

# Attracting Foreign Angel Investment for Startup Development in Vietnam



**Dang Thanh Dat<sup>1</sup>, Nguyen Thi Kim Anh<sup>2</sup>**

<sup>1</sup> Dang Thanh Dat, Phd candidate, University of Economics and Business - Vietnam National University, Hanoi

<sup>2</sup> Assoc. Prof, University of Economics and Business - Vietnam National University, Hanoi

ベトナムにも3000以上の新興企業があるが、その大半はまだ萌芽期にあり、海外からの資金を必要としている。投資家を引きつけるには何が必要かを精査し、政府に具体的な施策を提言する。

## Abstract

Angel investment funding plays an important role for startups, as stepping between the seed stage (verifying and confirming the feasibility of products) and the established phase but requires large amounts of capital for rapid growth (early stage). Angel investor is the factor that fills the capital gap for startups and also brings many benefits to startups including collaboration, management knowledge and mentorship for startup.

With a growing startup ecosystem, Vietnam currently witness more than 3,000 active startups, of which over 90% are still in the seed stage. The attraction of foreign angel investment therefore is necessary to help startups grow and scale-up.

Our research is based on the theory of institutional and policy to attract angel investment, in-depth interviews with 5 foreign angel investors in Vietnam, combined with learning experiences in attracting investment from foreign angel investors into startups in 3 countries in ASEAN that have more developed startup ecosystem than Vietnam, in order to give advices for Vietnamese Government in attracting foreign angel investment.

**Keywords** Angel investor, Foreign investment, Startups, Vietnam

## 1. Introduction

Vietnam is a country in Southeast Asia and has one of the region's fastest-growing economies. The total land area of Vietnam is 329,569 square kilometers, administratively divided into 64 provinces and municipalities. It has a total population of about 97.3 million. GDP in Vietnam averaged 68.78 USD billion from 1985 until 2017, reaching an all-time high of 261.9 USD billion in 2019.

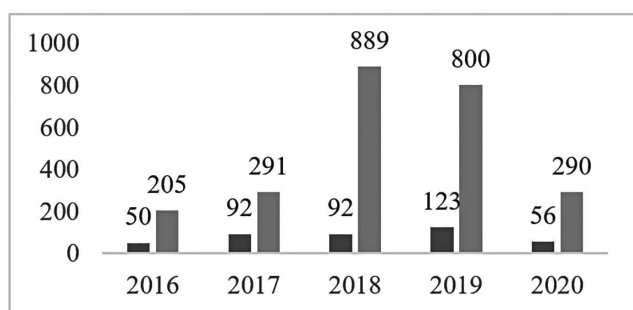
Vietnam's startup scene can be traced back to 2004, when venture capital fund IDG Ventures Vietnam was established, pouring more than US\$100 million into the market. The fund invested in over 40 companies in tech, media, telecoms and consumer sectors across Vietnam. Since then, the startup era has evolved in three waves: The first wave (2004-2007); the second wave (2007-

2010); and the third wave (2011 to the present day) [1]. Vietnam has seen phenomenal growth in the number of startups during this third wave, growing from 400 in 2012 to nearly 1,800 in 2015, and more than 3,000 in 2017 up to 2021, so that Vietnam has the third-highest rate for startups in Southeast Asia.

Since 2016 (the 'Year of Startups' for Vietnam), the Government of Vietnam has paid attention to perfecting the legal corridor for startups, issued many policies to support startups from the seed stage. Many experts assess that Vietnam's startup ecosystem is increasingly improving and currently Vietnam's startup is going into the second phase of the development which is the globalization stage. This recent, vibrant startup scene in Vietnam has not only fostered a new class of local entrepreneurs but also attracted a growing number of

foreigners who want to tap into the country's emerging growth potential in Vietnam.

The amount of capital invested in Vietnamese startups has increased 3 times in the 2016-2018 period, from 205 million USD to nearly 900 million USD (TFI, 2019) [2], In 2019, the total investment capital in Vietnamese startups reached above 800 million USD. In 2020, due to the influence of Covid-19, the total value of investments in Vietnamese startups decreased, reaching only 290 million USD.



