate the fund

⁵⁴ J.P. Morgan. (2010). Impact Investments: An emerging asset class. www.morganmarkets.com

Case Study 9: An Giang Fruit, Vegetable and Foodstuff JSC (AN-TESCO)

“Antesco will continue to actively support the cultivation process of farmers to ensure quality and productivity.”

Huynh Quang Dau, CEO, ANTESCO

ANTESCO is one of the leading companies in the frozen and canned vegetable and fruit sector in Vietnam. Annually, the company collects approximately 40,000 to 45,000 MTS of raw materials that are produced by local Vietnamese farmers considered to be low-income populations. ANTESCO is actively involved in the production of raw materials, providing seeds, materials, and technology to farmers, as well as making the commitment to buy their harvest at competitive prices.

BACKGROUND: Founded in 1976 in the An Giang province as a Vietnamese joint stock company focused on agro-material supply, by 1999 ANTESCO changed its primary focus to the production and export of frozen and canned tropical vegetables and fruits. The company has two ISO & HACCP certified frozen processing factories using European technology with a total annual capacity of more than 15,000 MTS located in the An Giang province and is currently opening a third frozen processing factory, which began construction in 2011 and assure production in 2015 with the projected production capacity of 10,000 MTS per year. The company exports its production to the EU (70%), USA (10%), Canada (5%), and Japan (2%) and in 2009, had approximately USD 7 million in export and domestic sales. The company currently has 700 employees working in An Giang province and at its representative office in Ho Chi Minh City.

BUSINESS MODEL: The increasing demand for frozen vegetable in the global market and the steady growth in business in recent years has lead ANTESCO to plan the construction of its 3rd factory which will apply Global GAP Standard as required by a number of export markets. The company aims to reach a production of 25,000 MTS per year, which means they will need approximately 125,000 MTS of raw materials per year.

Raw material inputs for these factories are agriculture products, including baby corns, pineapples, soya beans, mushrooms, mango, rambutan, and papaya, which are produced by local Vietnamese farmers in the An Giang province and Mekong Delta region. The company is considered an important player within the agricultural sector in these regions, supporting farmers through the supply of seeds, materials, technology and the commitment to buy their harvest at competitive prices. ANTESCO staff also accompanies the farmers throughout the production, maintaining periodic monitoring to ensure that farmers strictly follow the technical requirements of the company from seedling to harvesting. Additionally, local agents, usually local farmer households, collect crops and pay the farmers on behalf of the company, as well as pre-process the materials to reach the size and quality required by the company. These households receive a 0.05% higher price for the products delivered to ANTESCO. ANTESCO also plans to join forces with local authorities and local agricultural extension centers to provide and offer additional specific technical assistance not only to assure better crop management but also to mitigate the risk of farmers' breaching the contracts signed with the company.

ESTIMATED IMPACT: The new factory will contribute to meet increasing demands of the global market for high-quality frozen and canned food, while extending economic benefits to the company and improve well-being of local farmers. The company expects that the business model could earn 14% returns in approximately 5 years, while creating jobs for 500 employees from local area for the new factory, of which 80% of them would be part of low-income populations. Additionally, the company will also expand its production to include approximately 1,000 more local farmers.

FUNDING INTERESTS: The company is interested in ADB fund for the construction of the new factory. Currently, the company has invested in market research and clearing land for construction, which have been financed through the company's own resources. ANTESCO estimates the need of USD 2.5 million to finance the construction, procurement of machinery and equipments, and working capital (i.e. pay for raw materials and support to poor farmers).

from purely finance-first SME-focused investment funds or other investment funds focused on social enterprises. As such, IRR targets for inclusive business investments should be set at a minimum of 15% and concentrate primarily on inclusive business ventures for consumers (maximum 70% business models that provide value-added, livelihood enhancing goods and/or service to the BoP), 30% inclusive business that integrate the poor as suppliers and/or distributors (and as such having a direct impact on sustainable income streams for the BoP), and BoP as employees should be an essential component of both aforementioned business models in order to maximise the potential social impact. The ADB and the identified Fund Manager should redefine IRR and social expectations up front during the fund design stage.

Should the investment strategy concentrate on one or a few sectors in order to maximize efficiency or promote innovation through broad sectoral diversity? Given the perceived high transaction and management costs in conducting due diligence on inclusive business ventures, sector focus could lower transaction costs, improve expertise, improve deal flow, and expedite investment decisions. On the other hand, when trying to promote interest in a new business model and market segment, diversity may allow for broader reach into different BoP segments, wider outreach into different business sectors and actors, an opportunity for learning and innovation, and a stronger advocacy opportunity to promote adoption of this “emerging asset class” into the Vietnamese private equity marketplace.

Recommendation: The ADB should select a fund manager with broad sectoral and relevant BoP expertise in order to ensure that the initial portfolio is drawn from a wide array of sectors. Because inclusive business is still a fairly new concept in Vietnam, clusters of companies

within particular sectors that have a BoP focus may be insufficient to satisfy the conditions of the fund manager's investment strategy. Launching the first fund with a diversified sectoral approach can mitigate up-front risks and inform sector-specific investments at a later stage. Complementing sector diversity with an expanded geographic scope (i.e. including Cambodia, Laos and Thailand) may add sufficient diversification and opportunities to mitigate key risks.

Considering that different types of BoP business models provide stipulate different risks and returns, should the fund prioritize BoP business models or include prioritization in their selection criteria? Generally speaking, investments in business models that integrate the BoP as a consumer (when the product or service improves their livelihood) and especially in the provision of basic services tend to scale more rapidly, may offer earlier exits, and depending on the degree of the need, could offer significant returns. Business models that integrate the BoP as a supplier and/or distributor may generate significant benefits for the BoP population in terms of income (due to value addition from certification in agricultural production for example and increased market access, production, and volume). But because the investment may take longer to mature and/or scale, returns may take longer to materialize. Establishing business model prioritization and understanding would therefore be an essential criterion for the investment strategy.

Recommendation: Considering Vietnam's emphasis on low but highly productive labor costs, the large yet underserved domestic consumer market (especially the poor and near poor), and the population that depends on agricultural production or resides in rural areas, the investment strategy should integrate all three business models that focus on the BoP with the following breakdown: 60% BoP as consumers, 40% BoP as suppliers/distributors, and the majority of both models should integrate the BoP as employees.

Because the BoP marketplace does not only require adapted business models that have been proven in other market segments, an important consideration is to assess if the investment strategy should prioritize proven business models or allow for unproven, but innovative approaches that have the potential for competitive blended returns. Because the BoP marketplace is an underserved market that often requires new and innovative products and services that require marketing analysis (including focus groups and ethnographic research as proven, for example, by Brazilian firm, Data Popular⁵⁵) and consumer research, limiting investments to proven and adapted models may reduce the potential for discovering scalable solutions with profitable returns. On the other hand, investing too much time and effort in analyzing unproven but creative business models for the BoP, could adversely delay investment decisions, increase due diligence costs, and negatively impact financial returns.

⁵⁵ For more information on marketing analysis at the BoP, please consult www.datapopular.com.br

Recommendation: The fund manager should integrate an ex-ante impact assessment (to be completed May 2012) framework that considers the potential for business model innovation within its risk analysis and mitigate these risks through other considerations if possible.

Unlike traditional SMEs or other start-up ventures that rely on commercial lending or private capital, BoP business models may require different types of capital at different stages of development. Many BoP ventures are often conceived with patient capital (donor or private funding, a foundation grant, a government incentive) and only once proven are they able to attract venture capital. As such, many BoP ventures never come to fruition or their scalability is severely limited by the lack of investment. On the other hand, BoP ventures that have been partially “incubated” by donors/NGOs may be investment ready with manageable risks, a proven concept, and on the verge of scalability. As such, in developing the investment strategy, the fund manager may consider the ideal stage for investment in a BoP venture and if strategic alliances with critical stakeholders from the donor community and civil society would be appropriate or if venture incubation (often associated with biotech or information technology/internet ventures) would be an element for consideration within the structure of the fund.

Recommendation: The fund manager should partner with local organisations (NGOs) and other funders (grant providers) to 1) ensure pre- and post-investment technical assistance can be provided; 2) to secure an adequate and pre-screened deal flow; 3) to secure patient capital (grants) from non-investors that can help reduce risks, improve investee management capacity, and strengthen the business model. Ensuring these partnerships early in the fund manager’s development process can ensure rapid start-up and contribute to overall risk mitigation in the fund’s investment portfolio.

Depending on the type of BoP venture, some form of technical assistance, often beyond the scope of what is covered through a typical fund management fee, is used to mitigate risks, build BoP capacity and/or organization, and improve product design and marketing strategies. While in fund design in the BoP space technical assistance is often contemplated but only considered as an afterthought once investment decisions have been made, an important consideration for the design of this fund is the development of an accompanying Technical Assistance (TA) facility. This TA facility could accompany the fund from its inception in order to assure a consistent standard of BoP venture development support from a pre-qualified group of TA providers. Alternatively, the fund manager could approach local or international stakeholders, who may count on existing donor support, for these services in lieu of a “sister” TA facility. Furthermore, in the absence of a sufficient pipeline of quality deals, a TA facility may also be charged with venture origination and incubation services that can nurture and support a BoP venture to meet the fund’s established investment criteria.

Recommendation: The ADB could partner with or contribute to the establishment of a TA Facility/Inclusive Business incubator that could be established to: 1) originate deals consistent

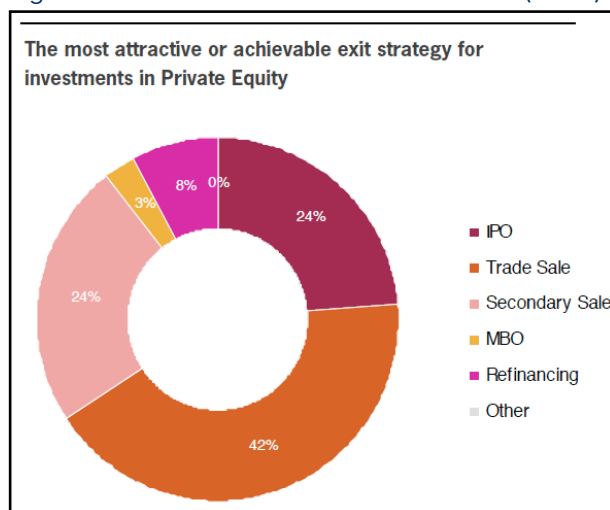
with the fund's investment strategy; 2) prepare investees for investment; 3) mitigate post-investment risks and accelerate investee business development and growth (both business growth and potential for impact), 4) measure and evaluate results.

