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## SOCIAL ENTERPRISES IN VIETNAM

Regulations, challenges and prospect of the social  
enterprise model

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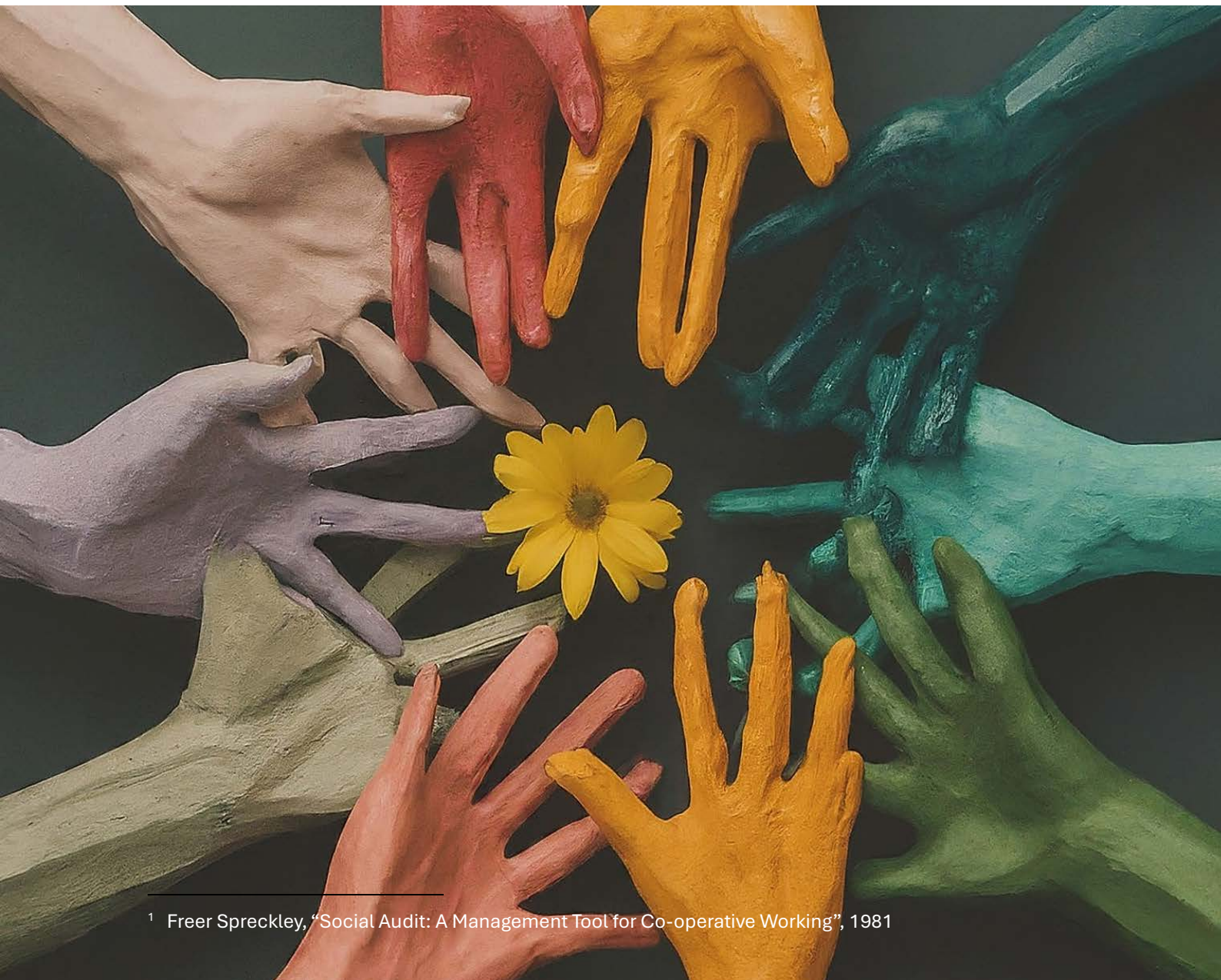




