



# Untapped market: social enterprises in the health and agriculture sectors in Vietnam

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# Abbreviations

Abbreviation	Description
ATS	Safe Living Company (An Toan Song)
BC	British Council
CCHCPS	Centre for Community Health Care and Health and HIV/AIDS Preventive Support
CIEM	Central Institute for Economic Management
CSIP	Centre for Social Initiatives Promotion
CSO	Civil Society Organisation
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
KCT	Thai Binh Environment and Agriculture Science Development, Application and Consulting Centre
MFI	Micro Finance Institutions
MPI	Ministry of Planning and Investment
MTTS	Medical Technology Transfer and Services
NGO	Non-Governmental Organisation
NJCF	National Job Creation Fund
ODI	Overseas Development Institute
PRF	Poverty Reduction Fund
PWD	People with Disabilities
SE	Social Enterprise
SEPON	Huong Hoa Cassava Starch Factory
Truong Sanh	Traditional Medicine Producer Truong Sanh
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
VBSP	Vietnam Bank for Social Policies

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VHLSS	Vietnam Household Living Standards Survey
VRAT	VRAT Co. LTD
VUSTA	Vietnam Union of Science & Technology Associations

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# Executive summary

Vietnam's recent history and political and social context have strongly influenced the development of its social enterprise sector. Single party rule and constraints on the development of independent civil society have resulted in a relatively limited pool of civil society organisations developing a business orientation and transforming into social enterprises. However, the country's socialist orientation and heritage has left widespread familiarity with the co-operative ideal. In the 1990's, government sought to breathe new life into the near defunct system of agricultural, credit and other co-operatives developed during the central planning period. The concept of social enterprise used in this study as a form of business where commercial orientation is modified to maximise social impact is one that resonates strongly in Vietnam which has promoted the idea of a socialist oriented market economy.

The study examined 12 social enterprises – six in the health sector and six in the agriculture sector. The aim of the study was to 'examine the *objectives, practices and challenges* faced by social enterprises and explore ways of overcoming these challenges'.

In the agriculture sector, social enterprises were involved in four main activities: input supply (sometimes combined with technical support and marketing services), provision of financial services for agriculture, management of public infrastructure and production of environmentally friendly products. These kinds of activities are relatively mainstream private sector activities in Vietnam. However, the commercial orientation of the social enterprises surveyed was modified in a number of ways. Some were co-operatives which shared financial surpluses with their members; others adopted a non-profit model reinvesting surpluses or reducing costs to clients. In some cases, activities were dependent on ongoing partial donor support e.g. to cover the costs of certification.

In the health sector, enterprises were involved primarily in providing ancillary services such as ambulance services, traditional medicine, counselling for particularly vulnerable groups such as those living with HIV/AIDS. This emphasis perhaps reflects the relatively strong coverage and provision of basic health care services through the national health care system. Business models in the health sector are less commercially oriented than those surveyed in the agriculture sector, with some enterprises still significantly dependent on donor funding. Some have set up separate business units (such as cafes) to fund their operations, while others charge higher income clients higher fees to cross-subsidise services provided to lower income clients.

Irrespective of sector, the Vietnamese social enterprises covered in this survey were relatively small. All enterprises except one employed between three and 28 full time and part time employees. Two enterprises reported turnover of over US\$ 3 million and three enterprises of between US\$ 140,000 and US\$ 750,000. The rest were smaller. Eight of the twelve enterprises were classified as in the start-up or growth stages of development. As in other environments, there was a clear trend of charismatic founders remaining dominant within the enterprises they have established. Only three of the 12 enterprises had recruited external professional managers on a contractual basis. Enterprise founders/directors ranged in age from 37 to over 60 – with a number of examples of public servants retiring from state employment and establishing enterprises as a way to continue to make a social contribution in a less politically restricted environment.

Social enterprises navigated legal requirements in different ways: three registered as co-operatives, five as companies (joint stock or limited liability companies) and four as non-government organisations (mainly centres registered with the Vietnam Union of Science and Technology Associations). Currently there is no separate legal status for social enterprises though a new draft of the Enterprise Law does contain provision for establishing this new legal category.

Confronted by similar general challenges to other small businesses, social enterprises in Vietnam also face a variety of particular constraints that relate to the social enterprise business model:

- Access to finance. None of the social enterprises surveyed were able to access commercial finance – unsurprising, perhaps, given that their commercial orientation is fundamentally modified. Small size and weak management capacity, however, seemed to be the main constraints to accessing subsidised sources of social finance.
- Human resources. Vietnamese social enterprises face particular human resource challenges. Limited operating margins lead to inability to pay high salaries. Enterprises face difficulties recruiting staff with

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skills that fit the hybrid commercial/social model. Many are dependent on strong and charismatic founders/directors.

- **Markets.** Social enterprises are trying to open and exploit new, marginal markets which are inherently difficult. Targeting particularly poor and vulnerable client groups, often not used to paying for services, requires innovation.
- **Management.** Management issues were mentioned as a constraint by social enterprises, particularly those transforming from NGOs to businesses. Specific issues included: accounting, particularly for tax purposes, and business planning.
- **Legal status.** Attitudes varied on whether current legal status creates problems for social enterprises. Some felt existing NGO status provided more flexibility while others felt that proper legal recognition would give greater certainty, particularly in terms of tax liability. However, it was clear that new legal status would only be helpful if clearly defined and realistic.

These constraints mean that social enterprises struggle to compete with mainstream business in mainstream markets. Social enterprises also struggle to survive in markets where subsidised government provision of services dominates. Opportunities for the sector therefore lie in the market gaps and marginal areas which are too difficult for mainstream business and from which government service provision has withdrawn. These gaps or opportunities include low income markets where margins are low and risks high. They also include new and challenging markets where high costs may be incurred to stimulate demand and create new opportunities due to the need to overcome stigma (such as in counselling for people with HIV/AIDS), acclimatize clients to more complex technology or challenge perceptions that services should be provided by the state. Opportunities exist in the management of public infrastructure where fees can be levied to cover operational and maintenance costs but which would be hard to operate on a fully commercial basis. Social enterprises have also found opportunities in the production of environmentally friendly goods, such as organic fertiliser, where commercial viability is marginal.

From these conclusions, the study drew recommendations for government, support organisations and social enterprises themselves. While the Vietnamese government is planning to include social enterprise as a new category in the forthcoming revision of the Law on Enterprises, the study recommends caution in terms of implementing a regulatory framework for social enterprise unless based on very clear objectives and definitions. If the category is established to channel government support and subsidies to social enterprises, unclear definition clearly carries a high risk of regulatory arbitrage. Government agencies could instead play a useful role in defining niche areas where opportunities exist for social enterprise and facilitating open market entry for social enterprises in these markets. This would include: opening opportunities for social enterprises to bid in tenders to provide government funded services; providing opportunities for social enterprise management of public infrastructure; reducing distortive government intervention in markets through subsidised provision of inputs which impact negatively on the competitiveness of social enterprises.

Recommendations for support organisations include a plea to differentiate between support for mainstream enterprise development and support for social enterprise. For hybrid social enterprises, operating in more difficult markets, with lower margins and lower (or non-existent) profit, support may need to be more intensive and longer term. It is important for supporters to be clear about when this is justified and when it is not. It is also recommended that donors and social investors deliver their support within an analysis that is grounded in the specifics of the sector and the local context - rather than blanket support for the concept of social enterprise *per se*. Opportunities for social enterprise exist particularly in those areas not well served by the market and the state. This space will vary between sectors and requires careful assessment of the sector and local context. It is also recommended that donors work through local support organisations, knowledgeable and experienced in the local and sectoral context. This is also important in order to ground the concept of social enterprise and avoid the perception of social enterprise as an alien, donor inspired concept.

Social enterprises themselves should be cautious in advocating for legal recognition. As argued above, risks may outweigh potential benefits. Enterprises need to engage in realistic planning – to ensure that there really is a viable market opportunity in the niche which they have identified. Particularly for enterprises that are transforming from NGO operations, it is important to recognise the different management needs of an enterprise, to invest in market level salaries for staff and to establish systematic governance arrangements that will provide a long term perspective for the business. For enterprises seeking to secure donor support or concessional finance, it will also be important to demonstrate robust monitoring and evaluation practices which can highlight the enterprise's social impact.



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While Vietnam's political system has not encouraged exuberant growth of civil society organisations, its government is not as monolithic as traditionally portrayed. Many opportunities have developed for a variety of hybrid organisations – particularly co-operatives and semi-autonomous NGOs – to develop as social enterprises. The development of these organisations has been spontaneous and largely unregulated – allowing committed individuals, often themselves retired state officials, to find practical solutions to problems in the agriculture and health sectors not addressed by the mainstream. This study suggests that government, donors and support organisations could play an important role in defining the gaps where market and state provision is lacking and provide a more level playing field for a diverse range of social enterprises to enter and serve these markets.

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# 1 Introduction to the study

## 1.1 Background to the study

The Social Enterprise concept is increasingly capturing the attention of governments and practitioners around the world. Proven and innovative business models of social enterprises offering solutions to long-standing social and environmental problems in a cost-effective and scalable manner in various countries and sectors are on the rise. In Vietnam, the term ‘Social Enterprise’ describes a relatively new concept that has been discussed and introduced to the general public through conferences and mass media only since 2010. In reality, some social enterprises have developed from cooperatives, which have been established since the 1970s without claiming themselves as social enterprises (BC, CSIP, Spark, 2011). Over the past three years there has been a rapid development of social enterprises in Vietnam in many areas. To gain more insights on this emerging sector (social enterprise sector), understand the opportunities and challenges for social enterprises, and explore new ways of working to promote the sector, ODI has initiated research on ‘Innovation - Social enterprise: challenges and opportunities in Kenya and Vietnam’.

## 1.2 Objectives of the study

The study aims to

- examine the objectives, practices and challenges faced by social enterprises (SEs) in the health and agriculture sectors
- identify the growth of surveyed SEs in the above sectors over years
- explore opportunities and challenges faced by the surveyed SEs, together with examples of overcoming these challenges
- recommend new ways of working that will help not only the interviewed SEs in the two studied sectors but also the SE sector in general to flourish in the years to come.

## 1.3 Concept of social enterprises

Various concepts of SEs are being used and discussed worldwide. For simplicity, the concept of ‘*a business that has social and environmental objectives, which significantly modify its commercial orientation*’ will be used throughout this report as well as that of the other research country – Kenya. This definition, suggested by ODI, is broad enough to fit the existing situation of SEs in Vietnam. It covers three fundamental characteristics of a typical SE: (i) a social mission is its objective; (ii) doing business is considered as a tool; and (iii) profits are reinvested to achieve a social mission or impact. Notably, the reinvestment of profits can be achieved in the following ways:

- **Sharing financial surpluses** with customers
- **Purposefully reducing financial surpluses** by paying above-market premiums or guaranteed prices to suppliers (fair trade); by paying above market wage rates to employees; by imposing a certain limit on business margins
- **Purposefully cross-subsidising** a specific category of customer
- **Seeking a long-term partial subsidy** from a government, donor, or NGO source so as to sustain a business. The subsidy may be provided in the form of direct financial subsidies or privileged/protected access to markets.

## 1.4 Study methodology

To capture the overall picture and characteristics of SEs in the two sectors (health and agriculture), the following methodology was employed:

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### 1.4.1 Desk study

Various reports, articles, laws, policies and data were comprehensively reviewed to portray the environment of social enterprises and an overview of the health and agriculture sectors and to establish a list of all possible social enterprises in the two focused sectors. A list of 12 SEs to be interviewed, including 6 SEs in the health sector and another 6 in the agriculture sector, was compiled on the basis of four main criteria:

1. Different sizes of SEs based on the number of beneficiaries and revenue growth;
2. Different legal forms of SEs;
3. Diversity in geographical location (the North, Central, and South of Vietnam);
4. Diversity in stage of development (start-up phase or take-off phase) of SEs.

Where possible, the research team selected active and typical SEs in some market niches identified as a result of the desk study. Those niches were verified on the basis of findings from interviews with the surveyed SEs. For each selected SE, relevant government agencies, service providers and beneficiaries were identified. Through the desk study, an actor map of individuals, government agencies, interested supporting organisations, and service providers was created (see details in Annex 2).

### 1.4.2 Stakeholder consultation and SE interviews

In total, the team interviewed 12 SEs and relevant government officers in 10 provinces. Three focus group discussions (FGDs) were held to interview social enterprises' beneficiaries (farmers and patients). Interviews were conducted with eight others – representatives from relevant government agencies, supporting organisations, and donors. The research team also interviewed a number of organisations that endorse the development of social enterprises at a national level.

### 1.4.3 Validation workshop

To share the main findings from the study with a broader audience as well to contribute to the advocacy effort initiated by the British Council (BC) and the Central Institute for Economic Management (CIEM), the research team in consultation with ODI decided to combine the planned validation workshop with a policy advocacy workshop to present analysis of the performance and business models of involved SEs in the Health and Agriculture sectors. This presentation helped the audience, especially those from government agencies and members of the National Assembly and the mass media, to have a better understanding of the motivations and effective operation and contributions of SEs. SEs attending the workshop joined a discussion session where they were informed about market niches from the study, they discussed major constraints, and they were given recommendations for how they can grow stronger. Through the workshop and discussion session, a number of useful comments and inputs for the study were shared, collected, and then incorporated into this report.

## 1.5 The report

This report was prepared by Spark Center for Social Entrepreneurship Development (Spark), a country research partner in Vietnam selected by ODI. The research team comprises Ms. Vu Thi Quynh Anh – team leader, and Mr. Doan Viet Dung and Ms. Do Thu Huong – team members.

**Structure of the report.** The main content of the report is divided into six parts. Part 1 introduces the study. Part 2 provides the overview of the operation environment of SEs in Vietnam. An overview of the agriculture and health sectors is presented in Part 3 and Part 4. The profiles and characteristics of SEs, opportunities for SEs in the two studied sectors, and constraints of the surveyed SEs are analysed in Part 5. Finally, some recommendations are given in Part 6.

**Limitations of the report.** It is acknowledged that the report has certain limitations. Firstly, the study involved just 12 SEs, and therefore findings on opportunities and constraints of those SEs should be considered only as a snapshot for the whole picture. Business models of some surveyed SEs are used as case studies. Secondly, given that the community of SEs in Vietnam is scattered, some of the 12 SEs were identified by supporting organisations such as the Centre for Social Initiatives Promotion (CSIP) and Spark, while others were selected from other sources. Thirdly, not all of the selected enterprises possess all of the characteristics of a typical SE as defined above. Notably, one enterprise interviewed does not have two of the basic characteristics: (i) doing business is considered as a tool and (ii) profits are reinvested to achieve a social mission/impact. Thus, analysis presented in Part 5 of the report reflects the situation of 11 interviewed enterprises only and by no means represents all SEs in Vietnam in the two selected sectors.

