



ISSN 1989 – 9572

DOI: 10.47750/jett.2024.15.01.017

## **Startup innovation in Vietnam: Theory and practice**

**Nguyen Duc Duong**

**Journal for Educators, Teachers and Trainers, Vol. 15 (1)**

<https://jett.labosfor.com/>

Date of reception: 03 Aug 2023

Date of revision: 07 Dec 2023

Date of acceptance: 29 Dec 2023

**Nguyen Duc Duong (2024). Startup innovation in Vietnam: Theory and practice. *Journal for Educators, Teachers and Trainers*, Vol. 15(1).146-158**

---

East Asia University of Technology, Vietnam



## **Startup innovation in Vietnam: Theory and practice**

**Nguyen Duc Duong**

East Asia University of Technology, Vietnam

Email: duongnd@eaut.edu.vn

### **ABSTRACT**

Startup innovation has become a matter of interest and debate in many countries around the world, within both the business and research communities, including Vietnam. For a developing country like Vietnam, building a favorable startup ecosystem, encouraging the emergence and development of startups in general, and innovative small and medium-sized enterprises (SMEs) in particular, is crucial. In 2016, the Vietnamese government designated it as the "National Startup Year," and the period from 2017 to 2020 was considered the golden age for startups with the emergence of numerous startup companies. The issue of startups has received special attention from the state and society. Lessons from countries with strong and successful startup movements show that the foremost important factor is the entrepreneurial spirit, driven by national leaders and the state apparatus with a spirit of serving the nation. The path of entrepreneurship in the current deeply integrated international context is fierce and risky, but without boldness, courage, and facing challenges, successful entrepreneurship is impossible. When the entrepreneurial spirit and culture flourish among the population, especially the young generation in Vietnam, it will truly become the most powerful and primary driving force to promote economic and social development.

**Keywords:** Entrepreneurship, Startup innovation, Vietnam

### **INTRODUCTION**

"Entrepreneurship and innovation" is a term that has become increasingly common and is receiving special attention from the government and society. According to statistics from the Ministry of Science and Technology, there are currently around 600,000 businesses in Vietnam, of which 3,000 are innovative startups. The number of innovative startups will play a crucial role in accelerating the rapid development of our country's economy and society in the future. Unlike normal startup businesses, innovative startup enterprises have new business models, projects, creative ideas, full of potential to create new products, enhance productivity, product quality, and achieve breakthroughs in growth. The difference lies in the fact that innovative startups are based on new technologies, create new business forms, or establish new market segments. This difference will be the "key" that enables innovative startups to attract strong investments and achieve breakthroughs in development compared to regular businesses. This is one of the strengths, a prominent characteristic of innovative startup businesses.

### **Some Theoretical Issues On Supporting Innovative Startups**

#### **Some theoretical issues about innovative start-ups**

#### **Concept, characteristics and role of innovative startups**

#### **Innovative start-up enterprise concept**

Innovative entrepreneurship is increasingly capturing special attention from the government, businesses, and society. It serves as a source of motivation and drives the development of innovative startup enterprises. However, when discussing innovative entrepreneurship, the majority of businesses in general and individuals in particular still lack a clear understanding of what it entails. Furthermore, there is often confusion between entrepreneurship and innovative entrepreneurship because both originate from small and medium-sized enterprises (SMEs). Nevertheless, innovative entrepreneurship possesses distinct characteristics that set it apart from traditional entrepreneurship.

Entrepreneurship, also known as business startup or business establishment, involves the process of founding small or medium-sized enterprises, individual businesses, or sole proprietorships. These entities operate and conduct business according to established methods, models, and predefined markets without introducing significant differentiation from existing offerings. In other words, they do not aim to create a breakthrough or provide something entirely new to the market.

To date, there have been various definitions of innovative entrepreneurship. In English, the term "startup" generally refers to companies in the initial phases of business operations (startup companies). It is often used more narrowly to describe technology companies in their early stages.

According to Neil Blumenthal, Co-CEO of Warby Parker, as quoted in Forbes magazine: "A startup is a company working to solve a problem where the solution is not obvious and success is not guaranteed." This definition suggests that a startup is a company focused on addressing a problem for which the solution is unclear, and success is not guaranteed.

Eric Ries, the author of "The Lean Startup: How Constant Innovation Creates Radically Successful Businesses," defines a startup as "a human institution designed to create new products and services under conditions of extreme uncertainty." This implies that startups are organizations created by humans with the purpose of developing new products and services under highly uncertain conditions.

In international academic literature, a startup is defined as an enterprise or temporary organization designed to discover a repeatable and scalable business model.

In Vietnam, the term "startup" is often associated with innovative startup enterprises. Various interpretations and concepts exist regarding innovative startup enterprises. According to Deputy Prime Minister Vu Duc Dam, a startup refers to innovative startup enterprises, which is a concise way of describing them. He views them as a special community because they create new products, target new customer segments with new technologies and ideas that have never existed before, often related to technology and not constrained by geographical boundaries due to their online nature.

Deputy Minister Bui The Duy, Head of the Office of the Ministry of Science and Technology, highlights the difference between entrepreneurship and innovative entrepreneurship. He states that innovative entrepreneurship must be based on new technologies, create new business models, or establish new market segments. In other words, innovative entrepreneurs must introduce something different not only from domestic businesses but also from all previous companies, both nationally and internationally. This distinct characteristic allows innovative startups to quickly attract investments from both domestic and foreign sources and achieve rapid development, as exemplified by companies like Facebook and Google, which became large corporations within just 2-3 years. From a legal perspective, the Law on Support for Small and Medium-sized Enterprises enacted in 2017 defines innovative startup enterprises as small and medium-sized enterprises established to realize ideas based on the exploitation of intellectual assets, technology, new business models, and the potential for rapid growth.

