THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHEAST ASIA

VIETNAM
ACKNOWLEDGMENTS

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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ANDE</td>
<td>Aspen Network of Development Entrepreneurs</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>AVPN</td>
<td>Asian Venture Philanthropy Network</td>
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<td>DFI</td>
<td>Development Finance Institutions</td>
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<td>EU</td>
<td>European Union</td>
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<td>F&amp;B</td>
<td>Food and Beverage</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FTA</td>
<td>Free Trade Agreement</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GDP (PPP)</td>
<td>Gross Domestic Product at Purchasing Power Parity</td>
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<tr>
<td>GLI</td>
<td>Gender Lens Investing</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<tr>
<td>HCMC</td>
<td>Ho Chi Minh City</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>PII</td>
<td>Private Impact Investors</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goals</td>
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<tr>
<td>SEDS</td>
<td>Socio-Economic Development Strategy</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>USD</td>
<td>United States Dollars</td>
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<td>VND</td>
<td>Vietnamese Dong</td>
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<tr>
<td>WASH</td>
<td>Water, Sanitation and Hygiene</td>
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ABOUT THIS REPORT

Motivation
Impact investing is a growing practice defined by its intent to generate positive social and environmental impact alongside a financial return. Impact investments are made across the globe, and developing economies provide ample opportunities for market-based solutions and investment capital to address social and environmental challenges. Southeast Asia is developing rapidly, but the region also faces social and environmental challenges that offer substantial potential for impact investments. Indeed, almost a third of impact investors invest in Southeast Asia, and 44% plan to grow their impact investing allocations to the region in the year ahead.1 The Landscape for Impact Investing in Southeast Asia report provides much-needed information about the impact investing market in Southeast Asia to inform investors already allocating capital or considering investing in the region.

This report provides detailed information about the investing activity and trends in 11 countries: Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. It outlines challenges and opportunities for impact investors and analyzes political and economic factors that may inform investment decisions in each country. The report comprises five chapters: an executive summary, three chapters examining Indonesia, the Philippines, and Vietnam in detail, and an overview of the region’s remaining countries.

Scope
Impact investments are defined as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” This report presents analysis of impact investing activity among private impact investors (PIIs) and development finance institutions (DFIs) in Southeast Asia between 2007 and 2017. Only direct capital deployments made into enterprises or projects were included; indirect deployments were excluded to avoid double counting. Investors’ capital commitments and liquid assets were also excluded.

Methodology
Building on existing research, the report uses deal-level data to provide quantitative analysis of the impact investing landscape in Southeast Asia. Findings are based on interviews conducted with over 100 stakeholders, a thorough review of existing research, and aggregate analysis of 514 impact deals between 2007 and 2017.2

More detailed information on methodology and scope is provided in the Executive Summary. All chapters of this report can be found at www.thegiin.org.

2 The Research Team’s efforts focused on creating an exhaustive database of direct impact deals made in the region from 2007 to 2017.

**USD 25.8 MILLION**
Impact capital deployed by PRIVATE IMPACT INVESTORS (PIIs)

- **10** ACTIVE PIIs
- **23** DEALS

**USD 1.4 BILLION**
Impact capital deployed by DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

- **6** ACTIVE DFIs*
- **50** DEALS*

*Includes only direct investments.

**MARKET OVERVIEW**

- Increasing interest in impact investment, with almost half of deals made since 2015
- Significant limitation in seed-stage impact capital
- Few impact-focused intermediaries, and challenges sourcing investable deals

**DEAL SIZE**

- **PIIs:** Most deals between USD 1 and 5 million, with very few under USD 100,000
- **DFIs:** Most deals between USD 10 and 50 million

**SECTORS**

- **PIIs:** ICT and financial services; up-and-coming sectors include education and healthcare
- **DFIs:** Financial services and manufacturing

**INSTRUMENTS**

- **PIIs:** More than twice as much capital deployed as equity than as debt
- **DFIs:** Almost 75% of the investments structured as debt deals

**IMPACT MEASUREMENT**

- **PIIs:** Metrics based on globally accepted frameworks
- **DFIs:** Proprietary frameworks based on their impact theses and context of investment

**GENDER LENS INVESTING**

- **PIIs:** Three investors have used a gender lens to deploy USD 3.3 million into 4 investments, and are actively sourcing additional deals
- **DFIs:** Common to measure gender impacts across investments, though intentional gender lens investing has not been explicitly employed to date
COUNTRY SUMMARY

Vietnam, one of the fastest-growing economies in the region, has witnessed increasing impact investing activity in the last few years. At least 10 private impact investors (PIIs), mostly fund managers, have deployed more than USD 25 million through 23 deals since 2007. Six Development Finance Institutions (DFIs) have cumulatively deployed more than USD 1.4 billion in impact capital through 50 deals over the same time period.

More than 65% of all deals in Vietnam over the past decade have been made since 2015. Many PIIs in Vietnam also have local offices, a relatively recent trend that further demonstrates interest in the country. Overall, most private impact investments in the country have been in financial services and ICT, though education, healthcare, and agriculture are emerging sectors. Most PII capital has been deployed through deals larger than USD 1 million; unmet demand for smaller investments is substantial, with few impact angels or seed-stage impact investors.

DFIs, active in Vietnam for over a decade, have recently accelerated their investment efforts. As in most other countries in the region, the greatest share of impact capital has flowed to the financial services sector. However, unlike other countries in the region, this capital has flowed not to microfinance institutions (MFIs) but to commercial banks, which then lend to small and medium-sized enterprises (SMEs). Projects in manufacturing and infrastructure have also received debt from DFIs, following their investment thesis to create livelihoods and aligning with Vietnam’s national priorities. Generally, DFIs have shifted from making large investments (over USD 50 million) in a few sectors to making smaller investments across multiple sectors in order to more holistically serve their impact thesis. Stakeholders perceive energy and tourism as promising sectors for DFI investment, though few investments have been made in these sectors to date.

The Government of Vietnam has accorded special recognition to social enterprises through its Enterprise Law of 2014 and subsequent Decree 96, which provide tax incentives to enterprises with a stated objective to resolve social or environmental issues. However, few organizations thus far have registered as social enterprises under this law, in part due to a mandate that registered companies reinvest 51% of their profits into the company’s stated social mission. Beyond policy, there remains opportunity to further strengthen the supporting ecosystem. There is limited effective mentorship for social entrepreneurs. The few active, impact-focused incubators and accelerators are clustered in large cities, and demand for their services far outweighs their capacity. Additionally, there is no impact-focused angel network in Vietnam. Combined with most investors’ preference for ticket sizes over USD 1 million, demand for seed-stage capital remains unmet.

Despite these challenges, the outlook for impact investment in Vietnam remains positive. The government has a clear focus on improving infrastructure and promoting manufacturing, presenting opportunities for DFIs to invest and create employment opportunities that can have a multiplier effect on the country’s economic development. A growing middle class willing to spend more on education and healthcare offers opportunities for PIIs to support social enterprises in these sectors. An increasing number of investors are looking to strengthen their local networks through either local offices or strategic partnerships, and several gender lens investors are also active in the country. Generally, investors have demonstrated a positive sentiment about the future of impact investing in the country.
COUNTRY CONTEXT

Snapshot

FIGURE 1: SNAPSHOT OF VIETNAM’S ECONOMIC AND SOCIAL PERFORMANCE

ECONOMIC PERFORMANCE

USD 552.1 BILLION
GDP (PPP) in 2016

USD 5,838
GDP (PPP) per capita in 2016

40%
contribution of services sector to GDP

USD 12.6 BILLION
FDI inflows in 2016

55TH
Global Competitiveness Index ranking

POSITIVES
One of the fastest-growing economies in the world
Low inflation and stable currency
High FDI inflows due to multiple free trade agreements and an expanding middle class
Improvement in Ease of Doing Business rankings

NEGATIVES
Low public expenditures on health and education
Low tax revenues as a percentage of GDP
Poor score on Corruption Perception Index and Government Efficiency

SOCIAL PERFORMANCE

115TH
HDI ranking

37.6
GINI coefficient

68TH
Global ranking in achieving SDGs

69TH
Global Gender Gap Index ranking

POSITIVES
Considerably reduced poverty over the last two decades
Near universal access to electricity across the country
Ranks above average in terms of life expectancy at birth

NEGATIVES
Poor performance with respect to achieving SDGs
High income inequality
High incidence of child labor
High rates of malnourishment and undernourishment
Economic overview

GDP AND ECONOMIC GROWTH

By 2050, PwC projects Vietnam will break into the top 20 economies globally, surpassing now-larger regional economies like Thailand and Malaysia. Its GDP has recorded compound annual growth of almost 6% since 2010 (Figure 2), driven largely by export-oriented manufacturing and increasing domestic consumption. The Doi Moi Policy of economic and political reforms, launched in 1986 to create a market economy, has helped Vietnam transition over the past three decades from a historically agrarian economy to one dominated by services and industry. This transition has helped drastically reduce the country’s poverty rate to less than 10% of the population.4

FIGURE 2: GROSS DOMESTIC PRODUCT—PURCHASING POWER PARITY AND GROWTH RATE

Source: World Development Indicators

The services sector, especially activity in education and training, administrative services, and entertainment, contributes over 40% of the country’s GDP.5 A growing number of companies in this sector are registered as limited or joint-stock companies, which signals increasing formalization that will help sustain future growth. In addition, investments to develop the country’s tourism infrastructure have helped the tourism and real estate industries grow.


