Media title: Time to strike  
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**Source:** Vietnam Economic Times dated 15 Nov 2016

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**Time to strike**

It’s well worth navigating the regulatory hurdles and other business environment challenges and becoming involved in Vietnam’s growing start-up environment.

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There’s a lot of excitement surrounding Vietnam’s tech startup scene at the moment, as illustrated by US President Barack Obama’s visit to Dreamplex (a co-working space) earlier in the summer to speak with young Vietnamese entrepreneurs. President Obama definitely picked an interesting time to focus on the sector. The startup ecosystem is growing more advanced in Vietnam with new co-working spaces, incubators, accelerators and investors (both foreign and domestic) building up robust infrastructure to support Vietnam’s newest economic sector.

One unique thing about Vietnam’s growing startup ecosystem that differentiates it from other countries in the region is that if a team of entrepreneurs has a winning idea for a startup they’ll be able to easily tap into a growing network of collaborative entrepreneurs or stakeholders. You can see this collaborative spirit quite clearly in the co-working spaces, startup pitch competitions, and the hackathons organized by various incubators and accelerators.

The ecosystem is not only attractive for entrepreneurs. Venture capitalists and investors from the US, Europe and Southeast Asia are also gaining confidence that this ecosystem is becoming increasingly strong, with noticeable acknowledgement and support from the Vietnamese Government. The Ministry of Science and Technology, which recently set aside over $110 million in funds to promote the growth of the sector, has emerged as the young industry’s staunchest advocate.

Vietnam is the third-largest startup hub in Southeast Asia, behind Singapore and Indonesia, with over 1,500 small startups (with valuations of less than $10 million), nine “little ponies” (valued at over $10 million), three “centaurs” (valued at over $100 million), and one “unicorn” (valued at over $1 billion), being VNG Corporation. Vietnam is the only country in the region besides Singapore to produce a startup valued at over $1 billion.

Vietnam’s startup sector is strong, partly thanks to a rising middle class and affordable internet access for a significant portion of the population. Vietnam boasts one of the largest internet populations in Southeast Asia, with 47 percent of the population (around 43 million people) enjoying internet or 3G access at a very affordable cost compared to other countries in the region. Smartphone ownership is also growing briskly among its population of 90 million, from 22 percent in 2015 to 42 percent by 2020, and with one-quarter of the population under 25 years of age there’s significant potential for disruptive technologies to gain a foothold in the market and spread throughout the population.

If you’ve spent any time in Ho
Chi Minh City or Hanoi it’s easy to see how Grab and Uber are taking advantage of this trend and changing the way urban residents are getting from Point A to Point B. Vietnam’s home-grown entrepreneurs (as well as foreign players) are taking advantage of this attractive pool of consumers, and much like Vietnam’s busy streets are filled with food carts, street-side cafes and other micro-businesses, creative entrepreneurs are filling up all sorts of niches in Vietnam’s online business environment (especially in the banking sector) and some of them may even have the potential to become Vietnam’s next unicorn.

Though 2016 saw mixed signs of being a very positive year for Vietnamese startups, no current discussion about the sector would be complete without mentioning one pending regulation - Article 292 - which threatens to halt the growth of the startup sector if it is implemented. The Article would impose harsh financial penalties on unlicensed startups in Vietnam. Such regulations could be a nightmare for new startups, particularly self-employed app and game developers who are not likely to obtain a license to provide services on internet and mobile platforms given that the current procedure for obtaining approval for a license is perceived to be rather complicated. If implemented, it could discourage tech startup entrepreneurs from establishing or continuing new businesses. Consequently, investors may see this as a roadblock to investing in this area. The financial technology (fintech) sector, however, is likely to be untouched by Article 292, as fintech startups must follow very strict regulations and guidelines in order to participate in the financial services space.

**Fintech Gaining Traction**

In March, not long after the US venture capital firm 500 Start-ups announced a fund specifically focused on Vietnam, Vietnam-based fintech company Momo landed a $28 million investment from banking giants Standard Chartered and Goldman Sachs. This investment is a landmark in Vietnam’s startup ecosystem and further indicates that fintech has significant room for growth in Vietnam.