Based on these various definitions, we can understand that innovative startup enterprises are small and medium-sized enterprises formed and developed based on creative ideas. They differentiate themselves by providing superior value, leveraging intellectual assets, applying technology, and introducing new business models. They often target new market segments with groundbreaking solutions, leading to rapid growth and development compared to traditional business models.

### **Features of innovative start-up enterprises**

**Creativity:** Innovative startup enterprises create differentiation by turning existing elements into new values that are superior to what already exists. This can be seen in various business models, such as the transformation from traditional motorcycle and taxi transportation to new business models using motorcycles and technology-driven taxi services through online applications. Other examples include business models like Airbnb for accommodations or online businesses, as well as electric car models.

**Capital Investment:** Initially, most ideas are developed using the founder's capital to shape and refine them. Subsequently, founders typically seek investors or venture capital funds when their initial capital is running low and they need partners for further development. Founders often turn to angel investors or venture capital funds to collaborate, secure funding, and operate through funding rounds, dividing ownership percentages in the company.

**Growth Rate:** Innovative startup enterprises often experience rapid growth compared to traditional business models. In the initial stages, these enterprises may have slow growth rates, often incurring losses, as they refine their models and ideas. However, after perfecting their models with support from investors, primarily angel and venture capital investors, and applying them to the market, they create new market segments and experience rapid growth and development. Technology is typically a defining characteristic of products from innovative startup enterprises. Even when products are not heavily reliant on technology, these enterprises often use technology in their operations to achieve business goals and growth.

**Business Model:** The business model is a crucial factor for innovative startup enterprises, as it significantly impacts their development. A suitable business model provides strong motivation for the enterprise's growth. Additionally, when seeking support from investors, the business model is one of the top factors influencing investment decisions.

**Risk Acceptance:** Risk is an inherent part of business, especially when creating something new, and there is always the potential for unforeseen risks. Facing and accepting risks are essential for both startup enterprises and investors. Being willing to confront and accept risks also provides an opportunity for startup enterprises to learn valuable lessons and find a suitable business model that motivates their growth.

### **The role of innovative startups**

Firstly, the strong development of innovative startup enterprises creates a new dynamic in the Vietnamese economic market. It propels the growth of the market economy, contributing to the emergence of various economic components within the market economy. Moreover, it attracts investment not only domestically but also from abroad. This supports innovative startup enterprises, in particular, and Vietnamese businesses in general, in expanding their collaborative environment and development.

Secondly, with strong cooperation and substantial investment attraction, innovative startup enterprises receive multiple sources of support for product development and business model enhancement, especially in terms of capital. Timely capital injection propels these enterprises to intensify their production and business investment, expand their markets, and enhance their workforce. Additionally, opportunities for collaboration continue to expand, offering various forms of support beyond just financial capital, creating favorable conditions for business development.

Thirdly, the creation of a diverse and thriving startup ecosystem fosters the development of entrepreneurship in the economic community. This not only stimulates the growth of the startup environment within educational institutions and society but also encourages students and young individuals to explore and conduct research. It leads to the formation of numerous communities for sharing ideas, business models, and entrepreneurial cooperation. This significantly contributes to the development of the country's economy and provides a labor force for the Vietnamese market.

Fourthly, promoting and bolstering an environment for innovative startup enterprises will help both Vietnamese businesses in general and innovative startup enterprises, in particular, achieve various economic growth objectives. This, in turn, contributes to an increase in state budget revenue through tax-related means.

### **Concept and Role of Support for Innovative Startup Enterprises**

#### **Concept of Support for Innovative Startup Enterprises**

Support for innovative startup enterprises encompasses various measures, including financial and non-financial support, aimed at assisting and facilitating research and development of ideas and products. It involves the creation of business models aligned with the founders' ideas and products. Additionally, support includes aiding in the establishment of enterprises, management and workforce development, participation in market growth and profitability for founders and investors.

#### **The Role of Supporting Innovative Startup Enterprises**

Innovative startup enterprises hold significant potential for contributing to a nation's economic development. However, there are substantial obstacles affecting the growth of these innovative startup enterprises, including: One of the major hindrances in the business activities of innovative startup enterprises, both individually and generally, is access to capital. Furthermore, collaboration is always essential in business operations, especially for startups. All business activities require capital for development and sustainability. Hence, innovative startup enterprises consistently require a significant amount of capital for investment and growth, which aligns with their characteristics, such as new business models or technology-driven operations. Collaboration becomes particularly crucial once a business model has been perfected. It helps innovative startup enterprises thrive and maximize the value of their products, business models, creative ideas, or technology to the fullest extent, efficiently.

Innovative startup enterprises originate from new ideas and previously unseen business models. These innovative ideas and business models require substantial intellectual and investment support to be perfected, executed, and developed into promising concepts.

Novelty often entails facing various hidden risks. Innovative ideas and these new business models are no exception. Therefore, support is essential to enable these enterprises to confront and overcome these potential risks.

#### **Concept and role of the Law on supporting innovative start-up enterprises**

##### **Policy concept on supporting innovative start-up enterprises**

The law supporting innovative start-up enterprises is the sum of regulations, regulations, regulations on policies and methods, approaches to support and implementation of support from the state perspective to support innovative start-up enterprises, thereby creating a premise to promote innovative startups to develop.

The measures that governments of countries are often based on the limitations, difficulties and obstacles that innovative startups are facing, thereby focusing on removing limitations and obstacles, helping to solve difficulties of innovative startups. Along with that, creating conditions for innovative startups to develop on economic conditions, social resources and strengths of countries.

##### **The role of policies on supporting innovative start-ups**

The legal framework for supporting innovative startup enterprises plays a crucial role for businesses in general

and innovative startup enterprises in particular:

Firstly, it establishes a common legal framework for innovative startup enterprises in Vietnam. This framework protects the rights and interests of these enterprises from infringement. Clear administrative procedures facilitate faster execution, creating favorable conditions for businesses in terms of establishment and the transfer of technology, ideas, and business models.