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# 2 Overview of the operation environment of social enterprises in Vietnam

## 2.1 History of social enterprises development in Vietnam

The development of SEs in Vietnam has taken more shape in recent years. This is still immature, however; SEs are potentially an untapped resource for responding to underserved markets or addressing various market failures with the support and overseeing of the government. Nonetheless, it cannot be denied that the government of Vietnam endorsed and engaged all sectors in delivering social services over recent decades through a range of supporting policies and regulations in the health and agriculture sectors (see details in Annexes 3 and 4). Looking at the dynamics and operations of SEs from the available reports, it is suggested that their development can be divided into two periods:

**Stage 1 – prior to 2010:** Vietnam was still a low-income country, and the concept of SEs was unknown to the public. SEs were mainly in the forms of cooperatives, NGOs and companies. The cooperative is the oldest organisational form of SE in Vietnam (CSIP, BC, and Spark, 2011). Statistics from the first Social Enterprises Map show that the number of SEs in the form of NGOs and companies was small, even though many were established between 1990 and 2010. SEs with modern operational models, such as Mai Handicraft, Craft Link, KOTO and Evergrowth, are all related to international factors, which provide them with strategic technical and financial support.

**Stage 2 – post 2010:** This stage is marked by the emergence of SEs in the country, and three important factors: (i) Vietnam's new status as a middle-income country, resulting in its shift in major donors' policies from a priority recipient country to a partner country; (ii) introduction of the SE concept to the general public and (iii) the presence of social entrepreneurship promotion organisations such as CSIP, Spark and BC. As a result, more comprehensive support for start-up and existing SEs as a whole sector became available. Together with the reduction in donor funding, this resulted in the gradual transformation of a few NGOs into SEs. Interestingly, most of the newly established SEs in this period adopted a company model for their operations.

## 2.2 Operation environment of social enterprises in Vietnam

A number of factors and actors influence the operation of businesses in Vietnam in general and of SEs in particular. The following will review these factors and actors:

**Unspecific and inconsistent legal framework for SEs.** At present there is no specific legal form for SEs, nor a coherent legislation governing SE operations in Vietnam. The current legislative framework allows for three legal forms that a SE can adopt and follow: the Enterprise Law for those registered as enterprises; the Cooperative Law for cooperatives; and various Government Decrees for not-for-profit organisations such as NGOs, charities, social funds or professional associations. Depending on its legal status, each SE will follow a specific ownership structure, governance model and profit sharing method. The current legislations for different legal forms of existing SEs have the following advantages and disadvantages, which can partly explain an SE's choice of specific legal status:

**Table 1: Disadvantages and advantages implied in different legal forms of SE by legislation**

Legal forms of SEs	Advantages	Disadvantages
<b>Cooperatives</b>	<ul style="list-style-type: none"> <li>- Enjoy 50% land lease reduction from the government and a revenue tax reduction by 50% for the first 5 years and 2% in the following years.</li> <li>- Can assess soft loans from government or international funds</li> </ul>	<ul style="list-style-type: none"> <li>Major decisions require the management board's endorsement. Business plan and fundraising need to be approved by members. This can delay the decision-making process.</li> </ul>
<b>Enterprises</b>	<ul style="list-style-type: none"> <li>- Simple and quick registration for start-ups</li> <li>- Can mobilise diverse sources of finance, especially from private investors and banks</li> <li>- Owners have full authority to make timely business decisions</li> </ul>	<ul style="list-style-type: none"> <li>- Limited access to grants/funding from donors</li> <li>- High corporate revenue tax of 23%.</li> </ul>
<b>NGO</b>	<ul style="list-style-type: none"> <li>- No revenue tax</li> <li>- Fewer financial reporting obligations to local authorities.</li> <li>- Simple operation</li> <li>- Access to grants and supports from donors</li> </ul>	<ul style="list-style-type: none"> <li>- More complicated requirements for registration</li> <li>- Difficult to expand their business and mobilise additional funding other than from donors.</li> <li>- Takes time to get approval from the government for projects with international funds. Sometimes funding opportunities can be missed due to the long approval process.</li> </ul>

**Absence of a legal framework for SEs creates certain constraints for emerging and operating SEs.** The legal framework is a crucial factor in establishing ease of doing business. A survey of social enterprise in 2011 showed that there were around 200 organisations identified as SEs.<sup>1</sup> This number is too small compared to 694,500 companies (Ministry of Planning and Investment, 2012) and over 1,000 local NGOs established by 2011. Depending on the legal form that each SE wants to adopt for its registration, the procedure and cost differs case by case and per location. It takes one or two days to get registration for a company SE, while it may take six months to register as a local NGO SE.<sup>2</sup> Different policies and perceptions of SEs create confusion as well as extra costs<sup>3</sup> for the various stakeholders. For example, it is a complicated and lengthy approval process for NGO SEs to receive foreign grants. Some company SEs enjoy tax-free concessions, while others do not. The lack of adequate and flexible regulations for disadvantaged groups enormously hinders the operation and expansion of their businesses.

**Dominant government role and weak governance in service delivery – limited space for SEs to play a role.** For a long time, the government of Vietnam took the main responsibility for social and economic service delivery. The population had received free social services until 1988, when a socialisation policy was introduced that encouraged all sectors of society to play their parts in designing and delivering the services. Apart from positive impacts, weak governance during the implementation of the policy has driven public and private sectors to the commercialisation of their service delivery, more than its original intention of ensuring equality (United Nations Development Program,

<sup>1</sup> CSIP, BC, and Spark (2011) Social Enterprise Mapping

<sup>2</sup> Asia Foundation (2012) A Comparative Study of Civil Society Organisations in Hanoi and Ho Chi Minh City, page12

<sup>3</sup> BC, CIEM, CSIP (2012) Social Enterprise in Vietnam – Concept, Context and Policies.

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2011). It can be said that a relatively strong and effective government leaves little space for private and civil society organisations (CSOs) to play active role in providing services and addressing market failures. Though the government has slowly transferred part of its role to other sectors due to a lack of funding and capacity to meet various needs of the population, it is still a long way off until the government creates a fair playing field for other sectors to engage and do their job effectively. Typically, lack of fairness in the process of bidding, and preferences for using government organisations over CSOs for service delivery, are the long-lasting issues that still need to be addressed (Asia Foundation, 2008, interviews with SEs). There seems to be insufficient attention and supporting policies to engage the private sector and CSOs in service delivery, as well as little encouragement to promote the development of SEs as a whole in Vietnam.

**No strong CSO base for the emergence of SEs:** Studies show that in countries with vibrant and active civil societies, such as India, the environment is favourable for the emergence and growth of SEs as they take the lead in pioneering and refining SE models and organisations<sup>4</sup>. The Vietnamese government has a certain hesitation in promoting the development of the CSO sector. Thus, to date there is limited scope for CSO operation. Furthermore, Vietnam has enjoyed a favourable aid development environment, with plenty of funding and technical support available from multi-bilateral, bilateral and international donors for tackling development issues for the period 1990-2010. CSOs tended to shape their programs around donors' themes, with proliferation of funding (Asia Foundation, 2012). Following the model of SE was not the choice of many CSOs. This situation is no longer the case, as donor funding is on a declining trend due to Vietnam's designation as a middle-income country. Therefore, some CSOs have felt a real pressure to survive in the new context of development. The SE model appears to be one of the options that can transform or help CSOs to diversify revenue sources. Thus, a reduction in donor funding can be a threat and an opportunity at the same time for CSOs in the coming years.

**Limited but promising support structure for the infant social enterprise sector.** Despite the growing interest of the public in this field, support activities are in the early stage of exploring and piloting. In the past five years, some main players have emerged, including BC, CSIP, CIEM, and the Spark Center for Social Entrepreneurship Development (Spark). BC is very active in policy advocacy and public awareness-raising activities. BC plans to focus on developing local capacity for social impact assessment, formulating SEs' sector-development programs and learning and networking for SEs. CIEM, a policy research and think tank agency under the Ministry of Planning and Investment (MPI), leads a series of policy studies on social innovation and SEs. The outcomes of such studies have been, and will continue to be, used for advocacy on the official recognition of SEs in the revised Enterprises Law that is expected to be passed in 2014. This legal framework is expected to boost the establishment and operation of SEs to a certain extent, while specific policies for supporting SEs are yet to be developed by relevant ministries and local authorities. Without a specific strategy for SE development, the World Bank occasionally provides seed funding for some potential SEs, depending on the themes selected through the Annual Vietnam Innovation Day Initiative.

**Roles of SE incubation organisations.** CSIP and Spark are the two young local NGOs with an explicit and strong mandate on social entrepreneurship development. They incubate and nurture SEs by developing their social business capacity, by providing seed funding and connecting services, and through policy advocacy. The Thrive project supports SEs to upgrade equipment by providing loans of maximum US\$10,000 with no interest for two years for equipment and facilities, to be repaid to the community in the form of in-kind or capacity-building activities. After nine years, the project has disbursed a total of US\$760,000 to 81 initiatives including 16 SEs. Increased availability of supporting institutions and new policy developments offer great opportunities for SEs to be established in Vietnam, helping to grow SEs in terms of quantity and quality. Similarly, there are small numbers of professional service providers who can offer relevant and affordable capacity development services to SEs, especially at the local level. However, the market for capacity development for SEs is not yet fully developed. Annex 2 presents the actor mapping in the sector.

**Undeveloped capital market for SE development.** There is currently no government funding to incubate and nurture SEs (CIEM, BC, CSIP, 2012). Some impact investment funds such as LGT, Small Giant, and Unitus are eagerly seeking investment opportunities in the forms of debt, equity or convertible loans with various terms. These funds mainly target SEs at growth or ready-for-financing stages, while most of the local SEs are in the early stages of development with incomplete governance structures and operation models. Many SEs do not have good financial management and government practices. Their scale of operation is too small to absorb the intended funding between US\$500,000 and US\$1 million from impact investors. Insufficient investment opportunities are the real concern for social investors.

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<sup>4</sup> The Emergence and Development of Social Enterprise, page 25

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Consequently, SEs have been rarely observed receiving investment from such funds. It can be said that there is a lack of social investment and a mismatch between social investors and SEs.

**Lack of intermediary organisations.** Another barrier to the sector's growth is the unavailability of intermediary organisations for deal sourcing, technical assistance, and fund disbursement to create and connect the demand for and supply of capital (Nguyen et al, 2012; CIEM, BC, CSIP, 2012). The intermediaries can play a crucial role in searching for potential SEs and developing their capacity to be eligible for investment. They identify and create a platform where suitable investors and potential SEs can meet. In an emerging market like Vietnam, where investors are in the beginning stages, the intermediaries do help to fill the gaps and build trust between the supply and demand of the capital market (Nguyen et al, 2012). At present, a lack of intermediary institutions, especially financial ones, is obviously a weakness of the capital market for SEs. This has undermined the connection between financial investment available from social investors and the huge needs for capital of various sizes of SEs. Evidence shows that only two Vietnamese SEs (TYM and SEDA) operating in microfinance got KIVA's loans (KIVA website) as compared to the hundreds of SEs in other countries such as the Philippines or African countries who received direct loans from this source.

## 3 Overview of the agriculture sector and roles of different actors in this sector

### 3.1 Overview of the agricultural sector

**Fast facts and the overall impact of the agriculture sector on poverty reduction.** The agriculture sector is a key sector in the economy of Vietnam, contributing nearly one fourth of the country's GDP. Although there is a gradual downward trend in GDP percentage of this sector in the national GDP, it still employs over 70% of the population and 90% of the poor living in rural areas. Within the sector, crops makes up nearly 75% of the total gross output of agriculture, while livestock and services account for over 25% on average in recent decades.<sup>5</sup> Various supporting policies and regulations have resulted in remarkable rural economy development and achievements in poverty reduction. The poverty rate decreased from 64% in 1994 to 20.7% in 2010<sup>6</sup>, and continued to decrease in recent years. Major milestones, factors and actors affecting the sector development are detailed below.

**Major reforms in the sector.** It was widely acknowledged that the collectivisation process caused many problems and disincentivised performance of farmers and the private sector. To respond to these problems, the government issued important policies, prominently Directive 100 in 1981, followed by Land Law in 1993, and then Resolution 10 in 1988. The Land Law gives five rights to households – transfer, exchange, inheritance, lease, and mortgage – and also offers households *land use rights*: 20 years for annual crops and 50 years for perennial crops. Resolution 10 recognises that the household has its own ownership and is the basic production unit of the agricultural economy; therefore, agricultural lands were redistributed from cooperatives to households. Farmers were entirely responsible for their production and outputs on their allocated land. Substantial policy changes in agriculture and private-sector development – including long-term land-use rights for farmers; liberalisation of agricultural trade and prices; facilitation of private sector development in agriculture; and other agriculture-related policy changes – were essential and considered as a starting point for rapid development of the agriculture sector in Vietnam (Global Donor Platform for Rural Development – working paper for Vietnam, ‘The strategic role of the private sector in agriculture and rural development’).

**The vital role of the agriculture sector during economic recession – but still a lot of challenges ahead.** Notably, despite the global financial crisis in 2009 and its negative impacts in subsequent years, the growth of the agriculture

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<sup>5</sup> General Statistics Office (GSO)

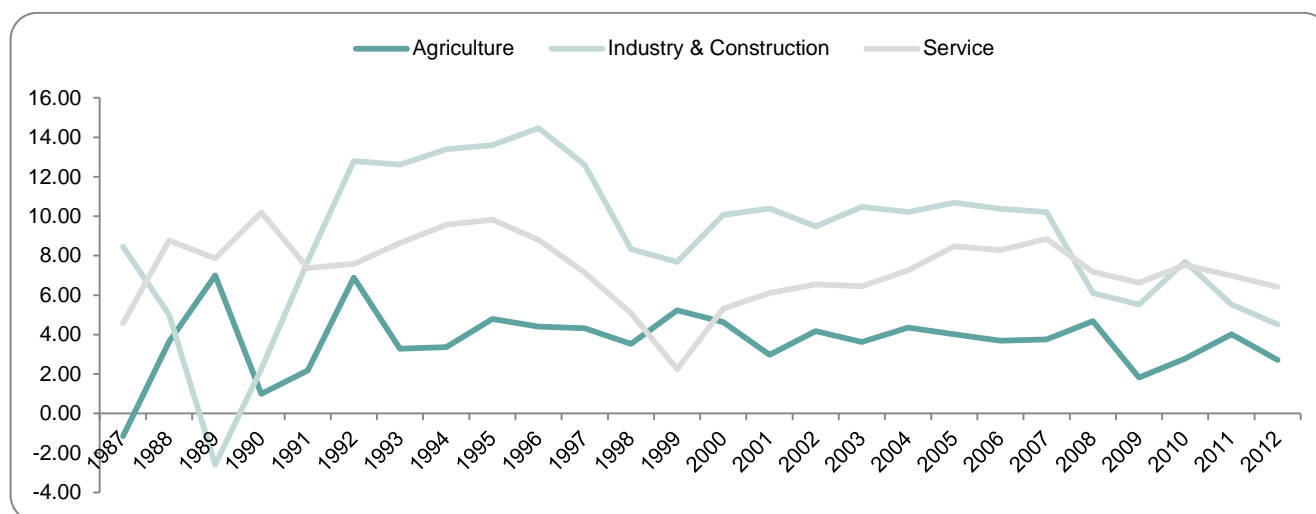
<sup>6</sup> World Bank (the new poverty line determined by World Bank and General Statistics Office, this line is equivalent to 653.000 VND/person/month or US\$2.25/person/day, 2005 PPP)



sector increased substantially from 1.82% in 2009 to 2.78% in 2010, and then peaked at 4.01% in 2011, while that of other sectors declined over these years. This proves that agriculture has been playing an important role in the economy with impressive growth in output and export, particularly during the period of economic recession. However, it cannot be denied that there are still a lot of challenges ahead greatly affecting the sustainable growth of this sector for several reasons. First, increasingly negative impacts of climate change are predicted to reduce arable land significantly, especially in the Mekong Delta River in the upcoming years. Second, food prices have remained unstable; some major agricultural export commodities have witnessed ups and downs in prices and in export value and volume. For example: The export values of rice and coffee, for example, decreased by 16.7% and 22.5% respectively in the first nine months of 2013 compared to the same period in 2012 (Ministry of Agriculture and Rural Development, 2013).<sup>7</sup> Thirdly, a lack of effective platforms for value chain actors (farmers, traders and processors) to meet up in the market, together with weak horizontal coordination among relevant government agencies, has kept the agricultural production of Vietnam relatively low in value for years. This certainly requires a range of effective interventions of state and non-state actors to ensure the sustainable growth of this sector.

