Venture Business in Vietnam

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1. Some aspects of venture business in Vietnam

Governments in both industrialized and developing countries provide a wide variety of programs to assist venture business, especially in the area of small – and medium – sized enterprises (SMEs).

Despite the development success of venture entrepreneurs in a few countries, the majority of developing countries (also in Vietnam) have found that the impact of the agencies on venture business has been less than satisfactory. The Vietnamese government has not yet paid enough attention to the role of venture business due to the country is still in the first steps toward the market economy.

Especially, microenterprises are commonly family businesses, young people or self-employed persons operating in the semi-formal and informal sectors, and most of them have little chance to grow into large firms, access the bank finance, or become internationally competitive. Serving them often requires distinct institutions and instruments, such as the group-based lending methodologies used by some microfinance institutions. However, small-and medium-sized enterprises (SMEs) and microenterprises, especially in the area of venture businesses, can grow and become more competitive in domestic and international markets, if they can be operational in the appropriate environment and given necessary supports.

Vietnam has no agency or body involved in the development of venture entrepreneurs. However, in the whole area of SMEs, there are some institutions that may be helpful for the promotion of venture business, such as:

The SMEs Association;

The Young Entrepreneur Association;

Vietnam Chamber of Commerce and Industry;

The Investment and Trade Promotion Center (ITPC); and

Commercial banks.

2. The main issues for the development of a robust venture business environment in Vietnam

2.1 The development of venture entrepreneurs should respond to demand

The design and delivery of credits, savings, and other financial products and services should respond to diverse financial needs of individuals and entrepreneurs. Ideally, careful market researches should precede product development.

(1) Microloans, for example, are given in accordance with the realities of the client's business opportunities, cash flows, and collateral. Tailoring products to the risking entrepreneurs is particularly important to maximization of microfinance potentials for risk reduction.

(2) The government's support to venture business services should facilitate the linkage between private providers of various services (accounting, information services, product design services...)

(3) Payment mechanisms should take into account the levels and timing of client's cash flow. For example, more risking clients may not be able to pay large fees for business service.

2.2. Services provision must cover their costs and achieve commercial sustainability.

The Government is required to try to subsidize the venture business initially.

(1) Microfinance institutions (MFIs) should charge interest rates high enough to cover their costs, including loan losses and the cost of raising capital for expansion.

(2) Efforts to promote specific venture business services should be consistent with the objective of growth.

2.3. Implications for venture entrepreneur development strategies (Government action)

(1) Improving transactional efficiency in financial, product and input markets relevant to venture entrepreneurs by facilitating their access to information and developing mechanisms to manage risks.

(2) Investing in public goods that open market access and build business competitiveness – including infrastructure (information, communications, business incubation development, as well as education and technology development).

2.4. Venture business environment

There are certain aspects of the business environment which are particularly related to venture business competitiveness. They affect market access, costs of acquiring information, transactional efficiency and risk, doing business, for example:

Barriers to entry and non-competitive behavior in the market where venture entrepreneurs might be potentially competitive.

Official and unofficial levies that discourage venture entrepreneurs from developing.

Tax structure that distort incentives and discriminate against venture entrepreneurs.

Infrastructure that open access to information and market, particularly business incubators, transportation, market facilities, communication...

2.5. Financial services

Venture businesses often complain that their growth and competitiveness are constrained by a lack of access to financing and high costs of credit. Recent events in Latin America and East Asia lend credibility to the argument that venture businesses are more likely than larger firms to be denied new loans during a financial crisis. In most countries, because competition in the banking sector is limited, banks have not been under pressure to extend their lending to smaller clients. In addition, venture businesses' access to the formal financial sector is constrained by high risks and transactions costs – real or perceived – associated with commercial lending to that segment of the market. Lenders are faced with a lack of reliable information on borrowers, difficulties in enforcing contracts (due to inadequate legal frameworks and inefficient court systems), and the lack of appropriate instruments for managing risks. Often, the problem is compounded by supervisory and capital adequacy requirements that penalize banks for lending enterprises without traditional mortgages.

A market – oriented strategy to improve venture business access to financing focuses on reducing the risks and transaction costs associated with this market segment, strengthening the capacity of financial institutions to serve smaller clients, and sharpening their competitive edge in financial markets. The aim is to increase the number of financial institutions producing profits in lending to venture businesses, so they are sustainable. Elements of this strategy would include:

Reducing the barriers to entry, e.g., by reconsidering capital adequacy requirements and prudential regulations that may be inappropriate for financial institutions serving smaller clients;

Reducing the risks associated with lending to small businesses, focusing on laws governing the enforcement of contracts, forfeiture and collection of collateral, and the use of movable assets as collateral;

Developing the policy, legal and regulatory frameworks that are essential to the development of innovative financial institutions and instruments, including venture capital, small equity investments, and leasing;