Secondly, it promotes increased investment by innovative startup enterprises in the production process, bolstering production and expanding the manufacturing and business market. Capital support helps these enterprises invest in and refine creative ideas and production models. Additionally, workforce training and business market development are emphasized. Strengthening cooperation between investors and innovative startup enterprises helps these businesses find more investors and investment funds, thus supporting collaboration and development.

Thirdly, it enhances the sense of responsibility among all parties involved in innovative startup activities, fostering a spirit of cooperation and amicability. Simultaneously, it raises awareness of the legal obligations that must be adhered to, ensuring fairness among parties and mitigating risks during collaboration and participation.

### **Current Policies on Supporting Innovative Startup Enterprises**

#### **Regulations on Policies Supporting Innovative Startup Enterprises in Vietnam**

##### **Conditions for Supporting Innovative Startup Enterprises**

###### **a. Conditions for Supporting Innovative Startup Enterprises Worldwide**

Many countries are actively supporting innovative startup enterprises to provide them with various forms of assistance aimed at creating a wave of entrepreneurship, innovation, and creativity. Among these countries, India and Singapore stand out as two leading nations in the world when it comes to startups. In India, the conditions for a business to be recognized as a "startup" and benefit from support measures, excluding tax incentives, include:

- Being established as a Limited Liability Partnership (LLP), partnership firm, or private limited company under Indian law.
- Operating for less than 7 years from the date of incorporation (10 years for biotechnology startups), with no history of being formed from the splitting or reconstruction of an existing business.
- Achieving a total annual turnover not exceeding INR 25 crores in any financial year since its incorporation.
- Focusing on innovation, development, or improvement of products, processes, services, or business models with substantial potential for job creation or wealth generation. The startup must provide a detailed description of this aspect in their application.

For businesses to enjoy tax incentives in India, the conditions include:

- Meeting the criteria for recognition as a startup under the Startup India - Standup India program.
- Being an LLP or private limited company incorporated between April 1, 2016, and March 31, 2019.
- Receiving a certificate of eligibility for tax benefits from the Inter-Ministerial Board established by the Ministry of Commerce and Industry.

In Singapore, different support programs have specific eligibility criteria, including technology support. For innovative startup enterprises to be eligible for technology support, they must meet the following conditions:

The technological solution must clearly state which technology is applied, demonstrate breakthrough innovation, result in know-how or intellectual property assets, and have commercialization potential.

The applicant business must have been operating for less than 5 years, have at least 30% of its equity held by local shareholders, have an annual turnover of not more than SGD 100 million, or employ no more than 200 workers. The business must also operate primarily in Singapore.

The project must be a Proof-of-Concept or Proof-of-Value project and satisfy related conditions, such as falling within priority sectors, securing a minimum of 10-20% of the intended project's funding, and more.

Regarding investment funding support eligibility:

- The business must have been established as an LLP for no more than 5 years.
- It must have a paid-up capital of at least SGD 50,000.
- It should demonstrate the innovative and intellectual aspects of its product or service.
- The business should have high growth potential and the ability to expand globally.
- It must have an independent investor ready to invest.
- It should not be engaged in gambling, tobacco products, illegal activities, or activities against the public interest.
- It should not be a subsidiary or joint venture of other companies.

###### **b. Conditions for Innovative Startup Enterprises to Receive Support in Vietnam**

According to the provisions of Article 17, Clause 1 of the Law on Support for Small and Medium-sized Enterprises in 2017, small and medium-sized enterprises (SMEs) engaged in innovative startups are eligible for support if they meet the following conditions: They have been in operation for no more than 5 years from

the date of first business registration certificate issuance; They have not conducted public offerings of shares for joint-stock companies.

To be eligible for support, innovative startup enterprises in Vietnam must satisfy the condition of not exceeding 5 years of operation since the issuance of their first business registration certificate. Regarding maturity, these enterprises should not have conducted public offerings of shares in the case of operating as joint-stock companies. In terms of scale, innovative startup enterprises in Vietnam implement new business ideas and models that create breakthroughs in growth, contributing to the development of the country's economy.

Support for innovative startup enterprises in Vietnam is also implemented through specific programs outlined in the guidance of Decree No. 39/2018/ND-CP, which provides detailed regulations on certain provisions of the Law on Support for Small and Medium-sized Enterprises. In addition to meeting the general conditions mentioned above, innovative startup enterprises must also meet one of the following conditions: Prospective Conditions: Innovative startup enterprises must be selected or invested in by intermediary organizations, specifically co-working spaces, startup support organizations, service providers, technical facilities, incubators, or high-tech business establishments, which meet specific criteria and venture capital funds; Innovative Product/Project Conditions: Innovative startup enterprises should have received national or international awards related to startup innovation or innovative products/projects. They should possess certificates of protection for initiatives, inventions, or certificates of high-tech or scientific-technological enterprise status; Process Conditions: Innovative startup enterprises must be directly selected by the establishment council of each specific support program of each ministry, sector, or locality.

Therefore, it is evident that the conditions for supporting innovative startup enterprises in Vietnam revolve around criteria related to scale, maturity, and the need for creative and promising aspects. In contrast to some other countries worldwide, Vietnam's Law on Support for Small and Medium-sized Enterprises in 2017 and Decree No. 39/2018/ND-CP do not specify separate conditions for each type of support for innovative startup enterprises. Instead, they apply general conditions as outlined above. An innovative startup enterprise that meets all these criteria will be eligible for various support measures, while those that do not meet these criteria will not be able to access any form of support.

### **Content supporting entrepreneurial innovation and renewal**

Firstly, support for intellectual property consultation; exploitation and development of intellectual property assets.