**Figure: Investment deals in startups in Vietnam 2016-2020**

Source: TFI (2019) and author's synthesis

The majority of investments in Vietnamese startups are from venture capital and foreign angel investors. The investment value of domestic funds and investors in Vietnam accounted for a negligible proportion. However, we do not have accurate data on foreign angel investment in Vietnam because there are no national statistics on this indicator in Vietnam.

Institutional and policy theory explains the influence of political, economic, and social systems on organizational behavior and economic outcomes. According to Scott (1995) [3], institutions consist of three groups: normative rules, laws and culture. In particular, the group of laws will affect the ability to enforce contracts established between investors and startup founders. Theory of institutional and policy is useful when studying in an underdeveloped institutional environment. In particular, institutional weakness in developing countries forces investors to adapt their behavior to the business environment.

Because of the suitability of institutional and policy theory with the reality of Vietnam's startup ecosystem,

we use this theory to do in-depth interviews with 5 foreign angel investors in Vietnam, combined with learning experiences in attracting foreign angel investment into startups in some countries in ASEAN that have more developed startup ecosystem than Vietnam, in order to give advice for Vietnamese Government in attracting foreign angel investment.

## 2. Interview with foreign angel investors in Vietnam

We conducted in-depth interviews with 5 foreign angel investors in Vietnam about factors of the business environment that influence the angel investor's decision to invest in a startup, interview time from September to December 2019 in Hanoi city - capital of Vietnam, where has the most startups in Vietnam.

The content of the interview focused on:

- (1) Evaluation of Vietnam's institutions and policies towards foreign angel investors investing into startups in Vietnam?
- (2) The advantages and disadvantages of the environment promote foreign angel investment?
- (3) Recommend adjustments and supplements to institutions and policies to promote angel investment in Vietnam from the perspective of foreign angel investors?

The interviews were recorded by the recorder and analyzed, integrated into the interview answer sheets.

### 2.1. Evaluation of Vietnam's institutions and policies towards foreign angel investors investing in startups in Vietnam?

Since Vietnam enacted and implemented the National Startup Project called: Supporting the national innovative startup ecosystem to 2025 (hereinafter referred to as Project 844), the number of Vietnamese startups increased quickly. Along with that, investment sources, funding for startups such as investment funds, angel investors increased significantly. According to statistics, in Vietnam, there are currently over 40 venture capital, 8 angel investment organizations, over 100 angel investors, 12 private equity, 5 grants, 22 corporate finance investing into a startup. The Vietnamese Government is working hard to create an environment, establishing

favorable conditions for attracting investment capital for startups, including foreign angel investment.

However, according to 5 out of 5 foreign angel investors, Vietnam does not have a clear and drastic opinion and also policy towards attracting foreign angel investment in startup development, as shown in the three sides:

Firstly, policies related directly to attracting foreign angel investors in Vietnam still do not exist. Currently, Vietnam does not have a legal framework as well as a specific policy for foreign angel investors. With the lack of a risk control framework, the foreign angel investor is hesitant to consider investing in startups, even when the startup meets the investment criteria.

Second, in some countries in the ASEAN region, there are tax policies to support foreign angel investors, but in Vietnam, there is no tax reduction policy to support foreign angel investors. Startups in Vietnam get many tax incentives, but investors are not entitled to tax incentives at all. There is currently no law in Vietnam that states that tax reduction for angel investors, but only for formal investors (investment funds /private equity/corporate finance).

Third, Vietnam has not made many breakthroughs in promoting the formation of an angel investor network. In Vietnam, there is only one network of domestic angel investors called i-Angel. There is absolutely no network of foreign angel investors. In some activities in Vietnam, there is the presence of angel investor network in ASEAN; however, it does not maintain the linkage to form a network of foreign angel investors in Vietnam.

## ***2.2. The advantages and disadvantages of the environment promote foreign angel investment?***

According to 5 out of 5 foreign angel investors, Vietnam is a dynamic country with a stable political environment, relatively large market size and potential for development. The startup ecosystem in Vietnam is very vibrant with over 3,000 active startups, mainly seed startups that need investment capital to develop.

According to 3 out of 5 foreign angel investors, in Vietnam recently, the startup support programs are relatively developed, angel investment activities are still quite new but considered as great development potential

if the Government has appropriate policies to attract the participation of angel investors, especially foreign angel investors.