Inclusive Business Fund Design Parameters

Due diligence in Vietnam highlighted the profound impact which the economic slowdown of 2009-2010 has had on the business culture and financing landscape. Given the depth of the Vietnamese economy compared to Cambodia, the size of the population and extent to which domestic demand for basic goods and services is under-served or entirely unattended in many parts of the country, there is scope to deploy up to USD 50m in private Vietnamese companies in the sectors mentioned earlier in the report. From the perspective of risk diversification at the IB Fund level, it is fortuitous that openness to equity is increasing, given that transactions in Cambodia and, possibly Laos, will be almost entirely debt-based. The key features of suggested Fund design for Vietnam follow below bearing in mind that the overall recommendation is to develop a Mekong Fund with anchor investments in Vietnam:

- Fund Allocation to Vietnam:** The IB Fund will be able to consider a broad range of transaction sizes in Vietnam—roughly between \$1m and \$10m—which presents both an opportunity and a challenge. On the one hand, sound portfolio management across all of the IB Fund's target countries would suggest several larger transactions of \$5m-\$10m should be made as a counterbalance to smaller, riskier deals in other Mekong countries. That said, the acute need for financing and partnership in the \$1m-\$5m range should not be overlooked. Clearly, the IB Fund manager should focus on the most financially viable and thematically-relevant transactions, so to some extent, the ultimate average deal size in the Vietnamese portfolio should only be 'pre-engineered' up to a point. Caution will be required, however, to ensure that the portfolio does not become unwieldy with too many smaller transactions all requiring extensive engagement from the manager.

Figure 20. Most attractive exits in Vietnam (2011)



Source: Grant Thornton, 2011.

Transaction Profiles: The range of transaction types open to the IB Fund in Vietnam will be far greater than in Cambodia. Although Vietnam has never really had an MBO culture per se given its relatively recent free-market orientation, delistings may generate MBO-style transactions or management buy-ins (MBIs), where existing management teams are replaced. The lion's share of investments in Vietnam will be expansion plays and, depending on the sector, it probably makes sense to take majority positions. If majority stakes are not possible, strong

rights must be built into shareholders' agreements, with contractual access to cash flows and vetoes over key decisions at the board level. Smaller transactions in Vietnam are more likely to involve debt than equity. As in Cambodia, start-ups, restructurings and rescues should be carefully avoided.

- **Risk Mitigation and Currency Issues:** Vietnam is struggling with the twin challenges of currency depreciation and rapid dollarisation. Currency hedging, if even available to the IB Fund, would be extremely expensive. Denominating the IB Fund in local currency would only amplify the currency-related impact for investors. The solution, which is predicated on the identification of a very solid fund management team, lies in several areas:
 - **Sound cash management:** The IB Fund manager must practice 'just in time' cash management, drawing down on committed capital to the IB Fund on an as-needed basis;
 - **Contractual rights to cash flows:** Quasi-equity and mezzanine transactions must structure contractual rights to cash flows that begin as soon after deployment as possible. As cash flows back to the IB Fund, it must be converted into hard currency as soon as possible;
 - **Portfolio diversification:** Clearly, one of the central currency-risk mitigants will be investing in a diverse portfolio which balances export-orientated companies which earn foreign currency with domestic companies;
 - **Tranched disbursements and follow-on investments:** Where appropriate, disbursements should be made in tranches to investee companies. Additionally, some portfolio companies will hopefully require follow-on investment later in the investment period, which helps to space deployment periods.

As tighter monetary policy has helped to arrest the slide of the Vietnamese dong in 2012, currency depreciation will be a very real risk factor over the life of the IB Fund. This partly explains the rationale for including other Mekong countries in the IB Fund, but the importance of careful management of the Vietnamese portfolio cannot be overstated.

- **Exits:** It will be a number of years before confidence in the Hanoi and Ho Chi Minh Stock Exchanges is sufficient to support listings as a viable exit strategy from Vietnamese transactions. That said, the divestment period of the IB Fund will not commence before 2016 at the earliest by which time much more stringent listing requirements and an improvement in the quality of companies on the bourses could make listing an option. Meanwhile, in addition to trade sales, management buy-backs and sales to strategic investors, two new exit avenues have recently emerged. First, a secondaries market has begun to develop in the \$5m-\$7m transaction range. Many fund managers see secondaries as a way of de-risking exposure to companies that still have significant growth potential and are moving up the value curve. Second, partial sell-downs are occurring, enabling investors to split their exposure between purchases from other shareholders and new share issues (see Figure 20).

The demographics of Vietnam have fuelled interest from regional buyers, keen to get a foot-hold into the market. Beginning with minority stakes, trade buyers from the region have, in some cases, expanded their positions as they become more comfortable with their investments. In addition, according to several local fund managers, Deutsche Bank, Morgan Stanley and Citibank are all actively searching for mergers and acquisitions on behalf of operating clients.

Good exits will have to be engineered in Vietnam, principally through value addition and sound management. Prospective investors' key complaints about Vietnamese businesses are that they are poorly-governed, poorly-managed, opaque and "short-termist" in outlook. In contrast, well-run businesses are few and far between because historically investors have not spent the time and resources needed to build relationships and create value.

Preliminary Inclusive Business Fund Risks

As with any investment fund, operational risks may be present during the inception and life of the fund. Unique and important risks applicable to this fund are outlined below:

Lack of a Viable Pipeline of Inclusive Business Investments: Despite the potential opportunity identified in this report, market perceptions of the BoP and limited understanding of the size of the opportunity may affect the development of a viable pipeline for inclusive business ventures;

Poor Fund Performance and Failure to Close: The Fund Manager may underestimate the complexity of BoP fund selection criteria and related contextual considerations and overestimate the potential returns, select unviable business ventures, or fail to close the total financing needed for the fund;

Minimal or Non-Existent Access to Technical Assistance: The failure to secure a standardized source of technical assistance could affect the ability of the investees to mitigate risks and improve opportunities for scale.

Competition with Other BoP-related Venture Funds: As the impact investment market matures, regional or global impact investment funds that may be better able to hedge risks in a global marketplace and leverage experiences from more mature markets, may offer more competitively prices investments in Vietnam.

Insufficient Consideration of Social Accountability: Given the profile of the fund (one of the first of its kind in Vietnam) and the return expectations from the anchor investor, more focus may be placed on competitive financial returns at the cost of social returns. Insufficient at-

tention on developing acceptable social reporting standard (i.e. GIIIRS) may cause the fund's motives to be questioned.

Insufficient Governance and Financial Transparency. Only few of the companies in Vietnam apply international standard practices in corporate governance. Contradictory interests between major shareholders, minor shareholders and management team are still common. A lack of financial disclosure in companies is also a challenge as many private companies have yet to implement financial reports as regulated.

Competition with Patient Capital: The donor community and related stakeholders may prefer to stimulate BoP ventures with non-reimbursable grants that would invalidate, in part, the long-term viability of the Inclusive Business fund.

Conclusion

This section has provided a credible, yet preliminary, evidence to support the establishment of an inclusive business investment fund in Vietnam. The fund managers and companies interviewed as part of this study, in addition to the capital market analysis all provide evidence that suggests the viability of such a fund in Vietnam. Challenges for the fund will include finding appropriate balance between financial and social returns, sector prioritization, risk and innovation, and technical assistance integration, as well as other risks and obstacles outlined above.

Case Study 10: TMA Solutions

"Today only 20% of the population is currently part of the official banking system. People living in the rural areas can therefore access these services to sell and pay commodities, children's education, etc. Allowing portability of savings and flexibility in business transaction through mobile transactions is essential to encourage economic growth among BoP as savings are improved with less occurrence of theft or gambling.

Hong Tran, Vice President Corporate Development, TMA Solutions

Traditionally providing offshore software development services, TMA Solutions is interested in starting a business model with low-income populations as consumers. By teaming up with government and mobile service providers, to create mobile banking services, the company can help bring access to financial services to a large population that had limited or no service.

BACKGROUND: TMA Solutions (TMA) was established in 1997 to provide offshore software development services to leading companies worldwide. Working with world leading information technology and telecommunications companies such as Nortel, Avaya, Alcatel-Lucent, IBM, Oracle, Juniper Networks, Flextronics, Genband, NTT, Toshiba, NEC, Andrew, and TELUS, the Company's areas of expertise including: (i) software outsourcing services, (60% of their business); (ii) mobile solutions (30%); (iii) training (5%); (iv) research and development (5%). The company registered USD 18 million in sales in 2009, and expects a 10 to 20% growth in revenue for 2010. TMA Solutions has 900 employees.

BUSINESS MODEL: TMA Solutions is currently in the planning stages in order to begin a business model that includes low-income populations. The company realizes that allowing portability of savings and flexibility in business transactions is critical to drive economic growth in the BoP. The first model that the company is considering would entail an efficient mobile application for the Vietnamese domestic market. Currently, only 20% of Vietnamese are part of the formal banking system and those living in rural areas have no/limited access to banks, therefore a mobile banking system in which people living in the rural areas can access these services to sell and pay commodities, children's education, among others, is necessary. The second model, which includes practical education (market prices, basic knowledge, health etc) for rural farmers through mobile technology, would be applied within the Vietnamese domestic market. The execution of this project will require collaboration with government agencies, as well as mobile phone providers and TMA would provide the infrastructure for system model.

ESTIMATED IMPACT: TMA expects that farmers and rural populations, with limited and/or no access to banking services would be the beneficiary population of this business model. Due to the fact that the company is still in the early planning stages of these projects, it was unable to quantify returns for the firm.

FUNDING INTERESTS: The company is currently most interested in concentrating on a Mobile Banking System to extend banking access for Vietnamese and is interested in USD 1-2 million from the ADB fund.



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There is tremendous excitement today about “impact investing” in inclusive businesses that benefit the poor by engaging them as customers and suppliers....In 2011, the Overseas Private Investment Corporation (OPIC) – the US government’s development finance institution -- attracted more than 80 applicants when they issues a call for Impact Investment Proposals. OPIC committed USD 285 million to the first six equity funds, with the aim of mobilizing up to USD 875 million for investment. In November 2011, the Indian Government announced a USD 1 billion India Inclusive Innovation Fund; more than 80 percent of the capital is expected to be raised form the private sector. And in December 2011, the Group of 20 (G20) and International Finance Corporation (IFC) launched the Inclusive Business Challenge to find innovative, scalable and commercially viable inclusive businesses to be showcased at the G20 summit of world leaders in Mexico City in June 2012. We believe there are good reasons for this excitement. Inclusive businesses promise effective models for generating social benefits that can become sustainable without relying on donations, and are scalable through the investment of return-seeking capital.

From Blueprint to Scale: The Case for Philanthropy in Impact Investing. The Monitor Group April, 2012.

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One of the principle aims of the survey was also to gauge companies' interest in financing for a business model that incorporates low-income populations. This section describes companies' past and current relationships with financing institutions, their interest in participating in an ADB fund for inclusive BoP ventures, and any specific plans companies might have with regard to BoP venture financing. In this regard, to fully understand companies' interests and restrictions related to financing, the firms were first asked about financing used in the past and present. In general, the companies were open to sharing this information, and 75 of out 76 companies were willing to discuss historical financing.