According to Decree No. 39/2018/ND-CP detailing certain provisions of the Law on Support for Small and Medium-sized Enterprises, startups and innovative entrepreneurial enterprises will enjoy a 100% value of contracts for consulting on procedures for establishing, transferring, protecting intellectual property rights; the value of contracts for consulting on the construction and implementation of intellectual property ownership operation policies and strategies; the value of contracts for consulting on the design, registration, protection, exploitation, and development of trademark, industrial design, inventions; the value of contracts for consulting on the construction and development of intellectual property assets related to geographical indications. With regard to intellectual property activities, innovative entrepreneurial enterprises will receive highly favorable conditions when receiving 100% value of consulting contracts. Through these incentives, innovative entrepreneurial enterprises have the opportunity to implement economic strategies, expand production, connect with markets, and accelerate their development.

Secondly, support for the implementation of procedures related to standards, technical standards, measurement, and quality; testing and improvement of new products and business models.

Innovative entrepreneurial enterprises will be provided with free information on the system of domestic and international standards and regulations in their field of production and business. At the same time, the state will support 100% of the consulting contract value for enterprises to establish basic standards; the value of consulting contracts for innovative entrepreneurial enterprises to self-organize measurement. In particular, innovative entrepreneurial enterprises will receive a 50% reduction in fees for testing sample measuring instruments; fees for inspection, calibration, testing of measuring instruments, measurement standards; quantitative marking fees for packaging that meets technical measurement requirements, but not exceeding 10 million VND per test and not more than once a year. With these highly favorable supports, innovative entrepreneurial enterprises can efficiently carry out procedures related to standards, technical standards, measurement, quality, as well as test and improve new products and business models, effectively utilizing resources for economic development.

Thirdly, support for technology application and transfer.

The state provides incentives for innovative entrepreneurial enterprises by supporting 50% of the cost of high-tech application contracts and technology transfer contracts, but not exceeding 100 million VND per contract and not more than one contract per year. According to this provision, the state will only support 50% of the contract cost, with each contract not exceeding 100 million VND and no more than one contract per year.

However, these favorable conditions help businesses reduce the burden of contract costs, allowing them to confidently pursue entrepreneurship, innovation, access to modern technology, and contribute to economic growth.

Fourthly, support for training, information, trade promotion, and commercialization.

According to the regulations in Article 4, Article 21 of Decree No. 39/2018/NĐ-CP detailing certain provisions of the Law on Support for Small and Medium-sized Enterprises, innovative entrepreneurial enterprises are provided with free access, exploitation, and provision of information, databases on patents, technological information, research results; free provision of information and communication on the startup network, attracting investment from startup funds. In particular, innovative entrepreneurial enterprises are supported with 100% of the cost of booth rental at domestic and international trade promotion exhibitions and are prioritized to participate in trade promotion programs using the state budget. In addition, the state also provides incentives for innovative entrepreneurial enterprises in terms of supporting 50% of the cost of in-depth training with the following content: Product development, product commercialization, capital raising, market development, and networking with research organizations and individuals. The cost to support innovative entrepreneurial enterprises in this support content is not more than 20 million VND per training course and not more than one training course per year. With such support, innovative entrepreneurial enterprises have the opportunity to explore traditional markets, expand into new markets domestically and internationally. Especially, the state's support for training, information, trade promotion, and commercialization is a very favorable incentive that contributes to boosting high growth in exports and promoting economic growth during the period of economic integration.

Fifthly, support for the use of technical facilities, incubation facilities, and shared workplaces.

Innovative entrepreneurial enterprises will be supported with 100% of the cost of using equipment at technical facilities that support small and medium-sized enterprises. At the same time, they will also receive 50% support, not exceeding 5 million VND/month/startup, for participation fees at incubation facilities and shared workplaces for innovative entrepreneurial enterprises. Many businesses in the production sector currently have a need to use equipment related to measurement, analysis, inspection, and product testing, which can be quite expensive to serve their production and business needs. However, investing in these devices requires significant capital, which often exceeds the capacity of small and medium-sized startups. Therefore, the state's 100% support for the cost is essential to enable businesses to use equipment at technical facilities to effectively serve their production and business needs. In addition, innovative entrepreneurial enterprises are also favored with a 50% support rate for participation fees in incubation facilities and shared workplaces, provided that the support amount does not exceed 5 million VND/month. Thus, the state's support for innovative entrepreneurial enterprises in using technical facilities, incubation facilities, and shared workplaces has reduced the difficulties in investment and equipment procurement, helping businesses conduct production and business activities smoothly and make breakthroughs in economic growth.

Sixthly, support for investment in innovative entrepreneurial enterprises.

To support innovative entrepreneurial enterprises, investors provide capital to carry out business activities through capital contribution, share purchase, and capital contribution of small and medium-sized startups. Moreover, according to the regulations in Decree No. 38/2018/NĐ-CP detailing investment in small and medium-sized startup businesses, innovative entrepreneurial enterprises are supported by using the science and technology development fund of the enterprise, startup investment fund, and local budget for startup investment. These favorable legal corridors will allow innovative entrepreneurial enterprises to receive investment from individuals and organizations participating in the investment in their own startup projects. At the same time, innovative entrepreneurial enterprises are allowed to use the enterprise's science and technology development fund for investment and receive support from the local budget, creating opportunities to quickly and strongly implement their startup ideas and maximize efficiency.

Furthermore, according to Article 2, Article 17 of the 2017 Law on Support for Small and Medium-sized Enterprises, innovative entrepreneurial enterprises are also supported by a policy of interest rate subsidy for loans. This interest rate subsidy is implemented through credit institutions. However, this is an infrequent support measure, not implemented immediately, and is only used during specific periods when decided by the government.

