#ClosingTheGap Mekong

Country Report

Vietnam

Entrepreneurial Ecosystem Assessment

Commissioned on behalf of:
Dutch Good Growth Fund (DGGF): Investment funds local SMEs

April 2019

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The Dutch Good Growth Fund, part Investment funds for local Small and Medium Enterprises (SMEs), is a “fund of funds” investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims to improve financing for the “missing middle” – i.e. entrepreneurs who have outgrown micro-finance but do not yet have access to regular financial services. The Seed Capital and Business Development (SCBD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets – fostering industrywide knowledge exchange.

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Acknowledgements:

The DGGF hired Emerging Markets Consulting (EMC) to complete the #CTG Mekong studies. The Evidence Network, Mekong Business Initiative provided research insights. The Vietnam Angel Investor Network co-facilitated the #CTG Vietnam stakeholder workshops, and the Saigon Innovation Hub hosted the workshop in Ho Chi Minh City

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Ministry of Foreign Affairs

EMC Emerging Markets Consulting

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Abbreviations

ABBank An Banh Commercial Joint Stock Bank
ADB Asian Development Bank
ANDE Aspen Network of Development Entrepreneurs
BIDV Joint Stock Commercial Bank for Investment and Development of Vietnam
CIEM Central Institute for Economic Management
CPTPP Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DGGF Dutch Global Growth Fund
EPZ Export Processing Zone
IFC International Finance Corporation
IP Industrial Park
KII Key Informant Interviews
LURC Land Use Right Certificate
MBI Mekong Business Initiative
MGB Moderate Growth Business
MFI Micro-Finance Institution
MOST Ministry of Science and Technology
NATIF National Technology Innovation Fund
NBFI Non-Bank Financial Institution
NE Necessity Entrepreneur
OECD Organisation for Economic Cooperation and Development
SBV State Bank of Vietnam
SCBD Seed Capital and Business Development
SeABank Southeast Asia Commercial Joint Stock Bank
SEDP 2016-2020 Socio-Economic Development Plan
SGB Small and Growing Business
SHB Small High-Growth Business
SNE Successful Necessity Entrepreneur
SME Small and Medium Enterprise
SMEDF Small and Medium Enterprise Development Fund
SOE State-Owned Enterprise
SWOF SEAF Women's Opportunity Fund
TPBank Tien Phong Commercial Joint Stock Bank
VBSP Social Policy Bank of Vietnam
VCCI Vietnam Chamber of Commerce and Industry
VECOM Vietnam E-Commerce Association
VMI Vietnam Mentoring Initiative
VPBank Vietnam Prosperity Bank
VYEA Vietnam Young Entrepreneurs Association
WBES World Bank Enterprise Survey
WISE Women's Initiative for Startup and Entrepreneurship

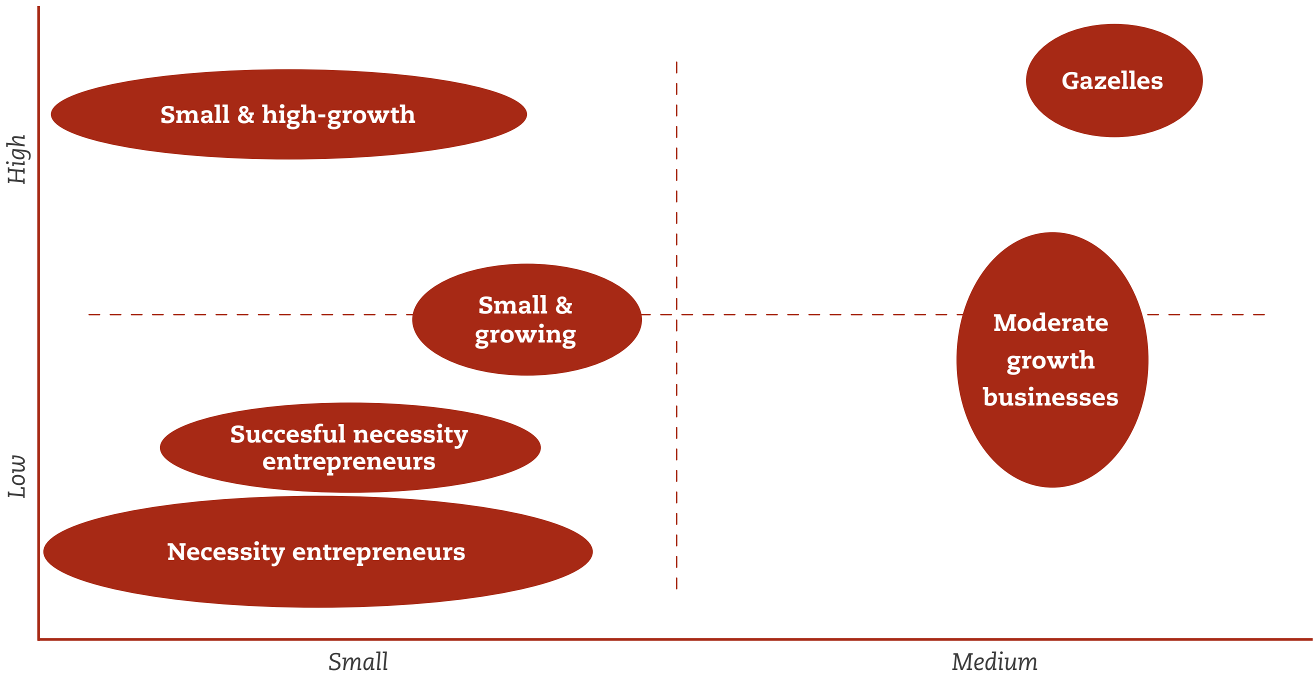
Executive Summary

Vietnam has experienced a prolonged period of economic growth since its transition to a market-based economy through the *Doi Moi* reforms in the 1980s. It is now a middle-income country and one of the most dynamic emerging economies in Southeast Asia. The proportion of people in extreme poverty fell from greater than 70% in the early 1990s to about 10% in 2016, according to the World Bank.

Vietnam's strong export sector has often been credited with this success, and indeed Vietnam is one of the most globalised countries in the region, with its exports as share of GDP at the highest of any populous country. More recently, Vietnam's large and emerging middle-class market has attracted significant investment, and the country leapfrogged into a highly tech-enabled age. Groups of young startup entrepreneurs are aspiring to disrupt nearly all sectors of the economy with new technologies, spurred on both by televised pitching competitions like "Shark Tank" and significant government support for startups and small and medium enterprises (SMEs).

Segmentation of data from the 2015 World Bank Enterprise Survey (WBES) shows that 29% of SMEs in Vietnam are small, low-growth or no-growth businesses; the lowest amongst CLMV countries. Conversely, 25% of SMEs are high-growth, with growth rates over 20% per annum, with many growing to employ over 20 employees. Women-owned firms – with greater than 50% women ownership – constitute about 53% of all small and 44% of medium firms, which is higher than Cambodia, Lao PDR and Myanmar. However, the number of women-managed businesses is lower than women-owned, the opposite of the other #CTGMekong countries.

Figure 1: Sub-segments as proportion of total



Source: EMC analysis based on the 2016 Enterprise Survey (http://www.enterprisesurveys.org), The World Bank

The entrepreneurial ecosystem of Vietnam is by far the most developed among the #CTGMekong countries and offers lessons to the other countries in the region looking to build a thriving tech and risk capital scene that can benefit other parts of the ecosystem while alleviating some finance and administrative constraints.

The Government Is Pushing Strongly for an Innovation-Driven Economy

One feature that sets Vietnam apart is its government's commitment to supporting startups and SMEs through public investment and further private investment incentives for technology and R&D. Notably, the ambitious "Project 844"[1] aims to develop a nationally-spanning innovative startup ecosystem by 2025, which would include SME investment regulations that allow the state to directly invest in startups.

[1] Decision No. 844/QD-TTg dated May 18th, 2016.

Agencies such as the National Technology Innovation Fund (NATIF) – a financial institution under the Ministry of Science and Technology (MOST) – provide grants and preferential loans for R&D, innovation and technology transfer.

The Vietnamese government has also invested significantly in industrial zones in order to concentrate manufacturing investment and export activity. As of 2017, there were more than 190 industrial parks in Vietnam, including three national-level "hi-tech parks": the Hoa Lac Hi-Tech Park in Hanoi, Saigon Hi-Tech Park and Danang Hi-Tech Park. These parks offer modern transport, energy and wastewater infrastructure, and investment incentives including tax breaks and access to government support for research and development.

Despite Significant Interest from Investors, Access to Capital Remains a Challenge

Although Vietnam has the most vibrant and diverse financial sector of all #CTGMekong countries, there remain areas of relative weakness. The state's dominance over the banking system – particularly via state-owned banks – restricts the allocation of credit to SMEs in favor of SOEs and large corporates. This is particularly true in the non-tech sectors, where the SME Development Fund (SMEDF) has thus far failed to address the credit gap: in the past 1.5 years, it only made approximately one loan a month, with an average size of US $300,000.

Friends and family remain the common sources for startup financing, while tech companies can access more seed financing from a growing number of accelerators. There is also a significant amount of interest from foreign VC and PE investors, but the number of domestically-managed PE funds remains limited. Because regionally-managed funds tend to look for tickets of US $15 million or more, the supply of US $5-$15 million investments is limited. This is especially true in 'traditional' sectors that are not directly tech-oriented, where obtaining equity financing below US $5 million is extremely difficult.

Startupcity.vn – a portal for startup and investor matching – identifies four angel networks and investment clubs and nine individual angel investors, of which three provide no information on background or track record. Interviewees describe angel networks as very fragmented, and high net worth individuals (HNWI) still prefer traditional asset classes such as securities or real estate.

From the perspective of investors, existing businesses' corporate governance and management standards remain low in many sectors. Whilst many SMEs may be eager for investment, in practice the proportion of those that are investible is far lower. Much capital, managed by both PE and VC fund managers, is more interested in domestic market opportunities, geared to growing middle class and youthful demographics and less towards business-to-business, international economic integration and capital-intensive sectors.

Business Support Services Are Diverse, and Acceleration Programs Show Promise

The supply of business support services is developing very quickly, with an increasing number of participants and diversity of services. Sources of support are equally diverse, with government, development partners, and domestic and international private sector accounting for significant investment. There are numerous co-locating services catering to startups, freelancers and small corporations. The sector has experienced rapid growth – reportedly 55% annually during the past five years – and is expected to reach 45 co-location facilities by the end of 2018. The sector caters overwhelmingly to startup entrepreneurs under 35 and tech startups, but continues to expand.

Several years ago, there were still clear gaps in the market, but within the past two years, initiatives have been launched to address these. VMI and WISE have been launched to improve mentoring and support for women entrepreneurs, although these are still in early stages and require scale to achieve sustainability. Only two 'private sector' accelerators – TFI and VIISA – have been operating, however new offerings are planned with significant participation from investors and international operators.

Accelerator programmes with clear goals and effective programming are increasing with the support of private sector investment. However, it is likely that capacity will remain insufficient to meet aspirations of young tech entrepreneurs. The availability of existing government support remains quite opaque to startups in the sector, who are often not aware of how to access government support or of its existence at all.

Key issues affecting the Vietnam ecosystem are summarised in this SWOT table.

Figure 2: SWOT analysis of the Vietnam ecosystem

STRENGTHS
- Large market for goods and services, both domestically and via export market access
- Access to credit, financial literacy and business formalisation relatively high for the region, compared to CLM
- Significant government support for R&D, innovation and technology infrastructure
- Relatively strong interest from foreign venture capitalists and private equity

WEAKNESSES
- Not enough credit; banking system dominated by SOEs, and MFIs are not a viable alternative
- Early stage risk capital (VC and PE) still difficult for non-tech startups and small growing businesses
- Entrepreneurs find it difficult to find specific, relevant support services
- Lack of support services outside major cities

OPPORTUNITIES
- Expansion of credit and services to more rural areas
- Continued openness of trade and investment, introducing foreign expertise and capital to help firms grow
- Integration of homegrown tech solutions into Vietnam's major economic pillars
- Expansion of business support services targeting women entrepreneurs

THREATS
- Overly focused support for tech-centered startups not reaching many SMEs in traditional sectors or rural areas
- Lack of reform in banking sector continues to limit credit to small firms
- Lack of coordination amongst ecosystem stakeholders, public and private

Recommendations

The government's long-term vision for the Vietnamese economy, as outlined in "Vietnam 2035", is to become an innovation-driven economy, building on its export prowess and heavy investment in R&D. Two key strategies for this are application of technology across all sectors of the economy and integration of SMEs into global supply chains.

Vietnam is helped by a vibrant but concentrated entrepreneurial ecosystem, highly focused on tech startups and large venture capital deals. It is imperative however, that SMEs in more traditional but successful sectors are not forgotten. The ecosystem should grow to be more closely connected, providing specialised services at scale to produce SMEs that fit within the overall economy and are able to attract growth financing.

This will include specially tailored interventions to support those segments that are currently underserved by business support providers, such as women-managed SMEs and those outside of the main entrepreneurial hubs in the largest cities.

Expand the Range of Financial Offerings Available to Entrepreneurs

Access to finance was ranked as the largest constraint for many SME segments; particularly pressing for those with high levels of growth. The state-dominated banking system does not provide enough small loans, and there are no viable alternatives for most entrepreneurs.

Credit lines to reliable private sector banks for the purpose of SME lending can help alleviate this problem for small and growing businesses. These credit lines can go together with services to help SMEs access them and build banks' capacity, bypassing traditional challenges of complex and time-consuming procedures.

Increasing the availability of risk capital in the range of US$ 1 – 10 M will help small businesses with high growth to achieve national scale. This likely entails support for domestically managed PE funds and market oriented impact investing, both of which are in relatively short supply.

For entrepreneurs at all stages of development, non-bank financing has potential. Vietnam's digital payment platforms can use customer data to support credit decisions on short term loans. These and other solutions such as factoring, peer-to-peer lending, and supply chain finance are currently in their infancy and require regulatory, technical, and financial support.

Foster Sector-Specific Support Services to Integrate Vietnam's SMEs into the Wider Economy

The large number of business support service providers in Vietnam's ecosystem mostly provide similar, generic services to entrepreneurs and tend to focus on the tech sector. The growth of technology startups has the capacity to transform the entire SME landscape by providing tech services to modernise and innovate in the wider economy.

Currently, only one-fifth Vietnamese SMEs are integrated into global supply chains, despite the export-driven nature of Vietnam's economy. Providing the services to increase this share of SMEs therefore has a very large potential impact. This will require support to implement international standards and quality systems as well as provision of export-oriented financial support, such as trade financing and factoring

Vietnam has the scale to support sector-specific niche acceleration and incubation services, providing tailored coaching and networking with knowledgeable industry insiders that lend entrepreneurs foresight, as well as suppliers and customers.

Expand Ecosystem Services to More Second-Tier Cities and Provincial Areas

The existing ecosystem support services are highly concentrated in the main cities; Hanoi and HCMC, and lacking elsewhere.

A model example that could be emulated is that of Danang, which has managed to develop a dynamic entrepreneurial ecosystem focused on tech in just a few years. Key to its success have been the concerted government efforts on infrastructure and enabling policy support, catalysed private sector investment, and an active community of tech entrepreneurs and ecosystem builders.

Increase Tailored Support for Women Entrepreneurs

Women still face many barriers to entrepreneurship, including insufficient managerial and business skills, as well as connections with banks and other financiers. The share of women-managed businesses in Vietnam is the lowest in the region, especially fast-growing businesses.

To tap into this potential, existing women-focused initiatives can be scaled up and used to develop best practices to provide specific mentoring, acceleration, and financing services to women entrepreneurs.

1. Introduction

Vietnam has experienced a prolonged period of economic growth since its transition to a market-based economy through the *Doi Moi*[2] reforms in the 1980s. It is now a middle-income country and one of the most dynamic emerging economies in Southeast Asia. The proportion of people in extreme poverty fell from greater than 70% in the early 1990s to about 10% in 2016, according to the World Bank.

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In this context, the Dutch Good Growth Fund undertook a diagnostic study of the Vietnam entrepreneurial ecosystem, with a deeper evaluation of the financial offering for small and medium-sized enterprises (SMEs).

Figure 3: ANDE framework and entrepreneur capabilities

1.1 Objective

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF), an initiative of the Dutch Ministry of Foreign Affairs. The DGGF is a "fund of funds" investment initiative of the Dutch Ministry of Foreign Affairs that aims to improve access to finance for the missing middle – that is, entrepreneurs who have outgrown microfinancing but do not yet have access to conventional financial services.

The Seed Capital and Business Development (SCBD) Facility was established to further the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary funds and local SMEs. In addition, the program incorporates a knowledge sharing component that supports research, tests assumptions and shares insights on financing SMEs in developing countries and emerging markets and fosters industry-wide knowledge exchange. Under the SCBD knowledge development and sharing component, the DGGF #ClosingTheGap series aims to improve the common understanding of key challenges faced by entrepreneurs and especially the "missing middle" in countries covered by the DGGF mandate. The #CTG series is a tool to facilitate and support local and international stakeholders' efforts to set the agenda for SME development. Through this cooperation, local stakeholders and their international partners should be better able to identify solutions to the main gaps in entrepreneurial ecosystems that hamper the growth of local enterprises.

The study was commissioned to better understand the 'missing middle' in the Mekong region of Southeast Asia, of which Vietnam is one of the focus countries. The report describes the main factors that hamper SME growth and suggests possible actions to address them.

[2] Doi Moi (English: "Renovation") is the name given to the economic reforms initiated in Vietnam in 1986 with the goal of creating a "socialist-oriented market economy".

1.2 Approach

DGGF's #ClosingTheGap series was designed to improve common understanding of the key challenges faced by the "missing middle" by researching local entrepreneurs' characteristics and needs, testing assumptions related to the current financial and non-financial service offering, and sharing insights as to their impact on the conduciveness of the ecosystem overall. The methodology was piloted in Kenya in 2015 and scaled to a regional level in francophone West Africa in 2017 using the Aspen Network of Development Entrepreneurs' (ANDE) framework for ecosystem assessment.[3] The framework was modified for #ClosingTheGap Mekong series by adding entrepreneurs' capabilities at the centre of it.

Figure 4: Description of entrepreneurs' capabilities

ENTREPRENEUR CAPABILITIES	DESCRIPTION
Strategic planning	Short and long-term planning of products and services to be offered, local and international expansion plans, generating new business models, business restructuring, and exit strategies
Market & environment related	Engagement with potential customers and end users to gain an understanding of unmet market and societal needs. Market intelligence and management of distribution channels
Generating & testing products	Generating new products or services and testing them in the market
Acquiring finance	Acquiring and raising finance in order to expand businesses
Business operation	Financial management, value chain management, staff management and other operational management
Acquiring & retaining human resource	Acquiring and retaining human resources in order to expand businesses
Networking	Networking and partnering with other individuals and organisations

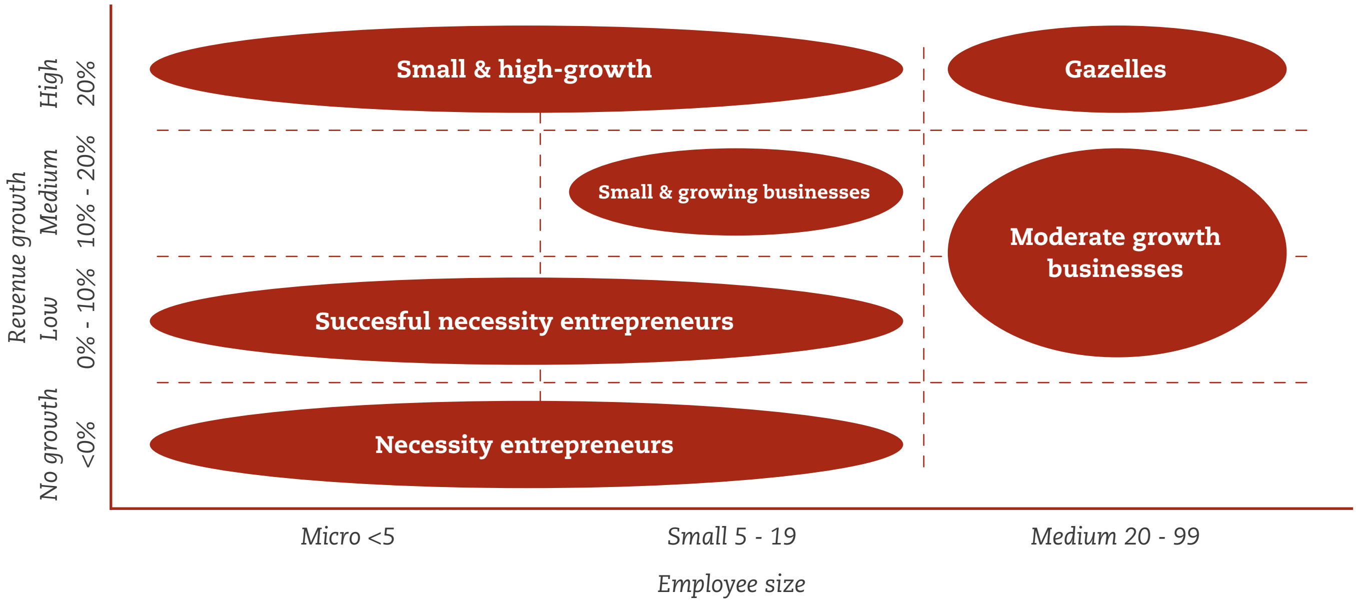
The ANDE methodology uses World Bank Enterprise Survey (WBES) data to analyse SME characteristics. WBES covers 139 countries – including all countries in #CTGMekong – and therefore provides a good basis for inter-country comparisons.