According to 4 out of 5 foreign angel investors, the Vietnamese Government attaches great importance to building a startup nation, considering start-up as one of the breakthrough solutions for Vietnam's growth model innovation. Therefore, the Government of Vietnam is gradually creating and promoting elements of the startup ecosystem to gradually form and develop, including moves to attract investment capital, including foreign angel investment in startup development.

However, 5 out of 5 foreign angel investors share the same perception that the environment to promote angel investment in Vietnam still has some major limitations.

- The biggest limitation is that Vietnam does not have a legal framework for foreign angel investors.

- Vietnam has a large number of startups but the quality is generally not high. Most startups are not breakthroughs, but mainly transform ideas from other markets and apply them to the Vietnamese market. The number of startups targeting the ASEAN market and the global market accounts for a very small proportion, thus creating little attraction to foreign angel investors.

In addition, 3 out of 5 foreign angel investors said that there is a limitation in interaction and access between foreign angel investors and Vietnamese startups due to the foreign language skills of many Vietnamese startups still bad. The language barrier loses the startup's opportunity to attract foreign investment, demonstrating a lack of willingness to compete in international markets.

## ***2.3. Recommend adjustments and supplements to institutions and policies to promote angel investment in Vietnam?***

5 out of 5 foreign angel investors share the same recommendation, suggesting that the Government of Vietnam should focus on:

- 1) Complete the legal framework for foreign angel investment to protect foreign investors from the risks of capital investment for startup development in Vietnam.
- 2) Promoting the startup ecosystem in Vietnam to

develop with the nucleus is startups, not only increasing in quantity but also increasing in quality with new innovative ideas, breakthroughs, towards the regional and international market.

In addition, 2 out of 5 foreign angel investors also said that the Vietnamese state needs to promote channels so that foreign angel investors can easily exit by transferring capital, share, merger and acquisition, IPO, etc... thereby creating liquidity for foreign angel investors.

### **3. Experience in promoting a business environment that attracts foreign angel investment**

In Southeast Asia, some countries such as Singapore, Thailand and Malaysia have relatively active angel investment activities, in which governments have issued many policies to promote angel investment. Therefore, we study the experiences of these countries as reference for Vietnam.

#### ***3.1. Attracting foreign angel investment into startups in Singapore***

Singapore is a country with a population density of fewer than 6 million people, but has more than 3,300 active startups [4] and is considered the largest startup ecosystem in Asia, a startup hub in South East Asia with more than 400 official angel investors, 143 Incubators and Accelerator, over 50 Co-working spaces operating [4]. Almost popular venture capital funds in the world have offices in Singapore, aiming to invest in startups based in Singapore.

Startup support programs in Singapore is not only creating incentives to encourage young people in Singapore to start a business, but also attract talent, especially in the technology sector around the world to come to Singapore to start-up. Most programs focus on direct or indirect financial support from the government to startups [5]. Survey results in Singapore ranked the startup support policy as one of the first conditions to attract any investor to the Singapore market. In addition to issuing startup support policies, the Singapore Government also has a number of support programs and

incentive policies to attract angel investment in Singapore.

(1) The Government of Singapore has an investment support policy for angel investors, under which angel investors only have to invest half instead of the entire investment capital for startups and the other half will be funded under the SEEDS Capital implemented by the Economic Development Board (EDB) since 2000, then transferred to the Standards, Productivity and Innovation Board (SPRING) since 2008 [6]. In 2018, the Singapore Government merged SPRING and International Enterprise Singapore into Enterprise Singapore with the focus of supporting Singapore enterprises - from startups, small and medium enterprises, to large corporations in Singapore, promote technology innovation, inventions, supporting enterprises to build development policies to reach the international market. Currently, there are about 500 investors and more than 40 Incubators and Accelerator, Venture Capital join the SEEDS Capital program of Enterprise Singapore [7].

(2) In 2010, the Singapore Government issued a tax deduction policy for angel investors called Angel Investors Tax Deduction Scheme (AITD) with a 10-year implementation period (until 2020). Under this policy, an approved angel investor who invests at least S\$ 100,000 into Singapore-based startup will receive a tax reduction, depending on the amount of investment but maximum reduction of S\$ 250,000 per year. To be eligible for this offer, angel investors must be recognized by Enterprise Singapore [8].

