



**VIET NAM:**  
LESSONS IN BUILDING LINKAGES FOR COMPETITIVE AND  
RESPONSIBLE ENTREPRENEURSHIP

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The report forms part of a series of publications illustrating new models of multi-sector partnership and collective corporate action that are fostering small enterprise, promoting economic growth and reducing poverty through supporting competitive and responsible entrepreneurship and pro-poor industrial development in developing countries.

Other titles in the series currently include:

- **Building linkages for competitive and responsible entrepreneurship:** Innovative partnerships to foster small enterprise, promote economic growth and reduce poverty in developing countries.
  - **Tanzania: Lessons in building linkages for competitive and responsible entrepreneurship.**
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# PREFACE

**“Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important.”\***

\* *The DAC Guidelines: Poverty Reduction.* Development Assistance Committee, The Organisation for Economic Co-operation and Development (OECD). 2001

Increasing economic opportunity, productivity, and growth offers one of our best hopes for reducing poverty. As the Organisation for Economic Co-operation and Development’s Assistance Committee (OECD DAC) has commented, however, ‘Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important.’ Crucial elements of poverty reduction are creating jobs, income-generating opportunities, and livelihoods for the poor. In particular, growth must encompass improving the access of small enterprises to finance, skills, technology, information, sound business practices, legal rights, and markets.

In Viet Nam, as in many developing countries, achieving the goal of reducing poverty requires effective partnerships and intermediaries that are able to address the market failures, governance gaps, and institutional constraints that currently exclude or disadvantage most small entrepreneurs from accessing these public goods and business opportunities. Such partnerships are also essential in helping small enterprises upgrade and integrate into broader production networks and value chains, which in turn is crucial for raising productivity and employment levels.

**These partnerships include brokerage mechanisms, business linkage initiatives, hybrid commercial and social business models, innovative financing instruments, enhanced enterprise support services, and new types of alliances among companies, trade associations, governments, donors, academic institutions, and non-governmental organisations. They offer great potential for promoting enterprise development, reducing poverty, and helping to spread more competitive and responsible business practices along the value chain between large- and small-scale firms. Yet such partnerships are relatively new and untested. They are currently few in number and disconnected from each other at the global and national levels. Because of this, they are limited in scale and effectiveness.**

In 2004, the United Nations Industrial Development Organization (UNIDO) and the Kennedy School of Government established a joint research project, Building Linkages for Competitive and Responsible Entrepreneurship, to analyse these emerging partnership models and to make recommendations for increasing their scale and effectiveness. The project aims to:

- 1) review some of the major challenges to competitive and responsible entrepreneurship in developing countries;

- 2) assess different ways in which public policy, corporate social responsibility practices by large domestic and foreign companies, and new models of partnership among companies, business associations, governments, donors, academic institutions, and non-governmental organisations can help to overcome these challenges;
- 3) provide a conceptual framework for categorising some of these different models of multi-sector partnership and collective corporate action (Box 1);
- 4) investigate these models in more detail by undertaking field research in selected developing countries to assess what works and what doesn't; and
- 5) draw lessons and recommendations from these existing practices for business leaders, policy makers, and donors.

The research project has focused on six core types of multi-sector partnership or collective corporate action. These are summarised in Exhibit 1.

#### **EXHIBIT 1 MULTI-SECTOR PARTNERSHIP AND COLLECTIVE ACTION MODELS TO SUPPORT COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP**

##### **1) Individual company value chains and 'hybrid' business models**

These models are individual corporations partnering with governments, donors, NGOs, and community organisations to extend the reach and development impact of their own value chain and their core business assets and competencies – beyond what could be justified on a purely commercial basis or through non-intermediated business-to-business (B2B) linkages.

##### **2) Collective business linkage initiatives**

These initiatives are formed from groups of companies in the same industry sector or geography working collectively with each other and with governments, donors, NGOs, academics, and others to increase the number, scale, and overall development impact of business linkages with or between small enterprises.

##### **3) Enhanced trade and industry associations**

These are joint efforts to expand the scope and strengthen the governance and operational capacity of indigenous trade and industry associations to enable them to serve the needs of small enterprises better and to support broader development and corporate responsibility objectives beyond direct business interests.

##### **4) 'Blended value' financing mechanisms**

These mechanisms catalyse, pool, or leverage a combination of private and public funds and commercial capital and social investment to deliver financial services to small enterprises in an economically viable manner. Many of these mechanisms also deliver technical assistance or partner with other initiatives that do so.

##### **5) Institutionalised enterprise support services**

These services are dedicated enterprise support initiatives that provide combinations of technical assistance, training, mentoring, and evaluation and brokerage services, as well as finance in some cases, aimed at improving and integrating small enterprise access to essential resources, skills, information, and business opportunities, including improved environmental and workplace practices.

##### **6) Multi-stakeholder public policy structures**

These are joint structures to facilitate more organised and systematic engagement of the private sector and other non-governmental actors in public policy consultations aimed at supporting national poverty reduction strategies, good governance, pro-poor growth and investment, environmental goals, and other broader development objectives beyond direct business interests.

The following report on Viet Nam is one in a series of country case studies that focus on specific partnership models aimed at promoting more competitive and responsible entrepreneurship, with an emphasis on small enterprises.

**Part I** of the report looks briefly at Viet Nam's political economy, the growing importance of the country's private sector, and the enabling environment for small enterprise development and corporate social responsibility. It emphasises the critical role of effective public policy and donor co-ordination by:

- creating an enabling framework for private sector development in general,
- providing targeted assistance to support pro-poor growth and small enterprises,
- creating support capacities for responsible business practices, and
- improving aid effectiveness.

Two examples of government and donor partnership are highlighted as good practices and interesting models for other countries to review: the Vietnamese Government's **Agency for Small and Medium Enterprise Development (ASMED)** and the **Partnership Group for SME Development**, which is chaired by UNIDO and the Embassy of Japan. The latter convenes key government ministries, donors, and business associations to improve co-ordination in the field of SME development. Both of these examples illustrate new models of governance and policy making that emphasise pro-active public sector engagement with donors, the private sector, and civil society organisations to achieve common goals.

**Part II** of the report focuses on two multi-sector partnerships that, in different ways, aim to address core obstacles to small enterprise development and pro-poor industrialisation in developing countries. The following solutions are provided by these partnerships:

- 1) Improve access to finance, business services, and legal and institutional support for small enterprises.
- 2) Upgrade and integrate small enterprises into value chains and production networks.
- 3) Implement responsible business practices in small enterprises with the goal of helping them to better manage risks and costs; improve quality, productivity, and innovation; and harness new business opportunities and relationships.

The two multi-sector partnership examples offer very different approaches, but they share two common characteristics. First, they harness a combination of either commercial and philanthropic funding or private and public resources. Second, they pursue a combination of direct economic self-interest and broader development objectives. They illustrate important – albeit largely still experimental – new models of doing business, which also focus on achieving broader development goals.

Our goal is to illustrate existing multi-sector partnership initiatives, profile examples of innovative public policy and governance structures, highlight key lessons from existing practice, and contribute to both the debate and the practice of new types of partnership for achieving pro-poor industrial development, and the Millennium Development Goals more broadly.

The first model, the **Viet Nam Business Links Initiative (VBLI)**, is a partnership between the Viet Nam Chamber of Commerce and Industry, the International Business Leaders Forum, global footwear companies, local footwear companies, trade associations, the Vietnamese government, bi-lateral and multi-lateral donor agencies, and a number of other non-governmental organisations. It addresses the challenge of improving worker safety and labour conditions along global supply chains.

The second model, the **Viet Nam National Cleaner Production Centre (VNCPC)** is a partnership primarily between UNIDO, United Nations Environmental Programme (UNEP), the Hanoi University of Technology, and the Swiss State Secretariat for Economic Affairs. Its strategy is focused largely on working with local enterprises, and its advisory structure encompasses a range of other institutions. Its overriding goal is to promote and help Vietnamese industry and government implement Cleaner Production methods in a manner that is economically viable and beneficial.

For each model, this report looks at the background context and drivers for the creation of the partnership; its core operations – both its governance structures and its strategy and deliverables. The report then provides a brief evaluation of the model's impact and effectiveness and its potential for replication or scale-up before offering some lessons and recommendations, for each specific partnership and more generally.

It is our goal that this report and others in the *Building Linkages for Competitive and Responsible Entrepreneurship* series illustrate existing multi-sector partnership initiatives, profile examples of innovative public policy and governance structures, highlight key lessons from existing practice, and contribute to the debate on and practice of new types of partnership for achieving pro-poor industrial development, and the Millennium Development Goals more broadly.



**Wilfried Luetkenhorst**  
Chief of Cabinet, UNIDO

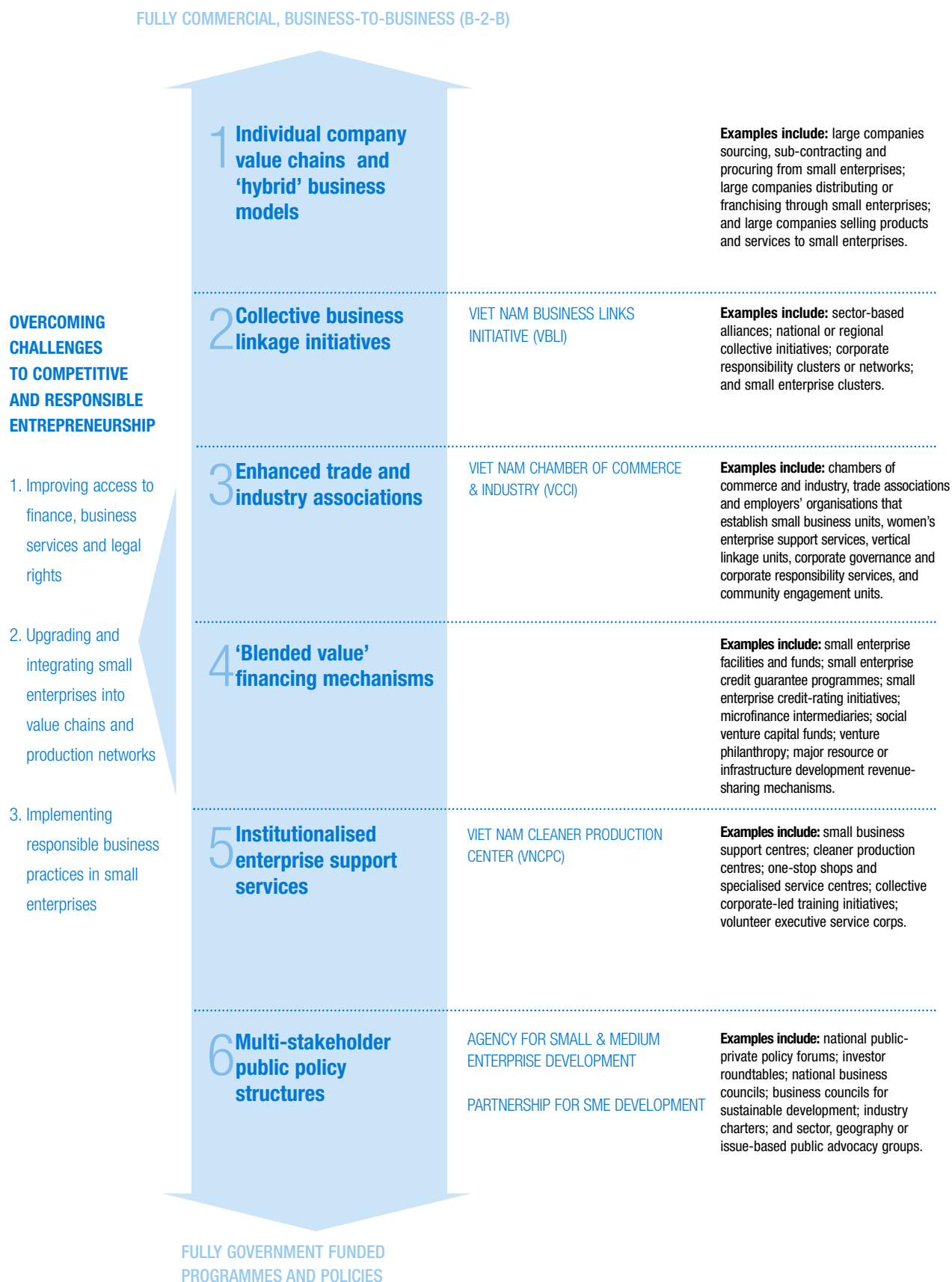


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May 2006



## EXHIBIT 2 VIET NAM'S MULTI-SECTOR PARTNERSHIPS TO PROMOTE COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP





# I. INTRODUCTION

SMEs are viewed by many development economists as the stepping stone for robust market activity.