*Social enterprises run by and for their communities, integrate social, economic, and environmental goals into their business models. Prioritising the “Triple Bottom Line” - social, economic, and environmental benefits, these organisations not only seek financial success but also reinvest profits to drive positive change.<sup>1</sup>*

*As economies worldwide increasingly recognise the importance of social responsibility and sustainable development, the role of social enterprises becomes ever more vital. In the context of Vietnam, this paper delves into the regulatory landscape of social enterprises in Vietnam, exploring the practical implications, inherent challenges, promising prospects, and viable solutions within this dynamic economic context.*

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<sup>1</sup> Freer Spreckley, “Social Audit: A Management Tool for Co-operative Working”, 1981





## **I. AN OVERVIEW OF REGULATIONS GOVERNING SOCIAL ENTERPRISES IN VIETNAM**



## The Notion of Social Enterprise

The notion of social enterprise was officially recognised under Vietnam's Enterprise Law 2014<sup>2</sup>. A social enterprise is *not* defined as a distinct company structure under this law; rather, it serves as a designation bestowed upon any legally permissible company structure outlined under the Enterprise Law 2020 (including limited liability company, corporation, sole proprietorship or partnership) that commits to pursuing social and environmental objectives. Hence, a social enterprise has all the characteristics, functions, rights, and obligations of a typical enterprise, alongside preferential rights and obligations vested in social enterprises as follows:<sup>3</sup>

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Preferential Rights	Unique Obligations
<ul style="list-style-type: none"><li>❖ Owners and managers of social enterprises are entitled to support and assistance in obtaining necessary licenses, certificates, and permits.</li><li>❖ Social enterprises have the right to obtain sponsorships from various sources, including individuals, businesses, NGOs and Vietnamese and foreign organisations, to cover management and operating expenses.</li></ul>	<ul style="list-style-type: none"><li>➤ Uphold the registered social and environmental objectives and commitments throughout operations.</li><li>➤ Retain at least 51% of total earnings after tax to reinvest in implementing these objectives and commitments.</li><li>➤ Must not use the mobilised funds or financial aids for any other reason except for offsetting management and operation costs to achieve the registered social and environmental objectives.</li><li>➤ If receiving incentives and support, social enterprises are obligated to annually report their business operations to the competent authorities.</li></ul>

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<sup>2</sup> Enterprise Law no. 68/2014/QH13 of the National Assembly dated 26 November 2014

<sup>3</sup> Article 10.2.(a) and 10.2.(b) of Enterprise Law no. 59/2020/QH14 of the National Assembly dated 17 June 2020 (Enterprise Law 2020)

## Application For The Social Enterprise Designation

*“To apply for the social enterprise designation, a company is required to specify and register social or environmental matters that the company commits to addressing”*

To apply for social enterprise designation, the company must submit an application to the local Department of Planning and Investment. This application must contain a *Commitment to the Implementation of Social and Environmental Objectives* (referred to, in short, as the Commitment), under which a company is required to make the following pledges:

**Firstly, an undertaking to tackle its registered social and environmental matters for the sake of the community.** The company must specify each social or environmental matter that the company aims to address. For each listed matter, the company must describe the business strategy and methodologies the company will adopt to tackle the social or environmental matter that it commits to resolving. As required by law, the description should specifically identify the company’s relevant products and services, the source of profit, measurable targets to assess social and environmental impact through qualitative and quantitative indexes, beneficial groups, and rationale for the positive social and environmental outcomes stemming from such business activities. All the social and environmental matters specified by the company in its application for social enterprise status will become the company's registered objectives that the company must carry out.

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*Social enterprises must commit to retaining at least 51% of the company’s annual EAT to reinvest in their registered social and environmental objectives*

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**Secondly, an undertaking regarding the Commitment implementation timeframe.**

The company has the option to choose between an indefinite or definite timeframe. If a definite timeframe is chosen, the company must specify the start and end dates.