Accordingly, we used the Vietnam World Bank Enterprise Survey 2015[4] (WBES 2015) to analyse SMEs, including segmenting them according to growth and size characteristics, as described in the following figure.

[3] Entrepreneurial Ecosystem Diagnostic Toolkit, Aspen Network of Development Entrepreneurs, Dec 2013.

[4] WBES 2015 interviewed 996 establishments from a sample frame of 7,895 between November 2014 and April 2016 (World Bank). The survey uses stratified random sampling to ensure the final total sample is not concentrated in one or two industries/sizes/regions. EMC derived estimates for the total population based on WBES weightings. For further information, please see www.enterprisesurveys.org and the methodology note in Annex I

Figure 5: Segmentation framework



The Vietnam WBES 2015 only includes registered establishments, and though the survey includes data relating to gender of owner and top management, it excludes data on their ages, so it is not possible to segment for young entrepreneurs aged 18-35.

Therefore, the research also draws on other data, an extensive literature review and key informant interviews (KII) with entrepreneurs and service providers in the ecosystem.

In May 2018, workshops in Hanoi and HCMC brought together those stakeholders to review, validate and challenge research findings, and engage in an interactive session to explore solutions to address identified gaps in the ecosystem. Groups were asked to comment on 'entrepreneur personas' that typified businesses and growth challenges faced by firms in each sub-segment, identify gaps and propose solutions. Conclusions from the workshop are directly captured in this report.

HIGH-GROWTH BUSINESS

BACKGROUND

- Smart Accounts provides cloud-based, customisable accounting and sales software for local companies, including a full suite of support.
- It was started several years ago by two university friends, and funded by a family-loan, retained earnings and a small government grant.
- The firm now employs 14, and is growing quickly at over 24% per annum.

AMBITIONS

- Sustaining the momentum of current growth by expanding into new local markets in other cities through aggressive marketing.

CHALLENGES

- Through its initial period of high growth, close collaboration by founders has kept things together, but now organisational and governance challenges are beginning to emerge.
- The owners of Smart Accounts are not sure how to execute their ambitious growth plans, or where to find help.

2. Overview of Vietnam

Vietnam is a nominally socialist country with a market-based economy. The *Doi Moi* liberalising reforms of the 1980s embraced markets and promoted integration into the global economy. Many distortions of the communist era were removed, including price controls, quotas, collectivised agriculture, trade and investment restrictions, and a ban on formal private enterprise. This adaptation – combined with subsequent market- and business-friendly changes – helped increase productivity, trade and inward foreign investment, leading to average GDP growth of 5.5% per year since 1990 (second only to China), poverty rates falling from 60% to 10% in 2016, and an emerging middle class.[5]

THE SOCIALIST REPUBLIC OF VIETNAM

AREA 331,210 sq km
POPULATION 95 million (2017 est.)
CAPITAL Hanoi
OTHER REGIONS Ho Chi Minh City (main business city), Mekong River Delta, Central Coast
OFFICIAL LANGUAGE Vietnamese
CURRENCY Vietnam Dong (VND)
GDP PER CAPITA US $2,552 (2017)
DOING BUSINESS INDEX 69 (2019)

Sources: World Bank 2017; 2018

Despite this strong growth, Vietnam still lags ASEAN members such as Thailand and Malaysia in terms of average incomes, but it compares favorably to the other #CTGMekong countries. Vietnam enjoys regional and international trade benefits due to its ASEAN membership and other bi- and multi-lateral trade agreements. China, the United States, Japan and Korea are its largest trading partners.

Figure 6: Key Facts on Economic Performance

COUNTRY	POPULATION (MILLIONS)	GDP NOMINAL (US$, BILLIONS)	GDP PER CAPITA (US$)	GDP GROWTH 2012 – 2017 (AVG. % PA)	CLMV TRADE (% TOTAL TRADE)[a]
Vietnam	95	241.4	2,552	6.2%	1.2%
Myanmar	53	67.3	1,279	7.2%	1.7%
Cambodia	16	24.1	1,485	7.1%	7.5%
Lao PDR	7	18.2	2,690[b]	7.4%	8.2%
Thailand	69	455.4	6,591	2.8%	7.7%
Malaysia	32	312.4	9,755	5.2%	3.3%

Note a: (Imports from CLMV + Exports to CLMV)/(Total Imports + Total Exports).
Note b: Lao PDR GDP per capita is disproportionally high due to large extractive and hydropower industries, and a relatively small population which does not benefit from this in terms of average household incomes.
Sources: IMF; ITC TradeMap

The above reforms enabled investment to capitalise on Vietnam's foundational assets: a large labor force, stable government, and location close to global supply chains. Export-focused foreign investment in manufacturing – mostly low-skilled assembly, at least initially – partially resulted from the China-plus-one strategy of developing many multinational corporations, which meant diversifying their global manufacturing supply chain to mitigate the impact of rising wages in China as well as potential geopolitical factors.

[5] World Bank data.

Over the past five years, GDP growth averaged over 6%. Manufacturing output over that time grew at an average 10%, and an estimated 1.5 million new manufacturing jobs were added between 2014 and 2016 alone[6], driven in large part by export-oriented industries, including electronics, garments and footwear, and food products.

State authorities are still important for allocating resources, and state-owned enterprises (SOEs) have a large role in the economy, engaging in a range of commercial activities. The delineation between commercial and regulatory functions is often blurred. There are also concerns over bureaucracy and an overlap of public and private interests among public officials. In WBES 2015, 91% of firms reported that they were expected to make informal payments to public officials to "get things done". Anecdotally, firms also report that connections to the state are important to succeed in business, influencing access to land and other resources.

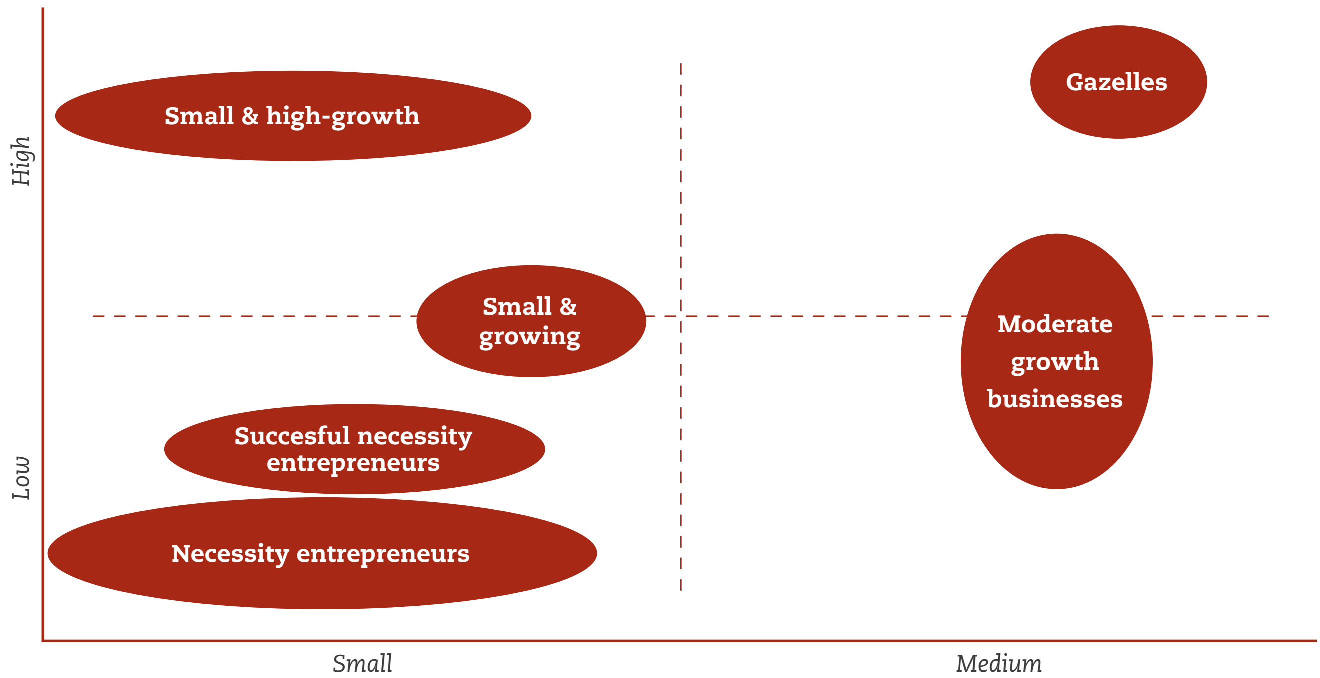
Despite this commercialisation of relationships between the state and market, and some concern about the amount of leverage in the banking sector, investors remain broadly positive about the outlook. Other than agriculture – which is vulnerable to climatic uncertainties – the near-term outlook for other economic sectors is positive. In particular, manufacturing, construction and services are forecast to continue growing strongly, and Vietnam is in the process of inking major trade deals, including the EU-Vietnam Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the successor to the Trans-Pacific partnership after the withdrawal of the US in 2017).

3. SME Landscape

Most domestic businesses in Vietnam are small and solely serve the domestic market. Production is dominated by family farms in agriculture and small workshops or household enterprises in manufacturing and services. Medium and large domestic firms tend to be state-owned or closely connected to the state.

Segmentation of WBES data shows that 29% of SMEs in Vietnam are small, low-growth or no-growth businesses. However, 25% of SMEs are high-growth.

Figure 7: Sub-segments as proportion of total



Source: EMC analysis based on the 2016 Enterprise Survey (http://www.enterprisesurveys.org), The World Bank

[6] World Bank data.

- **Necessity entrepreneurs (NE)** are small businesses with an average 8.2 full-time employees that experience negative annual turnover (no growth). They are the largest group in our SME segmentation. More than 80% are in services, including retailing. Nearly 60% are majority female-owned, though fewer are managed by a woman (Figure 9 and Figure 10). Compared with SNEs, they are less likely to export, to have a website, to have introduced a new or improved product or service or have invested in R&D.
- **Successful necessity entrepreneurs (SNE)** are small businesses in the SME sector that experience low growth (0-10%) in annual turnover. They employ an average 10.7 full-time employees. Nearly one-third are manufacturers – more than any other SME segment other than MGBs. More than 60% have majority female ownership, which is the most of any SME segment, though they still have a low rate of female management. Somewhat surprisingly, they are more likely to export than any other segment with 22% of SNEs exporting in the last year. Compared to larger businesses, they tend not to have introduced new or improved products or services nor invested in R&D.
- **Small and growing businesses (SGB)** are characterised by moderate annual turnover growth (10-20%) businesses that employ an average 9.7 full-time employees. Typically they are similar size to SNEs and larger than NEs. Half are majority female-owned, but very few (8%) are managed by women. They are likely to have their own website, but only 6% of them export, and all but 7% are in services and retailing. Compared SHBs and larger businesses, they are less likely to have introduced a new or improved product or service or have invested in R&D. More than half are in the Southeast, whereas NEs, SNEs, MGBs and Gazelles have a higher representation in the Red River Delta (Figure 8).
- **Small and high-growth businesses (SHB)** are small businesses with more than 20% growth in annual turnover. They retain an average 11.3 full-time employees. Over 30% are in manufacturing, while 65% are non-retail service businesses. Fewer are female-owned than other segments (41%). Almost none are exporters. They are more likely than other small businesses to have introduced a new or improved product or service and invested in R&D but less likely than larger SMEs. Like SGBs, more than half are in the Southeast.
- **Moderate-growth businesses (MGB)** are medium-sized, with 20 to 100 employees, and 0-20% growth in annual turnover. They employ an average of 31 full-time employees, and the majority (78%) employ fewer than 50. Compared to the above sub-segments, MGBs are more much likely to operate in manufacturing (45%). More than half of MGBs have majority female ownership. They are more likely to export than the above businesses, aside from SNEs, as well as to use email to communicate with clients. They are much more likely than the above sub-segments to have introduced a new or improved product or service and to have invested in R&D.
- **Gazelles (GAZ)** are high-growth – with more than 20% growth of annual turnover – medium-sized businesses. They employ an average 34 full-time employees and like MGBs, a majority employ fewer than 50. Gazelles are less likely than MGBs to be manufacturers, and two-thirds are in the service sector. Less than half (45%) are majority female owned. They are the most likely sub-segment to use email to communicate with clients. They are much more likely than all other sub-segments to have introduced a new or improved product or service and to have invested in R&D. More than half are in the Red River Delta.

Figure 8: Compared with Small-Growth Businesses, Gazelles in Vietnam Are

MORE LIKELY TO
Structure themselves as a shareholding company
Use email to communicate with clients and suppliers
Export
Have introduced a new product or service in the last three years
Have introduced new or improved methods, logistics, supporting activities or marketing
Have foreign ownership
Be in manufacturing

Source: EMC analysis based on Enterprise Surveys http://www.enterprisesurveys.org, The World Bank.

Small and large businesses in Vietnam are more likely to be in the southeast of the country, while medium-size businesses are mostly in the north.

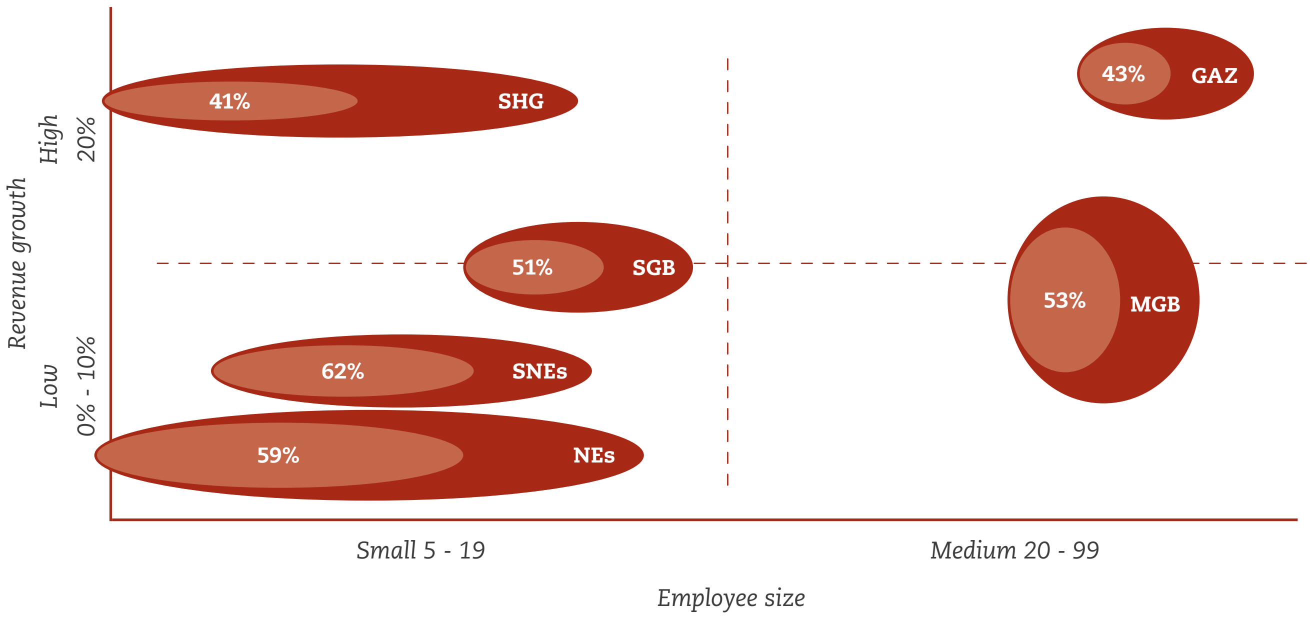
Figure 9: Distribution of Vietnam businesses by region, 2015

REGION	NE	SNE	SGB	SHG	MGB	GAZ
Southeast	18%	32%	7%	31%	45%	29%
Red River Delta	19%	8%	13%	4%	3%	4%
North Central & Central Coast	62%	60%	81%	65%	52%	67%
Mekong River Delta	18%	32%	7%	31%	45%	29%

Note: South East includes HCMC; Red River Delta includes Hanoi.
Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

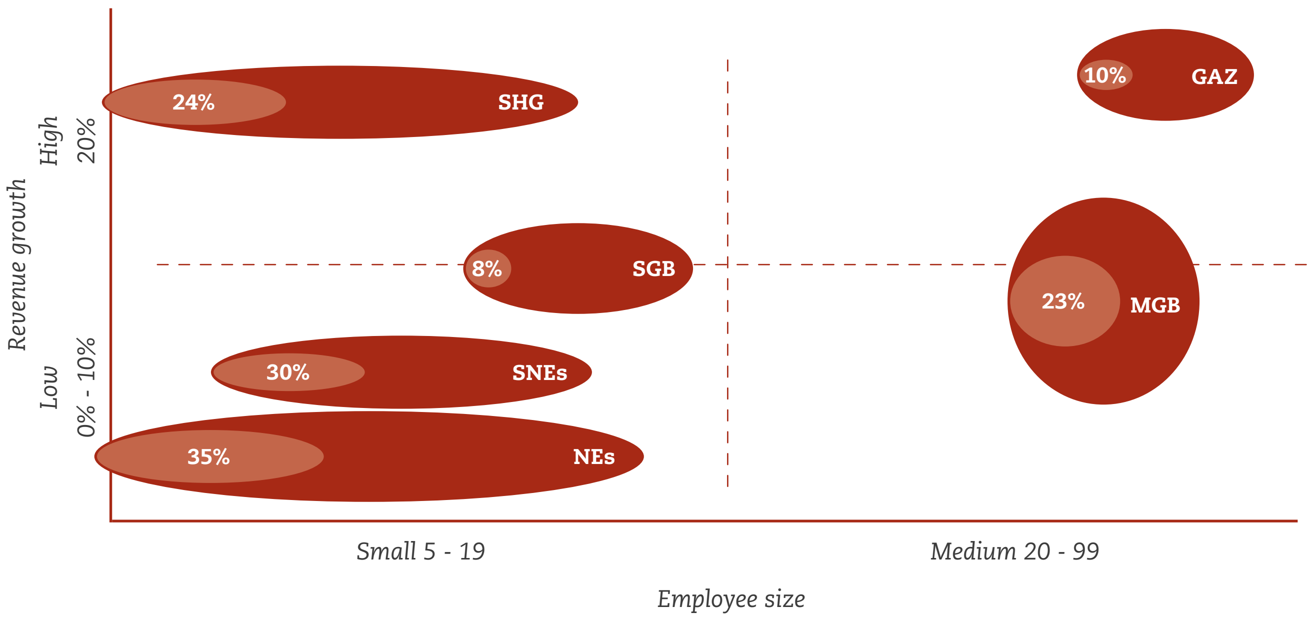
According to WBES 2015, women-owned firms – with greater than 50% women ownership – constitute about 53% of all small and 44% of medium firms, which is higher than Cambodia, Lao PDR and Myanmar. However, the number of women-managed businesses is lower than women-owned, the opposite of the other #CTGMekong countries.

Figure 10a: Vietnam SME Sub-Segments by Gender of Ownership, 2015



Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Figure 10b: Vietnam SME Sub-Segments by Gender of Top Manager, 2015



Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Vietnam's overall outlook for SMEs appears positive as the government continues to overhaul business regulations. Initiatives such as simplifying procedures, enhancing competitiveness, improving transparency and cutting corporate taxes will create a more conducive environment for SMEs.

4. Vietnam's Entrepreneurial Ecosystem

Vietnam's entrepreneurial ecosystem is by far the most advanced in the CLMV region, with higher levels of local and foreign investment, availability of finance and business support, and favorable market conditions. Recently, the Vietnamese government has also thrown its weight behind supporting SMEs and startups as part of a broader effort to modernise and diversify Vietnam's economy.

