

Inclusive Business in Viet Nam



“ IB companies are typically very innovative ... (and) make remarkable contributions to not only poverty reduction, hunger eradication but also gender gap narrowing. ”

Ms. Huong Thi Trinh
Deputy Director General
Agency for Enterprise Development,
Ministry of Planning and Investment

18.1 million
people live on \$6.85 per day



World Bank, 2023

\$15.66 Billion

Foreign Direct Investment received in 2021



World Bank, 2021

97.8%

of all business in Viet Nam are SME's



GSO Viet Nam, 2022

Ranked

70 of 190

countries in the Ease of Doing Business Index



World Bank, 2020

36.8

Gini Index

World Bank, 2023

Ranked

64 of 113

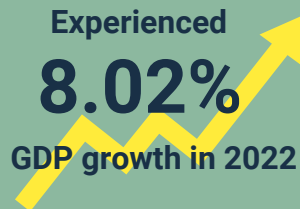
countries on Global Food Security Index

The Economist, 2022

Experienced

8.02%

GDP growth in 2022



GSO Viet Nam, 2022

Market Opportunities for Inclusive Business

Poverty and living standards

Viet Nam has successfully improved living standards and broadly reduced the MDP poverty rate to 2.7 per cent which is mainly concentrated in the rural highland areas of northern and central Viet Nam, and among its ethnic minority groups. Government poverty reduction programs have traditionally targeted the extreme poor, and there is a large low-income population, representing 19 per cent of the urban population and 52 per cent of the rural population, that can be serviced by inclusive business.

Economic development and the role of the private sector

Gross Domestic Product growth in 2022 was 8.0 per cent. Although influenced by the significant effects of the Covid-19 pandemic, pre-existing challenges have also dampened economic growth. This includes low industrial productivity, lagging progress in reforming state-owned enterprises, shrinking exports, and difficulties in accessing finance, particularly long-term finance

for agribusinesses and small and medium sized enterprises. tion programs have traditionally targeted the extreme poor, and there is a large low-income population, representing 19 per cent of the urban population and 52 per cent of the rural population, that can be serviced by inclusive business.

The main drivers for economic growth in Viet Nam are large companies, exports and innovation. Small and medium-sized enterprises accounted for approximately 96 per cent of all enterprises in Vietnam, and increasing their productivity and growth is critical for Viet Nam's economic development.

The social enterprise landscape

In November 2014, the concept of social enterprise was indirectly incorporated in the Viet Nam Law on Enterprises. However, unlike inclusive business, traditional social enterprises may not be fully commercial, as they often rely on grants to be viable. Current SEs in Viet Nam are characterized by small size, low profit margin, and business models that often address training and mentoring.

Key areas for investment opportunities:



Food & Beverage

Agricultural products, retail and distribution



Renewable energy

Solar power plants, power transmission lines,



Healthcare

Telemedicine, medicine and supplement production, medical technology



Infrastructure

Clean water supply, waste processing management, energy generation from waste

To increase the scale of social impact, there is an opportunity for government to support enterprises that operate commercially and at scale and deliberately target social impact. Such support could help transform SE into larger and more profitable social enterprise initiatives and later into commercially viable IB models. The government is currently reforming the SE regulations, which could be an opportunity to recognise IB as a complementary route to support social impact.

Implications for Promoting IB

IB could become an additional, deliberate and complementary government approach to encourage the inclusive growth, leveraging private sector resources to support social development. IBs can provide more well-paid jobs and income opportunities for low-income people in both rural and urban areas. Most inclusive businesses are in Vietnam's large agricultural sector. Vietnam Sustainable Development Goal Investor Map, healthcare, renewable and alternative energy are other sectors with potential for healthy returns and high development impact.



Photo by Daniel Klein on Unsplash

Inclusive Business Case Study

Traphaco Sapa

Founded in 2001, Traphaco Sapa specializes in traditional herbal medicine grown in remote areas of Lao Cai province. It is a member of the Union for Ethical Biotrade and the Lao Cai Safe Agricultural Productions Association.

Commercial results: Revenue in 2018 was USD 2.2 million, and the company is aiming to reach USD 3.3 million by 2023. Their gross profit margin in 2019 was seven per cent, slightly lower than the industry average of ten per cent, due to the investments they have made in the technology needed to meet the strict quality standards set by the Ministry of Health and the World Health Organization.

Social impact: The company worked with 300 households and expects to work with 500 households by the end of 2023. All the farmers are from ethnic minorities with 70 per cent of the supplying farmers being women.

Innovations: Traphaco Sapa has provided farmers with seeds and training on farming techniques to ensure their products meet strict quality standards and to do so, commits to purchasing farmer produce at 30 per cent above local market prices. The company has also diversified production into functional foods from herbal plants and is developing new products and services in the health sector. It has also created a media centre to raise awareness and market demand for herbal medicine.