**Thirdly, an undertaking to retain at least 51% of its earnings after tax (EAT) to reinvest in the registered objectives.** The company must specify the proportion of annual EAT (in case the company successfully generates EAT) to reinvest in the registered objectives.

**Fourthly, an undertaking regarding handling outstanding sponsored funds or other financial aids.** The company must establish principles and methodologies governing handling such funds upon its dissolution or the expiration of the commitment implementation timeframe.

After the application for social enterprise status is approved, the company’s Commitment will be published in the National Business Registration Portal of Vietnam.



## II. CHALLENGES POSED TO SOCIAL ENTERPRISES



Social enterprises enjoy two additional rights beyond those granted to typical enterprises:

- (1) The right to receive preferential treatment and support during licensing procedures; and
- (2) The right to raise funds from various domestic and international sources, including individuals, enterprises, NGOs, and other organizations, to cover management and operational expenses.

The current regulations governing social enterprises are rather generic. The absence of specific regulations governing the activities of social enterprises, coupled with a lack of awareness of their significance among the Vietnamese business community, has given rise to varied difficulties for this business model.

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These additional rights indicate the government's intent to promote and support the social enterprise model. However, the lack of specific guidance on

enforcement renders those rights theoretical and leads to difficulties in organisation, operation, and access to financial resources.

In terms of preferential rights regarding licensing, since Enterprise Law 2014 introduced the legal concept of a social enterprise, the government has not issued any additional regulations that set out a mechanism to facilitate or accelerate the licensing process of social enterprises. As a result, it is unclear which public agencies have the mission and responsibility to provide social enterprises with preferential licensing support, which poses a challenge for social enterprises seeking to exercise this right.

In terms of the preferential right regarding fund mobilisation, policies aimed at facilitating social enterprises in raising funds, such as financial development assistance programs, have not been popularly introduced.

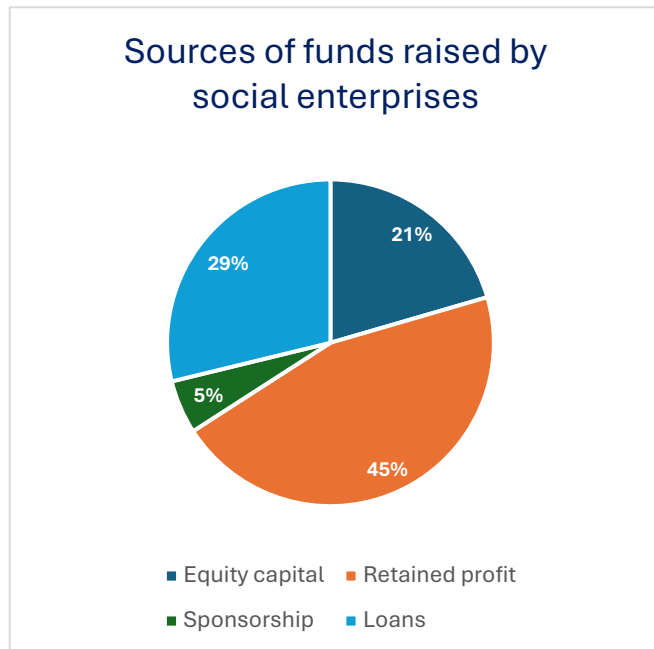
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<sup>4</sup> Article 10.2.(a) and 10.2.(b) of Enterprise Law 2020



This results in confusion about whether social enterprises truly have an advantage in mobilising funds over typical enterprises. Under Vietnamese law, enterprises are generally not restricted from mobilising funds from domestic and foreign individuals, enterprises, NGOs, and other organisations to offset their management and operation expenses. Hence, without any policies that specify incentives and special treatments that will allow social enterprises to access those financial resources in a more favourable manner, it is uncertain if social enterprises truly have a “preferential right” to mobilise funds that sets them apart from typical enterprises in terms of financing.