Fintech has recently become one of the hottest startup segments in Southeast Asia thanks to large, unbanked, smartphone-wielding populations. In Vietnam, people still prefer to pay for nearly everything in cash - only 27 per cent of the population uses debit cards compared to 89 per cent in Singapore, 41 per cent in Malaysia, and 55 per cent in Thailand. Only 2 per cent of the population uses credit cards. The fintech space definitely presents a unique opportunity to change the way the country conducts financial activities, as more Vietnamese open bank accounts and begin to make payments with debit or credit cards. This makes Vietnam a highly attractive market for innovative financial services companies.

However, the local fintech industry is still in its infancy, with little more than 60 players, who are mostly tackling the payments market. In contrast, Singapore, a country whose population is significantly less than Vietnam’s, had more than 210 fintech companies as at 2015. While investors are exclusively targeting the payments sector in Vietnam (100 per cent of investments flowed into payments in 2015), Vietnam also has a number of ventures that are tackling all kinds of sub-segments, including crowdfunding; with players such as FundStorm, ComoCloud, Betado, and FirstPost; lending with LoanVi; data management with CircleLift; personal finance, with the likes of BankGo, Money Lover and Mobivi; bitcoin, with Bitcoin Vietnam, and banking, with Timo, the country’s first digital bank.

Fintech is definitely making strong inroads into Vietnam but other segments are also worth taking note of in its tech startup scene. At the moment, Vietnam’s diverse tech startup space has more than 1,500 active startups with more than half of them operating in the Top 3 segments IT and technology development, e-commerce and retail, and marketing and advertising.

The progress of Vietnam’s tech ecosystem has been closely linked with the surge of tech startups in the country, which began a decade ago with the first wave of startups comprised of now-large tech companies such as VNG, SCorp or VnGia. In 2008, the second wave of startups occurred, with most focused on e-commerce (think Tiki.vn). In 2013, the whole world looked to Vietnam’s digital media sector after the success of Flappy Bird and its self-made millionaire developer Dong Nguyen. Now it seems to be fintech’s turn in the spotlight.

**Exit opportunities**

So the startup scene is exciting, but are investors confident that they can make successful exits? Like the rest of Southeast Asia, IPOS are not common in Vietnam for successful startup companies, but M&A presents lucrative options for companies looking to exit, as there are no shortage of both local companies and venture capital funds looking to acquire successful startups in Vietnam. Historically, despite foreign investors’ recent interest in the sector, approximately 70 per cent of successful exits in Vietnam’s startup scene have been in the form of M&A transactions between local players, highlighting the importance of relationships in Vietnam’s business environment. Investors who want to enter this space must therefore be well-connected with the local startup scene.

Given this scenario, investors have been experimenting with innovative exit strategies. For instance, they take the startups to other countries and expose them to foreign investors (for e.g. by setting up a legal entity for the startup in Singapore), thereby opening more exit doors and instilling confidence in investors who prefer to work in a more developed business environment. Some investors do not yet have the confidence to invest large sums of money into Vietnam’s startup space, but perhaps Momo’s story represents a turning point in that regard - a Vietnamese-based financial services company obtaining a significant amount of funding from reputable foreign banks.

Startups in Vietnam have begun to attract significant funding compared to those in regional countries, raising $35 million in 2015, though they still lag behind Indonesia ($188 million), Malaysia ($49 million), and Singapore ($820 million) in terms of total funds raised. It should be noted that many startups from Thailand, Malaysia, Vietnam, and other Southeast Asian countries also have legal entities, for e.g. holding companies in Singapore, so these numbers may be misleading.

2016 has been a big year for startup funding in Vietnam, with Momo already raising $28 million - a figure higher than the total capital raised by all tech startups in the country in 2012 and 2013. Typically, investments into Vietnam’s tech startup scene have flowed into digital media companies (for e.g. VNG) and e-commerce platforms (for e.g. Tiki.vn). But that trend is changing, as Fintech companies have the opportunity to change Vietnam’s banking and payment sector. This young, dynamic market in Vietnam is getting more attention from big investors in the Southeast region who are seeing very strong potential in Vietnam’s budding tech startup ecosystem.