I. Project Context

Country Context

Vietnam has experienced rapid and consistent economic growth since launching its transition towards market mechanisms in 1986. GDP grew at an average of over 7 percent annually during the past 10 years (GDP per capita was approximately US$1,374 in 2011). Vietnam’s trade-led growth strategy, which has led to increased high-end manufacturing exports, has resulted in a steady increase in exports and imports which together were at 166 percent of GDP in 2011. Vietnam has reached the middle-income country (MIC) status in 2008 and is on-track to achieve most of the Millennium Development Goals (MDGs).

The level of development and growth experienced by Vietnam has been accompanied with impressive poverty reduction—the poverty rate declined from 58 percent in 1993 to 12 percent in 2009. Yet the gap in poverty headcount ratio between rural and urban areas is substantial at 10.5 percent. This disparity is a clear indication that certain segments of the society are not benefitting fully from Vietnam’s impressive economic growth. The disparity between rural and urban areas is also stark through the lens of access to basic services. Some 76 percent of rural residents in Vietnam have access to safe drinking water compared to 94 percent for urban population; 48 percent of rural population have access to ‘modern’ sanitation facilities (87 percent for urban), and only 11 percent of rural residents have access to garbage collection (73 percent for urban). Limited access to services can in turn increase the share of expenditure on necessities like food and health.
care. For example, rural Vietnamese spend, on average, 6.5 percent more of their total expenditure on food than urban Vietnamese. These disparities, while significant in Vietnam, are typical of other developing countries as well.

Inequities are likely to increase further as Vietnam progresses in advancing its economic growth. The Vietnamese authorities are rightly concerned with the widening disparities, especially between urban and rural areas, as 72 percent of the population lives in rural areas and some 60 percent is employed in the agricultural sector (accounting for 20.6 percent of GDP). In order to address the widening social disparities, Vietnam wishes to improve its human capital (education), technological and innovation capacity and infrastructure, which are key drivers for competing at a higher level. But more importantly, it will need to adopt national policies which will utilize technological advances to improve the quality of the lives of the Base of Pyramid (BoP) population and reduce disparities.

“Inclusive Innovation” is identified by the senior government officials as an appropriate measure for reducing growing disparities and for improving competitiveness of Vietnam by lowering costs of products, and expanding markets and opportunities for businesses. The “Inclusive Innovation” concept has been pursued by the many emerging economies to address the development objectives of shared growth (e.g. Brazil, China, India, South Africa). The objective of inclusive innovation is to develop and deliver, through the public and private sector initiatives, high performance products and solutions at a low cost that are affordable and benefit the “resource poor or Base of Pyramid” people. The government of Vietnam decided to launch a pilot project on Inclusive Innovation to help develop a sustainable eco-system for inclusive innovation, which will involve strong collaboration among government agencies, private sector enterprises, entrepreneurs, research and development institutions and global partners.

II. Sectoral and Institutional Context
The Socio-Economic Development Strategy 2011-2020 of Vietnam has clearly identified the need to harnessing science and technology development in improving people’s lives and supporting sustainable and shared economic growth. It calls for major reform of the national innovation system (NIS) to enhance the capacity of Research and Development institutions (RDIs), strengthen collaboration among RDIs and enterprises, establish national standards, measurement and assessment, enhance enterprises’ capacity to innovate and improve productivity and competitiveness, and develop appropriate public and private financing mechanism to support innovation activities.

The NIS has undergone many reforms, however a number of major challenges still remain to make it efficient: (i) innovation policies are developed on an ad-hoc basis and are largely under the public sector domain (unlike most advanced economies), stifling the efficiency of the system; (ii) R&D expenditures, as a percent of GDP (0.6 percent), though increasing, remain low and are primarily funded and managed by the State (80 percent from the State budget) resulting in weak linkage with real sector needs; (iii) private sector (mostly SMEs) and non-state institutions do not engage in much ‘enterprise innovation’ due to lack of financial resources and technical skills; (iv) collaboration among R&D institutions, global research partners, enterprises and innovators in technology development and transfer is weak, and (v) limited financing channels for R&D projects and private enterprises to engage in innovation. In fact, the majority of enterprise innovation expenses are for importing equipment or technology rather than undertaking technology innovation projects.
In spite of a less-than-optimal innovation system, Vietnam has made notable accomplishments in some of the sectors that demonstrate the country is poised to adopt an inclusive innovation agenda. Agricultural innovation and traditional herbal medicine development are two good examples where Vietnam demonstrates a relatively strong tradition, capacity, and strategic interest. Agricultural innovation in Vietnam has been positive, as government policies encouraged farmers to apply new knowledge in production activities and has helped farmers generate better income, thus contributing to poverty reduction. However, contribution of technological innovation in agriculture has been less than the nation’s potential. In coming years, in the context of Vietnam’s integration into the global economy, the agricultural sector will have to deepen the use of technological innovation in order to further improve productivity and enhance the competitiveness in international markets. The importance of innovation in agriculture is vital to the concept of inclusive innovation – it can potentially further improve the lives of the BoP by raising the incomes of the rural society, who predominantly depend on agriculture for their livelihoods, and are a target of social development in Vietnam.