Our description of the entrepreneurial ecosystem follows the ANDE categories, grouped in to three sections:

1. **Enabling Environment** Comprising infrastructure, policy, markets, human capital, innovation and R&D, and culture)
2. **Finance** Credit and risk capital
3. **Business Support Services**

The categories distinguish themselves in that finance and business development services influence firms directly, whereas enabling environment factors have an indirect effect across SMEs in general.

An analysis of constraints upon SMEs – defined by WBES 2015 and self-reported by participants – are distributed across sub-segments in Figure 11. Access to finance is the most commonly cited constraint, particularly for small businesses. Practices of competitors in the informal sector is also a major concern for smaller businesses. Larger SMEs tend to cite tax rates as their biggest constraint.

Figure 11: Analysis of SMEs' Self-Reported Biggest Constraint, by Sub-Segment (WBES 2015)[9]

CONSTRAINT	NE	SNE	SGB	SHG	MGB	GAZ
Access to finance	22%	16%	14%	22%	15%	13%
Practices of competitors in the informal sector	25%	20%	13%	7%	8%	8%
Tax rates	14%	16%	9%	5%	15%	10%
Inadequately educated workforce	7%	25%	11%	1%	7%	5%
Transport	3%	9%	14%	22%	6%	2%
Access to land	2%	1%	7%	27%	4%	1%

Note: Among surveyed Gazelles, 30% responded either "Don't know" or "Does not apply"; this is significantly higher than for the other segments.
Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Vietnam is a large country with different centers of business activity. The 2017 Provincial Competitiveness Index[10] revealed improved confidence among private companies and foreign investors in the country's business and economic environment. The increase in confidence was largely driven by a combination of economic reforms, decreased corruption, reduced regulatory burden, improved labor relations, and improved infrastructure quality. Northern Quang Ninh province took the top spot in provincial competitiveness from Danang, now ranked second after previously dominating the index. Administrative reforms and streamlined procedures in Quang Ninh shortened waiting periods and reduced entry and transactions costs for businesses. There are clusters of high-performing provinces the Mekong Delta, the South-Central Coast, and provinces bordering HCMC.

[9] Businesses were asked which from the list provided was their biggest constraint. We have ranked the constraints here according to the frequency with which they were cited across the subsegments.
[10] A collaboration between the Vietnam Chamber of Commerce and Industry and USAID. Over 10,000 companies were surveyed across the 63 provinces. See http://eng.pcivietnam.org

4.1 Enabling Environment

In the last few years, Vietnam has implemented a wide range of reforms to improve its business environment for investors. Although there is still scope for further reforms, the business environment – as depicted in numerous studies – improved substantially in 2017. For example, according to the World Bank's Doing Business 2018 report, Vietnam ranked 68th among 190 economies, jumping 14 places from 2017 and 31 places since 2013 (see Figure 15). Similarly, the World Economic Forum's Global Competitiveness Report 2017-2018 ranked Vietnam 55th amongst 137 economies, rising five places from the previous year.

Our discussion of the enabling environment for entrepreneurs comprises infrastructure, policy, markets, human capital, innovation and R&D, and culture. Because Vietnam is far ahead in many areas compared to the other three countries in #CTGMekong, the report includes comparison data for Thailand and Malaysia in some instances.

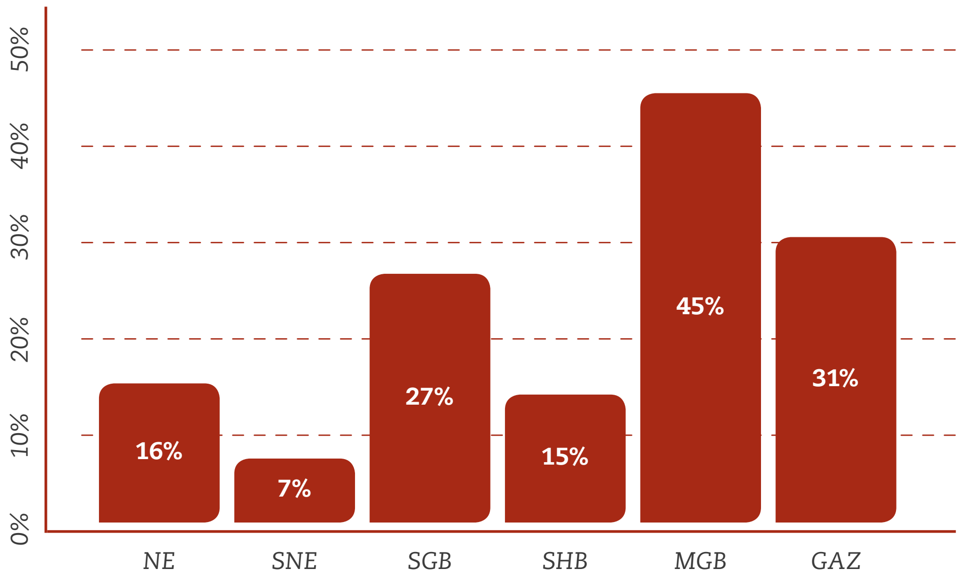
Infrastructure

Vietnam has invested significantly in its infrastructure. According to the World Bank, government capital expenditures have averaged nearly 8% of GDP annually over the past decade. This high level of investment has rapidly expanded infrastructure capacity and improved access.

Hence, infrastructure issues are generally not SMEs' most reported constraint, although transport is an issue for some (see Figure 11). At the provincial level, Binh Duong, Da Nang, Ba Ria Vung Tau, Dong Nai, and Bac Ninh rank as locations with the highest quality infrastructure But overall, there has been consistent improvement in infrastructural quality in nearly every province.

The state-owned electricity company, Vietnam Electricity (EVN), has invested substantially in its infrastructure. This investment – in generation, transmission and distribution — has been necessary to meet rapidly rising electricity demands from the burgeoning economy and the new middle class. According to the World Bank, Vietnam's per capita electricity consumption more than tripled over the past decade. Hence, electricity supply in Vietnam is much better than in Cambodia, Lao PDR and Myanmar, with few Vietnamese SMEs citing it as their biggest constraint. Despite this, many SMEs own or share use of a private generator, particularly MGBs and Gazelles (Figure 12).

Figure 12: Percentage of SMEs that own or share a generator



Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank

To keep pace with rapidly growing container trade[12] that fuels manufacturing exports, Vietnam has invested in expanding its seaports and marine terminals. This contributed to Vietnam's infrastructure score in the World Bank's Logistics Performance Index (LPI), increasing from 2.50 in 2007 to 3.01 in 2018, while its overall LPI rank

[11] The Vietnam Provincial Competitiveness Index 2017
[12] 17% annual growth between 2000 and 2011, according to the World Bank

grew from 53rd to 39th out of 160 countries. Vietnam now ranks above Cambodia, Lao PDR and Myanmar but behind Thailand and Malaysia in terms of trade and transport infrastructure.

Similarly, Vietnam invested extensively in its network of roads. The total length of paved roads in Vietnam increased from 30,000 km in 2000 to about 110,000 km in 2012. Despite this, a number of SMEs still view transport as a serious constraint, particularly SGBs and SHGs. This is supported by the Provincial Competitiveness Index, where the greatest concerns regarding infrastructure relate to the quality of roads and bridges, which drive transportation costs up due to damage to trucks and cargo. In 2017, just 41% of businesses surveyed expressed satisfaction with roads (PCI).

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From a government monopoly supplying fewer than four telephones for every 100 people in 1995[13], Vietnam's telecommunications infrastructure transformed. Deregulation and allowance for new entries – initially to SOEs and eventually private local and foreign businesses – have helped lower prices and expand capacity. Today, Vietnam has 70 telecom companies – of which 37 licensed to provide infrastructure and the remainder just services[14]. The major providers are Viettel Mobile, MobiFone, VinaPhone, VietnamMobile and GMobile. Vietnam now has more mobile connections per capita than Thailand and Malaysia, though its overall mobile connectivity somewhat lags both countries (see Figure 14).

Figure 13: LOGIVAN, a Startup Addressing SME Transportation Concerns

INCREASING EFFICIENCY IN THE TRUCKING INDUSTRY BY CONSOLIDATING CAPACITY

PROBLEM Despite relatively well-developed infrastructure for the region, the high cost of road transport is still a major constraint for many SMEs

WHY IT HAPPENS The road quality is still poor in some areas, while others suffer from high traffic. The market is also highly fragmented, requiring firms to deal with many different brokers and agents.

SOLUTION By giving truck drivers access to a mobile app, LOGIVAN is able to connect them directly with job orders relevant to their location. The platform directly connects truckers to customers, reducing transaction costs and unnecessary detours through heavy traffic and poor roads. It also benefits both drivers and SMEs by reducing the inefficiency by utilising a truck that would have returned empty after its delivery and thus allowing lower cost deliveries to more remote locations.

[12] 17% annual growth between 2000 and 2011, according to the World Bank

Figure 14: Mobile Connectivity and Active Internet Use

COUNTRY	MOBILE CONNECTIVITY INDEX (OUT OF 100)[A]	MOBILE CONNECTIONS	SMARTPHONE USE % ADULT POPULATION	3G & 4G MOBILE	ACTIVE INTERNET USERS TOTAL	ACTIVE INTERNET USERS MOBILE
Myanmar	49.9	101%	na	63%	34%	30%
Cambodia	50.1	181%	na	52%	50%	39%
Lao PDR	47.0	91%	na	42%	35%	32%
Vietnam	59.7	153%	72%	34%	67%	64%
Thailand	68.1	135%	71%	99%	82%	79%
Malaysia	69.9	133%	88%	80%	79%	76%

Note a: Index combines data on mobile infrastructure, affordability of devices & services, consumer readiness, and availability of content & services.
Source: Presentation by We Are Social Singapore, January 2018, accessed at https://aseanup.com/southeast-asia-digital-social-mobile/

Vietnam has also invested significantly in industrial zones in order to concentrate manufacturing investment and export activity. As of 2017, there were more than 190 industrial parks in Vietnam, including three national-level "hi-tech parks": the Hoa Lac Hi-Tech Park in Hanoi, Saigon Hi-Tech Park and Danang Hi-Tech Park.[13] These parks offer modern transport, energy and wastewater infrastructure, as well as investment incentives including tax breaks and access to government support for research and development.

Policy

According to the World Bank, Vietnam performs reasonably well in terms of government effectiveness, control of corruption, and rule of law but lags behind other lower middle-income countries in regulatory quality as well as voice and accountability. Its Doing Business ranking has improved steadily over recent years but still lags far behind Thailand (Figure 15).

One issue that often arises is that private firms compete on a playing field tilted by the heft of SOEs and politically-connected businesses. A majority of firms perceive government conduct to unfairly favour firms with established connections to officials when enforcing regulations, issuing government procurement contracts, and allocating land use rights.

Figure 15: Doing Business Ranking (2013-2019)

COUNTRY/YEAR	2013	2015	2017	2018	2019
Cambodia	135	133	131	135	138
Lao PDR	163	139	139	141	154
Myanmar	-	177	170	171	171
Vietnam	99	78	82	68	69
Thailand	18	46	46	26	27

Source: World Bank Doing Business (http://www.doingbusiness.org)

The 12th National Congress of the Communist Party, held in January 2016, defined the political and development orientations for Vietnam for 2016-2020 and selected new leadership for the party, state, and government. A general election took place in May 2016 and the new National Assembly reconfirmed the new state president, prime minister, and cabinet members in July 2016.

[13] International Telecommunication Union, World Telecommunication/ICT Development Report and database (via http://data.worldbank.org)
[14] Vietnam News (https://vietnamnews.vn/economy/416550/local-telecom-market-saturated.html)
[15] Vietnam Briefing https://www.vietnam-briefing.com/news/investing-in-hanois-hoa-lac-high-tech-park.html/

Vietnam's development priorities are laid out in the 2011-2020 Socio-Economic Development Strategy and subsequent 2016-2020 Socio-Economic Development Plan (SEDP). These include reforms and growth targets, as well as plans for macroeconomic stability, an environmentally sustainable growth model, and investments in infrastructure development. The SEDP also emphasises development of human capital and boosting the nation's scientific and technological capacity.

Supporting SMEs is one of the SEDP's priorities, and a new SME Support Law was adopted in 2017 (see Figure 16) and came into effect in 2018. Policy initiatives supporting innovative and tech-oriented startups were also embraced, including the sweeping "Project 844", which aims to develop a nationally-spanning innovative startup ecosystem by 2025 plus SME investment regulations that would allow the state to directly invest in startups.

Figure 16: Major Policies Affecting the Entrepreneurial Ecosystem

ECOSYSTEM REFORM TIMELINE

Major policy milestones that relate to the business environment, innovation and entrepreneurship include:

2000 Enterprise Law: Legalised private firm creation. Previously private business was technically illegal.
2001 Acceleration of SOE reform: Thousands of SOEs were equitised, merged, or liquidated. First SME-specific policy ("Decision No. 90"): National Agency for SME Development and the SME Credit Guarantee Fund established. Further directions given to central and regional governments to support SMEs.
2004 Competition Law: Vietnam Competition Administration Department and the Vietnam Competition Council established.
2005 Common Investment Law and Enterprise Law: Unified legal treatment of all business (local, foreign, SOE). Freedom to do business improved.
2007 Joined WTO: Requirements include gradual removal of restrictions on foreign ownership.
2009 Prime Ministerial Decree No.56 on SME support: Integrated many mechanisms regarding finance, credit, technology, training, information and consulting and market promotion.
2010 Committee to Encourage SME Development established: Acts as a task force across ministries to design and implement support for SMEs.
2013 Master Plan on Economic Restructuring: Launched to focus on banks, SOEs and public investment.
Science and Technology Law: Incentives for businesses to get access to the core national technology labs.
2014 New Enterprise Law (replacing 2005 law) and Investment Law: Deregulation that standardises the business registration process and make it easier for businesses to be established and simplify other administrative procedures. Moved corporate governance regulations closer to international practice. Easier to for domestic companies to receive foreign investment.
Bankruptcy Law: Eased process for declaring bankruptcy.
2016 National Innovation Fund: Supports enterprises to develop new technology, update their current technology, commercialise their technology, and hire international experts for R&D projects.
Resolution No.35: Enterprise development directive that aims for 30-35% of enterprises in Vietnam will undertake innovation activities by 2020
National Innovation Fund and the SME Development Fund launched.
Decision No. 844: Establishes "Supporting National Innovative Start-up Ecosystem to 2025" Project, or "Project 844". This decision focuses on supporting the national innovation startup ecosystem through 2025 and developing a legal system and a national e-portal for startups by 2020. In addition, it will also provide funding support to 200 startup enterprises.
2017 Law on Supporting Small and Medium Sized Enterprises: Easier access to credit via SME Credit Guarantee Fund and SME Development Fund. Simpler accounting and tax administration requirements for SMEs. Corporate tax discounts or exemptions for SMEs. Incentives for businesses with distribution chains that are 80% SMEs. Support with technology implementation. Certain ministries and regional governments to participate in the establishment of business incubators and technical support centres for SMEs through private-public partnerships. Provides land rental subsidy for SMEs in industrial and hi-tech parks and clusters.
Resolution No.19 on improving the business environment: Aims to have one million enterprises by 2020 (up from 600,000), of which 0.5% are innovative startups.
Decision No.1665: National program to support student startups.
Removal of 675 sub-licenses for business and investment.
New trade portal launched: Provides Information for businesses about export-import regulations and procedures.
Technology Transfer Law: Encourages enterprises' internal Science & Tech funds to invest in innovative startups.
2018 Investment Regulation for Small and Medium Enterprises Creative Starting Business: (Decree No. 38/2018 / ND-CP), which focuses on innovative startup investments. Identifies and recognises startup investment activities as a business and provides legal status to innovative startup companies and funds. One regulation allows the state to invest in startups, to a maximum of 30% of shares.

Source: Authors' compilation.

Despite a plethora of laws and business support programs (see Figure 16), much remains to be done in terms of improving their effectiveness and efficiency. A lack of clarity in policy support procedures – combined with overlapping roles and weak coordination among government agencies – have slowed down support efforts. SMEs also lack the information and resources required to undertake the application processes that would allow them to gain support. As a result, larger companies are usually the beneficiaries of government incentives.

Furthermore, some SMEs report that government initiatives exist only on paper. For example, tech startups are supposed to receive property tax exemptions and access to credit. But according to a 2016 World Bank report jointly published with the Ministry of Planning and Investment, multiple startups claim that they do not receive these benefits.

Vietnam's approach to reform acts at two levels: The Party provides broad direction to structural reforms, while implementation is left to the provinces. As discussed above, this has meant that some provinces, such as Danang, have better business environments than others. Provinces have sometimes independently pushed the boundaries, providing opportunity for local experimentation. The central government can then draw lessons from these experiences, as they did with SOE reform, for example. Some provinces have tried different types of engagement with the private sector. One successful approach is to avoid formal dialogue and encourage open discussion, such as in the Biz Café model by the Dong Thap provincial government. (see Figure 17).

Figure 17: The Biz Café model

The Dong Thap provincial government originated the "Biz Café" model of engaging with the private sector. This is an event hosted monthly by the Provincial Business Association in cooperation with provincial departments to connect and support businesses, especially SMEs. At the Biz Café, businesses interact with officials in informal sessions to discuss a single topic that has been nominated for discussion by a board, which is composed of provincial leaders and business association representatives. Open discussion is promoted and finding solutions by the end of the session is emphasised. Information from these sessions is used to prepare future training sessions and plan trade fairs and service offerings. The Quang Ninh provincial government has now adopted "Biz Café", helping the province increase its provincial ranking in business support services to third in Vietnam, behind HCMC and Hanoi.

Source: The Vietnam Provincial Competitiveness Index 2017

4.2 Markets

From being mostly isolated from the international economy at the onset of the 1980s reforms, Vietnam has become a major destination for foreign investment and consequently a thriving export economy. Vietnam's relatively large population has attractive domestic market potential for businesses, while the country's integration into the global economy has allowed access to export markets and therefore significant opportunities.

Figure 18: Market size indices (score out of 7)

COUNTRY/YEAR	DOMESTIC MARKET SIZE INDEX	EXPORT MARKET SIZE INDEX
Vietnam	4.5	5.8
Thailand	5.0	6.0
Cambodia	2.9	4.4
Lao PDR	2.7	3.4

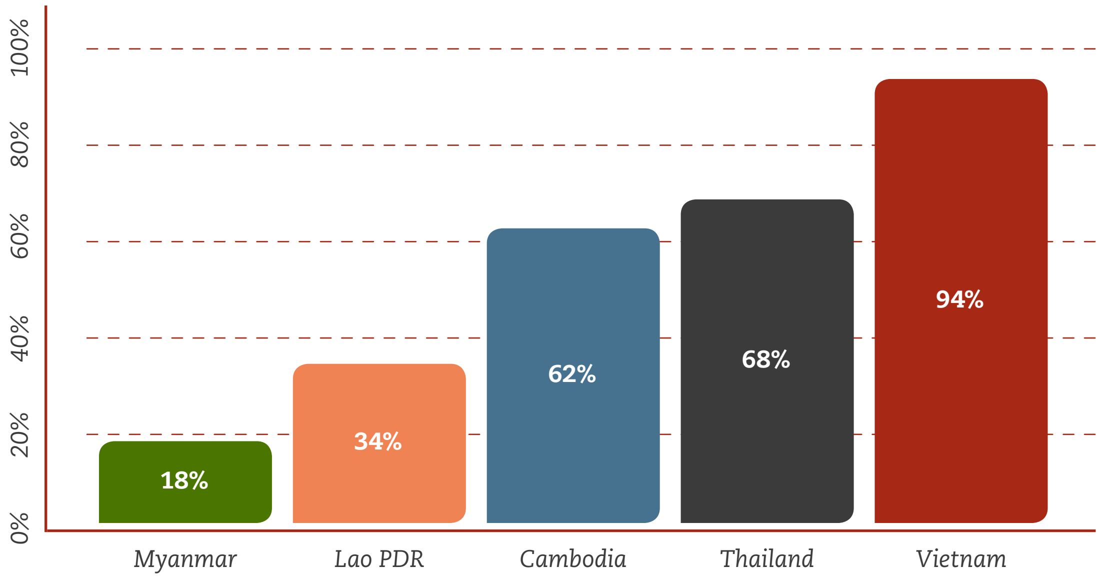
Note: no data for Myanmar available.
Source: Global Competitive Index 2016-17, World Economic Forum

[18] World Bank, Safeguarding Economic Stability: Lao PDR Economic Update, June 2018
[19] EMC analysis based on Enterprise Surveys http://www.enterprisesurveys.org, The World Bank.

Export Markets

Vietnam is a considerable exporter, more so than even Thailand in terms of % of GDP (see Figure 19). More SMEs in Vietnam export than in Cambodia, Lao PDR and Myanmar, particularly among smaller, slower-growing businesses. SNEs and Gazelles in Vietnam are most likely to be exporters (see Figure 21).