4 Vietnam’s General Statistics Office (GSO) defines the poverty line as per capita monthly income of VND 570,000 (approximately USD 25) in rural areas and VND 810,000 (approximately USD 35) in urban areas. Valerie Kozel et al., Well Begun, Not Yet Done: Vietnam’s Remarkable Progress on Poverty Reduction and the Emerging Challenges (Hanoi: The World Bank, January 2012). http://hdl.handle.net/10986/12326.

The large size and growth of the services sector has led 40% of businesses to concentrate in two geographies, Ho Chi Minh City (HCMC) and Hanoi. While this has led to large geographic disparity, Da Nang, Bac Ninh, and Binh Duong, among other geographies, are catching up with larger urban areas.

**The industrial sector is the second-largest contributor to the economy, accounting for roughly one-third of GDP.** Large state-owned groups dominate this sector, with major sub-sectors including mining, coal, steel, and manufacturing (including textiles, food processing, and footwear). Along with low labor costs, investment in this area has helped fulfill growing domestic demand and increased exports of manufactured goods like textiles and footwear.

While the agricultural sector’s contribution to GDP has more than halved over the past 30 years, from 35% in the 1980s to 16% today, the sector employs almost half of the country’s labor force.

The Government of Vietnam’s 2011–2020 Socio-Economic Development Strategy (SEDS) highlights three areas of support for the economy: (1) promoting skills development, particularly for modern industry and innovation; (2) improving market institutions; and (3) furthering the development of infrastructure. Stable growth and the government’s commitment to structural reforms have made Vietnam one of the most attractive destinations in the region for foreign direct investment (FDI). Increasing FDI, low-wage labor, and government support should further strengthen Vietnam’s services and industrial sectors.

**FOREIGN DIRECT INVESTMENT AND EASE OF DOING BUSINESS**

FDI into Vietnam rose dramatically after the country joined the World Trade Organization (WTO) in 2007 (Figure 3), an upward trend that has continued over the past decade to exceed an expected USD 15 billion in 2017. The manufacturing and processing sectors attract over 80% of FDI, with real estate trading and construction attracting much of the remainder. Most FDI flows from Hong Kong, Japan, South Korea, China, and the United States.

Key drivers of FDI in Vietnam include the following:

- **Favorable investment policies and multiple free trade agreements**: The Government of Vietnam has initiated various pro-business efforts, such as providing tax breaks to certain sectors, reducing corporate taxes, and offering businesses multiple support packages. The government has adopted a flexible fiscal policy with a daily-adjusted exchange rate and has reduced limits on foreign ownership. Together, this increased transparency has stimulated interest among foreign investors. Additionally, Vietnam is part of multiple bilateral and collective free trade agreements, the latter as part of the Association of Southeast Nations (ASEAN), which help promote FDI in the country. The impending operationalization of the Vietnam–EU FTA should further bolster investment.

- **A stable, growing economy and cost-competitive base of production**: Vietnam has a dynamic economy. As factory production gradually shifts from China to Southeast Asia, Vietnam’s manufacturing and processing industries have emerged as an attractive destination for FDI. For example, the presence of factories to produce modern technology for companies like Samsung, Nokia, and LG have demonstrated Vietnam’s potential for investment. Its competitive labor costs also make the country an ideal base of production for companies diversifying out of China.

- **Expanding middle class and increasing domestic expenditures**: According to the Boston Consulting Group, the middle and affluent classes in Vietnam will grow to 33 million people by 2020, dispersing beyond the urban centers of Hanoi and HCMC. This young demographic (60% of the population is younger than 30) offers a growing market for domestic consumption.

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Alongside increasing FDI, Vietnam has greatly improved its Ease of Doing Business ranking, jumping 14 places in 2018 (from 82 to 68) and nine places in 2017. The country’s Distance to Frontier score, 67.9, exceeds the 62.7 regional average of East Asia and Pacific. In the 2018 Doing Business report, published by the World Bank, Vietnam scores particularly well with regard to access to credit through targeted SME development funds and credit guarantees, taxes, trade across borders, and contract enforcement. Consequently, Vietnam’s stable socio-economic system, committed government, favorable demographic and geographic conditions, and deepening ties with global networks, in part through FTAs, offer an attractive business environment.

INFLATION AND CURRENCY RISKS

The inflation rate in Vietnam, which has markedly subsided over the last five years, is now below 4% (Figure 4). Though inflation was volatile until 2012, recent, cautious monetary policies aim to keep inflation below 4%, even at the risk of impeding economic growth. Recently, the Vietnamese dong has been relatively stable against the U.S. dollar. The Vietnamese Central Bank applies a daily-adjusted currency exchange rate which enables the rate to move in line with U.S. dollar supply and demand both in the country and with global market developments. This control helps the Central Bank execute monetary policy, while adjustments of the rate to market discourage enterprises and residents from hoarding U.S. dollars.

FIGURE 4: INFLATION AND EXCHANGE RATE

Source: World Development Indicators

The distance to frontier (DTF) measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy’s DTF is calculated on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The Ease of Doing Business rankings range from 1 to 190.
Social overview

HDI AND INCOME INEQUALITY

TABLE 1: SOCIAL DEVELOPMENT INDICATORS

<table>
<thead>
<tr>
<th>PARAMETER</th>
<th>VIETNAM</th>
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<tbody>
<tr>
<td>LIFE EXPECTANCY AT BIRTH</td>
<td>75.9</td>
</tr>
<tr>
<td>EXPECTED YEARS OF SCHOOLING</td>
<td>12.6</td>
</tr>
<tr>
<td>MEAN YEARS OF SCHOOLING</td>
<td>8.0</td>
</tr>
<tr>
<td>GNI PER CAPITA (PPP)</td>
<td>USD 5.335</td>
</tr>
</tbody>
</table>

Life expectancy at birth and GNI per capita (PPP) sourced from World Development Indicators. Expected years of schooling and mean years of schooling sourced from the Human Development Report.

Vietnam is classified as a medium development category country according to the Human Development Index (HDI), ranking 115th out of 188 countries and territories, just above the Philippines. Vietnam has an HDI score of 0.68, slightly lower than the regional average of 0.72 for East Asia and the Pacific. The country fares above average in terms of life expectancy at birth but below average in terms of expected years of schooling (Table 1). Vietnam’s 2016 GDP per capita (PPP) of USD 5,838 reflects a 50% increase over the prior decade. Vietnam has high income inequality, with a GINI coefficient of 34.8; consequently, its HDI score falls to 0.58 (a drop of 17.8%) when discounted for inequality.

GENDER EQUALITY STATUS

Vietnam ranked 69th of 144 on the Global Gender Gap Index in 2017, a drop of four places since 2016. In 2006, Vietnam adopted a national strategy to promote gender equality by raising public awareness, protecting women’s rights, and fighting discrimination against women. Through the program, Vietnam made substantial progress in promoting gender equality and empowering women, achieving parity in educational enrollments among boys and girls at all levels and boosting women’s labor force participation.

However, sustained implementation of the policy has been challenging, with a recent report by UN Women stressing the need to improve opportunities for women to obtain decent work and reduce their roles in unpaid care and domestic work. Women earn less than men across sectors, but particularly in the informal sector, where they make 20% to 50% less than their male counterparts despite no significant difference in education or working hours. Further, women are underrepresented in government. Vietnam also has a high rate of sex-selective, female abortion, which has skewed the sex ratio at birth to 112 males per 100 females.