**Achievements in the agriculture sector.** Overall, the agriculture sector has successfully transformed Vietnam from a country of food shortages to a major world producer and exporter of a number of key commodities such as rice, coffee, pepper, tea, cashews and aquaculture products. This has not only increased the income level of farmers but also contributed to the whole economy. There has been an impressive agricultural growth over years, especially a striking difference before and after 1989, thanks to the impact of a wide range of reforms encouraging farmers and private sectors to respond to new market opportunities (see Figure 1). The agriculture sector experienced a very high average growth of roughly 5% annually. Although it was affected by other factors, such as fluctuating international market prices and weather conditions, the agriculture sector remained stable over time in comparison with the industry, construction and service sectors.

**Figure 1: Agriculture GDP growth compared with other sectors**



Source: General Statistics Office

### 3.2 Roles of different actors in the agriculture sector

**The role of the public sector.** The public sector has withdrawn from direct intervention in delivering rural services but has not yet fully maintained an important facilitating and guiding role, including development of rural infrastructures and provision of agriculture services with significant improvements on service quality.<sup>8</sup> Thanks to the four-layer extension system (central, provincial, district and commune levels), the extension services – including technical training,

<sup>7</sup> Retrieved from a recent report by the Ministry of Agricultural and Rural Development (2013)

<sup>8</sup> Global Donor Platform for Rural Development (2011) Working paper – Vietnam, *The strategic role of the private sector in agriculture and rural development*



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field demonstration, on-site advice and provision of market information – have been better provided to farmers. The government also maintains strong direct support – including subsidised technical training, costs for demonstration, infrastructure services and inputs – for smallholder farmers in extremely difficult conditions. Through Vietnam Bank for Social Policies (VBSP), soft loans to poor households and other social beneficiaries are delivered in the most timely manner thanks to the bank’s nationwide transaction points at the grass-roots level and its partnerships with mass organisations, namely the Women’s Union, Farmers’ Union, War Veterans’ Union and Youth Union. Nevertheless, some problems have remained (see further analysis of the market niche in Part 5). Such strong support and government subsidy policy in inputs supply for the poor and farmers in the extremely difficult areas has left few economic opportunities for enterprises with strong social missions.

**The role of the private sector.** Involvement of the private sector in the field of agriculture has been very much greater and more active since the issuance of Resolution 10 and 100 in the 1980s. In general, private enterprises often get involved in the supply of inputs such as fertiliser, pesticide, seedlings, equipment and tools, financing, and storage in major production areas. Stronger engagement of the private sector is witnessed in sourcing, processing and trading of major export commodities such as coffee, pepper, rubber, tea, rice and aquaculture products where commercial opportunities are most obvious. There is a little direct technical and financial investment by the private sector in the production of low-income farmers. It is also interesting to see that more conventional businesses have initiated and then successfully implemented inclusive business models for win-win solutions with their business and low-income farmers.

**The role of non-governmental organisations and international donors.** Many international and national development organisations and donors have provided various supports to the process of decentralisation and reforms in the sector through government budget support modality or direct assistance to implementation agencies at lower levels (province, commune), depending on their strategies and the priorities of their local partners. They have played important roles in improving rural infrastructure on both micro and macro scales, as well as in providing demand-led rural services such as extension and preferential credit. Capacity building for both local government officers and groups of farmers, introduction of sustainable production models, and innovative approaches to link farmers with companies, are typical types of assistance that NGOs and donors provide in order for farmers, especially poor farmers, to improve the productivity and to increase the value added to products.

**The role of the SEs.** In general, the role of SEs has still been limited, despite many potential opportunities in this key economic sector for the reasons mentioned above. From desk study and interviews with SEs, we observe that there seem to be more successful SEs involved in offering packages of services covering extension services, inputs supply and market linkages. However, very few SEs are operating on small-scale infrastructure services for agriculture and micro credit with effective business models, as the involvement of government in those services remains predominant. In addition, there are some companies that do not have social missions but that have components of supporting poor farmers by either sourcing their agriculture outputs or getting them involved in the business chain in some way. Essentially, these companies should be classified as inclusive business. Therefore, it is difficult to draw a clear-cut line between this type of company and a typical SE.

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# 4 Overview of the health sector and roles of different actors in this sector

## 4.1 Overview of the health sector

**Fast facts on the market size of the health sector.** The size of the Vietnamese healthcare market at the end of 2011 is estimated at US\$9.3 billion. Healthcare service is the largest segment at US\$6.67 billion, representing 72% of the total market. Medical equipment sales, including laboratory and diagnostic imaging equipment, reached US\$1.89 billion, or 20%, and medicine sales stood at US\$0.73 billion (8%) (Stockplus, 2012 Vietnam Health Care sector report). Major milestones of the health sector, and major actors and factors affecting the development of the sector are described below.

**Free healthcare in the early 1980s.** People received free healthcare financed by the government solely via its central budget, through an extensive network of public healthcare systems (from central to commune levels) and state-owned enterprises.

**The changing role of the government in a transitional time (1986-1989).** During this period, especially with the fiscal crisis of 1989, which resulted in a lack of financial resources, the government could no longer fund the health sector and meet all the demands of its people for healthcare services. This difficult time pushed the government to redesign the institutional and funding arrangements towards the greater sharing of healthcare costs. On the one hand, the State wanted to call all sectors – ranging from public, private, social, and foreign organisations to individuals – to become involved in the provision and financing of health services. On the other hand, the government played a more coordinating and overseeing role. Thus, socialisation policy was designed and initiated in 1989.

**The emergence of socialisation policy and involvement of non-state actors.** From 1989 onwards, several significant changes were made to implement the socialisation policy. To initiate a payment method in the health system, *fees for service* were introduced, and then increased over time. The National Health Insurance Decree was issued in August 1992 to call for compulsory health insurance for all paid workers in both public and private sectors. Voluntary health insurance for dependents, farmers, and the self-employed was also encouraged from the start. Thanks to the approval of a number of important policies and laws related to the facilitation of social mobilisation (see the relevant policies and laws in Annex 3), the involvement of the private sector was first officially admitted and then quickly developed in the health system, especially in the pharmaceutical and medical device markets. CSOs and NGOs also were established and involved in the sector, but mainly in the areas of basic healthcare, counselling services for disadvantaged groups (people with HIV, people with disabilities (PWD), the poor and minorities), communication, etc.

**The so-called socialisation policy in reality.** It cannot be denied that the socialisation policy has significantly impacted the increased availability and quality of healthcare service. This is witnessed in the increasingly diversified services provided to the public as well as the better engagement of different sectors in the market. The side effect of the policy is the maximizing of users' fees by public and private service providers on a commercial basis. The CSO sector is insufficiently involved in the delivery of health services to most needy people (UNDP, 2011). Hence, the policy seemingly creates a greater inequality between the rich and poor, between people who can pay for services and those who see health services as unaffordable. Notably, among the vulnerable groups, people infected with HIV/AIDS, people with disabilities, and people with low income have been struggling to fairly access and utilise quality health services.

**The landscape of the healthcare system.** The health system in Vietnam can be characterised by *marketisation* (health service delivery opened to different entities with the aim of providing diversified and better choices for the public on a competitive basis), *privatisation* (health services provided and owned by the public, private, and not-for-profit sectors),

and *commercialisation* (health services delivery based on fee for service).<sup>9</sup> These ‘isations’ create both positive and negative impacts for the health system. The former directly benefit service providers and those who can afford the services. The latter include (i) inequality in accessing quality healthcare between the rich and the poor/near-poor and vulnerable, and between regions, particularly poor regions such as the Northwest and the Central Highland; (ii) inefficiency in health financing, rising healthcare expenditure, and out-of-pocket spending; (iii) a big gap in quality of healthcare between the central hospitals and the lower-level ones; and (iv) a highly unregulated public-private mixture of service delivery. These all have strongly affected the lives of millions of low-income households.

**Achievements in the health sector.** After over two decades (1989-2013), the Vietnamese health system has achieved remarkable improvements in people’s well-being in comparison with other countries with similar GDP per capita (see basic health indicators in Table 2 below).

**Table 2: Achievements in key health indicators**

Key health indicators <sup>10</sup>	Measure	Year
Life expectancy at birth	73 years (70.4 males, 75.8 females)	2011
Literacy rate (15 years and over)	94% (96.1 % males, 92% females)	2002
Infant mortality rate	15.5 per 1,000 live births	2011
Under-five mortality rate	23.3 per 1,000 live births	2011
Maternal mortality ratio	69 per 100, 000	Census 2009

Source: WHO and Ministry of Health, Vietnam

## 4.2 Roles of different actors in the health sector

**The role of the public sector.** The government delivers health services via its four levels across the nation. *At the national level*, the Ministry of Health formulates and executes health policy and programs in the country, coordinates training, and operates central hospitals. *At the provincial level*, the Provincial Health Bureau is responsible for planning regional health services and programs, running provincial hospitals, providing preventive measurements and implementing national health target programs. *At the district and communal levels*, district health centres and commune health stations provide primary and secondary care. The public sector is predominant in the provision of in-patient care services, as well as greatly supporting the poor/near-poor through government programs and projects that aim to include them under the universal health coverage.

**The role of the private sector.** There are just over 133 private hospitals<sup>11</sup> and thousands of companies involved in outpatient clinics, pharmacies, and medical device provision, which is the most lucrative. They currently dominate the sale of pharmaceuticals (drug vendors, private pharmacies), medical devices, smaller ambulatory care and other outpatient services (general practitioners, nursing homes) in the health sector. Details of their roles will be further elaborated in the analysis of market niches for SEs in Part V.

<sup>9</sup> “Vietnam has seen not only increasing marketization and privatization of health and education services, but also rapidly increasing commercialization” (UNDP, 2011).

<sup>10</sup> These indicators are retrieved from the Five-year health sector development plan 2011-2015

<sup>11</sup> JAHR, 2012

**The role of local NGOs, INGOs and CSOs.** There are many local NGOs, international NGOs (INGOs), and CSOs established in the main cities and provincial levels to provide healthcare services to the vulnerable, including people with HIV/AIDS, gays and lesbians, people with disabilities, children under five, and the elderly. Some NGOs run their businesses under funding from international donors, while others charge affordable fees for service delivery. CSOs are working on small-scale compared to other sectors.

**The role of SEs.** SEs in the health sector are providing various needed services, particularly for low-income and disadvantaged groups, though their business has still been on a small scale. They usually offer tailor-made basic healthcare, essential medicines, devices, transportation services and health counselling services at affordable prices or free for those who either have very low capability of payment or are not able to pay. Notably, there are various opportunities for SEs to play a stronger role in the health sector (see details of those opportunities in Part 5).

## 5 The operation, opportunities and constraints of interviewed social enterprises in the health and agriculture sectors

In this part, we focus on an in-depth analysis on the 12 surveyed SEs in the health and agriculture sectors. The analysis mainly revolves around several issues, such as (i) profiles of these SEs, (ii) their performance, (iii) business models, and (iv) success factors. Also, opportunities and constraints are identified on the basis of the desk study results as well as the main findings drawn from the interviews with the surveyed SEs.

### 5.1 Profiles of the surveyed enterprises

**Brief description of the surveyed enterprises.** Twelve SEs were selected out of over 64 short-listed enterprises in both health and agriculture sectors. The basic information on the legal form, location, year of establishment, and main business areas of these SEs are detailed in the following table:

**Table 3: Brief description of the surveyed enterprises**

No.	Name of social enterprise	Legal form	Location	Year established	Brief content of activities
<b>I. Health Sector</b>					
1	New Light - Light Institute for Development and Community Health	NGO	Ha Noi	2013	Provide sexual healthcare and prenatal care services for people with disabilities

2	Medical Technology Transfer and Services (MTTS)	Limited Company	Ha Noi	2003	Produce and provide affordable and easy-to-use medical equipment for paediatrics with special devotion to newborn babies
3	Centre for Community Health Care and HIV/AIDS Prevention Support in Hai Phong (CCHCPS)	NGO	Hai Phong	2006	Provide vulnerable groups, especially HIV-infected people, with medical examination and treatment services
4	Tri Duc Joint Stock Company	Joint Stock Company	Yen Bai	2009	Provide high-quality ambulance service
5	Truong Sanh	NGO	Ben Tre	2010	Provide traditional medical examination and treatment services
6	Safe Living Company (ATS)	Company	Ho Chi Minh City	2010	Provide package of services to HIV/AIDS-infected people with business skills, and knowledge for them to start up business; sell quality condoms at low cost

## II. Agriculture sector

7	KCT Centre in Thai Binh	NGO	Thai Binh	2009	Provide technical support and high-quality seedlings for farmers in Thai Binh and neighbouring provinces (Bac Can and Ha Giang)
8	VRAT Co. Ltd.	Company	Thanh Hoa	2008	Provide technical support and high-quality seedlings for farmers in Hoang Hoa district, Thanh Hoa
9	Huong Hoa Cassava Starch Factory (SEPON)	Company	Quang Tri	2004	Produce organic fertiliser from cassava starch, and sell to cassava farmers at reduced price; source cassava from farmers via farming contracts and at farm gates
10	Lien Nghia People's Credit Fund	Cooperative	Lam Dong	1998	Offer savings and credit services
11	Huu Duc Cooperative	Cooperative	Ninh Thuan	1979	Provide fertiliser, water for production, and soil preparation services at low price to farmers
12	Evergrowth Cooperative	Cooperative	Soc Trang	2004	Offer dairy cows breeding; provide inputs for dairy production, logistic services and infrastructures for members

Source: Collected from the surveyed SEs

**Identity of the interviewed enterprises.** During the interviews with the SEs, it was revealed that not all of them have the three characteristics of a typical SE according to the concept of SE used in this study. Specifically, only 5 interviewed enterprises have all three fundamental characteristics of a SE: (i) having a clear social mission, (ii) doing business as a tool, and (iii) reinvesting profits to achieve the social mission. Another 4 enterprises combine social missions with a business model. Two enterprises (SEPON and Lien Nghia Credit Fund) include the vulnerable (farmers in these cases) in their business chain. It maximise their profits, and on the other hand, use their profits for business expansion. Hence, they are classified as inclusive business. One interviewed cooperative neither innovatively runs its business towards its customer segment nor shares financial surpluses for actualizing its social objectives, though it has a clear social mission. Therefore, the analyses below mainly reflect information from the other 11 surveyed SEs.

