



ISSUES FOR
RESPONSIBLE
INVESTORS

RESPONSIBLE INVESTING IN VIETNAM

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EXECUTIVE SUMMARY

Vietnam's rapid economic growth, maturing capital markets, evolving political and regulatory frameworks and youthful demographics are understandably attracting increasing attention from global institutional investors, keen to deploy funds in this promising frontier market.

Many of these investors have, in the past, found the lack of corporate transparency, poor governance practices and erratic enforcement of regulations to deliver risks too great for their beneficiaries and have therefore stayed away. However, recent trends towards improved financial disclosure and investor relations by listed companies are providing the signal many of these asset managers and owners were looking for and inbound capital flows are increasing.

With Vietnam firmly on the map as an attractive frontier market, other considerations are now presenting themselves as hurdles to further economic growth. Many of these are complex sustainability issues, related to demographics, environmental degradation, climate change, and energy and water security. Others are related to how companies deal with these sustainability challenges, the so-called ESG (Environment, Social and Governance) issues.

There is a general lack of coherent information available to investors in Vietnam on both these sustainability context issues and specific company ESG criteria, such as community investment, emissions, water use, employee health and welfare and diversity and independence of boards. This shortage of information continues to hold back responsible investment in the country.

This report seeks to identify these challenges and gaps in information by providing a review of the sustainability landscape. In doing so, it develops a better understanding of how businesses are responding to ESG risks and their approach to corporate social responsibility (CSR).

It also seeks to open the dialogue on ESG risks and opportunities in Vietnam and to address key concerns of institutional signatories of the UN-backed Principles of Responsible Investment, as well as those of Vietnam-themed or frontier market funds. Impact investors, private equity or venture capital investors with a responsible investment overlay will also benefit from the summary.

Evolving corporate culture

Much of Vietnam's economic activity is still centrally directed; the government remains the outright owner of many of the country's leading enterprises. This is slowly changing, with the establishment of the first listed exchange 11 years ago being a major landmark.

This legacy can sit uneasily with the concept of private ownership, management in the interests of shareholders and minority protection. Accordingly, practices for corporate governance are

currently at the lower end of the spectrum in the region. There has nevertheless been significant progress in improving standards of corporate governance over the last decade, with a number of new laws raising the benchmark for companies in this area.

Vietnamese companies are also in the early stages of their evolution to sustainability. This is reflected in the results of a benchmarking exercise undertaken for this report on Vietnam's top 20 listed companies by free float weighted market capitalisation. Using the Asian Sustainability Rating™ (ASR™), Responsible Research's proprietary ESG disclosure and management tool, the companies were assessed on their disclosure performance on 100 specific criteria split into General, Environment, Social and Governance categories.

The group average result was 18.4 percent, which is in line with Vietnam's status as a frontier market. For reference, a similar benchmarking exercise in 2010 recorded an average of 31 percent for a universe of 542 companies in Asia ex Japan, and 20 percent for a universe of over 200 Chinese companies.

In frontier markets, economic growth brings significant social benefits in itself, particularly poverty alleviation. Consequently, for many companies, continued growth in provision of services still makes a strong contribution to society. With increasing progress will come increasing scrutiny on how companies are operating with respect to the different groups, communities and environments. As this happens, the ASR result will climb, as has been seen in other markets.

The study also reveals that Vietnam is relatively stronger on community initiatives, but that companies have yet to start implementing policy relating to the suitability of suppliers from ESG perspectives.

Solid ESG framework, weak enforcement

Our research suggests that, although Vietnam has a relatively comprehensive regulatory framework to address ESG issues, enforcement lags. In recent years, various social and environmental protection laws, such as the Environmental Protection Law, the Labour Code and the Securities and Enterprise Laws, have been put in place. However, confusion over implementation and lack of enforcement exposes investors to significant ESG risks.

Encouragingly, there are positive drivers of sustainability performance and disclosure that are expected to improve the sustainability landscape in Vietnam. Increasing media, investment banking and NGO coverage on issues such as climate change, energy efficiency, air and wastewater pollution, poor labour practices and corruption has already begun to affect change. While this trend is still nascent it will have important implications for companies,



investors and regulatory bodies.

Responsible investors have a role in engaging with the companies they own to encourage better business planning in the context of the local sustainability context and to improve ESG disclosure. We believe regulators and exchanges can also do more to encourage companies to communicate with investors on ESG performance, for example by guiding them towards the publication of enhanced information on business, financial and sustainability risks.

In summary, until now, Vietnam's industrial and agricultural transformation has mostly relied on natural resource depletion, effectively taking short-term gains from its ecological asset bank at the expense of long-term sustainability. Vietnam is by no means unusual in this regard. It is, however, in a unique position to steer future development along a more sustainable trajectory, in which future needs are taken into a consideration.

CONTENTS

RESPONSIBLE INVESTING IN VIETNAM

8	KEY INSIGHTS
11	COUNTRY OVERVIEW
23	CORPORATE DISCLOSURE (ASR™)
26	SUSTAINABILITY RISKS IN VIETNAM:
28	ENVIRONMENT The physical impact of climate change Deforestation and biodiversity Enforcement of environmental laws Air pollution Water management Waste management
40	SOCIAL Enforcement of labour laws Salaries and minimum wage Child labour Labour issues Social security Health and safety Land rights Human rights
48	GOVERNANCE Improvements in corporate governance Capital markets regulation Petty corruption Taxation
55	KEY DRIVERS FOR CHANGE
67	APPENDIX Sustainability tools
70	REFERENCES

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KEY INSIGHTS

1 Vietnam is particularly vulnerable to climate change; a focus on domestic sustainability issues is therefore vital for investors

The World Bank estimates that Vietnam will be one of the countries most affected globally by rising sea levels.¹ Government statistics also show an increase in the number and intensity of typhoons over the last few years. Natural disasters cause around 750 deaths per year and have accounted for asset losses of around 1.5 percent of GDP each year for the past decade.² A rise in sea levels of 1 metre by 2100 could reduce Vietnam's GDP by up to 10 percent.³ Vietnam's 'Poverty Reduction and Growth Strategy' aims to halve the number of people who fall back into poverty due to natural disasters and the government is allocating US\$143 million a year until 2015 to address climate change issues.

2 Corporate governance frameworks are improving

Economic liberalisation, including the launch of a stock market, has improved corporate governance controls and corporate disclosure. Since 2005, Vietnam has introduced significant milestones in the corporate governance legal framework, including the Enterprise and Securities Laws, Corporate Governance Regulations for listed companies, the 2007 Model Charter of listed companies and the new Circular on Corporate Disclosure of information for the stock market. While the regulatory framework and its implementation are a work in progress, our research suggests that companies are slowly improving in terms of corporate governance compliance.

3 Environmental and social regulations are robust but local enforcement remains weak

While Vietnam has strengthened its laws and regulations concerning environmental and social protection, local agencies and companies fail to enforce them due to confusion over implementation and lack of resources and training.

Vietnam has one of the most comprehensive labour codes in Asia, but their implementation is patchy and guidelines remain unclear. Similarly the Environmental Protection Law includes provisions for 'polluter pays' measures, payments for natural resource use and rehabilitation of affected areas and mandatory environmental impact assessments for sector and regional development plans. A National Strategy for the Environment, established in 2010, has set goals related to clean technology, pollution control, wastewater treatment and waste.

4 Tools for enforcement of regulations are insufficient

Enforcement of the extensive ESG laws in place requires more resources to train local officials and more stringent fines. Vietnamese and foreign companies often do not feel obliged or incentivised to disclose much information to government agencies that generally lack the capacity to process it. The ongoing problem of enforcement is attributed to 'differences in regulatory requirements and the capacity of businesses' as well as the limited capacity of the labour inspection apparatus.⁴ Most fines in Vietnam are currently too small to persuade companies to alter their behaviour or to implement policies that prevent a recurrence of poor practices.

5 Capital markets regulators could do more to strengthen mechanisms for improved reporting

The enhanced credibility and independence of the Securities Commission and stock exchanges is necessary to the development of successful capital markets in Vietnam. Investors require increased confidence in the transparency and veracity of corporate reporting and companies should be encouraged to allocate additional resources to investor relations initiatives and external certification. Most large listed companies in Vietnam have a website but there is rarely any relevant information in English which could help investors with their decision-making.

The stock exchanges could play a stronger role in promoting improved financial and ESG disclosure from listed companies. The listing requirements for HOSE stated simply that companies should 'develop an internal policy in relation to the public disclosure of information and submit this policy'. However, the passing of Circular 09/2010/TT-BTC on Disclosure of Information on the Securities Market in January 2010 has seen a more comprehensive framework put in place, bringing Vietnam one step closer to international standards.

6 Multi-stakeholder initiatives are effective

Increasing collaboration between stakeholders promoting sustainable development in Vietnam, such as industry associations, academia, NGOs, civil society groups and multilateral organisations, is leading to greater awareness of the need for an increased focus on sustainability issues and improved ESG reporting.



7 Petty corruption remains prevalent but 'manageable'

Our research indicates that corruption is pervasive, but is generally on a relatively small scale.⁵ Vietnamese scores on rule-of-law and corruption are, however, lower than other ASEAN countries such as Malaysia, Thailand, and Indonesia.⁶ In a recent report on Good Governance in Asia, by Vriens and Partners, Vietnam ranked 14th out of 18 countries, beating only the Philippines, Timor-Leste, Cambodia and Bangladesh.⁷ Vietnam ranked even lower in terms of fiscal and monetary administration. Investment Climate Assessments, however, calculate the overall cost of business-related bribes at a relatively low 0.4 percent of sales and most businesses report that corruption is 'manageable'.⁸

8 The protection of human rights has improved although there are still areas of concern for investors

The Vietnamese government white paper on human rights in 2005 outlined that poverty reduction has resulted in material advances in human rights. Issues of freedom of press and association, labour rights, protection of children's rights and the enforcement of human rights policies will continue to attract international comment.

9 Companies are still confusing sustainability with corporate philanthropy and community investment

Many companies have adopted traditional Corporate Social Responsibility (CSR) initiatives focused on community investment and corporate philanthropy. On the whole, management and owners do not yet understand the benefits of ESG disclosure in terms of enhanced risk mitigation, and are not yet communicating on sustainability issues internally, let alone with mainstream investors.

10 Investors have a role to play in encouraging improved ESG disclosure

Institutional investors have historically been a small, but active, part of the shareholder base of Vietnam's listed companies. As institutional investment into Vietnamese capital markets continues to increase, new investors should follow the active ownership strategies taken by some of the country's local asset managers; participate in Annual General Meetings (AGMs), vote by proxy where possible and encourage companies to provide more notice of meetings. Investors can also promote transparency by rewarding companies for improved levels of disclosure.

ISSUES FOR
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COUNTRY OVERVIEW



Vietnam's remarkable economic growth, strategic proximity to China, young population of 87 million, and relatively stable socio-political environment has long attracted the attention of global institutional investors. The investment potential of this resource rich country, however, has mostly been appreciated to date by frontier and emerging market investors who navigate its systemic risks carefully and expect longer-term rewards. This situation is likely to change dramatically over the coming decade as domestic capital markets develop and consumerism increases, causing local companies to require more capital to service demand.

Demographics

Vietnam is the thirteenth most populous country in the world with the latest World Bank figures standing at 87 million. Almost two-thirds of the urban population is under 30 years old and the average age is 25. Life expectancy has been static at 74 for the past five years.⁹ An estimated 1.5 million Vietnamese enter the workforce each year.

Vietnam is a multi-ethnic society with 54 different officially recognised ethnic groups. The Kinh group makes up around 87 percent of the population, concentrated on the coasts and inland deltas. The Kinh are better represented in the Communist Party, army and government and are generally wealthier than the minorities. Studies have shown that the Kinh have better access to infrastructure, health services and education than other groups including the Hmong, the Tay, the Tai and ethnic Chinese¹⁰ or 'Hoa'. The concentration of many minority groups in upland and mountainous areas limits their access to infrastructure or health and educational facilities.