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KEY DEVELOPMENT CHALLENGES AND PERFORMANCE ON THE SDGs

Although Vietnam has made enormous economic progress, the country ranks 68th of 157 countries with respect to achievement of the UN Sustainable Development Goals (SDGs).\(^{12}\) Vietnam is still far from achieving the best possible outcomes across all 17 SDGs, fulfilling only 67.9% of SDG targets to date. Vietnam has made significant progress on SDG 1 (No Poverty), but attention to the other SDGs, especially the nine shown in Figure 5: Vietnam’s Achievement of the SDGs, is needed.\(^{13}\)

FIGURE 5: VIETNAM’S ACHIEVEMENT OF THE SDGs

**ZERO HUNGER**

**SDG SCORE: 62.1%**

More than 10% of the population is undernourished, and 23% of children younger than five demonstrate stunted growth.

**GOOD HEALTH AND WELL-BEING**

**SDG SCORE: 74.6%**

Vietnam has a high incidence of tuberculosis at 137 per 100,000 people. The country also has a high rate of traffic deaths, over 24 per 100,000 people. Access to healthcare is also critical, with only 72.8% of births attended by skilled health personnel.

**INDUSTRY, INNOVATION AND INFRASTRUCTURE**

**SDG SCORE: 24.9%**

The government spends just 0.2% of GDP on R&D. Few scientific and technical journal articles are published, signifying little focus on innovation.

**REDUCED INEQUALITIES**

**SDG SCORE: 66.5%**

Vietnam has high income inequality, with a high GINI coefficient of 37.6. Most commercial activity in Vietnam occurs in HCMC and Hanoi.

**LIFE BELOW WATER**

**SDG SCORE: 51.8%**

Vietnam scores poorly (44.8) on the Ocean Health Index: Clean Waters, which measures the contamination of water resources by chemicals, eutrophication, human pathogens, and trash. SDG 14 is especially critical for Vietnam, given its long coastline.

**LIFE ON LAND**

**SDG SCORE: 46.6%**

Vietnam scores 0.7 on the Red List Index of the International Union for Conservation of Nature, which measures trends in the overall extinction risk (‘conservation status’) of species, which is one indicator of trends in biodiversity.

**PEACE AND JUSTICE STRONG INSTITUTIONS**

**SDG SCORE: 65.5%**

Vietnam scores poorly on both the Corruption Perception Index (33) and on Government Efficiency (3.4 out of 7).

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13. SDG Scores in the figure represent the distance Vietnam has covered toward achieving the best possible outcomes with respect to each possible SDG. The statistics across parameters and associated calculations have been derived from Sachs et al., *SDG Index and Dashboards Report*. 
THE SUPPLY OF IMPACT CAPITAL IN VIETNAM

Overview

The number of Private Impact Investors (PIIs) investing in Vietnam has increased over the last few years. Since 2007, at least 10 PIIs have deployed over USD 25 million in 23 deals. Investments have been made in a range of sectors including ICT, energy, and financial services, with most PII capital deployed as equity (Figure 6: Overview of PIIs in Vietnam).

Development Finance Institutions (DFIs) have cumulatively deployed USD 1.4 billion in 50 deals, directed mostly towards manufacturing and financial services, including large-scale manufacturing (such as cement and automobiles) and commercial banks. The sizable investment in manufacturing is driven by DFIs’ intent to create employment and livelihood opportunities for the Vietnamese people.

Private impact investors

OVERVIEW

Most of the 10 PIIs that have deployed capital in Vietnam are fund managers. Some ecosystem enablers, such as incubators and accelerators, also offer financial support to enterprises, typically through small grants. In addition, a few foundations are active in the country, focusing on building awareness and developing capacity rather than placing capital. While several angel investors are active in Vietnam, they have no explicit impact focus.
The pace of impact investment has been relatively slow (Figure 7), with an erratic pipeline caused by a nascent entrepreneurial ecosystem, limited awareness of impact investing, and scarcity of investable enterprises.
Over 65% of deals in Vietnam were made within the last three years. This is due to increased activity by investors who have either set up local offices or forged partnerships with local ecosystem facilitators. Financial services and ICT have emerged as the most attractive sectors for investors, and interest has also grown in education, healthcare, and agriculture. The growing Vietnamese middle class increasingly demands quality educational products and services. Almost all interviewed investors in Vietnam indicated that they are actively seeking investees in the educational sector.

As partnerships between investors and ecosystem enablers have strengthened in and beyond the metropolitan regions of Hanoi and HCMC, both expect a more stable pipeline of investees in the years ahead. While many investees are currently sourced through inefficient, one-off sourcing channels like word-of-mouth, players in the ecosystem expect partnerships to change this dynamic. Realized partnerships have already begun to bear fruit: Vietnam witnessed a marked increase in impact investing activity in 2015 and 2016, with 14 deals in these two years alone (or 61% of all deals in the past decade). Locations like Da Nang have also been added to impact investors’ maps through such partnerships. Key stakeholders hope the ecosystem can cultivate a network of angel investors, currently operating discreetly, to spur additional investment in seed-stage social enterprises.

14 Angel investors in Vietnam are typically discreet, as they do not wish to draw attention to themselves as wealthy individuals in a historically communist country.
LOCAL PRESENCE

Investors increasingly appreciate the value of having local offices to invest effectively in Vietnam. Of the 10 PIs that have invested in the country, five have a local office, facilitating active participation in local networks and quick action as opportunities arise. Investors also believe they must provide high-touch support, which is better delivered out of a local office, to make potential investees investment-ready. Finally, a local presence allows investors to view and assess risk differently; local investors closed a disproportionate share of equity deals. The ticket sizes of investors with a local presence were also higher than those without (Figure 8).

A lack of financial literacy among entrepreneurs creates challenges when communicating with investors. Local entrepreneurs are often unaware of common investment terms and concepts, and gaps in communication can be magnified by language barriers between entrepreneurs and foreign investors. Therefore, investees and investors often require multiple interactions—for due diligence and to reach agreement—with periodic travel to Vietnam further increasing costs. However, an increasing number of foreign-born or -educated Vietnamese entrepreneurs have access to wider networks and possess better communication skills. Such entrepreneurs are better placed to attract investment, provided investors consider their business models investable.

**FIGURE 8: PIIs WITH AND WITHOUT A LOCAL PRESENCE**

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<th>PIIs WITH A LOCAL PRESENCE</th>
<th>PIIs WITHOUT A LOCAL PRESENCE</th>
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<tbody>
<tr>
<td>NUMBER OF INVESTORS</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>PERCENT OF DEALS</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>AVERAGE DEAL SIZE (USD MILLIONS)</td>
<td>1.7</td>
<td>0.6</td>
</tr>
<tr>
<td>MEDIAN DEAL SIZE (USD MILLIONS)</td>
<td>1.5</td>
<td>0.1</td>
</tr>
<tr>
<td>AVERAGE NUMBER OF DEALS</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>COMMON INSTRUMENTS</td>
<td>EQUITY</td>
<td>DEBT</td>
</tr>
</tbody>
</table>

Source: Intellecap Advisory Services analysis

Whether they have a local presence or not, investors forge partnerships—with ecosystem enablers like incubators, accelerators, and educational institutions—to source investable enterprises. This can streamline the deal-sourcing process and build investment readiness among enterprises; incubators and accelerators benefit, too, as they often invest a token amount as equity to obtain leverage on the commitment of the enterprise. Partnerships and their associated investments increase the appeal of ecosystem enablers among enterprises. Almost all investors attach high importance to the role played by ecosystem enablers, stressing the need to support them in order to build a robust pipeline. Investors typically form partnerships with multiple ecosystem enablers, especially across geographic locations.
DEAL SIZE

As in other countries in the region, such as the Philippines, few impact investments in Vietnam have been smaller than USD 100,000 (Figure 9). Organizations that support early-stage social enterprises typically provide grants. For financial support in the early stages, social enterprises also depend on friends and family and prize money from entrepreneurship competitions. Since most fund managers invest substantial time, money, and effort in sourcing deals, they prefer to invest larger amounts to amortize these costs. As a result, only four of the 10 PIIs active in Vietnam have participated in deals less than USD 500,000.

