

# DRAGON VIETNAM INVESTMENT COMPANY LIMITED

BUSINESS DEVELOPMENT  
SUPPORT

OXFAM NOVIB CASE MARCH 2015



**OXFAM**  
Novib

# SUMMARY

## TACKLING POVERTY THROUGH SOCIAL ENTERPRISE IN RURAL VIETNAM

Many rural people in Vietnam barely make a living from small scale agriculture. Small businesses have great potential to create jobs and spread prosperity, but many lack business expertise or struggle to access the financing they need to grow. Dragon Co., which works with small farmers to cultivate the high-value crops of ginger and gac, is among the first group of social enterprises to benefit from Oxfam Novib's investment and business development support.

# CASE DESCRIPTION

## AIM OF THE PROJECT

Established in 2012, the Dragon company's core business is to grow ginger and gac, a kind of fruit common in south-eastern Asia. It has invested in 125 hectares in Hoa Binh province, and also purchase ginger and gac from Nghe An and other provinces. Each year, it contracts and purchases products from more than 2,000 poor ethnic minority households in mountainous areas. The income these farmers can earn from ginger and gac is at least three times higher than from traditional crops such as cassava. With business development support from Oxfam Novib, Dragon is reviewing its operations and distribution channels and improving its business plan and management systems to enable it to access more capital and scale up its business, creating more social impacts for small scale farmers.

## CONTEXT

Seventy percent of Vietnam's population of more than 90 million live in rural areas, and half of them make a living from agriculture. Many are small scale farmers who are suffering from unstable prices and low yields from their small plots, and can barely make enough income to survive, let alone to grow their business. Small scale agriculture is led by the older generation, with the young typically moving to towns to seek better paying jobs. In 2010, over 20% of Vietnam's population was below the poverty line of \$2.25 per person per day.

Increasing income for small scale farmers and creating more job opportunities for young people in rural areas are key to combating poverty in Vietnam. Developing SMEs (small and medium size enterprises) in rural areas could potentially be an answer, especially as the Vietnamese economy is growing rapidly. According to a survey by the Asian Development Bank, by the end of 2011 Vietnam had more than 550,000 companies registered, of which 97% are SMEs. However, more recent figures from the Ministry of Planning show that survival rates of SMEs have been going down: in 2013, approximately 60,700 SMEs stopped operations, up 11.9% on 2012.

One of the main barriers to SME survival and growth is a lack of finance. Many have difficulty accessing bank loans, especially long term bank loans, as they have neither collateral nor long track records. Another common barrier is the lack of business knowledge and skills, particularly in the areas of governance, financial accounting and marketing.

Dragon is an example of a company which shows potential, but needs support to grow sustainably and realise its potential impact for small scale farmers and women and youth employees.

## WHY DID OXFAM NOVIB GET INVOLVED?

Oxfam strongly believes that private sector actors such as Dragon have great potential to promote positive social change for men and women living in poverty. By identifying the right entrepreneurs and working with experienced partners to provide business development services and finance based on the needs of the companies involved, Oxfam believes a stronger SME sector can generate more employment and income for small scale farmers, women and youth.

Oxfam selected Dragon as one of the beneficiaries of its business development support programme on the basis of the company's economic potential and social drive. From the company's perspective, Dragon is interested in the potential capital offered by Oxfam's Inclusive Impact Investment fund. Dragon is looking for a loan to scale up its production and storage capacity, enabling it to purchase more products from farmers, thereby creating more jobs for farmers and increasing their income. However, the company needs to strengthen its business plan and management system to make it ready for investment. While it could obtain business development support from any conventional service provider, Dragon sought support from Oxfam because it also wants to strengthen its performance on environmental, social and governance issues.

Oxfam's support for Dragon fits with our broader strategy for Vietnam of improving livelihoods and empowering men and particularly women in marginalised rural and indigenous communities.

## THE INTERVENTION

Oxfam works with a local partner, CSIP, to deliver business development support for SMEs in Vietnam, including Dragon. This involves:

- Organising training courses for SMEs covering topics such as doing business in a social way, developing business plans, communication with investors and impact measurement.
- Conducting organisational capacity assessments to identify the needs of the companies and engage appropriate consultants;
- Providing intensive, tailor-made business coaching support for 4-6 months to strengthen the company's investment readiness, including in financial management, leadership, human resources, operational management and social impact measurement. Dragon will receive support to review its business plan, its distribution channels and human resource management system.
- Organising network meetings to link SMEs with investors, train them in pitching, and support them in their financial analysis to ensure they gain access to the right financial products that support them in growing sustainably.

During the support period, Oxfam and CSIP conduct regular meetings with the SMEs to review progress made and make timely adjustments to the support provided. Oxfam puts SMEs in contact with its own fund manager and other investors, captures lessons learned and uses these to advocate for better government and financial sector policies and practices to support further sustainable SME development.