Politics

In Vietnam, power is held by the ruling Communist Party, which is responsible for political strategy and nomination of the country's leadership. There are around 3.6 million party members in Vietnam, around four percent of the population. Recently, and despite varying degrees of internet and media censorship, Vietnam has enjoyed a more open debate on the relevance of the party and on the fundamental values of communism, especially in respect of state land and asset ownership.

The Party's Central Committee of around 40 people and the Politburo of 14 are the key decision-making bodies in the country. The National Assembly sits below the Central Committee and is responsible for approving economic plans and budgets. This Assembly has become more powerful and responsive to citizens' concerns over the past decade and is a key component in any appeal for reform. The newly elected Secretary General of the Communist Party and Chairman of the National Assembly, Nguyễn Phú Trọng, is a 66-year-old ex-editor of the Communist Review from Hanoi. He is seen as an

academic theoriser and has the potential to reform the Communist Party from within.

The recent Eleventh National Congress of the Communist Party of Vietnam in mid-January 2011 brought changes in the top leadership of both the party and the government. The stated aim of Congress was for Vietnam to become a 'modern industrialised nation by 2020' and to deliver economic, legal and institutional integration. Five out of 14 politburo members are new, as is 42 percent of the Central Committee. The military is well represented in the new line up but the overall senior power structure seems unchanged.

The appointment to certain committees of many moderate individuals with no previous political affiliation or experience seems to signal a general openness for dialogue on modernisation and reform. The latest Congress was witness, for example, to several nods towards a new 'sustainable development' approach. It is unlikely, however, that there will be any radical short-term change in Vietnamese attitudes towards greater openness to international trade and business. In general, plans for greater liberalisation make very slow progress within the current regime.

The government is the highest administrative body in Vietnam and is responsible for all socioeconomic legislation and administration on diplomatic relations. Since January, the government has tended to focus its efforts on reform of the State Owned Enterprises and on promoting Vietnamese businesses overseas.

The army is not formally part of this power structure but, in reality, holds a heavy presence throughout. There are more military personnel in the politburo since the Congress in January. There is one woman on the politburo, who is also from an ethnic minority.

The party and government are now rolling out their 'Socio-Economic Development Plan' (SEDP) as part of Vietnam's regular five-year planning process. The 2011-15 plan, announced in November 2010, emphasises business development, increased private investment, and steady international economic integration as part of the government's efforts to improve living standards and develop an industrialised, knowledge-based economy.¹¹



Figure 1: Vietnam and its major cities and neighbouring countries



Source: www.fotolia.com

Economy

According to the World Bank, Vietnam is categorised as a 'lower middle income' country. Its GDP in 2010 was US\$102 billion, which, based on a population of around 87 million, gave a GDP per capita of around US\$1172.¹²

Vietnam initiated economic liberalisation in 1986 with the Doi Moi reforms. A series of subsequent steps, including the Enterprise Law of 2000, enabling the registration of private enterprises, and the country's accession to the World Trade Organization (WTO)

in 2007, has helped to sustain high levels of economic growth. Between 1990 and 2008, Vietnam's GDP nearly tripled, based on an average annual GDP growth rate of 7.5 percent. This slumped to 5.32 percent in 2009 following the global economic downturn, but bounced back to 6.78 percent in 2010, according to estimates from Vietnam's General Statistics Office (GSO).¹³

Analysts note that, while the government was initially slow to act in containing the effects of the financial crisis, the existing capital controls and eventual stimulus package protected the country from deep recession.¹⁴ However, as 2011 beds in, there are signs GDP growth could be slowing somewhat – the GSO put the Q1 2011 growth rate at 5.43 percent. Among the challenges currently facing Vietnam is rampant inflation: the Consumer Price Index increased 12.79 percent in Q1 2011 compared to Q1 2010, according to the GSO.

Figure 2: Real GDP Growth per year for key Emerging Markets

	Year									
Country	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008A	2009A Average
BRIC										
Brazil	4.3%	4.3%	2.7%	1.2%	5.7%	5.7%	3.2%	5.1%	4.0%	0.1%
Russia	10.0%	10.0%	4.7%	7.4%	7.1%	8.1%	6.4%	5.6%	7.7%	(7.9%)
India	4.0%	4.0%	3.8%	8.4%	8.3%	9.1%	9.4%	6.1%	9.7%	6.5%
China	8.4%	8.4%	9.1%	10.0%	10.1%	13.0%	10.4%	9.0%	11.6%	8.7%
Average	6.7%	6.7%	5.1%	6.7%	7.8%	9.0%	7.3%	6.4%	8.2%	1.9%
CIVETS										
Colombia	2.9%	2.9%	2.5%	4.6%	4.7%	7.6%	5.7%	2.5%	6.9%	(0.1%)
Indonesia	4.9%	4.9%	4.5%	4.8%	5.0%	6.3%	5.7%	6.1%	5.5%	4.5%
Vietnam	6.8%	6.8%	7.1%	7.3%	7.8%	8.5%	8.4%	6.2%	8.2%	5.3%
Egypt	5.4%	5.4%	2.4%	3.2%	4.1%	7.2%	4.5%	7.2%	6.9%	4.7%
Turkey	6.8%	6.8%	6.2%	5.3%	9.4%	4.7%	8.4%	0.9%	6.9%	(5.6%)
South Africa	4.2%	4.2%	3.7%	3.1%	4.9%	5.1%	5.0%	3.1%	5.3%	(1.8%)
Average	5.3%	5.3%	4.4%	4.7%	6.0%	6.5%	6.3%	4.3%	6.6%	1.2%

Source: World Bank for 2000-2008, the Central Intelligence Agency for 2009

Economic reforms have resulted in a gradual restructuring of Vietnam's economy towards manufacturing. Agriculture, forestry and fishing however, continued to make up 48.2 percent of employment in 2010, followed by the service sector at 26.5 percent, according to the GSO.

Capital markets

The short history of the Vietnamese equity markets dates back to the initiation of trading in 2000.

Today, only a little more than a decade later, the country has two exchanges, its principal one being the Ho Chi Minh Stock Exchange (HOSE) and the smaller one being the Hanoi Stock Exchange (HNX). Around 670 companies with a total market capitalisation of about US\$30 billion were listed on the two exchanges as of May 2011¹⁵.

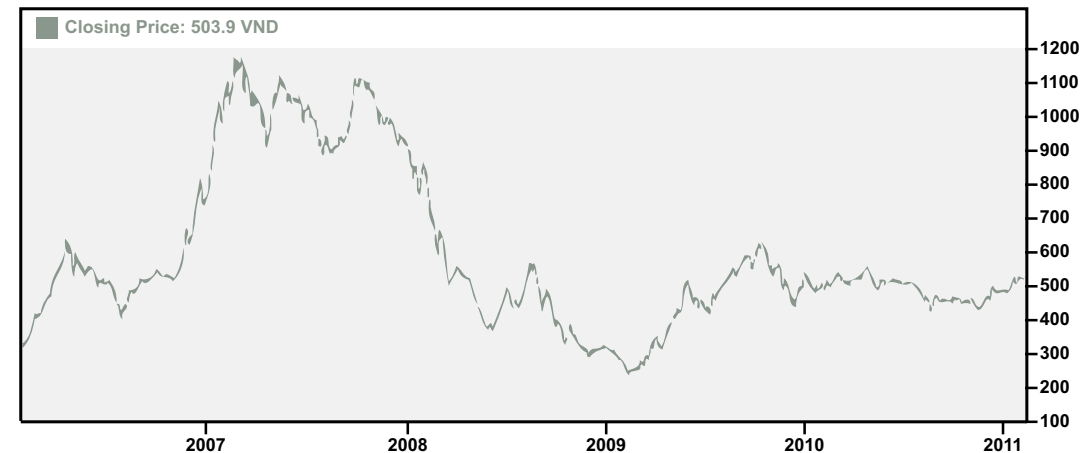
Figure 3: Sectoral breakdown of the companies listed on the Ho Chi Minh City and Hanoi Stock Exchanges, as of May 2011

Sectors	HNX		HOSE	
	Market Cap (US\$m)	% of Mkt Cap	Market Cap (US\$m)	% of Mkt Cap
Real Estate	470.0	9.1%	5,233.3	21.8%
Food, Beverage & Tobacco	140.8	2.7%	2,951.7	12.3%
Materials	947.8	18.4%	2,414.1	10.0%
Banks	1,400.4	27.1%	2,051.1	8.5%
Utilities	39.0	0.8%	403.2	1.7%
Energy	426.5	8.3%	658.9	2.7%
Consumer Services	167.8	3.3%	87.7	0.4%
Capital Goods	609.4	11.8%	432.6	1.8%
Diversified Financials	471.0	9.1%	4,913.5	20.5%
Transportation	87.2	1.7%	501.0	2.1%
Retailing	68.2	1.3%	72.0	0.3%
Pharmaceuticals, Biotechnology & Life Sciences	21.3	0.4%	331.2	1.4%
Insurance	213.0	4.1%	2,872.4	12.0%
Consumer Durables & Apparel	40.2	0.8%	310.9	1.3%
Technology Hardware & Equipment	1.6	0.0%	89.3	0.4%
Commercial & Professional Services	26.2	0.5%	61.1	0.3%
Automobiles & Components	9.2	0.2%	107.7	0.4%
Household & Personal Products	15.5	0.3%	50.4	0.2%
Telecommunication Services	1.2	0.0%	-	0.0%
Software & Services	1.1	0.0%	477.4	2.0%
Media	0.8	0.0%	3.0	0.0%
Food & Staples Retailing	-	0.0%	-	0.0%
Health Care Equipment & Services	1.5	0.0%	-	0.0%
Semiconductors & Semiconductor Equipment	-	0.0%	-	0.0%
	5,159.60	100%	24,022.27	100%

Source: Dragon Capital

Equity investors have endured a bumpy ride in recent years, with Vietnam being both the 'best' and the 'worst' performer amongst South East Asian markets in 2007-8.

Figure 4: Five-year performance of Ho Chi Minh City Stock Exchange



Source: Ho Chi Minh Stock Exchange, Feb 2011

The listing criteria of the Ho Chi Minh Stock Exchange (HOSE) are not overly onerous or complex. Companies must demonstrate ¹⁶ paid-up capital of over US\$5 million, profitability for the past two years and disclosure on debts and repayment schedules for any overdue debts. At least 100 shareholders and 'insiders', including board members, directors and the chief accountant, must hold twenty percent of the equity. This group of shareholders may not sell shares within six months of listing. Six months after listing, they can sell no more than 50 percent of their holdings. The Hanoi Stock Exchange (HNX) is the secondary listing market. Listing requirements on this exchange are even more lenient than those at HSX. Companies can be listed there with shorter histories and smaller balance sheets.¹⁷

The Ministry of Finance, The State Securities Commission, The State Bank of Vietnam and The Department of Planning and Investment are responsible for regulating the two exchanges. These institutions have implemented several regulations concerning securities law, but uncertainties regarding the application of these laws remain. Consequently, information regarding listed securities lacks completeness and consistency.¹⁸ The government is aware of the need for investors to receive accurate and necessary information

regarding securities offered and traded on the two exchanges and, supported by key stakeholders in the business and investment community, continues to draft legislation to this end.

Restructuring of state-owned enterprises

The government has pursued privatisation (or 'equitisation' in local parlance) of state-owned enterprises (SOEs) since 1992. Progress has been slow and mostly confined to smaller enterprises of non-strategic national importance.¹⁹ Of Vietnam's 50 largest companies by revenue, 34 are state-owned, including the top nine.²⁰ Around 1,500 enterprises remain wholly state-owned.

The government aims to wholly own only 400 companies by 2015. Weapons manufacturers, media and toxic chemicals manufacturers will remain under state control. The Asian Development Bank (ADB) has agreed to provide a total of US\$630 million funding to enable privatisation, which should help to strengthen balance sheets, rationalise corporate structure and increase transparency.