In summary, the aforementioned support measures are all provided by the state to innovative entrepreneurial enterprises by transferring specific benefits from the state to innovative entrepreneurial enterprises. These specific benefits are derived from the state budget, and innovative entrepreneurial enterprises are the beneficiaries of this funding. The support measures are regulated by the Law on Support for Small and Medium-sized Enterprises and Decree No. 39/2018/NĐ-CP detailing certain provisions of the Law on Support for Small and Medium-sized Enterprises, and innovative entrepreneurial enterprises can access these supports if they meet the conditions and are selected to participate in the program.

### **Financial resources to support startups to innovate**

According to the regulations in Section 2, Chapter 2 of the Law on Support for Small and Medium-Sized Enterprises in 2017, small and medium-sized enterprises (SMEs) engaged in creative startups are eligible for support as stipulated by the law. The specific support for SMEs engaged in creative startups is outlined in Article 2 of this Law and further detailed in Article 21 of Decree 39/2018/NĐ-CP. However, in addition to this support, the Law on Support for Small and Medium-Sized Enterprises in 2017 still includes a provision that can be considered as defining the financial resources for supporting small and medium-sized enterprises engaged in creative startups. This provision is related to investment in small and medium-sized enterprises engaged in creative startups, specifically outlined in Article 18 of the Law on Support for Small and Medium-Sized Enterprises in 2017. The financial sources for investing in and supporting small and medium-sized enterprises engaged in creative startups include: (i) the startup investment fund, (ii) local budgets, (iii) investments from individuals and organizations, both domestic and foreign.

#### **(i) Startup Investment Fund**

The startup investment fund is considered an important financial source to help startups enhance their owner's equity during the establishment and operation of the business. According to Mr. Tu Minh Hieu, the Department of Market Development and Science & Technology Enterprises under the Ministry of Science and Technology, from 2012 to the present, Vietnam ranks fourth in the region in terms of venture capital investment in startups, after Singapore, Indonesia, and Malaysia. Statistics from the Topica Founder Institute (TFI) also show that in 2017, Vietnam received 92 investment deals for innovative startups with a total capital of over USD 291 million, nearly doubling the number of deals and increasing the total investment capital by nearly 50% compared to 2016 (50 deals with USD 205 million). From the statistics, it can be seen that the amount of capital from startup investment funds invested in innovative startup companies is increasing. So, what is a startup investment fund, and what role does it play in supporting innovative startup companies? How is the operation of this fund regulated by the law?

Firstly, it is necessary to clarify the concept of the "startup investment fund." The term "startup investment fund" was mentioned in Article 18 of the Law on Support for Small and Medium-Sized Enterprises in 2017, meaning an investor for small and medium-sized enterprises engaged in creative startups. Subsequently, when Decree 38/2018/NĐ-CP was issued, the concept of the "startup investment fund" was further explained. According to Article 2 of this Decree, it stipulates: "The startup investment fund is a fund formed from the contributions of private investors to carry out investments in creative startup companies." Thus, the startup investment fund is a fund formed from private capital with the purpose of investing in creative startup companies. The operation of the startup investment fund is regulated by the Law on Support for Small and Medium-Sized Enterprises in 2017 and Decree 39/2018/NĐ-CP. According to the provisions in point (a), Clause 2, Article 18 of the Law on Support for Small and Medium-Sized Enterprises in 2017 and point (b), Clause 3, Article 5 of Decree 39/2018/NĐ-CP, startup investment funds support small and medium-sized enterprises engaged in creative startups through capital investment in these startups. However, this investment must adhere to the principle of "investment not exceeding 50% of the charter capital of small and medium-sized enterprises engaged in creative startups after receiving the investment." This regulation aims to provide capital support for creative startup companies while also allowing startup founders to retain control over the company with the principle of limiting investment to not more than 50% of the charter capital.

Therefore, the startup investment fund plays a significant role in supporting small and medium-sized enterprises engaged in creative startups. Besides providing investment capital, which is one of the key factors determining the survival of a business, these funds also offer startups a wide network of relationships, creating favorable conditions for their future business activities. In addition, receiving investment from the startup investment fund also means that startups will receive support through consulting activities from the leaders of the investment fund, who are usually experienced entrepreneurs and have successfully developed their businesses.

#### **(ii) Local Budgets**

In addition to the startup investment fund as a private investment source, another financial source used to support small and medium-sized enterprises engaged in creative startups is "local budgets." According to the regulations in Clause 4 of Article 18 of the Law on Support for Small and Medium-Sized Enterprises in 2017, the local budget will be allocated to the state financial organization of the locality to invest in creative startup companies. However, the state financial organization of the locality does not invest in creative startup companies individually but collaborates with the startup investment fund to make investments. To cooperate with the state financial organization of the locality to invest in creative startup companies, the startup investment fund must meet the conditions specified in Clause 1 of Article 21 of Decree 38/2018/NĐ-CP. These conditions include:

- A commitment to invest together with the state financial organization of the locality in small and medium-sized enterprises engaged in creative startups.
- A minimum of 1 year of experience in carrying out creative startup investment activities.
- The ability to cover expenses when participating in the investment.



- Other conditions (if any).

Furthermore, the amount of investment capital from local budgets in creative startup companies is also limited to a certain extent. Specifically, according to the provisions in point (b), Clause 4 of Article 18 of the Law on Support for Small and Medium-Sized Enterprises in 2017 and point (5) of Article 23 of Decree 38/2018/NĐ-CP, "The investment capital from the state financial organization of the locality for an invested enterprise shall not exceed 30% of the total investment capital raised by that enterprise from the startup investment funds and the state financial organization of the locality." Therefore, according to this regulation, the maximum amount that the state financial organization of the locality can invest in a creative startup enterprise is 30% of the amount invested by the startup investment fund in that enterprise (the startup investment fund here is the fund that collaborates with the state financial organization for investment).