The concept that sustained economic growth is central to poverty alleviation in developing countries is gaining currency among development practitioners, policy makers, and business leaders. Although pains must be taken to ensure that such growth includes all sectors of society, a market-oriented approach to international development has been emerging for the last decade.<sup>1</sup> Increasingly, this market orientation is focusing on the private sector as a driver of opportunities for employment and entrepreneurial innovation as well as products and services. Three recent publications delineate the emerging model of the private sector's development role: *A Better Investment Climate for Everyone* (World Bank: World Development Report 2005), *Unleashing Entrepreneurship: Making Business Work for the Poor* (UN Commission on the Private Sector and Development, 2004) and C.K. Prahalad's recent book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* (Wharton School Publishing, 2005).

When conceptualising the role of the private sector in the economic growth equation, many jump to the conclusion that the sector includes only large or multinational firms that opt to produce, source, or serve poorer countries. These firms do play a significant role in economic development, from providing jobs, training, and products to raising quality standards and providing markets for small local companies. Some of the activities of large multinationals in developing countries – ranging from implementing international working standards to supporting the local economy through business linkages and supply chains – are considered to be corporate social responsibility (CSR). These initiatives emerge for a variety of reasons, which include consumer and activist pressure, risk mitigation, reputation management, opening new markets, or streamlining operations. Regardless of the catalyst, however, corporate responsibility is increasingly moving from pure philanthropy to business-driven decision-making. This greater awareness of CSR among large firms has often created positive multiplier effects for firms in their supply chains and communities.

Although large firms are critical players, so too are small and medium enterprises (SMEs). SMEs are viewed by many development economists as the stepping stone for robust market activity. Wilfried Luetkenhorst, former director of UNIDO's SME branch, emphasises that '...in economic and industrial development, a critically important role is played by micro, small and medium enterprises which, on average, make up over 90% of enterprises and account for 50-60% of employment – in particular in the developing world. While being important at all levels of development, empirical studies have clearly shown that at the lower income levels typical for developing countries, the prevalence of SMEs is

particularly pronounced. Also, as average income increases, the size distribution of firms typically moves upwards, with the share of micro-enterprises going down and that of more sophisticated medium enterprises rising.<sup>22</sup> According to 2004 government figures, Viet Nam's SMEs account for 34 per cent of total enterprise employment and tend to be very small companies with a contribution to GDP that is lower than 10 per cent. Although the relevance of SMEs to macroeconomic growth is important, so too is the way that these businesses operate and expand. High levels of pollution and low levels of health and safety standards are often the hallmark of industrial development's early stages, though these side effects are neither necessary nor always cost effective in the short and long terms.

**Viet Nam's SMEs account for 34 per cent of total enterprise employment and tend to be very small companies with a contribution to GDP that is lower than 10 per cent.**

The following examples of two programmes in Viet Nam – the Viet Nam Business Links Initiative and the Viet Nam Cleaner Production Centre – aim to illustrate the conceptual framework developed in *Building linkages for competitive and responsible entrepreneurship* and to provide useful models of sustainable and profitable industrial development for review and analysis by policy makers, business coalitions, firms, and the development community.

## **1. VIET NAM'S POLITICAL ECONOMY**

Viet Nam's economic reforms (*Doi Moi*) in the mid-1980s were in large part a reaction to the weak growth and soaring inflation rates that characterised the country's economy after reunification in 1975 following the 'American War'. Viet Nam's invasion of Cambodia in 1978-79 added to its economic woes as it became increasingly dependent on Soviet aid and isolated from the West.

A series of economic crises in the late 1970s and early 1980s, spurred by inefficiencies in its centrally planned economy and waning foreign assistance, led the Vietnamese government to begin economic and political reforms. In response to a near-famine situation caused by collectivised agriculture in the country's south, the central government experimented with small-scale semi-private farming in northern Viet Nam in the early 1980s. This trial privatisation was successful and in 1986 it was implemented nationwide under the banner of *Doi Moi* (renovation). The primary concern under this reform movement was industrialisation and modernisation of the economy. Some of the changes that occurred in the early years of *Doi Moi* are included in Exhibit 3.

Reforms in the agriculture sector transformed Viet Nam into one of the world's largest rice exporters and paved the way for over a decade of economic growth, while the 1987 Law on Foreign Investment was considered to be one of the most liberal in Asia.

### EXHIBIT 3 *DOI MOI* IMPACTS

- Reversal of the process of collectivisation of agriculture by granting individuals and families long-term rights to use land.
- Price liberalisation to eliminate the 'two price' system that prevailed under central planning, and removal of barriers to internal trade.
- Steps towards the creation of a modern banking system: splitting off the commercial banking functions of the state bank and facilitating the establishment of new foreign and domestically owned banks.
- Partial liberalisation of foreign investment and international trade, accompanied by efforts to formalise entry into the multi-lateral and regional trading system and to regularise bi-lateral trading and investment relations.
- Foreign exchange market reforms and a shift to a more market-determined exchange rate system.
- Reform of the SOE system through enterprise restructuring, introducing new approaches for management and oversight; changing the relationship between SOEs and the budget and the financial sector; and, more recently, changing structures of ownership through equitisation.
- Formal acceptance of the private sector and steps towards the creation of a legal framework for the functioning of a corporate sector.
- Budgetary reform: to change the basis of raising revenue to a more modern system of taxation, and to adopt a more formalised expenditure planning and control system.

Source: Adapted from *Viet Nam: Economic and Financial Management* <[www.USAID.gov.au/publications/pdf/vietnam\\_wp1.pdf](http://www.USAID.gov.au/publications/pdf/vietnam_wp1.pdf)>

Reforms in the agriculture sector transformed Viet Nam into one of the world's largest rice exporters and paved the way for over a decade of economic growth, while the 1987 Law on Foreign Investment<sup>3</sup> was considered to be one of the most liberal in Asia.<sup>4</sup> Other policy reforms that served to open the Vietnamese market to trade and investment under *Doi Moi* followed in quick succession. These reforms included official (albeit tacit for almost another 10 years) recognition of the private sector in the 1992 Constitution, the abolition of state price controls, and the introduction of macro-economic stabilisation measures.<sup>5</sup> In further attempts to increase Viet Nam's private sector and make the country attractive for foreign investment, two new laws, which are mergers of existing codes, were enacted in 2005. The Unified Enterprise Law merges the Enterprise Law, the State-Owned Enterprise Law, and the Law on Cooperatives, which collectively 'codif[y] a mechanism to protect the rights of citizens to establish and operate private businesses....It also establishes the right of investors to be protected from undue interference from government or other officials, provided business operate(s) legally.'<sup>6</sup> The Common Investment Law, aimed at levelling the playing field between foreign and domestic, and private and state-owned enterprises, will combine the FDI Law and the Law on Domestic Investment.

These reforms have succeeded in making Viet Nam more attractive to foreign capital. The three chief flows of foreign funds are from official development assistance (ODA), foreign direct investment (FDI), and remittances from overseas

Since the launch of the *Doi Moi* reforms, the private sector in general – and small and medium enterprises (SMEs) in particular – remains but a small part of economic development in Viet Nam.

Vietnamese.<sup>7</sup> According to the government's Foreign Investment Department, FDI inflows in the first 8 months of 2005 are nearly 500 *registered* projects with combined capital of US\$2.24 billion – an increase of 12.6 per cent in the number of projects and 88.8 per cent in the value of investment capital from 2004. Total *disbursed* FDI over the same period is US\$2.14 billion, a 13 per cent increase over the same period during the previous year. The official target for licensed FDI in 2005 is US\$5 billion. As the end of the Five-Year Plan 2001-2005 approached, there was an obvious incentive for the government to boost FDI inflows in order to meet the Plan's macro-economic targets.<sup>8</sup>

Since the launch of the *Doi Moi* reforms, the private sector in general – and small and medium enterprises (SMEs) in particular – remains but a small part of economic development in Viet Nam. 2003 figures of GDP distribution by ownership show state and state-owned enterprises (SOEs) with 39 per cent of GDP; collective, private, and households with 46 per cent (of which households alone has 31 per cent), and the FDI sector with 15 per cent. Currently the number of private enterprises in operation is a modest 80,000 or so.

Although there has been a rapid increase in the number of registered SMEs, this is largely thanks to simplified registration procedures and reduced capital requirements. According to Vietnamese government 2004 figures, SMEs account for 34 per cent of total enterprise employment and tend to be very small companies with a contribution to GDP that is lower than 10 per cent. In Viet Nam, SME development tends to be seen by the local authorities as a social issue more than an economic one as is demonstrated in the Socio-Economic Development Plan 2006-2010.

Viet Nam's 3000 SOEs produce 50 per cent of the country's industrial production while the country's SMEs are finding it difficult to transition into larger enterprises. The US\$45+ billion economy, second in growth only to China in the region,<sup>9</sup> experienced a 7.5 per cent growth in GDP from 2001 to 2005, while inflation reached a peak of 10 per cent during 2004. GDP per capita is over US\$500/year. Private enterprises are supplying 56.3 per cent of the economy's employment and absorbing a large share of the 1.2 million new entrants to the labour market annually, making such enterprises increasingly vital to the economy.<sup>10</sup> One of the current challenges is to raise productivity through improved skills in the labour force.

The Government of Viet Nam and international donors have jointly identified 13 areas that should be targeted to enable the country to reach its development goals. According to the Five-Year Socio-Economic Development Plan 2006-2010, these goals are to:<sup>11</sup>

- ensure high and sustainable economic growth,
- develop the agricultural economy,
- modernize industrial production and enhance economic efficiency and

- competitiveness,
- improve infrastructure,
  - enhance the quality of the service sector,
  - make effective use of science and technology to enhance economic performance and competitiveness,
  - improve the quality of human resources,
  - develop health services to improve living standards,
  - reduce gender inequality,
  - provide increased opportunities for employment
  - increase protections for the environment,
  - ensure security for ethnic minorities and religious freedom, and
  - develop economic entities and build market institutions.

## 2. THE ENABLING ENVIRONMENT FOR SME DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY IN VIET NAM

### i) Small and Medium Enterprise Development

In recent years Viet Nam's central government has strongly supported SME promotion. Enterprise development and improvement of the business climate is highlighted in the *2001-2005 Social Economic Development Strategy* and in the country's *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*.<sup>12</sup> In its Decree No.91/2001/CP-ND, the Government of Viet Nam defines small and medium enterprises as 'independent business entities, which have registered their business in accordance with prevailing laws, with registered capital of not more than VND 10 billion or the annual average number of labour of not more than 300 people.'<sup>13</sup>

The Ministry of Planning and Investment created the Agency for Small and Medium Enterprise Development (ASMED) in the summer of 2003. Quickly following its inauguration, ASMED formulated a five-year plan for SME development. It also formed the **Partnership Group for SME Development** – a group chaired by UNIDO and the Embassy of Japan and comprising members from governments, donor organizations, and business associations – to establish an efficient co-ordination mechanism among donors in the SME field. The Partnership Group offers a good example of new approaches to improving donor co-ordination and aid effectiveness.