Natural resources

Some 70 percent of Vietnam's 325,000 square kilometres is highly fertile basalt soil, suitable for agribusiness and commercial crops such as rubber, coffee, cocoa, tea and fruit, as well as for high value specialty crops such as plantation forests, pepper, cinnamon and anise.²¹

The country also boasts significant crude oil and gas reserves found in sedimentary deposits throughout the nation from the Red and Mekong Rivers to the Hoang Sa and Truong Sa islands. Coal reserves are estimated at 220 billion tonnes, 10 billion tonnes of which are located in the northeast coal basin.²²

Vietnam's primary coal resource, anthracite, is concentrated in the Northeast, in Quang Ninh Province. There are estimated potential recoverable reserves of around eight billion tons, of which 600 million tons are shallow (up to a depth of 100 metres). Vietnam also has an abundance of other minerals, including bauxite, iron ore, copper, gold, precious stones, tin, chromate, apatite and building materials such as granite, marble, clay, silica sand and graphite.

Vietnam attracts considerable attention for its potential as a source of renewable energy. The country already has significant hydropower assets at around 10,000 MW and the country enjoys enviable supplies of freshwater with volumes of about 835,000 million m³ per year.²³ Marine resources are plentiful, if poorly managed, throughout the coastal fisheries that stretch along its 3200 km coastline.

Trade

Vietnam's main exports include textiles and garments, footwear, electronic products, crude oil, rice, coffee, rubber, coal, aquaculture and processed forest products. Although unprocessed agricultural exports are still a big component of trade, this is changing rapidly as Vietnam increases its industrial base. The country's main trading partners are the United States, China, Japan, Taiwan, Korea and the European Union. Trade with Asia makes up approximately 45 percent of total trade.²⁴

The Vietnam General Statistics Office estimates exports were around US\$72.2 billion in 2010, almost a 26.5 percent increase from a year earlier. The 2010 trade deficit was estimated to be around US\$12.6 billion.²⁵

Transportation

Vietnam's national strategy of growth with equity has emphasised infrastructure development in rural areas, even though urban infrastructure is stretched to breaking point. Corruption, cost overruns and delays still exist and can threaten the success of projects.

Substantial multilateral finance and resources have been channelled into large-scale infrastructure development in Vietnam over the past two decades. The ADB ranks the country fifth in Asia in terms of attractiveness for infrastructure development behind Japan, Singapore, Malaysia and Thailand. The trend for large-scale investments does not seem to be diminishing, and the ADB's 44th annual meeting was held in Hanoi in May. One key focus of the meeting was the successful implementation of projects for regional connectivity.

Over a quarter of the country's roads are now paved, and North-South and East-West corridors connecting to neighbouring countries have vastly improved opportunities for trade. The recently completed East-West corridor highway linking Vietnam to Laos, Thailand and Myanmar, for example, has significantly reduced transportation time between these countries. The North-South corridor linking Indochina with Yunnan in China²⁶ increased bilateral trade between Vietnam and China from under US\$1 billion to almost US\$21 billion in the decade prior to 2008, a compounded growth rate of over 36 percent annually.

There is huge potential for China to use its Japanese inspired, locally-developed high-speed rail technology in the region. In late 2010, China prioritised heavy investment into a rail link to Bangkok through Laos, a route with many physical challenges, rather than the more circuitous but trade-friendly Eastern Seaboard route. It is likely that both will happen over time, opening the region up to substantial trading opportunities and giving China access to vast amounts of high-yielding and under-performing agricultural land.

Figure 5: Rail network in Vietnam and neighbouring countries



Source: The Economist, January 2011

Energy

Although over 90 percent of the population now has access to electricity²⁷, continuity of service remains a problem. Critics argue that Vietnam has perhaps over-invested in hydroelectricity and therefore frequently faces shortages during the dry season when reservoir levels are low. Interestingly, because around 75 percent of energy comes from natural gas and hydropower, if carbon pricing begins to become an issue for multinational companies (MNCs) when considering their manufacturing supply chain, Vietnam could be a major beneficiary, especially if the move to nuclear and biomass power generation is realised.

Figure 6: Electricity/heat generation in Vietnam in 2008

	Electricity
	Unit: GWh
Production from:	
- Coal	15172
- Oil	1551
- Gas	30340
- Biomass	0
- Waste	0
- Nuclear	0
- Hydro*	25986
- Geothermal	0
- Solar PV	0
- Solar thermal	0
- Wind	0
- Tide	0
- Other sources	0
Total Production	73049

Source: International Energy Agency, 2010²⁸

The national power monopoly, Electricity of Vietnam (EVN)'s diversification into other non-core business areas has also raised concerns that attention is being diverted from the core business of 'supplying stable, safe electricity'.

Education

Vietnam has a high literacy rate compared to its ASEAN neighbours, at 95 percent and 94 percent for males and females between ages 15 and 24 respectively.²⁹ Primary school enrolment and completion rates are also high, with nearly 98 percent completing primary schooling, according to official survey data. Secondary school attendance rates are 68 percent for boys and 62 percent for girls.³⁰ Literacy rates among the ethnic majority are significantly higher than in other ethnic groups.³¹

There are concerns about the overall quality of education, evidenced by a high failure rate in the national high school graduation exam.³² Only a small fraction of students continue from secondary to tertiary education, creating serious long-term challenges for companies

investing in Vietnamese production facilities. University education is patchy and Vietnamese university qualifications tend not to be recognised abroad unless received in conjunction with a private or foreign university. Some foreign and domestic firms complain that even recent university graduates lack sufficient economically-relevant skills.³³

Poverty

Vietnam's poverty rate was 12 percent in 2009, which represents a significant improvement from 58 percent in 1993.³⁴ The estimate for 2010 is 10.6 percent. Almost all residents of urban areas now have access to sanitation and health facilities, but not all areas of the country enjoy equal levels of modernisation and development. Regions around Ho Chi Minh City, Hanoi and other urban centres have witnessed greater poverty alleviation compared to rural areas.

Regional disparities linked to household income, health and education are closely tied to geographical factors and ethnicity. While ethnic minorities accounted for around 15 percent of the population in 2006, they made up almost 45 percent of the poor and around 60 percent of the hungry.³⁵ Poverty reduction within ethnic minority groups is still an important policy concern.

ISSUES FOR
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CORPORATE DISCLOSURE ASR™



Vietnam's top 20 companies' performances on ESG disclosure

Vietnam is still in the early stages of development, and economic growth is bringing significant social benefits, particularly poverty alleviation. Consequently, for many companies, continued growth in provision of services makes a strong contribution to society in itself. With increasing progress comes increasing scrutiny on how companies are operating with respect to the different groups, communities and environments.

In order to assess corporate management of these issues, a benchmarking of company disclosure has been undertaken. This has limitations in that companies may be managing an issue well without disclosing it. However, where there is no disclosed policy, it is often the case that an issue is not being considered by management, which may give rise to risks.

We ranked the top twenty listed companies in Vietnam according to free float weighted market capitalisation on their performance on ESG disclosure. They were scored according to Responsible Research's proprietary ASR™ methodology of 100 specific criteria split into General, Environment, Social and Governance categories.

The highest overall score in the group belonged to telecommunications company FPT Telecom. Real estate group Vincom Corporation, Sacombank, manufacturing and trading group Hoa Phat Group and dairy group Vinamilk took second to fifth place respectively.

The group average was 18.4 percent, which is in line with Vietnam's status as a frontier market. It also reflects the internally focussed cultures many of Vietnam's leading listed companies have inherited from their time under full state ownership. For reference, a similar benchmarking exercise in 2010 recorded an average of 31 percent for a universe of 542 companies in Asia ex Japan, and 20 percent for a universe of over 200 Chinese companies.

Breaking the results down into the three separate sections: Environmental, Social and Governance, the group scored the strongest scores on governance. Most notable among the governance scores was Vinamilk, which scored 72 percent, and FPT Telecom, with 60 percent. Strong results were also seen in 'Community', a sub-category under the Social heading. Both FPT Telecom and Vincom Corporate scored 71 percent in this section.

Areas for improvement include supply chain, where no companies disclosed policies concerning ESG factors, as well as consumer relations, where only two companies had meaningful disclosure. Action on this latter point could lead to competitive advantage – for example, where a telecoms company could generate a reputation for service.

These results are broadly in line with the experience of many developed markets at early stages in their progress on responsibility. Typically governance disclosure is strong as it is highly material for investors and is often a requirement to attract capital in the first place. As companies consider their broader impacts, many start with corporate philanthropy or charitable giving, and follow with investment in the local community in areas of operation. It is only later that a more comprehensive assessment of impact across the valuation chain comes into play. At this stage companies may formulate targets such as ending child labour at suppliers, putting in place a zero harm health and safety policy, or minimising environmental damage in supply, use or disposal of their products.

Case Study: Vincom

At the time this report went to print, an interesting story was emerging in Hanoi involving alleged illegal dumping of waste from a 37-hectare Vincom-owned residential and retail development project known as Times City.

According to local media reports, millions of cubic meters of waste related to the building project – which until the end of March this year was known as Eco City – had been dumped beside the Red River. Although the allegations of illegal dumping are more likely to centre on a company sub-contracted by Vincom to work on construction, ultimate responsibility for the environmental and social impacts would, of course, be seen to lie with the project's owner, Vincom.

Vincom currently occupies second place amongst top 20 companies in Vietnam, according to our ASR™ ranking, due to its management's disclosure on its ESG impacts and the management of those issues. Generally speaking, companies scoring higher in the ranking would be expected to respond to an ESG crisis such as the Times City waste dumping in a more transparent, competent and comprehensive way.





SUSTAINABILITY RISKS IN VIETNAM

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Vietnam's rapid economic growth has come at a price; income gaps are widening and pollution and waste associated with industrialisation have significantly affected the environment, reducing the benefit of valuable ecosystem services. Added to this devastation, heavy rains, storms and droughts have become more frequent. Approximately six to eight typhoons hit the country each year and deltas and low-lying areas are prone to frequent flooding.³⁶

For Vietnam to achieve its goal of becoming a middle-income country by 2020,³⁷ the government, local corporate owners and executives and foreign investors must move rapidly to understand and address the specific ESG issues that will accompany this growth. Growth for growth's sake will be of limited benefit to future generations if they inherit a country lacking in biodiversity, clean water, affordable clean power, the rule of law and an efficient bureaucracy. Today's decisions will affect growth for countless years to come in more resource-scarce environments.

ENVIRONMENT

The physical impact of climate change

The World Bank estimates that Vietnam will be one of the countries most affected by rising sea levels.³⁸ An index of the countries most affected by climate change in the period 1990 to 2009 includes Vietnam in the top five, after Bangladesh, Myanmar, Honduras and Nicaragua.³⁹ Government statistics already show an increase and intensification of typhoons over the last few years. Natural disasters have caused around 750 deaths per year and property losses amounting to around 1.5 percent of GDP each year of the past decade.⁴⁰ Salt-water intrusion caused by storms and rising sea levels has already begun to severely affect coastal livelihoods, particularly in the central provinces. If sea levels rise by one metre by 2100, up to 22 million people could be displaced, with a potential impact of up to ten percent of current GDP levels.⁴¹

A 2009 ADB report suggested that by 2100, rice production in Vietnam will have declined dramatically and rising sea levels could submerge tens of thousands of hectares of crops, displacing entire coastal and estuarine communities. In the ADB scenario planning, a 'Business as Usual' (BAU) approach to greenhouse gas (GHG) emissions predicts sea levels rising 70cm by 2100. This combined with significant rainfall declines will result in a transition from forest to shrub land in Vietnam. The study concludes that the benefits of investing in adaptation and mitigation innovation do outweigh the costs, highlighting the forestry sector as having the greatest potential for reducing greenhouse gas emissions in the region. The Vietnamese government is encouraged to invest in more renewable and alternative power plants and energy efficient lighting appliances, transportation and industrial equipment.

Case Study: Vietnam prepares for climate change ⁴²

The Deputy Prime Minister, Nguyễn Sinh Hùng, recently announced that Vietnam must prepare to face climate change, review storm and flood prevention and adapt to extreme weather patterns. Under the new national strategies for natural disaster prevention and mitigation, all ministries, agencies and localities are required to consolidate their respective storm and flood prevention and control committees by 2020.

The National Centre for Hydro-Meteorological Forecasting predicts that six or more storms could strike during the rainy season in 2011 and expects water levels to peak higher between July and October than they did during the same period last year. According to the Central Steering Committee for Flood and Storm Prevention and Control, in 2010 natural disasters killed 273 people and injured 491. Additionally, floods destroyed 6,000 houses and ruined more

than 300,000 ha of crops. Figures indicate that extreme weather caused over US\$268m in damage.