In practice, it appears that social enterprises do not have a distinct advantage in raising funds compared to typical enterprises. Please refer to the statistics demonstrating primary sources of funds mobilised by social enterprises according to data from 2020.<sup>5</sup>



Another challenge incurred by social enterprises comes from limited awareness of the general public and business community regarding this business model and the important concept of structuring business based on non-monetary social and environmental drivers. Many do not fully grasp that social enterprises aim to operate as profit-oriented businesses to address social and environmental problems; they are not non-profit organisations or charities. This makes it difficult for social enterprises to fundraise effectively and market their products as hoped.

The combination of (1) the absence of clear regulations and incentives for this business model and (2) a poor understanding of it within the Vietnamese business community has discouraged the growth of social enterprises in the country. After a decade of legal recognition, the social enterprise model remains largely unharnessed, accounting for only 4% of the total enterprises in Vietnam.

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<sup>5</sup> Anh, N. (2020) Thực tiễn tổ chức và hoạt động của doanh nghiệp xã hội ở Việt Nam hiện nay. Available at: <https://danchuphapluat.vn/thuc-tien-to-chuc-va-hoat-dong-cua-doanh-nghiep-xa-hoi-o-viet-nam-hien-nay> (Accessed: 27 June 2024).



### III. Prospects and Recommendations

*“Successful social enterprises have unlocked the potential of marginalized groups, created meaningful work and contributed to a more equitable and sustainable future.”*

Despite these formidable challenges, social enterprises have delivered diverse benefits to communities, fulfilling their promise to go beyond the limited profit motive of traditional business models.

Mai Handicraft, Tò He, and The Zó Project are notable examples of Vietnamese social enterprises making an impact through their respective missions:

- ❖ **Mai Handicraft** empowers rural craftswomen by establishing sustainable fair-trade livelihoods, improving their economic independence.
- ❖ **Tò He** demonstrates the power of inclusive employment by providing disadvantaged and disabled children with creative skills and income opportunities while fostering their artistic development.
- ❖ **The Zó Project** illustrates how social enterprises can revitalise cultural heritage by safeguarding traditional paper-making techniques alongside promoting sustainable practices.

These examples demonstrate that social enterprises can prosper to address societal challenges like poverty, inequality, and environmental concerns, strengthening the notion that social enterprises in Vietnam offer significant potential for growth and impact.<sup>6</sup> There are steps that can be taken to nurture this important business model. Action is needed at both the governmental and societal levels. The challenges that dampen the advantages of social enterprises can be addressed as follows:

- **Develop Comprehensive Guidelines for Social Enterprise Support Mechanism:** Clear and actionable guidelines and policy frameworks should be developed to guide the implementation of social enterprise support mechanisms, clarifying the licensing process, fund mobilisation, and other incentives.
- **Enhancing Public Support and Collaboration for Social Startups:** Public agencies should dedicate resources to support, mentor, sponsor social startups, and facilitate collaborations between social enterprises, government bodies and investors.
- **Raising Awareness and Support for Social Enterprises:** Campaigns are needed to educate, popularise and raise awareness amongst the public and business community

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<sup>6</sup> Anh, N. (2020) Thực tiễn tổ chức và hoạt động của doanh nghiệp xã hội ở Việt Nam hiện nay. Available at: <https://danchuphapluat.vn/thuc-tien-to-chuc-va-hoat-dong-cua-doanh-nghiep-xa-hoi-o-viet-nam-hien-nay> (Accessed: 27 June 2024).

about the value of social enterprises to increase consumer support and interest in financing founders who are pursuing the social enterprise model. Ultimately, individuals, businesses and policymakers alike should be encouraged to re-examine their priorities and recognise the immense potential of social enterprises in creating a better future for all.

Through these strategic interventions, Vietnam can empower and accelerate the social enterprise movement, enabling it to create a more just and sustainable society. ACSV Legal is keen to support the growth of this business model in Vietnam. Please contact us at [Linh.Dang@acsvlegal.com](mailto:Linh.Dang@acsvlegal.com) (Linh Dang – Associate at ACSV).

**THE END**