(3) The Singapore Government makes it possible for angel investors in Singapore to link together and set-up angel investor networks. In 2001, the Business Angel Network of Southeast Asia (BANSEA) was established in Singapore by a group of angel investors, expanding its connections to investment groups in Thailand, Malaysia, Vietnam and Indonesia. BANSEA offers a vision of developing a professional angel investment community in Singapore through knowledge sharing, investment cooperation among investors as well as increasing connections between investors and startups. BANSEA is responsible for promoting the startup system in which the angel investor provides capital into startups, which then themselves go on to become angel

investors to other startups [19]. In addition to BANSEA, Singapore also has many other angel investor networks with support from the Singapore Government.

In general, to promote angel investment in startups, Singapore has 3 main groups of policies: 1) Administrative policy with the assignment of a specialized unit to support startups, including the task of attracting angel investment under the guidelines of the Government; 2) Tax reduction policy for angel investors to encourage investment; 3) Facilitate the angel investment network to operate in a professional manner, in accordance with national regulations.

### ***3.2. Attracting foreign angel investment into startups in Thailand***

Thailand is a market with many opportunities for startups in Southeast Asia. It is the second-largest economy in the region and has a number of friendly policies for investors [9]. Over the years, the Thailand startup ecosystem has grown relatively strong with more than 600 active startups (Thai population of nearly 70 million), the number of official angel investors has increased from 2 (2012) to 30 (2015) and 50 (2018), especially 57% of which are foreign angel investors. In 2012 in Thailand, only 2 startups received investment capital, by 2015 there were 27 startups invested and by 2018 there were 102 startups invested.

**Table: Data on investment in startups in Thailand**

Type	2012	2015	2018
Number of Venture Capital Funds	1	56	110
Number of Angel Investors	2	30	50
Number of Accelerator	1	5	>8
Number of startups that received investments in the year	2	27	102

Source: Startup Ecosystem Thailand [10]

In Thailand, venture capital and angel investment are the two main sources of investment capital supporting startups. The Thailand Government had a number of activities to attract foreign angel investment.

(1) National Science and Technology Development Agency (NSTDA) under the Government cooperates

with The World Business Angels Investment Forum (WBAF) to create a community of angel investors for Thailand startups.

(2) In 2018, the Thailand Government enacted a tax incentive law for angel investors to invest in startup in Thailand. The angel investor must be recognized by Thailand National Science and Technology Development Agency (NSTDA) [11]. Under the tax incentives law, the angel investor can receive a personal income tax reduction of up to 100,000 Thai Baht (THB) per year. Angel investors need to meet some binding conditions such as investing in some priority areas, holding the startup's shares for at least 2 consecutive years from the time of investment to receive preferential tax policies.

(3) Thailand is a latecomer in the process of industrialization with key industries including agriculture, automobiles, services, and finance. However, in recent years, the Thailand Government has implemented a new economic strategy with policies to promote SMEs to invest in technological innovation, while creating a more favorable environment to attract investors, including angel investment into startups, especially startups related to technological innovation so that Thailand can develop into technology hubs. Therefore, the Thailand Government encourages startups to focus mainly on technology-related fields, especially high-tech. From the government's priority policy, angel investors investing in startups in Thailand from practical will help the Thailand economy develop stronger technology. The startup fields that have attracted the most investment capital in Thailand in recent years are e-commerce, logistics, fintech, payment, food and beverage.

In general, Thailand has implemented a number of policies to promote angel investment in startups: 1) Administrative policy with the assignment of a specialized unit to support startups, including the mission attracting investment with angel under the guidelines of the Government; 2) Tax incentives for angel investors to encourage investment. 3) The policy of selecting priority fields to attract angel investment.

### ***3.3. Attracting foreign angel investment into startups in Malaysia***

In Malaysia, Malaysian Government agencies are designated to support startups until they grow and become large companies. However, the majority of startups in Malaysia choose to associate with a university or institute to receive research grants from the Government. According to a study in 2015 of 28 technology startups in Malaysia [12], 31% of startups are financed through state-owned financial investment firms, followed by Government grants (27%), while only 3% received investment from angel investors. There figure shows that the participation of angel investors is still low in Malaysia, while public funds still dominate in domestic investment funds. However, Malaysia has policies and solutions to promote angel investment into Thailand startups.