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**Table 4: Identity of the surveyed SEs**

Surveyed enterprises	Clear social mission	Doing business	Reinvest profit to achieve social mission
New Light	✓	✓	✓
Medical Technology Transfer and Services (MTTS)	✓	✓	✓
Center for Community Health Care and HIV/AIDS Prevention Support in Hai Phong	✓	✓	
Tri Duc Joint Stock Company	✓	✓	✓
Truong Sanh	✓	✓	
KCT Center in Thai Binh	✓	✓	
VRAT Co. Ltd.	✓	✓	
Huong Hoa Cassava Starch Factory		✓	✓
Lien Nghia People's Credit Fund		✓	✓
Huu Duc Cooperative	✓	✓	✓
Ever-Growth Cooperative	✓	✓	✓

**Legal status of the surveyed enterprises.** Legal status varies from one enterprise to another. Three SEs are cooperatives, while five SEs are registered as regular companies in different forms such as limited companies and Joint Stock Companies. Four SEs are non-profit organisations.

**Scale of business.** Ten of the surveyed SEs are small-scale businesses; the number of employees ranges from 3 to 28 people.<sup>12</sup> Besides the full-time employees, some of the SEs have their own networks of collaborators to provide services on a part-time basis. Notably, one enterprise, Huong Hoa Cassava Starch Factory (SEPON), has up to 350 employees.

**Beneficiaries of the interviewed enterprises.** The customer segment of the interviewed SEs varies within each of the two sectors (health and agriculture) and between the sectors. Low-income and ethnic minority farmers are the main customers of the SEs in the agriculture sector, while the disabled, people with HIV/AIDS, lesbians, gays, and newborn babies are target clients of those in the health sector. With regard to the number of customers, there are 34,226 farmers and 28,650 clients in total (see details in the following table).

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<sup>12</sup> Only full-time and part-time employees are counted

**Table 5: Beneficiaries of the interviewed enterprises**

No.	SEs	No. of beneficiaries
<b>I. Health Sector</b>		
1	New Light - Light Institute for Development and Community Health	50
2	Safe Living Company (ATS)	600
3	Medical Technology Transfer and Services (MTTS)	15,000
4	Tri Duc Joint Stock Company	2,000
5	Truong Sanh	9,000
6	Centre for Community Health Care and HIV/AIDS Prevention Support in Hai Phong	2,000
<b>Total (turns of people/year)</b>		<b>28,650</b>
<b>II. Agriculture Sector</b>		
7	Evergrowth Cooperative	3,000
8	KCT Centre in Thai Binh	10,000
9	Huu Duc Cooperative	1,403
10	Huong Hoa Cassava Starch Factory (SEPON)	9,000
11	VRAT Co. Ltd.	60 <sup>13</sup>
12	Lien Nghia People's Credit Fund	10,763
<b>Total (people)</b>		<b>34,226</b>

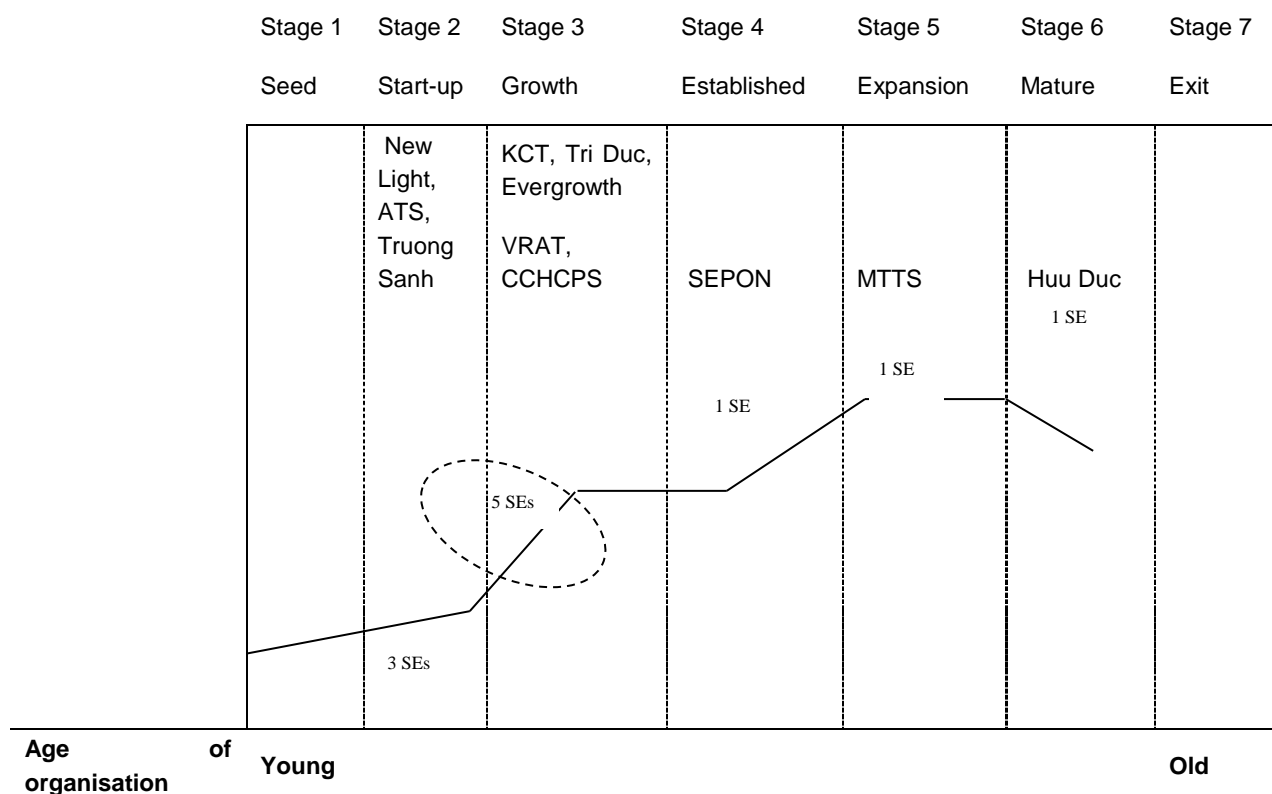
Source: Collected from the surveyed SEs

**Profile of the interviewed business managers/owners:** Eight SEs were founded and managed by experienced individuals. The three other directors – of SEPON, Evergrowth and Huu Duc – were recruited on a contract basis. The age of interviewed business owners ranged from 37 to over 60. It should be noted that more than half of these business owners were aged from 40 to 50. The majority of the SE owners have undergraduate and postgraduate degrees, while only two have vocational certificates.

**Stage of business development of the interviewed enterprises.** We observed different stages of development of the selected SEs. Some of them were just in the start-up phase, while the others were in the growth, established, expansion, and mature phases. The following figure presents the stages of business development of the 11 surveyed SEs. Notably, the majority of the enterprises are concentrated at Stage 2 and Stage 3, the start-up and growth stages, while there are only a few at Stages 4, 5, and 6. None belong to Stage 1: Seed or Stage 7: Exit.

<sup>13</sup> The figures refer to the number of farmers involved directly. Excluded are thousands of consumers having access to safe food.

**Figure 2: Classification of interviewed SEs according to different stages of development<sup>14</sup>**



## 5.2 Performance of the interviewed social enterprises

**Impressive performance of interviewed SEs in the agriculture sector.** We saw an upward trend in the revenue growth of the two SEs, Evergrowth and KCT Centre. Meanwhile, another SE – VRAT – witnessed its revenue dramatically grow by 400% from 2009 to 2010 and then increase by 20% and 50% in 2011 and 2012 respectively. There was great fluctuation in the case of SEPON, as demonstrated by revenue growth of 41% in 2010, 132% in 2011, and 36% in 2012. Due to missing information, there is no record for the growth over years of Huu Duc Cooperative.

**Table 6: Revenue growth of interviewed SEs in agriculture sector over years**

Agriculture Sector	Revenue Growth over years (Unit: %)		
	2010	2011	2012
Evergrowth Cooperative	30	55	50
KCT Center in Thai Binh	n.d	n.d	50

<sup>14</sup> This classification is made based on ‘The 7 stages of business life cycle’, White paper, Just in Time Management, 2013



Huu Duc Cooperative	n.d	n.d	n.d
Huong Hoa Cassava Starch Factory (SEPON)	41	132	36
VRAT Co. Ltd.	400	20	50

Source: provided by interviewed SEs

**Good performance of the interviewed SEs in the health sector.** It should be noted that there is missing information on the revenues of the surveyed enterprises New Light, ATS, MTTTS and Truong Sanh. For the SEs with enough information, the growth in revenue is clear. The Centre for Community Health Care and HIV/AIDS Prevention Support (CCHCPS) in Hai Phong saw its revenue grow considerably over years (2.44% in 2010, 7.14% in 2011, and 24.44% in 2012). In the case of Tri Duc, there was a negative growth in 2011, but a significant increase in revenue over just one year (growth of 75.53% from 2011 to 2012). See more details in the following table.

**Table 7: Revenue Growth of Interviewed SEs in Health Sector over years**

Health Sector	Revenue growth over years (Unit: %)		
	2010	2011	2012
Centre for Community Health Care and HIV/AIDS Prevention Support in Hai Phong (CCHCPS)	2.44	7.14	24.44
Tri Duc Joint Stock Company	n.d	-31.41	75.53
New Light - Light Institute for Development and Community Health	-	-	-
Safe Living Company (ATS)	n.d	n.d	n.d
Medical Technology Transfer and Services (MTTS)	n.d	n.d	n.d
Truong Sanh	n.d	n.d	15

Source: provided by interviewed SEs

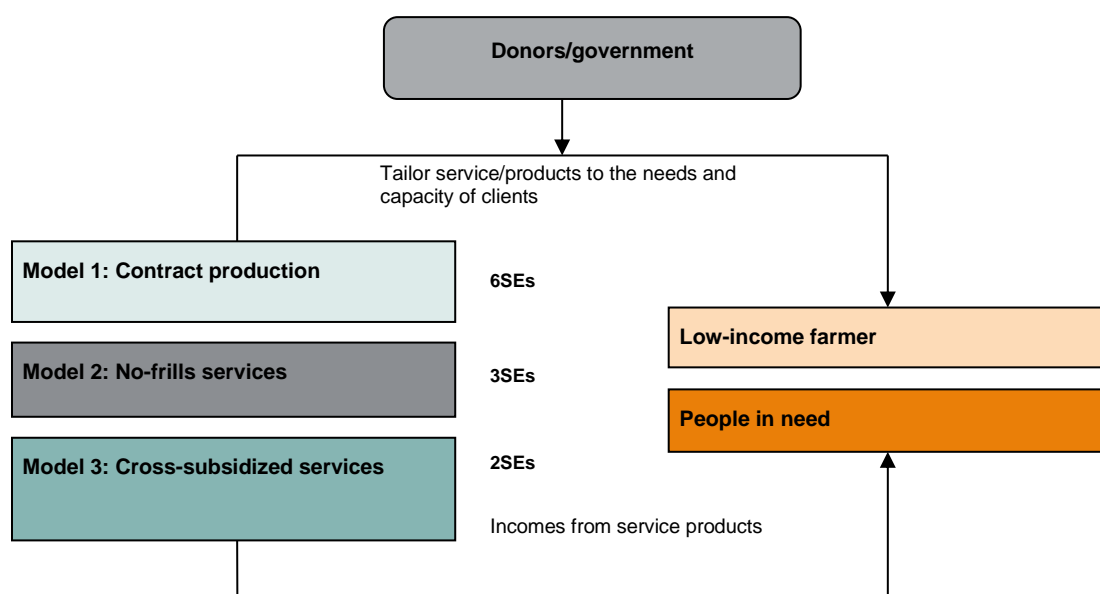
### 5.3 Business models

**Motivations:** There are various reasons for the interviewed founders/owners to engage in their current business. Some of the founders started up their businesses to tackle long-lasting social problems in their own ways, building on their long years of experience in the relevant sectors. Founders of New Light and ATS wanted to offer friendly and quality services in response to the unmet demand of their target clients. MTTTS's owner was very concerned about the increasing number of newborn babies' deaths due to the lack of affordable and easy-to-use medical devices, and he had been asking himself to do something to solve this problem before starting his business in Vietnam. KCT's founder had a great passion for supporting farmers in Thai Binh by using her deep experience and knowledge in the production of high-quality potatoes. In spite of not being involved in the set-up of the cooperatives, the two interviewed managers of Huu Duc and Evergrowth showed great interest in providing relevant services to their members, who are mostly poor minority farmers.

**Four common roles or commitments of SEs.** Both desk study and interviews with SEs have revealed their four major roles or commitments. First is to offer quality goods and services at reduced prices to make them more affordable for lower-income people. Tri Duc, Truong Sanh, New Light and Evergrowth are good examples in this category. Second is to operate and maintain essential infrastructure for communities – which traditionally was built and run by the public sector. For instance, Huu Duc Cooperative is operating in-field canals to provide its members enough water for cultivation. The third commitment is to provide goods and services such as bi-fertiliser, renewable energy for which consumers are not willing to pay the full cost but which has a positive environmental impact. To illustrate this, SEPON sells fertilisers at a much cheaper price by sourcing cassava starch from farmers and then manufacturing a slow-release micro-organic fertiliser. This helps farmers significantly reduce production costs. The fourth commitment is to provide goods and services for those who are in need and who used to receive free-of-charge services. Typical examples for this group are CCHCPS and ATS. Fifth is to offer packages of know-how for increased value of agriculture products, knowledge that would be very expensive to obtain from a private company. KCT falls well to this category, with provision of specialised expertise on seed potato production and preservation.

**Business models.** The interviewed enterprises have applied different business models. They are delivering services and products to their target groups, such as people with HIV/AIDS or disabilities or poor patients in the health sector, or low-income farmers including ethnic minority producers in the agriculture sector. Some of the SEs have a main revenue stream derived from commercial activities, while for some others their revenue mainly comes from funding by donors/international organisations or by the government through national programs.

**Figure 3: Business model**



**Three business models.** Most of the business models can be grouped into three types. They are (i) contract production, (ii) no-frills service, and (iii) cross-subsidised service. Notably, the first two business models are also applied by SEs in other countries like India. Exactly following a certain business model as classified above seems not to be the case for some surveyed SEs.

**Model 1 – Contract production:** This is the model applied by those engaged in the agriculture sector, such as SEPON, Evergrowth, KCT, and VRAT. Farmers get guaranteed prices and quantity prior to each crop from those enterprises. These SEs take care of storage, packaging, processing and dealing with traders. Farming products are collected at farm gates (SEPON) or central sourcing points (Evergrowth, KCT). They all provide a full package of services: technical training and advice, input supply, storage, veterinary services, and quality assurance, to ensure that the farmers can

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apply best practices to agricultural production and meet the quality standards required by the SEs. Farmers pay SEPON and Evergrowth for input supply at reduced prices. Trading of potato seedlings is a main source of income for KCT, which sells them to farmers together with technical training and ongoing monitoring of activities. These additional services are well received by their farmers and thus make KCT different from other conventional companies in terms of their engagement with farmers. For the SEs following this business model, commercial activities create both direct social and environmental impacts for the farmers and financial returns for the companies. The box below will illustrate Model 1 – Contract production, via the case of Evergrowth.