Promoting innovation in specialized lending technologies that reduce administrative costs associated with credit application, monitoring, and payment;

Strengthening the capacity of financial institutions to evaluate venture business creditworthiness in a cost – effective manner, for example through the use of credit scoring techniques; and

Improving information on the creditworthiness of potential borrowers, by promoting the estab-

Financially – Sustainable Business Development Centers

SwissContact, a Swiss NGO, is attempting to develop commercially viable and sustainable institutions providing marketing and technical assistance services to the venture business. In Indonesia, SwissContact has supported six Business Development Centers (BDCs) that offer business diagnostics, specific technical skills training, technology advice, and business administration services. In Peru, eight BDCs offer marketing services in such sectors as garments, agro-industry, and carpentry.

The philosophy of SwissContact is that the development of business – like institutions takes place in an environment which employs "real" market and business conditions, not in an environment that relies on donor subsidies. The BDCs are selected through a bidding process that involves detailed business plans and a financial commitment from the bidder. The tender process is open to any kind of organization – associations, private firms, NGOs, etc. – and deliberately builds on existing BDS institutions rather than creating new ones.

At the heart of the contract between the business center and SwissContact are financial targets that forms the basis for SwissContact financial support, which typically covers up to 50% of operating costs during the first six to twelve months of the contract. The most important indicator is financial sustainability: current contracts specify that 100% self – financing will be achieved in two to three years. Other target indicators include cost effectiveness (inputs per client or inputs against deliverable outputs) and the financial contribution (gross margin) of different services. In addition to financial support, SwissContact offers scholarships for staff training, market surveys, networking with other business development centers, auditing services, and benchmark information for monitoring purposes.

SwissContact's experience demonstrates that there is a market for small – scale business services and that BDS providers can become sustainable institutions and therefore do not require ongoing subsidies from governments or donors. Nevertheless, challenges remain: there is a risk that BDCs will work only with relatively well – off SMEs in order to generate a profit, and the cost of SwissContact's technical assistance and monitoring are quite high. The success of a BDC depends critically on the capabilities of the management team.

Source: Hagnauer (1999)

lishment of credit bureaus and ways to help venture businesses prepare their plans and financial projections.

2.6. Business development services

Business development services (BDS) include a wide variety of non-financial services such as labor and management training; extension, consultancy, and counseling; marketing and information services; technology development and diffusion; and mechanism to improve business linkage through subcontracting, franchising, and business cluster. These services form an important part of the "market support structure" that helps enhance venture business competitiveness.

Traditionally, governments and donors have provided BDS through public institutions or non-governmental organization, often on a free or subsidized basis. There is a broad consensus that publicly provided services for business development suffer from being too general and supply –driven, of poor quality, with insufficient awareness of cost control. Since the quality of publicly funded services is limited by the amount of subsidies available, the program coverage tends to be typically low, only five to ten percent of the target population of SMEs. The systematic monitoring and evaluation of program impacts are rarely done, but all too often, SMEs report that the programs are irrelevant to their needs.■

Table 1: Market – oriented interventions for venture businesses

	Open access to markets, accelerate market development	Invest in public goods, build institutional capacity	Reduce and rationalize traditional public interventions
Business environment	Competition policy Licensing and registration requirements, administrative fees Commercial transaction law Intellectual and commercial property rights Tax, labor legislation Government procurement Flexibility in the implementation of regulations	Infrastructure (transport, ports, market facilities, communications, information technology) Information (markets, standards, technologies) Monitoring of venture business performance and impacts of policies and interventions Public/ private partnerships at local level to improve the business environment	Reconsider policies that reserve certain sectors for small – sized enterprises or grant them special protections Seek greater neutrality across firm sizes in tax and labor legislation and enforcement
Financial services	Financial sector competition policy Collateral legislation Prudential regulation and supervision Interest rate ceilings Regulations on leasing, venture capital, equity markets	Innovation in loan products, lending methodologies, delivery mechanisms, risk assessment methodologies (e.g., credit scoring) Credit bureaus, registries Training to financial institutions serving venture businesses	Reduce direct lending through public financial institutions Reduce venture business lending (portfolio) requirements on financial institutions Eliminate subsidized credit lines and credit guarantee schemes
Business development services	Target subsidies for market development to specific market failures Information on service providers, impacts of services Enforce competition in service markets	Innovation in products (especially for the smallest firms), delivery mechanisms Development of performance and impact indicators Training to private BDS providers Limit long – term subsidies for BDS to public goods (e.g., information, labor, and management training)	Increase cost recovery for publicly – provided or subsidized services Improve management and cost control in public BDS institutions Condition budgetary allocation to the achievement of impacts Reduce duplication across agencies in services provided Use the private sector to deliver services Privatize service providers when financially sustainable Business incubators development