Apart from the limitations on the amount of investment capital, the state financial organization of the locality also faces restrictions on the investment period when investing in small and medium-sized enterprises engaged in creative startups. According to the provisions in Article 24 of Decree 38/2018/NĐ-CP: "The maximum investment period from the local budget is 5 years from the time of investment. The investment time is the date of signing the investment contract between the state financial organization of the locality and the receiving enterprise." Therefore, the state financial organization will transfer the investment capital to private investors within 5 years from the time of investment. The transfer of investment capital is carried out through the transfer of shares or contributed capital in the receiving enterprise to private investors.

From the legal provisions mentioned above, it can be seen that, in addition to the startup investment fund, local budgets are also an essential financial source that contributes to alleviating the difficulties faced by small and medium-sized enterprises engaged in creative startups during the early years of their business activities. This can be seen as a special form of support that the government provides to small and medium-sized enterprises engaged in creative startups.

### (iii) Investment from Individuals and Organizations, Both Domestic and Foreign

In addition to the main sources of funding, which are the startup investment fund and local budgets, capital investment from individuals and organizations, both domestic and foreign, is also a significant financial source to effectively support small and medium-sized enterprises engaged in creative startups. Decree 38/218/NĐ-CP provides a legal framework for the activities of investing in small and medium-sized enterprises engaged in creative startups by individual investors, organizations, both domestic and foreign. According to this Decree, investors have the right to carry out creative startup investment activities in various forms:

- Capital contribution to establish, purchase shares, or contribute capital to small and medium-sized enterprises engaged in creative startups.
- Establishment and capital contribution to the startup investment fund to carry out investments.

Currently, one of the prominent sources of private investment in small and medium-sized enterprises engaged in creative startups is the investment from "Sharks" through the reality TV show "Shark Tank Vietnam." Through this program, the "Sharks" (investors) have been purchasing shares or contributing capital to small and medium-sized enterprises engaged in creative startups seeking investment. According to statistics, in the first season of the program, a total of VND 116.65 billion (approximately USD 5 million) was invested by four key "Sharks" and guest "Sharks." The most notable investment was made in the technology startup Gcalls, which received VND 23 billion (approximately USD 1 million) from Shark Thai Van Linh. This was followed by a VND 15 billion (approximately USD 650,000) investment in Soya Garden by Shark Nguyen Ngoc Thuy. Thirdly, a VND 11 billion (approximately USD 475,000) investment was made in the car wash chain 5S by Shark Nguyen Xuan Phu, along with another VND 11 billion investment in the startup Power Rings by Shark Tran Anh Vuong.

This is a typical example of private funding from individual investors, both domestic and foreign, that is supporting small and medium-sized enterprises engaged in creative startups in Vietnam. From this, it can be seen that the capital from individual and organizational investors, both domestic and foreign, is also an important resource to help small and medium-sized enterprises engaged in creative startups with good business ideas to secure the necessary funding to implement their business ideas and achieve business success.

## **Advantages and limitations of regulations and policies on supporting innovative start-ups in Vietnam**

### **The advantages of regulations and policies on supporting innovative start-ups in Vietnam**

In recent years, the activities of innovative startup enterprises have been growing both in scale and quantity. Therefore, the need for legal adjustments regarding the operations of these innovative startup enterprises is urgent and essential. Consequently, the competent state agencies in our country have issued legal normative documents for the purpose of regulating the activities of startups. Furthermore, these legal normative documents serve as a foundation and basis for guiding and enhancing policies to support the development of innovative startup enterprises in our country in the near future. The following legal normative documents are the key texts containing essential content about innovative startup enterprises in Vietnam, creating a favorable legal framework for supporting these enterprises.

Firstly, Resolution No. 35/NQ-CP on Support and Development of Enterprises until 2020 has laid out specific

tasks and assigned responsibilities to relevant authorities to achieve the ultimate goal of creating a favorable environment and providing maximum support to innovative startup enterprises in our country during the period of 2016-2020.

Through the provisions of Resolution No. 35/NQ-CP, it can be affirmed that "supporting innovative startup enterprises" is a central and critical task in the coming period. Resolution No. 35/NQ-CP has dedicated a section to define the task of "Creating a favorable environment to support startup enterprises, innovative enterprises." Not only does it outline the tasks, but it also provides solutions for implementing these tasks.

Specifically, with regard to the task of creating a favorable environment to support startup enterprises and innovative enterprises, Resolution No. 35/NQ-CP has proposed the following solutions:

First, the Ministry of Planning and Investment is the leading agency responsible for coordinating with relevant authorities to review and assess the effectiveness of policies supporting enterprises. They aim to boost the activities of the Small and Medium Enterprise Development Fund, the National Technology Innovation Fund, etc., to increase funding sources for startup enterprises. Additionally, they are tasked with establishing and operating business incubation models, business support centers, programs for accelerating technological innovation and entrepreneurship.

On Monday, assign tasks to relevant ministries and departments to achieve the common goal of supporting and developing businesses in general and innovative startups in particular. Specifically, in Section II.2 of Resolution 35/NQ-CP, it is stipulated as follows: (i) The Ministry of Science and Technology will implement the Project to support the innovative startup ecosystem. (ii) The Ministry of Education and Training, in coordination with the Ministry of Labor - Invalids and Social Affairs and the Ho Chi Minh Communist Youth Union, will develop a project to support student startups. (iii) The Ministry of Agriculture and Rural Development, in coordination with relevant ministries and agencies, will propose mechanisms and policies to create favorable conditions for businesses to access and use land efficiently.

By clearly assigning tasks to various agencies in each sector and stage of the process to support innovative startups, Resolution 35/NQ-CP has facilitated the smooth implementation of the goal of supporting innovative startups with the support and coordination of many related agencies. This makes it easier to achieve the set objectives and increases the feasibility of success. Thus, Resolution 35/NQ-CP has created a legal framework and is an integral part of the legal framework that facilitates effective support for innovative startups in practice.