The Ministry of Agriculture and Rural Development is responsible for the evaluation and repair of dykes and reservoirs to minimise flooding. The Military Telecom Corporation is documenting earthquakes and tsunamis for the government, and the Ministry of Construction is inspecting earthquake-proof designs for new development projects.

The 'Poverty Reduction and Growth Strategy' of Vietnam recognises the link between poverty and vulnerability to natural disasters and aims to halve the number of people that fall back into poverty following these events. At the end of 2008, the government of Vietnam announced that from 2009 to 2015, US\$143 million would be invested to address climate change.⁴³ Although it is not clear how much of this amount the government has so far invested, there are indications it will not be enough to combat climate change effectively. At a conference in March 2011 on Vietnam's national climate change strategy, a senior World Bank environmentalist said Vietnam would need to spend US\$850 million on the four key areas of agriculture, flood prevention infrastructure, aquaculture and seaport construction in order to combat climate change in the period 2010 to 2050.⁴⁴ There is not always a clear distinction between investments that are specific to climate change and infrastructure and development choices that are more resilient to the range of future climates or are less resource intensive in nature.

It is thought that women bear a disproportionate burden of natural disasters since they have fewer assets to support alternative livelihoods when crops and properties are destroyed or family members are sick or injured. Women generally have fewer alternative employment opportunities when disaster strikes and are less mobile, due to childcare concerns.



Children leading cattle to safety during the rainy season in September 2009, Ham Phu

Source: Truong Anh Vu, World Bank website

Deforestation and biodiversity

According to Greenpeace, Vietnam's forests are past peak harvest, and deforestation is 'severe but stabilised'. They also note that while plantation development is increasing, productivity remains poor. In 2009, Vietnam had around 15 million hectares of forested area, of which 6.6 million hectares were designated as 'productive', 6.1 million hectares as 'protected', and 2.1 million hectares as 'special use'.⁴⁵ The government's forest rehabilitation efforts began in the 1950s and include environmental, economic and social objectives. In practice, however, these objectives face many difficulties including lack of funding and systemic legal challenges for small-scale plantation owners and entrepreneurs looking to invest in the sector.⁴⁶

In terms of other ecological impacts having an economic affect, poor fishing practices, water pollution and dredging consistently threaten Vietnam's freshwater and marine biodiversity and therefore its fisheries industries.

Enforcement of environmental laws

Vietnam's industrial and agricultural transformation has mostly relied on natural resource depletion, effectively taking short-term gains from its ecological asset bank at the expense of long term sustainability. Vietnam is by no means unusual in this regard. It is, however, in a unique position to steer future development along a more sustainable trajectory, in which future needs are taken into a consideration.

The 1993 Environmental Protection Law was amended in 2006 to include provisions for 'polluter pays' measures, payments for natural resource use, rehabilitation of affected areas and mandatory environmental impact assessments for development plans. The Vietnamese government also put in place a 2010 National Strategy for Environmental Protection that set goals related to clean technology, pollution control, wastewater treatment and waste collection and treatment.

A general lack of implementation clarity, local enforcement and judicial support continues to undermine Vietnam's comprehensive environmental laws. In principle, authorities are required to report the names of polluting establishments to local communities, who can in turn request information on incidents from businesses or government agencies. However, once reports have been made, enforcement is rare. This has permitted a corporate culture that often disregards environmental laws.

Unfortunately, low fines and lax implementation for legal compliance provide little incentive for change. At the 2008 Manufacturing and Distribution Working Group at the Vietnam Business Forum, one participant was quoted as saying that "a manufacturing facility is literally more likely to get hit by lightning than suffer any serious legal consequences from ignoring the pollution laws."⁴⁷ Furthermore, most local businesses see environmental protection as an added cost. Of greater concern to companies – and therefore a more effective enforcement tool – is the threat of licence suspension.

Increasing public attention and media coverage on issues such as wastewater pollution have begun to subtly change this perception. There are now regular examples of companies being named, shamed and fined by officials, though the fines are usually negligible and therefore ineffective.

Case study: Vedan, MSG producer, is caught polluting rivers

Vedan International (Holdings) Limited (2317: HK) manufactures and sells fermentation-based amino acids, food additive products, and cassava starch-based industrial products. The company had sales of US\$336 million in 2010.

Investigations in late 2008 uncovered evidence that Vedan had illegally dumped untreated wastewater into the Thi Vai River at the rate of over 100 million litres per month for the previous 14 years, killing farmers' fish and shrimp ponds and ruining farmland along the riverbanks.

The issue was brought to the attention of the National Assembly. Assembly members requested explanations from the Minister of Natural Resources and Ecology about the responsibilities of government staff to detect the violations. The Minister promised to conduct an internal review and then implement measures to remedy its own enforcement processes. There are concerns that these were empty promises as follow-up was limited.



A pipe releases untreated wastewater from the Vedan plant into the Thi Vai River in Dong Nai Province

Source: myvietnamnews.com



Through letters to the local authorities and Vedan executives in May 2009, more than 10,000 farmers from the area around HCMC and the southern provinces of Dong Nai and Ba Ria-Vung Tau called for some US\$32 million in compensation.⁴⁸ The Ministry of Natural Resources and Environment temporarily suspended the plant's discharge license and fined the company US\$15,000. The company was then also required to pay backdated environmental 'fees' of over US\$7 million, a huge fine in the context of Vietnam. Vedan agreed to make payments quarterly over two years in order to be allowed to continue to operate.

After supermarket chains like Saigon Co-op and Big C began boycotting its products, Vedan Vietnam Enterprise finally agreed, in August 2010, to compensate farmers on the promise of no further lawsuits.

In October 2010, it signed compensation agreements worth US\$2.8 million and \$2.39 million each with farmers in the Ba Ria – Vung Tau and HCMC provinces respectively.⁴⁹ This was followed by a \$6.1 million agreement with farmers in Dong Nai, signed in November 2010.⁵⁰

There appears to be no disclosure of the event on the company's Vietnam website, which does set aside space for a discussion of the health merits of MSG.

Air pollution

Vietnam's major cities have extremely high levels of air pollution, performing only slightly better than some of the most polluted cities in Asia such as Beijing and New Delhi. Particulate Matter concentration levels (PM10) from transportation and industry have been estimated at 80 micrograms per cubic metre, double the level of Bangkok and four times higher than World Health Organisation (WHO) guidelines.

Dangerous levels of benzene and sulphur dioxide in cities are mostly attributable to the low quality petrol in circulation.⁵¹ Economic development and population growth have also increased Vietnam's carbon emissions from 14 million tonnes in 1980 to well over 100 million in 2009. The industrial and power sectors account for most of these emissions.⁵²

Industries operating in and around urban areas are major contributors to local air pollution. There is some indication that the severity of pollution coupled with an increase in public awareness has led to an increase in the frequency of crackdowns on polluting industrial units. In 2009 for example, Ho Chi Minh City authorities ordered eight companies in the Binh Chanh district including Nguyen

Hoang Sang, Nguyen Minh Hoang, Thanh Hien and Quang Hong to suspend production. Accused of causing air pollution, they were banned from production until they had installed adequate abatement technologies. The authorities have identified 80 more companies around the city that need to install air pollution control facilities.⁵³ These measures would have impacted on the profitability of those companies that had not prepared for the tightening measures.

The number of motorised vehicles, particularly motorcycles, has soared in the last decade, replacing the once ubiquitous bicycle. In 2006 there were one million cars on the roads and almost 19 million motorcycles throughout the country. The country now has one of the highest person-to-motorcycle ratios in the world. This ratio was around 3.7 by the end of 2010 and further growth in motorcycle use is expected to move this number lower to about 3 by 2015. However, the ratio is then expected to stabilise, with more families switching to cars to satisfy their transport needs.⁵⁴



Case study: ISA TanTec holds itself accountable for carbon emissions⁵⁵

ISA TanTec is a high-tech leather tannery business with operations in Guangzhou in China and Ho Chi Minh City in Vietnam. It pioneered an eco-friendly LITE leather, which aims to account for every unit of CO₂ used in the tanning process and is used by Western brands including Timberland, New Balance and The North Face.

In 2010, the company's Vietnamese operation, Saigon TanTec, won second prize in the German Energy Efficiency Awards, which are organised annually by the German Energy Agency EnergieEffizienz.

When constructing its production plant in Vietnam, TanTec built on its experiences in Guangzhou and put in place an integrated energy and environmental management system. The result is that in the production of one square metre of leather, Saigon TanTec uses only two-thirds of the energy amount customary of the industry. This energy saving has been achieved with the help of innovative technologies and the efficient utilisation of energy, water and chemicals. The measures taken by the company include solar roof panels, alternative water treatment through bamboo roots, reduced operating steps, high-tech equipment and the use of green forest instead of an expensive concrete wall in the factory structure.

Saigon TanTec's energy-saving production saves it around 2,700 tonnes of CO₂ every year. At the same time, it has managed to reduce its water and chemical consumption by 50 and 15 percent, respectively.

Water management

Irrigation for agriculture has, up to now, been the largest user of Vietnam's water resources, representing over 75 billion m³, or 84 percent of total water demand, in 2000. Demand has increased steadily alongside population growth. Fisheries, aquaculture, manufacturing and services also make increasing demands on the country's water resources.

Water shortages are mostly seasonal, aggravated by the six to seven month dry season, when runoff varies between 15 and 30 percent of the total. Although Vietnam's rivers provide an abundant supply of water (255 billion m³ annually), inadequate infrastructure and financial capacity results in a utilisation rate of only 20 percent (53 billion m³) annually. An uneven distribution of rainfall results in serious regional water shortages. While less than 5 percent of Vietnam's estimated potential reserves of 60 billion m³ per year of groundwater are actually exploited, some aquifers, particularly

in the Mekong River Delta, have been over exploited, resulting in falling water tables, land subsidence and salinity intrusion.

Water scarcity remains a concern for the foreseeable future. While the country has a dense network of over 2,300 rivers, many of these originate in other countries. The protectionist activities of upstream countries, particularly China, make Vietnam susceptible to future shortages caused by river diversion and damming, as well as the risk of river flow being affected by upstream hydroelectric power plants.

The lack of clean, safe water is a significant health concern. Water-borne diseases are among the leading causes of death in Vietnam and responsible for high levels of absenteeism at work and school.⁵⁶ The government provides clean drinking water to over 60 percent of Vietnam's population, but at least one third remains without access to clean water. The government set targets to increase urban access to 95 percent and national access to 85 percent by the end of 2010, although it is not yet clear if it managed to achieve that target.⁵⁷

The government recently approved a plan to develop an upgraded clean water system for all urban areas in the country by 2025. Current government targets suggest that all urban households will be provided with clean water and that 70 to 80 percent of wastewater in urban areas will be treated by 2025.

There is increasing evidence of pollution in Vietnam's surface, ground and coastal waters. Water quality tends to diminish along the course of its major rivers. Some pockets of groundwater reserves have suffered from contamination and salinity intrusion. Coastal urbanisation, industrialisation and tourism, port and marine transport development and the increased number of oil spills affecting marine ecosystems have all contributed to the deterioration of coastal water quality.⁵⁸



Pollution of Vietnam's Waterways
Source: The Asia Foundation, May 2010

In addition to the health costs and loss of productivity, there have been significant costs to the government for water treatment. Cleanup of beaches after oil spills and industrial dumping and damage costs associated with water-related natural disasters like flooding were estimated at a staggering US\$1.25 billion between 1995 and 2002.⁵⁹



Case study: Caravelle Hotel cottons on to water saving

In December 2010, Ho Chi Minh City's iconic Caravelle Hotel completed the installation of a wastewater-treatment facility that recycles 40 percent of its water each month.

Other green policies recently adopted by the Caravelle include reducing electricity consumption by switching to energy-saving light bulbs and installing a high-efficiency chiller to power its air-conditioning system.

Over the course of the next year, the hotel aims to reduce harmful carbon dioxide emissions by 4 percent, by replacing its current diesel-fuelled boiler with a high efficiency heat pump, in the hope of achieving Green Globe certification.