FIGURE 9: IMPACT CAPITAL DEPLOYED BY PIIs, BY DEAL SIZE
USD 25.8 MILLION IN 21 DEALS

Note: Others include manufacturing, consumer goods, and water, sanitation, and hygiene (WASH). Two deals are excluded because their amounts are unknown.
Source: Intellecap Advisory Services analysis

Investors often mentor and prepare enterprises to the stage at which they can absorb the capital that investors intend to invest. Given the nascent entrepreneurial ecosystem in Vietnam, multiple interviewed investors mentioned needing to provide enterprises with mentorship and capacity-building support. Foreign investors seeking larger deals often provide such support prior to investment, demonstrating a preference to invest time before money. Investors with a local presence in the country may offer support directly, while others partner with incubators or accelerators to provide these services. In some cases, investors may provide overseas experts to offer mentoring remotely, but this adds further costs. Though some investors increasingly recognize the need to invest in building pipeline, many position themselves as ‘Series A’ investors and are unwilling to directly support pipeline building through small deals.
Almost 40% of private impact deals in Vietnam have been between USD 1 million and USD 5 million across a range of sectors (Figure 10). Investors rarely demonstrate sector preferences, given the scarcity of pipeline, but many position themselves by target ticket size. Co-investments have been rare; given the time and effort investors typically spend sourcing deals in Vietnam, most prefer to invest alone and take larger stakes in an enterprise.

FIGURE 10: PII INVESTMENT SECTORS AND TRENDS BY TICKET SIZE

<table>
<thead>
<tr>
<th>DEAL SIZE (USD MILLIONS)</th>
<th>≤ 0.1</th>
<th>&gt; 0.1 – 0.5</th>
<th>&gt; 0.5 – 1</th>
<th>&gt; 1 – 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMON SECTORS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer goods and manufacturing</td>
<td></td>
<td>Agriculture and water, sanitation, and hygiene (WASH)</td>
<td>Education and financial services</td>
<td>Multiple sectors</td>
</tr>
<tr>
<td>TRENDS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments typically by venture philanthropy funds</td>
<td>Increasing activity in the last 3–4 years</td>
<td>Niche investment size, with very few active investors</td>
<td>Most common investment size for investors both with and without local presence</td>
<td></td>
</tr>
</tbody>
</table>

Source: Intellecap Advisory Services analysis

SECTORS

ICT and financial services together have attracted almost 60% of all capital deployed by PIIs in Vietnam, though they account for only 30% of the deals (Figure 11). Most investments have been equity at an average deal size of USD 2 million in enterprises providing computer software or technology platforms providing financial and non-financial services (Figure 11). Within the energy sector, solar and small-scale hydropower projects have received some investment. Trading enterprises—especially food and beverage businesses—have also attracted impact investments, typically at ticket sizes between USD 1 million and USD 3 million. Despite Vietnam’s historically agrarian economy, and despite still employing a large portion of the Vietnamese population, agriculture has received limited impact investment from PIIs due to a lack of innovation in this sector.
Investors in Vietnam express optimism about the educational sector, although they have made few investments in this area to date. The perceived lack of quality education in Vietnam creates a large potential market for enterprises focused on educational technology and content, particularly those targeting the growing middle class due to the potential opportunity to scale. Investors perceive healthcare, too, as a promising sector, since the growing middle class is demonstrating an increased willingness to spend on products and services in this area.
INSTRUMENTS

PIIs primarily use equity rather than debt, channeling more than twice as much capital through twice as many deals (Figure 13). The average ticket size for equity investments (USD 1.7 million) also exceeds that of debt (USD 1.2 million). PIIs, which often invest substantial time and effort mentoring investee enterprises, prefer to invest larger amounts of equity to amortize the costs of deal sourcing and due diligence. Often, equity investments are operationally structured with a component of debt or convertible debt. Notably few Vietnamese social entrepreneurs are familiar with equity, and many enterprises lack the corporate governance structures and financial and administrative best practices required to receive equity.
Investors with a local presence have deployed over 90% of their investments as equity.
Conversely, investors without a local presence deploy a clear majority of their investments as debt, for three reasons: (1) purely foreign investors face regulatory and bureaucratic challenges launching equity funds in Vietnam; (2) local investors have a comparatively higher appetite for risk; (3) local investors are more aware of investee’s day-to-day realities and can therefore more effectively provide the requisite mentorship. Additionally, investors with a local presence can overcome challenges posed by corporate governance through mentorship and support, either directly or through ecosystem partners.

Multiple investors have suggested using venture debt as an alternate instrument for impact investments in Vietnam, though no capital has been deployed in the Vietnamese context to date.
Global experience indicates that a venture debt ecosystem typically lags the equity ecosystem by about a decade.\(^\text{15}\) Although the Vietnamese market is very competitive for lending, with enterprises able to secure affordable loans from commercial banks, enterprises undergoing rapid growth need venture debt to inject short-term, non-collateralized working capital. In these cases, equity investors can provide venture debt while the enterprise prepares itself for an equity investment.

\(^\text{15}\) In developed economies, venture debt began in the mid-1990s and has now become a mature asset class, comprising around 10% of the venture capital ecosystem.
IMPACT MEASUREMENT

PIIs typically use tailored frameworks for measuring impact, reflecting their impact theses. Most PIIIs have a specific impact thesis regarding livelihood creation, women’s empowerment, promotion of better health and education, improved access to finance, or improved access to energy. Parameters for impact measurement are contextualized to the impact thesis and an investee’s sector of operations. These frameworks and parameters are often tailored from metrics used in globally accepted frameworks, such as IRIS or GIIRS.16 Investors require their investees to capture data to feed their impact measurement process, and some investors actively train their investees for this process. Such metrics are captured regularly, often monthly. In addition, some investors in Vietnam engage external impact evaluators to do periodic impact assessments.

RETURN EXPECTATIONS AND EXITS

Almost all interviewed PIIIs in Vietnam expect market-rate returns from their investments. In terms of liquidity, exit options for investors are limited, given the nascent ecosystem. Most enterprises that have received impact capital to date have not yet scaled to a point where investors can profitably exit. Also, few ‘Series B’ or ‘Series C’ impact investors operate in the country, limiting the scope of potential buyers for existing investors. However, investors anticipate strategic sales to larger investors eventually, as the ecosystem matures. Notably, such sales could also be made to non-impact investors.

Development finance institutions

OVERVIEW

Development Finance Institutions (DFIs), especially global, multilateral institutions, have been active in Vietnam over the last decade. DFIs typically seek to drive broad-based socioeconomic development in emerging markets through investments that encourage commercial capital to flow into primarily large-scale projects. DFIs’ impact theses include broad objectives, such as job creation, poverty alleviation, increased access to basic services for underserved communities, infrastructure development, and women’s empowerment.

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16 IRIS is the catalog of generally accepted performance metrics, managed by the GIIN, that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the sector’s credibility. GIIRS is a ratings platform offered by B Analytics. See IRIS, https://iris.thegiin.org/; and “GIIRS Funds,” B Analytics, http://b-analytics.net/giirs-funds.
Over the past decade, six DFIs have deployed around USD 1.4 billion in impact capital through 50 deals in Vietnam (Figure 14). The largest DFI in the country by both number of deals and volume of capital deployed is the International Finance Corporation (IFC), which has accounted for over 80% of all capital deployed through more than 75% of all deals.

**FIGURE 14: OVERVIEW OF DFIs IN VIETNAM**

**SIX DFIs WITH DIRECT INVESTMENTS TOTALING OVER USD 1.4 BILLION**

- **DEAL SIZE**
  - Most deals between USD 10 million and USD 50 million
  - Very few investing amounts less than USD 5 million

- **SECTORS**
  - Financial services and manufacturing have been popular sectors historically
  - Investors have recently moved into energy, healthcare, WASH, and services

- **IMPACT MEASUREMENT**
  - Impact measurement metrics tailored to areas of focus for impact thesis

- **INSTRUMENTS**
  - Almost 75% of investments structured as debt

Source: Intellecap Advisory Services analysis

Average deal size (USD millions): 34.9, 25.0, 26.7, 34.5, 64.5, 16.8, 29.1, 7.8, 8.2, 15.7, 30.0

Source: Intellecap Advisory Services analysis

**FIGURE 15: IMPACT CAPITAL DEPLOYED BY DFIs, BY YEAR**

USD 1,395 MILLION IN 50 DEALS

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Deployed (USD Millions)</th>
<th>Number of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>67.8</td>
<td>2</td>
</tr>
<tr>
<td>2008</td>
<td>25.0</td>
<td>1</td>
</tr>
<tr>
<td>2009</td>
<td>106.9</td>
<td>4</td>
</tr>
<tr>
<td>2010</td>
<td>206.9</td>
<td>6</td>
</tr>
<tr>
<td>2011</td>
<td>307.0</td>
<td>6</td>
</tr>
<tr>
<td>2012</td>
<td>67.8</td>
<td>4</td>
</tr>
<tr>
<td>2013</td>
<td>58.2</td>
<td>2</td>
</tr>
<tr>
<td>2014</td>
<td>23.3</td>
<td>3</td>
</tr>
<tr>
<td>2015</td>
<td>24.6</td>
<td>3</td>
</tr>
<tr>
<td>2016</td>
<td>156.5</td>
<td>10</td>
</tr>
<tr>
<td>2017</td>
<td>169.7</td>
<td>9</td>
</tr>
</tbody>
</table>

Average deal size (USD millions): 34.9, 25.0, 26.7, 34.5, 64.5, 16.8, 29.1, 7.8, 8.2, 15.7, 30.0

Source: Intellecap Advisory Services analysis

**Capital deployed without outliers** | **Capital deployed (outliers)** | **Number of deals**
Although DFIs have invested across many sectors, about 80% of all DFI capital has been deployed to financial services and manufacturing. Over 75% of DFI investments were structured as debt, a tendency that is particularly apparent for larger deal sizes.