### Business Model of Evergrowth Dairy Milk Cooperative

**Brief information:** Established in late 2004 within the framework of the Poverty Reduction Project funded by the Canadian International Development Agency (CIDA) in SocTrang, the cooperative activities cover the four districts of Tran De, My Xuyen, ChauThanh and My Tu of Soc Trang provinces.

#### Evergrowth's business involves:

- Sourcing all fresh milk from over 3,000 farmer members (90% Kh'me and 60% poor farmers when joined the cooperative) meeting specifications in terms of quality and volume at an agreed price and selling to FrieslandCampina milk processor with a margin of 2,000 VND/litter to cover all operation costs. Fresh milk is collected at two cooling stations. The cooperative trades 16,000 litres of fresh milk daily.
- Providing dairy cows breeding, quality feeding at wholesale prices to all members on cost recovery basis. As the cooperative is the level-1 feeding distributor, it reinvests the discounted money into the production or services for farmers.
- Providing a package of veterinary and extension services to its members. New members will receive training on 20 topics including cooperative operation and dairy cow techniques.
- Monitoring, which is implemented with the use of a logbook by each farmer, who records the number of dairy cows and the volume of milk produced daily and incomes.
- Testing the quality of milk at the cooperative's lab.
- Paying the farmers twice a month via bank transfer.

**Performance and impact:** In 2012, Evergrowth earned a total income of 72 billion VND including a profit of 3 billion VND. Over 3,000 farmers have regular income of 3-4 million VND/cow/month. In addition, they received dividends of 40% profit earned. The remaining profit was reinvested for business expansion.

**Model 2 – No-frills services:** Tri Duc, New Light and Truong Sanh are applying this model, building upon their specialised expertise in the health sector. They wisely invest in and effectively utilise equipment and facilities in order to lower the cost of services. They offer quality and attractive services at a 20% lower cost on average than other service providers, but they still make profits thanks to wise investments in equipment and facilities that can help the business bring down the cost while still functioning well. In addition, two SEs (Tri Duc and New Light) offer different levels of service fees to different groups of clients. The service fees typically are in forms such as (i) free of charge for people who cannot afford to pay, (ii) small subsidies for those who have low payment capability, and (iii) regular fees. All of the three enterprises have optimised existing networks for marketing and delivering or distributing products and services. For instance, Truong Sanh distributed low-cost herbal medicines through a network of commune traditional medical practitioners and local Red Cross Associations. New Light engaged with volunteers to raise the needs for services among targeted PWD. Both of these SEs actively and innovatively established partnerships with donors or government to reach out to more clients in different segments, as well as to get more financial sources. It should be

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mentioned that New Light and Truong Sanh are still at the start-up stage. The business model of Tri Duc will illustrate Model 2 as follows:

### Business Model of Tri Duc Yen Bai

**Brief information:** Tri Duc is a Joint Stock Company established in 2009. It offers medical transportation services domestically, and aims to provide services internationally in the near future. At present, it serves six districts in Yen Bai and four districts of Tuyen Quang and Phu Tho provinces.

**Business model:** The company invests in three ambulance vehicles that are highly efficient in fuel consumption but well equipped, to keep the cost as low as possible. The users can either call Tri Duc hotlines directly or call commune health stations and public hospitals as a good reference source for its services. Fees are paid directly by users or covered by health insurance through two public hospitals (Nghia Lo Regional Hospital and Yen Bai Provincial Hospital), who signed framework agreements with Tri Duc. A fare of 15,000 VND/km is applied for fully equipped and staffed services. For a short trip of less than 5 km, a flat fare is charged at 150,000 VND. The cost for long-distance trips is 20-30% lower compared to other service providers. In addition, fees are reduced 15-30% for the poor. Hospitals or health stations receive a 30% share of the profit margin from Tri Duc for those referred cases that are fully cost recovered.

In 2012, the company served 2,000 patients safely. Total revenue from the service was 1.2 billion VND with 200 million VND in profit.

**Model 3 – Cross-subsidised services:** Unlike other interviewed cases above, ATS and CCHCPS provide counselling, medical services and treatment to people with HIV, gays and lesbians, while MTTS offers affordable and quality medical devices for paediatric hospitals targeting newborn babies. These SEs receive payments from donors, employers or hospitals through specific programs. Thus, to stabilise income source, some SEs, such as ATS, engage in other businesses such as restaurants or trading medical devices. While MTTS and ATS increase their income from other business activities, CCHCPS is heavily dependent on grants from donors. Hence, all of the SEs need to diversify their income sources in order to actualise their social missions for those who have either low payment capability or just cannot pay for the services. Keeping these cross-subsidised services for vulnerable groups will be a challenge for the centre. For this group, not all of the commercial activities create direct social impacts.

### Safe Living company (An Toan Song, ATS) Business model

After being established in 2010, the company at first operated mainly in Ho Chi Minh City and then expanded to Hanoi. Currently, ATS engages in the following services:

- Providing free-of-charge health counselling and technical advice for livelihood activities and selling quality condoms for people living with HIV, lesbians.
- Linking the target groups to Social Policy loans or government programs for livelihood activities by Ho Chi Minh People's Committee
- Running a restaurant to get income to partly cover the costs of counselling services.
- Consulting for development partners.

In 2012, ATS provided services to more than 600 people with HIV/AIDS, lesbians and gays. Income from a restaurant increased overtime and can cover 50% of cross-subsidised services.

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**Governance practice.** Individual SEs follow those governance models specified in the respective laws under which they are regulated, while some others depend on the perceptions of their business owners. Among the interviews with the surveyed SEs, Evergrowth appeared to be the one expressing a great interest in this topic. Specifically, they can explain very well their practice of adhering to the agreed governance principles. With the publication of financial and audit reports, Evergrowth gains the confidence of local government, membership and donors. On the contrary, Huu Duc makes decisions by the cooperative managers rather than in consultation with the managing board or the members. Other interviewed SEs do not pay due attention to good governance. They may underestimate the potential benefits of being a transparent and well-managed business, especially for mobilising additional external resources or support for business expansion.

**Profit distribution.** Eight out of 11 interviewed SEs make profit at various ratios. The strategy for profit distribution varies among 8 profit-making SEs. For the SEs in the agriculture sector, profits earned are reinvested in technical training and demonstration plots for farmers. Apart from these, Evergrowth shares 40-60% of the annual profit with its membership, and uses the remaining for business expansion. SEPN supports the operation of 100 Millionaires' Club, which pioneers in the application of new seedlings and agriculture techniques, and also supports providing on-site technical advice to other ethnic minority farmers. KCT shares risks with farmers by extending the credit terms or reducing the seedling costs if there is a crop loss. Huu Duc Cooperative has to contribute a very small percentage of its income to community activities in accordance with the Cooperative Law. In the health sector, subsidised service applied by Tri Duc and New Light for specific patients is another form of profit distribution for its beneficiaries.

**Recruiting and retaining qualified staff.** Staff qualifications are seen as crucial by interviewed SEs, especially those in the health sector. Hence, New Light, Tri Duc, MTTS and ATS pay attention to staff training and monitoring. Nevertheless, recruiting and retaining staff with responsible attitudes and great skills to create and distribute high-quality products or services is a challenge for the SEs. While MTTS maintains good R&D capacity by using international volunteers as designers, there is a shortage of local technicians for the proper installation of devices. The future expansion of Tri Duc partly depends on the functioning of drivers with high integrity. Social marketing is a new area for New Light and Truong Sanh. Most SEs in the agriculture sector have good technical staffs but lack the ones with business development and financial management experience. This is also applied in the case of KCT and Evergrowth.

**Leadership.** Owners of about half of the interviewed SEs demonstrate relatively strong leadership with clear business vision. They understand their business situation and show a clear learning attitude. These are obviously important factors for them to develop business more innovatively and effectively. However, some owners/managers of the other SEs are showing some hesitation in transforming their organisational and governance structure in order to capture market opportunities.

**Current competition with private and public sectors.** A few SEs, such as Tri Duc, Evergrowth, and KCT, are very confident about being leaders in their local markets thanks to their high quality and competitive services and products. However, competition with the public sector or support of the development projects sometimes hinders the business of these SEs. In the agriculture sector, public institutions have better access to public funding for technical training or seedlings; thus, they can offer either free-of-charge services or lower prices for seedlings. In the health sector, the degree of competition varies. MTTS has to compete with cheap but low-quality medical devices from China or with high-quality but expensive devices from well-known producers in developed countries. Competition with support from the development projects where all the costs are fully covered by donors is seen in the case of ATS and New Light.

**Access to local support:** Interviewed SEs have access to local support by different means. Evergrowth receives some support from the Department of Agriculture and Rural Development in increasing the number of farmers participating in its business activity. Among the 11 interviewed enterprises, KCT is the only one that receives proactive support from Thai Binh's Vietnam Union of Science and Technology Associations (VUSTA in Thai Binh), an umbrella of KCT. It is very fortunate that KCT has successfully expanded its business and reached out to more farmers in Bac Can and Ha Giang provinces, though the authorities of these provinces had certain doubts about the success of such small organisations like KCT at the outset.

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## 5.4 Innovation/success factors

**Innovation and success factors.** Some of the interviewed SEs apply innovative business models accommodating specific needs of particular market segments (HIV/AIDS, PWD, minority farmers) as mentioned in the analysis of the business models above. KCT develops a network with agriculture cooperatives, which play a role as KCT's outreach arms in providing production skill training and monitoring production activities of farmers in some new areas. This helps KCT lower the cost and utilise production expertise while maintaining a small core staff. Focusing on raising awareness of rights regarding the use of reproductive healthcare services by PWD, and raising the demand for them, thus making PWD feel comfortable before providing medical consultation services, is a suitable strategy employed by New Lights. MTTS localises western technologies in the designing and production and makes use of alternative materials for lowering the costs. In the agriculture sector, adopting sustainable agriculture practice and sharing values between farmers and companies are important factors that have helped SEPON, Evergrowth, KCT and VRAT expand markets and make profits while many other agri-firms are struggling with the business operation.

**Effective public-private partnership.** An effective partnership between Tri Duc and public hospitals in organizing medical transportation services and payment is another innovation that not only helps hospitals achieve their tasks with limited resources but also addresses the needs of the local population for safe and reliable services.

**Strong business culture.** It is encouraging to see that some interviewed enterprises create a good working environment where organisational culture and staff values are recognised. This helps New Light and Tri Duc maintain their current technical staffs, in spite of tough competition in the health sector.

## 5.5 Opportunities for the surveyed enterprises

Opportunities in this report are identified as a result of the main findings from the desk study as well as interviews with the surveyed SEs. In both health and agriculture sectors, the desk study shows that low-income farmers face a lot of issues throughout the agriculture value chains, and that needs of underserved people are not yet fulfilled by the government or private-owned companies. These issues and needs are verified by the surveyed SEs, as well as presented through market niches in this study. Notably, there are likely to be some other opportunities and market niches that SEs can explore and thrive under, in different contexts.

### Opportunities in the agriculture sector

**Issues faced by low-income farmers.** A lot of problems have existed in the whole agriculture value chain and have been negatively influential in the lives of low-income farmers for years. As mentioned in Part III, some issues are currently being addressed by the private sector and/or government. However, these obviously cannot be solved by the government alone, but by the involvement of the non-state sector.

**Identified market niches.** Some opportunities in one stage or several stages of the value chain for enterprises are as follows:

- Providing quality and low-cost agricultural inputs for low-income farmers
- Providing small-scale infrastructure assets and services
- Improving efficiency and effectiveness of farmer-based credits for agriculture production
- Delivering farmer-based extension services to increase crop values and improving market linkages between farmers and buyers
- Turning agriculture waste into low-cost production inputs and energy for more sustainable farming.

### **Market niche 1: Provision of quality and low-cost agricultural inputs for low-income farmers**

**Issues and need assessment.** Agricultural inputs are highly important to farmers. Their quality contributes significantly to increasing the productivity of agricultural outputs. In fact, around 90% of the poor live in rural areas (World Bank), and demand for quality and low-cost agricultural inputs such as seedlings, fertilisers, pesticides and others is potentially huge but has not been fully met for years. Seedlings are obtained from three sources: (i) seed companies and breeding institutes, (ii) the cooperative seed production system (including extension clubs and large-scale private seed producing

farmers), and (iii) farm-saved seed sources.<sup>15</sup> The other inputs (e.g. fertilisers, pesticides) are largely from private and state-owned companies. Yet poor farmers, especially ethnic minorities in difficult regions, have no access to local quality input supply. *Of seedlings*, we witnessed that poor farmers often obtain seed from their neighbours, or use seed saved from the previous crop, rather than purchasing certified seeds. *Of fertilisers, pesticides, and other materials*, we observed that farmers, particularly poor farmers, seldom utilise these inputs for annual crops (e.g. rice, maize, and cassava) as they are unaffordable. As a consequence, the crop yield of poor farmers in difficult regions has remained relatively low for years, which requires appropriate support from different sectors. Several surveyed SEs, SEPON, KCT, Huu Duc and VRAT, operated successfully in this market niche. The box below analyses Huu Duc’s business providing input supply for farmers.

## Huu Duc Cooperative

**No. of members:** 1,403 members (90% Cham ethnic minority, 10% Kinh)

**Supporting scheme for farmers:** Huu Duc Cooperative either produces or partners with other input/service providers with flexible payment schemes to offer its members quality and affordable production inputs/services (seedlings, land clearance, fertilisers, pesticides, harvesting facilities).

- *Of seedlings*, the cooperative itself produces quality seed to provide for farmers prior to each crop season.
- *Of other inputs like fertilizer*, it built an extensive network with private providers to buy fertilisers and then sell to farmers with a fixed price regardless of price changes in the market.
- *Of other facilities such as land-clearing machines*, the cooperative rents these machines from other individuals for its members.

Apart from this, a flexible financing scheme is applied to farmers so they can pay whenever they have money (normally post harvesting season).

**Impact assessment:** support from the cooperative leads to an increase in crop productivity of 1-1.5 ton/ha and in income level of 50%.

	BEFORE	NOW
Crop productivity (per ha)	3.5-4 tons	5 tons
Profit (per ha)	VND 5 million	VND 10 million

**Policy enablers and challenges for SEs.** In addition, the government has a range of supporting policies to engage non-state actors with producing and supplying agricultural inputs. These include (i) capacity building for their staff, (ii) some assistance in marketing; (iii) transportation costs (see Annex 4). Therefore, this is obviously a great opportunity for SEs to seize different ways under local conditions. By interviewing selected SEs in this niche, we found that challenges are (i) to have good technical knowledge and know-how to produce quality seedlings that can be certified for wide distribution as required by the government, and (ii) to produce and sell fertiliser and pesticides that are competitive with those produced by public providers/producers who receive subsidies from government via its projects and programs.