A significant majority of companies interviewed in Vietnam incorporate the poor within their value chain for economic benefit. The executives interviewed overwhelmingly identified economic benefits for their company as a motive for incorporating the poor: 83% of all companies identified this as a motive. Some companies considered the BoP primarily as another consumer market segment while others felt economic benefits might be gained from leveraging unskilled labour or integrating the BoP populations as suppliers of raw materials. Furthermore, 39% of the firms said that they focus on the incorporation of low-income populations because it is part of the companies' mission statement and 34% considered working with the poor as an entry strategy into this new market.

Mitigating risks was also seen as a critical reason to engage the BoP for Vietnamese Companies. Minimizing companies' risks within their business model, whether within their supply chain, political risks, or risks related to portfolio diversification; and CSR initiatives, or the company's image, were the second most popular motives for including low-income populations among the companies; these motives were identified by 41% of the companies. 14% of the sample also stated that government incentives (subsidies, public policies) were motives for working with the poor.

Though considered an important element to successful implementation of inclusive business models, almost half of the companies had not leveraged partnerships to enhance their engagement with the BoP. The Next Billions: Unleashing Business Potential in Untapped Markets⁵⁶, indicates that success with poor segments of the market, when companies choose to focus on new growth opportunities, often requires collaboration with other companies or stakeholders. With this in mind, companies were asked about their current alliances for implementing projects with low-income populations, whether with the public sector, cooperatives or producer associations, NGOs, other companies, universities, or financial institutions. Their answers are described below:

- Half of the companies interviewed (49%) did not identify any current alliances for incorporating the poor, yet the other half did identify alliances that aid the implementation of their business model.

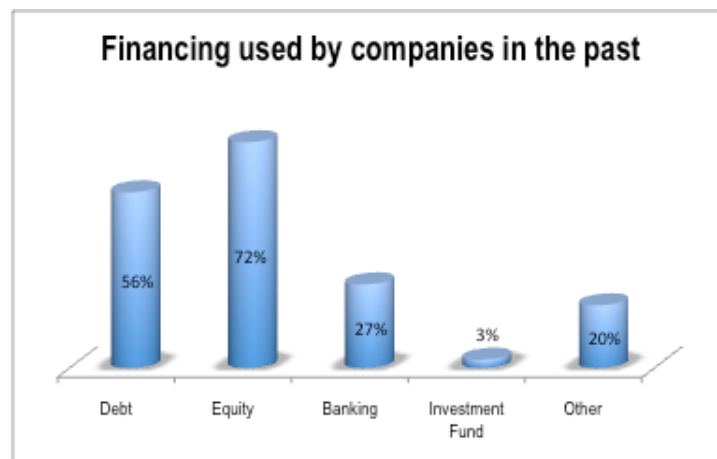
⁵⁶ World Economic Forum. (2009). The Next Billions: Unleashing Business Potential in Untapped Markets.

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- The companies identified having the highest number of alliances with the public sector (30% of companies), followed by non-profit organizations (17%), producer associations or cooperatives (12%), other international organizations (12%), other private firms (11%), and academic institutions (7%).
- Although investment funds (debt or equity) were identified as a possible option, none of the companies currently have an alliance with an investment fund.

Two-thirds of interviewed companies have received some form of capital investment in the past. Of these companies, over two-thirds of the firms identified having used equity in the past, a little over half of the companies identified using debt, and about one-fourth identified having used banking services. As per Figure 21, about one-fifth identified having used “other” financial services, and only 3% identified having participated in an investment fund. Companies that identified using “other” financial services clarified that this included: loans from the ADB; bank loans at lower than the market rate due to support from government policies; grants; and self funding.

Figure 21. Historical Financing Used By Companies



Source: SNV Private Sector Mapping: Vietnam

More than 70% of interviewed firms had some source of financing for their business models. When asked about current financing opportunities⁵⁷, firms identified that they did indeed have financing options. In fact, only 29% of firms said they did not have a source of financing/investment to support a BoP business model (within or outside of the company), while 71% of companies identified having current sources of financing. These sources included: funding and grants from NGOs and multilateral organizations, debt, equity, internal financing, and in the case of some multinational firms, financing from global headquarters.

⁵⁷ 72 out of the 76 firms interviewed were willing to talk about their current financing options.

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More than 90% of interviewed firms expressed a preliminary interest in financing to develop BoP-focused business models. The companies participating in the study were also asked about their specific interest in financing designed to support business models that include low-income populations (specifically with regards to the possibility of an ADB fund with these characteristics); their answers were overwhelmingly positive. Of the 76 companies that participated in the study, 75 companies were willing to discuss their interest or disinterest in the fund: 93% of these companies stated their interest in financing and only 7% displayed their disinterest in financing. Although, some of the companies did further specify that they are not willing to pay high interest rates, nor wish to get caught up a long and complicated process of participating in the fund.

Interested firms expressed financing needs up to USD 10 million, terms on average for 6 years, a preferred interest in debt, and a primary focus on capital investments and working capital. The following further outlines, what the 93% of companies that were indeed interested in financing, expressed with regards to the terms of this financing:

- 73% were able to give an estimate of how much financing their company would require. These estimates ranged from USD 40,000 to USD 10 million, with the average quantity desired being approximately USD 3.7 million.
- Forty-nine of these companies were willing to define what type of financing they would be interested in: 76% identified debt financing as most desirable, 16% said that would be interested in exploring debt and/or equity, and 8% of these firms stated that equity would be most desirable.
- Fifty of the companies were also able to define the time frame in which they would require the financing, which ranged from 9 months for a USD 600,000 loan to 20 years for a USD 5 million loan. The average time frame defined by these firms was approximately 6 years (72 months).
- Fifty-eight firms were also willing to provide further details about what type of project they are looking to finance. Companies were generally most interested in investing in: infrastructure and machinery, working capital, strengthening distribution channels, research and development for new products, strengthening production capabilities via low-income producers, or training for low-income employees.

In terms of returns on the potential investment, select interviewed firms projected 32% revenue growth on average. Little over half of all the companies interviewed were able to determine what the expected return would be from the business model that includes low-income populations; this is most likely due to the fact that many of these projects are in their initial stages, or are still within the planning stages of the company. As would be expected, more companies were able to discuss their general expectations for the company's revenue in 2011. On average, the companies⁵⁸ expected a 32% growth on revenue for 2011. Addi-

⁵⁸ This calculation is based on 59 companies that were willing to give percent estimations for revenue expectations in 2011.

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tionally, Table 12 below highlights five companies with outstanding revenue growth expectations.

Table 12. Revenue Growth Estimates of Select BoP-focused Business Models

Expected Revenue Growth 2011	Company	Low-income Population Initiative	
300%	Kangaroo Group	Distributors Consumers	Focusing on developing brands through expanding consumer groups. Currently launching products for middle-income groups and interested in moving into rural or low-income segments soon.
50%	Duc Viet Food Joint Stock Company	Distributors Consumers Employees	Distributes fresh meat to rural market segments via clean kiosks managed by low-income people. Assists local farmers in pig production in order to supply company factory.
120%	Kien Long Bank	Consumers	Serves low-income populations as part of the Second Rural Finance Project implemented by the International Development Association and the Vietnam national government.
100%	Australis Aquaculture Vietnam Ltd	Producers Employees	Integrated supply chain development through (i) strengthening primary employment opportunities; (ii) outsourcing the fish farming to local communities.
150%	Truss-Rite International Pty Ltd	Distributors Consumers Employees	Trains employees on technical aspects of construction onsite. Builds high-quality, durable, low-cost housing.

Source: SNV Private Sector Mapping: Vietnam

Key Challenges and Risks of Inclusive Business Development in Vietnam

Incorporating the poor into a company's business with new and often untraditional business models can present a number of challenges. When these challenges are identified, companies can begin to overcome them by going beyond traditional business models and exploring new innovations. The following section discusses the obstacles and risks identified by the firms interviewed. When the companies interviewed were asked about obstacles encountered when implementing or considering the implementation of an inclusive business model, 73 of the 76 companies in the sample were able to identify whether or not they had encountered obstacles. Of these 73 companies, the findings were as follows:

The companies held mixed and varied views about the obstacles to working with the BoP. Over a third of the companies did not identify any obstacles (38%), while 32% of companies defined "other" obstacles. These "other" obstacles included, but were not limited to: lack of financing; competition with other brands – whether from smaller, more local businesses or from foreign companies; high distribution costs; difficulty in maintaining commitment from local farmers that receive support from the company; low quality of raw-materials produced; government red tape; and, the lack of a skilled and dedicated work force.

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Additionally, less than 20% of companies felt there were associated costs, insufficient information, or logistical barriers that hindered inclusive business development. The initial costs associated with engaging poor populations was identified as an obstacle by 16% of firms while 11% felt there was a lack of appropriate channels for distributing their goods/services. At the same time, only 10% of firms interviewed felt there was a lack of information and knowledge about low-income populations, a lack of competition and organizational capacity among producers, and a lack of economies of scale. Finally, the need to introduce organizational and logistic innovations into the firm was mentioned by 5% of the firms and a lack of access to low cost technology necessary for entering this market was mentioned by 4% of firms. Surprisingly, no company within the sample expressed ‘lack of interest’ in working with the low-income population as a barrier to inclusive business development. While these numbers reflect a low “barrier to entry,” it also reflects that business in Vietnam has yet to fully explore the full inclusive business opportunities before them -- given that these often have larger up-front obstacles and require more substantial front-loaded investment.

Although the companies identified many risks, which varied according to sectors and how the companies incorporated the poor into their business model, a few reoccurring themes were presented across the company sample. The most salient risks mentioned are discussed below.

Companies identified a low-skilled and uncommitted workforce as a critical risk when engaging the BoP as employees within their value chain -- often with significant costs to the company. Many companies, especially those already working with the poor as employees within their business, identified an unskilled and transient labor force as a principle risk. In recruiting laborers for unskilled work, companies generally hire staff with lower education levels, which are often from other provinces. These employees tend to have less commitment and longevity within the workplace, often opting for a higher paying job after receiving training from the company. As a result, companies are continuously investing time and resources in hiring and training processes.

When engaging the BoP as suppliers, especially in agricultural contexts, companies identified the lack of supplier loyalty as a critical risk. The difficulty of maintaining commitment from local farmers that receive support from the company was seen as disruptive to ensuring adequate supply of raw materials. Companies work with small and often informal suppliers that receive support from the company in the form of seeds, technology, and education. In return for this support, the farmers are committed to sell their production to the company. One company, An Giang Fruit – Vegetables and Foodstuff Joint stock Company (ANTESCO), identified that 10% of farmers that receive this support do not keep their promise of selling raw materials to the company. As a result, these companies are left with a dearth of raw materials and insufficient return on their investment in the producers.