**DEAL SIZE**

More than half of DFI deals have been between USD 10 million and USD 50 million (Figure 16). Compared to other countries in the region, DFIs have made fewer investments larger than USD 100 million in Vietnam, focusing instead on investments with comparatively smaller ticket sizes in livelihood-generating sectors, such as manufacturing and infrastructure (Source: Intellecap Advisory Services analysis). This matches the Government of Vietnam’s priorities to attract FDI and promote the manufacturing sector. As suits their investment philosophy, DFIs typically invest in large projects that attract more commercial capital. DFIs sometimes invest below USD 10 million in instances with large opportunity to create impact and in sectors that might not lend themselves to absorption of large amounts of capital, such as fintech, manufacturing (for SMEs engaged in producing, for example, food and beverages, automobiles, or furniture), and workforce development (for SMEs offering educational services, for example).

**FIGURE 16: IMPACT CAPITAL DEPLOYED BY DFIs, BY DEAL SIZE**

USD 1,395 million in 50 deals

<table>
<thead>
<tr>
<th>Capital Deployed (USD Millions)</th>
<th>Number of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 1</td>
<td>1.0</td>
</tr>
<tr>
<td>&gt; 1 – 10</td>
<td>103.2</td>
</tr>
<tr>
<td>&gt; 10 – 50</td>
<td>631.9</td>
</tr>
<tr>
<td>&gt; 50 – 100</td>
<td>351.6</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>307.0</td>
</tr>
</tbody>
</table>

Average deal size (USD millions) | 1.0 | 6.4 | 24.3 | 70.3 | 153.5

Source: Intellecap Advisory Services analysis

17 The latest investments larger than USD 100 million in Vietnam were reported in 2011, when the IFC invested heavily in the country’s financial services sector.
FIGURE 17: DFI INVESTMENT SECTORS AND TRENDS BY TICKET SIZE

<table>
<thead>
<tr>
<th>DEAL SIZE (USD MILLIONS)</th>
<th>≤ 1</th>
<th>&gt; 1 – 10</th>
<th>&gt; 10 – 50</th>
<th>&gt; 50 – 100</th>
<th>&gt; 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMON SECTORS</td>
<td>Agriculture</td>
<td>Financial and non-financial services, manufacturing, energy</td>
<td>Diversified sectors</td>
<td>Financial services, manufacturing, and infrastructure</td>
<td>Financial services</td>
</tr>
<tr>
<td>TRENDS</td>
<td>Less common deal size: only one deal made since 2007</td>
<td>More equity deals made than debt deals</td>
<td>Most common investment size for many DFIs</td>
<td>Investments in commercial banks for on-lending and large livelihood-generating projects</td>
<td>No deals made since 2012</td>
</tr>
</tbody>
</table>

Source: Intellecap Advisory Services analysis

SECTORS

Almost 80% of DFI investments have been channeled to the financial services and manufacturing sectors (Figure 18: Number of DFI deals in key sectors and Figure 19). Unlike in other countries, where DFI investments in financial services have been channeled to MFIs, DFIs in Vietnam have primarily invested in commercial banks. This is in part because the government largely subsidizes MFIs in Vietnam and regulations around non-governmental MFIs are unclear. Commercial banks in Vietnam typically leverage such DFI investment to provide loans to SMEs. In the manufacturing sector, DFIs have invested in automotive and furniture manufacturers, investments that align with government priorities to create livelihoods for the large Vietnamese labor pool. Additionally, these DFI investments have made Vietnam an internationally recognized destination for manufacturing.

FIGURE 18: NUMBER OF DFI DEALS IN KEY SECTORS

<table>
<thead>
<tr>
<th>FINANCIAL SERVICES</th>
<th>MANUFACTURING</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 deals</td>
<td>11 deals</td>
</tr>
<tr>
<td>Average deal size: USD 45 million</td>
<td>Average deal size: USD 19.3 million</td>
</tr>
<tr>
<td>Median deal size: USD 25 million</td>
<td>Median deal size: USD 13 million</td>
</tr>
<tr>
<td>Commercial banks for on-lending to SMEs</td>
<td>Automobiles, cement, food and beverage, and furniture</td>
</tr>
<tr>
<td>Almost 80% of deals as debt</td>
<td>Over 80% of deals as debt</td>
</tr>
</tbody>
</table>

Source: Intellecap Advisory Services analysis
Over the last few years, the agricultural sector has received regular investments from DFIs in smaller average deal sizes, around USD 10 million, and into enterprises operating in sub-sectors such as agricultural cold storage and animal feed. Agriculture remains a target sector for DFIs, as it employs nearly half of the country's labor force.

Tourism and education, considered promising sectors in Vietnam by interviewees, have recently attracted equity investments from DFIs. The government has actively developed tourism infrastructure across the country. DFI investments in tourism aim to promote Vietnam’s tourism ecosystem and consequently to create livelihoods for Vietnamese citizens. Both DFIs and non-DFIs have expressed interest in education; however, since the capital requirements of enterprises in the educational sector are currently small, DFIs have had limited activity in this sector.

INSTRUMENTS

More DFI investments are structured as debt than as equity (Figure 20), especially for larger deals; more than 80% of deals larger than USD 10 million were structured as debt. The average deal size of DFI debt investments (USD 31.2 million) is much higher than that of equity investments (USD 20.8 million). DFIs typically invest in long-term, capital-intensive projects with limited potential for scale, projects which inherently cannot afford the cost of equity. These investments are designed to attract additional investment from local pools of capital. In some cases, later equity investment has been made in a company after an initial round of debt from a DFI.
Many DFI debt investments have been to Vietnamese commercial banks. DFIs have also made large debt investments in manufacturing, infrastructure, and tourism. In some instances, multiple DFIs have coordinated to invest in the same enterprise. DFI equity investments, meanwhile, have typically been directed towards asset-light businesses seeking capital beyond the current range of PIIs active in Vietnam. Most DFI investments below USD 10 million have been equity in sectors such as fintech and education.

**FIGURE 20: IMPACT CAPITAL DEPLOYED BY DFIs, BY INSTRUMENT**
USD 1,395 MILLION IN 50 DEALS

![Bar chart showing capital deployed and number of deals for debt and equity investments.]

**IMPACT MEASUREMENT**

An assessment of potential impact typically begins before investment. Most DFIs have specific areas of focus—such as job creation, poverty alleviation, and women’s empowerment—that form their impact theses. For instance, since many DFIs in Vietnam focus on job creation and SME development, they have invested in the manufacturing and financial services sectors. Since different investments may lend themselves to different metrics, DFIs typically tweak their impact measurement frameworks for each investment. Though most DFIs publicize their impact theses, their impact measurement frameworks are used as an internal tool, and the precise metrics and methodologies they use for impact measurement are rarely disclosed.
RETURN EXPECTATIONS AND EXITS

DFIs set varied return expectations based on factors such as the opportunity, extent, and kind of potential impact. While most SMEs in Vietnam face difficulties accessing debt from formal financial institutions, interest rates can be very competitive when loans are available. Large corporations can secure loans at still lower interest rates. DFIs therefore finance enterprises and projects that cannot access commercial loans; consequently, the loans that DFIs provide carry higher risk and are comparatively more expensive. In some cases, a DFIs’ investment attracts commercial capital by reducing the risk of projects or enterprises. Since DFIs invest mostly through debt, their investments are usually designed to recover the principal and interest over time.

Gender lens investing

OVERVIEW

Awareness and interest in gender lens investing (GLI) has been increasing in Vietnam. In 2015 and 2016, three gender lens investors deployed USD 3.3 million in both debt and equity through four deals. Despite the small average deal size of about USD 800,000, these investments still comprise more than 30% of PII investment in Vietnam over these two years, representing a promising start for GLI in the country. Some LPs also have explicit mandates for GLI.

