



<b>BUSINESS INTEGRITY TOOLKIT FOR INVESTOR</b>	<b>WHAT'S INSIDE THE TOOLKIT:</b>
	<b>I. Introduction to the Toolkit II. Business Integrity Checklist III. Analysis Guideline</b>

## I. INTRODUCTION TO THE TOOLKIT:

### 1. ACKNOWLEDGEMENT

Prior to creating this toolkit, we have interviewed top-tier angel investors and VCs who are actively investing in Vietnam to gain their perspectives on Business Integrity (BI) and how it is incorporated into their practical due diligence process. We would like to hereby acknowledge the engagement of the following organizations during the creation of this toolkit:

- ASEAN Angel Alliance Network
- Vietnam Angel Network
- Sequoia Capital
- Global Brain Corporation
- Insignia Ventures Partners
- Mekong Capital
- 500 Startups
- IDG Ventures Vietnam
- The Ventures
- Quest Ventures

### 2. RULE OF ENGAGEMENT

What we have learned through in-depth interviews with angel investors & VCs:

- All investors, no matter at what investment stage, considers Business Integrity as one of the most important issues in the due diligence (DD) process.

- All startups, no matter at what fund-raising cycle, must pass the strict BI assessment prior to being considered by investors.

### 3. WHO IS THIS TOOLKIT FOR?

- All investors currently investing or are interested in investing in startups and SMEs registered in Vietnam. While this toolkit is more relevant to early-stage and angel investors who have less sophisticated legal support during the due diligence process, this can serve as a great reference material for foreign investors who are not familiar with the business environment in Vietnam.

- Incubators, accelerators, training institutions who deliver training and prepare startups for fund-raising.

### 4. WHY BUSINESS INTEGRITY?

The 2030 Agenda for Sustainable Development, adopted by all United Nations member states in 2015 provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. Out of the 17 SDGs, one focuses on peace, justice and strong institution – SDG16, and is one of the most relevant to both the investor and entrepreneur communities, especially in the rise of the startup culture & the creative economy.

Vietnam's 2019 Corruption Perceptions Index (CPI) scored 37/100, up by 4 points compared to 2018, ranking 96/180 on the global index. Within ASEAN, Vietnam and Malaysia are the only two countries that see a statistically significant improvement in CPI score.

Towards Transparency (TT) recognizes that the 4-point increase in CPI score signals a positive development in Vietnam's fight against corruption in the past year. However, on the scale of 0 (highly corrupt) to 100 (very clean), Vietnam is still among two thirds of the world's countries scoring below 50. This means that corruption remains a serious problem in Vietnam.

Corruption creates serious risks for both investors and startups.

### 5. WHAT IS BUSINESS INTEGRITY?

While business integrity may incorporate a much larger scope, to facilitate practical due diligence (DD) process between investors and startups, especially for early-stage and angel investors, Business Integrity in this toolkit focuses on topics generally considered "anti-corruption".

The three drivers of Business Integrity for entrepreneurs:

- Driver 1: Personal moral compass
- Driver 2: Quality of management system
- Driver 3: Understanding & Compliance to Vietnam's law

Our recommended approach to efficient Business Integrity management is based on three key concepts: Prevent – Detect – Respond. While the BI checklist for investors shall focus on “Detect”, the checklist for startups shall focus on all 3.

## II. BUSINESS INTEGRITY CHECKLIST:

1	THE COMPANY & ITS SHAREHOLDERS	YES	NO	NOT SURE
1.1	Does the company have a charter or articles of incorporation according to local legislation?			
1.2	Are there any shareholder agreements, provisions of the company’s charter, or informal understandings that specify which shareholders appoint directors?			
1.3	Is the current mix of skills/experience on the Board of Directors serve the company’s interests?			
1.4	Are directors appointed on the basis of a clear job description which identifies the required directors’ background and expertise?			
1.5	Does the company sell to state owned organizations or otherwise rely on special arrangements with state organizations for the regular conducting of their business? (If yes, the appraisal must address how corruption will be avoided in such cases, or the deal should be rejected.)			
1.6	Is there any investment in which it can reasonably be expected that corruption will be necessary for the regular operations of the company, or for major milestone events, such as winning large contracts?			
1.7	Are any of the major shareholders (5%+) and members of the Board of Directors currently: <ul style="list-style-type: none"> <li>1. Under arrest/investigation for any legal violation (for example for example fraud, or theft)?</li> <li>2. Listed in Lists required by International Finance Corporation (IFC)?</li> <li>3. Listed in World Bank Group Debarred Entities which is currently available on the <a href="#">World Bank Listing of Ineligible Firms &amp; Individuals</a> page of the World Bank website?</li> </ul>			
1.8	Is the founder a senior government official or a relative of a senior government official working within government bodies that are tied to the business's success? (For example: relative of head of State Bank of Vietnam running a fintech startup)			