Figure 19 Exports of goods and services as a % of GDP, 2016



Source: World Bank, 2018

Vietnam's accession to the WTO was completed in 2007. As part of its membership in ASEAN and associated regional free trade agreements, Vietnam can export with zero import tax to the ten member countries and to Australia/New Zealand, China, India, Japan and the Republic of Korea. Vietnam also has bilateral trade agreements with the United States, Japan, Korea, and Chile. The future outlook for trade growth is also good, as negotiations of an EU-Vietnam FTA have recently concluded, and Vietnam ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the successor of the defunct Trans-Pacific Partnership agreement, which includes its original members minus the United States, and is set to become the world's third-largest free trade area.

Figure 20: Rita Phil

CUSTOMISED FASHION: AN EXAMPLE OF HIGH VALUE EXPORT MARKETS BEYOND BASIC COMMODITIES

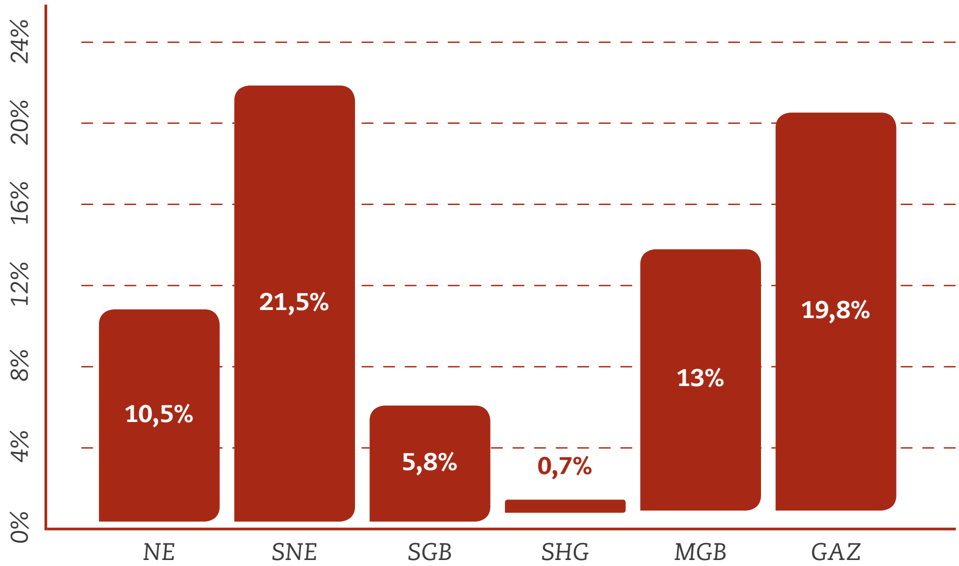
PROBLEM Promoting innovative Vietnamese exports to the world.

WHY IT HAPPENS Most of Vietnam's exports are manufactured products and agricultural commodities, which generally have little association with high-quality.

SOLUTION Fashion brand Rita Phil sells bespoke tailored clothing in markets such as the US and UK. The customer chooses a design and enters their basic measurements into the website, those numbers get fed into a design system that "combines classic tailoring techniques with modern data-driven algorithms" to create the optimal fit. The garments then get cut and stitched at Rita Phil's in-house facilities and shipped. The company's vision, according to its founder, a former Director at venture capital firm DFJ VinaCapital, is to give women access to custom patterns for any body type at a reasonable price point.

Source: Rita Phil; e27

Figure 21 Proportion of Businesses That Export, by Sub-Segment



Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Foreign investors have been attracted to Vietnam to manufacture for export markets. The government has encouraged this through, among other things, competitive investment incentives and the establishment of export processing zones (EPZs). Recently, it was announced that such zones would try to focus more on SMEs, as competition among zones might be pushing a widening search for tenants.

Tan Thuan EPZ is said to have some success with this, attracting many SMEs that are usually too small for EPZ investors. This approach has now also been implemented by other zones, such as Hiep Phuoc Industrial Park, which has focused on leasing land plots with an area of 750-1,000 sqm, in a bid to attract SMEs and startups. As of early 2018, this led to 34 projects within an area of 20 ha pursuing diverse industries such as mechanical engineering, food processing, pharmaceuticals, and electronics.[17]

Most recently, in 2018, the world's leading e-commerce company, Amazon, announced plans to enter Vietnam, not just for the domestic market but with a focus to use its technology to support local SMEs export their products, as it has done in China.

Domestic Market

With its population of 95 million, Vietnam has a large potential domestic market, however for a long time few had sufficient disposable income. That has changed. Between 2014 and 2016, three million Vietnamese attained middle class status, bringing the share classified as middle class to 13%.

The proportion of households that spend between US $5.50 and $15.00 per capita daily has increased by 20 percentage points since 2010.[18] Compared to the poor, this consumer class in Vietnam spends twice as much per person on meat and fish, and on meals, beverages and alcohol in restaurants and hotels, and nearly three times as much on housing, appliances, health and education services.[19]

Spending on services such as communications, transport, restaurants, and banking has also grown strongly. Hence, services' share of the economy has grown more quickly than industry or agriculture. And the consumer class will continue to grow: the proportion of Vietnam's population that is part of the "Global Middle Class" (consumption of at least US $15-a-day in 2011 purchasing power parity terms) is projected to reach more than half of the population by 2035.

[17] Vietnam Briefing http://www.vietnam-briefing.com/news/vietnams-industrial-zones-focusing-smes-investment.html/#more-14345
[18] World Bank, Systemic Country Diagnostic 2016 http://documents.worldbank.org/curated/en/334491474293198764/Vietnam-Systematic-Country-Diagnostic
[19] http://documents.worldbank.org/curated/en/670201533917679996/pdf/129380-v2-WB-Future-Jobs-English-25-6-2018.pdf

The local e-commerce market is also growing quickly: revenues increased more than 25% in 2017 and online sales are expected to reach US $10 billion by 2020, according to the Vietnam E-Commerce Association (VECOM). Market research agency Frost & Sullivan estimated that in 2017 there were 35.4 million e-commerce shoppers in Vietnam, which is expected to grow to 42 million by 2021, representing 58% of the total population. In 2017, the average user spent US $62 online, forecasted to grow to US $96 by 2021.[20]

The major e-commerce players include Lazada, Tiki and Sendo, which have received significant foreign investment from the likes of Alibaba, Tencent and Temasek Holdings, respectively.

Human Capital

Vietnam's people are one source of its success. It has a large, young, educated population: just under half of its 95 million people are below 30[21]. Additionally, literacy rates are high – by 2009, more than 97% of 15 to 24-year olds were literate, according to UNESCO – and its education system is generally considered to be better than most in the region. It has benefited from a significant "demographic dividend", with about 25 million people entering the working age since 1990, almost doubling Vietnam's workforce.

Figure 22: Enrolment in Education by Country (Gross %)

COUNTRY	SECONDARY ENROLMENT RATE	TERTIARY ENROLMENT RATE
Myanmar	61%	16%
Cambodia	45%	16%
Lao PDR	57%	5%
Vietnam	93%	31%
Thailand	86%	53%

Sources: Global Competitive Index 2016-17; UNESCO

The coverage and quality of education in Vietnam has improved significantly over the last two decades. In 2015, Vietnamese high school students had scores above the OECD average for science and equal to the OECD average for mathematics and reading[23], as measured by the OECD Programme for International Student Assessment.

According to the World Bank's Human Capital Index (HCI), Vietnam ranks 48 out of 157 countries[24], which is higher than average for its income level and compared to its neighbors, even surpassing rates in Thailand. A child born in Vietnam today will be 67% as productive when they grow up as they could be if they enjoyed complete education and full health.

Figure 23: Human Capital Index by Country, 2017

COUNTRY	RANK	INDEX SCORE
Myanmar	107	0.47
Cambodia	100	0.49
Lao PDR	111	0.45
Vietnam	48	0.67
Thailand	65	0.60

Sources: Global Competitive Index 2016-17; UNESCO

Vietnam has relatively strong STEM education. However, soft skills and entrepreneur skills need to be integrated in curriculum, based on feedback from entrepreneurs interviewed for this report. Foreign investors are increasingly focusing on innovation and product development, which requires critical and creative thinking, problem solving, team work, and other soft skills that are still hard to find.[25]

[20] Vietnam Briefing http://www.vietnam-briefing.com/news/vietnams-industrial-zones-focusing-smes-investment.html/#more-14345
[21] World Bank, Systemic Country Diagnostic 2016 http://documents.worldbank.org/curated/en/334491474293198764/Vietnam-Systematic-Country-Diagnostic
[22] http://documents.worldbank.org/curated/en/670201533917679996/pdf/129380-v2-WB-Future-Jobs-English-25-6-2018.pdf
[23] http://www.compareyourcountry.org/pisa/country/vnm?lg=en
[24] The Human Capital Index measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health (World Bank Human Capital Project).
[25] Minh Chau Nguyen (2017), Entrepreneurship and Innovation in Vietnam: Challenges and Opportunities

As a result of its relatively well-developed and efficient education system, most SME employees have completed secondary school, with completion rates highest among workers in MGBs, Gazelles and NEs (Figure 25). According to the World Bank[26] , more than half of workers, especially in professional and technical occupations, now have secondary and higher degrees.

Figure 24: TOPICA Edtech Group

ONLINE LEARNING TO EXPAND HIGHER EDUCATION ACCESS IN VIETNAM

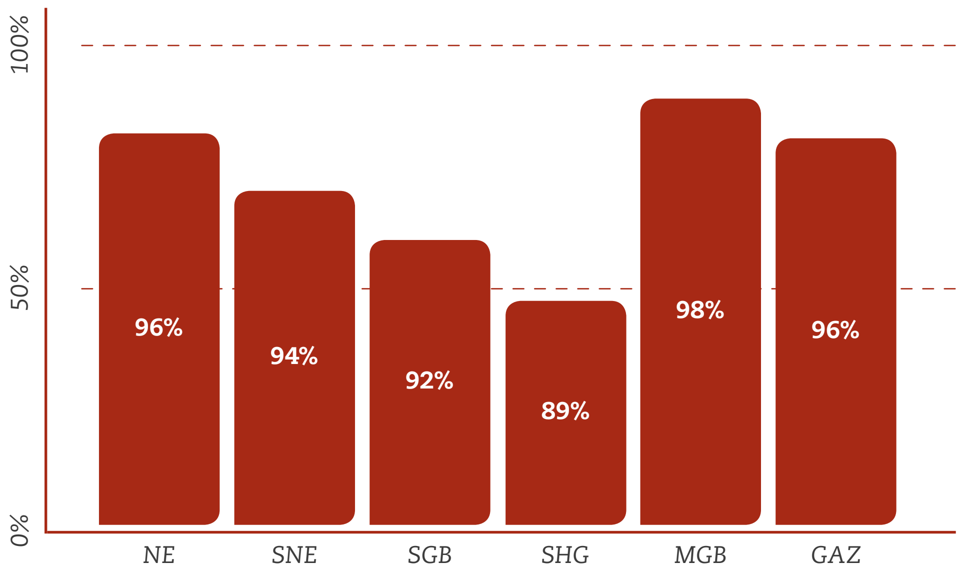
PROBLEM Many aspiring entrepreneurs do not have the requisite business skills to start their potential venture.

WHY IT HAPPENS Entrepreneurial and soft skills are not included in the standard curriculum, and limited options are available for those already part of the general workforce.

SOLUTION Topica's founders believe that disruption is the key to provide the higher education capacity that the country needs. This solution is based on online learning that uses working professionals as teachers in order to bridge the gap between traditional degrees and the needs of employers, providing more practical and applicable experience for SMEs. Topica Edtech employs a model of partnering with existing universities to create online degree programs, especially tailored to working adults. These include collaborations with universities in other ASEAN countries such as the Philippines, Indonesia and Thailand.

Source: Topica Edtech group; Forbes

Figure 25: Full-Time Workers Who Have Completed Secondary School, by Sub-Segment



Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Although an adequately educated workforce is not widely cited as a major constraint by local businesses in the WBES, foreign investors are more demanding or have higher expectations. About 55% of foreign businesses surveyed by the Provincial Competitiveness Index[27] reported that it is "difficult" to recruit skilled technicians, and 19% find it "very difficult". Similarly, 64% find it "difficult" or "very difficult" to fill supervisor and manager positions. Only 31% of foreign businesses surveyed think that local labor quality meets their needs. Foreign investors appear to have lost confident in the quality of vocational training provided by provincial governments and have significantly increased spending on in-house training.[28]

Added to skills issues, Vietnam's demographic dividend is starting to dissipate. While the working age population will continue to expand for another two decades, the rate of increase will be markedly lower. The working age population is already in decline as a share of the population.

[26] World Bank, Systemic Country Diagnostic 2016
[27] 1,765 foreign businesses surveyed across 21 provinces.
[28] The Vietnam Provincial Competitiveness Index 2017

In terms of entrepreneurial capabilities, the Global Entrepreneurship Monitor (GEM) reports that 52% of the adult population believes they have the required skills and knowledge to start a business, higher than Thailand (49%) and Malaysia (46%) and ranking 15th out of 60 countries studied.[29]

Women

Gender outcomes in Vietnam are generally very positive and favour women in some respects. In 2015, female-headed households were less likely to be poor than male-headed households, and primary and junior secondary school net enrolment rates were about equal for boys and girls. There are more female than male students attending school in upper secondary and tertiary levels. But there is still an imbalance in births, – 113 male to every 100 female births – and female access to leadership positions is very limited, while the wage gap remains at about 20%.[30]

Vietnam has a relatively high number of women in top managerial roles compared to the rest of the region, and business ownership is roughly on par (see the gender analysis of WBES in Section 3). Furthermore, Vietnam is one of only three countries among the 60 studied where women's involvement in entrepreneurship is greater than that of men, according to Global Entrepreneurship Monitor's 2017-2018 report.

Figure 26: Gender Parity Indicators, 2017 (score out of 1.00)

INDICATOR	VIETNAM	MYANMAR	CAMBODIA	LAO PDR
Economic participation and opportunity	0.738	0.754	0.698	0.769
Labour force participation	0.920	0.946	0.878	1.000
Estimated earned income	0.821	0.688	0.730	0.846
Legislators, senior officials and managers	0.348	0.396	0.447	0.465
Professional and technical workers	1.000	1.000	0.573	0.692
Educational attainment	0.972	0.975	0.921	0.933
Literacy rate	0.954	0.898	0.797	0.738
Enrolment in tertiary education	1.000	1.000	0.821	0.956

Note: A score of 1 reflects perfect parity, the closer to 0 the greater the gender gap.
Source: World Economic Forum Global Gender Gap Report 2017.

Obstacles often identified for women businesses owners include lack of knowledge, market information, and opportunities for business development.[31] The challenges of balancing business with family care limit women's time to participate in networking and learning activities and further grow their business. Specially tailored support services for women-owned businesses as well as inspiring examples of successful women entrepreneurs could change this mindset and ameliorate some of the challenges. The Mekong Business Initiative (MBI) has launched a women-focused initiative for this purpose (see Figure 27).

Figure 27: WISE

THE WOMEN'S INITIATIVE FOR STARTUP AND ENTREPRENEURSHIP (WISE)

PROBLEM Women entrepreneurs have a need of role models and networking platforms to share knowledge and overcome their challenges.

WHY IT HAPPENS Lack of awareness of female entrepreneurship and the traditional requirements to balance business with family responsibilities.

SOLUTION WISE aims to become the best-connected network of women owned and led startups in Vietnam, and later throughout the Mekong region. It will work as an open virtual platform where members can update and exchange information about their businesses, needs, searches, offers, etc. At the same time, WISE connects members through in-person meet-ups, events, workshops, incubation and acceleration programs, mentoring, study tours, business matching and other opportunities.

Recently in October 2018, WISE launched the "Women Innovation Challenge", with twelve regional finalists offering primarily tech-enabled solutions in different sectors, ranging from healthcare to food processing and professional services. In 2019, the second round of this program will accelerate 10 female led companies. WISE is also in the process of developing an Innovation Resource Center to support women led startups.

Source: MBI

[29] Global Entrepreneurship Monitor, Global Report 2017/2018
[30] World Bank, Vietnam - Country partnership framework for the period FY18-FY22
[31] Minh Chau Nguyen (2017), Entrepreneurship and Innovation in Vietnam: Challenges and Opportunities

Innovation and Research & Development

Innovation and R&D in Vietnam are strongly supported by the government, through a "Silicon Valley" model around Danang, for example. Innovative startups are emerging and attracting domestic as well as foreign risk capital. According to the European Chamber of Commerce in Vietnam (EuroCham), the country has made considerable improvements to intellectual property rights, with a relatively comprehensive IP rights protection system developed.[32]

In the most recent Global Innovation Index (2017), Vietnam jumped 12 places to 47th among 127 economies, its highest ranking in the last 10 years, exceeding its 76th place in 2013. Vietnam also led the group of 27 lower-middle-income economies.[33]

However, few SMEs invest in R&D (Figure 28). MGBs and Gazelles are much more likely to have invested in R&D than other sub-segments. Gazelles in Vietnam are more likely to have invested in R&D than Gazelles in Cambodia, Lao PDR and Myanmar.

Figure 28: Proportion of SMEs That Spent on R&D in the Last 3 Years

COUNTRY	NE	SNE	SGB	SHG	MGB	GAZ
Myanmar	0%	3%	0%	2%	0%	3%
Vietnam	3%	7%	2%	9%	26%	34%
Cambodia	4%	0%	11%	21%	12%	31%
Lao PDR	1%	4%	12%	5%	37%	5%

Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Similarly, MGBs and Gazelles in Vietnam are much more likely than smaller businesses to have introduced a new or improved product or service (Figure 30). According to one study, there are constraints in bringing ideas to market, such as the inability to license innovation from universities and research institutes, and insufficient support to help innovators develop ideas into products.[34] As in many countries, improving linkages between university R&D and industry will help spur innovation.

Figure 29: Saigon Silicon City

CREATE LINKAGES BETWEEN UNIVERSITY R&D, FOREIGN DIRECT INVESTMENT, AND LOCAL INNOVATION

PROBLEM Transfer of R&D and innovation between foreign and local companies as well as public and private institutions is challenging.

WHY IT HAPPENS Difficulty of communication between different institutions. Plus, R&D sharing initiatives costly or risky to implement.

SOLUTION The "Saigon Silicon City" is a development as part of the Saigon Hi-Tech Park (SHTP) in HCMC, which aims to foster innovation through collaboration between public research institutes and both local and foreign private investors. It does this by creating a high-tech industrial zone and campus, where local tech-focused startups are co-located with several national technical universities, research labs and large international firms such as Intel and Samsung.

Source: http://www.saigonsiliconcity.com.vn/home

A high proportion of SMEs do not prioritise or create a strategy for investment in talent or R&D. According to data from the Central Institute for Economic Management (CIEM), those that innovate do so primarily through upgrading existing products, fewer do so through upgrades of their production process, and the smallest number innovate by introducing completely new products into the market.

[32] EuroCham 2016 Whitebook
[33] https://www.globalinnovationindex.org/gii-2017-report
[34] Although Ministerial Circular No. 15 (2014) is supposed to allow universities, research institutes, and enterprises to receive official ownership and the right to use the results of publicly funded research.

Figure 30: Proportion of SMEs That Introduced a New or Improved Product or Service in Last 3 Years

COUNTRY	NE	SNE	SGB	SHG	MGB	GAZ
Myanmar	13%	11%	7%	23%	22%	6%
Vietnam	10%	17%	10%	14%	40%	48%
Cambodia	27%	24%	31%	26%	26%	63%
Lao PDR	12%	17%	12%	8%	38%	5%

Source: EMC analysis based on Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

The Vietnamese government also added these issues to their agenda, and a 2016 joint report by the Ministry of Planning and Investment of Vietnam and the World Bank stated that "Vietnam's ability to identify, adapt, and invent new technologies and to become more productive and diversify into new goods is weak" compared to China, Korea, Thailand and Malaysia.

As mentioned previously, policy responses are underway to support innovative startups. The government is taking the lead through its own top-down R&D infrastructure developments, while building agencies such as the National Technology Innovation Fund (NATIF), a financial institution under the Ministry of Science and Technology (MOST) that provides grants and preferential loans for R&D, innovation and technology transfer.

Entrepreneurial Culture

The social hierarchy under Confucianism places traders and businessmen below scholars and intellectuals, officials, farmers, and craftsmen[35] . Combined with a culture of saving face and personalised business relations, this can stifle entrepreneurship. However, Vietnam generally has a culture of business and is open to embracing new technologies. Vietnam generally does not make great efforts to avoid uncertainty, according to the Hofstede Uncertainty Avoidance index[36]. This means that, among other things, innovation is not seen as threatening.