Companies reported that there was variable quality in the supply of raw materials from the BoP unless the companies themselves provided adequate technical assis-

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tance. There is difficulty in maintaining a certain level of quality standards among producers with regard to raw material production, especially among companies that either did not invest sufficiently in technical assistance with BoP producers, or did not tailor the technical assistance specifically to local BoP needs. Collaboration efforts between the company and producers, often with the support of a technical assistance provider or NGO can eventually help to mitigate this risk. In fact, many companies said that technical assistance efforts were being implemented in order to mitigate said risk.

Lack of BoP consumer awareness about products and services, even for those specifically tailored to their needs, was seen as an ongoing risk to scaling up ventures with BoP consumers. The companies interviewed identified that there was a need to change or influence the perception of the poor with regard to their products. These companies had designed products that they viewed as necessary or useful within the low-income segment of the market, but there was a risk that the poor would not fully capture the advantage of these products. For example, Phillips Electronics Vietnam Ltd. (Phillips) struggled to sell energy saving light bulbs to low-income communities who did not understand the long-term savings afforded to them that would offset the higher up-front cost of the bulbs compared to a normal light bulb.

Not surprisingly, some companies identified their competition within the BoP market segment as a risk. Whether because of superior innovation with regard to products for this market segment, or simply the offering of similar products at lower prices (sometimes at equal or lower quality), competition can quickly become a risk to the companies' business. Goldsun Household Appliances JSC, identified the challenge of competing with small-scale producers of kitchenware whose products sold more because of lower pricing despite inferior quality. The company then had to diversify its product line and offer lower priced products in order to compete with smaller companies.

Implications for the Inclusive Business Strategy in Vietnam

Given company perspectives and the complexity of the poverty context in Vietnam, there are important implications in defining an inclusive business strategy in Vietnam. Based on previously understood enabling parameters for inclusive business development, the strategic implications could be as follows:

- Poverty statistics reflect trends in underemployment, underserved populations in terms of access to goods and services, and unskilled labor (especially in the rural context) -- all of which reflect unique and profitable opportunities for inclusion and inclusive business;
- Rising inequity, caused in part by the growing disparities between urban, rural and migrant populations, is of sufficient concern that it could warrant further government policy incentives to spur market-based solutions and inclusive business development;
- Private companies recognized numerous strategic and operational challenges and opportunities that could be addressed through inclusive business models; however, there

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are barriers to entry that need to be addressed by providing policy incentives, capital, and technical assistance;

- Further awareness needs to be created regarding the benefits and potential pitfalls of inclusive business especially among private companies to overcome perceived, and often unfounded risks identified;
- Additional understanding of consumer preferences and needs of the BoP would enhance the ability of companies to develop good and services that cater specifically to BoP consumer needs;
- Companies need to strengthen partnerships with non-traditional actors such as NGOs who may offer unique insights into the BoP and also co-create innovative solutions to some of the critical opportunities and/or needs identified by the companies (as barriers to entry in trying to engage with the BoP).

What is clear is that apart from economic poverty, a large percentage of Vietnam's population are not receiving adequate quality basic services including education, health services and infrastructure for them to become well integrated into the mainstream economy. This continues to be both a challenge and opportunity for inclusive growth in Vietnam.

Recommendations for Technical Assistance: An Inclusive Business Accelerator

As noted from a significant majority of company responses, pre- and post-investment risk mitigation through strategy consulting and technical assistance is often cited as a prerequisite to the effective development of a sustainable inclusive business. As such, beyond the demonstrated viability of an inclusive business private equity fund discussed in this market scoping exercise, a USD 5-6 million technical assistance facility (an "inclusive business accelerator") should be developed to complement the investment fund to a) reduce investment risks in inclusive business; b) broker inclusive business investments and partnerships; c) facilitate government actions to support inclusive business, and d) promote poverty reduction and inclusive growth impact reporting and networking on BoP-related issues. This facility should be made available during the life of the inclusive business private equity fund(s).

TA facilities in support of private equity funds in emerging markets specifically in the context of market-based solutions have increased in relevance in recent years. A few notable and recent examples include:

African Agriculture Fund (AAF) Technical Assistance Facility (TAF): TAF was created to support the African Agriculture Fund (AAF), a USD 300 million private equity fund, managed by Phatisa, to address food security challenges across the African continent. The purpose of this facility is to provide technical assistance to agri and food related businesses that receive investment through the AAF, allowing them to create new opportunities for small-holder farmers, farmer business groups and rural communities. The TAF is funded primarily by the European Commission and overseen by the International Fund for Agricultural Development (IFAD) and co-sponsored by the Italian Development Cooperation, United Nations In-

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dustrial Development Organisation (UNIDO) and the Alliance for a Green Revolution in Africa (AGRA). TechnoServe was appointed in October 2011 by IFAD to manage this facility. TechnoServe is a US headquartered not-for-profit organisation with over 40 years of experience catalysing private-sector led inclusive economic growth in Africa.

Green for Growth Fund and Technical Assistance Facility for Southeastern Europe: The mission of the Green for Growth Fund, Southeast Europe is to contribute, in the form of a public private partnership with a layered risk/return structure, to enhancing energy efficiency and fostering renewable energies in the Southeast Europe region including Turkey. This mission is reached predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct financing. The Technical Assistance Facility of the Green for Growth Fund, Southeast Europe supports the Fund in achieving its goal of enhancing energy efficiency and reducing CO2 emissions through support of the renewable energy sector. It operates hand in hand with the GGF. By combining investments with targeted technical assistance, the GGF strives to build up capacities within its partner institutions that ensure the long-term effectiveness of its investments. Projects financed by the Technical Assistance Facility include:

- Capacity building and training to GGF's partner institutions (both financial institutions and non-financial institutions).
- Awareness raising and market enabling activities.
- Validation and monitoring of energy savings and CO2 emission reductions.

CP3: the Climate Public Private Partnership Fund and TA Facility: The CP3 Fund is a proposed public-private fund to catalyse low carbon investments in developing countries. The UK Department for International Development (DFID) is leading the development of CP3, together with the Asian Development Bank (ADB) and the IFC. CP3 aims to unlock several market failures that currently prevent private sector investment in low carbon infrastructure in developing countries. It aims to address the lack of capital by providing early stage equity and the lack of viable low carbon projects through management support, technical assistance and capacity building. It aims to address the high risk perception of the sector through a strong partnership with MDBs to provide risk-mitigation instruments and to capitalise on their local knowledge. The above package would also help bring in debt providers and, therefore, result in a high leverage of public-private Funds. CP3 would also include a Technical Assistance (TA) and project development facility, to help build the capacity on the ground and to create a pipeline of investable projects.

Taking into consideration some of these experiences, and following a similar logic, the IB Accelerator can be structured in the following manner:

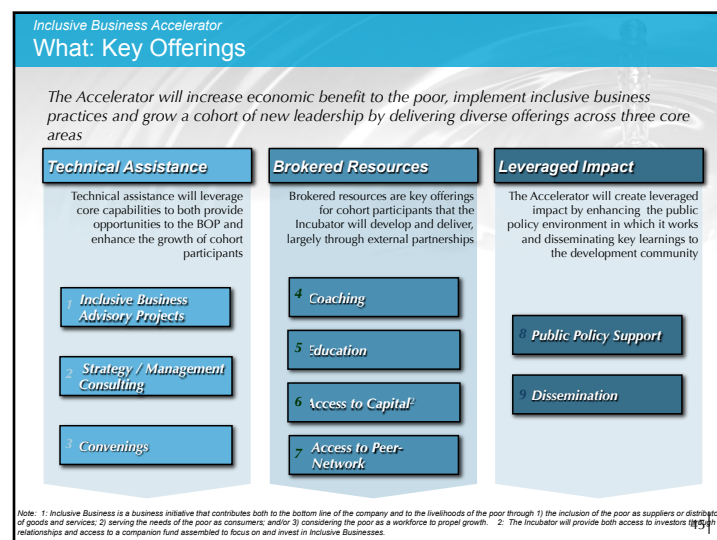
Objectives, Outcomes and Outputs of the IB Accelerator: The purpose of the accelerator is to assure that inclusive business ventures are sustainable and impactful by reducing pre- and post-investment risk and ensuring systemic and coordinated poverty reduction impact of pri-

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vate sector investments at the base of the pyramid. This will in turn contribute to the proof of concept in specific and diverse Asian markets and contexts in order to drive inclusive growth and commensurate poverty reduction (see Figure 22). The core objectives of the accelerator are to:

- **Reduce investment risks in inclusive business:** Companies will be provided with tailor-made pre- and post-investment strategy consulting and technical assistance focused on core business solutions that can address supply chain issues, labor productivity and retention challenges, innovative marketing approaches for new customer segments, maximizing a company's hidden assets to generate additional value, and/or developing new distribution channels to accelerate growth. These solutions are always engineered to maximize systemic impact on the low-income segment in target areas of the company's value chain in such a way to assure sustainable and viable shared value creation.
- **Broker BoP investments and partnerships:** The accelerator will broker opportunities for strategic partnerships and patient capital investments to overcome identified business and context-related challenges or take advantage of unique opportunities during the inclusive business design and/or development process. Developing local alliances with third-party organizations who have localized expertise, especially as it pertains to working with the BoP, is particularly important in order to provide unique insights into what is most appropriate in these environments.
- **Facilitate government actions and advocacy to support inclusive business development:** Where appropriate, the accelerator may be used to advocate for public policy incentives that can contribute to an enabling environment for inclusive business, mitigate specific infrastructure, technology transfer, and/or local financing challenges and/or take advantage of cross-sectoral opportunities. It may also leverage impact by disseminating key learnings to public institutions, academic/research centers, other businesses, and the development community.

Figure 22. Inclusive Business Accelerator Key Features



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- Promote inclusive growth impact reporting and networking with other BoP relevant initiatives in Asia and worldwide for further advocacy and mutual learning. This will include a) measuring, monitoring and reporting on poverty and inclusive growth impacts and preparing ex-ante impact assessments; b) connecting to peer networks in order to exchange knowledge, lessons learned, best practices, contacts, ideas; c) facilitating the replication of IB models and IB investment funds to other countries in close cooperation with other agencies and partners; and, d) disseminating knowledge, results, lessons learned, and critical success factors to key stakeholders, especially the company investees and BoP communities.

While the proposed Accelerator will cooperate with the Fund Manager of the Inclusive Business PE Fund, it will provide independent due diligence advice and poverty impact guidance and be managed by a third party (other than the fund manager or fund manager affiliate) selected competitively in accordance with ADB consulting requirements. The Accelerator will be designed to serve the interests of the different funds as they are created by the ADB -- as such, given the planned phased implementation of the investment funds in the region by the ADB, the Accelerator will focus on Vietnam and the Mekong as its first order of business once it is established.

Conclusion

Based on the surveys conducted with some of Vietnam's major companies, there is a keen interest in BoP engagement and a willingness to explore the potential of inclusive growth. This motivation, however, is qualified by the recognition that past and current experiences of companies in working with the poor have not always yielded positive results and, therefore, future efforts need to include specific measures to mitigate potential problem areas. Integrating up-front risk-mitigation measures such as a Technical Assistance Facility, preemptive identification of critical success factors and barriers to entry, success and/or scale, and ex-ante impact assessment tools will help assure the effective implementation of the Inclusive Business PE Fund in accordance with social and financial return expectations.