## RESULTS

Dragon is among the first eight SMEs that participated in Oxfam's business development support programme. We expect Dragon will improve its financial performance and social impact, and develop a more concrete business plan enabling it to identify the resources it needs and to access more capital. Ultimately, the project aims to influence the social and political environment to ensure a more enabling environment for future sustainable SME growth. The project expects to achieve indirect outcomes in the various value chains the SMEs operate in, for example in terms of employment and compliance with suppliers' social and environmental standards. In the case of Dragon, this will result in 3,000 more farmers growing ginger and gac and seeing their income grow 3-5 times, and 150 women and men gaining access to employment in the company's processing facilities.

## LESSONS LEARNED

The screening process for SMEs took much longer than originally planned due to the need to do extensive environment, social and governance checks on the companies and their suppliers and customers, and verify this with Oxfam policies. Finding viable SMEs that pass Oxfam's compliance tests and ethical screening proved to be much more difficult than expected. However, with all criteria and assessment tools developed, it is now clearer for Oxfam's partner in the programme what kind of companies Oxfam is interested in investing in and supporting.

Another lesson learned is that companies' own willingness and commitment to invest in the support process need to be clear. Although a separate memorandum of understanding was developed between CSIP and the SMEs, one dropped out in the course of the programme. In the future, the commitment of the companies will be verified even more thoroughly.

A final lesson learned is that donors and foundations who have a strong entrepreneurial background are very well suited to support the programme, in part because they can potentially connect the Vietnamese entrepreneurs with their own business networks, creating opportunities for market access and knowledge transfer. Support from the G-star Raw Foundation and Oxfam Novib's "entrepreneurs for entrepreneurs" network (comprising over 800 Dutch SMEs) is a promising start.

## READ ON

Company's website: [www.ginger.vn](http://www.ginger.vn)

Oxfam Novib's Impact Investment programme website: [www.inclusive-investments.com](http://www.inclusive-investments.com)

## HUMAN INTEREST



**Mr Sa Van Thun (66)** and his wife **Luong Thi Y (64)** supply ginger to Dragon Vietnam. The couple lives in Dong Chum village, in Da Bac district, Hoa Binh province.

Sa Van Thun: “Dong Chum is one of the first villages where Dragon Vietnam works with the local people. I heard about them via the district council, which told me that older people like me get priority.”

“I started this year with planting ginger, on about a quarter of a hectare. The harvest will soon start. The company has trained me, in a farmers’ group, on how to look after the plants and make organic fertiliser, from maize stems mixed with animal waste.”

“The prospects are good. I expect to earn three or four times as much with ginger than with manioc and maize. If things go well, I’ll be growing more ginger. In addition to manioc and maize, I now also grow potatoes, rice and groundnuts.

“I can really use the extra money I earn with ginger. I live in a wooden house, but in winter it can get bitterly cold. I would like to have a ground floor with brick walls, and tiles on the floor instead of earth. That would be a lot healthier and more comfortable for my wife and me. I would also save for a moped and support my grandchildren.”



**Do Van Hiep (36)**, Founder of Dragon and **Nguyen Thu Ha (36)**, his wife, are both acting CEOs of Dragon Co.

Hiep: “In 2012 I started this company, after the bankruptcy of my first company, with ginger and gac. Together with Ha, with the new business model for social enterprise. In the past Ha and I had worked for NGOs, and we’ve always been concerned with the fate of poor people.”

Ha: “We know what it’s like to be poor. Which is precisely why we want to help poor people with our business. We stimulate poor farmers to cultivate ginger or gac. Most now grow maize or manioc, as cattle fodder. That provides them with very little income: they get 1 dollar for 22 kilos of manioc – ginger makes them five times as much”.

Ha: "If we take good care of farming families, they take good care of us. Our slogan is: 'Trust the partner', have trust in the people you work with."

Hiep: "We weren't able to borrow money from the bank for restarting our business in 2012. They don't care. They demand expensive collateral, and afterwards they only return about 70%. And they charge high fines when you don't repay on time. We now mainly need working capital. Without it we cannot grow. Which is why we would like to borrow from the Oxfam Novib fund for Impact Investment. We have many ideas. We want to develop new products for the national market, such as ginger sweets, ginger tea and gac vitamin tablets."

On the business development support programme organised by Oxfam's partner organisation CSIP, Ha says: "It is nice to be with comparable small and medium businesses, everybody is willing to share their experiences. There is a good spirit, and the awareness that we are working on something special." Hiep adds: "Before I started this course, I didn't even know what a social enterprise is. It is fun to find out."

Hiep: "We manage the business together and complement each other."

Ha: "For the employees the division of roles between Hiep and I is clear by now. But the farming families invariably regard Hiep as the director, and only me when Hiep isn't there. People must get used to a woman as director."

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The information in this publication is correct at the time of going to press.

Published by Oxfam Novib in March 2015.

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