Secondly, Decision No. 844/QĐ-TTg on approving the "Supporting the National Innovative Startup Ecosystem until 2025" project serves as the basis for determining the two most important factors in supporting innovative startups: the recipients of support and the sources of funding used to enhance support for these businesses.

In line with the tasks outlined in Resolution No. 35/NQ-CP on approving and implementing the "Supporting the National Innovative Startup Ecosystem" project, on May 18, 2016, based on the proposal of the Minister of Science and Technology, the Prime Minister signed the Decision on approving the "Supporting the National Innovative Startup Ecosystem until 2025" project. This project is one of the essential documents that provide a legal basis for supporting innovative startup activities in Vietnam in the near future. Specifically, the project outlines detailed provisions regarding its objectives, the beneficiaries of support, the project's activities, and the financial resources required to achieve its goals.

Firstly, the project clearly states its objective: to create a favorable environment to promote and support the formation and development of businesses capable of rapid growth based on the exploitation of intellectual assets, technology, and new business models (this is a preliminary understanding of innovative startups before an official definition was established). By defining the project's objectives clearly, Decision No. 844 has become an essential legal framework and a guiding principle for supporting innovative startups in Vietnam in the coming years.

Secondly, the project identifies the beneficiaries of support as innovative startup businesses. It also highlights the specific activities required to achieve the goal of promoting and supporting the formation and development of innovative startup businesses. These activities are detailed as follows: (i) Establishing a national innovative startup information portal; Creating a hub for innovative startup support services. (ii) Developing training activities, enhancing capacity, and providing services for innovative startup businesses; Developing physical and technical infrastructure to support innovative startup activities. (iii) Supporting funding for the creation of communication programs on innovative startup activities; Providing funding to connect Vietnam's startup and venture capital ecosystem with the region and the world; Encouraging the use of science and technology development funds. (iv) Researching, proposing new legislation, amendments, and supplements to necessary legal documents to promote the innovative startup ecosystem.

Thirdly, the project also specifies the budget allocated for implementing the outlined activities. Specifically, in Section IV of Decision No. 844, the project allocates funding from various sources, including: a) State budget funds allocated for science and technology to the Ministry of Science and Technology and related ministries, and localities. b) Funding from the state budget allocated to ministries, sectors, localities, research institutions, and training institutions. c) State budget funds allocated to political-social-professional organizations. d) Other legitimate financial sources from domestic and foreign investment funds, organizations, individuals, and

research and development funds.

From these analyses, it is evident that the project has established a general framework for supporting innovative startups in Vietnam, covering tasks, activities of relevant agencies, physical infrastructure, and funding sources to serve these support activities. Consequently, relevant agencies, organizations, and individuals can closely adhere to their rights, obligations, and responsibilities outlined in the project and work towards improving the effectiveness of support activities.

Thirdly, the Law on Support for Small and Medium-sized Enterprises (SMEs) in 2017 and the corresponding guidelines.

Alongside Resolution No. 35/NQ-CP and Decision No. 844, the Law on Support for Small and Medium-sized Enterprises in 2017 has also created a favorable legal framework and a solid legal basis for supporting innovative startups in Vietnam in the upcoming period. Key provisions regarding support for innovative startups in the Law on Support for SMEs in 2017 include:

Firstly, it provides an official definition of innovative startup enterprises. The concept of innovative startup businesses had been in use for some time before the Law on Support for SMEs in 2017. However, it was only through this law that the term "innovative startup enterprises" was legally defined in Article 3, Clause 2, which states that "innovative startup enterprises are small and medium-sized enterprises established to realize ideas based on the exploitation of intellectual assets, technology, new business models, and have the potential for rapid growth." Thus, through this definition, we can begin to understand the concept of innovative startup enterprises, which forms the basis for identifying and supporting these businesses.

Secondly, the law specifies the types of support and investments available for innovative startup enterprises. In particular, the law dedicates Articles 17 and 18 to regulating support for innovative startup enterprises, and these provisions are further elaborated on in two decrees: Decree No. 39/2018/ND-CP and Decree No. 38/2018/ND-CP. Specifically:

Decree No. 39/2018/ND-CP provides more detailed options for flexible support to innovative startup enterprises: (i) Innovative startup enterprises can access shared working spaces; access organizations that support startup businesses, service providers, technical facilities, incubation facilities, and business promotion facilities; and access venture investment funds when meeting specific criteria. (ii) Innovative startup enterprises can receive national and international awards; obtain certificates and protection for innovations and inventions; be certified as high-tech enterprises, and more.

Furthermore, to enhance feasibility and effectiveness in supporting small and medium-sized enterprises, Decree No. 39/2018/ND-CP also stipulates conditions for small and medium-sized enterprises with high potential to have the opportunity to directly select a highly professional council for support. This provision creates an opportunity for promising startup enterprises to grow rapidly.

Moreover, innovative start-up small and medium-sized enterprises are also supported with intellectual property consultancy, intellectual property exploitation and development; mutually support procedures for standards, technical regulations, quality measurement, testing, perfection of new products and new business models; support on technology transfer application; support for training, information, trade promotion, commercialization ... support participation in industry clusters and value chains - This is a form of business cooperation that brings high efficiency in the context of deeper and deeper regional and international economic integration. This mechanism will create conditions for small and medium-sized enterprises to have the opportunity to improve their capacity as well as bring greater benefits when participating in the value chain as well as becoming a member of the industry cluster.

Limitations in regulations and policies on supporting innovative start-ups in Vietnam

In addition to the advantages achieved in the regulation of policies supporting innovative startup businesses, through the process of research and investigation, the author's group would like to point out some legal limitations and existing issues in the support of innovative startup businesses today. Specifically:

First, the regulations for supporting innovative startup businesses are not effective and reasonable.