Source: Dragon Capital

Waste management

While the country recognises the need to reform its national waste management systems, major urban centres like Ho Chi Minh City face a shortage of suitable land for use as landfills and treatment plants.

According to the HCMC Department of Natural Resources and Environment, 1,100 companies and factories in the city and neighbouring provinces produce 600 tonnes of hazardous waste every day, posing a growing threat to local communities and the environment.⁶⁰

Vietnam's Ministry of Construction will spend US\$2.3 million to build solid waste treatment plants in the country's urban waste hot spots within the next ten years. The Ministry's Infrastructure and Technology Department expects to recycle 60 percent of all waste by 2015 and 85 percent by 2020. From 2010 to 2015, the focus will be on the Mekong Delta, cities with landfills that do not meet existing environmental standards and tourist areas. As an agricultural country with high levels of biomass wastage, there is potential for future Clean Development Mechanism (CDM) projects focused on converting biomass waste to energy and methane capture in Vietnam.

Case study: Holcim focuses on biodiversity⁶¹



In 1995, the International Finance Corporation (IFC) sanctioned funding that enabled Holcim, a Swiss-based supplier of cement and aggregates, to source raw materials from south western Vietnam's karst topography. While an initial assessment indicated no specific environmental concerns, the company became aware of the area's biodiversity during development. In 2002, a new environmental assessment identified the presence of the endangered Sarus Crane and previously unrecorded endemic limestone mammals. Shrimp farming and other agricultural activities had also expanded nearby, decreasing grassland habitats. Holcim realised that addressing biodiversity conservation would be an important part of continuing to do business in the region and upholding its corporate reputation.

Holcim and IFC worked with the International Crane Foundation to identify viable sites for conservation. The project received financial support from several sources, including the World Bank Development Marketplace and the local government. The eastern Sarus Crane now roosts within the Holcim site boundary.

This study shows that enterprises can adapt their approaches over time to manage emerging and previously undetected social and environmental issues.

SOCIAL

Enforcement of labour laws

Vietnam has ratified numerous International Labour Organization (ILO) conventions. The 2002 Labour Code seems comprehensive in scope and prescriptive in tone, addressing issues such as working hours, breaks and meals, minimum wages and overtime, redundancy, rights of women and young workers, occupational health and safety, collective agreements and dispute resolution systems.⁶² The government announced its most recent revisions to the Labour Code in April 2010. According to the ILO, the new version adds specific amendments to labour standards for working conditions and employment practices in the context of international labour standards, in order to strengthen Vietnam's efforts for global market integration.⁶³

Implementation guidelines remain unclear. The incapacity of businesses to meet regulatory requirements and the limited capacity of the labour inspection apparatus exacerbates problems of enforcement.⁶⁴ Businesses perceive the rules as costly and difficult to implement and do not currently face stringent enough fines to deter their violations of the extensive Labour Code. Without an effective enforcement apparatus, businesses need encouragement and institutional support from their partners and industry associations.

The government-controlled Trade Union Federation of Vietnam (VGCL) is the only officially-recognised labour organisation. Others, such as the Independent Workers' Movement, a trade union that was formed and quickly shut down in 2006, have been short-lived.⁶⁵

Employee insurance, competitive wages and long-term contracts tend to be limited to large foreign-owned firms, with many working in the manufacturing industry sacrificing these securities for cash wages and short-term contracts. Moreover, while manufacturers tend to rely on overtime to fulfil time sensitive orders, workers are not always appropriately compensated. Migrant workers employed in Vietnam's industrial parks often face difficulties covering the basic costs of housing, transportation, medical care, children's education and recreation.

Salaries and minimum wage

While the government has increased the minimum wage for the country's ten million employees, the rising inflation often offsets these increases. Where the minimum wage is insufficient as a living wage, workers rely on overtime payments to cover their living expenses.⁶⁶ The average annual inflation from 2000 to 2010 was around 7 percent, but last year's increase in allowances for retired commune officials was as high as 12 percent.⁶⁷ In April 2011, the government announced that the monthly minimum wage of VND 730,000 (US \$35) will rise to VND 830,000 (US \$40) in May 2011.⁶⁸ Workers at foreign owned companies have a higher basic minimum wage of around US\$52.50/month, while new university graduates are paid around US\$95/month.⁶⁹

Child labour

The UN Committee on the Rights of the Child (CRC) has raised concerns about the employment of children in various industry sectors.⁷⁰ For example, reports from late 2010 suggested a large number of children are working in unauthorised gold mines in the central Quang Nam Province's Phuoc Son District. One 15-year-old escaped and spent a month hiding in a cave and another 17-year-old weighed just 30kg when he was rescued.⁷¹

Vietnam's dominant agriculture and fishing industries are mostly small, family-owned businesses, where child labour is commonly used.⁷² Child labour is also common in construction and manufacturing sectors; rural families may also send children to urban areas to work and remit wages for support. Some detractors contend that 'appropriate' child labour is an important part of household livelihood strategies but most experts believe this attitude locks in poverty cycles and prevents future generations from gaining a proper education.

Case study: Parental consent in sweatshop labour ^{73, 74}

A survey on child labour in the central province of Thua Thien-Hue revealed that most parents consider child labour 'normal' in the context of overcoming severe economic constraints. The Australian NGO, Blue Dragon, has described situations where children are forced to work up to 18 hours a day, 6.5 to seven days a week with no salary, often with no suggestion of kidnapping or being taken by force. Under Vietnam Labour Law, minors may not work more than seven hours a day.

Many of the HCMC factories exploiting child labour are concentrated in the Binh Tan, Tan Binh, Tan Phu and Hoc Mon districts. In 2009, investigations by the HCMC government revealed that an estimated 70 percent of facilities using child labour are businesses without a registration certificate. The severe shortage of officials in charge of child-related issues further weakens the enforcement efforts against child labour violations.

Current punishments allowable for parents and employers are not strict enough to prevent further exploitation of children. When accused, parents claim to be almost universally unaware of their children's working conditions and almost no parents held more than verbal labour agreements with the child's employer.

A joint-release by UNICEF and the Vietnamese government estimated that 27,000 children still work in harmful and hazardous conditions throughout Vietnam.

Although 'brand'-owned factories might have made efforts to address child labour, it often persists, deeply embedded in their supply chains. Large suppliers that deal with companies directly are initially checked for compliance with a code of conduct, and trained and monitored by either internal or external audit teams, but these suppliers often sub-contract orders to small and medium-sized workshops, which make up a large percentage of production. This is the toughest part of the manufacturing chain for foreign companies and western buyers to scrutinise. Vietnamese government officials have admitted that child labour remains widespread in garment factories in Saigon.⁷⁵

At an ILO convention in the Hague in 2010, more than 450 delegates from 80 countries including Vietnam agreed to substantially increase global efforts to eliminate the worst forms of child labour by 2016. The 2010 UN International Labour Organisation (ILO) Global Report on child labour suggested that the rate of use of child labour was continuing to decline.⁷⁶



Children are still openly employed in some sectors.
Source: Asia News, October 2008

Labour issues

Labour regulations in Vietnam constrain the ability to strike. Strikes are illegal in wholly or partly-government owned factories. Trade union officers also often hold management positions, resulting in a conflict of interest that can, unfortunately result in poor governance. This also helps explain the inability of trade unions or investors to request that companies provide social disclosure, such as fatalities and injuries per man-hour worked.⁷⁷

The scarcity of channels for voicing work-related grievances has led to unofficial strikes and work stoppages, particularly in 2008-

09 when many enterprises downsized production. Most of these strikes targeted foreign enterprises. In 2009 alone there were over 200 labour strikes in Vietnam, but this was down by about 70 percent from the previous year when soaring inflation caused a substantial number of labour 'stoppages'. Commentators observe that a substantial increase in unofficial strikes in 2008 was a sign that official trade unions were unable to support or control workers' actions.⁷⁸ The Ministry of Labour has now begun reporting on strike activity and noted 650 in 2008 and 216 in 2009.⁷⁹

Case study: Dong Nai workers strike leads to gridlock on the highway

In early April 2010, around 10,000 workers at a Taiwanese-owned shoe company, Pouchen, walked out of their jobs to protest poor working conditions at the company's operations in Bien Hoa City, Dong Nai province. A report by the Bien Hoa Labour Union said that the company had not been paying the workers' contracted social and health insurance and that the meals served were nutritionally poor.

Those on the picket line threw 'mam tom' (shrimp paste) and a local pigs' blood pudding on other workers for not joining the strike. The striking workers also gathered on a major national highway and caused traffic jams. Police were mobilised to keep order and seized one man said to have attacked the police. Strikers surrounded the police officers, asking them to release the man. Pouchen's management offered to raise salaries by five percent, but the workers rejected the proposal.⁸⁰



Striking Footwear Workers and police, 2010

Source: VietnamNews.net⁸¹

Social security

Since 1995, private companies with over ten employees have had to contribute to social security. Since 2005, all enterprises have been required to register employees with a labour contract of three months or longer. However, there is a tendency for employers to under-report employee wages to Vietnam Social Security (VSS), in order to decrease the payments they have to make. They also occasionally use these funds to increase the employees' take-home wages. Research has shown that employees prefer not to work in enterprises that deduct contributions if they do not see value in the services made available to them through the social security scheme.

Health and safety

Smaller companies in Vietnam are often not monitored for compliance with labour regulations, and are not assessed for health and safety issues, proper chemical disposal facilities and excessive overtime. The Danish Embassy in Vietnam promotes a Business-to-Business (B2B) Programme to increase awareness and activities related to occupational health and safety in Vietnam.

Land rights

The State owns all land in Vietnam and land use can be politically sensitive. Households need to obtain a land use certificate, known as a 'red book', which can be a lengthy and bureaucratic process. There have been some recent legislative changes concerning the ability of local companies to buy land and some interesting diversified land models are starting to appear. Obstacles remain, however, due to poor legal frameworks and lack of precedents set in court. According to the United Nations High Commissioner for Refugees (UNHCR), land disputes have become more frequent in Vietnam since 2009 as the government is legally able to appropriate land and property and lease it to foreign investors able to provide access to much-needed foreign currency.⁸²

The number of complaints related to land rights has risen alongside economic growth, sometimes resulting in protests from farmers⁸³ or special interest groups. Part of the problem is that opportunities for corruption and price manipulation remain despite established regulations related to the conversion and reallocation of land. Although foreign companies and persons remain unable to buy land or landed property, an October 2010 decree granted this right to overseas Vietnamese who have maintained their Vietnamese citizenship. Unusually, there was specific guidance on the papers requiring overseas Vietnamese to prove their eligibility to buy real estate. This specific guidance suggests that local implementation is more likely.



Case study: Reports push for reform on land corruption policies⁸⁴

The World Bank report 'Recognising and Reducing Corruption Risks in Land Management in Vietnam' identified the key factors for reducing land corruption: administrative reform, increased transparency and better accountability. As well as the problems associated with obtaining land-use rights certificates, problems also arise with land acquisitions and zoning allocations. Local officials have the 'absolute right' to grant land, which opens the door to corruption. The Ministry of Natural Resources and Environment (MoNRE) claimed to be actively addressing the issues presented by this report. The Administrative Procedural Law, part of administrative reform to address some of the issues, is scheduled for July 1, 2011.



Case study: Bumps in the road⁸⁵

National Highway 51 in Southeast Vietnam connects industrial parks to ports and brings immense socio-economic benefits. Unfortunately the build-operate-transfer (BOT) scheme which delivered the road was patchy in implementation. In some stretches private operators, such as Hai Chau Company, built well and the roads are still in good condition. Much of the highway, however, was built by State-owned companies and is now riddled with potholes and hazards, forcing the Ministry of Transport to subsidise its costly repairs. The successful financial sustainability of the Hai Chau BOT scheme versus the publicly-constructed sections of Highway 51 could persuade the Vietnamese government to crackdown on the bribery that limits the profitability of private partnerships.