As well as serving as an information exchange resource for the government and donors to better co-ordinate aid programmes for business development, the Partnership Group's working groups foster collaboration at the project level, including technical co-operation. The body meets twice a year and includes 50-70 participants representing the Vietnamese government and 20 bi-lateral and multi-lateral donors. Participation is voluntary and based on mutual interest in the SME field.

In recent years SME promotion has been given strong support by Viet Nam's central government.

An immediate outcome of the Partnership Group's initial meeting was the creation of a comprehensive database housing SME- related information that is hosted by the Agency for SME Development.<sup>14</sup> At each of the bi-annual meetings the government presents an overview of its SME development aims, UNIDO and the Embassy of Japan outline activities for the group, and donors present their plans and undertakings.

ASMED's accomplishments thus far have been impressive. They include the formulation of *The Roadmap for SME Development* as well as two SME support programmes (SME Human Resource Training and Export Promotion) that have been submitted to the Prime Minister; the creation of the three Technical Assistance Centres (TACs); and a computerized business registration processes called the National Business Information Network (NBIN) that acts as a resource for business information and addresses the information gap many Vietnamese businesses have experienced.<sup>15</sup>

**The need for donor co-ordination in Viet Nam, as in other developing countries, is critical; its lack has been identified as a key stumbling block to project progress.**

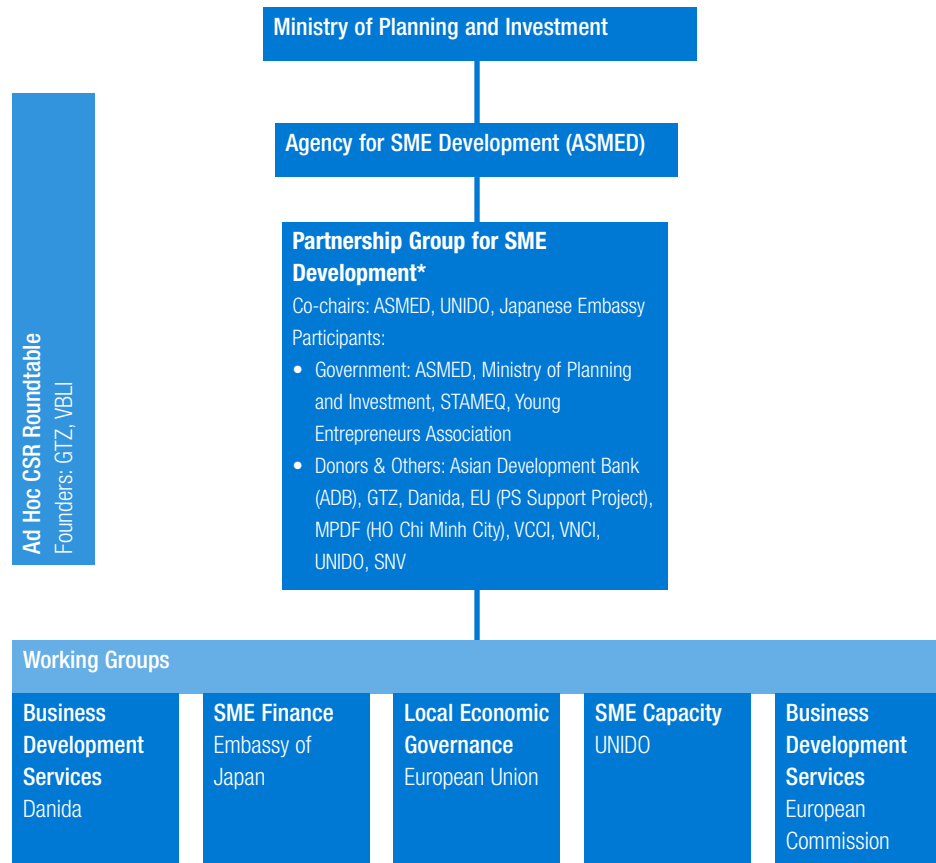
The need for donor co-ordination in Viet Nam, as in other developing countries, is critical; its lack has been identified as a key stumbling block to project progress. On-going donor-funded initiatives on SME development currently underway in Viet Nam are increasing in number and include the following:

- Business Sector Programme Support (BSPS) [Danida]
- Enabling Environment for Competitiveness of SMEs [German Development Cooperation (GTZ, KfW)]
- Establishment of the National and Provincial SME Support Infrastructure [UNIDO]
- *Making Markets Work Better for the Poor* [Asian Development Bank (ADB), British Department for International Development (DFID)]
- Private Sector Support Programme (PSSP) [European Commission]
- SME Development Programme Loan [ADB]
- *Start and Improve Your Business* (SIYB) [International Labour Organisation (ILO), Viet Nam Chamber of Commerce and Industry (VCCI), Swedish International Development Agency (Sida)]
- *Trade Promotion and SPS development-phase II* [financed by Switzerland and Sweden]
- Viet Nam Competitiveness Initiative (VNCI) [US Agency for International Development (USAID)]

Exhibit 4 illustrates the enabling environment as it relates to donor support for SME development in Viet Nam.



## EXHIBIT 4 VIET NAM'S ENABLING ENVIRONMENT MAP



\* see Acronyms p53

**Constraints to SME growth include the embryonic nature of the policy and regulatory environment supporting a market economy, weak institutional support for the private sector, inefficient markets, low levels of productivity despite a high-quality labour force, inadequate physical infrastructure, insufficient investment in technology and skills development, and limited exposure to foreign trade are some of the most acute issues.**

### ii) Obstacles to SME Expansion

Despite increased government and donor support, there are still significant barriers to small and medium enterprise growth in Viet Nam. Constraints such as the embryonic nature of the policy and regulatory environment supporting a market economy, weak institutional support for the private sector, inefficient markets, low levels of productivity despite a high-quality labour force, inadequate physical infrastructure, insufficient investment in technology and skills development, and limited exposure to foreign trade are some of the most acute issues.<sup>16</sup> In addition, hurdles such as lack of access to capital and constraining property laws serve as barriers for small businesses, particularly home-based ones, from entering the formal economy, from growing, and from competing in the world market. In turn, these SMEs cannot fully contribute to the country's development objectives.<sup>17</sup>

### iii) Corporate Social Responsibility

Acknowledging the economic, social, and environmental challenges that Viet Nam faces as it transitions from a centrally planned to a market economy, several organisations are co-operating to encourage Vietnamese firms to engage in issues linked to social and environmental responsibility, country competitiveness, and thereby, Viet Nam's development goals. By extension, engagement in socially and

environmentally responsible behaviour can potentially contribute to individual firm success. Many of these activities are classified as corporate social responsibility (CSR) by those involved.

Aside from the Partnership Group on SME Development, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and the Viet Nam Chamber of Commerce and Industry (VCCI) established a roundtable series to address CSR issues relevant to businesses in Viet Nam. The aim of these meetings is to raise awareness of CSR, encourage the uptake of CSR in Vietnamese businesses, strengthen communication among firms engaged in these issues, foster an enabling environment for CSR in Viet Nam, and address particular CSR issues. Five roundtables have been planned, each on a specific topic:<sup>18</sup>

**The UN Industrial Development Organization (UNIDO) argues that CSR does not necessarily erode a firm's profit margin and can potentially create competitive advantage, particularly in the context of a developing country.**

1. Benefits and Challenges in Implementing Social Standards
2. CSR Capacity Building through Worker's Participation
3. Audit Quality Control
4. How to help SMEs implement social standards at low cost
5. How to raise public awareness and sustain social dialogue

Three of these roundtables have already been held and each involves businesses that are grappling with the topical issues, as well as the donors and NGOs that are working with those businesses. These colloquia allow for both practical learning and the identification of some of the challenges and solutions to the issues under discussion.

In addition to running their own programmes and participating in the Partnership Group and CSR Roundtable, several donor agencies are actively involved with, and taking a leadership role on, issues directly related to CSR. Three of the leading examples in Viet Nam are UNIDO, the ILO, and GTZ.

**The UN Industrial Development Organization (UNIDO)** argues that CSR does not necessarily erode a firm's profit margin and can potentially create competitive advantage, particularly in the context of a developing country. In Viet Nam the organisation is focusing on 'promoting sustainable industrial development, that is, competitive enterprises capable of creating incomes and jobs while responding at the same time to broader social demands such as a clean environment, or decent working conditions and equal opportunities between genders or across regions and social groups.'<sup>19</sup> CSR is particularly relevant in the Vietnamese context where, because of historical political and social values and tradition of public ownership, corporate profitability and individual success have a somewhat negative connotation in society at large.

In addition to its role in the Partnership Group and participation in the CSR Roundtable, UNIDO has crafted the concept of a *Development-Oriented Joint Venture (DOJV)*, whereby the public partner provides funding to attract private investment in a project that will have high development returns but may not have

immediate financial returns. Such projects are evaluated to ensure that potentially distorting subsidisation of private investment does not occur. The hope is that these projects will have a positive long-term impact on both the country's development and the industry sectors' competitiveness.<sup>20</sup> In its vision of *CSR and Core Competencies*, UNIDO argues that private businesses can bring in a measurable contribution to socio-economic development (hence yielding inter alia the reputational return typically sought from CSR investment) by building on their traditional line of activity. For instance, UNIDO and the Ministry of Industry are developing a project concept based on the eco-friendly recycling of used oils and lubricants that are discharged predominantly by the transport industry. The project has a clear impact on the livelihoods of local communities, and it would benefit from the technical expertise of a multi-national firm such as BP or Shell, both of which are pursuing CSR agendas on their own. Put simply, UNIDO believes that by aligning CSR investment to a firm's core competencies, it can leverage higher resources for development purposes.

UNIDO believes that by aligning CSR investment to a firm's core competencies, it can leverage higher resources for development purposes.

In 2002 UNIDO produced a seminal paper on the relevance of CSR for small and medium enterprises in developing countries.<sup>21</sup> The organisation has also been a driving force in the field of Cleaner Production in Viet Nam and other countries (see page 30 for a discussion of the Viet Nam Cleaner Production Centre).

The International Labour Organization (ILO) has launched the *Worker-Manager Factory Improvement Programme* (WMFIP) in Viet Nam, which combines labour and production management issues and aims to improve product quality through improved worker-manager relations. The thinking is that improved labour relations lead to better output, which in turn results in higher profits. The program is comprised of six modules that take place over a nine-month period:

1. Worker-Manager Dialogue
2. Quality
3. Productivity
4. Labour Safety and Health
5. Human Resource Management
6. Cleaner Production and Continuous Improvement

The sixth component of the course, Cleaner Production and Continuous Improvement, is run by the Viet Nam Cleaner Production Centre. The ILO uses a methodology that combines theoretical training in workshops with on-the-spot consultations that occur when an ILO team does factory assessments and follow-up visits. The programme is concentrating on six industries in Viet Nam: garment manufacturing, electrical engineering, motor bike parts, motorcycle assembly, printing, and medical equipment manufacturing. The Viet Nam programme is relatively new, though the course has been run in its entirety with successful results in Sri Lanka.<sup>22</sup>

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the executing arm of the German Ministry of Development Cooperation, incorporates public-private partnerships into its regular projects. It is attractive to multi-nationals investing in or beginning operations in Viet Nam because of its neutrality in sensitive areas such as technology, its role as a facilitator, and its ability to make matching funds available to German firms for projects that promote sustainable business development. Currently it is involved with five projects on corporate responsibility in Viet Nam:

- German Retail Association (AVE) – GTZ roundtables for supplier training;
- three coffee projects in conjunction with Kraft Foods/Sara Lee, Nestle, and Neuham to improve social and environmental issues in the coffee supply chain;
- a project with Metro supermarkets on the food and vegetable value chain;
- public-private partnerships on vocational training; and
- a joint project with Scancon, the wood furniture firm, on environmental standards.

