

The Improving Business Environment for Prosperity (IBEP) Program implemented by the World Bank Group aims to strengthen the design and implementation of business environment reforms in middle-income countries. IBEP is supported by the UK Prosperity Fund, whose mission is to support the inclusive economic growth needed to reduce poverty in partner countries, contributing to the UN Sustainable Development Goals.

REFORM STORY

FEBRUARY 2021

MAXIMIZING LINKAGES BETWEEN FDI AND THE VIETNAMESE PRIVATE SECTOR

Thanks to the support provided by the World Bank Group through the UK-funded Improving Business Environment for Prosperity (IBEP) Program, Vietnam successfully established a Supplier Development Program (SDP) - an in-depth capacity building program for Vietnamese suppliers following a pilot previously implemented with the program's support. Between June 2019 and December 2020, 25 local firms were mentored and received tailored capacity building resulting in an initial 26 new supply orders with multinational companies (MNCs).

Foreign direct investment (FDI) is a major contributor to development, bringing increased capital, employment and exports. The presence and operations of MNCs can also help improve the productivity of local firms through backward linkages and offer an important channel for technology spillovers and for the integration of local firms into global value chains (GVCs). However, several market failures exist that prevent these linkages and spillovers to fully materialize.

Vietnam's manufacturing sector has achieved rapid growth in the last decade, increasing its share in gross domestic product (GDP), job creation, and exports. These enormous gains have heavily relied on an increase of FDI inflows in Vietnam in recent years. However, linkages between FDI and the domestic private sector has been less successful in capturing important productivity spillovers. Vietnam's domestic private sector is mostly concentrated in the production of low value-added inputs and/or components and to date, only a few local firms have been able to integrate into GVCs. This is primarily due to a mix of demand- and supply-side constraints as well as institutional gaps that hinder their development.

“ With SDP expert advice, I have been able to apply in-line solutions to re-arrange the production lines – a thing I have been struggled with for the past ten years. Simplifying and re-arranging production sequences have significantly improved the overall productivity by 30-35%. And the most impressive outcome is the defection rate has reduced from 2.7% to 0.61%. This is unbelievable!

Mr. Trinh Quoc Cuong, Director General at Tuong Lai Rubber and Plastics Company Ltd

“ SDP has advised us on a holistic and thorough strategy of new product development, walking us through every single step of the whole procedure. We followed this strategy to develop a new product which has been accepted by Samsung. We will be the first supplier of this product for Samsung in Vietnam, starting to produce this product for the MNC in 2021 with the initial volume of 10 tons/month valued at \$200,000.

Mr. Nguyen Ngoc Thinh, CEO of Tien Think Company Ltd

OBJECTIVES AND APPROACH

Through the IBEP Program supported by the UK Prosperity Fund, the Bank Group designed and implemented in partnership with the Vietnam Industry Agency (VIA) the second phase of a Pilot SDP to expand the integration of local SMEs into GVCs and increase overall domestic value addition through facilitating linkages between FDI and local businesses.

The Pilot SDP supported VIA to upgrade local firms' capacity to meet the demands and requirements of MNCs. Specifically, the SDP aimed to improve productivity, reliability and stability – key weaknesses hindering them from getting orders from MNCs – for 25 committed local manufacturing suppliers. Furthermore, this phase focused on providing targeted matchmaking support as well as on-training local consultants to provide consultancy and mentoring services in the future.

The SDP therefore established a fast track roadmap for participating Vietnamese companies to find new business opportunities from MNCs operating in the country. This in turn increases firms' abilities to create new, sustainable jobs as well as improve their competitiveness in the export markets.

In addition, the program is building VIA's capacity and those of other key counterparts in designing, implementing and scaling up the SDP initiative through their active participation in the Pilot SDP, knowledge sharing from countries that have successfully implemented SDPs, on-the-job support and informal training during the pilot initiative, as well as documenting lessons learned.

EARLY RESULTS

Within the first 18 months of implementation, the program organized workshops and training events reaching 850+ participants, as well as extensive one-on-one mentoring support and consultancy services, including customized training, coaching and hands-on technical assistance. The Program advised firms on operation equipment effectiveness, total productive maintenance, leadership visioning, inventory management, and new product introduction. Improvements in these areas seek to boost firms' competitiveness through better pricing and enhanced quality control.

After a disruption between February and April 2020 due to COVID-19, the SDP resumed activities in May 2020 with monthly visits from local mentors and in July 2020 conducted an in-depth review of the post COVID-19 improvement plans for the 25 companies to make necessary adjustments in light of the delays and international travel restrictions.

As a result, SDP companies successfully established new linkages with new clients and deepened linkages with existing clients, resulting in 26 new orders obtained from both new clients and existing ones but for new products. In addition, numerous new products have been developed and launched into the markets.

Importantly, in April 2020 the VIA replicated the SDP approach, launching a new program with additional local suppliers and MNCs. The program continues to coach VIA staff throughout the implementation of the replicated SDP. The newly launched program follows the pilot SDP's guidance of leading consultations and engagements with MNCs/buyers and of signing cooperation agreements. In June 2020, the program launched Vietnam's first National Database of Manufacturing and Supporting Industries. At its first stage, the database hosts information of more than 3,500 suppliers operating in the Electronic, Automotive, Mechanical Engineering, Leather and Footwear and Textile sectors.

The tool facilitates information sharing between international buyers and local suppliers to promote linkages between domestic suppliers and MNCs. This resource went online at a critical time amid Vietnam's response to COVID-19, with the pandemic rapidly reshaping the world and the GVCs the country aspires to become a key player in.

ADDITIONAL RESOURCES

[Foreign Direct Investment, Backward Linkages, and Productivity Spillovers](#)

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