The data and information gathered and analyzed for this report demonstrates that an Inclusive Business Private Equity Fund is highly feasible due to the following major factors:

- the speed and diversity with which Vietnam's economy is growing indicates a commensurate need for labor, suppliers and consumers that the BoP can fulfill;
- the culture of inclusion is already in practice among business leaders in Vietnam providing a foundation for leveraging inclusive business actions among their peers. Moreover, private sector enterprises are forthcoming with specific investment opportunities for new inclusive business ventures and would demand loans and equity
- the capital market has adequate conditions to establish and run an Inclusive Business Fund that generates attractive social and financial returns; it would need however an anchor investor like the ADB;

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- Vietnam's proactive economic reforms lend themselves to an impact investment fund that can foster a culture of inclusion as a standard business practice. Furthermore, because the government and development partners support the concepts of inclusive business and market based solutions, this initiative can also be seen as an opportunity to upscale previous efforts (like M4P and GCF) and strengthen the interface between private sector development and poverty reduction.

Although, at this time, social inclusion is viewed by businesses more as a byproduct of fulfilling their own needs for workers, suppliers, new markets and distributors, the openness to the concept of engaging with the BoP more purposefully to also address some of the poor's critical needs in addition to their own, indicates positive potential for inclusive business development. An IB PE Fund that can ease the transition from traditional bottom-line business to socially inclusive business is an important head start into a new paradigm for a sustainable future.

More specific conclusions regarding the context for inclusive business in Vietnam are presented below.

Enabling Environment

Agriculture and manufacturing provide the greatest opportunities for inclusive business in Vietnam. Although the labor demand for manufacturing is anticipated to grow in the future, social inclusion strategies such as integration into existing value chains, niche-market product development, and value-added product development will have a much wider impact as this sector employs more than double the number workers in the manufacturing industry and addresses the poorest of the poor within the general population of Vietnam. With regard to manufacturing, the anticipated growth in this sector in the coming years presents the opportunity for emerging businesses to incorporate social inclusion strategies into mainstream business practices. With a commensurate increase in labor demand, this sector will most likely be the source of new employment opportunities with the capacity to absorb new entrants into the labor force. This will provide a significant venue for integrating low-income members of the labor force. However, this assumes at a fundamental level that: i) there is an expanding system of education that develops the appropriate skills among the poor to match labor demand needs, as well as compete in the skilled-labor market; and ii) there is a system of integration that provides low-income workers with access to the jobs being generated. Additionally, producing value-added products in the manufacturing sector can spur growth by creating a demand for raw materials that can be sourced from low-income producers. This assumes that local producers are able to generate raw materials of sufficient volume and quality to meet manufacturing demands.

In Vietnam's fast-growing economy, exploring inclusive business models with creating employment at their core presents the most immediate venue for social inclusion. There are many ways to integrate the poor into mainstream economic activities – as produc-

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ers, workers, and consumers – and most often, true integration necessitates all three basic strategies. However, in Vietnam's case, where growth of the manufacturing sector is both rapid and diverse (production of goods ranging from garments, textiles and shoes to electronics), direct employment within these growing economic activities will likely represent the most readily available and widely varied opportunities among all other sectors in the near future. However, for employment to successfully address poverty, underemployment must be avoided by providing jobs corresponding to worker's skills, implementing wage adjustments to ensure a fair and appropriate salary for workers, and ensuring job security through formalized hiring processes.

Informal markets present an existing framework through which inclusive business can take place. Pending greater understanding of Vietnam's informal market, the “shadow” economy may provide fertile grounds for micro-enterprise investments as a means of social inclusion. Enhancing the already functioning system in place through formalization, micro-finance, or improving supply chain efficiency may provide a way to integrate these informal sectors into the mainstream economy as producers or consumers.

Policy incentives can motivate growing businesses to be inclusive. Vietnam's continuing economic reforms provide the opportunity for the government to incorporate policies and incentives that promote social inclusion as a standard business practice. Following Brazil's Social Biofuels Program, for example, tax breaks or a price premium can be awarded to companies that source a specified amount of raw materials from low-income producers in marginalized regions of the country. Policies can not only encourage a shift in company bylines to include the improved socio-economic welfare of their workers, consumers, and suppliers, they can also bring about a paradigm shift in corporate culture that embraces social inclusion as a way of doing business.

Poverty as a Market Opportunity

The cumulative purchasing power of the BoP comprises an economically significant untapped consumer base. As with any other member of Vietnam's population regardless of economic standing, the poor have basic needs that they already pay for or would be willing to pay for if it were economically accessible to them. Comprising a large proportion of Vietnam's overall population presents companies with the twofold opportunity of fulfilling some of the poor's needs and engaging them as a new market base. In this regard, the needs of both market participants are satisfactorily met.

Economic development is the main poverty reduction strategy in Vietnam. Vietnam's drive for economic growth is seen as a key solution to its poverty problems. While in any context, overall economic growth is necessary for the creation of new economic opportunities for everyone, including the poor, relying on the ‘trickle down effect’ to eventually impact the poor is neither effective nor efficient. In order for economic growth to provide opportunities for the poor, growth must, in part, be cognitively and strategically directed at the poor in terms of

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their productive, consumptive, and labor capacities. Engagement of the poor as proactive participants in the economy requires well-conceived, highly targeted strategies specifically designed to address the offerings and/or needs of the poor that businesses are in a position to meet.

Poverty in Vietnam is strongly correlated to geography. Not only are the vast majority of the poor located in rural areas where a lack of basic services hinder productivity and business opportunities, they are also distally located from investment capital that is equally geographically biased towards large city centers. The manufacturing industry that has received the lion's share of domestic and foreign investment in recent years has developed in urban areas where basic infrastructure is functional enough for production and a more educated and skilled labor pool exists from which to draw employees. Although there are exceptions of businesses that have opted to set up operations outside of main cities and offer employment and training to local populations, these are few and far between. In terms of inclusive business development, the geographic and also cultural divide between urban and rural has the following implications: i) the likelihood of the rural poor being able to take advantage of new employment or business opportunities from the economic growth of the manufacturing industry is very low if investments and development continue to take place in and around city centers; ii) the rural poor population presents the largest available pool of potential workers to fulfill the future labor demands of the manufacturing industry, therefore, in preparation for this growing shift towards industrialization, the rural poor need to be engaged specifically in diversifying their skill sets outside of farming to meet future labor demand; iii) for inclusive business ventures to have tangible impacts on the impoverished and marginalized populations, investments will have to be made in rural farming communities who comprise the vast majority of Vietnam's poor and give specific focus to marginalized ethnic groups and women who make up 50% of the poor's population.

Agriculture engages the largest proportion of the BoP population among all other economic sectors. Although most of Vietnam's economic development plans are focused on improving conditions and yields from the manufacturing sector, the agriculture sector directly impacts a larger share of both Vietnam's overall and poor populations and should not be ignored. While the trend in livelihood transitions from agriculture to manufacturing is expected to increase in the future as employment continues to grow in the latter sector, Vietnam's agriculture industry will remain a staple contributor to GDP and continue to offer employment and entrepreneurial opportunities. Simply stated, there is room for improvement in the agriculture sector and this can occur through existing commodities value chains being more inclusive.

Private Sector Interest

The existing engagement mechanisms companies are implementing with the poor offer a ready platform from which inclusive business development can be leveraged. Given that many companies already work with the BoP as employees, suppliers of raw materi-

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als, consumers and in some cases distributors or are implementing CSR efforts, these existing relationships with the BoP community serve as an existing framework around which current inclusive strategies can be improved or leveraged among company peer groups. In this regard, inclusive business investments for companies in Vietnam would not necessitate the establishment of an entirely new framework from the ground up but rather, would build off of the existing pathways through which companies are already attempting to be inclusive and improve upon them.

Given the right enabling conditions, the private sector can improve the livelihoods of the low-income segment through direct employment, innovative distribution mechanisms, and the procurement and delivery of basic services. However, in many countries, private sector activities remain relatively small-scale and localised, more often than not operating in the informal sector. Companies lack the capacity, the infrastructure, the financial resources and often the incentives to scale-up their operations and fulfill their potential.

The natural diversification in the way companies engage the poor lends itself to more possibilities in the future. Although current efforts by companies to integrate the BoP do so through direct and indirect employment, they are also already being engaged as suppliers, consumers and distributors. This illustrates the natural propensity of companies and the BoP alike to explore various means of integration based, for now, on a commonality of needs. The intrinsic diversity of inclusion mechanisms lends itself well to exploring new and potentially additional ways through which inclusive business partnerships can be formed between companies and the BoP. While employment in the manufacturing sector is currently the main venue of inclusion for businesses, earning wages does not guarantee economic advancement out of poverty. In this regard, diversification provides the poor with other options besides employment to become active contributors to and participants in Vietnam's growing economy.

Working with the poor necessitates a new business paradigm. Doing business with the BoP requires specific engagement strategies quite different from those with traditional business partners. Large differences in economic status, cultural backgrounds and mentalities and in some cases, even language, can impact the outcome of the most simple of business transactions. The informality with which many of the company-to-BoP agreements are implemented in Vietnam does not necessarily foster a culture of trust, commitment and a sense of responsibility towards carrying out the agreement's terms. Moreover, in a rapidly growing labour market where a boon in employment is present, employer-employee fidelity becomes a challenge as labour turnover becomes very high. In order for inclusive businesses to achieve some level of success, therefore, it is critical to address these intangible parameters that refer more to the cultivation of strong relationships with the poor based on formalities and principles of trust and respect that businesses would normally offer to traditional business partners. For this, companies will have to adapt their existing business paradigms based on an increased understanding of the poor's needs and priorities.

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Non-traditional alliances and partnerships are required for inclusive businesses to work. Because working with the poor demands a new way of doing business, it is necessary to engage with non-traditional business partners such as technical assistance organizations, government institutions and other service providers to fulfill some of the basic needs of the poor, such as specific skills building, that then enable them to participate more effectively and appropriately in the economy. By relying on a network of partners, the responsibility of improving and building up Vietnam's human capital is shared among a cross-section of service providers as opposed to relying on any one entity, such as the government or the companies themselves, which may or may not have the capacity or resources to do so. Additionally, in an economy that is growing as rapidly as Vietnam's, the poor will have to acquire the right skills as quickly as the markets are emerging to be able to take advantage of these new opportunities. It is likely, then, that the business needs of the poor will have to be fulfilled by a combination of service providers in order for them to successfully compete in the job and business markets proactively as opposed to retroactively.