Attitudes to entrepreneurship in Vietnam tend to be close to the regional averages and better than the global average, but fear of failure is greater than the regional average (see Figure 31).

Figure 31: Attitudes to Entrepreneurship, % Agreeing with Statement, 2017[37]

INDICATOR	VIETNAM	THAILAND	REGIONAL AVERAGE	GLOBAL AVERAGE
"In your country, successful entrepreneurs receive high status"	74.8%	74.5%	72.8%	68.5%
"In your country, most people consider starting a business as a desirable career choice"	62.1%	74.7%	62.5%	61.6%
"A fear of failure prevents me from starting a business"	46.6%	52.7%	40.3%	37.0%

Source: Global Competitive Index 2016-2017, UNESCO

This culture appears to be changing too: while 47% of adults say fear of failure prevents them from starting a business, this is down from 57% in 2013, according to the GEM. Attitudes should continue to change. Additionally, returning overseas Vietnamese ("Viet Kieu") can be a source of capital and innovation. Their experience working in multinational corporations, understanding of cultural differences, and English skills have contributed significantly to successful startups, especially those that have attracted venture capital.[38]

[35] Minh Chau Nguyen (2017), Entrepreneurship and Innovation in Vietnam: Challenges and Opportunities.
[36] https://www.hofstede-insights.com/country-comparison/vietnam/
[37] Cambodia, Lao PDR and Myanmar are not covered by Global Entrepreneurship Monitor.
[38] For example, in 2018 these Vietnamese returnees accounted for more than half of the founders out of the 26 firms that 500 Startups Vietnam has funded.

The next generation of entrepreneurs will likely be better educated and less risk averse, having grown up in a market economy with access to modern technology. This is creating a wave of young, enthusiastic and dynamic entrepreneurs. Hence, Vietnam has a small but active community of tech-oriented startups, as evidenced by growing interest from angel investors and venture capitalists, which generated nearly $890 million in funds, threefold the amount raised in 2018 from the same number of deals reached in 2017[39].

Vietnam has numerous business associations, both domestic and foreign. There are many networking events and good media coverage of entrepreneurship (including two television programs, “Startup Nation” and “Startup Wheel”). Vietnam also has high profile international and regional pitch events, such as Shark Tank, which was initiated by the Vietnam Young Entrepreneurs Association (VYEA) and supported by technical input from MBI. During its first season, Shark Tank investors pledged more than US $5 million to 22 companies. Businesses were also able to promote their products to a national audience and increase viewer interest in entrepreneurship. As early as 2004, the government established Vietnam Entrepreneur Day (October 13th), in a bid to celebrate the role of entrepreneurs in society[40]. These are all illustrative of the country’s positive entrepreneurial culture.

5. Finance

The Vietnam financial service sector is considerably larger than that of Cambodia, Lao PDR and Myanmar. However unique among #CTGMekong countries, access to finance is rated as the number one constraint by SMEs.

Banks dominate supply of credit, and traditionally have been geared towards Vietnamese SOEs and large corporations. This is clearly a challenging environment for all SMEs: slower-growth firms rely on credit in the absence of interest from investors, and even the faster growing firms that can attract investors interest rely on credit to boost shareholders’ return on equity. Many SMEs share common problems with other #CTGMekong countries - a lack of assets to secure finance and have low levels of financial literacy and business planning. However, there are some signs of increasing focus on SME opportunities, prompted by Government policy and tech innovation.

Risk capital is diverse. VC and PE funds started operating in Vietnam between 10 and 15 years ago. A track record of successful exits, combined with a growing economy, has encouraged a substantial increase in activity in recent years, from both domestic and foreign sources. However, there are areas of relative weakness. Non-tech startups still find it difficult to access risk capital below US $15 million from private equity investors. Tech startups find it challenging to raise seed and early stage investment. In general, consumer segments, tied to Vietnam’s emerging middle class, attract more interest than capital intensive sectors, such as agriculture. Impact investing is relatively underdeveloped, and therefore not a viable alternative for many small businesses.

[39] “Vietnamese tech startups corner $890m investment in 2018”, DealStreetAsia
[40] Prime Ministerial Decision No. 990, 2004.

Figure 23: Financial needs of entrepreneurs in Lao PDR

SUB-SEGMENT	KEY CHARACTERISTICS	FINANCIAL CHALLENGES	FINANCIAL NEEDS
Small Growing Businesses • 5-19 employees • 10-20% revenue growth • US $5,000-$10,000 annual turnover	• Business often unregistered • Many similar businesses in traditional sectors • Business owner fulfils most managerial tasks • Often employ friends and family members • Weak financial and business planning	• Credit secured against personal assets – unregistered • Very unpredictable short term cashflows – revenues concentrated • High risk of business failure – competition, changes in the market, small size • Lack of personal assets (esp. for women) • Lack of access to finance (esp. for women)	• Short term working capital loans and overdraft facilities • Large gap between MFI and bank loan size • Credit enhancement
Small High Growth Businesses • 5-19 employees • >=20% revenue growth • US $10,000-$50,000 annual turnover	• Small size, strong growth prospects. • Business often unregistered • Business owner fulfils most managerial tasks • Successful business models often adapted from abroad • Often young, well-educated founders	• Credit secured against personal assets – unregistered • Very unstable cashflow in the short term – revenues concentrated • Cashflow demand increasing rapidly in medium and long term • High risk of business failure • Challenges assessing credit worthiness • Lack of risk capital below US$ 5 M from for-profit or impact investors	• Moveable financing to increase credit lines • Receivables financing to support revenue growth – trade finance, supply chain finance, revolving credit facilities, factoring • Long term business loans to finance strategic investment – bank loans have very short, unaffordable tenors • Credit enhancement • Risk capital in small quanta, relative to total # SGBs
Medium Growth Businesses • 20-99 employees • 1-20% revenue growth • US $50,000-$500,000 annual turnover (wide range)	• Steady growth, but vulnerable to economic cycles • Often family businesses, relatively old • Traditional sectors such as hospitality, retail, and agriculture • Weak financial and business planning	• Business lacks enough collateral to secure credit lines • Unstable short term cashflows • Cashflow demand increasing slowly in medium and long term. • Challenges assessing credit worthiness	• Short term business loans and overdrafts to stabilise cashflows • Moveable, intangibles financing, cashflow based lending to increase credit lines • Long term business loans to finance strategic investment. Bank loans have very short, unaffordable tenors • Credit enhancement
Gazelles • 20-99 employees • >= 20% revenue growth	• High growth rates • Respected businesses in the community • Well-connected and often wealthy entrepreneurs • Limited liability firms	• Business lacks enough collateral to secure credit lines • Unstable short term cashflows • Cashflow demand increasing rapidly in medium and long term • Challenges assessing credit worthiness • Lack of risk capital below US$ 15 M, from for-profit or impact investors	• Moveable financing to increase credit lines • Receivables financing to support revenue growth – trade finance, supply chain finance, revolving credit facilities, factoring • Long term business loans to finance strategic investment. Bank loans have very short, unaffordable tenors • Credit enhancement • Risk capital
Tech Start-ups • US $10,000 < turnover	• High growth rates • Predominately digital services or mobile • High failure rates ('winner takes all') • Business models highly replicable • Often young, well-educated founders • Very small sub-segment	• No viable collateral for business loans – Young owners do not have personal assets to secure loans. • Seed and early stage investment is challenging. • Angel investing fragmented. • Focus on domestic, B2C models.	• Risk-friendly capital – tech angels and VCs

5.1 Credit

Vietnam is ranked 29th of 190 economies in the World Bank Doing Business index for 'getting credit'. This is comfortably ahead of Lao PDR, Myanmar and slightly behind Cambodia[41], while well above the average for Organisation for Economic Cooperation and Development (OECD) members and East Asia-Pacific countries in general. The World Bank attributed the country's position to its legal framework regarding the expansion of collateral assets and the completion of the credit information system from 2008 to 2017.

Credit to the private sector is 130.7% GDP – considerably higher than other #CTGMekong countries; Lao PDR (47.5%), Myanmar (23.4%) and Cambodia (86%) – in 2017, and a higher proportion of businesses in Vietnam have a bank loan or line of credit. Notwithstanding, access to finance is rated the number one constraint for SMEs in the WBES 2015.

MFIs and banks play very distinct roles in the Vietnamese financial system. The MFI sector in Vietnam is highly regulated and of limited relevance to SMEs. Of the total MFI loan portfolio of US $8.7 billion, the vast majority (US $7.5 billion) is held by state-owned Social Policy Bank of Vietnam (VBSP), followed by US $907 million by Coopbank. VBSP also has 6.7 million out of 7.4 million active borrowers, and 8.4 million out of 9.3 million active depositors. The other institutions are a minority and mostly NGOs or specific state-backed poverty alleviation lenders – for example the "Small Credit Fund for Housing Refurbishment Da Nang" or the "Soc Trang Fund for Poor Women". Average loan size is about US $1,000 as derived from those numbers.[42]

In contrast the banking sector dominates the financial system, accounting for 80% of financial system assets. Also, within the banking sector, the state and domestic banks dominate; as of May 2018, state-owned banks accounted for 45% of commercial banking system assets, compared to Vietnamese commercial banks (41%), foreign and foreign joint venture banks (10%), and finance and leasing companies (1%).[43]

The dominance of the state in the commercial banking system has raised concerns on credit allocation and governance that favours SOEs and large corporates that are able to cultivate close relationships with lenders. According to recent research by World Bank and the Ministry of Planning and Investment, political connections are crucial to determining a firm's access to credit (see Figure 33). Moody's cites additional concerns about state-owned banks' continuous capital shortfalls, which have lessened their ability to generate internal capital and will likely make them less competitive in the long term. Consequently, improvements to the regulatory and supervisory framework under which banks operate is considered critical to in order to incentivise banks to become more competitive.

Bank branch density in Vietnam is low, at approximately one branch per 28,417 adults. This is far lower than corresponding figures for Cambodia (one branch per 16,329 adults) and comparable Lao PDR (one branch per 31,319 adults) and Myanmar (one branch per 29,317 adults). In combination with a weak MFI sector, low branch density makes accessing finance difficult for small firms located outside urban centres.

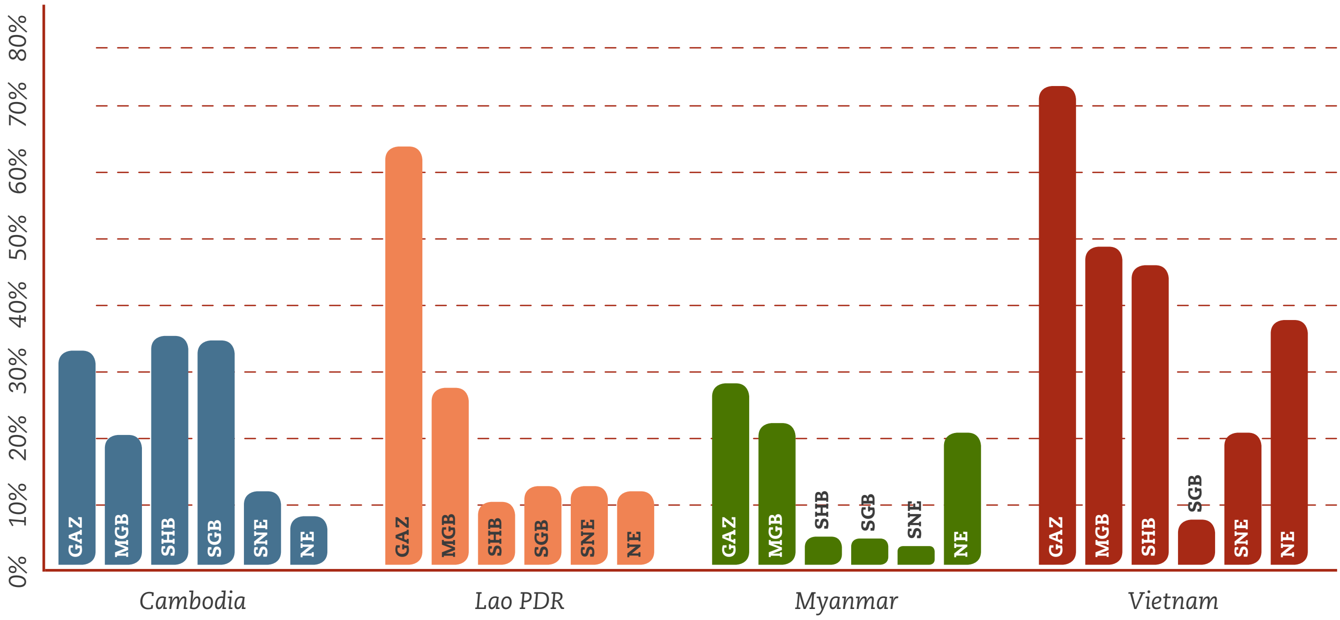
Figure 33 Political Relationships and Access to Finance

> According research cited in 'Vietnam 2035 – Toward Prosperity, Creativity, Equity, and Democracy', a joint publication by the World Bank and Ministry of Planning and Investment, "there is a strong, statistically significant relationship between political connection and credit access". Results show that, while a firm with no connections has a 51% chance of receiving a loan, a firm with one connection to the provincial government has a 58% chance. Those with two and three connections increase their connections to 67% and 71%, respectively. Firms with better credit access do not prove to be more profitable.

Source p.157 of 'Vietnam 2035'

[41] Distance to Frontier Scores; Cambodia, 80; Vietnam, 75; Lao PDR 55; Myanmar, 10.
[42] https://www.themix.org/mixmarket/
[43] https://www.sbv.gov.vn – key statistical ratios.

Figure 34 Businesses with a Bank Loan or Line of Credit



Businesses are much more likely to use bank finance to fund working capital over investment, and generally it is only the larger and/or faster-growing businesses that do so.

Figure 35a: Proportion of Businesses Using Banks or NBFIs to Finance - Working Capital

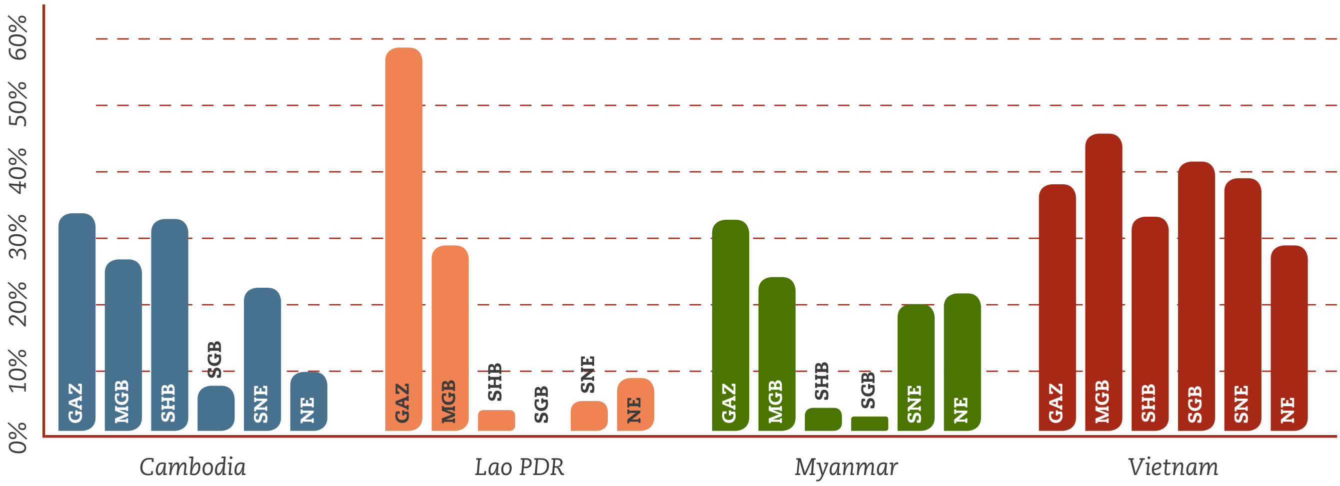
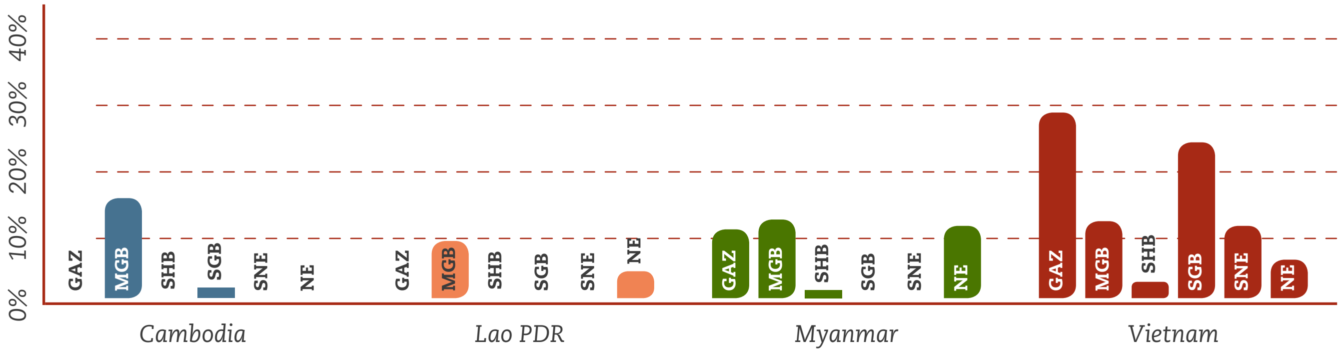


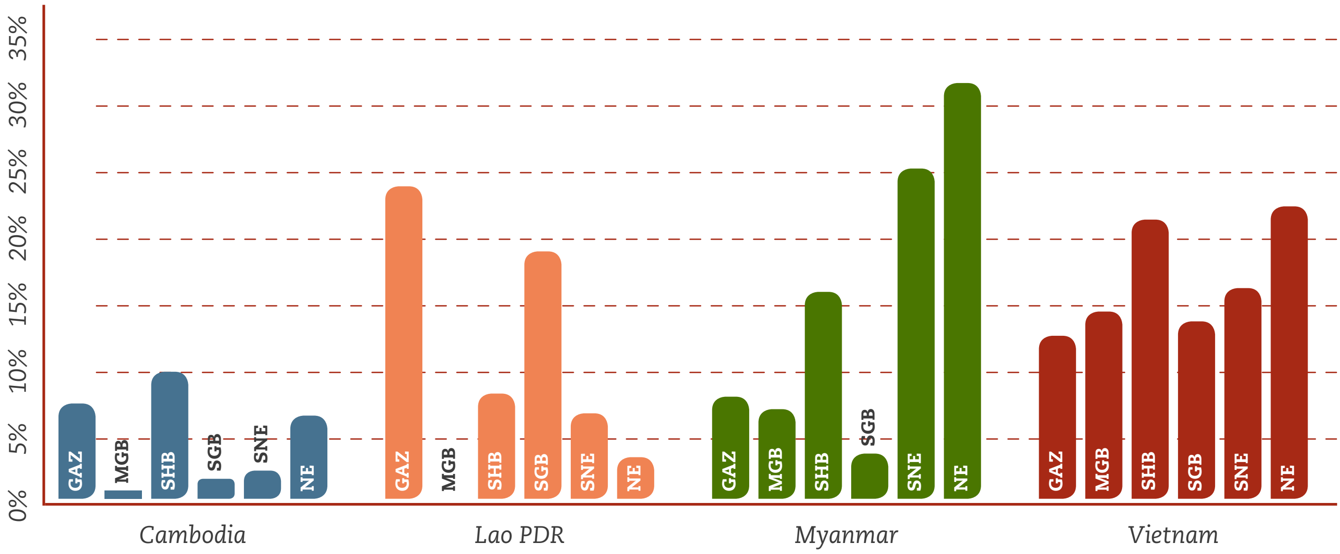
Figure 35b: Proportion of Businesses Using Banks or NBFIs to Finance - Investment



Sources EMC analysis based on Enterprise Surveys http://www.enterprisesurveys.org/, The World Bank

Despite a higher proportion of businesses in Vietnam with a bank loan or line or credit, businesses are generally more likely than the other countries to report access to finance as their biggest constraint (Figure 36).

Figure 36 Businesses Reporting Access to Finance as their Biggest Constraint



Source: EMC analysis based on Enterprise Surveys http://www.enterprisesurveys.org, The World Bank.