Exhibit 5 illustrates the network of organisations and government entities that are involved in the Vietnamese CSR landscape.

**EXHIBIT 5 NETWORK OF CSR AGENTS IN VIET NAM<sup>23</sup>**

	Partner*	Contribution	
GOVERNMENT	Domestic	PMRC, MPI	Long-term vision of sustainable development; branding Viet Nam as a CSR-friendly country
		MOI, MOST, MONRE, MOLISA	Competition policy; Science and technology policy; Social capital policy
		MOST	CSR standards embedded in FDI regulations
		MOET	Dissemination through business and technology curricula
	Foreign: ODA	SME Partnership	Coordinate technical assistance in SME development and CSR
		Multi- and bi-lateral TA providers	Sponsor project; Joint advocacy through linkages with similar initiatives
		DFIs	Advocacy through lending programmes to business
INDUSTRY	Domestic	VNCPC and its network	Provision of services to enterprises to improve their environmental bottom line and address social issues such as occupational health and safety (OHS)
		VCCI; industry associations	Outreach to manufacturing enterprises
		Economic zones management	Dissemination of CP and SR principles
	Foreign	Chambers of Commerce in Viet Nam	Advantages granted to CSR-compliant Vietnamese firms
		NGOs, foundations, IBLF, IIED, etc.	Advocacy; Outreach to foreign TNCs

\* see Acronyms p.53

**The challenges of achieving business viability and a lack of investment capital obscure both the need and the ability to implement CSR initiatives.**

#### **iv) Obstacles to CSR Uptake**

Uptake of corporate responsibility beyond terms dictated by foreign companies is still at a low level in Viet Nam. The challenges of achieving business viability and a lack of investment capital obscure both the need and the ability to implement CSR initiatives. In addition, the seasonal nature and lack of stability in some industries, such as shoe and clothing manufacturing, pose huge barriers to adequate CSR implementation simply because of the business environment. Finally, a lack of understanding about the potential business benefits of CSR programming means that often managers view CSR programmes as impediments to carrying on with business in a highly competitive environment.

Following are two examples of multi-sector partnerships in Viet Nam that assist firms in programme implementation to gain competitive advantage, address long-term risks, and potentially create increased efficiencies by implementing better labour and environmental standards.



## II. EXAMPLES OF MULTI-SECTOR PARTNERSHIPS

### 1. VIET NAM BUSINESS LINKS INITIATIVE (VBLI)

#### i) Labour Conditions along Global Supply Chains

In attempting to control the impacts of their activities in developing countries, companies sought to create local solutions to their sourcing challenges.

The mid-1990s was characterised by an explosion of activism around the issue of modern-day sweatshops, a phenomenon in which workers in developing countries, usually women and girls, are forced to work long hours under gruelling conditions for low wages. The scandals that emerged touched every corner of the clothing and footwear industry, causing some companies to look more closely at the factories from which they sourced their goods. The challenge of controlling issues such as labour force age, compensation, and working conditions in companies that are neither owned nor controlled by the sourcing company, in a field of tight margins, resulted in the relatively new field of supply chain management. In attempting to control the impacts of their activities in developing countries, companies such as Nike and Pentland, for example, sought to create local solutions to their sourcing challenges. A key focus was the development of internal management systems within each firm's own supply chain. At the same time, the companies explored ways to co-operate with other organisations to ensure greater scale and effectiveness of their efforts. The Viet Nam Business Links Initiative is one such innovative partnership in the realm of supply chain management.

According to the latest statistics (2003), Viet Nam's footwear industry is the country's third main exporter, accounting for 11 per cent of the country's total exports, after crude oil and textile and garments.<sup>24</sup> Viet Nam exports 90.6 per cent of its footwear products to foreign markets, predominantly the European Union (80 per cent), the United States (7-11 per cent), Japan (4-6 per cent), and others.<sup>25</sup> This makes it the world's fourth largest exporter of footwear after China, Hong Kong, and Italy. By the end of 2002, the country reached an output of 350 million pairs of shoes, 33.7 million bags, and 25 million square feet of tanned leather, creating footwear-related export revenue of US\$1.85 billion. While its footwear-related output continues to grow, the industry depends heavily on imports, particularly from China. According to the Ministry of Industry, approximately 80 per cent of these materials are imported; the remainder, from domestic supplies, does not meet international quality standards. Although external sourcing of basic materials may not be a limiting factor, one constraint to the industry identified by the Viet Nam Chamber of Commerce (VCCI) is that the industry lacks a strong designer base and has not been efficient in finding outlets for products designed in Viet Nam.<sup>26</sup>

Approximately 80 per cent of Vietnamese producers are subcontractors of foreign firms.

There are 400 enterprises involved in Viet Nam's leather and footwear industry. These enterprises employ 430,000 workers annually, a high proportion (80 per cent) of whom are women 18-25 years of age.<sup>27</sup> The working conditions that these women experience are often characterised by high levels of heat, noise, and pollution. They often lack safety procedures and fire protection, and the workers are potentially exposed to high levels of solvents such as toluene, SO<sub>2</sub>, NH<sub>3</sub>, and other chemicals in addition to non-ergonomic production positions. As a result of prolonged exposure, workers in the shoe industry often develop oral, optic, ear, nose, throat, or gastric diseases, as well as anaemia, endocrine, gynaecological, dermal, and bone and joint problems.<sup>28</sup>

Approximately 80 per cent of Vietnamese producers are subcontractors of foreign firms.<sup>29</sup> Increased pressure by international buyers on Vietnamese factories to abide by internationally set codes of conduct have led some Vietnamese firms to become more focused on social and occupational health and safety issues (OHS). These concerns are being counterbalanced by the challenge of increasing production to meet seasonal demand while juggling up to four different codes of conduct simultaneously for different clients. In addition, the seasonality of the footwear industry means that training on procedures and highly proficient staff may be lost in the "off season" when the workers are forced to seek alternative employment. Some factories cite high labour turnover as a challenge both to business success and to implementing "corporate responsibility" protocols in their factories. Conversely, high-season demand by foreign buyers often means increased pressure on suppliers to compel their workers to stay beyond their official hours and produce more within the allotted time.

## ii) Creation

The Viet Nam Business Links Initiative (VBLI), a tri-sector partnership between 26 local and international organisations and companies, was created in 1999. The VBLI was established to address working conditions in Viet Nam's footwear industry and is supported by the UK's Department for International Development (DFID), the British non-governmental organisation ActionAid, and the Prince of Wales International Business Leaders Forum (IBLF), while Pentland, Nike, and adidas-Salomon provide further funding and technical support. The Viet Nam Chamber of Commerce and Industry (VCCI) is responsible for directing and implementing the Initiative's ongoing activities, which are focused on bringing international brands, factory owners, industry representatives, government ministries, and international non-governmental organisations together to collaborate on improving chemical use and the production environment in Viet Nam's footwear industry. Improvements to the production environment include better lighting and air quality and reducing heat and noise on the plant floor. Although the focus has been on assisting participating companies in these areas, the VBLI's overall aim is to 'create systemic change across this industry in Viet Nam.'<sup>30</sup>



The impetus for creating the VBLI emerged from a report commissioned by the British government's DFID and supported by a group of major sportswear manufacturers that identified a need for a far-reaching strategy to improve selection, storage, use, disposal, and exposure to chemicals utilized in Viet Nam's shoe manufacturing.

In September 1999, the Prince of Wales International Business Leaders Forum was invited to convene a meeting of all concerned entities, which included the Vietnamese government, the Footwear Industry, worker representatives, health and safety agencies, multi-lateral agencies and non-governmental organizations. This meeting culminated in a proposed Action Program of the Viet Nam Footwear Industry – Business Links Initiative, published in October 1999, as well as a commitment by several attendees to support implementation of this plan.

The VBLI's key objectives are 'To improve the working conditions for all people engaged in the Footwear Industry factories in Viet Nam'. Exhibit 6 illustrates the VBLI's methodology.

#### **EXHIBIT 6 THE VBLI'S METHODOLOGY**

- Raising awareness of the importance of occupational health and safety issues.
- Effectively managing the choice, storage, uses, handling, and disposal of the chemicals – and their containers – applied in the manufacturing process.
- Reducing noise, heat, dust, and fumes in the workplace.
- Providing the framework for the transfer of knowledge and skills on occupational health and safety between the participants in the Programme.
- Strengthening the capacity to monitor, inspect, and regulate working conditions; to enhance the implementation of Viet Nam's labour laws; and to reflect the continuous development in international standards, ensuring the long term sustainability of the Programme.

Source: <http://www.vcci.com.vn/sub/vbli/default.htm>

#### **Participation**

In addition to the four founding multi-national companies – adidas-Salomon, Nike, Pentland, and Reebok – 27 Vietnamese companies, predominantly in the footwear industry, are members of the VBLI. These include 11 state owned enterprises (SOEs), 15 private companies, and 1 joint stock company.

In addition, 26 entities participate in the VBLI, representing government agencies, industrial associations, research and consultation agencies, sportswear and other private companies, and international organisations and NGOs. According to UNIDO, the VBLI plans to expand the partnership to include other sportswear and apparel companies, local factories, and academic institutions. There will also be an effort to engage the Taiwanese and Korean business associations to play their part in improving local workplace conditions.<sup>31</sup> Exhibit 7 lists participants in the first phase.

## EXHIBIT 7 THE VBLI'S FIRST-PHASE PARTICIPANTS

<b>NGOs</b>	<ul style="list-style-type: none"> <li>ActionAid Viet Nam (AAV)</li> <li>Environmental Resources Management (ERM)</li> <li>Friedrich Ebert Stiftung (FES)</li> <li>Leather and Footwear Research Institute</li> <li>Mekong Project Development Facility (MPDF)</li> <li>The Prince of Wales International Business Leaders Forum (IBLF)</li> <li>Viet Nam Red Cross Society</li> </ul>
<b>Companies</b>	<ul style="list-style-type: none"> <li>adidas-Salomon</li> <li>Pentland Plc.</li> <li>Nike (Viet Nam)</li> </ul>
<b>Trade Associations</b>	<ul style="list-style-type: none"> <li>Viet Nam Chamber of Commerce and Industry (VCCI)</li> <li>Viet Nam Garment and Textile Association (VITAS)</li> <li>Viet Nam General Confederation of Labour (VGCL)</li> <li>Viet Nam Leather and Footwear Association (LEFASO)</li> </ul>
<b>Donor Agencies</b>	<ul style="list-style-type: none"> <li>DFID</li> <li>GTZ</li> </ul>
<b>Government Ministries</b>	<ul style="list-style-type: none"> <li>Ministry of Health (MOH)</li> <li>Ministry of Labour Invalids and Social Affairs (MOLISA)</li> <li>Ministry of Science and Technology, Directorate for Standards &amp; Quality</li> <li>Ministry of Science and Technology, Viet Nam Standards Institute</li> <li>Ministry of Planning and Investment</li> <li>Ministry of Trade</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>National Institute of Labour Protection (NILP)</li> <li>National Institute of Occupational &amp; Environmental Health (NIOEH)</li> <li>SGS Viet Nam Ltd.</li> </ul>

Based on its planned second-phase expansion (2005-2008), more multi-national companies and organisations have committed to participate in the VBLI's activities.

### Motivations for Engagement

The major multi-nationals participating in the VBLI became involved because they needed to ensure that their local suppliers were selecting, using, storing, and disposing of chemicals in compliance with European and North American standards.<sup>32</sup> NGOs such as ActionAid Viet Nam became involved because of their own core competencies in worker issues.