<sup>15</sup> Based on the findings of the research ‘Seed production systems in Vietnam’ conducted by Agrifood Consulting International (December, 2002)



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## **Market niche 2: Provision of small-scale infrastructure assets and services**

**Issues and need assessment.** Even though there are a lot of government-funded projects and programs investing in developing and enhancing rural infrastructure at small-, medium- and large-scale levels, demands of provinces, particularly poor provinces, for infrastructure still stay relatively high. Apart from this, operation and maintenance of small-scale infrastructure assets and services – such as small-scale dams for agricultural production, in-field canals, warehouses, household-scale processing facilities, trading forums, and information and communication technology (ICT) – is essential to increase productivity and the quality of agricultural inputs and access to market. This is in line with the strategic shift of the agriculture sector from production of low-valued commodities to high-valued, high-quality processed products.<sup>16</sup> Notably, small landholders and farmers, especially poor farmers, either cannot afford, or are incapable of building, the physical infrastructure (small-scale irrigation systems, in-field canals, household-scale processing facilities), as well as ‘soft’ infrastructure such as trading forums and market information sharing systems. Huu Duc Cooperative provides irrigation services for its members. As farmers collectively cannot afford the cost of repair and maintenance work of the irrigation system, the co-operative plays a coordinating role in building, maintaining and operating the inner-canal system by mobilizing resources from not only its members but also from the government and other sponsors.

**Policy enablers and challenges for SEs.** It is important to highlight that the government has initiated several policies to engage the private sector in the delivery of infrastructure via Public Private Partnership (PPP). However, the current policies have failed to create sufficient incentives for private firms to develop, operate and maintain small-scale infrastructure assets and services for poor farmers in difficult areas. Several challenges are defined for private firms and SEs to engage in this service. They are (i) how to operate in a very-small-margin business where infrastructure and assets were mostly built by the public sector and are not necessarily suitable for use by farmers, and (ii) how to mobilise financial resources for constructing the small-scale infrastructure, as well as ensure stable revenue sources for maintenance and reparation if necessary.

## **Market niche 3: Improving efficiency and effectiveness of farmer-based credits for agriculture production**

**Issues and need assessment.** In recent decades, the establishment of the Vietnam Bank for Social Policies (VBSP) together with the Vietnam Bank for Agriculture and Rural Development, the two public credit institutions, as well as other credit schemes, have significantly improved not only the coverage of but also the accessibility of farmers, especially the poor ones. The key point, however, lies in (i) low efficiency and effectiveness in using the loans, and (ii) inappropriate loan sizes and payment schedules for these loans. In other words, an increase in the quantity of low-interest loans for poor farmers has not been accompanied by an increase in quality yet. Therefore, the social impact of the loans for agricultural production has remained limited. An example reflecting (the mentioned above) problem is that some poor households, particularly in remote and mountainous areas, fail to use the loans efficiently and effectively due to a lack of business planning skills, while others are unable to obtain larger loans for their production because of the credit limit<sup>17</sup> set by banks. Despite the large-scale participation of the government in providing soft loans for poor farmers across the nation, there is still a gap between what the government can do and what poor farmers are in need in terms of efficient use of loans, loan size and repayment schedule. Non-state actors including SEs could fill in the gap.

**Challenges for SEs.** The current policies on banking and microfinance pose a great challenge for microfinance and small-scale credit institutions to meet government requirements for their set-up and operation. The costs of administration and capital-raising are getting higher, while there is a cap on lending rates applied to commercial banks, making it difficult for these SEs to stay in business. Another challenge for SEs in this niche is the stiff competition with commercial banks and the state-owned banks. This certainly requires SEs to have appropriate business models and effective ways to approach and reach out to people in need.

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<sup>16</sup> The agriculture sector of Vietnam aims to boost added value of its products by at least 20% in the next decade (IFAD, 2012)

<sup>17</sup> Credit limit for a poor household is VND 30 million; interest rate is 0.65%/month; term loan is 12 months.



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## **Market niche 4: Delivery of farmer-based extension services to increase crop values and market linkages between farmers and buyers**

**Issues and need assessment.** Increasing crop values as well as reducing post-harvest costs overall requires (i) the application of best practices into the production, and (ii) the removal of unnecessary transaction costs through market linkages between farmers and buyers.

- Despite proven impacts on productivity and farmers' income from extension programs, many low-income farmers, especially females (who account for around 53% of the farming population),<sup>18</sup> still have difficulties in accessing formal extension services to upgrade their production skills and knowledge for productivity and quality improvement. Evidently, the national system of Vietnam mainly reaches higher-income farmers (Global Forum for Rural Advisory Services, 2012). Furthermore, the top-down approach in the public extension services failed to meet the demand of the farmers for continuous production improvement.
- Under the Decision 889/QD-TTg on restructuring the agriculture sector, a shift of focus from increasing production volumes to increasing production values is clearly stated. Looking at the current landscape of the agricultural value chain in Vietnam, there is an absence of effective wholesale markets for agricultural commodities. Farmers, traders and agro enterprises hardly meet each other in market places where they could exchange market information; update requirements of trading companies for quality, sanitary and environmental standards; talk about changes in the tastes of end-users;. To achieve the above strategy would certainly requires all sectors to be involved so that there would be an enabling environment, with greater promotion of competition and utilisation of science and technology into agricultural production for meeting the demand of a more sophisticated market. Millions of farmers, particularly poor farmers, have a long-lasting concern, which is how to ensure a stable output for, and increase the value of, their agricultural products. Most of them have limited knowledge on best agricultural practices, and lack market information, or have no direct connection to buyers, but largely rely on local traders for some limitations explained below.

**Supporting Policy and Challenges for SEs.** In relation to the promotion of market linkages, there are some government agriculture sector support policies, prominently Decree No.61/2010/ND-CP on June 4, 2010, on incentives for enterprises investing in agriculture and rural areas. The main incentives related to market development supports and science and technology application supports are relevant to social enterprises. Besides this, tax incentives on corporate income tax, to invest in the agriculture sector (processing agro-forestry) in certain locations, especially mountainous and remote areas, consist of (i) tax rate reduction (20%, 15%, 10%) for a certain period (10, 15, 20 years), (ii) land use tax, (iii) import duty, and (iv) enterprise income tax exemption/holiday (International Fund for Agricultural Development (IFAD), 2012). These supports and incentives are very helpful for start-ups of, or development of, non-state sector enterprises including SEs. When it comes to challenges, enterprises (social and regular enterprises) are likely to face difficulties satisfying high standards imposed by buyers on quality, sanitary and environmental protection. (See supporting policy of the local government and challenges via the case of one surveyed SE – KCT – in the following box).

### **Thai Binh Environment and Agriculture Science Development, Application and Consulting Center (KCT)**

**Business activities:** Producing and providing high-quality potato seedlings; providing technical assistance for the poor, processing agricultural waste; researching, applying and transferring agricultural techniques; training and consulting services.

**No. of farmers served:** 10,000 farmers/year including 1,000 farmers in Bac Can province

**Supporting policy:** Thai Binh government authority has initiated and implemented policy of partly subsidising the cost of potato seedlings for farmers, also the cost of building cooling storage for seedling production. Besides this, the local government is reviewing a proposal for developing large-

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<sup>18</sup> Retrieved from FAO (n.d): <http://www.fao.org/sd/wpdirect/wpre0113.htm>

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scale potato fields

**Tax incentive for KCT:** only 1% of tax on revenue from seedling production

**Challenges in promotion of market linkages for potato farmers:** KCT has worked with some foreign owned-buyers (e.g. Orion) and domestic buyers for selling/exporting 30% of potatoes annually. However, KCT indicates some difficulties in developing a long-term market linkage with those partners as requirements for quality are quite high.

However, there are some challenges to make agriculture extension services more relevant to farmers' needs. These include (i) limited access to public funding for non-state sector to deliver extension services, and (ii) it is hard to charge fees to farmers who are not used to pay for the services often provided freely by the public sector. Thus, to engage in this service, SEs need to have suitable business models that create sufficient revenue from other business activities to cover extension service costs.

### **Market niche 5: Turning agriculture waste into production inputs and energy for more sustainable farming**

**Issues and need assessment.** Agricultural solid waste is one of the causes of environmental pollution in rural areas as well as inefficiency in agricultural production. This waste is generated from agricultural production activities such as cultivation (dead plants, pruned plants, and weeds), harvesting (rice straw, rice stubble, rice husks, bran, corn cobs, and corn stoves), and animal husbandry, etc. It is estimated that the total volume of agricultural solid waste for (i) rice straw and rice stubble, and (ii) animal husbandry was 76 million tons/year in 2008, and grew to over 80.4 million tons/year in 2010.<sup>19</sup> These two kinds of waste can be reused and recycled to not only improve efficiency of agriculture production but also contribute to environmental protection. There are two widely used and effective methods of solid waste treatment: biogas fermentation and biogas tanks. Applying these methods can produce energy for reducing the living cost of households, as well as generate fertilisers for lowering production costs. It is unfortunate that many farmers have not reused and recycled their agricultural waste due to lack of knowledge, affordable and suitable technologies, and awareness of the importance of using this waste to reduce the production costs. As a consequence, agricultural waste has been damaging the environment, as well as not being taken advantage of as an asset for sustainable agriculture production.

**Challenges for SEs.** To seize this opportunity, SEs need to be aware of the following: (i) limited awareness of farmers in recycling agricultural wastes, (ii) creation of appropriate business models to generate sufficient income to cover farmers' investment in waste treatment, as they may not be willing to pay full cost (iii) technology and expertise needed to treat waste efficiently, and (iv) investment capital. Between the interviewed SEs, a state-owned enterprise – Huong Hoa Cassava Starch Factory, SEPON – has successfully overcome these challenges and helped solve long-lasting poverty in some poor provinces of Quang Tri, as well as successfully seizing the opportunity to recycle waste from cassava starch into a slow-release micro-organic fertiliser. The poor ethnic minority farmers (Paco and Van Kieu) use this product to fertilise their cassava crops for better yield and quality; also, to lower the production cost (see details in the following box). This example shows that not only SEs could participate; companies and organisations can also explore this niche effectively.

#### **Huong Hoa Factory, Quang Tri One-member Trading Company Limited (SEPON)**

**No. of benefiting farmers:** 10,000 local households; 350 workers through seasonal jobs

**Supporting scheme for farmers:** SEPON supports the development of farmer groups, including a number of village leaders (10-15 households/groups). On the side of SEPON, it delivers technical

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<sup>19</sup> Retrieved from Institute of Environmental Science and Technology, Hanoi University of Technology, 2010

and practical training to these farmer groups on the issues of cultivation, storage techniques, benefits of using fertilizers, etc. On the side of the farmer group, group leaders will collaborate with SEPON on the demand of groups for fertilizers.

**Technology:** SEPON employs technology including four manual and nine mechanised processes. The manual steps include the first fermentation, air-drying, second fermentation and loose packaging. The mechanised steps are the first milling, mixing, second milling, sieving, adding and mixing minerals, drum drying and pellet packaging.

**Impact on cassava yield:** Making a comparison between a control group (non-fertilized land) and a treatment group (fertilized land) shows that the cassava yield has increased significantly by 58% (13.2 tons/ha on the non-fertilised land, and 22.7 tons/ha on the fertilised land). This increase in the crop yield leads to a boom in the level of income of 147% per hectare (VND 14 million per ha before applying fertilizer and VND 35 million per ha after applying fertilizer).

	Without fertilizer	With fertilizer
Cassava yield	13.2 tons	22.7 tons/ha
Income (per ha)	VND 14 million	VND 35 million

Source: Fast facts on cassava case (Vietnam Challenge Fund, 2011)

**Impact on environment:** It has a positive environmental impact, in terms of less solid waste pollution by the cassava processing company, less deforestation as a result of the ability to continue farming on the same land, and more fertile reclaimed land.

## 5.6 Needs of underserved groups and identified market niches for SEs in the health sector

**Needs of underserved groups.** Having little access to basic and quality healthcare services in rural and poor communities is a big problem for many people, especially low-income people. Of expenses on health services, medical devices and pharmacy, people's out-of-pocket spending shows no sign of decreasing. Provision of counselling services and preventive care for vulnerable groups of people, including people with HIV/AIDs, PWD, and lesbians and gays, has remained limited in both quantity and quality. Clearly, there are likely to be other needs in the health sector. However, in this study, we focus only on the following identified market niches:

- Providing quality and affordable basic healthcare services for the poor, the disabled and the vulnerable at the community level
- Providing affordable and high-quality medicines and medical devices, and reliable transportation services
- Delivering counselling services for vulnerable people as well as preventive care for people with low affordability, against the increasing rate of non-communicable diseases.

### **Market niche 1: Provision of quality and affordable basic healthcare services for the poor, the disabled and the vulnerable at the community level**

**Issues and need assessment.** In Vietnam the coverage of basic healthcare services is extensive, but the quality of these services is still poor. According to data from the Vietnam Household Living Standards Survey (VHLSS) (2008), 99% of all rural communes can access communal health stations. Yet there is a great difference in quality of healthcare service and facilities between higher-level hospitals and lower-level ones, and between public and private health facilities for some healthcare services. As such, healthcare services provided by public institutions have not yet satisfied the needs of people, while services offered by the private sector are too expensive for many, particularly the vulnerable groups. People who are able to pay often prefer using private healthcare services, especially outpatient services, rather than

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those of public healthcare. To upgrade and modernise health facilities, many public hospitals have partnered with private medical device suppliers to get modern devices and facilities with cutting-edge equipment, and then they try to recoup initial investments for both parties by raising costs for laboratory testing services and ordering unnecessary tests. As a result, the patients suffer from the abuse of unnecessary and expensive medicines, or treatment methods advised by doctors from public and private clinics. This partly contributes to the rise in per capita out-of-pocket expenditure on healthcare in Vietnam (from 503,800 VND in 2004 to above 603,500 VND in 2008).<sup>20</sup> The statistics of the World Health Organisation (2010) also show that private health expenditure made up 60.7% of the total health expenditure in Vietnam, which is relatively high in comparison with Thailand (26.8%), Indonesia (45.5%) and Malaysia (55.6%). Many people must bear the very high cost once they go to higher-level hospitals for medical examinations and treatment, as basic healthcare at the commune/district level is not well provided. Per capita pocket expenditure also went up for the poor, from 121,900 VND to 144,500 VND over the period of 2004-2008.<sup>21</sup> This tendency also occurred with ethnic minorities, as we have seen an increase of 16% in spending for healthcare services over four years.<sup>22</sup> The majority of people with disabilities or HIV/AIDS have some difficulties in equally accessing basic healthcare.

**Policy enablers and challenges for SEs.** Delivery of quality and affordable basic healthcare at the community level, especially for the disabled and the poor, is promoted by current policy. Desk study and interviews with relevant enterprises have revealed that there are certain challenges for them: (i) gaining trust and creating sufficient demand for basic healthcare and counselling services from people, especially the vulnerable, and (ii) some SEs targeting vulnerable groups who cannot afford to pay for the services have to develop a suitable business model that can generate stable income in order to cross-subsidise for these services.