In general, women entrepreneurs find it more difficult to access credit. A recent International Finance Corporation (IFC) market study finds the financing gap at US $1.19 billion for women-owned SMEs throughout Vietnam.[44] Even though female entrepreneurs bring in an average annual revenue similar to men's, women in Vietnam still receive fewer bank loans than their male counterparts. This is also reflected in WBES 2015 data:

- Generally, female-managed SMEs are less likely than male-managed SMEs to use banks or NBFIs for working capital and investment – the one exception being SNEs' use for working capital;
- Female-managed SMEs are less likely to have a loan or line of credit than male-managed, except SNEs and SGBs. Female-managed Gazelles are much less likely to have a loan than male-managed Gazelles;
- Female-managed SMEs are less likely to have applied for a loan than male-managed, except among SNEs.

Cultural practices also play a part in a woman's ability to access finance. In order for women entrepreneurs to meet all the requirements for loans from banks, they are required to provide collateral to guarantee the loan. However, since land in Vietnam is usually used as a form of collateral, many women entrepreneurs cannot meet this requirement because their names are not included on the state-issued land use right certificates (LURC). In Vietnam, the LURC law clearly states that both women and men should have equal rights and opportunities to the access of land use and rights. But in practice, women hold fewer rights to land and are allocated smaller plots of land to farm.[45]

Support for SME Credit

The Vietnam government implements a range of SME support programmes, via state-controlled and commercial banks, however the volume of credit has been low.

Most recent is the SME Development Fund (SMEDF, est. 2013), which provides SME loans via government-controlled development banks and commercial banks on favourable terms: interest rates between 5-7%, tenors up to seven years, and collateral capped at 100%. In 2016, a total of VND 560 billion (US $24 million) was allocated to the fund, aiming to boost SME investment in strategic sectors, including innovative businesses, processing and manufacturing, agriculture, forestry and fisheries, and water treatment and supply. However, according to Vietnam Chamber of Commerce and Industry (VCCI), SMEDF was ineffective. By the middle of 2018, it had only lent VND 145 billion (US $6 million) of the US $560 billion allocated to 19 businesses, averaging one loan per month at VND 8 billion or US $330,000 each.[46]

[44] Women-owned enterprises in Vietnam: Perceptions and Potential. IFC, 2017
[45] https://intpolicydigest.org/2018/01/23/increasing-access-smes-credit-vietnam/
[46] https://vietnamnews.vn/economy/463363/tackling-credit-shortage-for-smes.html

Similarly, the Vietnam government has implemented a range of credit guarantee funds since 2001; however, at the end of 2016, loans guaranteed only reached VND 261 billion (US $11 million). The lack of impact on SME lending is attributed to challenges agreeing terms and procedure between banks and the guarantee funds.[47]

Throughout the past decade leading to 2017, six development financial institutions (DFI) deployed about US $1.4 billion across 50 deals, mainly via debt, with IFC accounting for the substantial majority at 80% of that capital.[48] Financial services and manufacturing were the main recipients, in line with the Vietnamese governments' development priorities. An example of the results is IFC's partnership with commercial banks to develop financing and associated support programmes that target women-owned SMEs. In 2016 and 2017, IFC led a US $125 million financing package to Vietnam Prosperity Bank (VPBank) and a subsequent US $150 million package to An Banh Commercial Joint Stock Bank (ABbank). Then in late 2018, the Asian Development Bank (ADB) and Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV) – the country's largest commercial bank by assets – signed a US $300 million loan agreement to support the growth and productivity of SMEs in Vietnam.[49]

Whilst VPBank originated loans considerably faster than SMEDF, average loan size for each programme was approximately similar: SMEDF averaged US $330,000, while IFC and VPBank averaged US $300,000, overall generating US $600 million for 2,000 women entrepreneurs. However, the relatively high average loan size indicates a gap in access to credit for smaller SMEs.

Figure 37 Women SMEs' Access to Credit

HELPING WOMEN ENTREPRENEURS ACCESS CREDIT

PROBLEM Research indicates that women entrepreneurs are less successful in accessing bank credit than SMEs on average in Vietnam.

WHY IT HAPPENS Cultural factors, plus challenges accessing LURCs – an important form of collateral.

SOLUTION IFC led a US $125 million financing package for VPBank. Within a year of launch, VPBank reported lending US $600 million to about 2,000 women entrepreneurs, accounting for 25 percent of its total SME client roster. Nearly 2,500 women opened saving accounts, valued at almost US $180 million.

Source: IFC[50]

Signs of Change

The Vietnam government is encouraging state-owned banks to reform lending practices, while simultaneously encouraging alternative credit channels to reduce dependency on banks.

The government is requiring commercial banks to list and raising the permitted share of foreign ownership to 30% in some cases. This has the potential to improve management, enable banks to expand their balance sheet and subsequently increase lending. Of Vietnam's 31 domestic banks, 14 are already listed, with 10 scheduled to list in 2018. SMEs are expected to benefit from this trend – according to Moody's, banks are increasing lending to retail and SMEs. Amongst commercial banks, Tien Phong Commercial Joint Stock Bank (TPBank)[51], Southeast Asia Commercial Joint Stock Bank (SeABank)[52] and BIDV[53] are pursuing SME-focused strategies, in addition to the previously mentioned VPBank and ABBank.

The government's campaign to reduce cash transactions to 10% and increase bank accounts in the population by 70% in 2020 is driving adoption of electronic payments. According to the Department of Payments at the State Bank of Vietnam (SBV), digital payments more than doubled in value. In particular, transactions over mobile apps and digital wallets rose by 126% and 161% respectively, and there are now 27 licensed non-bank payment providers. This may lay the ground for improvements in credit for small businesses: providers collect valuable data that can be used to predict small businesses' ability to repay credit. KIU, a tech startup based in Vietnam, provides a good example (see Figure 38). The platform is live in Vietnam and is being rolled out Myanmar and Cambodia.

[47] Lan H. Phan, Hieu M. Tu, Thomas Borgert (2018), Innovation Policy to promote MSME growth. Best Practices and Implications for Vietnam and other APEC Developing Economies, Asia Pacific Foundation of Canada.
[48] The Landscape for Impact Investing in Southeast Asia: Vietnam. GIIN and Intellecap Advisory Services, August 2018.
[49] http://www.hanoitimes.vn/economy/2018/12/81E0D09A/adb-provides-us-300-million-loan-to-vietnam-s-bdiv-to-support-smes/
[50] https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/impact-stories/vietnam-banking-on-women-entrepreneurs
[51] https://www.talkvietnam.com/2018/12/tpbank-wins-fastest-growing-sme-bank-award/ Dec 2018
[52] https://cfi.co/awards/asia-pacific/2017/seabank-best-sme-bank-vietnam-2017-best-retail-bank-vietnam-2017/
[53] http://www.hanoitimes.vn/economy/2018/12/81E0D09A/adb-provides-us-300-million-loan-to-vietnam-s-bdiv-to-support-smes/

The Non-Bank Financial Institution (NBFI) sector – including leasing and factoring firms – is small but improving. There are now eight licensed factoring firms, and 11 licensed leasing firms are operating in the country. The first financial leasing joint venture between a Vietnamese bank and a foreign financial institution (BIDV-SuMi TRUST Leasing Co., Ltd.) officially opened in 2016.[54] Factoring and other forms of supply chain finance are seen as particularly useful for supporting Vietnam SMEs' increasing integration into global value chains,[55] and the SBV is currently improving legal and regulatory framework.

Online marketplaces for peer-to-peer lending exist, but players in the field – such as Timma, Vaymuon and Mofin – are mainly oriented towards consumer loans. However, 2017 saw the launch of Lendbiz[56], a marketplace for peer-to-peer SME credit. SMEs can borrow up to VND 1 billion (US $44,000) with no collateral required, considerably lower than many SME loans from the banking sector. Lenders can participate with as little as VND 500,000 (US $22), and the platform promises up to 20% interest a year.

Figure 38 Digitising SME Finance

DIGITISING ACCESS TO FINANCE FOR SMES

PROBLEM It is difficult and time-consuming to access small loans.

WHY IT HAPPENS Writing small loans is costly for banks. Banks procedures are complex, and small businesses don't keep standard accounts.

SOLUTION KIU, a Vietnam-based startup combines a cloud-based SME enterprise resource planning platform, with other data sources and a credit scoring engine in order to automate loan application and approval by partner banks. This enables SMEs to raise short-term credit against receivables, at the 'click of a button'.

Source: IFC[50]

5.2 Risk Capital

The private equity and venture capital sectors are considerably more mature than other #CTGMekong countries: the first private equity (PE) fund was launched 2001 and the first venture capital (VC) firm entered in 2004. Buoyed by 10-15 years of an investment track record, in addition to a large and growing economy and improving business environment, Vietnam has attracted significantly more capital, both from domestic sources and overseas. Consequently, according to the "The Venture Capital and Private Equity Country Attractiveness Ranking 2018", Vietnam ranks 45th out of 125 global economies[57] and is noted as "highly attractive – increase exposure".

In general, early entrants to the market, as well as fund managers associated with established domestic securities firms and asset managers, dominate in terms of number of deals. However, in both VC and PE domains, the larger deals and aggregate funds deployed come from overseas investors.

Within this benign outlook, there are weak spots. It's relatively difficult to get seed funding to start a tech company, while SMEs struggle to engage PE investors for anything below US $5 million. Much investment activity is geared towards opportunities in the domestic market, rather than export-oriented firms.

Tech Startups

The Vietnam VC industry evolved with significant input from foreign investors, beginning with the establishment of IDG Ventures Vietnam (2004), a subsidiary of global VC firm IDG Ventures. Between 2004 and 2013, IDGV invested in 42 portfolio companies, though the firm has been inactive in recent years.[58] DJF VinaCapital was established in 2006 as a partnership between international VC network Draper Fisher Jurvetson (DJF), and domestic investment manager VinaCapital – founded in 2003, boasting US $1.8 billion under its management. The partnership was dissolved in 2017, laying path to launch the new VinaCapital Ventures fund in 2018. This is the largest Vietnam-focused VC fund to date, with US $100 million under management.

The range of locally-managed VC funds has increased substantially in recent years (see Figure 39). Together they control US $144 million in funds in 2017-2018, targeting mainly from seed to series A. This figure excludes accelerator investments (see Section 6 – Business Support Services) and regional VC.

[54] https://vietnamnews.vn/economy/393991/vns-financial-leasing-potential.html
[55] IFC has also piloted factoring services via its Global Trade Supplier Financing facility since May 2003, providing financing of over $4.5 million, to 11 Vietnamese suppliers to 4 international garment buyers.
[56] https://lendbiz.vn/
[57] Myanmar and Lao PDR are not included in the index. Cambodia is ranked 106.
[58] Perhaps because the global parent company IDG Ventures was acquired in 2018.

Figure 39 Locally-Managed VC Funds: Seed to Series A

NAME	CURRENT FUND	LAUNCH
CyberAgent Ventures	-	2008
FPT Ventures	US $3M	2015
ESP Capital	US $20M	2017
CMC Innovation Fund	US $2.2M	2017
Innovatube	US $5M	2017
500 Startups	US $14M	2018 (2013)
VinaCapital Ventures Fund	US $100M	2018
VietCap Ventures (VCV)	-	2018

Source: Authors

Cyber Agent Ventures, a Japan-based regional VC fund, entered Vietnam in 2008 and has since invested in more than 25 companies. Cyber Agent Ventures remains one of the top VCs in Vietnam and was the top exit investor in 2017, closing with startups such as Foody and Tiki (see Figure 41).

500 Startups Vietnam closed US $14 million in tech-focused micro VC funds in 2018, exceeding its target by 40%. 500 Startups launched in 2013 with US $3 million, and currently has more than 30 firms in their portfolio, distributing tickets ranging US $100,000-$250,000. They reached their first successful exit in 2018. In 2017, 500 Startups Vietnam was the leading VC, with 11 investments.

ESP Capital (est. 2017) has raised a US $20 million fund and invested in 10 companies, including eight Vietnamese and two Singapore-based startups. In 2017, ESP Capital made five investments, placing it in second position behind 500 Startups Vietnam

FPT Ventures (FPTV, est. 2015) manages a US $3 million fund capitalised by its parent company, Vietnam's leading IT group. FPTV has invested in more than 10 local firms and also established an accelerator, VIISA, in partnership with Vietnam-based investment manager Dragon Capital.

CMC Corporation, also a large Vietnamese IT group, launched a US $2.2 million startup fund, CMC Innovation Fund, in 2017.

Innovatube launched a US $5 million pre-seed fund in 2017 to support frontier tech, mainly in Vietnam. Established in 2018, Viet Capital Ventures (VCV) provides seed and series-A funding.

There are also several accelerator programmes, covered in the Business Support Services section, that provide pre-seed funding in the range of US $10,000-$20,000 to their graduates.

Signs of Change

Investments by venture capital firms are growing. According to research by Topica, deals almost doubled from 50 to 92 in 2017, and deal value increased 42% from US $205 million to $291 million. Total investments over US $20 million totalled 15 times the sum of investments under US $1 million.

Figure 40 Venture Capital Investments, 2017

SIZE RANGE	DEALS	TOTAL FUNDING
< US $1M	61	US $10M
US $1-5M	17	US $35M
US $5-10M	8	US $48M
US $10-20M	2	US $40M
> US $20M	3	US $158M

Source: 2017 TOPICA startup deals insight

Investments by offshore VC continue to rise, and this group continues to account for a higher aggregate deal value – in 2017, US $245 million, versus the US $46 million for onshore VC fund managers. However, deals by onshore managers (64) exceeded foreign VC (28) for the first time in 2017.[59] [60]

Regionally located VCs are also increasingly prominent and frequently participate in funding rounds with locally-managed VCs. A list of recent examples follows. Nextrans – a South Korean firm managing US $350 million – has seven investments in Vietnam, out of its total portfolio of 32. Alpha JWC – Indonesia-based with US $100 million – and BEENEXT – spanning India, Southeast Asia, Japan and US – co-led a US $1.3 million pre-series A for Base.vn in December 2018, also with 500 Startups and VIISA. Moreover, seven regional VC fund managers made debut deals in Vietnam in 2018.[61]

The size, sophistication and growth potential of Vietnam's digital economy is a key driver of domestic and overseas investors' interest. At 4% of GDP, the gross merchandise value of Vietnam's internet economy is proportionally larger than that of Singapore, Malaysia, Thailand and Indonesia, according to a 2018 Google Temasek report. Fintech is seen as a key growth area[62]: the market reached US $4.4 billion in transaction value in 2017 and is estimated to grow to US $7.8 billion by 2020[63] driven by an improving enabling environment. These progresses include the government support for non-cash transactions, establishment of a FinTech Steering Committee under the State Bank of Vietnam and government investment in telecommunications infrastructure.

The presence of more mature tech companies and growth in the digital economy is generating bigger ticket investments. The increasing availability of later-stage funding is encouraging to early-stage investors, who can see reliable exit opportunities, thus crowding in more seed capital and acceleration services.

Figure 41 '8-Digit' Funding Round Tech Investments in 2017 & 2018

FIRM	SECTOR	YEAR	Investment	Funding round
TIKI	E-commerce, Retail	2018	US $44M	Series C
Sendo	E-commerce, Retail	2018	US $51M	Series B
Topica Edtech Group	Edtech	2018	US $50M	Series D
Yeah1	Digital Media	2018	US $400M	IPO
Foody	E-commerce, F&B	2017	US $64M	Acquisition

Notes: In addition 2 undisclosed investments in 'a major fintech and logistics company' were made in 2017, totaling US$ 50 M.
Source: https://www.dealstreetasia.com/stories/vietnam-2018-larger-rounds-first-time-fund-managers-mark-vc-landscape-114883/

[59] Topica, 2017, https://www.slideshare.net/topicafounderinstitute/vietnam-startup-deals-insight-2017-87618940
[60] These figures exclude investments made by accelerators in their graduating startups.
[61] Including; Alpha JWC, KK Fund, Northstar Group, Belt Road Capital, Insignia Ventures, Fenox Venture Capital and East Ventures.
[62] According to the Visa Consumer Payment Attitudes Study 2017, in Vietnam mobile banking is largely preferred over physical banking. The Vietnam government aims to reduce cash transactions to 10% and increase the number of bank accounts by 70% (Solidiance 2018).
[63] https://solidiance.com/insights/others/white-papers/unlocking-vietnams-fintech-growth-potential

SMEs in Traditional Sectors

The most relevant investors to our SME target group are Vietnam-specific, locally-based PE fund managers. These account for largest volume of private equity deals, typically US $6-$20 million, which is suitable for SHBs and Gazelles that demonstrate growth potential. Notable firms within this group include Mekong Capital, Vietnam Investment Group, Private Equity New Markets Partners (PENM) and SSI Asset Management (SSIAM). This group is augmented by offshore fund managers such as Navis, TAEL and Gaw Capital, which invest in the US $15-$50 million range, in congruence with their need to deploy a larger pool of capital. Global international private equity firms – such as CVC, Warburg Pincus, KKR and TPG – account for major deals in excess of US $100 million, frequently in equitised SOEs; however, these are beyond the scope of this study.[64]

Figure 42: Locally-Based Private Equity Managers

NAME	CURRENT FUND	ACTIVE SINCE
Mekong Capital	US $112M (3rd)	2001
Vietnam Investments Group	-	2006
PENM Partners	-	2006
SSIAM	US $40M (2nd)	2009

Note: Launch is the year since investment manager commenced private equity investment activities.

Mekong Capital, founded in 2001, is the oldest PE investor and currently manages a US $112 million fund (MEF III), which was launched in 2015 following two earlier PE funds. Mekong Capital invests mainly in consumer businesses: portfolio firms include lending firm F88, logistics companies Nhat Tin and ABA Cooltrans, restaurant operator Red Wok, Ben Thanh Jewellery, Yola Education, and mattress retailer Vua Nem. Mekong Capital track record, has probably helped establish the industry: several of its investments have become national enterprises,[65] and the investment manager's second fund (MEF II, est. 2006) returned x4.5 to shareholders.

Vietnam Investment Group (VIG) was founded in 2006 and has US $400 million under management across three funds with a PE mandate, achieving five exits in its tenure. Daiwa-SSIAM II, the second private equity fund of SSIAM, manages US $40 million and was jointly established by Saigon Securities Inc (SSI) and Japanese investment manager Daiwa in 2015. The fund typically targets investments ranging from US $4-$6 million. PENM Partners is an independent Danish private equity company with a total of US $500 million under management through four funds, PENM I-IV.[66]

Growth

According to Mekong Capital, there have been more than 600 private equity investments in Vietnam and 200 full exits by more than 50 PE firms. Consequently, "this is no longer a frontier private equity market with early explorers discovering the lay of the land, rather this is a mature environment with lots of transparency and clear pathways to strong performance," it reports.[67]

This positive growth trend looks likely to continue: Malaysia-based investment fund Creador plans to spend up to 15% of its upcoming US $500 million Creator IV fund on Vietnam-based PE over the next three years. Japanese private equity firm ACA Investments intends to set up a US $100 million fund, with a final close in 2019.[68]

[64] Warburg Pincus, for example, is investing more than US$1 billion in Vietnam.
[65] Such as MobileWorld, Vietnam's largest retail group; Golden Gate, Vietnam's largest restaurant group; and Vietnam Australia International School (VAS), Vietnam's largest private K-12 school group
[66] PENM Partners https://penmpartners.com/investment/
[67] https://medium.com/mekongcapital/the-future-of-emerging-markets-private-equity-requires-much-greater-competence-than-the-past-5a807113f01d
[68] DealStreetAsia https://www.dealstreetasia.com/tag/aca-investments/

Impact Investing

Impact investors can target profit-oriented SMEs[69] that have an explicit or implicit social impact, and frequently they can invest smaller ticket sizes than for-profit funds. In Vietnam, impact investing occupies a small niche, according to interviewees. A 2018 report by Global Impact Investing Network (GIIN) and Intellecap Advisory Services, identified a total of US $11.8 M invested in 15 deals over three years (2014-2016).[70]

Chief among impact investors in Pattamar Capital, which was an early-stage investor in online education group Topica Edtech (see Figure 24), factory employment benefits company iCARE, and mobile savings and microloan platform Trustcircle. In 2017, the SME Enterprise Assistance Fund (SEAF)[71], a US-headquartered investment manager with operations in Vietnam, launched the SEAF Women's Opportunity Fund (SWOF), which will invest in women-led SMEs with positive social and environmental impact throughout Vietnam, Philippines and Indonesia. Ticket size range from US $500,000 to $2 million, and the fund currently holds three Vietnamese portfolio firms.[72]

Challenges

Even within a vibrant risk capital landscape, there remain areas of relative weakness.
Members of the tech startup community who participated the #CTGVietnam workshops in Hanoi and Ho Chi Minh noted that the supply of seed funding remains extremely difficult to obtain and is limited to graduates of accelerators. Viewing the growth of new funds and accelerators (see Section 6 – Business Support Services), it is possible that this constraint will ease in coming years.