The VBLI works with national firms, many of which are in multi-nationals' supply chains and grapple with both the issue of occupational health and safety and the proliferation of codes of conduct to which they must adhere. The VBLI argues that addressing such issues, whether or not the Vietnamese enterprise is in a multi-national supply chain, can create competitive advantage both for individual companies and for the Vietnamese footwear industry as a whole as the manufacturing sector struggles to compete with China, the giant next door. Increasingly Vietnamese industry is seeking to gain such advantage through quality and assurance to buyers that they will not be plagued by reputation risks if goods are sourced from Vietnamese companies, a tactic that has been implemented with relative success in Cambodia.<sup>33</sup>

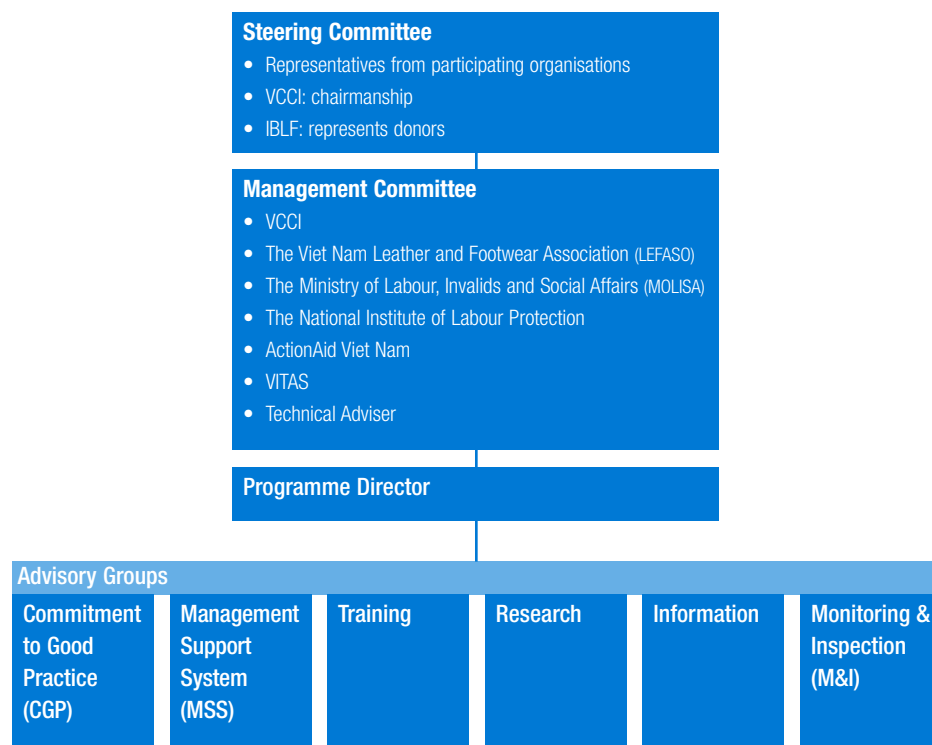
**The VBLI argues that addressing health and safety issues, whether or not the Vietnamese enterprise is in a multinational supply chain, can create competitive advantage both for individual companies and for the Vietnamese footwear industry as a whole as the manufacturing sector struggles to compete with China, the giant next door.**

### iii) Operations

#### Governance Structure

Exhibit 8 illustrates the VBLI's governance structure.

#### EXHIBIT 8 THE VBLI'S GOVERNANCE STRUCTURE



The VBLI's steering committee meets once or twice a year to review programme progress and reports prepared by the programme director, who is based at the VCCI. The management committee serves as the regular liaison between the programme co-ordinator and the programme's various stakeholders, while the six advisory groups provide programmatic advice on the VBLI's activities.

The VBLI is funded by three sources: DFID provides 40 per cent of its budget, the three founding multi-nationals and local companies together contribute 40 per cent, and 20 per cent comes from the Vietnamese government.<sup>34</sup> At the outset, adidas-Salomon made its health and safety manager available to help build VCCI's capacity and create training materials. In addition to financial support and technical advice, multi-national corporate (MNC) partners share codes of conduct and participate in training programmes and mentoring. These MNCs also ensure that their Vietnamese SME suppliers are participating in, and complying with, the programme's standards. Local and international non-governmental organisations monitor on-going factory progress through site visits and interviews, and the VBLI as a whole works with government to develop a regulatory framework around occupational health and safety as well as other workplace issues.

## Strategy & Core Deliverables

Phase I (1999-2005) of the VBLI's activities has focused on raising awareness of, and fostering expertise in, occupational health and safety issues in the footwear industry through six key activities: training workshops, research, pilot programmes, commitment to good practice, affecting national policy, and strengthening a Management Support System. Its core products have included the following activities:<sup>35</sup>

**Vietnam's 1200 textile firms, 65 per cent of which are small and medium enterprises (SMEs), employ upwards of one million workers.**

- Drafting a code of conduct or commitment to good practice that factory owners sign.
- Developing a Management Support System of basic guidelines on occupational health and safety for factory managers. This has been tested in five pilot factories, has been approved by the Ministry of Industry, and has been disseminated to over 60 per cent of the country's footwear factories.
- Creating and running training courses for factory owners, managers, supervisors, and workers. Courses are offered in Hanoi, Haiphong, and Ho Chi Minh City and include five modules: occupational health and safety management, chemical safety, safe use of equipments and maintenance, management support system, and updated information on OHS. By 2003, 26 courses had been implemented.
- Conducting research and delivering reports on the needs and challenges of the footwear industry in Viet Nam.
- Conducting factory visits.
- Creating the basis upon which a nationwide monitoring and inspection system can be developed.

Establishing the methodology, materials, and guidelines for the programme was of primary importance in Phase I, as was testing methodologies in factories. Sixty per cent of Viet Nam's footwear factories participated in the VBLI's activities, and 120 factories received training during Phase I.

In Phase II the VBLI (2005-2008) will focus on increasing its impact in factories and taking the programme to scale. The VBLI also plans to expand activities to the garment sector and to become financially self-sustaining. Viet Nam's garment industry faces many of the same issues as its footwear counterpart, and it accounts for approximately 15 per cent of national exports.<sup>36</sup> Vietnam's 1200 textile firms, 65 per cent of which are SMEs, employ upwards of one million workers. The VBLI's decision to expand to this industry seems a natural growth. The organisation's objectives for Phase II include the following activities:<sup>37</sup>

- Increasing the scale and impact of improved health and safety standards developed in Phase I.
- Supporting the institutionalisation of health and safety standards through government, industry bodies, trade unions, and educational institutions.

- Transferring the VBLI learning and processes to the garment industry.
- Repositioning the VBLI as a facilitator for health and safety promotion in industries rather than a deliverer of training and other services.
- Attaining local sustainability of the VBLI by the end of the three-year period.

#### **iv) Evaluation**

The VBLI was evaluated after its third year of operations by a group led by the Viet Nam Leather and Footwear Association (LEFASO) that included the Ministry of Labour, Invalids and Social Affairs (MOLISA), ActionAid Viet Nam (AAV), and the Ministry of Health (MOH). This culminated in the IBLF *Report on Evaluation of Actual Impacts of the Viet Nam Business Links Initiative in the Viet Nam Footwear Industry*.

The evaluation itself faced some challenges in terms of the design of the survey that was administered to 14 of Viet Nam's 315 footwear-related enterprises. These shortcomings included a lack of baseline data, a lack of clearly defined factors to indicate improvement that is the result exclusively of the VBLI's work rather than of general improvement in management systems, many of the data were self-reported, and survey participation was voluntary. Notwithstanding these methodological problems, the survey reported that:

- impact on beneficiaries and companies had been positive: 78.57 per cent of managers reported that their enterprises had strengthened health and safety personnel;
- 90 per cent of leaders and 61.43 per cent of managers confirmed observance of the state regulation on overtime – this reduction in extra-legal overtime was attributed by workers to their own increasing awareness, greater legal enforcement, and the VBLI's work;
- 81.82 per cent of leaders and 81.43 per cent of managers reported that involvement with the VBLI's programme had strengthened information dissemination and communication on OHS issues within the enterprise; and
- 100 per cent of leaders and 91.43 per cent of managers reported that investment in OHS was a priority.<sup>38</sup>

The LEFASO-led group found that the VBLI had been successful in engaging and gaining support from external agencies, organisations, and companies; that it had helped to raise awareness among enterprise leaders on OHS issues; that the management support system was an important tool; that the VBLI's programme had made a positive impact on OHS management; and that the VBLI's training materials were useful to factory managers. The body recommended that the VBLI continue to seek resources and support from external organisations; that it expand its activities to include labour relations, working hours, and corporate accountability; and that it provide worker-level products to complement its management-level offering.<sup>39</sup> In addition, LEFASO representatives believe that the

VBLI's success has been largely based on three key factors: that it serves as a good collection of institutions, that it helps companies take practical action, and that it has a very active management committee.<sup>40</sup>

Although LEFASO has characterised the VBLI a success story, others in this field in Viet Nam are more critical. Some consider that the organisation is not yet capitalising on its potential and is not adequately building capacity. It is understood that Phase II of the programme seeks to address these concerns. It is also recognized that the very limited resources available to the VBLI have in turn limited the impact of the programme so far. More might have been done to leverage resources from the participants. Again, the VBLI plans to address this in Phase II. The experience gained and lessons learned from this process have led VCCI to aspire to a wider role in promoting CSR in Viet Nam, and IBLF is providing guidance and support in repositioning it to achieve its goal. As part of this process, the objective will be to strengthen the breadth and depth of understanding of CSR among the VCCI staff.

In one sense corporate responsibility resonates in Viet Nam because of its communist political history and the general perception that to make profit only for the sake of profit is not 'socially sound'.

One of the critical outcomes of the VBLI's work to date has been setting up, sustaining, and developing the cross-sector partnership itself. This work has overcome many hurdles.<sup>41</sup> All 26 parties had to be brought gently to the table, having been persuaded that the issue was vital to the country. It was also the first experience of such a cross-sector co-operation for most of the parties.

A key indicator of the VBLI's initial success is the fact that all 26 participants have stayed through the project and are committed to the second phase of the project, which now requires each to make a significant contribution to the work and to increasing its impact. The VCCI and the IBLF have played important roles as intermediaries, making the environment comfortable and ensuring that all participants were kept fully aware and consulted on developments. This has created a model that others could copy with some confidence.

#### **v) Replication and Scalability**

Corporate responsibility in Viet Nam is still at a nascent stage in many ways. In one sense corporate responsibility resonates in the country because of its communist political history and the general perception that to make profit only for the sake of profit is not 'socially sound'. Beyond this perceived social contract, however, there are still many challenges on the macro level to corporations engaging in responsible practices. One of the greatest challenges in the manufacturing sector is the great proliferation of codes of conduct (CoCs) both worldwide and within the Vietnamese context. There are over 1000 corporate CoCs worldwide, and Vietnamese enterprises are likely to be juggling between three to five CoCs for different customers simultaneously.<sup>42</sup> This poses an enormous cost and logistical challenge to the enterprise. Within firms, lack of finances and expertise on social and environmental issues as well as a general belief that these issues are unimportant among some company staff is an additional obstacle to scale up, as is lack of

information among workers who are likely to be unaware of their rights in terms of occupational health and safety. Finally, according to the Viet Nam Chamber of Commerce, both legal codes and their enforcement around responsible business practices are still relatively weak.