Government Policies

In February 2022, Viet Nam's Prime Minister approved the '2022-2025 Program on Support for Private Enterprises in Sustainable Business,' which explicitly seeks to promote inclusive business and circular economy-based models.ⁱ

At its core, the 2022-2025 program pledges to enhance the sustainable development of private enterprises, ensuring a strong combination of economic efficiency, social and environmental responsibility, and to develop an ecosystem to support those businesses. The measures include raising awareness in the private business sector, civil service and government committees about the importance of sustainable business; developing tools to assess such business; and encouraging financial and credit institutions to study and develop products and services for sustainable enterprises.

The program is complementary to several other government policies which promote private sector development for social impact, directly or indirectly:

- In October 2019, the Prime Minister of Viet Nam approved the 2020 – 2025 Sustainable Private Sector Development Strategy.
- The concept of social enterprise was indirectly incorporated in the Viet Nam Law on Enterprises under article 10: Rights and obligations of enterprises that produce or provide public goods or services.
- The revised Investment Law 2020 and Enterprise Law 2020 continue to open Vietnam's foreign investment policy by cutting various administrative procedures on investment approval.
- The National Target Programme on socio-economic development in ethnic minority and mountainous areas for period 2021-2030 (Decision 1719/QD-TTg).
- The National Target Programme on poverty reduction for 2021-2025 (Decision No. 90/QD-TTg). The overall goal of the program is to achieve multidimensional, inclusive and sustainable poverty reduction.

Government Initiatives

The Government of Viet Nam with the support of United Nations ESCAP is developing key initiatives to further promote inclusive businesses:

- An inclusive business accreditation system is being designed and will be piloted in 2023.
- Inclusive business coaching is being provided to ten firms in the agricultural and food sector to develop or expand their IB business.
- Investment towards inclusive businesses will be facilitated through government-business dialogues and an investment forum.

Key Actors

- Agency for Enterprise Development
- Ministry of Agriculture and Rural Development
- Partnership for Sustainable Agriculture in Viet Nam
- Ministry of Science and Technology
- Ministry of Industry and Trade
- Viet Nam Association for Women Entrepreneurs
- Viet Nam Women Entrepreneurs Council
- Viet Nam Association for Small and Medium Enterprises
- Viet Nam Young Entrepreneurs Association
- Viet Nam Chamber of Commerce and Industry



Photo by Pat Whelen on Unsplash

Opportunities to Support IB Models

Inclusive business success is a triple win for business; low income and poor people; and the Government of Vietnam.

IBs provide a pathway for sustainable economic growth and poverty reduction by promoting local economic development and incorporating low-income communities and marginalized groups, including women, into the business model.

These commercially viable businesses provide access to more affordable goods and services, and increase the purchasing power of low-income groups while expanding their earnings. Inclusive businesses open up new markets and stimulates innovative business solutions.

Opportunities in Viet Nam to support IB are numerous and include:

- Generating further awareness about IB potential,
- Building institutional capacities and a network of experts able to provide business coaching,
- Recognising and providing incentives those firms with impact business models through IB accreditation, and
- Developing innovative financing instruments that enable access to finance for enterprises seeking to expand their inclusive business model.

ESCAP'S IB Work in Viet Nam

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is supporting the promotion of inclusive business in Viet Nam and the Asia-Pacific region.

Since 2019, ESCAP has been working closely with the Agency for Enterprise Development, Ministry of Planning and Investment Viet Nam, to promote inclusive business.

A comprehensive Landscape study of Inclusive Business in Viet Nam was undertaken by United Nations ESCAP and the Inclusive Business Action Network IBAN, and published in 2021.

Currently, ESCAP, with the support of the Bill & Melinda Gates Foundation, is working with AED to develop an IB accreditation system:

ESCAP is also providing business coaching services to 10 agribusiness to support them develop and expand their IB models.

In addition, ESCAP and AED will organise government-business dialogues and a national IB investment forum to encourage investments and partnerships in this area.

Expanding the reach and impact of businesses that provide affordable goods and services, and better livelihoods to low-income people - through policy advice and capacity building.

Inclusive Business Programme

Expanding the reach and impact of businesses that provide affordable goods and services and better livelihoods to low-income people – through policy advice and capacity building.

#InclusiveBusiness @UNESCAP

www.unescap.org/projects/promoting-IB-in-AP

Trade, Innovation and Investment Division

+66 2 288-1234

escap-tiid@un.org

Sources: World Bank (2020, 2021, 2023), The Economist (2022), OECD (2021), General Statistics Office of Viet Nam (2022)