Other risk capital channels for startups and SMEs are underdeveloped. Startupcity.vn – a portal for startup and investor matching – identifies four angel networks and investment clubs and 9 individual angel investors, of which three provide no information on background or track record.[73] Interviewees describe angel networks as very fragmented, and high net worth individuals (HNWI) still prefer traditional asset classes such as securities or real estate. Small cap stock exchanges, digital finance, crowdfunding and uncollateralised peer-to-peer lending are developing slowly, due to lack of regulatory frameworks.

With respect to SMEs with traditional business models and PE investors, investment opportunities in Vietnam tend to be smaller than many regional investment managers are looking to deploy. Consequently, there is a funding gap below US $5 million, and in general, lack of competition in the US $5-$15 million range, where the regional PE firms are reluctant to invest. Consequently, only onshore PE funds are active. This is a challenge for SGBs that have potential to grow into regional or national scale but lack investment to do so.

From the perspective of investors, however, existing businesses' corporate governance and management standards remain low in many sectors. Whilst many SMEs may be eager for investment, in practice the proportion of those that are investible is far lower.[74]

Much capital, managed by both PE and VC fund managers, seems more interested in domestic market opportunities, geared to growing middle class and youthful demographics and less towards business-to-business, international economic integration and capital-intensive sectors.

Consequently, SMEs in agriculture and other export industries do not receive the same level of interest, even though Vietnam has the highest international external trade as proportion of GDP among the world's most populous nations.[75] This is likely attributable to the low level of SME participation in global value chains, which at 21% lags the wealthier regional economies. In the words of one interviewed investor: "SMEs run around looking for niches". This current preference is also reflected in the technology sectors, where business-to-consumer investments – such as media and e-commerce – still predominate, and business-to-business models are less popular.

[69] As opposed to not-for-profit enterprises or social enterprises
[70] The Landscape for Impact Investing in Southeast Asia: Vietnam, GIIN and Intellecap Advisory Services, August 2018.
[71] SEAF also previously managed the Vietnamese SME focused SEAF Blue Water Fund (US$ 25 M, 2007), that is now fully invested
[72] Current investments include Organica (e-commerce); Kyna (Edtech) and Phuong Chau (obstetrics and gynaecology hospital)
[73] MBI Annual Report 2017 http://www.mekongbiz.org/wp-content/uploads/2018/08/2017-MBI-Annual-Report-FINAL_24July2018.pdf
[74] https://www.dealstreetasia.com/stories/passive-investment-style-not-good-for-markets-like-vietnam-chris-freund-mekong-capital-114697/
[75] https://www.dealstreetasia.com/stories/vietnam-ifc-injects-second-investment-of-10-2m-in-the-pan-group-71883/

6. Business Support Services

As with the risk capital sector, Vietnam's business support service ecosystem has been established longer and achieved greater scale and diversity than other #CTGMekong countries. Corporate and financial investors – both domestic and international – are considerably more involved. The ecosystem also receives more direct support from the Vietnamese government, in particular for tech-oriented startups, reflecting the desire to elevate Vietnam's economy to the level of more advanced ASEAN economies.

However, entrepreneurs still identify skills development, coaching and mentoring as the number one issue, and there are still gaps that can impact demand from aspiring entrepreneurs. Interviewed stakeholders identified that it is difficult to navigate the ecosystem, and some initiatives – especially those addressing needs such as mentoring and tailored support for women entrepreneurs – are still in early stages and not yet fully embedded in the ecosystem. Whilst there has been significant growth in accelerator programmes, young tech entrepreneurs feel there are too few opportunities, and this, in combination with lacking seed funding, were perceived to be significant barriers.

6.1 Organisations

The Vietnamese ecosystem comprises of a broad range of organisations from the government, development sector and private sector. A review of a variety of online sources identified 23 organisations that offer a range of services to startups, including co-location, mentoring, training, incubation, acceleration, networking and events. The large majority – 21 of 23 organisations – are based in Hanoi or HCMC, and 19 of the 23 had been established since 2015, illustrating the recent growth in the provision of services to startups.

The government has set ambitious goals for the numbers of SMEs and successful startups they wish to create (see Figure 43). This is reflected in a high level of direct business support from national and regional authorities, especially in the tech sector. There are also publicly-funded SME-supporting centres and technology intermediaries – e.g. technical assistance centres and technology transfer offices – throughout the country. Currently, the National Program to Support Innovative Startup Ecosystem ('Decision No. 844' of 2016) is the government's most high-profile initiative to support the development of Vietnam's enterprise ecosystem (see Figure 43). KII credit Decision 844 with boosting recent growth in startup initiatives and VC.

Figure 43 'Decision 844' - Goals and Targets for Startup Creation

'DECISION 844; VIETNAM INNOVATIVE STARTUP ECOSYSTEM BY 2025.'

KEY GOALS
- Legal reform to support startups and innovative technologies;
- Establishment of a startup portal;
- Support 800 new projects and 200 startups with an estimated budget of VND 1,000B (US $43M).

2025 TARGETS
- Support 2,000 new innovative projects;
- Support 600 innovative startups;
- Generate 100 startups that will have raised funds from venture capitalists of VND 2,000B (US $86M).

Regional governments are also active participants and are establishing a good track record of collaboration with corporate and development partners in order to implement a diverse service portfolio.

Saigon Innovation Hub (SI-HUB, est. 2016) under the HCMC Department of Science and Technology aims to be a regional hub for connecting the Vietnam ecosystem with international partners. SI-HUB has been an active collaborator with development partners and private sector – for example, creating the SI-HUB Expara Accelerator Express, and Women's Initiative for Startup Enterprise (see Figure 27).

Danang Entrepreneurship Support (DNES, est. 2016) was established though partnership between the city government and 12 local private sector firms. It mainly serves local entrepreneurs, and offers incubation and acceleration, community building, coworking facilities and investment. The relatively recent inclusion of Danang is welcome: the province has topped the Vietnam Information and Communications Technology applications and development readiness ranking for the 9th consecutive year, and the city led the Provincial Competitive Index ranking from 2013 to 2016.

International development partners support the ecosystem through programmes aimed at helping relevant organisations, universities and government bodies improve their service models. These also play a key role linking a variety of stakeholders via collaborative projects in an otherwise fragmented ecosystem. Key programmes are listed below.

SECO[76] The Entrepreneurship Program ('SWISS EP', running 2015-2019) is a multi-country project that is active in Vietnam. There are four main areas of support include incubation and acceleration; development of sustainable business models; building mentor and angel networks; and generating 'media buzz' that can effectively promote entrepreneurship and innovation.

The Vietnam-Finland Innovation Partnership Programme Phase II (IPP2, 2014-2018) recently closed. It worked with 35 startup related projects and government on institutional development, laws and regulations, and innovation coaches training in universities.

Mekong Business Initiative (MBI, running 2016-2019) is a CLMV-based, SME-focused project that advocates for improved regulations, financing, access to finance and a more dynamic innovation ecosystem. Among regulatory work with business associations and government, MBI has launched several programmes to strengthen ecosystem support to SMEs and startups in key sectors (see Figure 44).

Figure 44 Mekong Business Initiative: Support to Startups

In Vietnam, MBI has launched regional innovation challenges in agriculture (MATCh), tourism (MIST), and Vietnam-focused challenges in fintech (FCV), smart cities (SCIC) and women entrepreneurship (WISE, Women's Innovation Challenge). By crowding in domestic entrepreneurs, ecosystem builders, finance and corporate partners, it aims to create a more dynamic entrepreneur ecosystem and launch sustainable startup innovation in key sectors. MBI has also helped launch Vietnam Mentoring Initiative (VMI) and Mekong Angel Investment Network (MAIN).

Source http://www.mekongbiz.org/

6.2 Services

There are numerous co-locating services catering to startups, freelancers and small corporations. The sector has experienced rapid growth – reportedly 55% annually during the past five years – and is expected to reach 45 co-location facilities by the end of 2018. The sector caters overwhelmingly to startup entrepreneurs under 35 and tech startups. The sector continues to expand: Toong, Vietnam's largest domestic operator, announced plans to expand to Lao PDR and Cambodia in 2018[77] and in the opposite direction, the global shared office space provider WeWork plans to open in HCMC in 2019.[78]

We identified six well-established accelerator programmes – primarily in tech – that have cumulatively graduated more than 200 startups. The number looks likely to increase significantly in 2018 and 2019. Programmes are typically highly focused during three to six months of duration, and they can award successful graduates with seed funding in the range of US $10,000-$20,000 in exchange for minority equity participation.

[76] Swiss Agency for Economy Affairs (SECO), implemented by Swisscontact and JD Austin.
[77] Vietnam Briefing https://www.vietnam-briefing.com/news/growth-of-coworking-spaces-in-vietnam.html/
[78] https://www.wework.com/l/ho-chi-minh-city . Wework is the major global player in the sector. Following recent investments by Softbank, Wework pre-IPO valuation reached approximately US$ 45 billion in 2018.

Figure 45 Tech Oriented Acceleration Programmes

PROGRAMME	PLACE	TARGET	IMPLEMENTER	LAUNCH	COHORTS	GRADUATES	DURATION
Vietnam Silicon Valley Accelerator (VSVA)	Hanoi	Tech	Vietnam Silicon Valley (VSV)	2014	5	59	4 months
Danang Business Incubator (DBI)	Danang	Tech	Danang Entrepreneurship Support (DNES)	2016	5	40	6 months
Topica Founders Institute (TFI)	Hanoi	Digital tech	Topica Edtech & Founders Insitute	2011	5	60	3.5 months
Vietnam Innovative Startup Accelerator (VIISA)	HCMC	Tech	FPT Ventures and Dragon Capital	2016	3	25	4 months
Clas Expara Vietnam Accelerator	HCMC (& Danang)	Tech	Expara, CLAS & Microsoft	2015	4	15	4 months
Expara SIHUB Accelerator Express	HCMC	Tech	Expara & SIHUB	2017	1	15	--

Government-backed accelerators include Vietnam Silicon Valley Accelerator (VSVA) and Danang Business Incubator (DBI). VSVA – developed in 2014 by the Ministry of Science and Technology – is the oldest accelerator and has graduated nearly 60 startups with 38% of the groups successfully raising funding. It offers investments of US $10,000-$25,000 in exchange for 10% equity participation. More recently, DBI (est. 2016) is a six-month programme run by DNES that focuses mainly on local entrepreneurs. They've graduated five cohorts, totalling more than 40 startups.

Two highly-regarded acceleration programmes are Topica Founders Institute (TFI) and the Vietnam Innovative Startup Accelerator (VIISA), implemented by private sector firms. These do not rely upon state funding and therefore are potentially more sustainable, according to KII. However, domestic and international corporates and VCs are increasingly involved in the provision of acceleration services, reflecting the demand for investment opportunities.

TFI (est. 2011) is organised by Topica EdTech Group,[79] – a Hanoi-based provider leading online education in Southeast Asia – and Founder Institute, the global acceleration programme originating in Silicon Valley. It has produced 60 graduate startups and US $20 million funds raised from domestic and international venture capitalists.

VIISA – the HCMC-based programme founded in 2016 – is an accelerator programme and US $6 million seed stage fund. It's 4th cohort culminated with a pitch day in December 2018. Cohorts 1-3 have cumulatively raised US $800,000 in external seed funding, and VIISA aims to increase this to figure to US $5 million in 2018.[80]

VIISA, which was created by FPT Ventures and Dragon Capital, provides an example of tech investors 'backwards integrating' into acceleration services. Further examples are Expara, a Southeast Asia focused VC behind Clas Expara and Expara SIHUB Express Accelerators; 500 Startups Vietnam with its forthcoming Saola Accelerator; and Lotte Accelerator's recently announced collaboration with VSVA.

[79] Topica Edtech Group has itself raised US $50 million funding from investors in 2018. See Risk Capital section.
[80] VIISA https://www.viisa.vn/blog

Figure 46 Collaboration Between Venture Capital and Accelerator Programmes

Saola Accelerator is a collaboration between micro-VC fund 500 Startups and GS Group, a Korea-based tech-oriented multinational. Saola plans to support three batches of Vietnam-connected startups, with each startup to receive US $100,000 investment and a 'Silicon Valley accelerator curriculum'.[81] Expara has also announced a 4th acceleration programme in partnership with RMIT Vietnam, the Asian hub, of an Australian university. Lotte Accelerator, a subsidiary of a Korean conglomerate, has been involved in the Vietnamese startup scene since 2015, and in 2018 has announced US $1 million funding to invest in graduates of VSVA acceleration programmes. Similarly, in early 2019, Singapore's Insignia Venture Partners signed an agreement with TFI to invest in the accelerator's graduates. Zone Startups Vietnam will be established by RFI – an operator of acceleration programmes in Canada and India – and VinaCapital, the Vietnamese investment manager.

Another sign of scale and sophistication is the emergence of sector-specific programmes. In late 2017, two acceleration programmes in the food and beverage industry were announced. Food Alpha is implemented by KisStartup in collaboration with Vietnam Hospitality Network and Restaurant Association of Vietnam, offering incubation programmes for pre-revenue startups and acceleration for post-revenue businesses in the food industry. IZZI F&B Accelerator (IFBA) is an accelerator program for F&B startup founders organised by IZZI Asia, with the mission of creating a launch pad for highly qualified F&B startups in local and global markets.

In contrast with other #CTGMekong countries, we identified relatively few acceleration programmes explicitly targeting social impact. Hatch! – established in 2014 in Hanoi – is a social impact oriented acceleration program that provides a three-month programme, mentoring and seed funding. Evergreen Labs in Danang is an early stage seed investor and incubator for social impact projects.

Interviews identified absence of mentoring as a key issue for all startups and SMEs, though the issue has received active support from IPP, MBI and Swiss EP. This is also a key area of focus for investors: Representatives from PE firms noted that though the gap has closed considerably, there is still significant scope to improve their target companies management capacity. In an interview, Mekong Capital ranked management team quality as key selection criteria, and 'value creation' through improved practices as key to investment returns. SHBs and Gazelles in investment companies' portfolios may benefit from in-depth mentoring; however, this is necessarily not available to the majority of startups and small businesses.

According to a survey by Swiss EP, the concept of business mentoring was introduced to Vietnam in 2003 by the Vietnam Women Entrepreneurs Council. Recently-active organisations focused on mentorship include SME Mentoring 1 on 1[83] (est. 2011) and most recently VMI, established in 2017 with support from MBI, Swiss EP and 10 domestic mentoring networks including Startup Vietnam Foundation (SVF).[84]

Figure 47 Navigating the Ecosystem - Startupcity

STARTUPCITY.VN
"No matter if you're looking for startup deal flow, funding or new business, we can help you get connected."

PROBLEM Entrepreneurs find it difficult to locate appropriate service providers.

WHY IT HAPPENS The ecosystem has developed rapidly, and entrepreneurs' awareness of their support needs to maturing gradually.

SOLUTION Startupcity.vn is an online 'aggregator' that links finance, startups, and corporate innovation programmes.

Interviewees identified a lack of lack of support tailored to women entrepreneurs. However, WISE (see Figure 27) – founded by the MBI with support from Swiss EP and SIHUB – plans to fill this gap. It aims to be a one-stop-shop for information, networking and opportunities for women startups in Vietnam.

[81] https://www.vir.com.vn/500-startups-brings-silicon-valley-accelerator-to-vietnam-64679.html
[82] http://vietcetera.com/mekong-capital-what-this-private-equity-firm-looks-for-in-vietnams-rise/
[83] https://www.mentoring1on1.com/mentors-2018-2019/
[84] http://mentors.vn/

Navigating the ecosystem to identify suitable partners and resources can be challenging for entrepreneurs, notwithstanding a plentiful supply of networking opportunities. In the Hanoi and HCMC workshops, entrepreneurs expressed frustration at the complexity and opacity of the 'ecosystem' – with particular regard to the difficulty in accessing government support. A recent initiative to address this gap is Startupcity.vn, an online matching platform launched by the national government in 2017. However, aggregator models of this type can be challenging to implement: it can require a lot of resources to drive participation to sustainable levels, and domestic portals face competition from more sophisticated ecosystem participants and international aggregators such as Crunchbase.

6.3 Summary

The Vietnamese entrepreneur ecosystem is developing very quickly, with an increasing number of participants and diversity of services. Support for ecosystem development is equally diverse, with government, development partners, and domestic and international private sector accounting for significant investment.

Several years ago, there were clear gaps in the market, but within the past two years, initiatives have been launched to address these. VMI and WISE have been launched to improve mentoring and support for women entrepreneurs, although these are still in early stages and require scale to achieve sustainability. Only two 'private sector' accelerators – TFI and VIISA – have been operating, however new offerings are planned with significant participation from investors and international operators.

Accelerator programmes with clear goals and effective programming are increasing with the support of private sector investment. However, it is likely that capacity will remain insufficient to meet aspirations of young tech entrepreneurs. The availability of existing government support remains quite opaque to startups in the sector, who are often not aware of how to access government support or of its existence at all.

Most of the ecosystem is specifically tech-oriented – this is not necessarily as much a challenge, as it is in other #CTGMekong countries. Vietnam is a significantly more advanced economy with greater innovation capacity that it seeks to leverage across all sectors, with the goal of ranking among more developed ASEAN economies. As such, within the 'tech' ecosystem, we see application of a diverse set of tech-enabled solutions to challenges in 'real' industrial sectors.

7. Ecosystem SWOT Analysis

The entrepreneurial ecosystem of Vietnam is by far the most developed of the #CTGMekong countries and offers lessons to the other countries in the region – particularly Myanmar due to its similar size and demographic potential, but also to the smaller countries looking to build a thriving tech scene that can benefit other parts of the ecosystem while alleviating some finance and administrative constraints.

One feature that sets Vietnam apart is its government's commitment to supporting startups and SMEs through investment and incentives for technology and R&D. This presents opportunities for the development of the entrepreneurial ecosystem and the economy as a whole, but this reliance on top-down intervention is not without its weaknesses and risks. The state's dominance over the banking system – particularly via state-owned banks – restricts the allocation of credit to SMEs in favor of SOEs and large corporates. This is particularly true in the non-tech sectors, where the SME Development Fund has thus far failed to address the credit gap: in the past 1.5 years, it only made approximately one loan a month, with an average size of US $300,000.

Friends and family remain the common sources for startup financing, while tech companies can access more seed financing from a growing number of accelerators. There is also a significant amount of interest from foreign VC and PE investors, but the number of domestically-managed PE funds remains limited. Because regionally-managed funds tend to look for tickets of US $15 million or more, the supply of US $5-$15 million investments is limited. This is especially true in 'traditional' sectors that are not directly tech-oriented, where obtaining equity financing below US $5 million is extremely difficult.

Most of Vietnam's significant ecosystem activity currently centres on tech, occurs in limited geographies – Hanoi, HCMC, and Danang – and targets sectors driven by domestic consumption rather than industrial sectors that drive Vietnam's exports. This represents an opportunity for greater integration of economic sectors, which could elevate Vietnam's economy to the level of more advanced ASEAN economies such as Thailand and Malaysia – in congruence with the government's vision for the next decade.

The SWOT analysis of the ecosystem below summarises these considerations and provides a high-level analysis to guide ecosystem strengthening interventions.

STRENGTHS
- Large market for goods and services, both domestically and via export market access
- Access to credit, financial literacy and business formalisation relatively high for the region, compared to CLM
- Significant government support for R&D, innovation and technology infrastructure
- Relatively strong interest from foreign venture capitalists and private equity

WEAKNESSES
- Not enough credit; banking system dominated by SOEs, and MFIs are not a viable alternative
- Early stage risk capital (VC and PE) still difficult for non-tech startups and small growing businesses
- Entrepreneurs find it difficult to find specific, relevant support services
- Lack of support services outside major cities

OPPORTUNITIES
- Expansion of credit and services to more rural areas
- Continued openness of trade and investment, introducing foreign expertise and capital to help firms grow
- Integration of homegrown tech solutions into Vietnam's major economic pillars
- Expansion of business support services targeting women entrepreneurs

THREATS
- Overly focused support for tech-centered startups not reaching many SMEs in traditional sectors or rural areas
- Lack of reform in banking sector continues to limit credit to small firms
- Lack of coordination amongst ecosystem stakeholders, public and private

8. Way Forward

The government's long-term vision for the Vietnamese economy, as outlined in "Vietnam 2035", is to follow the trajectory of the "Asian Tigers" and become an innovation-driven economy, building on its export prowess and heavy investment in R&D and innovation. Two key strategies for this, are application of technology across all sectors of the economy and integration of SMEs into global supply chains.