Vietnam also has a long history of using traditional herbal medicine (THM) in the national health care system by providing affordable and effective medical treatment, especially for the rural population. Vietnam not only has rich resources for traditional herbal medicine development, but also has developed a medical professional training system that includes traditional remedies education as a stream of specialization for the undergraduate medical students. As a result, the medical graduates obtain a real time integrative knowledge of conventional and traditional medicines and their basic philosophy. In practice, traditional and allopathic medical systems are combined to bring THM into nationwide primary and secondary public health care. Large hospitals in urban areas are allowed to practice both western medicine and traditional medicine. There are also capable research institutions and individual researchers in traditional herbal medicine in Vietnam who are dedicated and committed to develop new drugs and medical materials from herbal medicine and to provide low cost medical treatments through traditional herbal medicine to the low income population. The major weaknesses in the THM section in Vietnam identified by the government included a) the lack of national quality standards in the supply chain of medicinal materials and the drug development process, and b) the weak intellectual property rights protection.

Over the last decade, the government and the donors have financed innovation related projects in areas of promoting technology adaptation and transfer, developing and customizing technology applications for Vietnam (eg. SNV and ADB’s biogas projects), technical assistance to R&D institutions (eg. WHO, OECD, UNDP projects), establishing technology incubators (eg. InfoDev), and supporting SME technology upgrading (eg. DFID, Danida projects). The proposed Inclusive Innovation Project will be complementary to these efforts, focusing on developing an ecosystem for inclusive innovation based on strong collaboration among research, enterprises, innovators and global research partners to develop, adapt, adopt, upgrade and commercialize inclusive technologies/solutions for the targeted BoP population in Vietnam.

### III. Project Development Objectives

The Project Development Objective (PDO) is to adopt, upgrade and develop inclusive innovations for the benefit of the Base of Pyramid population. This will be achieved by strengthening Vietnam's capacity to undertake inclusive innovation, including financing the development, adaptation, adoption, scaling up and commercialization of inclusive technologies, and improving RDIs' and SMEs' technological and innovation capabilities.
IV. Project Description
Component Name
Developing Inclusive Technologies
Upgrading, Scaling up and Commercialization of Inclusive Technologies
Capacity Building and Global Knowledge Transfer
Project Management, Monitoring and Evaluation

V. Financing (in USD Million)

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<tr>
<th>For Loans/Credits/Others</th>
<th>Amount</th>
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<tr>
<td>BORROWER/RECIPIENT</td>
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<td>International Development Association (IDA)</td>
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<td>Financing Gap</td>
<td>0.00</td>
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<tr>
<td>Total</td>
<td>55.63</td>
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VI. Implementation
The Vietnam Inclusive Innovation Project is a Specific Investment Loan (SIL) to be implemented in 5 years. The project will use a pilot approach to reduce risk, focus on achieving some early wins and scaling-up a few pilot technologies, while building long-term capacity in selected R&D institutions to carry out inclusive innovation in Vietnam.

A Project Steering Council will be established to provide overall advice and guidance to the Project Implementing Agencies in order to facilitate inter-agency coordination and engage at a high policy level. The Council will not be involved in day-to-day operations or decision making of the project.

The Project will be implemented in a decentralized manner by relevant agencies (based on the contents of the programs) under the overall coordination and oversight of EDA/MPI. Appropriate capacity building measures will be undertaken by respective Project Implementation Agencies (PIAs) during Project preparation and implementation in order to enable them to effectively carry out their assigned responsibilities. This will include assignment and training of qualified professional staff, allocation of sufficient funding and knowledge sharing activities.

Project Management Unit (PMU) established in EDA will have the overall responsibility for project preparation, coordination, monitoring and evaluation, and implementation oversight. Project Implementation Units (PIUs) will be established in NAFOSTED and Participating Financial Institutions (PFIs) to implement Components I and II. EDA PMU will be responsible for implementing Components III and IV.

VII. Safeguard Policies (including public consultation)

<table>
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<td>Environmental Assessment OP/BP 4.01</td>
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<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
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Indigenous Peoples OP/BP 4.10
Involuntary Resettlement OP/BP 4.12
Safety of Dams OP/BP 4.37
Projects on International Waterways OP/BP 7.50
Projects in Disputed Areas OP/BP 7.60

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