Both the footwear and the garment industry wrestle with several issues that serve as obstacles to their uptake of CSR. The seasonality of these industries means that at some periods of the year they do not work at full capacity. During these periods of less than full capacity, the firms are forced to either take jobs at a zero per cent profit or, if they are not able to secure even those, factories must let their workers go. When this happens and workers seek other jobs, it is difficult to hire them back; thus the investment in CSR-related activities at the worker level is lost. In some cases, if the company is able to, they pay the worker a small fee and cover health-care costs in order to retain the worker for the high season. Another big challenge cited by Vietnamese footwear firms is the fact that when an external audit occurs, if the factory is found to be non-compliant there is usually a threat of pulling the contract rather than an offer of technical assistance to advise the firm on how to become compliant. To this end, companies highlighted the need for technical advisers rather than simply an audit.<sup>43</sup>

**Viet Nam's enterprises have precious little margin to manoeuvre on a proactive corporate social responsibility agenda unless firms can internalise tangible benefits through enhanced employee productivity and increased foreign clients.**

In addition, the two pillars of Viet Nam's manufactured exports – garments and footwear – are locked in labour-intensive sectors where the wage bill typically absorbs most of the value-added and cut-throat international competition drives profit margins to virtually zero. Thus Viet Nam's enterprises have precious little margin to manoeuvre on a proactive corporate social responsibility agenda unless firms can internalise tangible benefits through enhanced employee productivity and increased foreign clients.

In terms of the VBLI itself, the organisation still grapples with being relatively new to the CSR field. For example, at its inception its host organisation, the Viet Nam Chamber of Commerce (VCCI), concentrated almost exclusively on mainstream business issues such as investment and competitiveness. The perception that the 'business of business is doing business', and that this does not include many of the issues that the VBLI addresses, still remains strong among many businesspeople in Viet Nam. This perception makes engaging stakeholders challenging, as most businesspeople are grappling with issues of competition, paying the labour force, and production.<sup>44</sup> As the VBLI makes a more robust business case about the link between sound labour practices, competitive advantage, and country competitiveness to its members, the gap between the two approaches to business is narrowing, but this gap remains a hurdle. Another major obstacle for the VBLI has been finances and the issue of becoming a financially self-sustaining organisation, as well as mobilising resources for its activities.

Although these issues are likely to remain challenges in the near term, the fact that the VBLI's management support system has become widely accepted and has been

approved by the Ministry of Industry is helping to take the effort to scale. VCCI has also recently been nominated as the industry representative on the government's Commission for Sustainable Development, and the VBLI is being demonstrated as a sector model for sustainable development. As a result, the programme will be nationalised and the government will likely take over funding for it. In addition, the Vietnamese footwear association is now considering whether it will mandate that its member companies ascribe to a code of conduct. These moves to integrate the VBLI's objectives into wider national and sector programmes may lead to long-term success illustrating how a collective, multi-sector partnership such as this can, over time, have a systemic impact.

#### **vi) Lessons Learned**

Initially, according to the IBLE, the concept of a multi-sector group formed to address factory conditions in the footwear industry was considered unwieldy. Four years on, however, it is now acknowledged that it was essential to involve all parties, including government, at the outset in order to go to scale. In addition, it was crucial to hold on-going consultations in which each participating organisation was asked what its contribution would be moving forwards and how it proposed to achieve this goal. Although progress is slow and factories often revert back to convenient methods of production, understanding from the outset that systemic change has to be gradual and building a firm foundation, which includes government policies and laws, is critical to future outcomes.

## **2. VIET NAM CLEANER PRODUCTION CENTRE (VNCPC)**

The 1992 Earth Summit in Rio de Janeiro, the world's second global environment conference, was convened by the United Nations to help national governments rethink economic development and to encourage development that would avoid pollution and the devastation of irreplaceable natural resources. In addition to coining the term *sustainable development*,<sup>45</sup> the establishment of the UNIDO/UNEP National Cleaner Production Centre (NCPC) Programme in 1994 was one of several significant outcomes of this meeting.

#### **i) Economic Development, the Environment, and Cleaner Production**

The goal of Cleaner Production centres is to take a pre-emptive approach to avoiding negative environmental impacts often associated with economic development and industrialisation. The programme supports economic growth and, through experts at its national centres, helps businesses in developing countries identify inefficiencies in resource use or pinpoint better ways of producing goods so that the production has a reduced environmental impact. The UNEP defines *Cleaner Production (CP)* as

...the continuous application of an integrated preventive environmental strategy to processes, products, and services to increase overall efficiency, and reduce risks



to humans and the environment. Cleaner Production can be applied to the processes used in any industry, to products themselves and to various services provided in society.

- **For production processes**, Cleaner Production results from one or a combination of conserving raw materials, water and energy; eliminating toxic and dangerous raw materials; and reducing the quantity and toxicity of all emissions and wastes at source during the production process.
- **For products**, Cleaner Production aims to reduce the environmental, health and safety impacts of products over their entire life cycles, from raw materials extraction, through manufacturing and use, to the 'ultimate' disposal of the product.
- **For services**, Cleaner Production implies incorporating environmental concerns into designing and delivering services.<sup>46</sup>

The purpose of an NCPC is two-fold: it promotes and implements a locally appropriate CP strategy through government policies and enterprises; and develops local capacity, in both the public sector and among private enterprises, to meet the demand that is then created for CP in the country.<sup>47</sup> This focus on building local capacity is predicated on the recognition that CP can only be thoroughly integrated into a country's industrial and policy framework if there is local capacity to sustain it.

There are currently 30 UNIDO/UNEP NCPCs and Programmes<sup>48</sup> spanning the globe from Brazil to Zimbabwe and approximately 50 additional bilateral local CPCs.<sup>49</sup> According to the World Bank, Viet Nam's environmental challenges are great: ' . . . in the last five decades, natural forest cover has shrunk from 43 to 29 percent of land area, and the country is facing an acute shortage of arable land. Habitat loss has led to a rise in the number of threatened species. Burgeoning urban populations are overwhelming municipal infrastructure and services and causing environmental problems such as unmanaged landfills, transport-related air pollution, untreated hazardous waste, and raw sewage flowing into open channels. Sedimentation is threatening the health of rivers. Over-fishing and destruction of coral reefs and mangroves have reduced the fishing yield.'<sup>50</sup> Although Cleaner Production methods cannot address all of these challenges, they can make a contribution to solving some of them.

## **ii) Creation**

Established in 1998, the Viet Nam Cleaner Production Centre (VNCPC) is a component of the UNEP/UNIDO National Cleaner Production Centres Programme and is a partnership between the Vietnamese Ministry of Education and Training (MOET), UNIDO, and the State Secretariat for Economic Affairs, Switzerland (seco), which is the donor agency. The VNCPC is hosted by the Institute for Environmental Science and Technology (INEST) at the Hanoi University of Technology (HUT).

**Pilot initiatives led to the recognition of Cleaner Production as a suitable approach to environmental protection in Viet Nam.**

The Viet Nam Cleaner Production Centre is in large part a result of a confluence of interest in Cleaner Production at the Hanoi University of Technology, UNIDO/UNEP, and at the Swiss State Secretariat for Economic Affairs. The Hanoi University of Technology was operating three initiatives from 1991 to 1997 focusing on the issue, with the combined experience gleaned from the National Research Project *Recovery and reuse of the industrial wastes and development of clean technologies* (1991-1995) and two smaller projects, *Minimization of textile wastes* (sponsored by IDRC, Canada 1995-1996) and *Cleaner Production in pulp & paper mills* (sponsored by UNEP/ROAP in Bangkok, 1996-1997).

Directed by Professor Tran Van Nhan, who is currently the general director of the VNCPC, and Professor Dinh Van Sam, a former director of INEST, these earlier pilot initiatives led to the recognition of Cleaner Production as a suitable approach to environmental protection in Viet Nam. This conclusion coincided with UNIDO/UNEP's solicitation for proposals to establish National CP Centres in February 1993. The Institute for Environmental Science and Technology's interest in developing this new field lay in its strength in analysing production lines and industrial pollution control. To that end, INEST submitted a proposal to UNIDO/UNEP to establish a CP Centre in Viet Nam. It was accepted and prioritised by the Swiss Agency for Development and Cooperation (SDC), which provided crucial funding, technical assistance, and evaluation.

In 1997 a UNIDO expert came to assist INEST in rewriting the project proposal. As a result, the Viet Nam Cleaner Production Centre (project VIE/96/063) was established in November 1998 and completed in April 2004. The partnership between UNIDO, the Government of Viet Nam, and the donor organisation (the SDC from 1998 to 1999 and seco from 2000 to 2004) was based on common concerns about the environment and development. Seco has continued its support of the VNCPC for three additional years, from 2005 to 2007, in order to implement a new project entitled *Promotion of New CP Services in Viet Nam through the VNCPC*.

The centre's mission is illustrated in Exhibit 9.

## EXHIBIT 9 THE VIET NAM CLEANER PRODUCTION CENTRE'S MISSION

The Viet Nam Cleaner Production Centre's Mission is to:

- Train the human resource base in enterprises, industry associations, consulting companies, research institutes, academic institutions, and governmental industrial and environmental management agencies in Cleaner Production methods;
- Demonstrate Cleaner Production Assessment in industries to show the advantages of the Cleaner Production approach, and at the same time adapt the internationally developed Cleaner Production approach to Vietnamese conditions;
- Assist policy makers and make recommendations on how to promote the concept of Cleaner Production in industries and through legislation;
- Promote the concept of Cleaner Production and raise awareness among industries and governmental agencies;
- Assist universities in integrating Cleaner Production into their curricula;
- Cooperate with domestic and international organizations with the aim of supporting the implementation of preventive environmental protection; and
- Serve as a focal point of the UNEP/UNIDO Network of National CPCs.

Source: Viet Nam Cleaner Production Centre Annual Report 2004, p. 6.

Within the framework of Project VIE/96/063, the VNCPC's work has progressed in two phases. The two-part start-up phase, which spanned the period between April 1998 and March 2001, focused on theoretical and on-the-job training to foster CP capabilities to enable CP implementation activities in industries, improve the enabling environment for CP, and create the organisational system to advance these activities. Following a March 2000 expert evaluation, work resumed in April 2001 to implement a business plan with modified objectives and a marketing plan.<sup>51</sup>

The second phase, from April 2001 to December 2004, focused on '[establishing] a Viet Nam Cleaner Production Centre capable of performing a catalytic role in building country-wide capacity in CP, to strengthen the national capacity for implementing CP techniques and technologies at the plant level, and to create awareness among key national stakeholders on the advantages of CP and support them in taking actions to promote the application of CP in industrial enterprises.'<sup>52</sup> According to a 2003 evaluation, the VNCPC had achieved several of its training goals one year before finalisation of Phase II and has attained 'institutional weight and undisputed credibility',<sup>53</sup> but it may not attain its financial sustainability or service-provider goals.

Partially to address these shortcomings, Phase III – planned for January 2005 to December 2007 – has recently received additional funding. The immediate objectives of Phase III include:<sup>54</sup>

- Improving the eco-efficiency and corporate social responsibility of enterprises using instruments such as CP, Environmentally Sound Technology (EST)

transfer, or social services and by taking into account supply chain constraints;

- Undertaking the transfer of knowledge needed for this to happen;
- Continuing to develop and expand the CP market in Viet Nam; and
- Reaching institutional and financial sustainability of the Centre as a neutral, independent, and highly qualified technology centre of excellence with international contacts and links.

In addition to plans for exploring a voucher system to enhance CP assessment quality nation-wide and to provide services in technology change management, the VNCPC plans to integrate labour and social issues into the package that it provides to its customers.

Currently, the VNCPC is involved with the ILO's *Workers-Management Factory Improvement Programme* (see page 17). The VNCPC provides the 6th module, on CP, for this course. The course also allows its personnel to learn about issues beyond Cleaner Production. In addition, VNCPC staff follows four factories on an on-going basis throughout the nine-month ILO programme for the development of case studies. Some concern has been expressed about the trajectory of taking on issues beyond Cleaner Production, particularly by those who believe that the VNCPC should concentrate its efforts on technical issues that are core to its expertise set in the environment.