Vietnam is helped by a vibrant but concentrated entrepreneurial ecosystem, highly focused on tech startups and large venture capital deals. The government has set ambitious targets for creating more SMEs and innovative startups, but it is imperative that existing SMEs in more traditional but successful sectors are not forgotten. The ecosystem should grow to be more closely connected, providing specialised services at scale to produce SMEs that fit within the overall economy and are able to attract growth financing.

This will include specially tailored interventions to support those segments that are currently underserved by business support providers, such as women-managed SMEs and those outside of the main entrepreneurial hubs in the largest cities.

Expand the Range of Credit Offerings Available to Entrepreneurs

Access to finance was ranked as the largest constraint for many SME segments – particularly pressing for those with high levels of growth, including HGBs and Gazelles. The state-dominated banking system does not provide sufficient small loans according to consulted entrepreneurs, and the SMEDF also seems inadequate. Microfinance is available across the country, but with an average loan size of about US $1,000, – insufficient for an SME – this is a segment that needs to be covered by banks.

Credit lines to reliable private sector banks for the purpose of SME lending can help alleviate this problem for small and growing businesses. The IFC has had some success in this area, and it would be a promising avenue to continue, as the largely state-run banking system struggles to lend to SMEs. These credit lines can go hand-in-hand with services to help SMEs access them and build banks' capacity, bypassing traditional challenges of complex and time-consuming procedures.

Startups and SMEs need access to a broader range of risk capital. Risk capital in the range of US$ 1 – 10 M will help small businesses with high growth to achieve national scale. This likely entails support for domestically managed PE funds, and for market orientated impact investing, both of which are in relatively short supply. This applies in particular to fund managers that are willing and able to invest in capital intensive businesses within Vietnam's main economic drivers, such as agriculture, manufacturing industries and regional integration.

For entrepreneurs at all stages of development, alternative non-bank financing channels have potential. The digitisation of finance by Vietnam's tech sector has been driven by a boom in e-commerce, with support from significant foreign VC. These digital payment platforms can begin to use big data to make credit decisions on short term loans. Other solutions are slowly being introduced by the private sector, though they are currently in their infancy and require regulatory, technical, and financial support, including factoring, peer-to-peer lending, and supply chain finance.

Sector-Specific Support Services to Integrate Vietnam's SMEs into the Wider Economy

The large number of business support service providers in Vietnam's ecosystem mostly provide similar, generic services to entrepreneurs and tend to focus on the tech sector. This growth of technology startups has the capacity to transform the entire SME landscape by providing tech-services to modernise and innovate in the main pillars of the Vietnamese economy, such as industry, light manufacturing, and agribusiness. Vietnam has the scale to support sector-specific niche acceleration and incubation services, providing tailored coaching and networking with knowledgeable industry insiders that lend entrepreneurs foresight, as well as suppliers and customers.

Currently, only 21% of Vietnamese SMEs are integrated into global supply chains, despite the export-driven nature of Vietnam's economy. Exports accounted for 200% of GDP in 2017, the largest of any populous country in the world, even though Vietnamese exports often trade at lower prices than those from slightly more advanced economies. Providing the services needed to increase this share of SMEs therefore has a very large potential impact on the Vietnamese economy, driving faster growth to turn MGBs and smaller businesses into Gazelles that generate higher value-added products, services and employment.

This requires sector-specific support to implement international standards and quality systems, connecting SMEs with potential partners in the regional ecosystem, as well as provision of export-oriented financial support, such as trade financing and factoring. Connecting larger high-growth potential SMEs with tech services created by Vietnam's smaller tech SMEs will also generate positive impacts on both sides. The entire entrepreneurial ecosystem has an opportunity to use technology to elevate Vietnam's value-added capacity and grow from an efficiency-driven economy to an innovation-driven one.

Expand Ecosystem Services to More Second-Tier Cities and Provincial Areas

The existing ecosystem support services are highly concentrated in Hanoi and HCMC, but according to WBES data, large numbers of fast-growing businesses – Gazelles and HGB, as well as SGBs – can be found in other areas, especially along the coast. The Provincial Competitiveness Index in 2017 shows that these areas, as well as peri-urban provinces close to Hanoi and HCMC, can offer an attractive business climate and infrastructure. Business support service providers as well as investors can take advantage of this and serve the needs of entrepreneurs located in secondary cities in these regions.

A model example that could be emulated is that of Danang, which has managed to develop a dynamic entrepreneurial ecosystem focused on tech in just a few years. Key to its success has been the concerted efforts of the government to create infrastructure and enabling policy; donor-funded service providers such as MBI offering technical support; catalysed private sector investment; and an active community of tech entrepreneurs and ecosystem builders.

Increase Tailored Support for Women Entrepreneurs

Women still face many barriers to entrepreneurship, including insufficient managerial and business skills, as well as connections with banks and other financiers. The share of women-managed businesses in Vietnam is the lowest in the region, and is especially low in fast-growing businesses – e.g. only 10% of Gazelles are female managed. Most businesses managed by women tend to be NEs or SNEs.

To tap into this potential, more support services should be specifically tailored to the needs of women, especially outside the main cities mentioned above. Existing women-focused initiatives such as WISE and SWOF can be scaled up and used to develop best practices to provide specific mentoring, acceleration, and financing services to women entrepreneurs.

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[36] This report was prepared by Emerging Markets Consulting.

Annex 2: Notes on Methodology

The aim of the project is to understand SMEs, the entrepreneurial ecosystem in which they operate, and financing and support offerings, needs and gaps. SMEs are often addressed as a homogenous group. But in reality, they vary widely. It is important to understand the differences among SMEs. Hence our approach includes sub-segmenting SMEs for each country. This allows us to deepen the analysis, identify key challenges for each sub-segment, and to better tailor and target solutions.

The studies were implemented in three phases:

Phase 1

SME landscape and ecosystem (desk study)

Phase 2

In-country data collection (interviews)

Phase 3

Workshop, conclusions and reporting

The desk study included a review of existing literature and analysis of data. As requested by DGGF, a major focus was utilising the World Bank's Enterprise Survey (WBES) data for each country. Other data sources that helped describe the entrepreneurial ecosystem were also used. The WBES and these other sources are discussed in more detail below.

World Bank Enterprise Survey sample

DGGF recommended that the World Bank Enterprise Survey (WBES) would form an integral part of the #CTG analysis. WBES data covers 148 countries (139 of which use the same methodology), including all countries in the #CTG Mekong, and therefore provides good basis for inter-country comparisons.

Generally, the WBES surveys registered businesses with five or more employees. An exception is Myanmar, where smaller businesses ("micro") were also included.[84]

The following data summarises the full WBES sample for each #CTG Mekong country.

PROGRAMME	CAMBODIA	LAO PDR	MYANMAR	VIETNAM
Sample size	373	368	607	996
% of sample that is:				
Micro	0%	0%	6%	6%
Small	52%	59%	54%	30%
Medium	31%	28%	27%	40%
Large	17%	13%	14%	30%
Manufacturing	35%	30%	60%	69%
Retail	32%	29%	15%	6%
Services, non-retail	33%	41%	25%	25%
Woman ownership	41%	36%	29%	44%
Woman-managed	53%	38%	29%	22%
Registered	98%	99%	100%	100%
Exporter	9%	9%	9%	21%
- small	6%	1%	1%	7%
- medium	8%	16%	9%	13%
- large	19%	28%	40%	41%
Foreign-owned	10%	13%	5%	9%
- small	3%	6%	1%	2%
- medium	5%	19%	1%	4%
- large	39%	30%	27%	23%
State ownership	0%	2%	0%	4%

Note: Data for Vietnam is from the 2015 Enterprise Survey, all others are from 2016.
Source:World Bank Enterprise Surveys.

[85] Although the number of micro businesses surveyed in Myanmar was quite small (see table).

The methodology for the WBES can be found here: http://www.enterprisesurveys.org/methodology

WBES coverage

In the WBES the population is the non-agricultural economy. It comprises manufacturing, construction, wholesale, retail, hotels, IT, transport, storage, and communications. It excludes:

- Financial intermediation
- Real estate
- All public administration
- Mining and quarrying
- Utilities
- Professional services (legal, accounting, consulting, advertising, etc.)
- Education (including private)
- Health and social work (including private)
- Hairdressing and other beauty treatment

Businesses with 100% state ownership are also excluded. In each country, businesses in the cities/regions of major economic activity are interviewed.

Stratified sampling and weights

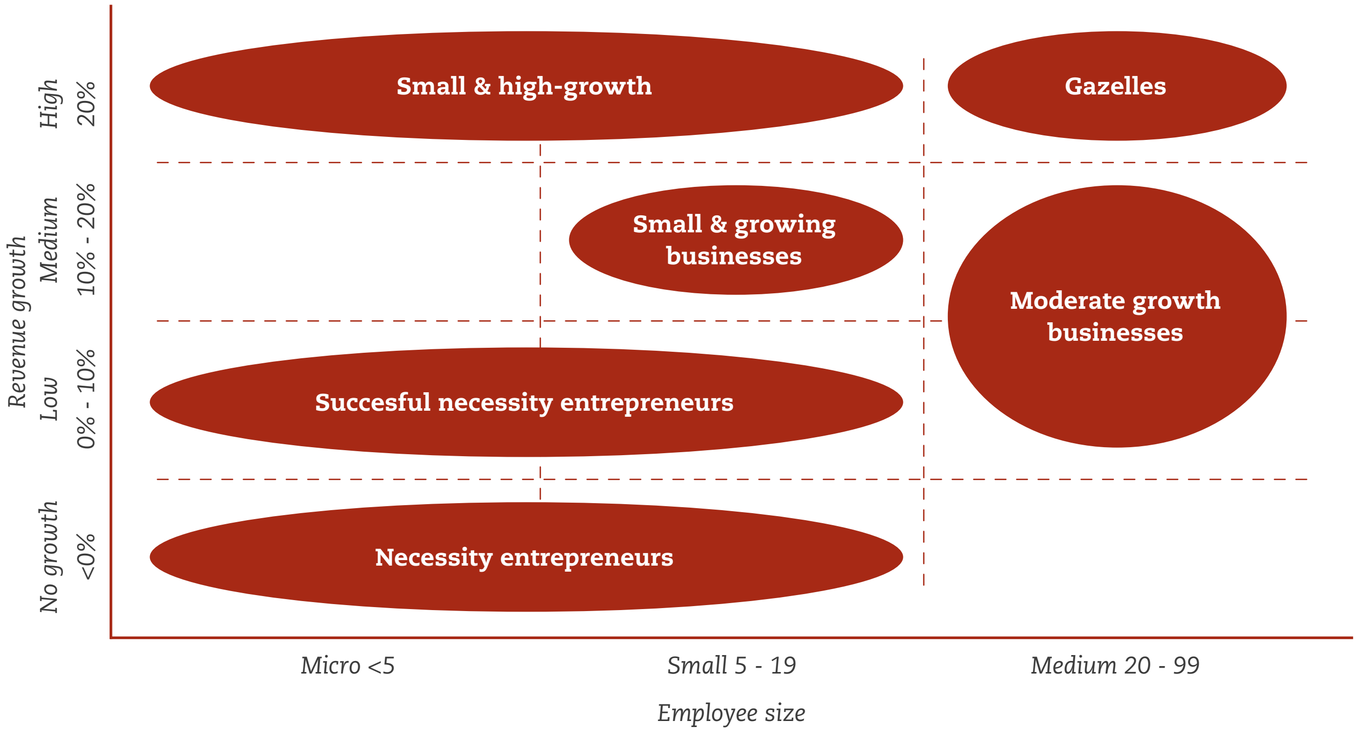
The WBES uses stratified random sampling[86] when building up its survey sample. This helps ensure the final total sample is not concentrated in one or two industries, for example. Or if only a few large businesses were interviewed (reflecting their share of the total number of businesses), those chosen might not be representative of large businesses. Stratified sampling avoids this. Three strata are used in the WBES: industry, establishment size, and location. For the #CTG Mekong countries, the industry strata are: manufacturing, retail, and services. The establishment size strata are: small (5 to 19 employees), medium (20 to 99 employees), and large (100 or more employees). The location stratification varies by country, but is typically the four or five regions where most businesses operate. So, for example, large businesses make up 17% of the Cambodia WBES sample, even though they account for a much smaller percentage of total businesses in Cambodia.

Since the sampling design was stratified and employed differential sampling, individual observations must therefore be properly weighted when making inferences about the population. Under stratified random sampling, unweighted estimates are biased (unless sample sizes are proportional to the size of each stratum). Any estimate or indicator that aims at describing some feature of the population should consider that individual observations may not represent equal shares of the population. The WBES dataset provides three weights (strict, median, weak) for each observation[87]. All data in the reports derived by EMC are estimates for the total population using WBES median weights[88].

[86] A stratified random sample is one obtained by separating the population elements into non-overlapping groups, called strata, and then selecting a simple random sample from each stratum.
[87] WBES Implementation Reports include more information on sampling and weighting.
[88] Data published on the Enterprise Surveys website is also based on median weights.

SME segmentation

For segmenting the SMEs using WBES data, we followed the approach of #CTG Kenya, using the same nomenclature for the business categories, see the below illustration:



WBES Issues

- Unregistered businesses and micro businesses are excluded. These make up a significant proportion of the private sector in the #CTG Mekong countries.
- Sample size is not large, especially once segmented. Therefore, we need to be mindful of this when discussing sub-segments.
- Revenue growth data was not provided by many businesses, further reducing the sample for segmentation.
- Segmenting by revenue growth excludes young businesses; WBES provides revenue for latest year and 3 years ago, so businesses younger than 3 years are excluded by our segmentation. However, there were very few start-ups and early-stage businesses in the WBES samples for the #CTG Mekong countries.
- Entrepreneur age is not included in WBES, and therefore it is not possible to segment firms by age of their owner or top manager.
- WBES counts establishments, not enterprises. One enterprise (firm) can have multiple establishments (for example, a head office plus a depot). Although for the #CTG Mekong countries the majority of the WBES samples were single-establishment enterprises; Cambodia 93%, Lao PDR 91%, Myanmar 74%, Vietnam 92%.
- As with all business surveys, there can be data quality issues. For example, the reliability of small businesses accurately recalling/reporting sale revenue from 3 years ago. In undertaking the WBES, businesses were re-contacted to clarify answers where necessary.

Entrepreneurial ecosystem analysis

The framework for analysing the entrepreneurial ecosystem was the ANDE[89] Entrepreneurial Ecosystem Diagnostic Toolkit. The first study for the DGGF #ClosingTheGap series piloted in Kenya applied a version of this Toolkit. The framework was modified slightly for #ClosingTheGap Mekong by adding entrepreneurs' capabilities at the centre of it.

[89] Published by the Aspen Network of Development Entrepreneurs (ANDE), December 2013.

Data for ANDE themes

The WBES provides data for most of the ANDE themes and was used in the reports where possible. The WBES is particularly useful for Finance, Human Capital, Policy, Infrastructure and R&D/Innovation. Other sources also provide data closely related to the ANDE themes, including the Global Entrepreneurship Monitor, the Global Entrepreneurship Index and the Global Competitiveness Index. These were used selectively through the reports. However, some of these sources don't cover all #CTG Mekong countries.

Hence, in addition to WBES, other secondary data sources were reviewed, and these include:

- Infrastructure: Logistics Performance Index; GSMA Mobile Connectivity Index; countryspecific data
- Human Capital: Global Competitiveness Index; UNESCO; World Bank Human Capital Project; WEF Global Gender Gap indicators
- Entrepreneurial Culture: Global Entrepreneurship Monitor; Hofstede Uncertainty Avoidance Index; country-specific data
- Markets: Global Competitiveness Index; World Bank trade data; country-specific data
- Policy: World Bank Doing Business; Global Competitiveness Index; country-specific data
- R&D and innovation: Global Innovation Index; country-specific data
- Finance: country-specific data, local sources
- Support: local sources

The insights from analyzing the above data were then supplemented with key informant interviews in Phase two of the research.

Workshops

#CTG Workshops brought together entrepreneurs and service providers to review, validate and challenge research findings to date and engage in an interactive session towards elaborating solutions to address gaps identified in the ecosystem.

During #CTGMekong workshops in Lao PDR, Myanmar and Vietnam[35], groups were asked to comment on 'entrepreneur personas' that typified businesses and growth challenges faced by firms in each sub-segment, as well as identify gaps and propose solutions. Personas were selected for the main subsegments of interest and then designed to reflect research and key informant interviews. Sample personas used in the Lao PDR workshop are described in the table below. A facilitator focused each group discussion on two key research questions:

- **What support is available in the ecosystem to help this entrepreneur?**
- **What specific solutions and services can improve the ecosystem to help this entrepreneur?**

[35] Personas were introduced following the #CTG Cambodia workshop.

TohLao collaborated on arrangements for the #CTG Lao PDR workshop and provided the venue. The EMC Laos team facilitated group-based work with local stakeholders alongside representatives from iAngel Vietnam, who were invited to provide an international perspective.

Conclusions from the workshop and group discussions were captured in the final report.

	BACKGROUND	AMBITIONS	CHALLENGES
GAZ	• **Total Foods** was started by a pair of former colleagues, who spotted an opportunity in a growing market and put their savings together. • Total Foods supplies all kinds of processed, fresh and specialty foods to hotels and restaurants around town, both local and imported, and with many flexible ordering options. • After 7 years, the firm employs over 40 people and is rapidly growing at 20% p.a. with several million revenues (they wouldn't say exactly).	**Total Foods** is ready to expand even further; they are currently studying expanding to Ho Chi Minh City as well as the B2C market.	Total Foods requires significant additional capital to reach it goals. The owners know they will also need more specialized expertise and have therefore decided to look for a strategic investor.
HGB	• **Smart Accounts** provides cloud based, customizable accounting and sales software for local companies, including a full suite of support. • It was started several years ago by two university friends, and funded by a family-loan, retained earnings and a small government grant. • The firm now employs 14, and is growing quickly at over 24% p.a.	Sustaining the momentum of current growth by expanding into new local markets in other cities through aggressive marketing	Through its initial period of high growth, close collaboration by founders has kept things together, but now organizational and governance challenges are beginning to emerge. The owners of Smart Accounts are not sure how to execute their ambitious growth plans, or where to find help.
MGB	• **Fruity Taste** is a traditional family business, funded by family savings, recently formalized by the youngest son, who acts as CEO. • The firm produces different kind of dried fruits and vegetables, targeting the local market. • Currently employs 25 people, with an annual turnover of $400,000; sales growth has been sluggish at an average of 7% per year.	Fruity wants to expand its product offering to cater more to young customers with more modern taste. Additionally, Fruity would like to consider exporting.	Fruity needs to attract growth capital to realize its ambitions but has no collateral available. None of its employees have experience in researching new markets
SGB	• **Design Essentials** is a small design firm specializing in designing stylings for WordPress sites for local SMEs. • Thanks to referrals from previous clients there is a constant stream of work, but Design Essentials is still only growing slowly. • Currently the sole owner employs 7 staff, including an admin assistant and accountant. Annual revenue is around $40,000.	Design Essentials would like to push its annual growth into the upper double digits, while making more profit for its owner. It is currently exploring related product offerings with more growth potential, such as mobile app design.	The technical knowledge is there, but Design Essentials lacks the business skills to oversee the expansion. More money will also be needed, and up till now the business was entirely self-funded.
SME GF	• **Entry Growth Fund** is a new Development Finance Institution, just established with funding from the government of Wokondo. • The fund's management has been given US $50 million to spend on a program to strengthen the entrepreneurial ecosystem in Lao PDR. • They are currently conducting research to inform the design of this program, and have hired you as consultants.	Bridge the funding gap faced by many entrepreneurs moving into the growth stage of their business. Provide support that complements well with existing service providers already in the ecosystem	Management isn't entirely sure what support entrepreneurs in Myanmar need the most or how it could be delivered most effectively; but they want to get their program started as quickly as possible.

During #CTGMekong workshops in Lao PDR, Myanmar and Vietnam , groups were asked to comment on ‘entrepreneur personas’ that typified businesses and growth challenges faced by firms in each sub-segment, as well as identify gaps and propose solutions. Personas were selected for the main subsegments of interest and then designed to reflect research and key informant interviews. Sample personas used in the Vietnam workshops are described in the table below. A facilitator focused each group discussion on two key research questions:

- **What other challenges do you think <persona> might face?**
- **How could the ecosystem help them overcome these challenges?**

Two #CTG workshops were held in Vietnam, in May 2018. The Vietnam Angel Investor Network (iAngel) collaborated on arrangements for the #CTG Hanoi workshop, which was held at the Pan Pacific Hotel. For the #CTG HCMC workshop, we collaborated with the Saigon Innovation Hub (SI-HUB), which also provided the venue. The EMC and iAngel team facilitated group-based work with local stakeholders at both workshops.

Conclusions from the workshop and group discussions were captured in the final report.