GENDER LENS INVESTING COMPRISES TWO BROAD CATEGORIES

Investing with the intent to address gender issues or promote gender equity, including by:

• investing in women-owned or -led enterprises;
• investing in enterprises that promote workplace equity (in staffing, management, boardroom representation, and along their supply chains); or
• investing in enterprises that offer products or services that substantially improve the lives of women and girls.

And/or investing using:

• a process that focuses on gender, from pre-investment activities (e.g., sourcing and due diligence) to post-deal monitoring (e.g., strategic advisory and exiting); or
• a strategy that examines and manages an investee in line with the investor’s mandate and intentions with respect to:
  1. their vision or mission to address gender issues;
  2. their organizational structure, culture, internal policies, and workplace environment;
  3. their use of data and metrics for the gender-equitable management of performance and to incentivize behavioral change and accountability; and
  4. how their financial and human resources signify overall commitment to gender equality.

18 SMEs typically borrow at around 15%, however, rates vary widely based on each enterprise’s relationship with financial institutions and availability of collateral.
ACTIVITIES OF GENDER LENS INVESTORS IN VIETNAM

Gender lens investors in Vietnam have invested in enterprises that provide microfinance to women and that provide access to affordable finance for household goods (Table 2). These investments have sought to grow women’s access to financial services and to promote gender equality in the workplace. Non-microfinance business models, such as those that provide access to affordable consumer finance and employee benefits, are perceived as highly scalable, leading investors to invest equity in these early-stage enterprises.

All capital invested to date using a gender lens originated from outside Vietnam, but these investors have local offices to help them source the right investees. They are also relatively supported by the handful of ecosystem enablers with a gender focus.

Gender lens investors indicated that sourcing investees is especially difficult given the nascent ecosystem of GLI enablers in the country and the traditionally patriarchal nature of Vietnamese society. Although male and female educational enrollment is the same, most Vietnamese women do not enter the formal workforce. PIIs, however, driven by LP mandates to invest with a gender lens, are committed to identifying and supporting entrepreneurs who can create positive gender impact through a range of gender lens strategies.

TABLE 2: GENDER LENS INVESTING IN VIETNAM

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>NUMBER OF INVESTORS</th>
<th>NUMBER OF DEALS</th>
<th>CAPITAL DEPLOYED (USD MILLIONS)</th>
<th>INSTRUMENT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing in enterprises that provide women access to</td>
<td>1</td>
<td>2</td>
<td>0.2</td>
<td>Debt</td>
<td>Investments of approximately USD 100,000 made in women-owned enterprises.</td>
</tr>
<tr>
<td>critical goods and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investing in enterprises that provide women with</td>
<td>2</td>
<td>2</td>
<td>3.1</td>
<td>Both debt and</td>
<td>Including a USD 1 million equity investment and a USD 2 million debt</td>
</tr>
<tr>
<td>access to critical goods and services</td>
<td></td>
<td></td>
<td></td>
<td>equity</td>
<td>investment in enterprises that facilitate women’s access to finance.</td>
</tr>
</tbody>
</table>

Source: Intellecap Advisory Services analysis
CHALLENGES AND WAY FORWARD

Investors and ecosystem enablers alike highlighted the following challenges that may inhibit the growth of GLI in Vietnam. Such challenges stem from both the societal aspects of gender relations in the country and from the state of the social enterprise ecosystem.

- **Limited awareness of GLI among investors and ecosystem enablers:** Many investors, including both DFIs and PIIs, consider their investments’ impact on gender. However, they typically use this information to assess impact after making an investment rather than to intentionally select investable enterprises. Gender lens investors often consider gender in response to public and policy discourse rather than based on a refined understanding of GLI, its opportunity, and its impact. The lack of well-defined impact measurement metrics for GLI exacerbates the problem. Enterprise support providers, meanwhile, have developed services that target startups and social enterprises as a whole. These can be further refined to address the specific needs of women-led businesses, such as support structures to overcome socio-cultural barriers to entrepreneurship, access to knowledge and networks, and more sustained mentorship.

- **Higher perceived costs of deal sourcing:** Many investors expressed a belief that applying a gender lens will require them to spend extra time, money, and effort to source investees in a field that is already sparse in terms of the number of investable enterprises. This perception is driven, to some extent, from investor misunderstanding of GLI as investing in only women-owned or women-led enterprises.

- **Mismatch between amount of capital investors seek to deploy and the needs of enterprises that meet gender lens requirements:** Most women-owned or women-led enterprises are micro-enterprises that seek small amounts of capital. However, many investors are unwilling to invest such small amounts; consequently, these enterprises struggle to raise capital.

Despite these barriers, several GLI investors are actively scouting for deals in Vietnam. As awareness of the range of GLI strategies improves, the outlook for GLI in the country will be increasingly positive.

UNINTENTIONAL GENDER IMPACT IN VIETNAM

Although the overall scale of GLI in Vietnam remains relatively small, additional impact investing capital deployed in Vietnam over the past decade has likely created positive gender impact by supporting enterprises that distribute products or services to women or promote workforce equity. Almost all such investments have had large ticket sizes (average USD 26.4 million) and have been made by DFIs. These include investments in financial institutions that then lend specifically to women-owned SMEs and investments in the manufacturing and tourism sectors that create employment for women. Such unintentional impact indicates further opportunity for GLI in the country, including in sectors beyond financial services, such as manufacturing, consumer goods, and tourism. Since most DFIs do evaluate their investments’ gender impact, such examples can encourage DFIs to apply a more explicit gender lens to their investments, building additional success stories for PIIs to emulate.
THE LANDSCAPE OF DEMAND FOR IMPACT CAPITAL

A multitude of different types of enterprises—including SMEs, non-governmental organizations, charity organizations, cooperatives, limited liability companies, and social enterprises—demand impact capital in Vietnam. An estimated 600,000 SMEs in Vietnam contribute approximately 40% of the country’s GDP and over half of its employment.¹⁹ Not all SMEs, however, are potential targets for impact investment; some may lack the positive impact on the society or environment that impact investors seek. Many SMEs lack access to capital, with 60% either unable to access formal finance or unable to access funding more broadly.²⁰ Although ‘social enterprises’ have existed in Vietnam for decades, only recently have the Enterprise Law (2014) and subsequent Decree 96 (2015) formally defined them.

Overview

The State Bank of Vietnam considers SMEs a priority sector for lending, yet over 30% of SMEs cannot access formal finance. Access is even more limited for micro-enterprises, which typically cannot provide the collateral that financial institutions demand. Though specific programs promote access to finance for SMEs, such as the SME Development Fund and the Credit Guarantee Fund for SMEs, information asymmetries keep some SMEs from accessing these facilities. Moreover, non-banking financial institutions are relatively nascent in Vietnam; while there are MFIs and leasing companies, the former typically lend to individuals and micro-enterprises and the latter lend to large companies. The cash-starved SME sector, consequently, demands impact capital.

The Government of Vietnam has proactively encouraged enterprises, seeking to address social and environmental problems or serve public interests, to register as social enterprises and receive associated benefits, including tax exemptions. Provided that such enterprises reinvest at least 51% of their profits to serve their registered social and environmental purposes, the government offers initial tax exemptions,²¹ as well as other incentives, such as long-term leases at preferential rates for infrastructure and land and exemptions from various fees. The government also allows any social sponsorship establishment, social fund, or charitable fund to convert itself into a social enterprise. However, only about 50 enterprises have registered themselves as social enterprises, perhaps due to the mandate to reinvest their profits.

Social enterprises in Vietnam work in impact themes such as livelihood improvement, skills development, and education, operating largely by self-finance or on external grant support. Typical social enterprises are much smaller than impact-agnostic businesses. They have historically sourced capital from grants from the government or domestic charities, especially those assisting people with war-induced disabilities. The Enterprise Law also permits social enterprises to accept grant

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²¹ Social enterprises are exempt from paying tax for four years once they start generating taxable income, while their taxes are reduced by 50% for the subsequent five years.
support from foreign, non-government entities. Notably, not all social enterprises have business models that investors will consider ‘investable,’ because they often operate on a nonprofit basis. Consequently, social enterprises still primarily access grant and, in some cases, debt funding. The number of social enterprises in Vietnam is a small fraction of the overall spectrum of Vietnamese SMEs.