Private Equity Market Viability

Based on the integrated assessment of fund manager perspectives, capital market analysis, pipeline viability, potential capital needs and returns, and degree of risk, there is credible but preliminary evidence to support the establishment of an inclusive business private equity fund in Vietnam. While capital markets in Vietnam are still maturing by international standards, the demand for investment exceeds the supply of capital, especially when considering a new segment focused on developing inclusive business ventures. Furthermore, a majority of fund managers consider a BoP fund a viable opportunity for which there is potential to raise complementary investment to capitalize the fund.

The BoP Fund Investment Strategy should find an appropriate balance between financial and social returns, sector alignment and prioritization, degree of risk and innovation, and technical assistance integration. As with mainstream private equity and asset management companies, the development of investment strategy requires careful analysis of the opportunity and full consideration of the different business models and risks. The degree to which the fund satisfies both financial and social return expectations, lowers transaction costs by focusing on a narrow range of sectors and industries or seeks to promote innovation and early stage ventures to spur new and scalable solutions that can have highly competitive returns and broad impact on the low-income segment will depend largely on the defined objectives of the fund. Furthermore, risk mitigation measures like the integration of a technical assistance facility are also critical to the long-term success and scale of the investment portfolio.

The prospects for growth of capital markets in Vietnam create a favourable environment for the development of a BoP fund, but improvements in transparency, corporate governance and increased awareness about BoP opportunities is critical for success. Market analysis and fund manager interviews confirm that while capital markets in

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Vietnam are growing, they are not keeping pace with the rapidly increasing need for private investment. And, in the context of a BoP venture fund, given that there is a significant market opportunity to develop business solutions that contribute to inclusive growth in a number of critical sectors, additional liquidity within this emerging asset class would accelerate interest and development opportunities. At the same time, transparency, corporate governance and misperceptions about the BoP and their potential contribution to competitive business development need to be addressed in order to consolidate critical mass around the concept and the opportunity.

Investment Funds Managers in Vietnam were optimistic about the prospects for the development of a BoP fund, provided there was a clear investment strategy, high profile anchor investors and partners, and high prospects for growth. While fund managers expressed a clear interest in the BoP marketplace (if it satisfied certain critical parameters for competitive returns), they also considered Vietnam competitive in labour intensive industries, high volume, low margin businesses that could be tailor-made to low-income needs, and specific basic services that have historically not reached the low-income population. Furthermore, when it came to a BoP investment fund, fund managers were keen to look for ways to share the risk with a major and reputable anchor investor or partner and mitigate risks through the involvement of a stakeholder that fully understood this market segment and could potentially provide technical assistance when needed.

Conditionalities for Inclusive Business Development

Although businesses and the poor are the main actors in inclusive business development, the government has a critical role to play. The government is a powerful enabling force in promoting inclusive business as a mechanism to improve the lives of the poor and as a new way of doing business. The government can develop and enact regulatory frameworks that not only support but also motivate inclusive business development through various incentives. The government can also adopt social policies and programs that are geared towards the participation of the poor in mainstream business growth. Government-sponsored vocational education programs, for example, can be designed to meet the specific labour needs of growing and emerging industries. Traditional cottage industry-type training can be updated to include SME development and business management courses. By harmonizing government and business approaches to national development and poverty reduction, inclusive business can be leveraged and promoted more effectively. Moreover, the responsibility of providing basic services and infrastructure for businesses to be able to effectively and efficiently operate in Vietnam still relies on the government's capacity. The same is true for enabling the poor to develop, market and sell their products and services to businesses and consumers.

Social and economic inclusion may not reduce poverty in the short-term. The expectations of what inclusive businesses can and cannot achieve should be qualified very carefully among both businesses and the poor who are being engaged. While there are cases in which

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inclusive business partnerships have successfully lifted poor communities out of poverty (earnings leapt from USD 0.80 per day to USD 3.71 per day), for others, inclusive business serves as a springboard from which poverty reduction strategies can be more effectively launched. From this standpoint, it is imperative to define the main objectives for developing inclusive businesses and set reasonable targets that may not directly reduce poverty in the short-term but in the long-term provide fertile grounds for the poor to first improve their livelihoods and overall wellbeing so that advancing towards economic freedom becomes a much more achievable goal.

Inclusive business is not a silver bullet approach to improving the wellbeing of the poor. Inclusive business development is not and cannot be the sole strategy towards alleviating the needs of the poor. It is one of many other strategies that need to work in conjunction with one another to achieve reasonable success. For the poor to be employed in better jobs with higher wages, for example, they still need to complete a certain degree of schooling. In order to make their products available to larger markets where they obtain high prices, low-income producers need infrastructure services to get their products to market. Clean water, electricity, health services, education, and road access, these are some of the basic requirements for living and for commerce that are critical to increasing the potential for economic integration but that inclusive businesses are not designed nor equipped to provide for the poor. In this regard, the poor still necessitate support from other service providers to be able to place themselves in the position of doing business.

Cheap labour may conflict with improved livelihoods. One of Vietnam's most important competitive advantages in the global economy is its cheap labour. As mentioned earlier, in Vietnam being employed does not automatically translate to improved wellbeing or standard of living and certainly not to reducing poverty. In this regard, there may be a contradiction between the purpose of inclusive business and the government's strategy of attracting more foreign investment by maintaining cheap labour conditions. Therefore, a balanced approach must be achieved in developing inclusive businesses to ensure fairness to the poor while remaining competitive in the marketplace.

Recommendations

Results from this assessment warrant the development of an Inclusive Business Private Equity Fund investment strategy based on optimal criteria that align with the ADB's private sector development and inclusive growth objectives. While the initial premise of the ADB's RETA was to establish a basket of investment funds following the completion of all 6 feasibility studies, it is recommended to accelerate the development and approval of the Vietnam fund in order to help inform the development of future funds, learn from practical implementation experience, and assess practical feasibility, demand, and expected terms and conditions. Furthermore, it is recommended that the ADB examine the fund's objectives, investment criteria, expected returns and deal size, debt/equity mix, and more importantly the balance between financial and social returns anticipated for the BoP in-

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vestment portfolio. This should also include a review of the original IRR and deal size criteria established for the conceptual stage of this BoP fund development process.

Given the level of awareness of inclusive business models in Vietnam, a sustained awareness effort, catalysed through an “Inclusive business - Impact Investors Forum will be essential to accelerating interest in the model and demand for the fund. Due to limited awareness of impact investing experiences, successful and scalable BoP business ventures and models, and current opportunities and experiences in Vietnam, it is recommended to organise a high-profile event that not only leverage the results of this study, but bring together investors, BoP entrepreneurs, successful experiences from Vietnam and from relevant geographies in the region (and beyond). Successful case studies, funding models, and characterization of the market opportunity in different market segments should be included in the forum. Furthermore, in order to promote BoP business model innovation, a BoP business plan competition should follow the event to maintain momentum and interest in the concept.

Engage the government on developing additional public policy incentives to promote further development of inclusive business models in Vietnam. Leveraging the public policy experience from other emerging markets, promote the development of a public policy framework that promotes public – private partnerships, innovation, financing and technical assistance to incentivize companies to actively engage and participate in the BoP venture market opportunity. Conversely, policy incentives should contribute to building the capacity, providing critical inputs and financial services to, strengthening and certifying the vocational skills of the low-income segment in Vietnam.

Develop substantive proposals to address corporate governance and transparency issues. Work with Fund Managers, Investors and relevant government agencies to contribute to efforts to improve corporate governance and transparency issues in order to also mitigate risks and accelerate interest and the development of opportunities in the BoP marketplace.

Carry out due diligence of potential companies, sectors and transactions including further financial analyses, financial projections, valuations, expected IRRs, risk assessments, and more robust validation of sector considerations. Based on the results of this study, the investor forum, company and fund manager follow-up and the preliminary pipeline developed, carry out a more robust due diligence exercise on the potential BoP venture opportunities identified while leveraging the JP Morgan framework (from their recent study) to further substantiate sectoral considerations once these have been prioritized by the ADB.

Validate the need, operational and funding model for a Technical Assistance Facility to support the development and acceleration of inclusive business ventures in Vietnam. Considering the opportunities and enabling conditions for inclusive business in Vietnam, and given that many ventures will require some form of technical assistance given the limited development of large, scalable inclusive business ventures to date, it is recommended to com-

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mission the development a TA Facility concept note. The concept note should further validate and qualify the TA needs, how these relate to the types of BoP business ventures that would be considered in the investment strategy of the BoP fund, and how the facility will be financed, administered, and leveraged by the BoP fund and other current and/or future social investment funds in Vietnam.

Develop standardised measures of success and ROI. Building on existing efforts to develop common standards for impact investing, leverage the knowledge and developments of GIIRS and IRIS to integrate their best practices in measures of success for both social investment funds and BoP ventures into the investment strategy and selection criteria. Ensuring these measures are developed at the initial stages of fund design will improve the fund's ability to report objectively and in a standardised manner on its cumulative social and financial returns while enhancing the due diligence process.

Develop an Impact Investment Network in Vietnam to promote impact investing, establish standards, leverage best practices from the Global Impact Investing Network, and connect with the development of the other feasibility studies being conducted under this initiative. As BoP venture development works best when it leverages the experiences of others, this feasibility study advocates for the development of an impact investing chapter in Vietnam (that could be integrated with the current efforts on inclusive business partnerships). GIIN's experiences, databases for investors, access to expertise and case studies and fund profiles may contribute to the development of the BoP fund and to incorporating critical success factors and lessons learned in the fund's investment and execution strategy.