Human rights

Vietnam's 1992 Constitution declares that 'all human rights in the political, civil, economic, cultural and social fields are respected.' The Communist Party of Vietnam expressed its first open view on human rights at the 9th Congress in 2001, stating its objectives as 'to take care of the people, to protect rights and legitimate interest of everyone; to respect and implement international treaties on human rights that Vietnam has ratified or acceded to.' The 2006 10th Party Congress reaffirmed these objectives.

In 2005 the Government's white paper on Human Rights noted that among its most significant achievements in the protection of human rights was the 'great success in poverty reduction, human development and life quality improvement'.⁸⁶

Some international groups have commented on human rights and the press in Vietnam. A strong press is favoured by investors as it improves access to information that can be relevant to decision making, including assisting in corporate governance assessments.



GOVERNANCE

Improvements in corporate governance

Since the inception of its capital markets in 2000, Vietnam has experienced rapid economic growth. In this short space of time, progress in raising standards of corporate governance has been significant. This is especially clear when benchmarked against the fact that in recent history, the country's business culture has not been aligned with the concept of private ownership. The continued predominance of state ownership of companies in Vietnam also means the protection of minority investor interests has not traditionally been a point of concern for companies.

The government laid the foundations for improved corporate governance with the passing of a revised Law on Enterprises in 2005 and the subsequent Law on Securities in 2006.^{87 88} These were among the approximately 90 laws passed by Vietnam's National Assembly between January 2004 and December 2009, spurred by the country's accession to World Trade Organisation in 2006.⁸⁹

Today, most of the large listed Vietnamese companies provide a corporate governance section in their annual report, which includes disclosures on board structure and composition. A handful of companies, including FPT, Hoa Phat, Saigon Securities and Vincom, provide a comprehensive governance charter on their website, which includes information on Board nomination, tenure and compensation, as well as shareholder rights. While a number of companies reviewed for this report have independent directors making up at least 30 percent of their boards, very few have a fully independent Board (>50 percent), and almost none had independent remuneration and nomination committees.

Overall, however, corporate governance in Vietnam does not currently meet global best standards. Investors' concerns of this fact were highlighted in the 2011 'ease of doing business' ranking, put together by the World Bank's International Bank for Reconstruction and Development and the IFC.⁹⁰ Vietnam ranked 78th out of a total of 183 economies surveyed on the overall ease of doing business. However, it lagged severely on the Investor Protection component of the ranking, recording its worst result and, at 173rd place, languishing near the bottom of the global ranking. The assessment of Investor Protection is based on three criteria: extent of disclosure, extent of director liability, and ease of shareholder suits. In one of these, extent of director liability, the analysts behind the report actually gave Vietnam a zero, suggesting that management effectively have impunity even in the case of obvious wrongdoing.

Despite the low rating, progress on the development of a framework for corporate governance has accelerated in the last few years. In fact, director liability was addressed in last October's Decree 102 (Decree 102/2010/Nd-CP), which replaces 2007's Decree 139 and serves as an update to the 2005 Law on Enterprise. It contains provisions on shareholders' rights to begin legal proceedings against directors and the CEO.⁹¹

In January last year the Ministry of Finance passed Circular 09 (Circular 09/2010/TT-BTC), which aims to improve public disclosure in listed companies (see 'Capital markets regulation' below). Also in the works is a Draft circular on corporate governance applied to public companies, which builds on the basis established by 2007's Decision 12 (Decision 12/2007QD-BTC) on Corporate Governance for Listed Companies. The Draft Circular was recently circulated among interested market participants for feedback and is expected to make it into law in mid-August of this year, according to a spokesman for the Securities Market Development Department at the SSC. Revisions of the Law on Securities and even the Law on Enterprises are also being discussed.

Outside of the legal arena, the IFC has partnered with the SSC and other stakeholders on several key initiatives to increase awareness of corporate governance in Vietnam's business community. Among the initiatives launched since 2009 are a series of training programmes, the publishing of a Corporate Governance Manual for Vietnam and also the introduction of a regular newsletter focusing solely on CG issues.

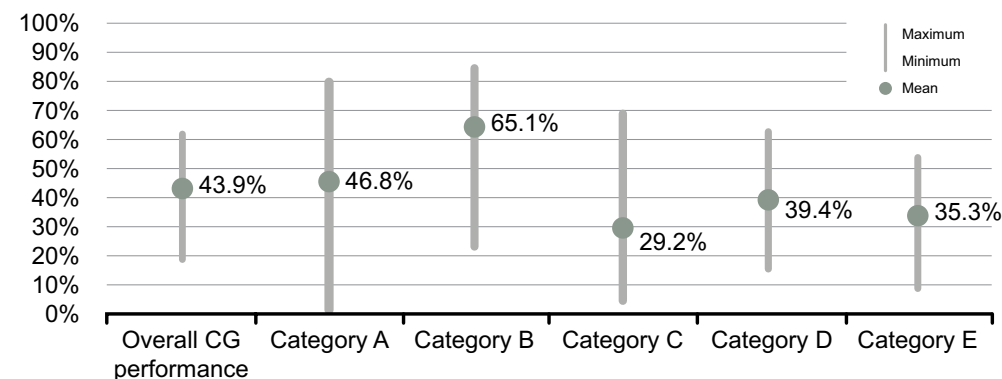
Perhaps most significantly, December 2010 saw the IFC launch a Corporate Governance Scorecard in association with the SSC and the Global Corporate Governance Forum. The 2009 Scorecard benchmarked Vietnam's top 100 listed companies in terms of market cap on their disclosure on a series of CG criteria. The survey criteria were based on the OECD's Principles of Corporate Governance. This first Scorecard benchmarking exercise led the IFC to conclude that "corporate governance in Vietnam is at the rudimentary stage and ripe for improvement". However, it noted that in successive years the benchmarking tool would serve as a useful indicator of the improvements made by Vietnam's largest companies.⁹²

Figures 7 and 8: Assessment of levels of corporate governance in Vietnam

Figure 7: Breakdown of assessment criteria

	Category	Number of Questions	Weighting - % of total score
A	The rights of shareholders	21	15
B	Equitable treatment of shareholders	18	20
C	Role of stakeholders in corporate governance	8	5
D	Disclosure and transparency	32	30
E	The responsibilities of the board	31	30
	Total	110	100

Figure 8: Results of assessment



Source: Vietnam Corporate Governance Scorecard 2009, SSC, IFC, Global Corporate Governance Forum

The IFC's Corporate Governance Scorecard also noted that in many of the 100 companies it surveyed "corporate governance developments seem to have been led by investment in regulatory and legislative developments – a rule driven 'top down' approach", rather than internally driven. This suggests that greater education as to the benefits to the company of improved corporate governance is needed.

Capital markets regulation

With just over a decade of equities trading to its name, Vietnam's listed exchanges remain fairly small and undeveloped compared to peers like Thailand and Indonesia. One reason is that much of the trading of stocks has historically taken place in Over the Counter (OTC) transactions, which remain prevalent to this day.

The country's main stock exchange is the Ho Chi Minh Stock Exchange (HOSE), which was converted from the Ho Chi Minh Securities Trading Centre in 2007 and as of May 2011 listed the stocks of 284 companies with a total market cap of US\$25.3 billion.⁹³ A second exchange was developed in Hanoi in 2009 when the Hanoi Securities Trading Centre was converted into the Hanoi Stock Exchange (HNX). Around 380 companies trade on the HNX as of May 2011, with a total market cap of US\$5.4 billion.

The Ministry of Finance oversees and regulates Vietnam's stock exchanges. It does this through the State Securities Commission (SSC), which sits under the MoF structure. Until 2009, the SSC had very little independence and therefore little power to act. However, in 2008, a report by the Asian Development Bank said

the SSC needed to be strengthened in order to build out investor protection.⁹⁴ In response, the government in February 2009 gave the SSC independence over its finances and staff, at the same time securing a commitment from the MoF that its annual budget would not be reduced.⁹⁵ It was anticipated that this would give the SSC greater autonomy to act in the interests of investors.

As is common in less established capital markets in developing countries, the listing requirements for Vietnam's stock exchanges have historically lacked depth and breadth and fall short of international best practice. One area where a stricter set of guidelines would be useful, for example, is around the implementation of the Vietnamese Accounting Standards (VAS), as its interpretation can vary. The differences between the International Financial Reporting Standards and VAS are also significant. For example, VAS is much less demanding in the required presentation of company financial statements.⁹⁶

On disclosure, the listing requirements for HOSE state simply that companies should 'develop an internal policy in relation to the public disclosure of information and submit this policy'. However, the passing of Circular 09/2010/TT-BTC on Disclosure of Information on the Securities Market in January 2010 has seen a more comprehensive framework put in place, bringing Vietnam more in line with international standards. For example, companies are now mandated to disclose to shareholders within 24 hours in the case of eight key events, including changes in senior personnel, and within 72 hours in the case of events including acquisitions and divestments of affiliated businesses.

While government and stakeholder efforts to improve Investor Protection and Corporate Governance in Vietnam are extensive, visible and ongoing, there is much more that needs to be done before the country can hope to match global best practice.

Petty corruption

A large, inefficient and poorly paid bureaucracy enables corruption. Despite this, the quality and education of most civil servants in Vietnam is relatively high. Companies, even foreign-owned ones, often still perceive forms of corruption such as 'gift-giving' and facilitation payments as a necessary evil; very few have a public anti-corruption/bribery policy.

As elsewhere in emerging Asia, the social and environmental auditing process in Vietnam is riddled with corruption. However, based on Investment Climate Assessments, the overall 'cost' of bribes for business – about 0.4 percent of sales – is relatively low. Most businesses report that corruption is 'manageable'.⁹⁷

Case study: Government Inspectorate targets top executives⁹⁸

A Government Inspectorate and World Bank anti-corruption initiative was launched for 2011. The programme's theme was "Strengthening public integrity and enforcing laws to combat corruption effectively". The initiative focuses on four subjects: building a servicing administrative system, enhancing public incorruptibility, improving transparency and rights to information and promoting law enforcement. What makes this initiative different is that efforts will focus on the heads of companies and organisations. The priorities will be land-use management, investment, construction, State-budget collection, banking, tax and capital management.



Case study: Anti-corruption dialogue in Hanoi⁹⁹

At the 2010 Anti-Corruption Dialogue held in Hanoi, the State Inspectorate displayed a list of 633,000 land-use rights and home ownership applications that violate current regulations. The normal time taken to process a land-related application is between 127 to 1,290 days, but a 'quick approval' can cost from US\$200 to \$4,500.

More than 30 percent of applicants surveyed in 2010 said they had to bribe district-level officials for administrative matters, and over 50 percent of applicants had to turn to an intermediary to renew land use rights. Those additional services cost up to US\$430 per case. The most severe corruption arises from land acquisition and allocation, resettlement and zoning. Given the rapid growth of urban areas, industrial parks, eco-tourism facilities, and technology parks, these lucrative corruption schemes require far stricter regulatory oversight.

The State Inspectorate has argued that institutional barriers are preventing anti-corruption efforts and that the government must improve mechanisms for managing land, simplify the procedure for land management issues and dismiss incompetent officials. One suggestion proposed at the dialogue was to reassign land evaluation, zoning and project appraisal authority to independent organisations. That change would remove the administrative monopoly. Other suggestions included improving the rule of law to punish corrupt officials and giving more protection to whistle-blowers.



Taxation

International accounting firms in Vietnam have begun to hold open dialogue sessions with the Tax Office to help companies understand some of the more complex tax issues that are not adequately described in the evolving tax codes.

While 2009 saw the introduction of electronic filing, new tax regimes are being introduced to increase the tax base and fund national development budgets. The government's economic stimulus package strengthened Value Added, Corporate and Personal Income Tax laws and introduced new tax policies.

The revenue generated by widening the personal income tax base is expected to bolster state budgets that, in theory, support strengthened regulation and enforcement. This is important to the government, as the country stands to lose a significant amount in import duties on exempt goods as a member of the World Trade Organisation. Simultaneously, the corporate income tax rate has been lowered from 28 to 25 percent. Along with the strengthening of the legal code and the high rates of domestic consumption, this may well lead to increased investment in the country.