Challenges

Despite a supportive government and availability of specific types of ecosystem support, social enterprises in Vietnam continue to face various challenges:

- **Lack of awareness:** The concept of a ‘social enterprise’ as defined by the Enterprise Law is still relatively poorly understood in Vietnam, including within government departments, despite widespread, general awareness of entities that work towards solving social challenges. This can prevent enterprises from taking advantage of the various incentives available to them.

- **Insufficient access to affordable capital:** Most social enterprises are small and cannot provide the collateral required to secure capital from mainstream sources. Additionally, given the lack of early-stage support, they often face a dilemma: unable to scale due to lack of capital, they cannot prove scalability and therefore further struggle to attract capital.

- **Dearth of networks and management capacity:** Most social enterprises in Vietnam are young businesses with little track record. Some newer social enterprises that leverage technology to reach underserved populations were founded by foreign-born or foreign-educated Vietnamese citizens. Entrepreneurs with these backgrounds have the access to investors and other private sources of low-ticket-size funding that most local social entrepreneurs lack.

- **Perception of inherent financial tradeoff:** Many in the Vietnamese business community perceive social enterprises as less serious, less profitable businesses. Many businesses prefer not to identify formally as ‘social enterprises’ for this very reason. The Enterprise Law mandate to re-invest 51% of profits into the company’s social mission further deters investors, who feel returns cannot be realized even if the enterprise does well.

- **Lack of sufficient early-stage support:** Support for early-stage businesses in Vietnam is largely located in the metropolitan centers of HCMC and Hanoi; the rest of the country is underserved.

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THE ENABLING ECOSYSTEM

A range of factors can together enable a supportive environment for impact investing activity. The ecosystem for impact investing in Vietnam has grown considerably over the last few years. However, limited enterprise support, limited innovation, and a culture of risk aversion continue to constrain impact investing activity in the country (Figure 21).

FIGURE 21: IMPACT INVESTING ECOSYSTEM OF VIETNAM

Note: This framework uses the ANDE entrepreneurial ecosystem diagnostic toolkit.
Source: Intellecap Advisory Services analysis
BUSINESS SUPPORT

Multiple incubators, accelerators, and co-working spaces operate in key cities in Vietnam (Figure 22), primarily HCMC and Hanoi, as well as the city of Da Nang. However, the need far outweighs their capacity, and little support exists for entrepreneurs—especially social entrepreneurs—outside of these locations. Additionally, most support entities are impact-agnostic, and many focus on tech startups. Fewer than five ecosystem actors have an explicit impact focus. On the other hand, interviewed investors agreed that business support is critical to developing an investable pipeline of social enterprises in Vietnam. Investors, especially those without a local presence, routinely struggle to obtain support for enterprises in their pipeline. Although partnerships with incubators and accelerators are common, investors often need to directly offer enterprises mentorship support. This is sometimes provided remotely by foreign nationals, with reduced effectiveness and higher costs compared to local support. The government offers only limited support to encourage more such ecosystem actors, and existing intermediaries are wary of engaging with the government due to the bureaucratic processes involved.

Additionally, the lack of specialized service providers and associations often requires that ecosystem enablers be involved in policy advocacy, network management, and the provision of any required non-business support to social entrepreneurs. While this indirectly furthers the cause of Vietnamese social enterprises, it takes intermediaries’ focus away from their core offerings.

FIGURE 22: ECOSYSTEM OF SUPPORT PROVIDERS

Source: Intellecap Advisory Services analysis

<table>
<thead>
<tr>
<th>INCUBATORS / ACCELERATORS</th>
<th>RESEARCH INSTITUTIONS</th>
<th>NETWORKS</th>
<th>GRANT MAKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>5</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: World Development Indicators
There is no active angel network in Vietnam; because its economy is socialist, most angel investors keep a low profile, preferring their investments to have limited visibility. Moreover, angels typically cannot provide mentorship as a complement to capital. Consequently, often enterprises cannot effectively utilize angel capital to scale. Meanwhile, local family offices and foundations deploy significant capital as grants. Grant providers often collaborate with ecosystem enablers to conduct business plan competitions in order to identify enterprises to support, albeit predominantly through grants rather than through return-seeking investments.

ACCESS TO HUMAN CAPITAL

Impact investors—both DFIs and PIIs—and intermediaries benefit from highly educated human resources. Social enterprises, however, have few quality resources available. Founders, representatives, or employees of most impact investor organizations in Vietnam tend to have Vietnamese origin, although they may be foreign-born or -educated, and add tremendous value to the impact investing ecosystem through their ability to easily navigate on-the-ground realities. Similarly, intermediaries can also attract high-quality local talent. For social enterprises, however, many leaders and employees, while devoted to the mission, may lack training in business skills. The ecosystem must therefore build sufficient support structures in the near term to provide business assistance to budding social entrepreneurs.

MARKETS

A government focus on infrastructure and a growing and aspirational population willing to spend on healthcare and education present large markets for impact-related stakeholders. The Vietnamese Government has made the development of infrastructure a national priority, which will serve to attract FDI, improve economic competitiveness, and promote tourism. Private enterprises aligned to these sectors can attract impact investments, and represent a promising potential market for social enterprises. In sectors such as healthcare and education, for example, consumers in a growing middle class, even beyond the metropolitan cities of HCMC and Hanoi, are finding existing public options unattractive.

POLICY

The Government of Vietnam has progressively reduced the corporate income tax rate from 25% to 20% over the last few years, offering additional tax incentives to social enterprises. Vietnam’s corporate income tax rate, which is lower than the regional average, is part of a set of policy measures intended to stimulate the economy and attract more FDI. Other policy measures include the institutionalization of a daily-adjusted exchange rate, provision of tax breaks to specific sectors, and provision of support packages to small businesses. These measures, along with specific policy initiatives for social enterprises, should promote Vietnam’s impact investing ecosystem.

- **Special recognition of social enterprises under the new Enterprise Law:** The Vietnamese government has defined social enterprises as a special category under the Enterprise Law of 2014. According to Article 10 of this law, three characteristics distinguish social enterprises:

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1. the enterprise is established under the Enterprise Law;
2. the stated objective of the enterprise is to resolve social or environmental issues in the interest of the community; and
3. at least 51% of its profits must be re-invested to accomplish the social and environmental objectives it has registered.

- **Incentives for social enterprises and particular sectors:** Social enterprises are entitled to receive benefits such as long-term leases at preferential rates on infrastructure and land, exemption from registration fees charged for the use of land, and other incentives directed towards high-opportunity sectors for social enterprise, such as education, healthcare, environmental protection, and renewable energy. Additionally, social enterprises are charged income tax at 10% (as opposed to the usual 20%), exempt from paying income tax for four years after they start generating taxable income (followed by a 50% reduction in income tax for the subsequent five years), entitled to preferential import and export taxes, and, in some cases, exempt from VAT.

Gradually institutionalizing a daily-adjusted exchange rate has helped trading partners and foreign investors better gauge Vietnam's competitiveness. This should encourage further investment into the country once recently finalized FTAs become operational. However, investors still face difficulties setting up funds in Vietnam due to unclear and lengthy bureaucratic processes.

**INFRASTRUCTURE**

Recognizing the need to create robust infrastructure to develop economically, increase manufacturing competitiveness, and attract FDI, Vietnam leads Southeast Asia in terms of infrastructure spending as a proportion of GDP. Vietnam has proven an attractive destination for FDI in the region, and better-developed infrastructure will further grow FDI flows. The private sector accounts for about 10% of infrastructure investment in the country, with considerable opportunity for more investment. After financial services and manufacturing, infrastructure has been the third-largest sector for impact capital from DFIs. Improved infrastructure should also help the tourism industry, which holds high potential to provide employment. Further, Vietnam is one of the fastest-growing smartphone markets in the world. With increasing internet penetration and government efforts to digitize systems, Vietnam has imported large quantities of IT hardware and software to create ICT infrastructure that will position the country well for the future.

**INNOVATION AND R&D**

Vietnam ranks among the top three countries in the region on the Global Innovation Index; however, innovation in the social enterprise sector is limited. The government has made a conscious effort to attract Vietnamese expatriates back to the country. Returnees have helped developed a vibrant tech entrepreneurship scene to develop products and services for the country’s young, tech-savvy population. Vietnam has thousands of new technology firms, making it one of the largest tech startup ecosystems in Asia. However, technological innovation has not yet fully permeated the social enterprise space.