(1) The idea of an agency representing private investors was first initiated by the Malaysian Government in 2010 in an attempt to settle startup funding by raising capital. In 2012, at the Asian Business Angels Forum, Cradle Fund Sdn Bhd (an agency of the Ministry of Finance) announced the establishment of the Malaysian Business Angels Network (MBAN) with the vision to become the official voice of the Malaysian angel investment community, to become a powerful angel investment fund and a place to exchange and share knowledge for domestic, regional and international angel investors. MBAN is authorized by Malaysia's Ministry of Finance to recognize angel investors for the Angel Investor Tax Incentive Program and other related programs within the scope of the Ministry of Finance. MBAN is also responsible for endorsing angel investors and angel investor clubs, building awareness and training for angel investors, and monitoring angel investment figures in Malaysia. MBAN is an entity that functions as a commercial organization controlling links between domestic and foreign angel investors.

By the end of 2018, MBAN has recognized 240 angel investors, including investors in 10 major angel investor clubs in Malaysia and other investors both at home and abroad. From 2015 to 2018, MBAN has invested capital in 65 startups among nearly 350 startups pitching [13].

(2) In 2013, the Malaysian Government announced Angel Tax Incentive (ATI) in the national budget with tax incentives set for a reduction up to RM 500,000 per year. ATI is managed by the Angel Tax Incentive Office (ATIO), a unit of the Cradle Fund. To be eligible for this offer, the angel investor must be accredited by MBAN and endorsed by Malaysia's Ministry of Finance. After two years since the investment, the angel investor can submit personal income tax through the tax-cut implementation agency named Lemgaba Hasil Dalam Negeri (LHDN) [14,15].

In general, to promote angel investment into startups, Malaysia has 2 main groups of policies: 1) Tax incentives for angel investors to encourage investment; 2) Support and facilitate angel investment network to act as an affiliate commercial organization between domestic and foreign angel investors to invest into startups in the country.

## **4. Suggestions**

Through surveying the current situation of foreign angel investment into startups in Vietnam and learning about policies to attract foreign angel investment in startups in some countries in ASEAN, we can draw some suggestions to attract foreign angel investment into startups in Vietnam as follows:

- Angel investment activities are high-risk activities but are really necessary for the development of the startups, so, according to the experience of other countries as well as practice in Vietnam, in the coming time, it is necessary to add regulations, forming a legal framework to protect investors as well as issuing policies on personal income tax deductions for investments of angel investors; consider allowing capital reciprocal between state funds (small and medium enterprise support funds, creative startups support fund)..

- Creates a mechanism to encourage the establishment of a network of angel investors, operating under the supervision of the state to gather domestic and foreign investors with capital and experience to invest, accompany, tutorials for startups. Establishing an angel investment network also helps angel investors to link financial, professional and information resources to

invest in startups effectively.

- Assign an agency under the Government to preside over the implementation of solutions given by the Government to promote angel investment into startups. The agency plays some roles such as recognizing angel investors, enforcing investment support policies for angel investors, monitoring the operations of angel investment networks and angel investors, organizing events to connect and build a community of angel investors, etc

- Issue preferential policies for angel investors when investing in startups with the aim of attracting potential investors to invest. Policies that should be implemented are incentives, personal income tax reductions for angel investor investments, reciprocal capital, and co-invest for startups.

- In Vietnam, there is currently no legal document that specifically defines an angel investor, there is no legal framework to protect the interests of angel investors, so investors are not encouraged the angels to participate in the investment. In the near future, the concept of angel investors should be legalized to officially recognize the important subjects of the startup's development and aim to specify the interests of angel investors to encourage angel investment activities like nations have done successfully.

- Policies to attract and support angel investors need a development process, while Vietnam is in the first step, completing the legal basis that requires implementation of a roadmap. In the short term, government agencies need support to raise awareness, provide information, support the development and implementation of investment contracts and improve the quality of investment network, guide investment, share experiences.

## 5. Conclusion

Experience from some countries in the ASEAN region as analyzed above shows that for startups to form, survive and develop, it is necessary to have appropriate policies and legal frameworks. Along with building and maintaining an open, transparent and stable business environment, having the right institutional and policy for startups to attract investment including

foreign angel investment is one of the factors that helps startups grow.