Challenges lie ahead: doubts persist regarding the ability of the recently introduced tax on natural resources to redirect profits from mining and extractive industries towards sustainable economic development. Similarly, the confusion over how measurements will be conducted and how collection will be enforced for the new Environment Tax indicates that greater clarity is needed.

ISSUES FOR
RESPONSIBLE
INVESTORS

KEY DRIVERS FOR CHANGE



To date, most companies' attempts at ESG disclosure have been poor and contain little relevant data for investors. But there are a number of factors that may come into play as a catalyst for improved local ESG reporting over time. These include:

1. Government and regulators

Vietnamese companies do not currently feel obliged to provide ESG information to investors, as the local institutions, exchanges and agencies have not requested it and generally would lack the capacity to process it. If ESG disclosure were to be mandated, the government would then have to move into an enforcement and litigious role.

Most fines in Vietnam are currently too small to make companies change their behaviour or implement policies to prevent a recurrence. Stronger enforcement mechanisms, such as increased training of local officials and more stringent fines, would ensure the enforcement of the extensive ESG laws already in place.

The Socio-Economic Development Plan (SEDP) for 2006-2010 stated that Vietnam aims to 'complete the legal framework on labour and jobs in order to develop sound labour relationships, protect legal and legitimate rights of employees and employers; to increase corporate social responsibility in terms of economical use of natural resources, environmental protection, active prevention of environmental pollution, contribution of resources to environmental protection, support for local sustainable socio-economic development where the enterprise is located'.¹⁰⁰

Vietnam's Environmental Protection Law could be used to encourage improved corporate reporting but mechanisms for transparency and accountability have not been fully implemented. Furthermore, State-Owned Enterprises (SOE) are rarely punished for disobeying pollution laws, which does not deliver the right message to private enterprise.¹⁰¹ The Law functions as an 'honour code' for effective monitoring, and thus reduces the government's need for expensive enforcement. Municipal authorities are supposed to issue licenses to parties responsible for conducting the assessments and reporting the names of polluting establishments to affected communities. The public can then demand information from either businesses or government agencies to provide information on pollution incidents. It remains to be seen how effective this can be as authorities need accurate pollutant levels to act and 95 percent of environmental protection officers in communes and districts are not actually trained in environmental protection.¹⁰²

A similar situation exists in other areas of the law in Vietnam: labour laws are well structured and comprehensive, but implementation guidelines are unclear. Similarly, while there are laws that mandate companies to disclose publicly on environmental and social issues, enforcement needs to be improved. The Law on Enterprises provides

principles of corporate governance applicable to public companies, and the most recent revision of the Law on Enterprises gives detailed guidance on the procedures and operation of shareholders' meetings and the rights and responsibilities of independent directors. Yet few companies disclose this information in their annual reports.

2. Stock exchanges

There is a strong business case for the stock exchanges to continue to strengthen ESG disclosure requirements. Stronger ESG reporting would draw in more institutional investors, potentially increase revenues, help safeguard reputation and mitigate operational risks. Many stock exchanges, including some in emerging markets, have adopted a patchwork of sustainability approaches, including sustainability indices and specialised products that can encourage greater ESG disclosure.¹⁰³

Agencies such as the Vietnam Accounting & Auditing Association (VAA) could also play a more important role.¹⁰⁴ There should also be guidelines for companies to implement the Vietnamese Accounting Standards (VAS) as interpretation of regulations can vary.

The key to successful capital markets development in Vietnam is to further establish the credibility, independence and integrity of the State Securities Commission for international investors to know their minority shareholders' interests will be protected. For this, companies must improve reporting transparency and allocate resources to investor relations initiatives.

We discuss these issues in more detail in our report, Sustainable Stock Exchanges, Real Obstacles, Real Opportunities, September 2010.¹⁰⁵

3. Institutional investors

Asset owners and managers, as part of their commitment to responsible investment, are starting to engage with emerging market companies on the importance of measuring and disclosing material ESG data in helping investors understand corporate risk exposure and performance on sustainability issues.

Many global institutional investors adopt active ownership strategies whereby they participate in Annual General Meetings (AGMs), vote by proxy where possible and encourage companies to provide more notice of meetings, in order to make their input more beneficial. Investors also encourage companies to post minutes of their AGMs along with the approved Annual Reports on their websites. Investors can also promote transparency by rewarding companies for improved levels of disclosure.

Dragon Capital, integrated investment group focused on Vietnam, which sponsored this report, also sponsors awards such as the



Annual Report Awards for the best corporate reporters. In addition, Dragon Capital organises seminars for listed companies on how to develop industry-standard annual reports, with an emphasis on the ethics of professional and transparent reporting. The Third Annual Report Awards (ARA) held in 2010 included all listed companies from the HCMC Stock Exchange and the Hanoi Stock Exchange. Thirty-three winning annual reports were selected from over 500 entries. Duoc Hau Giang, a pharmaceutical company, won the 2010 ARA award for the second consecutive year.

Global responsible investment initiatives such as the UN Principles of Responsible Investment (UNPRI), UN Environmental Programme Finance Initiative and the Equator Principles are key drivers towards directing capital towards more responsible companies and improved ESG as well as financial disclosure.

The UNPRI is a voluntary set of guidelines and provides a menu of possible actions for investors to incorporate ESG issues into mainstream investment and ownership decision-making. Investors can also leverage their collective ability to implement change through the Emerging Markets Disclosure Project (EMDP), an international initiative to improve corporate ESG reporting in emerging markets.

Several Vietnamese investment management companies already integrate sustainability considerations into their decision-making processes. Key players include:

1. Dragon Capital

Dragon Capital invests responsibly, with consideration for governance and social responsibility. This impacts every facet of its business, from investment analysis and monitoring, execution and reporting, segregation of responsibilities, engagement with service providers and clients, data storage, security and disaster planning. The firm regards sustainable development as a fundamental aspect of sound business management and seeks to build shareholder value by taking advantage of environmental market opportunities with the aim of reducing environmental pollution, improving corporate environmental performance and complying with environmental laws and regulations.

Dragon Capital understands that assessment of corporate governance practices can help improve investment performance. The group expects portfolio companies to demonstrate high standards of governance in the management of their business. Its relationship with the IFC has helped develop such corporate governance policies. The company supports a number of technical assistance programs with the Vietnamese authorities in the areas of governance, debt and equity markets and financial sector development.

In 2011, Dragon Capital was shortlisted for the 2011 Financial Times and IFC Sustainable Finance Awards in the Sustainable Asset

Manager of the Year category. The winner was due to be announced later in the year.

2. Vietnam Holding

This boutique investment management house differentiates itself by systematically integrating ESG considerations to its investment process and decisions. The managers engage with listed and unlisted companies, applying an industry or sector approach to material ESG issues, seeking to promote the adoption of best practices. Its proxy voting policy and vote statistics are disclosed as part of its engagement program. The fund strives to take long-term positions in companies that demonstrate ESG sensitivity. Sustainability values are incorporated in the investment values through a five percent exclusion threshold on 'sin' stocks, such as weapons and defense, and zero tolerance on child and forced labor and nuclear energy. The firm is evaluating exclusion on genetically modified organisms in commercial uses.

The company has initiated various workshops in Vietnam with the help of the State Capital Investment Corporation (SCIC) to build ESG awareness and encourage corporate transparency. It is a founding member of the Vietnam Business Council for Sustainable Development and Global Compact Network. The managers actively promote ESG best practices on these and other platforms to push the sustainability agenda domestically within the financial sector.

On account of its own corporate responsibility, the company donates one-third of its success fee to the Vietnam Holding Foundation in support of underprivileged children and youths in Vietnam.

3. Anpha Capital

Anpha Capital, a fund management company based in Ho Chi Minh City, was the first fund manager in Vietnam to sign the United Nations Principles of Responsible Investment (PRI) in July 2009. Anpha Capital looks to integrate ESG issues into its investment analysis, decision-making processes and ownership policies. Furthermore, Anpha Capital seeks appropriate disclosure on ESG issues by the entities in which it invests.

As a signatory to the PRI, Anpha Capital employs a number of ESG investment practices depending on the strategy of the investment, including positive screening for responsible companies and negative screening based on ethical exclusions or significant ESG malfeasance. Anpha also intends to practice engagement by working with investee companies to promote ESG in shareholder voting matters and by integrating ESG analyses into the firm's investment process.



4. Mekong Capital

Mekong Capital is a Ho Chi Minh City-based private equity firm. Its sustainability vision is to be the most sustainable private equity firm in Asia by 2015. Mekong Capital measures this as a ratio of shareholder value creation relative to negative environmental and social impacts, with the intention of maximising the ratio over the five years ending 2015 – i.e. the greatest ratio of returns for shareholders relative to any negative environmental and social impact. Mekong Capital applies a value-creation approach called Vision Driven Investing to maximise shareholder value for its investee companies. Meanwhile, Mekong Capital is taking action to inspire its investee companies to identify and comply with best practices in environmental and social impact and corporate governance. Normally this involves creating a clear link between sustainability best practices and the successful achievement of a company's vision.

Mekong Capital's approach for achieving its sustainability target involves aligning its team around its Sustainability Vision, creating measurable goals associated with the vision and creating annual milestones and periodical targets for Key Performance Indicators (KPIs) for tracking progress towards achieving the vision. Sustainability reports are used to identify when Mekong Capital's portfolio companies are off-track from their targets, including any non-compliance issues, at which point Mekong Capital intervenes to get the company back on track.

4. Companies

There is significant scope for improvement in the quality and consistency of ESG information provided by Vietnamese companies. Many have adopted positive sustainability initiatives but often do not communicate them to mainstream investors. Communications, such as sustainability sections of annual reports and the appointment of a dedicated sustainability manager, could attract investment and provide investors with a holistic view of the value of their companies.¹⁰⁶ Multinationals and foreign enterprises can also push for suppliers to report on ESG issues as a way of demonstrating compliance with their code of conduct and reducing the frequency of audits.

5. Business associations

As host to 200 domestic and international business associations, the Vietnam Chamber of Commerce and Industry (VCCI) is the largest and most influential business association in the country. The Chamber's Business Office for Sustainable Development consults on policies and measures to improve the way Vietnamese businesses address sustainability issues.

Playing a prominent role in discussions on Corporate Governance – and working collaboratively with the IFC – is Vietnam's Central Institute for Economic Management (CIEM). Also engaging in the discussion around corporate governance progression is Vietnam's Association of Financial Investors (VAFI).

Vietnam also has sector-specific domestic business associations, but these serve a relatively small population. The Vietnam Forest and Trade Network, launched by the World Wildlife Fund, is among the sector specific multi-lateral collaborations that have had traction.

The Vietnam Business Links Initiative (VBLI) is a multi-stakeholder initiative made up of 30 local and international organisations with the objective of improving working conditions and health and safety in the footwear industry. Participants such as Nike and Adidas have successfully established a code of conduct and training for managers of footwear factories.¹⁰⁷

Other collaborations between business associations, academia and international organisations have tackled ESG issues in Vietnam. The Vietnam Cleaner Production Centre is based at Hanoi University of Science and Technology and works with national and international companies to promote cleaner production. The University of Labour and Social Affairs offers training courses on CSR for lecturers. The Vietnam General Confederation of Labour is a legal centre in Hanoi, offering free advisory services for labourers. The Vietnam Business Forum, funded by the International Finance Corporation (IFC), is the main vehicle for lobbying policy makers in the government.

6. Multi-stakeholder engagement

The multi-stakeholder structure of these initiatives allows businesses and communities to have an equal voice in policy creation. Frequent successful collaborations between stakeholders in Vietnam show that they are vital creating opportunities to promote and build capacity for sustainable development in Vietnam, which is critical to improving ESG reporting.

The government has recently issued new labour laws and decrees. The establishment of a 'Tri-Partite partnership' between MOLISA (the government), VGCL (employees) and VCCI (employers) mediates between workers and managers in employee tribunals.

7. Civil society and multilateral organisations

Recent reforms have allowed greater civic activities through the 2003 Decree on the Organisation, Operation and Management of Associations. NGOs have continued to call for more effective mechanisms for redressing citizens' complaints regarding land rights in particular. Several of the more respected and trusted



groups sit on government-related committees for policy and planning. Actors include large, member-based social organisations such as the Fatherland Front, the Women's Union and the Youth Union, although these have traditionally been more effective for top-down mobilisation rather than bottom-up advocacy.