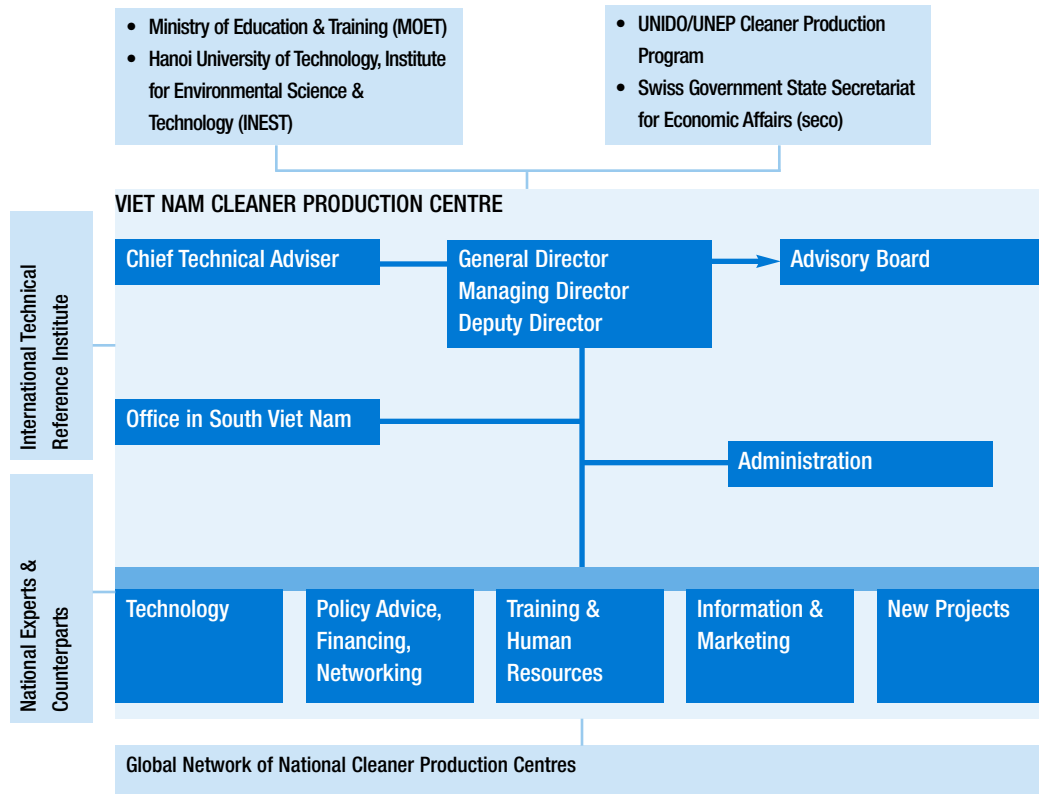
### **iii) Operations**

#### [Governance Structure](#)

The VNCPC has an advisory board consisting of 12 management-level personnel at several ministries and organisations. These include the MOET, the MOI, the MONRE, the MOF, the MPI, HUT, INEST, Ho Chi Minh Department of Natural Resources and Environment (HCM DONRE), UNIDO, seco/SDC, and VCCI. The advisory board's chair is the Rector of Ha Noi University of Technology, Professor Hoang Ba Chu.

Exhibit 10 illustrates VNCPC's multi-sector governance and organisational structure.

## EXHIBIT 10 VNCP'S ORGANISATIONAL STRUCTURE



Source: VNCPC Annual Report 2003.

Every two years a meeting with a UNIDO representative, a Swiss donor representative, and the Government of Viet Nam is convened. The VNCPC director reports on progress to this group. The VNCPC advisory board meets once per year to provide advice, to determine the industry sector focus, decide the approach to be taken, and get briefed on the centre's on-going activities.

Although the VNCPC's strongest link is with the university and education sector, it is building stronger ties with business. It concentrates its implementation and capacity building efforts on business, and has developed several channels through which to reach industry. These channels include:

- relationships with various government ministries that oversee industry;
- joint programmes and trainings with the Viet Nam Chamber of Commerce, which also provides a VNCPC advisory board representative;
- sector associations that manage the state-owned or private enterprises or both; and
- direct approaches to companies with advisory services.

The centre itself employs 17 people, including local Cleaner Production experts, one chief technical adviser (CTA), and one person seconded from UNIDO headquarters.

## Strategy & Core Deliverables

The Viet Nam Cleaner Production Centre aims to ‘contribute to sustainable industrial development in Viet Nam through dissemination of the concept of cleaner production and through assistance on implementation of cleaner production in industry’.<sup>55</sup> Its strategy is to take a holistic approach, creating a higher level of awareness of this issue in society at large while working with government on policy and with industry through awareness raising, training, and technical advice.

**The VNCPC argues that reducing environmental impacts is a more efficient use of resources, saves money on materials and energy, and thus creates more value.**

The VNCPC contends that good environmental practices can save companies money by reducing waste – it makes the business case of tying economics and environmental issues together, arguing that reducing environmental impacts is a more efficient use of resources, saves money on materials and energy, and thus creates more value. In addition, it argues that sound environmental practices can produce a better company image and create access to markets in Europe, the United States, and Canada.

Furthermore, recognizing that the field of consulting on Cleaner Production is proliferating and there is no standardized level of expertise, the VNCPC acts as a resource for assisting others in this field in Viet Nam. It hopes to build a robust technical expertise that will develop into increased use of CP consultants with consistently high-level skills.

The VNCPC has been mainly active in the textile, pulp and paper, metal products, construction material, and food and beverage sectors. It provides services in seven spheres:

- 1) **Outreach.** Television clips and newspaper articles funded by the government – there have been four thus far – to raise general awareness of Cleaner Production in Viet Nam.
- 2) **Awareness Raising.** The VNCPC held seminars in 19 cities and provinces attended by over 1700 participants.
- 3) **Training.** The centre has delivered over 5000 person-days of training, has introduced CP into the curricula of five national universities, and has trained over 100 future consultants in sector-specific CP assessment.
- 4) **Consulting.** Companies approach the VNCPC and the VNCPC approaches companies to provide services. One barrier to this arrangement is that there are many projects being run by various organisations that approach the same companies to provide consulting services, in some cases for free, which is an example of ‘donor crowding out’.
- 5) **Assessment.** Until December 2004, the VNCPC had conducted 71 in-plant assessments for 60 companies. Twenty additional in-plant assessments are currently in their completion phase. Each assessment takes nine months to one year.

- 6) **Technology Transfer.** The VNCPC advises on upgrading technology, but such upgrading is often investment intensive. This is an on-going challenge because companies require extra funds to upgrade and it is often difficult to convince them that such an outlay is the best option.
- 7) **Policy Advice.** The VNCPC provides on-going policy advice on CP to government ministries.

The ‘end-user’ beneficiaries of the VNCPC’s efforts are companies and the industry clusters that need or demand CP services. These include, largely, export-oriented firms in the textile dyeing, food processing, footwear, and metal finishing sectors.

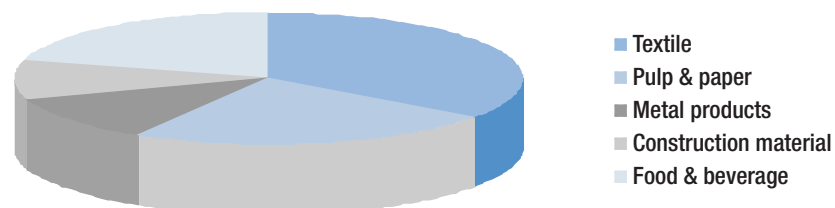
**By the end of 2004, enterprises participating with VNCPC had invested a total of US\$1.15 million in the implementation of CP recommendations that helped them cut their combined yearly costs by an estimated US\$6 million reduce their annual water consumption by 6.8 million m<sup>3</sup>, chemicals use by 4,000 tons, and energy consumption by 51 million kWh.**

By December 2004, the VNCPC had conducted 71 in-plant assessments for 60 companies, of which 22 were in the textile sector, 15 in the pulp and paper industry, 7 in the metal products sector, 6 in the construction materials industry, and 13 in the food and beverage sector. Twenty additional in-plant assessments, which is a process requiring nine months to one year, are currently in their completion phase. ‘By the end of 2004, the participating enterprises had invested a total of US\$1.15 million in the implementation of CP recommendations. This outlay has helped the firms cut their combined yearly costs by an estimated US\$6 million (that is, an average payback time of CP investment of less than three months) and reduce their annual water consumption by 6.8 million m<sup>3</sup>, chemicals use by 4,000 tons, and energy consumption by 51 million kWh.’<sup>56</sup>

In addition, the VNCPC is collecting information on in-plant assessments carried out by its former trainees and other partners. Together with the assessments carried out by the VNCPC itself, this gives a total of 130 in-plant assessments carried out between 1997 and 2004.

Exhibit 11 illustrates the sectors in which these companies fell.

**EXHIBIT 11 VNCPC’S COMPANIES BY SECTOR**



The VNCPC has positioned CP on the national policy-making agenda with influential input to the National Environment Strategy 2000-2010 and the CP National Action Plan 2000-2005.

Of these 130 companies, 55 were SOEs, three were joint ventures, 7 were privately held firms, and 4 were joint stock companies. The legal status of the remaining companies has not been specified.

In addition to its focus on companies, both consultants and the government also benefit from the VNCPC's efforts. As part of its goal to be a catalyst for CP in Viet Nam, the VNCPC stated that one of its goals for 2003-2005 was to 'build its own technical capacity [and also do this] for a larger pool of well qualified service providers that will become its strategic partners.'<sup>57</sup> This effort to train consultants rests on the assumption that in so doing, the market for CP assessments will grow while ensuring that the level of expertise remains both high and consistent.

Since its inception in 1998, the VNCPC has catalysed public awareness for CP through seminars in 19 cities and provinces attended by over 1700 participants and public awareness campaigns in the print and television media. The organisation has delivered over 5000 person-days of training, has introduced CP into the curricula of five national universities, and has trained over 100 future consultants in sector-specific CP assessment. The VNCPC has also positioned CP on the national policy-making agenda with influential input to the National Environment Strategy 2000-2010 and the CP National Action Plan 2000-2005.<sup>58</sup>

#### iv) Evaluation

Evaluation of the VNCPC programme as a whole is carried out in three ways. In advance of the bi-annual reporting meeting a multi-party evaluation mission is undertaken by a joint team consisting of representatives of

- the Viet Nam government
- the Swiss donor agency, and
- UNIDO.

There is also a donor report, in preparation for which the Swiss donors spend two weeks interviewing stakeholders, government personnel, industry representatives, company representatives, and trainees to evaluate the VNCPC programme.

The VNCPC also does its own self-evaluation, which is both 'external' and 'internal'. In terms of examining its achievements against 'external' goals, client satisfaction, number of companies reached for CP assessments, people trained, and other activities are measured. These measurements are assessed against criteria such as quality of training (measured through feedback evaluations), project control and management, quality of in-company service, benefit to clients, and quality of experts. Internally, the VNCPC examines its own environmental impact and how that measures against goals for reducing elements such as office waste and raw materials. This is assessed against criteria such as paper consumption per person per day of training, office paper and electricity consumption, and CO<sub>2</sub> emissions from travel. The centre has been ISO 9000 and ISO 14001 certified since 2002.



## **v) Replication and Scalability**

**A market for CP in general, and for consulting services around this issue, is still at a nascent stage in Viet Nam.**

The VNCP faces several challenges in terms of scaling up its endeavour, many of which have to do with the general operating environment of business and the donor environment in Viet Nam. One of the prominent issues is a lack of donor co-ordination, a lack that leads to many different programmes focusing on similar issues. This, in turn, creates a proliferation of programmes with different levels of involvement, expertise, and delivery. This proliferation relates to the second challenge – that of competition. Although programmes such as VNCPC are attempting to become self-sustaining by charging fees for their services, other donor-funded programmes offer similar services for free, creating a distorted market for such services. These cost-free programmes create an on-going dependence on external assistance in this field while simultaneously foreclosing on the potential of creating a robust CP consulting industry in the country.