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ENTREPRENEURIAL CULTURE

Vietnam has traditionally been a risk-averse society with a relatively nascent entrepreneurial culture, and it ranks 87th on the Global Entrepreneurship Development Index. Vietnam’s traditional risk-aversion perhaps stems from years of socialist governance. Entrepreneurship in Vietnam is changing rapidly as young, tech-savvy Vietnamese—some of whom have studied or lived abroad—start their own businesses. The government, too, defined 2016 as the ‘year of the startup,’ promising support to an estimated 2,600 startups over a decade. Most young entrepreneurs are focused on tech, however; social enterprises typically receive less visibility and attention.

CHALLENGES AND OPPORTUNITIES

The impact investing industry in Vietnam has recently seen changing policy, ecosystem support, and investor interest. Some challenges in Vietnam are common to the impact investing industry across the wider Southeast Asian region, while others are more country-specific (Figure 23).

FIGURE 23: CHALLENGES FOR IMPACT INVESTING IN VIETNAM

<table>
<thead>
<tr>
<th>SUPPLY</th>
<th>DEMAND</th>
<th>ECOSYSTEM</th>
</tr>
</thead>
</table>
| • Lack of demonstrated success  
• Dormant local capital  
• Complicated process to launch a fund | • Nascent entrepreneurial culture and limited innovation  
• Mismatch between capital requirements and return expectations | • Limited government support for intermediaries  
• Dependence on grants for operations  
• Much non-financial support and mentorship required |

Source: Intellecap Advisory Services analysis

Supply-side challenges

• **Lack of demonstrated success:** The limited number of exits for impact investors discourages new entrants, especially PIIs. Many potential investors are waiting and watching, wary of committing to the country. Notably, however, mainstream investors have seen successful exits in Vietnam.

• **Dormant local capital:** Family foundations oversee much of the capital in Vietnam, but they are more likely to deploy it as grants than as impact investments. There is no active angel network in the country, and most angels are impact-agnostic. Consequently, most impact capital currently being deployed in Vietnam, including that from PIIs, originates from the Global North.

• **Complicated process to launch a fund:** PIIs, especially fund managers, find it difficult to navigate the processes required to establish a fund in Vietnam. Most prefer to have headquarters elsewhere with a small local office; although half of PIIs active in Vietnam have a local presence, this often takes the form of one- or two-person teams. Such a small team, however, is insufficient to effectively and quickly source investees, perform due diligence, and navigate Vietnam’s bureaucratic processes.

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Demand-side challenges

- **Nascent entrepreneurial culture and limited innovation**: Vietnam has historically been a risk-averse society under socialist governance. Although entrepreneurship has accelerated over the last decade, it remains nascent. Would-be entrepreneurs need significant training to build scalable businesses.

- **Mismatch between capital requirements and return expectations**: Social enterprises in Vietnam tend to be small, with limited ability to absorb capital. Conversely, impact investors prefer to invest comparatively larger amounts to optimize their costs of sourcing and due diligence. This mismatch, combined with the scarcity of local impact angels, prevents social enterprises from accessing capital and consequently scaling. Also, not all Vietnamese social enterprises have business models that can generate market-rate returns, which deters investment in mission-driven startups. Further, few investors in Vietnam offer patient capital to develop social enterprises over a longer-term horizon. To encourage more patient capital, Investing in Women has provided blended finance in Vietnam, but demand for such capital continues to exceed its supply.

Ecosystem challenges

- **Limited government support for intermediaries**: The Enterprise Law defines ‘social enterprises’ and offers some benefits, but certain provisions (namely the 51% reinvestment mandate) may disincentivize registration. Generally, more government support is needed; policy could better support impact-focused ecosystem intermediaries to help them develop investable social enterprises. Any support currently available from the government comes with tedious reporting requirements, which makes it unattractive.

- **Dependence on grants for operations**: Most intermediaries find it difficult to sustain themselves financially, relying on unsustainable grant capital, from domestic and international donors and corporations, for their operations. This limits their ability to expand or to deepen their offerings, constraining the development of the impact investing ecosystem as a whole.

- **Much non-financial support and mentorship required**: Social entrepreneurs often lack strong business skills, including the language skills needed to interact with foreign investors. While large cities host several ecosystem enablers, more such organizations need to provide sustained, high-touch support through mentorship.

Notwithstanding these challenges, Vietnam’s socioeconomic environment in Vietnam offers impact investors many opportunities (Figure 24).

**FIGURE 24: OPPORTUNITIES FOR IMPACT INVESTING IN VIETNAM**

<table>
<thead>
<tr>
<th>SUPPLY</th>
<th>DEMAND</th>
<th>ECOSYSTEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Recognition of key success factors for impact investing</td>
<td>• Targeted policy for social entrepreneurs</td>
<td>• Strong investor demand for intermediaries</td>
</tr>
<tr>
<td>• Increasing interest from mainstream investors and increasing FDI</td>
<td>• Young and increasingly aspirational population</td>
<td>• Increasing entrepreneurial energy across Vietnam</td>
</tr>
</tbody>
</table>

Source: Intellecap Advisory Services analysis
Supply-driven opportunities

• **Recognition of key success factors for impact investing**: Most impact investors clearly recognize the key success factors needed for operating in Vietnam, such as having a local presence, building partnerships with local networks, and focusing on high-opportunity sectors like education, healthcare, agriculture, and tourism. Vietnam’s rapidly developing entrepreneurial culture also offers promising opportunities to investors.

• **Increasing interest from mainstream investors and increasing FDI**: Increasing investment in Vietnam, particularly in high-impact sectors like manufacturing and education, should ripple through the social enterprise sector, with multiple large-scale projects likely to generate employment. These existing successes demonstrate the opportunity for DFIs and PIIs alike to invest in Vietnam, which has already demonstrated macroeconomic stability, a conducive policy environment, and favorable demographics for such sectors to thrive.

Demand-driven opportunities

• **Targeted policy for social entrepreneurs**: The Enterprise Law, which provides various incentives to social businesses, offers new opportunities to social entrepreneurs. Entrepreneurs with scalable business models stand to gain by using this law to control costs and increase overall profitability. Although the requirement to reinvest 51% of profits has currently tempered enthusiasm to register, entrepreneurs stand to gain by registering as social enterprises in the long-run.

• **Young and increasingly aspirational population**: More than 60% of Vietnam’s population is younger than 30, representing a large consumer market. As many Vietnamese seek to move into the middle class, they will spend more on education and healthcare, sectors with immense potential opportunity for social enterprises and impact investors alike.

Ecosystem-driven opportunities

• **Strong investor demand for intermediaries**: Given many investors’ limited local presence, ecosystem enablers can establish themselves as strategic partners to provide deal sourcing and other support. Existing intermediaries using this model have tremendous opportunity to scale. By partnering with multiple supply-side entities and grantors, intermediaries can spread their risk and diversify their revenue streams.

• **Increasing entrepreneurial energy across Vietnam**: Most of the organized impact investing activity is concentrated in HCMC, Hanoi, and Da Nang. However, much entrepreneurial energy and opportunity exist beyond these cities, especially in the tourism and agriculture sectors. Targeted programs by intermediaries can tap into this momentum, which would also help intermediaries build sector-specific expertise and credibility among investors.
ABOUT THE GLOBAL IMPACT INVESTING NETWORK

This report is a publication of the Global Impact Investing Network (GIIN), the leading nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical market infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Roadmap for the Future of Impact Investing

Interested in helping to build the field of impact investing? The GIIN’s Roadmap for the Future of Impact Investing: Reshaping Financial Markets presents a vision for more inclusive and sustainable financial markets and articulates a plan for impact investing to lead progress toward this future. To download the Roadmap and find more information about opportunities to get involved, visit roadmap.thegiin.org.
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The GIIN conducts research to provide data and insights on the impact investing market and to highlight examples of effective practice. The following selection of GIIN reports may also be of interest:

Since 2011, the GIIN has conducted an Annual Impact Investor Survey that presents analysis on the investment activity and market perceptions of the world’s leading impact investors.

Beyond Investment: The Power of Capacity-Building Support identifies common, effective practices for capacity-building support in the impact investing industry.

The Impact Investing Benchmarks analyze the financial performance of private debt, private equity/venture capital and real assets impact investing funds.

The Business Value of Impact Measurement demonstrates how investors and their investees use social and environmental performance data to improve their businesses.

Lasting Impact: The Need for Responsible Exits outlines impact investors’ approaches to preserving the positive impact of their investments after exit.

The regional landscape reports analyze the state of the impact investing market at a country level. In addition to Southeast Asia, the GIIN has conducted other landscape studies on South Asia and East, West, and Southern Africa.

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