Community pressure has played a key role in supporting and enabling the implementation of environmental laws in Vietnam. The National Environment Agency and the Departments of Science, Technology and Environment also play an important role in helping communities influence state policies. Local organisations such as Eco Eco, an environmental NGO, and the Centre for Research on Environment and Sustainability have been active in engaging with the government and with companies on environmental protection for many years.

According to the Ministry of Natural Resources and Environment (MoNRE), 90 percent of factory compliance inspections result from requests by affected communities.¹⁰⁸ Communities regularly help enforce environmental regulation when they are adversely affected.

The International Labour Organisation (ILO) has been very active in improving worker rights and conditions in Vietnam. Human rights NGOs are also focusing their efforts on this issue. The ILO and the International Finance Corporation (IFC) launched the 'Better Work' programme that builds upon lessons from the 'Better Factories' programme in Cambodia. It was designed to minimise the need for excessive factory audits and improve factory conditions.

Case study: The 'Better Work' collaboration



The 'Better Work' programme was launched by the IFC and the ILO in Vietnam in 2009. It aims to improve working conditions for the more than 700,000 workers in the Vietnamese apparel industry. It also seeks to strengthen relations between international buyers, local enterprises, governments and worker organisations to improve working conditions and competitiveness. The programme is seen as an opportunity to demonstrate the business case for sound labour practices. If factory conditions are improved then fewer expensive audits will be necessary.¹⁰⁹

The programme is being rolled out gradually. In its first year, the programme was limited to 100 factories near Ho Chi Minh City. Better Work aims to improve conditions for roughly 150,000 workers in the first two years and up to 700,000 over five years. Its success and the availability of funds will determine how the Better Work collaboration grows as a multi-stakeholder collaboration and its positive impact on the Vietnamese apparel industry.

Source: Better Work Vietnam¹¹⁰

8. Sustainable supply chain standards and audits

Vietnamese manufacturers tend to find sustained access to buyers when they adopt socially accountable standards such as SA8000. Buyers, investors and employees can hold these factories accountable according to basic principles of the ILO conventions, the UN Universal Declaration of Human Rights and the Convention on the Rights of the Child. Garment factories such as Coats Phong Phu, Thanh Cong and Viet Tien have invested in the SA8000 certification and found it useful in demonstrating their commitment to social compliance to their customers.¹¹¹ The continued stream of orders coupled with the effective social governance have helped improve product quality and create a more stable workforce for these companies.¹¹²

Unfortunately, only companies associated with MNCs and concerned about brand reputation offer this level of disclosure. Most SMEs, which account for more than 95 percent of all company registrations in Vietnam, are unlikely to disclose any information on ESG risks or management of them.





Case study: Li & Fung's chain of custody extends to Vietnam

Li & Fung Limited (HK) purchases large amounts of wood products from Vietnam and discloses its ethical sourcing efforts.

In 2008, the group's Vietnam office renewed its 'Chain of Custody' (COC) certification in the trading of indoor and outdoor home-used wood products certified by the Forest Stewardship Council (FSC). FSC COC certification is independently verified and provides assurance to customers that the forest products bearing the FSC trademark label were produced from certified well-managed forests in all stages of processing, manufacturing and distribution.¹¹³

Furthermore, the company employs over one hundred in-house compliance staff worldwide to conduct supplier evaluations with all key suppliers, regardless of size, subject to periodic factory evaluation. The contract establishment prescribes three levels of facility inspections and verification audits. In terms of ethical sourcing, a number of factory evaluation tools including site inspection, employee and management interview and document reviews are used for Vendor Compliance. These reviews are linked to an internal IT system and external tools such as Supplier Ethical Data Exchange (SEDEX) to facilitate holistic supply chain management.

Source: IRA Asia¹¹⁴

9. Product safety issues

Growing consumer awareness of problems associated with product quality and safety is a key driver for companies to disclose information and strengthen their brand.

The recent melamine milk scare in China reverberated throughout Vietnam, a substantial milk exporter. The Dairy Industry Development Plan targets production of 2.6 billion litres of fresh milk equivalent with an export value of around US\$130 million. There is also a target of average domestic per capita consumption of 27 litres per year by 2020. Since November 2008, companies that export dairy products to the United States are required to produce third-party-issued certificates verifying their products' safety. Similar requirements have been put in place by the European Union.¹¹⁵

In response to the crisis in the milk processing industry, a growing number of Vietnamese companies are using labels to appeal to consumers who differentiate between brands that practice safe production techniques and those that do not, particularly in the agricultural sector.¹¹⁶

10. The UN Global Compact

Over the last few years the VCCI and the United Nations Development Programme (UNDP) have been promoting the UN Global Compact as a tool to advance sustainable business practices. By early 2011, the Global Compact Network Vietnam had 85 members, half of whom were companies, 33 percent NGOs, 5 percent business associations and 5 percent academic institutions. However, only a handful of members, namely Unilever Vietnam, Holcim, Asia Song Design and GTZ, are active members and have released a UNGC Communications of Progress report.

11. Local media coverage

Most media outlets are owned and controlled by the government, thus limiting objective journalism and making it more difficult for investors to obtain relevant information. Nonetheless, newspapers like Lao Dong and Tuoi Tre do occasionally report on pollution, labour and development issues.¹¹⁷

The media's recent highlighting of environmental issues related to industrial activity is a sign of increasing interest in environmental matters. The oil and gas industry received negative press following spills in 2009. The national media also drew attention to biodiversity and cultural diversity issues related to bauxite mines, despite their crucial role in the government's economic development plan.

Case study: Waste treatment at Le Minh Xuan Industrial Park



In 2009, LMX Industrial Park was the focus of much media attention for environmental pollution at industrial parks (IP). In response to concerns, the facility made improvements such as visiting each tenant to check drainage systems. Previously IP employees were restricted from accessing companies due to privacy issues.

LMX also hired the Polytechnic University to conduct an environmental survey and to advise on addressing pollution. They organised roundtable discussions with companies from different sectors within the park. Companies were instructed on environmental regulations, technology available to treat waste and given warnings that those continuing to discharge industrial wastewater into rainwater drainage after two months would have their drainage systems blocked.

Efforts are also being made to improve environmental impacts by scheduling times for waste drainage so companies can avoid peak hours. The director of the waste treatment plant has also

been replaced. The impacts have already been felt as the number of companies discharging untreated wastewater into rainwater systems dropped from 70 to zero, and 11 companies have had their drainage systems blocked due to violations. The reduction in polluted wastewater was since estimated at 70 to 80 percent. In general, companies displayed improved awareness of and better attitude towards environmental pollution issues. There are still several ongoing concerns; for example, the Park was late to get a Waste Water Discharge Permit from the Department of Agriculture and Rural Development. Also, the water treatment plant capacity expansion project was slow to commence.

To conclude, the company has recently attracted foreign investments as environmental issues have improved.

Source: DSI Viet¹¹⁸

APPENDIX

Sustainability Tools

Vietnamese companies are gaining greater access to tools that monitor good business practices and ESG issues. In addition to looking to international best practices, Vietnam is developing locally relevant and industry-focused tools such as LOTUS and VIETGAP. Management systems, standards, working groups and networks such as the Global Compact Vietnam Network are on the rise. Most tools relate to product responsibility, consumer health and safety, compliance, crosscutting as well as sector-specific management systems. This section is not exhaustive, but aims to provide an overview of the variety of sustainability management and assessment tools throughout different sectors.

SA8000

Environmental and social issues are inextricably interlinked with each other. However, some assessment tools solely measure the advancement in human rights, labour and societal issues in companies. For instance, human rights management and assessment tools for better business practices aim to encourage responsible investment and procurement practices, non-discrimination, freedom of association and collective bargaining, the abolition of child and compulsory labour, security practices and indigenous rights.

It is important to stress that Vietnam has to date not signed three of the eight ILO core fundamental rights of workers. These are the rights for freedom and association (Convention No. 87 and 98), as well as convention No. 105 on the abolition of forced labour. In this regard, Vietnam is not obliged to adhere to some of the key international labour norms. Consequently, companies do not see the need to use relevant tools to assess the progress of certain human rights and labour issues. However, due to pressure mainly from EU and US companies and regulations, a significant number of Vietnamese companies have started to implement social standards such as SA8000.

SA8000 assesses the level of implementation of several international human rights codes, focusing on fair working conditions such as health protection, child and forced labour bans, non-discrimination of race, gender, or religion, the right to freedom of association, to organise in trade unions and engage in collective wage negotiations, and the guarantee of a fair standard of living.

OHSAS 18001

More positively, systematic occupational health and safety (OHS) management systems such as OHSAS 18001 are steadily increasing in Vietnamese companies. Our research found that a growing number of companies implement OHS systems such as OHSAS



18001, as well as other human resource programmes to monitor and improve their employment practices, labour-management relations and training and education schemes.

ISO 14000

Looking at the environmental tools for good business practices, a significant number of Vietnamese companies have started to implement the ISO 14000 environmental management system standard. The standard provides companies with a flexible framework for the development of protection measures, which could link to the more environmentally friendly use of materials and energy, as well as biodiversity issues, emissions, effluents and waste management.

ISO 22000/HACCP

Sectors are increasingly adopting some specific standards. The ISO 22000 requirements and Hazard Analysis and Critical Control Point (HACCP) are monitoring tools solely applicable to the food sector. The HACCP is a food hygiene and safety management system that prevents hazards and risks at specific stages in the food chain.

VietGAP

As food companies drive one of Vietnam's fastest growing sectors, they face pressure to implement management systems and acquire corresponding certificates for food safety management systems that demonstrate their ability to control food safety hazards. EuroGAP and AseanGAP are regional standards to prevent risks of food safety, ensure the product quality and protect the environment for fresh fruits and vegetables. The Vietnamese government developed the national VietGAP standard as a response to increased pressure from international and regional markets after entry into the WTO.

CEO Water Mandate Initiative

When examining individual environmental issues, the CEO Water Mandate Initiative (WMI) is a practical response to the increased need to address water issues in companies. The WMI provides management and assessment tools to deal with problems of water scarcity and sanitation. The initiative is also a network that brings companies together, and supports and coordinates their efforts by working with existing water programmes nationally and regionally.

Carbon Disclosure Project

The CDP is a global initiative to help companies measure and disclose their GHG emissions and improve their climate change strategies. In Vietnam, companies such as Toshiba and Conoco

Phillips have made headway in cutting greenhouse gas emissions and reporting on these activities.

LEED, Green Star, BREEAM, LOTUS

The real estate and construction industry is at the forefront with special rating systems that aim to assess and give credits for conservation, ecology and environment, health and well-being, climate change, community and social issues in business operations and management approaches. LOTUS adapts global rating standards such as LEED, Green Star and BREEAM for the Vietnamese real estate market.

Integrated Pest Management (IPM)

The UN Food and Agriculture Organisation (FAO) promotes the Integrated Pest Management Programme (IPM) in Vietnam. The IPM is an ecosystem approach to crop production and protection that combines different management strategies and practices to grow healthy crops and minimise the use of pesticides.

Global Reporting Initiative (GRI)

Mechanisms that enhance corporate community relations, anti-corruption schemes, public policy, anti-competitive behaviour and compliance, are lacking. Anti-corruption tools are mainly limited to laws and regulations. However, some international instruments exist that support companies to systematically assess and improve ethical business through sustainable reporting schemes. The GRI guideline is a widely-recognised, internationally-used tool for sustainable reporting and is to-date the most widely used reporting framework for sustainability. This framework sets out the principles and indicators that organisations can use to measure and widely communicate their ESG performance.

QUACERT

Vietnamese companies' responsibility for products and the variety of tools to monitor product and service quality has increased considerably. Product responsibility spans from consumer health and safety, product service labelling communications and compliance to local, regional and international regulations. The Vietnam Certification Centre (QUACERT) is the National Certification Body of Vietnam under the Vietnam Directorate for Standards and Quality (STAMEQ). Products are certified under product and sector specific certification to technical regulations under the Vietnam Law of Standards and Technical Regulations.

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16