	<b><u>Comment:</u></b>			
<b>2</b>	<b>REPUTATION WITH BUSINESS PARTNERS (IF ANY)</b>	<b>YES</b>	<b>NO</b>	<b>NOT SURE</b>
2.1	Does the company consistently honor its commitments with suppliers?			
2.2	Does the company honor its commitments with its customers?			
2.3	Does the company honor its commitments with former senior employees, especially ex-employees who are also past or current shareholders of the company (for example, an ex-CEO who still owns shares, if that exists)?			
2.4	Are minority shareholders satisfied with the performance of the company?			
	<b><u>Comment:</u></b>			

<b>3</b>	<b>LEGAL COMPLIANCE</b>	<b>YES</b>	<b>NO</b>	<b>NOT SURE</b>
3.1	Has the company obtained all relevant legal documentation required by the local authority for the relevant company type, industry / sector?			
3.2	Does the company currently operate at the address as registered on the certificate of incorporation?			
3.3	Does the company have a tax code and have registered for red invoices?			
3.4	Does the company maintain ONE (instead of TWO) sets of accounting books?			
3.5	Does the company prepare and submit quarterly financial statements to the tax authority as required?			
3.6	Does the company maintain accurate accounts and financial records?			

3.7	Does the company maintain transparent and accurate HR (hiring and leave) records?			
3.8	Does the company sign official labor contracts with its employees?			
3.9	Does the company pay social and medical insurances as required by law for its employees?			
3.10	Has the company been fined by any local authorities for non-compliance before?			
3.11	Does the company avoid cash transactions?			
3.12	Is the company currently behind in tax or social insurance payment?			
3.13	Is the company currently behind in salary payment?			
	<b><u>Comment:</u></b>			

4	INTERNAL CONTROL SYSTEM	YES	NO	NOT SURE
4.1	Do the company's clients/agents demand high commission or usually large fees?			
4.2	Is there evidence that there are no written agreements/contracts between the company and its clients?			
4.3	Is there evidence that agreements/contracts do not conform to industry/government standard?			
4.4	Is there missing/incomplete technical/financial documentation?			
4.5	Is there evidence that the company's clients appointing an agent to negotiate the contract and receive payment?			
4.6	Is there evidence that the company's appointed agent have staff related to a government official?			
4.7	Is there evidence that the company's clients/agents want to make payment into an offshore account?			
4.8	Is there evidence that the company's clients/agents want to make payment in cash?			

	<b><u>Comment:</u></b>
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### III. ANALYSIS GUIDELINE:

Please refer to the following symbols to navigate the findings from the checklist.

✓ = there is enough evidence of compliance and no further investigation is required

🚩 = there is a red flag in non-compliance and further investigation needs to be implemented. If serious violation is committed, investors can consider saying no to the opportunity. If correction is possible, an immediate action plan with clear timeline should be communicated with the company before the DD process can be resumed.

Not sure = More information about the topic should be provided. Investors may request the company to provide relevant responses before the DD process can be continued.

#### PART I: THE COMPANY & ITS SHAREHOLDERS

1.1 Yes = ✓, No = 🚩, NS (Not sure) = TBC (To be clarified)

1.2 Yes = ✓, No = 🚩, NS = TBC

1.3 Yes = ✓, No = 🚩, NS = TBC

1.4 Yes = ✓, No = 🚩, NS = TBC

1.5 Yes = 🚩, No = ✓, NS = TBC

1.6 Yes = 🚩, No = ✓, NS = TBC

1.7 Yes = 🚩, No = ✓, NS = TBC

1.8 Yes = 🚩, No = ✓, NS = TBC

#### PART II: REPUTATION WITH BUSINESS PARTNERS

2.1 Yes = ✓, No = 🚩, NS = TBC

2.2 Yes = ✓, No = 🚩, NS = TBC

2.3 Yes = ✓, No = 🚩, NS = TBC

2.4 Yes = ✓, No = 🚩, NS = TBC

#### PART III: LEGAL COMPLIANCE

3.1 Yes = ✓, No = 🚩, Not sure = TBC

3.2 Yes = ✓, No = 🚩, Not sure = TBC

- 3.3 Yes = , No = , Not sure = TBC
- 3.4 Yes = , No = , Not sure = TBC
- 3.5 Yes = , No = , Not sure = TBC
- 3.6 Yes = , No = , Not sure = TBC
- 3.7 Yes = , No = , Not sure = TBC
- 3.8 Yes = , No = , Not sure = TBC
- 3.9 Yes = , No = , Not sure = TBC
- 3.10 Yes = , No = , Not sure = TBC
- 3.11 Yes = , No = , NS = TBC
- 3.12 Yes = , No = , NS = TBC
- 3.12 Yes = , No = , NS = TBC

#### **PART IV: INTERNAL CONTROL SYSTEM**

- 4.1 Yes = , No = , NS = TBC
- 4.2 Yes = , No = , NS = TBC
- 4.3 Yes = , No = , NS = TBC
- 4.4 Yes = , No = , NS = TBC
- 4.5 Yes = , No = , NS = TBC
- 4.6 Yes = , No = , NS = TBC
- 4.7 Yes = , No = , NS = TBC
- 4.8 Yes = , No = , NS = TBC