Appendices

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Companies and Private Equity Funds Interviewed

Companies included in the Private Sector Mapping sample included:

Number	Company Name	Sector
1	Agribank Hung Yen	Financial Services
2	Agricultural Products and Materials JSC	Agri-business
3	ANTESCO	Agri-business
4	Asia Food Technology Co., Ltd.	Food and Beverage
5	Australis Aquaculture Vietnam Ltd.	Agri-business
6	Bao Viet Insurance Corp.	Financial Services
7	Bavi JSC	Agri-business
8	Bayer Vietnam Ltd.	Pharmaceuticals
9	Big C	Retail
10	Capital Aid Fund For Employment of the Poor	Financial Services
11	CapitaLand (Vietnam) Holdings Pte. Ltd./Singapore	Real Estate
12	CAVACO JSC	Construction
13	Coca-Cola Beverages Vietnam Ltd.	Food and Beverage
14	CÔNG TY CP TẬP ĐOÀN KỸ NGHỆ GỖ TRƯỞNG THÀNH	Forestry and Wood Processing
15	D.N.N. JSC	Motorcycle Parts and Supplies
16	Dai Dong Tea Processing Co. Ltd.	Agri-business
17	Danone Vietnam	Food and Beverage
18	DHL Express Vietnam	Logistics
19	Dong A JSC	Manufacturing
20	Duc Viet Food JSC	Food and Beverage
21	Ecolink / Hiep Thanh Company	Agri-business
22	FTP Products	Technology
23	Gentraco	Agri-business
24	Goldsun Household JSC	Retail
25	H.2.O. Co. Ltd.	Retail
26	Halong Canned Food JSC	Food and Beverage
27	Hanoi Telecom JSC	Telecommunications
28	Hanoi Textile – Garment JSC	Textiles and Garments
29	HCMC Housing Development Fund	Housing and Real Estate
30	Hong Ha Stationery JSC	Forestry and Wood Processing
31	Interflour Vietnam Ltd.	Agri-business
32	Ipa-Nima	Retail
33	Kangaroo Group	Retail
34	Kien Long Bank	Financial Services
35	Kim Hang Aluminium Plastic JSC	Manufacturing
36	Linfox Logistics (Vietnam) Co., Ltd.	Logistics
37	Logistic Vietnam Commercial and Service Co., Ltd.	Logistics
38	Loi Hai Private Enterprise	
39	Meinhardt (Vietnam) Ltd.	Infrastructure
40	Metro Cash & Carry Vietnam	Retail
41	My Hao	Retail - Cosmetics
42	Nam Duong Thanh JSC	Manufacturing
43	Nam Hoa Corporation	Forestry and Wood Processing
44	Natural Medicine JSC	Pharmaceuticals
45	Nestle Vietnam Ltd.	Food and Beverage

46	Nha Be Corp	Textiles and Garments
47	Nike Inc Vietnam	Manufacturing - Shoes
48	Origin LP (Vietnam) LLC	Energy
49	Phillips Electronics Vietnam Ltd.	Electronics
50	Phu Da Tea JSC	Agri-business
51	Phu My Co., Ltd.	Agri-business
52	Phuong Anh Co. Ltd.	Textiles and Garments
53	PTI Insurance	Financial Services
54	Rang Dong Light Source & Vacuum Flask JSC	Energy
55	Rang Dong Plastic JSC	Manufacturing
56	Red Star International Co. Ltd.	Forestry and Wood Processing
57	RMIT International University Vietnam	Education
58	Saigon Paper JSC	Forestry and Wood Processing
59	Secoin Building Material Corporation	Infrastructure
60	Southern Vietnam Engine & Agricultural Machinery Co., Ltd.	Manufacturing
61	SSC	Transportation
62	Thai Nam Construction – trading service	Infrastructure
63	TMA Solutions	Technology
64	Trung Nguyen Group	Agri-business
65	Truong Giang Investment and Consultant Co., Ltd.	Energy
66	Truss-Rite International Pty. Ltd.	Real Estate
67	Trust Bank	Financial Services
68	Tuyen Ky	Food and Beverage
69	Un-available	
70	VICO Detergent & Cosmetic Co. Ltd.	Consumer Products
71	Viet A Bank	Financial Services
72	Vietnam Trading and Design Consultants Construction Investment JSC	Real Estate
73	VinaCapital Real Estate Co., Ltd.	Housing and Real Estate
74	Vinamilk	Agri-business
75	Western Bank	Financial Services
76	World Viet Consultant Co. Ltd.	Real Estate

Fund's included in the sample interviewed for this study include:

Number	Private Equity Fund Manager Name
1	Grant Thornton Vietnam
2	Saigon Investment Capital
3	Vina Capital
4	Vietnam Investment Group
5	IFC
6	SEAF Blue Water Growth Fund
7	BankInvest
8	MB Capital
9	Mekong Capital
10	SSI Asset Management (SSIAM)
11	Lotus Fund Management Company
12	IDGV
13	FPT Capital
14	VFM
15	Temasek Holding
16	Loc Viet FCM

Detailed Methodology

Introduction

In April 2010, SNV and the ADB signed a collaborative agreement to promote inclusive economic growth through inclusive business in six Asian countries. The objective of the project is to help develop viable inclusive businesses in selected Asian countries (now listed as India and Sri Lanka, Indonesia, Bangladesh, the Philippines, Vietnam and the Mekong, and Pakistan. The expected impact of the project is three-fold a) to catalyze a whole new class of private equity funds that would focus on investing in inclusive businesses in the region; b) to accelerate the role the private sector can play in developing business models that impact on the lives of the poor while creating value for the company; and, c) to further strengthen the ADB's portfolio of activities that support inclusive growth in line with its Strategy 2020 which expects 50% of ADB's investments to come directly from non-sovereign activities or through supporting private sector development objectives.

To this end, the project "Promoting Inclusive Growth through Business Development at the Base of the Pyramid (Regional TA 6518)" is focused on assessing the feasibility of developing inclusive business private equity funds in each of the selected countries/regions. Specifically, this regional technical assistance project will a) map business opportunities at the BoP in the relevant countries; b) screens the capital market and fund managers on their potential collaboration with the BoP investment fund and prepares further due diligence work for setting up the Inclusive Business Funds, c) facilitates an investors forum, and d) develops a poverty impact assessment methodology (scorecard) for the possible IB fund(s).

The market scoping and enterprise development component of the TA will focus on answering the following key questions:

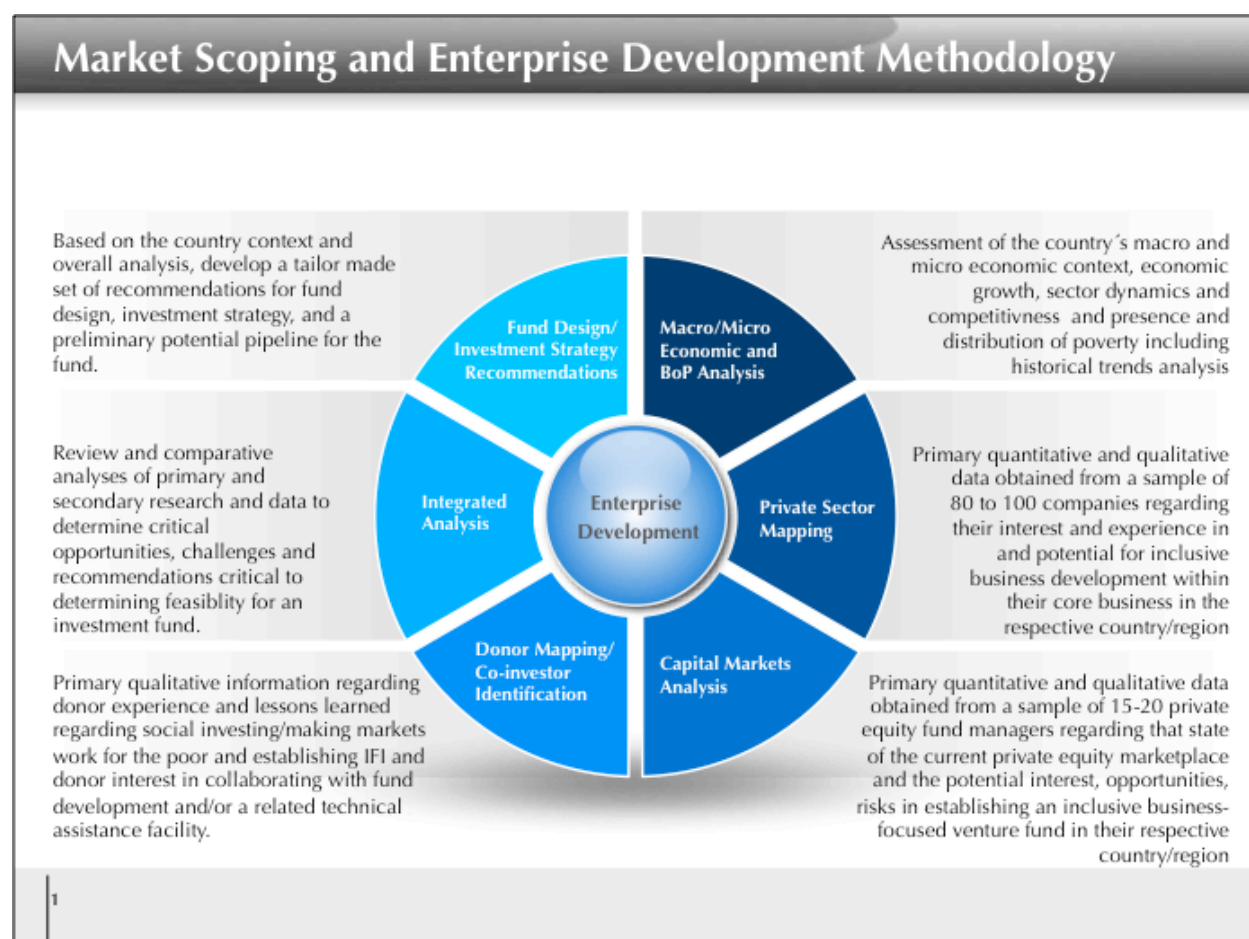
1. Is it **feasible** to develop an Inclusive Business Private Equity Fund in Country X?
2. What is the nature, size and composition of the inclusive business (BoP) **market** in these two countries and their **potential for growth**?
3. What are the **critical success factors and constraints** for inclusive business development and the impact on poverty and inclusive growth in these markets?
4. What is the **market opportunity for blended investment** (private equity and debt) and competitive landscape in the funding environment?
5. What could be a preliminary **viable pipeline** of inclusive business investments and investee profiles (cases) in these two markets?

The methodology proposed is based on and has been refined from the experience of completing the feasibility studies for Vietnam and Pakistan. Because market information for inclusive business is not generally available, these studies integrated the use of primary information collected from extensive face-to-face interviews using survey instruments with second-

dary research studies from established sources, statistics from government and/or international organizations, and established benchmarks and indices.

Market Scoping and Enterprise Development Methodology

The feasibility study methodology for an inclusive business private equity fund is driven in part by the generally accepted conditions required for accelerated inclusive business development: a) a favorable business climate and a pattern of economic growth, most importantly in the target sectors being considered; b) a definable set of market opportunities with the BoP and/or a clear pattern of needs within the BoP; c) private sector awareness about inclusive business and a basic understanding of its proof of concept (preferably with an inclusive business track in country already established); d) an operational private equity marketplace with a basic understanding of BoP business models and their potential returns. As such, there are six integrated elements to the market scoping and enterprise development methodology as can be seen in the figure below:



The methodology is designed to also include the cross-referencing of perspectives given the different points of view that might be expressed by companies, fund managers and donors with research and data collected from published sources.