## **Market niche 2: Provision of affordable and quality medicines, medical devices, and reliable transportation services**

**Issues and need assessment.** The supply of affordable and quality basic medicines, medical devices and transportation services is limited, while the demand remains huge. *On the supply side*, it is estimated that 93% of the medicines and medical devices were imported, expensive, and predominantly offered by the private sector. The product prices soared, contributing to a rise in the out-of-pocket spending of households. *On the demand side*, there are 6.7 million PWD; a study showed that 70% of the interviewed persons (equivalent to above 4.9 million PWD) need affordable and accessible rehabilitation services and instrument aid (Institute for Social Development Studies, 2006). About 7.8% of the population aged 5 years or older experience difficulty in at least one of four basic actions – seeing, hearing, walking and cognition (UNFPA, 2009).

**Challenges for SEs.** To enter and engage successfully in different product and service markets, SEs would face different issues. For SE medical producers, challenges include (i) patent obtaining procedure for medical devices, (ii) tough competition with cheap medical devices from China or high-quality products from developed countries, (iii) higher costs of production due to the unavailability of local suppliers of spare parts and unsupportive procedures of importing necessary equipment for producing medical devices. For SEs in herbal medicine production, the challenge lies in the required registration, which costs 40 million VND for every traditional medicine if they want to sell various effective medicines widely in the domestic market, and technology for producing medicines that meet the government quality standards. It is costly for SEs to distribute to the market various proven traditional medicines that are ready for commercial production because of small volume and low sale price. For SE medical transportation provision, strict legal requirements and quality standards are the two conditions they need to fulfil in order to stay in business effectively. Below is a case study to illustrate some of these limitations.

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<sup>20</sup> Retrieved from Figure 5.3: Per capita out-of-pocket expenditure on health care, Vietnam, 2004-2008 in Vietnam Human Development Report (UNDP, 2011)

<sup>21</sup> As footnote 19

<sup>22</sup> Retrieved from VHLSS 2004, 2008

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## Medical Technology Transfer and Services (MTTS)

**Business activities:** Producing and providing affordable, easy- to-use and durable medical equipment for paediatrics, especially newborn babies (e.g. Overhead Phototherapy, Infant Warmer).

**Innovation for designing low-cost effective medical devices:** Localizing western technology in the designing and production of medical equipment and making use of alternative materials for lowering the costs. It is estimated that the cost of medical equipment produced by MTTS is about 50% less compared to similar Western products.

Challenges in MTTS's development:

1. Slow process and time consumption in getting patent for medical devices designed and produced by MTTS
2. Difficulties in importation – unsupportive procedures from the government
3. Competition from other larger-scale companies in both Vietnam and other neighbouring countries such as China
4. Lack of good local suppliers who can deliver stable quality items on time, so they have to import those items
5. Lengthy procedures for public procurement (it normally took two years to buy and pay the suppliers).

### **Market niche 3: Delivery of counselling services for vulnerable people and of preventive care for people with low affordability against an increasing rate of non-communicable diseases**

**Issues and need assessment.** There have been huge unmet needs for health counselling services, particularly for the vulnerable. They are pregnant women, children, PWD, gay and lesbian community members, and people with HIV/AIDS. These people have higher needs for health counselling services, which are mainly provided by public health stations in their communities or supported by the development projects of CSOs. However, the quality and effectiveness of these services have remained low for a number of reasons: (i) insufficiency in the number of medical staff, and in their knowledge, (ii) variation among commune health stations in service delivery, and (iii) lack of understanding of the needs of various groups. There is an increasing number of patients with non-communicable diseases and a reduction in communicable diseases due to implementation of immunisation programs and communication campaigns. Statistics from UNICEF (2010) show that non-communicable diseases (diabetes, cancer, neuropsychiatric conditions, cardiovascular, and sense organ) account for 58.7% of Vietnam's disease burden, while communicable disease makes up 30% of the total disease burden. This shift obviously increases the demand of people for healthcare of non-communicable diseases. Increasing demand, which goes with a shortage of effective and efficient supply from service providers, would cause potential difficulties for more people with low affordability.

**Opportunities and challenges for SE.** Unmet and increasing demand for affordable counselling services and preventive care, which goes with a shortage of effective and efficient supply from current service providers, would cause potential difficulties for people in need. Supporting those people would be a potential opportunity for those working in the spirit of a social enterprise. Challenges drawn from some interviewed SEs in this niche are (i) to have a stable and sustainable financing scheme, while ensuring good quality of services for people in need, (ii) to approach and effectively reach out to vulnerable groups (people with HIV/AIDS, PWD, gays and lesbians, the old) as well their family members at the community level, as they are not well aware of their rights and/or because of low income.

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## 5.7 Constraints faced by interviewed enterprises

### 5.7.1 External constraints

**The legal environment.** Currently, SEs with different legal status are regulated by different laws. These differences in policies and procedures for SEs are likely to cause confusion and difficulties not only for the SEs themselves but also for donors and other relevant stakeholders. Interviews with several SEs confirmed constraints on SEs emerging and operating due to the absence of a legal framework for SEs as presented in paragraph 17. The bigger the scale of a social enterprise, the more problems it faces under the existing legal framework. Tax payment and VAT reimbursement constantly are issues for both start-ups and expanding SEs like ATS or Tri Duc. Looking at an NGO (KCT) and a limited company (MTTS), we see dissimilar treatment for these two SEs on the issue of tax. While MTTS is subject to paying corporate tax as stipulated in Enterprise Law, KCT does not have to pay this kind of tax but just 1% tax on revenue from seedling production.

**Low awareness of beneficiaries.** Limited awareness of clients, especially in the health sector, about the benefits that SEs can bring them is one of the constraints for SEs' development. PWD and lesbians have not been fully aware of their rights on some particular issues such as reproductive healthcare services, due to social prejudice. This prevents PWD from actively searching for service providers in order to use services. To illustrate this, New Light believes that the PWD's perception is a constraint to their services. Thus, raising their awareness of their needs for healthcare is the first action by New Light before providing consultation and treatment service.

**Access to finance.** All the interviewed SEs expressed their great need for capital. Eight out of 11 SEs have obtained grants of different sizes from donors and development agencies. It is surprising to learn that five out of the 12 interviewed enterprises said the first source of funding they would seek is from individuals rather than from banks or other financing institutions. None of the interviewed SEs had received loans from banks, but many got grants from donors. In a study on impact investment conducted by CSIP (2013), it was found that the annual revenue of most interviewed SEs was 30,000-100,000 USD, far from the average investment size of 500,000-1,000,000 USD that most impact investors want to invest. The reason is that they lack good business plans, with attractive revenue models, a transparent financial and accounting system, and social impact evaluation. This also explains why it is difficult for the SEs to access capital in the financial market.

**Access to market information and technical assistance.** Almost all interviewed SEs rarely attend workshops, especially those organised by local government, where they could get up-to-date information on the market, gain knowledge, or meet with potential clients or partners. Some received technical assistance from CSIP, Spark, or projects for developing business capacity or technical expertise. Nonetheless, they still need technical assistance to improve their businesses' operation. Without technical assistance, CCHCPS in Hai Phong has been struggling to develop a more financially independent business model as its long-term donors phased out. Although Huu Duc Cooperative strongly promotes market linkages for its farmers, it has no market information or ways of building these linkages except from information and support provided by local government bodies.

### 5.7.2 Internal constraints

**Business management.** Most interviewed SEs acknowledged their lack of business management skills. It is worth mentioning that SEs in different stages of growth face different problems in business operation, which hinder them from starting/growing/expanding their business sustainably. The following are constraints that SEs face at each of the stages of start-up, growth, and expansion:

- **Start-up phase.** Interviewed SEs in this stage have quite good technical knowledge and expertise to understand the needs of their clients and could design basic products or services that meet client demand. However, to commercialise their products and services is a real challenge. Typical common challenges for SEs in this phase are (i) to have the business knowledge and experience to design business models that generate and sustain sufficient finance to cover high investment in their business activities or services that cannot be recovered from users' fees; (ii) to raise the awareness of service users, and (iii) to market their products and services. ATS experienced all three issues. It took them three years to develop more suitable business models (for details, refer to paragraph 59). Truong Sanh is still finding its way to establishing a suitable distribution network for its low-cost traditional medicines through informal channels within Ben Tre province and other provinces. New Light and ATS have little experience in marketing to develop effective communication tools for socially beneficial



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services to stimulate client demand. The client awareness and education creates extra financial burdens for involved SEs who want to offer lower-cost services.

- **Growth phase.** Having an effective management team and qualified staff and being able to mobilise financial resources for growing the business are important. Despite impressive performance in the past two years, operation of Evergrowth, KCT, Tri Duc and CCHCPS depends largely on one person rather than an effective management team. This is partly due to the perception of the business owners/founders who are not fully open to sharing information and delegating to others. Because of their imperative to keep price low, they have little room to offer attractive salaries to attract qualified staff, especially doctors and business managers.
- **Expansion phase.** It could be said that three major constraints for the SEs at this phase are (i) quality management to ensure stable delivery of standard products/services and competitive cost on a larger scale (ii) having enough capital for business expansion, and (iii) ability to continuously innovate business models and products/services to secure financial independence. MTTS is a good example of an SE dealing with those constraints. Although MTTS's manager pays attention to quality protocol, at production level the enterprise finds it hard to train and keep local workers with proper attitudes for quality products. This undermines its efforts to expand the production. 75% of its revenue comes from its donors and partners, and only 25% from hospitals. Although its annual revenue has been stable in recent years, it aims to reduce its financial dependence on donors in Vietnam and to increase sales to hospitals and patients to 50:50 in the coming years. To do so, MTTS has been struggling with the process of innovatively producing easy-to-use and affordable medical tools for people in need, and also searching for appropriate channels to sell these tools to its new target customer segments. Through this example, we see that the business models of SEs in general and MTTS in particular need to be continuously enhanced to not only offer better products/services to serve its current and potential beneficiaries but also become financially independent and sustainable as well. Besides this, SEs in the growth and expansion stages face various problems when dealing with competent government agencies, especially on issues related to tax, financial reports, importing spare parts, etc., due to lack of specific legal framework for SEs as well as capability of doing so. These cost time and create extra costs for them to maintain competitive services/products in the growth and expansion phases.

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# 6 Conclusions and Recommendations

## 6.1 Conclusions

The study has confirmed that despite the lack of a supporting environment and legal framework for nurturing the fledgling social enterprise sector in Vietnam, there are growing initiatives from the public sector and donors that are and will be supporting the development of SEs.

There are various existing business opportunities for private enterprises and SEs to deliver products and services in the health and agriculture sectors. Presently, SEs have been providing services and products in many identified market niches on a small scale and in some areas. There is still room for new and existing enterprises to utilise the current market opportunities. While the roles of private sector, public sector and SEs are clearly defined in the health and agriculture systems, there are no such clear-cut roles between these sectors.

Four major roles of SEs in the health and agriculture sectors have been identified. They are to:

- provide services to specific groups of people who are either not able to pay or have very low capability of payment
- operate and maintain basic infrastructure for communities – where traditionally it was built and run by the public sector
- provide goods (e.g. organic fertiliser) and services that benefit both customers and environment
- provide needed goods and services for those who have needs and payment capability, but no clear demands yet.

Contract production, no-frills costs and cross-subsidy are three distinctive business models that are employed by the 11 interviewed SEs. The interviewed enterprises have applied various innovations to maintain relatively good performance in terms of increased revenue and creation of significant impacts despite the economic recession of 2009 to 2011.

Besides a number of opportunities for SEs in the two studied sectors, there are a number of constraints that limit their effectiveness as they enter into or expand their business operations and outreach. The constraints faced by the surveyed SEs are divided into two categories: (i) constraints caused by external factors, and (ii) constraints resulting from internal factors. *Of the former*, inconsistency in the legal environment for SEs under different legal forms, low awareness of their beneficiaries, and low accessibility to finance and market information are the main constraints. *Of the latter*, lack of business management skills and experience reflects challenges faced by the surveyed SEs at start-up, growth and expansion phases.

## 6.2 Recommendations

### 6.2.1 Recommendations to SEs

**Be more proactive in developing business capacity.** For SEs, particularly those who came from the not-for-profit sector and cooperatives, limitation on their business capacity is a matter for concern. The following are commonly needed: acquisition of relevant business skills such as a business plan, financial management to improve their operation practices, further innovation of products/services and service delivery models, and conversion in business models (from being largely financially dependent to being partly or fully financial independent). SEs should actively approach SE incubators and service providers who are willing to provide specific advice or technical assistance to their business cases on a short-term or long-term basis.



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**Set up a good governance structure and keep a good record of the SE's performance from the outset.** To grow at scale and be able to mobilise resources from external parties, a strong governance structure with proven evidence of its business performance and impact is a must for an SE. This requires a good financial management practice and monitoring and evaluation system.

**Pay attention to social marketing for behaviour changes and awareness of beneficiaries.** To generate a sustainable revenue stream from their target clients, SEs need to invest in social marketing to stimulate demand for services. For this, they should develop proper communication channels and make use of existing networks with local partners, including local government authorities, in order to have outreach and effective communication while keeping the communication cost as low as possible.

**Build cost-effective distribution channels.** To enter into low-income markets while maintaining the services at a lower cost, a start-up SEs should be pragmatic in building its distribution network by exploring existing networks rather than investing in its own network, as networks are expensive and time-consuming.

**Enhance network with relevant stakeholders for obtaining market information, local support and access to financial resources.** SEs should proactively join existing networks and platforms where they could find partners, social investors, and donors, and where they could also share lessons learnt, drawn from their business experience, with the other SEs and local authorities to gain their understanding and support. To build this platform, it is unlikely that SEs can do it alone; it will require the participation and efforts of different parties (government agencies, supporting organisations, donors, interest organisations and the SEs community), which will be further elaborated below.

## 6.2.2 Recommendations to supporting organisations

**Identify and nurture SEs.** To nurture a stronger SE community in Vietnam, organisation of regular competitions is recommended to identify and award SEs for their promising social business solutions (at idea, pilot and up-scaling stages) and to provide them with capacity development, networking support, and seed funding where appropriate.

**Promote and strengthen the capacity of SE incubation organisations and other intermediary organisations.** It is essential to further promote and strengthen the capacity of these organisations at national and local levels in order for them to provide more effective support to individual SEs with various needs, as well as to SE as a whole. This should include opening up access to relevant government programs to all qualified incubators and intermediaries on a fair, competitive basis. More attention should be paid to the development of financial intermediary organisations for connecting and matching financial need and supply between Vietnamese SEs and social investors.

Promotion of effective models applied by SEs for replication by local government and other interested firms through studies and learning workshops. Further study of successful business models is important, including case studies on the operation of SEs in other sectors, to identify the easy-to-apply models. These models can be shared widely in local and national workshops. With a sufficient number of proven successful models, as well as statistics on social impact generated by SEs, it will be easier to mobilise support and resources from the business community and local government for the further development of SEs and replication of successful models. In addition, it is suggested that ASMED/MPI play a coordinating role in initiating regular nationwide SE mapping (e.g. every three years) to update the situation of the SE population and its operational issues for proper analysis and support.

Further strengthen the network of SEs and create a strategic alliance of supporting organisations for learning and sharing the resources. In response to a strong need from existing enterprises to learn from one another and develop business partnerships, it is recommended to support them in regular network activities at both local and national levels in order to involve as many as possible existing SEs. In addition, stronger coordination and cooperation between SE development supporting organisations is suggested to boost the enterprises' development as well as efficient use of resources.