For a country with a newly formed and developing startup ecosystem like Vietnam, the role of the state is important in promoting foreign angel investment, in which the Government needs to do more policies and solutions to promote the development of foreign angel investment activities and attract foreign angel investors to invest into startups in Vietnam.

**This article is under the research of Vietnam National University, Hanoi; code: QG. 18 23.**

## References

- 1) Vietnam's Innovation Ecosystem 2019 Report, Australian Trade and Investment Commission Vietnam (2019), [https://www.austrade.gov.au/localsites/vietnam/news/vietnam\\_innovation\\_ecosystem](https://www.austrade.gov.au/localsites/vietnam/news/vietnam_innovation_ecosystem), (accessed on 28/3/2021).
- 2) Vnexpress, Nearly 900 million USD poured into Vietnamese startups in 2018, <https://startup.vnexpress.net/tin-tuc/xu-huong/gan-900-trieu-usd-do-vao-cac-startup-viet-trong-nam-2018-3869651.html>, 2019 (accessed on 28/3/2021).
- 3) Scott, W. R. (1995). Institutions and organizations. Foundations for organizational science. London: A Sage Publication Series.
- 4) Startup SG, Overview Singapore's Startup Ecosystem, <https://www.startupsg.gov.sg/>, 2020 (accessed on 28/3/2021).
- 5) WTO and International Trade Center - VCCI, research report: Mechanism to support Innovative Startups: International Experience – Proposed solutions for Vietnam (2017), <https://wtocenter.vn/an-pham/13265-study-mechanism-to-support-innovative-startups-international-experience---proposed-solutions-for-vietnam> (accessed on 28/3/2021).
- 6) Kam, W. P., Overview of angel investing in Singapore, Tech in Asia, <https://www.techinasia.com/overview-of-angel-investing-in-singapore/>, 2011 (accessed on 28/3/2021).
- 7) Enterprise Singapore, SEEDS Capital - Enterprise Singapore, <https://www.enterprisesg.gov.sg/financial-assistance/investments/investments/seeds-capital/overview>, 2020 (accessed on 28/3/2021).
- 8) Guide Me Singapore, Singapore Tax Deduction Scheme for Angel Investors, <https://www.guidemesingapore.com/business-guides/taxation-and-accounting/personal-tax/tax-deduction-scheme-for-angel-investors>, 2020 (accessed on 28/3/2021).
- 9) Startup Angels, Bangkok Startup Angels, <https://startupangels.com/market/bangkok/>, 2017 (accessed on 28/3/2021).
- 10) Embassy of the Kingdom of the Netherlands in Bangkok, Startup Ecosystem Thailand, [www.nederlandenu.nl/startup-thailand-factsheet](http://www.nederlandenu.nl/startup-thailand-factsheet), 2019 (accessed on 28/3/2021).
- 11) DFDL, Thailand Tax Update: New Tax Incentives for Angel Investors, Jonathan Blaine (2018), <https://www.dfdl.com/resources/legal-and-tax-updates/thailand-tax-update-tax-incentive-for-angel-investor/>, (accessed on 28/3/2021).

- 12) Ajagbe Akintunde Musibau, Ismail Kamariah, The Financing of Early Staged Technology-Based Firms in Malaysia, *Middle-East Journal of Scientific Research* (2013) 18 (5): 697-707, DOI: 10.5829/idosi.mejsr.2013.18.5.11747
- 13) Malaysian Business Angels Network, 2018 Annual Report, <https://mban.com.my/wp-content/uploads/2019/05/Annual-Report.pdf>, 2019 (accessed on 28/3/2021).
- 14) Malaysian Business Angels Network, Angel Tax Incentive, <https://mban.com.my/angel-tax-incentive/>, 2020 (accessed on 28/3/2021).
- 15) Malaysia Business Angel Network, Angel Investor Application Explanatory Notes and Guidance Note, [https://mban.com.my/wp-content/uploads/2017/04/Angel-Application\\_Explanatory-Notes.pdf](https://mban.com.my/wp-content/uploads/2017/04/Angel-Application_Explanatory-Notes.pdf), 2017 (accessed on 28/3/2021).