The challenge of transforming into a financially self-sustaining entity is further hampered by the fact that demand for CP services in Viet Nam remains relatively weak,<sup>59</sup> and that the consultancy market in Viet Nam is relatively undeveloped. The low quality of some consultants serves as a disincentive for companies to hire CP experts, and many companies remain generally unreceptive to services such as the ones that VNCPC offers; this is particularly true of small, family-owned businesses that often face financial constraints.

A market for CP in general, and for consulting services around this issue, is still at a nascent stage in Viet Nam. This means that VNCPC must simultaneously make the business case for CP to businesses to create a market for its services, while continuing with ongoing offerings such as trainings and audits. VNCPC struggles with these issues, and also notes that the general quality of CP consultants varies widely and thus it has expanded its focus to assist in harmonizing the quality of consultants in the CP discipline.

Low prices for water, energy, and disposal fees create a barrier to the uptake of CP because users of these resources do not see the savings (cost or otherwise) that can be obtained by managing these resources. Weak government enforcement of CP laws also contributes to the challenge by creating a barrier to forming a robust enabling environment. In part as a result of VNCPC's work, the Vietnamese government has begun to acknowledge the importance of CP to the country as it continues to industrialise.

## **vi) Lessons Learned**

Though lack of enforcement remains a stumbling block, the government has taken pro-active steps to move CP forwards in Viet Nam. It has hosted a national roundtable on the issue, sponsored by both the Ministry of Environment and the Ministry of Industry; it has recently started to implement a water discharge fee; it has increased the price of water and implemented a tiered pricing system for

energy; and it fines the overuse of electricity and has compiled a list of polluters in the Ho Chi Minh City area.

The VNCPC has identified several factors that have contributed to its current success. These include being part of a global network and getting technical and other forms of support from other organisations in that network. In the VNCPC case, its Indian counterpart provided on-the-job training and support at the outset. In addition, the VNCPC has identified the presence of an international technical adviser (a Swiss national on secondment from UNIDO) as critical. VNCPC staff indicates that planning skills are generally weak in Viet Nam, but that their technical adviser was successful at filling this gap and advising from an external perspective. Finally, the recognition that the work – although it was focused on CP – had to be sold as a technical package with an inherent business case of spending money to save money in the long-term served to link productivity and quality and made the offering more attractive to its target businesses. Finally, the VNCPC called attention to the fact that being housed at a committed institution, regardless of which sector that institution belonged to, was critical for success.

In its programme overview focusing on the VNCPC, UNIDO identified six stumbling blocks that the VNCPC has experienced since its inception:<sup>60</sup>

- Enterprises in Viet Nam will take longer to adopt CP technologies than initially anticipated.
- Many factories are not used to hiring consultants.
- Many consultants lack access to technology information and suppliers are reluctant to assist because of the fear that the technology will be copied.
- The World Bank estimates that 60-70 per cent of the industries that will be operating in Viet Nam in 2025 are not yet in operation. If outdated technological equipment is installed in these facilities, Viet Nam will miss the opportunity to leapfrog to new and ecologically sounder practices, inevitably leading to further environmental degradation.
- Because the market (demand) for CP services is still relatively modest, the various CP service providers working in Viet Nam are in strong competition. As a result there is no exchange of information and it is very difficult for the VNCPC to monitor CP progress in the country.
- There is a lack of money available for investment in CP.

The VNCPC has ambitious plans to introduce the CP concept to Viet Nam's rapidly growing production facilities and to expand into the realm of corporate social responsibility by addressing social issues together with environmental aspects of production. Although the challenge is great, so too is the opportunity to counsel these firms, allowing them to create a sustainable, competitive business model that could avoid some of the environmental ills visited upon developed countries that were unaware of, or unwilling to accommodate, the full impact of their production methods.

## III. CONCLUSION

In examining the current state of enterprise development and corporate responsibility in Viet Nam through the lens of the VBLI and the VNCPC, several key findings have emerged. Outside the Vietnamese context these findings could be utilised by other developing countries seeking to build competitive and responsible entrepreneurship. Within Viet Nam they can be used to address stumbling blocks and build on strengths in future programmes.

- **The Importance of the Enabling Environment**

The importance of the enabling environment cannot be overstated. Government support through policy and legal reforms to encourage and support enterprise development is critical. Donor co-ordination and innovation can spur success or foreclose on it, creating opportunities or disincentives for durable local solutions. Building institutional and professional capacity is also important, as in the example of the Viet Nam Chamber of Commerce and Industries and the VNCPC initiative to build local skills for CP consulting.

- **The Harmonisation of Codes of Conduct**

Code of conduct harmonisation is a key issue in the manufacturing sector. The lack of harmonisation can have a crippling effect on factories in developing countries that provide materials to several companies simultaneously. The proliferation of codes has meant that local companies must modify operations depending on the client, often to obtain the same outcomes. Harmonisation of codes would result in more efficient production and increased effectiveness.

- **Individual Leadership**

Leadership from individuals and commitment from top managers within the umbrella organisation and participating member companies and entities are critical to programme longevity and success. Such leadership and enthusiasm can drive programme success, can enhance the ability to attract and train new practitioners, and can create the potential to foster an innovation environment for future generations.

- **National Ownership**

Linked to leadership, national programme ownership is critical, whether this is ownership by the government, an indigenous chamber of commerce, local companies, or a local university. Ownership can be a driving force for adopting activities by local peers and creating the opportunity to generate locally specific, and hence relevant, programmes, to identify specific stumbling blocks, and to enjoy innovation from within a country rather than having generic models implemented by external forces. This, in itself, can foster greater commitment to the goal. National ownership does not, however, preclude involvement and consultation

from external sources. In fact, the VNCPC clearly benefited from lessons learned in other regions.

- **The Need to Build the Business Case**

The business case for corporate responsibility has been found to be in an early stage in many developing countries, and Viet Nam is no exception. The impetus to produce, compete internationally, and grow the economy as fast as possible is foremost. This impetus is often based on the assumption that issues such as environmental protection and worker rights are stumbling blocks to this forward progress. Formulating a strong case with credible evidence that proves that environmental protection can save money in the long term and that adequate working conditions can produce long-term efficiencies is critical to enable businesses in developing countries to avoid the long-term negative impacts, both on business and on society at large, likely to emerge if these issues are ignored at the outset.

- **Regular Stakeholder Meetings**

Convening on-going structured stakeholder meetings in which parties are both engaged and committed is essential to success. The VBLI met regularly with its 26 members and cited this as one of the reasons that the programme retained continued and active commitment by participants. The VNCPC also engaged stakeholders regularly through evaluations and education programmes.

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# Acronyms

<b>AAV</b> ActionAid Viet Nam	<b>OECD</b> Organisation for Economic Co-operation and Development
<b>ADB</b> Asian Development Bank	<b>OHS</b> Occupational Health and Safety
<b>ASMED</b> Agency for Small and Medium Enterprise Development	<b>PMRC</b> Prime Minister's Research Commission on SME Promotion Policy
<b>AVE</b> German Retail Association	<b>PSSP</b> Private Sector Support Programme (European Commission)
<b>CP</b> Cleaner Production	<b>SDC</b> Swiss Agency for Development and Cooperation
<b>CPRGS</b> Comprehensive Poverty Reduction and Growth Strategy	<b>secO</b> Swiss Government's development finance organization
<b>CSR</b> Corporate Social Responsibility	<b>SIDA</b> Swedish International Development Agency
<b>DANIDA</b> Danish International Development Agency	<b>SME</b> Small and Medium Enterprises
<b>DFI</b> Development Finance Institution	<b>SMEPC</b> SME Promotion Center of VCCI
<b>DFID</b> British Department for International Development	<b>SNV</b> Stichting Nederlandse Vrijwilligers (Dutch Volunteer Organization)
<b>DOI MOI</b> Viet Nam's economic reforms	<b>SOE</b> State-owned enterprise
<b>ERM</b> Environmental Resources Management	<b>STAMEQ</b> Directorate for Standards and Quality (Viet Nam government)
<b>FDI</b> Foreign Direct Investment	<b>TA</b> Technical Assistance
<b>FES</b> Friedrich Ebert Stiftung	<b>TNC</b> Transnational Corporation
<b>GTZ</b> Deutsche Gesellschaft für Technische Zusammenarbeit	<b>UNIDO</b> United Nations Industrial Development Organization
<b>HCMC</b> Ho Chi Minh City	<b>USAID</b> United States Agency for International Development
<b>HCM DONRE</b> Ho Chi Minh Department of Natural Resources and Environment	<b>VBLI</b> Viet Nam Business Linkages Program
<b>HUT</b> Hanoi University of Technology	<b>VCCI</b> Viet Nam Chamber of Commerce and Industry
<b>IBLF</b> International Business Leaders Forum	<b>VNCI</b> Viet Nam Competitiveness Initiative (USAID)
<b>IFC</b> International Finance Corporation	<b>VNCPC</b> Viet Nam Cleaner Production Centre
<b>IIED</b> International Institute for Environment and Development	<b>VITAS</b> Viet Nam Garment and Textile Association
<b>ILO</b> International Labour Organisation	<b>VGCL</b> Viet Nam General Confederation of Labour
<b>INEST</b> Institute of Environmental Science and Technology	<b>VNCPC</b> Viet Nam Cleaner Production Centre
<b>LEFASO</b> Viet Nam Leather and Footwear Association	<b>VND</b> Vietnamese Dong
<b>MNC</b> Multi-national corporation	<b>WMFIP</b> Worker-Manager Factory Improvement Programme (ILO)
<b>MOET</b> Ministry of Education and Training	<b>ZDH</b> German Confederation of Small Business and Skilled Crafts
<b>MOF</b> Ministry of Finance	
<b>MOH</b> Ministry of Health	
<b>MOI</b> Ministry of Industry	
<b>MOLISA</b> Ministry of Labor, Invalids and Social Affairs	
<b>MONRE</b> Ministry of Natural Resources and Environment	
<b>MOST</b> Ministry of Science and Technology	
<b>MPDF</b> Mekong Project Development Facility	
<b>MPI</b> Ministry of Planning and Investment	
<b>NEU</b> National Economics University	
<b>NGO</b> Nongovernmental Organisation	
<b>NILP</b> National Institute of Labour Protection	
<b>NIOEH</b> National Institute of Occupational & Environmental Health	
<b>ODA</b> Official Development Assistance	





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## **UNIDO**

*The United Nations Industrial Development Organization (UNIDO) is a Specialised United Nations Agency with a mandate to prevent the marginalisation of developing countries and to contribute to the eradication of poverty through the promotion of sustainable industrial development. The UNIDO CSR Programme is based on the Organization's business partnership approach that aims to upgrade the overall productivity and competitiveness of small enterprises and suppliers in order to facilitate their access to larger value chains and trade networks. This initiative is multi-disciplinary in character, integrating environmental and social issues into a productivity and quality upgrading programme. Thus, it promotes the broader concepts of good corporate citizenship and responsible competitiveness as prerequisites for sustainable industrial development. The UNIDO CSR Programme may be seen as a practical contribution to the ongoing CSR debate, developing interventions at the company and policy levels that support businesses, in particular small and medium enterprises, to successfully adhere to CSR-related principles and norms.*

## **Kennedy School of Government, Corporate Social Responsibility Initiative**

*The Corporate Social Responsibility Initiative at the Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public role of the private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It is a cooperative effort among the Kennedy School's Mossavar-Rahmani Center for Business and Government, Center for Public Leadership, Hauser Center for Non-Profit Organizations, and Joan Shorenstein Center on the Press, Politics, and Public Policy. It was founded in 2004 with the support of Chevron Corporation, The Coca-Cola Company, General Motors, and Walter H. Shorenstein.*

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