**Develop a legal framework for social enterprise.** A legal framework for SE may help to remove some barriers related to existing legal problems identified in the survey, particularly when it comes to tax issues, as well as to motivate new enterprises to follow the business model of a typical SE. However, the potential impacts of a new legal framework for SEs are under debate, as existing SEs did not find it a top priority for the survival of their businesses. It is more important to have explicit policies to unblock capital resources, particularly from impact investors for start-up and growth of SEs. These might include: simplifying registration processes thus reducing fees and informal costs for foreign impact investors; reviewing regulations on capital gains tax; reviewing current government control over all cross border

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loans which make it very complicated for SEs to receive loans directly. It is also recommended to review and update a number of policies, especially those related to outsourcing services from public funding sources, so that SEs will be able to join the government in addressing market failures in an effective way.

**Campaign to further raise public awareness.** More activities to raise public awareness, especially at the local level, are necessary, on the one hand, to facilitate the business of SEs, and on the other hand, to gain more support and attention from local government and the business community regarding the role of SEs.

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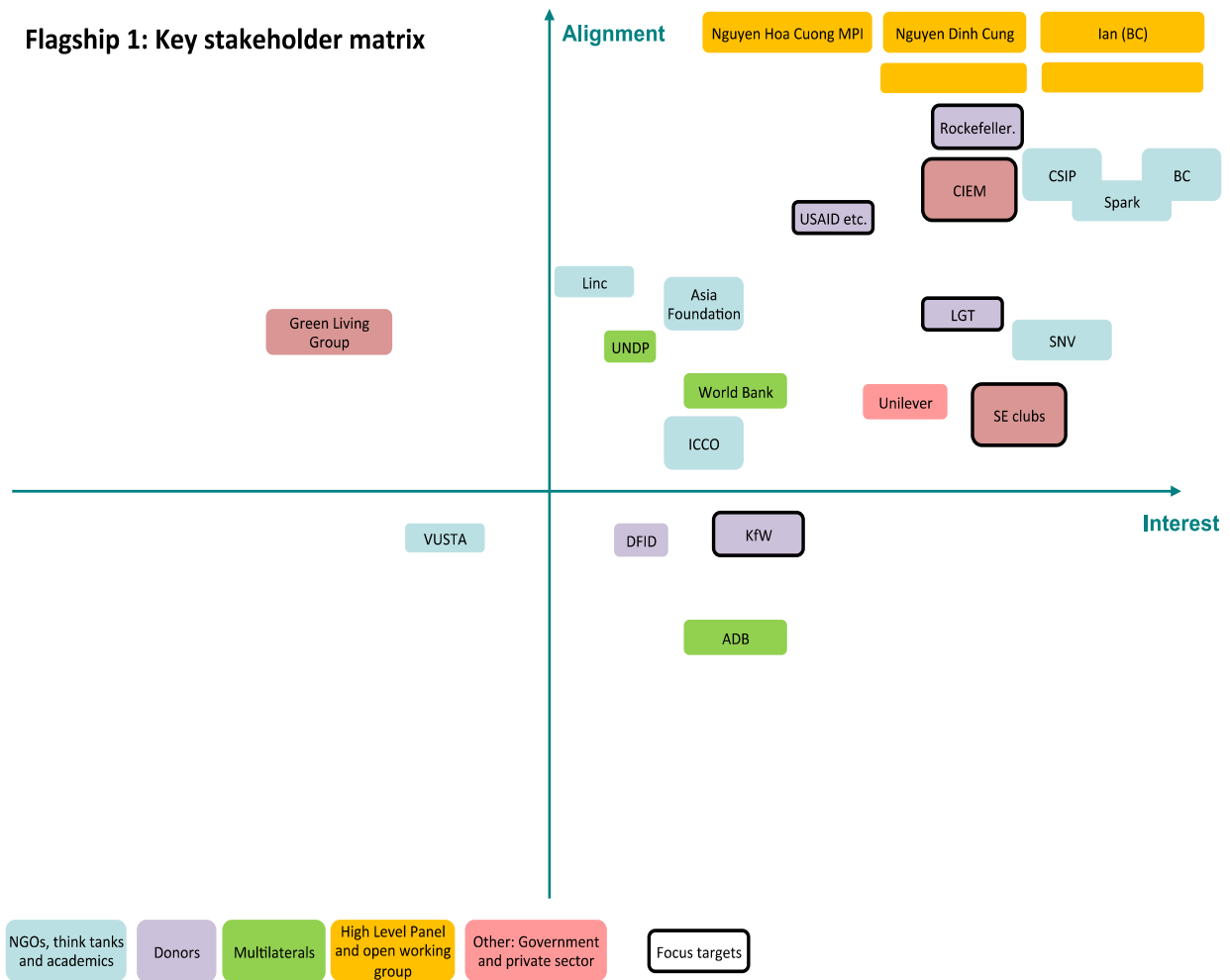
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# Appendix

**Table A1: General policies and regulations for the development of social enterprises in Vietnam**

Policy or legislative framework	Brief content
Law on Cooperatives (1996), then replaced by Law 18/2003/QH11	Laying out the regulations for development of cooperatives towards increasing benefits for the community;
Decree 71/1998/ND-CP	Strengthening grass-roots level democracy; encouraging participation of social organisations and citizens on grass-roots level
Decree 29/1998/ND-CP	
Decree 177/1999/ND-CP	Regulations on the establishment of social and charity funds
Decree 148/2007/ND-CP	
Decree 73/1999/ND-CP	Regulations on the foundation of non-public organisations, and promoting socialisation of education, health, culture and sport
Resolution 05/2005/NQ-CP	
Resolution 05/2005/NQ-CP	Regulations on the development of non-profit forms encouraged by the State
Enterprise Law (60/2005/QH11)	Regulations on the establishment, management and operation of limited companies, joint stock companies, joint ventures, and private companies
Decree 53/2006/ND-CP	Providing tax incentives for non-state organisations to deliver public services such as education, health, culture, sport, environment, child care and protection
Decree 115/2005/ND-CP	Regulation of science and technology organisations
Decree 43/2006/ND-CP	Grant of autonomy to the state public services delivery units

**Figure A1: Actor mapping**



**Notice:** The vertical and horizontal lines represent alignment and interest of key stakeholders; alignment refers to two questions: Do they broadly agree with our approach? Are they thinking what we are thinking?

Interest means – Are they committing time/money to this issue? Do they want something to happen? Are they going to events on the subject? Are they speaking (publicly or privately) about this?

VUSTA – Vietnam Union of Science and Technology Associations; CIEM – Central Institute for Economic Management; MPI – Ministry of Planning and Investment; CSIP – Centre for Social Initiatives Promotion; BC – British Council; DFID - Department for International Development

VUSTA functions as an umbrella organisation for CSO

**Table A2: National policies to support development of the health sector**

<b>Policy or legislative framework</b>	<b>Brief content</b>
<b>I. General policies for the health sector</b>	
Law on Pharmacy No. 34/2005/QH11	
Law on Health Insurance (No. 25/2008/QH12)	Compulsory health insurance for wage employees and their dependents and for the poor, and voluntary insurance
Decision 153/QD-TTg	Master plan for the development of the health sector in Vietnam (2010 with a vision to 2020)
Decision 30/2008/QD-TTg	Master plan for developing the network of medical examination and treatment from 2008 to 2010 with a vision to 2020
Resolution 21/NQ-TW	Enhancing the leadership of the Communist Party in health insurance and social insurance in the period 2012-2020
<b>II. Law on examination and treatment (2009)</b>	
Decree 299/HDBT	The first regulation on social insurance
<b>III. Socialisation</b>	
Law on Medical Examination and Treatment (2011)	The process of harmonisation of the legal system to speed up the socialisation of the healthcare services
Decree No. 87/2011/ND-CP	Guiding a number of articles of the Law on Medical Examination and Treatment
Circular 41/2011/TT-BYT	Providing guidance on the granting of medical practicing certificates and operation licenses
Decree 69/2008/ND-CP	Facilitating socialisation in health, education, culture sectors
Decree 43/2006/ND-CP	The application of socialisation in the health sector to mobilise external resources in order to develop the network of medical examinations and treatment

Decree 10/2002/ND-CP	Decentralisation of public health centres and health stations offering primary care
Resolution 90/1997/NQ-CP	Orientation for socialisation in health, education, and culture sectors
Decision 45 – HDBT	Charging part of the fee for health service
Decree 58/1998/ND-CP	Extending the target group for compulsory social insurance
Decree 73/1999/ND-CP	Mobilizing resources in the education and health sectors
<b>IV. Support for the poor/near-poor</b>	
Decision 797/2012/QD-TTg	Increasing the level of subsidy of the State (from 50% to 70%) for the near-poor in buying social health insurance
Decision 14/2012/QD-TTg	Adding articles into Decision 139/2002//QD-TTg on expanding target groups and providing additional supports to these groups
Resolution 80/2011/NQ-CP	Providing free health insurance card for the poor
Decree 36/2005/ND-CP	Providing free health services in public facilities to all children under six years
Decision 139/2002//QD-TTg	National fund for medical examinations and treatment for the poor
Decision 14/2012/QD-TTg	Providing additional terms for Decision 139/2002//QD-TTg on medical examinations and treatment for the poor
Dispatch 04/2002/TTLT-BYT-BTC	Providing detailed guidance on the management of the national fund
Decree 95/1994/CP	Regulation of either partly or fully subsidised service fees for veterans, the poor, and people in poor regions
Decision 75/2009/QD-TTg	Subsidising village-level health officers
<b>V. Registration of medical examination and treatment certificate</b>	
Decree 87/2011/ND-CP	Providing guidance for certifying individuals and organisations that carry out medical examination and treatment services



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Dispatch 41/2011/TT-BYT      Providing detailed guidance on some articles of Resolution 87/2011/ND-CP

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## **VI. Management of pharmaceutical price**

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Dispatch 01/2012/TTLT-BYT-      Guiding health facilities on the procurement and buying of medicine  
BTC

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Dispatch 11/2012/TT-BYT      Guiding health facilities on preparing procurement documents for buying  
medicine

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Dispatch 50/2011/TT-      BYT-      Solving the shortcomings of the policy of declaring pharmaceutical prices  
BTC-BCT

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## **VII. Improving the quality of medical examination and treatment**

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Decree 85/2012/ND-CP      Operating and financial mechanisms for state-owned health facilities and  
service fees of those facilities

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Dispatch 04/2012/      TTLT-      Adjusting service fees for some medical examination and treatment services  
BYT-BTC      in state-owned health facilities

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Decision 1816/QD-BYT      Rotating professional staffs from higher levels to come and provide technical  
support for lower-level hospitals with a view to improving quality of care

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Directive 06/2007/CT-BYT      Improving the quality of medical examinations and treatment for the whole  
public

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Program 527/CTr-BYT      Enhancing the quality of medical examinations and treatment in health  
facilities

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Decision 930/QD-TTg      Approval of investing to repair and upgrade specialised hospitals

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Decision 950/2007/QD-TTg      Investment in health stations in poor communes

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**Table A3: National policies to support development of the agriculture sector**

<b>Policy or legislative framework</b>	<b>Brief content</b>
<b>I. General policies</b>	
Commerce Law (2005)	Legal base to develop the economy with the involvement of different sectors under the central management of government
Law of Credit organisations (2010)	State policy on promoting different types of credit organisation; promoting the establishment of banks, credit funds with the aim of providing preferential credits for farmers
Fishery Law (2003)	Developing the fishery sector in a sustainable way by creating a favourable environment for different sectors to participate and explore under regulations of the government
Decision 899/QĐ-TTg (2013)	Approved proposal on the restructuring of the agriculture sector towards high-quality and sustainable farming
<b>II. Reform on agriculture sector</b>	
Directive 100 CT/TW (1981)	Agricultural land was redistributed from collectives to the households of the farmers who were responsible for cultivation and harvesting. Each peasant household was given a quota based on land area used and productivity during the previous three years.
Decision 25/CP	Creating opportunities for freedom in production and business and self-financing capability for state-owned enterprises
Resolution 10 NQ/TW (1988)	Known as Khoan 10, it represented a radical approach to collective agriculture and initiated the de-collectivisation; farmers were entitled to land-use rights for 15 years for annual crops and 40 years for perennial crops. Cooperatives no longer controlled capital stock, working capital, and other means of production. Farmers were allowed to decide on their output entirely themselves.
Land Law (promulgated in 1993, amended in 1998, 2001 and most recently in 2003)	Confirming long-term land-user rights for farmers. Households were allocated land for use from 20 to 50 years depending on the type of land. Farmer households have 5 rights: to inherit, to transfer, to converse, to lend, and to use a land-use-rights certificate as a mortgage for loans.
Decree 12/CP (1993)	Regulations on structural reorganisation and management renovation on agriculture SORs, contracts for paddy fields, tree gardens, and animals for member households on State farms

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Cooperative Law (March, 1996; amended in 2003)	Creating a new legal base for reorganizing and operating cooperatives in the market-oriented economy
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Decision 06/CP (1996)	Gave people two rights: to hire land and to contribute land as joint-venture capital.
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Decree 187/CP	Management reform on State-owned farms
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### III. Development of the private sector in agriculture

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Enterprise Law of 2000, then revised in 2005	The most important milestone for the private sector. This law was a combination of the previous Company Law and Private Enterprise Law. The Law protects the right of citizens to establish and operate private businesses without unnecessary interventions from the government, and simplifies registration procedures with the elimination of over 100 business licenses.
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Law on Foreign Direct Investment	
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Constitution in 1992	Lays the most important constitutional background for recognition of the private sector in the economy.
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Law on Domestic Investment	Encourages domestic investment
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Decree 61/2010/ND-CP	Some incentives are offered to investors in agriculture and rural areas such as reduction of land-use fees and subsidised training costs of rural labour force employed, costs for research and development activities. Also, these investors are subject to subsidies of transportation costs (50% in most cases)
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### IV. Trading

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Decree No. 57/1998/ND-CP	Represents a radical change in the trading regime. All firms are allowed to trade goods directly registered in their business licenses without a foreign trading license.
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Decision No. 46/2001/QD-TTg	Partly liberalises conditions for new entrants in rice export and fertiliser import
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### V. Agricultural inputs, services and marketing

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Decree 13/CP(1993)	Agricultural extension stipulated on the establishment and development of agricultural extension to transfer technology to farmers
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Decree 14/CP (1993)	Allows households to take out loans in order to develop agro-forestry, fisheries and rural economy
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Decree 02/2010/ND-CP	An important policy reform in many different aspects (institutional change, approach to service provision); other service providers are also encouraged to offer extension services; the State is no longer a monopoly in extension service for farmers
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Decree 09/CP (2000)	Detailed instruction of necessary contents to raise competition for agro-products and expand market
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## **VI. Promoting market linkages along the agriculture value chain**

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Decision 80/2002/QD-TTg	Focus on encouraging the sourcing of agricultural products via contract farming scheme
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Directive 25/2008/CT-TTg	Focus on facilitating the implementation of contract farming
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Directive 1965/CT-BNN-TT in 2013	Focus on improving market linkages, and promoting the large-scale field
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Resolution 109/2010/ND-CP	Regulations on the promotion of rice export
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Decision 65/2010/QD-CP	Support for farmers to reduce the losses caused post harvesting season
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