According to the provisions of Article 1, Article 17 of the Law on Support for Small and Medium-sized Enterprises in 2017, and Decree No. 39/2018/ND-CP detailing a number of articles of the Law on Support for Small and Medium-sized Enterprises, innovative startup businesses can access support measures if they meet the specified conditions. Unlike many other countries, Vietnam does not have specific conditions for each type of support for innovative startups, but instead applies general conditions. Therefore, an innovative startup business only needs to meet the general conditions to access support measures if needed. If it cannot meet these conditions, it cannot access any support. It can be seen that this approach of the Law on Support for Small and Medium-sized Enterprises in 2017 and Decree No. 39/2018/ND-CP is not really effective.

One issue is that the law specifies various support measures, but each measure requires different levels of state resources. For example, support for information, procedures, and training does not require significant resources, while support for credit, tax, and investment requires substantial resources and is only available to a limited number of eligible innovative startup businesses.

Second, the law primarily focuses on support measures in the form of subsidies.

According to the provisions of the Law on Small and Medium-sized Enterprises in 2017, the support measures for innovative startup businesses mainly focus on subsidies and do not adequately address other effective support forms, such as support for procedures or exemptions and reductions of obligations for innovative startup businesses. This concentration on subsidies has led to ineffective implementation in practice.

One reason is that implementing these support measures takes time. To carry out these measures, the state budget must allocate certain resources, which may not be readily available. This leads to delays in the implementation of support measures. Another reason is that the scope of support is limited. Even if the state budget can provide the necessary resources, there may still be constraints on the amount of support that can be provided due to budget constraints. Therefore, combining subsidy-based support with other forms of support, such as procedural support or obligation reduction, would be much more effective.

Third, support measures for indirect beneficiaries, such as investors in innovative startup businesses, are unclear.

Article 3, Article 18 of the Law on Support for Small and Medium-sized Enterprises in 2017 stipulates that investors in small and medium-sized startup enterprises in the creative startup field are exempted or subject to reduced corporate income tax for income from investments in these businesses. However, this provision only outlines the general principle of tax incentives and does not specify the amount of incentives, the procedures, or the process for obtaining incentives. This lack of clarity can raise uncertainty among investors and hinder investment in innovative startup businesses.

Furthermore, support measures for investment funds (venture capital funds) only specify the organizational and operational models of these funds, as detailed in Decree No. 38/2018/ND-CP, without specifying the level of incentives or the conditions for receiving incentives.

It can be seen that the regulations regarding support for investors in innovative startup businesses are not clear. This issue stems from the fact that tax-related legislation is separate from other regulations, and there is no unified approach to providing tax incentives for innovative startup businesses. This lack of clarity in tax incentives for investors and other support entities needs to be addressed to encourage investment in innovative startups.

## CONCLUSION

In summary, there are several legal limitations and challenges in the current support system for innovative startup businesses in Vietnam. These include the lack of specific conditions for each type of support, a focus on subsidy-based support, unclear support measures for indirect beneficiaries, and a lack of support for various entities in the startup ecosystem. Addressing these issues and refining the legal framework can help promote and sustain the growth of innovative startup businesses in Vietnam.

## REFERENCE

1. National Assembly, Law on Support for Small and Medium-sized Enterprises 2017
2. Government, Decree No. 39/2018/ND-CP: Detailed regulations on some provisions of the Law on Support for Small and Medium-sized Enterprises.
3. Government, Decree No. 38/2018/ND-CP: Detailed regulations on investment in innovative startups for small and medium-sized enterprises.
4. Government, Resolution No. 35/NQ-CP: Support and development of enterprises until 2020.
5. Prime Minister, Decision No. 844/QĐ-TTĐ: Approval of the "National Ecosystem Support for Innovation and Creativity Startups until 2025" project.
6. Thua Thien Hue Provincial People's Committee, Decision No. 39/2018/QĐ-UBND: Regulations on some policies to support small and medium-sized enterprises in Thua Thien Hue province.
7. Thua Thien Hue Provincial People's Committee, Decision No. 1540/2017/QĐ-UBND: Plan to support the innovation and startup ecosystem in Thua Thien Hue province from 2017 to 2020, with a vision towards 2025.
8. Thach Le Anh (2016), Venture Capital: Capital Solution for Innovative Startup Enterprises, Head of Vietnam Silicon Valley.
9. Report on "Research on Mechanisms to Support Innovative Startup Enterprises: International Experience - Proposed Solutions for Vietnam" (VCCT, 2017).
10. Nguyen Van Thinh (2018), Improving the Legal System to Support Startup Enterprises, Central Economic Management Research Institute, Hanoi.
11. Ly Phuong Duyen (2018), Tax Policies for the Startup Ecosystem in Vietnam, Financial Academy, Hanoi.
12. Le Xuan Truong (2018), Tax Incentives for Startup Enterprises: Key Issues, Financial Academy, Hanoi.

13. VCCI (2017) Research Report on Mechanisms to Support Innovative Startup Enterprises: International Experience - Proposed Solutions for Vietnam.
14. Nguyen Thi Tra My (2019), Legal Support for Startup Enterprises: Current Situation and Solutions.
15. Aho, Esko, Jozef Cornu, Luke Georghiou, and Antoni Subira. (2006). Creating an Innovative Europe. Report of the Independent Expert Group on R&D and Innovation appointed following the Hampton Court Summit.
16. Government (2022). Resolution No. 02/NQ-CP on the major tasks and solutions for improving the business environment and enhancing national competitiveness in 2022.
17. Cirera, X. et al. (2021). Firm-Level Technology Adoption in Vietnam, The World Bank (Policy Research Working Papers).
18. Dongmin Kong, Bohui Zhang, Jian Zhang (2022). Higher education and corporate innovation, *Journal of Corporate Finance*, Volume 72, 2022.
19. Edler, Jakob, and Jillian Yeow. (2016). Connecting Demand and Supply: The Role of Intermediation in Public Procurement of Innovation. *Research Policy*.