Macro/Micro Economic Assessment, Competitiveness and BoP Opportunity Analysis

Because the relationship between income growth and poverty reduction has been shown to be particularly stronger in developing Asia (in some instances 3% poverty reduction for 1% growth in GDP), the brief assessment included in the feasibility study relates in part to some of the key drivers of inclusive growth. This section will summarize the following historical (5 years) dimensions of economic growth, poverty and competitiveness and the current and potential inter-relationships between them. Where appropriate, data sets will be collected from official national statistics offices and if necessary, cross-referenced with established international sources of development data:

Macro/Micro-Economic Development Trends

- Gross Domestic Product (GDP) trends
- Foreign Direct Investment and potential relationships to sector growth trends
- Sector development and growth and relative contribution to GDP
- Exports and Imports relative to sector development and growth
- World Bank's Doing Business Report Rankings and analysis of progression or lack thereof and related issues
- Governance and Fiscal Policy (based in part on Kauffman World Bank Governance Indicators)
- Employment by sector

Competitiveness

- World Economic Forum's Global Competitiveness Report and analysis of progression or lack thereof and related issues
- Cluster Competitiveness Reports available either by country or by sectors within countries from national sources, bi-lateral and multi-lateral agencies, and/or private institutions like the World Economic Forum or the Harvard Institute for Strategy and Competitiveness

Poverty and the BoP as a Market Opportunity

- UNDP Human Development Index rankings and trends including GINI data
- Poverty rates as defined by international and local standards including assessment of the near poor based on national statistics and World Bank indicators
- Assessment of the low-income segment as a market taking into consideration market segmentation of the low-income segment, purchasing power parity, consumer spending by the low-income segment by main product categories
- Geographic distribution of poverty in country and relationship to sectoral development (where relevant)

- Assessment of degrees of access of the poor to basic services (i.e. energy, water, sanitation, health, education, etc)
- Employment and underemployment assessments, particularly of the BoP

Inclusive Business Mapping

The Inclusive Business Mapping component aims to: (i) present crucial topics within the inclusive business arena in Country X, providing insights into the market opportunity and needs; (ii) present a view of the inclusive business market, providing actionable and meaningful data about the companies which were interviewed, (iii) present examples of current and relevant inclusive business initiatives in Country X; and, (iv) provide key recommendations for market development and further exploration with these companies. All of the data presented within this section is primary information gathered through the mapping exercise using the survey instrument and direct face-to-face interviews with company senior management. Additionally, the methodology includes the development of 15 case studies of companies interviewed. These provide examples and testimonies that explain how and why companies in Country X have decided to relate to the poor from an inclusive business framework and form the basis for the development of a preliminary investment pipeline. These case studies include the market opportunity, the business solution, the financial and social return to date, financing needs, and opportunities to scale.

Company Sample and Selection: The company sample is limited to between 80 to 100 companies with distribution of the sample based on annual turnover (less than \$10 million, \$10 to \$25 million, over \$25 million to \$50 million, and over \$50 million), number of employees (less than 500, more than 500 but less than 1,000, and 1,000 or more), geographic location, sector distribution, and type of company (private, public, etc). Company selection and participation in the mapping is based on two parameters:

1. Bottom-Up: Companies who have proactively requested to be included in the survey based on direct solicitation from an advertisement placed in national print media and related social media. Companies who have requested participation are screened and selected based on their responses to a short on-line survey (using survey monkey);
2. Top-Down: Based on secondary research, case studies, industry analysis, and established selection criteria, a secondary sample of companies will be selected for inclusion in the interview process. This selection of this sample is also influenced in part by the ability of the local consultants to assure access and the time of senior management for the subsequent extensive interview.

Once a final list has been compiled, a final calibration of the sample is completed to insure appropriate balance and distribution of types of companies. Secondary information on companies developing inclusive business from others sources may be included here as well to complement this effort.

Survey Design: An extensive private sector mapping survey instrument has been developed (attached) to collect both quantitative and qualitative data from company executives. Part of the quantitative information available from the company website or from company reports is to be collected by the local consultants prior to the interview (to save time) while the face-to-face interview will be reserved for the rest of the survey. Company interviews will be held at company premises and preferably with the Chief Executive and the CFO/COO. Engagement of the senior management team of the company also affords an opportunity to raise awareness of the inclusive business model and the potential for subsequent investment through the Inclusive Business Private Equity Fund.

Face-to-face Interviews: The local consultants will lead the interviews with company senior management based on the attached survey instrument. The interviews will:

- obtain quantitative and qualitative information about the company's core business, current and future market opportunities, perceptions of risk, interest in and/or experience with working with the BoP, assessment of inclusive business models, if and how these models create shared value, performance management, and degree of interest and needs in financing opportunities to support further development of their current/potential inclusive business efforts;
- provide company management (especially those who have not been previously exposed to inclusive business) with an overview of inclusive business models and proof of concept;
- introduce company management to a new, potential asset class through which the company might benefit from additional financing to support inclusive business efforts under development and/or in implementation
- review and identify companies from which more in depth case studies will be developed including information required for a preliminary investment pipeline (based on preliminary investment criteria);
- assess the need for a technical assistance facility.

Case Study and Pipeline Development: During the company interview process, and based on preliminary investment criteria, 15 companies will be selected for case studies and inclusion into a preliminary investment pipeline. The case studies will include a company brief, market opportunity, inclusive business strategy, funding needs and terms, and anticipated financial and social returns.

Secondary Complementary Research: In addition to interview, the private sector mapping exercise will also include relevant secondary research obtained from news articles and relevant country, sector and market studies focused on private sector development with the BoP (i.e. Emerging Markets, Emerging Models from the Monitor Group that mapped over 250 market-based enterprises focused on the BoP in India).

Capital Market Assessment

The Capital Market Assessment aims to gain a better understanding of: (i) the capital markets environment, outlook, risks, opportunities, industry attractiveness and trends in Country X both generally and in the context of the BoP market opportunity; (ii) the viability and potential, including existing and future opportunities, of created a blended private equity fund specifically focused on inclusive business ventures; (iii) the potential investment strategies and fund design that may be considered if and when the inclusive business private equity fund for Country X is developed by the ADB, and; (iv) the metrics used to assess and qualify financial and social returns of the funds and their investees. Because the private equity fund to be developed will be capitalized by the ADB but outsourced to a local or regional fund manager, a secondary objective will also be to evaluate the capacity and interest of the fund managers in managing such a fund in the future.

Fund Manager Sample and Selection: The sample of fund managers to interview is limited to between 15 and 20 funds with distribution of the funds based on a) track record and/or familiarity with social investment; b) current assets under management (small, medium and large based on context-dependent parameters); c) investment strategy and focus (sector/geography specific vs. well diversified geographically and sectorally); use of debt and/or equity; d) domestic or international/regional; and, e) fund performance. Given the diversity and volume of fund managers in the respective countries to be surveyed, it is assumed that the capital markets consultant recruited to conduct this assessment will have established relationships with fund managers and/or the national venture capital association of each country can be called to assist in fund manager selection based in part on the aforementioned criteria/distribution.

An open call for and/or direct contracting of fund managers may be used through print and social media and through which a wider sample of general information might be obtained regarding the countries outlook, industry attractiveness and perceived risks. Using this additional instrument will be country dependent and case specific.

Survey Design: The private equity fund mapping survey instrument has been developed to collect both quantitative and qualitative data from fund managers. Part of the information will be obtained from the fund manager's website prior to the interview (to save time) or from published marketing collateral while the face-to-face interview with the fund manager.

Face-to-Face Interviews: Interviews will be led by the local capital markets consultant using the attached survey instrument which focuses on obtaining information regarding:

- the investment climate and economic outlook for Country X generally
- Industry/Sector Investment Opportunities and Company Attractiveness
- the impact investment opportunity
- investment strategy generally and applied to the low-income segment

- obstacles, risks and barriers to entry
- metrics
- interest in participating in the potential inclusive business private equity fund
- the need for a technical assistance facility to complement the private equity fund
-

Case Study Development: Based on fund manager interviews, no more than 5 case studies of fund managers will be developed if a proven, social investment track record exists within their investment portfolio and/or if the fund manager's investment strategy and/or performance would be useful to include in the feasibility study.

Secondary, Complementary Research: Additional information regarding capital markets in country will be obtained from the local venture capital association (if applicable) and related institutions, the Emerging Markets Private Equity Association (EMPEA), the Global Venture Capital Attractiveness Index, and published news reports and other publications from donors and investors regarding the opportunities and risks in Country X's capital markets generally, and specifically when relevant to BoP investments.

Donor Mapping

Given that the preliminary strategy for the inclusive business private equity funds proposed by the ADB will require significant co-investment from other parties following ADB's anchor investment, a donor mapping effort will be conducted. A brief survey instrument has been attached that solicits information regarding:

- donor interest in participating in the private equity fund and/or technical assistance facility;
- core donor activities especially those related to private sector development;
- current track record in inclusive business development and/or related activities;
- perspectives on the possibility of related agencies of the same foreign government and/or IFI to provide support to either the investment fund or TA facility;
- general perspectives on development efforts in-country, economic outlook, related program case studies, and potential risks of developing such an initiative in Country X

Any donor interest identified will be followed-up by the ADB and/or SNV (specifically in Indonesia, Bangladesh and Pakistan).

Integrated Analysis

Once all the data has been collected by the local consultants and/or lead consultants, an integrated analysis will be conducted that aggregates and systematizes all key findings per survey exercise and then cross-references key findings across all surveys to identify consistent conclusions, contradictory information, and or gaps of information. Any gaps identified may require additional follow-up with fund manager, companies, donors and/or additional analysis

of external sources. The conclusions of the integrated analysis provide the basis for the main recommendations and conclusions of the feasibility study. The local consultants generally provide the following deliverables:

- 100% completed surveys of 80 to 100 companies currently implementing or interesting in implementing inclusive business (based on an agreed company sample and using the agreed survey instrument)
- 100% completed surveys of 15 Private Equity Funds operating in Country X
- 20 case studies based on the established format – 15 company case studies (with required pipeline information) on inclusive business and 5 private equity case studies;
- The completed data collection instrument (in excel) per company and per private equity fund (facilitates data consolidation and analysis)
- If required to do the donor mapping, completed survey reports and a brief overview of main conclusions from donor mapping;
- A table (excel) of all company names in alphabetical order, including the names of the interviewees, their position, their contact information, key sectors of each company from a drop-down list to be provided, and website;
- A short overview summarizing the highlights of interviews held, key findings, recommendations and additional information relevant to the final report preparation by the team leader.

Fund Design and Investment Strategy Recommendations

In collaboration with the capital markets expert, preliminary fund design and investment strategy recommendations will be summarized in the feasibility study. These recommendations are based in part on the capital markets expert assessment and on the results of the private sector mapping and capital market assessment.

Additional Pre-Study Considerations

Given that the studies for the countries combine both local and international consulting teams and is managed centrally by the ADB in collaboration with SNV, the approach also includes standard training modules for the local consultants. These training modules include:

- a briefing on the state of the art of inclusive business and impact investing including relevant case studies and an f.a.q. of questions and issues that are likely to come up during interview stage
- an introduction to the feasibility study goals, objectives and proposed deliverables;
- an overview of the feasibility study methodology, survey instruments, company selection criteria, data collection tools, and expected outcome formats (slight adaptation given the local context and local consultant experience may occur at this stage);
- mock company, fund manager and donor interviews;

- 10 pilot interviews where the local consultant team are accompanied by the international consultant(s) (team leader/enterprise development specialist) for quality assurance
- Ongoing virtual support of the local consulting teams to address issues as they arise.