

## Funds For Startups In Vietnam

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### ABSTRACT

In the present age, startup phenomenon which is new with authors as well as investors is increasingly notable because of its nature and contribution for the nation's economy. A lot of theoretical researches and experimental tools have been triggered to understand and foster the lives of new ventures. Among resources that startups need to survive, the important of money resource is undeniable. However, almost small businesses have a shortage of it and are difficult to reach the fulfillment of financing methods. The reasons for this are they are new and get a lot of risks which hardly meets the criterion of traditional investors. To solve the gap of fund for startups, some new financing methods are suitable and approachable, crowdfunding is one of them. This paper aims two goals, firstly, describing the increase of that new method as well as the role of it to new ventures all over the world and in Vietnam, secondly, suggesting some solution direction to improve the effectiveness of crowdfunding activities in Vietnam.

### CROWDFUNDING

**Crowdfunding** is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding is a form of crowdsourcing and alternative finance (Wiki, 2019).

Crowdfunding can be defined as a practice of funding startups or small firms or a project by raising small amounts of money from a large number of people utilizing online social media such as Facebook, Twitter, LinkedIn and other specialized blogs (Adhikary, 2018). This funding way is considered appropriate with firms or groups that are not in a network enough to fund the plan themselves or entrepreneur facing with the lack of money at the early stage of a new venture.

Indeed, crowdfunding is of a broaden concept, crowdsourcing, which refers to a process of gaining needed resources like services, assets, knowledge or ideas from contributions of a large number of individuals, a crowd of people especially from online community rather than from the traditional employees or physical network. However, the dominant goal of crowdfunding is collecting the financial resource.

It is also seen as a form of alternative finance because of the differences from traditional finance. Firstly, in traditional ways, funds are on the whole obtained from traditional financial sources like banks, capital ventures or particular people who are in relationship with the borrowers before, while alternative finance utilizes the emergence of internet to reach a large number of people who are likely unknown each other but with the common interest in a product idea. Secondly, in traditional finance, an amount of money is compulsory as a compensation for investors but it is not in alternative ways.

According to Gerber (2013), crowdfunding platforms provide dedicated project pages, analytics and project monitoring, and tutorials prior to and throughout the campaign. Creators also rely on additional social media platforms like Facebook and YouTube to publicize their request for funds from supporters.

To launch a crowdfunding campaign on an online platform, there are five steps to be taken care of by the investees (Hui et al, 2014). First, they prepare the campaign material. These materials involve creating a project profile, which typically includes a title, video or description passage of the idea, a plan of using funds, funding goal, campaign duration, and reward description. Besides, entrepreneurs might contact and fill out all the required fields online to the assessment of platforms' operators, and if the project is approved, the platform presents their work in a preformatted page where visitors can choose to donate. Next, they test their campaign material. In this stage, creators solicit feedback on their project description which is commonly in image or video and modify if necessary to make the project introduction more interesting with the aim at attracting more attention from the crowd. Third, they publicize the project during the live campaign. At this phase, creators seek for the responds of potential supporters as well as they try to spread the information about the campaign through lots of means, including the crowdfunding platform itself, email, and online social media, as well as offline communication technologies and in-person requests. Finally, when the campaign is over, they follow through with their proposed project. This stage of work involves producing and delivering the promised rewards. Rewards range from having one's name acknowledged in the movie credits, to getting the new crowdfunding product, to receiving a simple "thank you" email from the creators.

Example: Campaign Long Than Tuong in Vietnam was a successful case of crowdfunding because it obtained 330 million Vietnam dongs which was over the initial goals. The rewards given to the contributors were really diverse at that time. They were for example, from a comic book, a T shirt, a thank-you postcard designed by author to being a supporting character in the comic story or becoming an agency with discount cost of goods sold.

In term of responsibility, crowdfunding platforms employ two different funding models to creators: all or nothing or all and more. The all or nothing funding model, for example, employed by Kickstarter, requires all funds to be returned to the supporters if the creators do not reach their stated goal (Kickstarter, 2013). The all and more funding model, such as RocketHub allows creators to keep all funds even if their funding goals are not achieved (RocketHub, 2013; IndieGoGo 2013). If the goal is reached, platforms require the creators to pay a platform usage fee to the crowdfunding platforms for services (between 3 % and 9 % of fund) and payment processing fee (between 3% and 5% of funds raised) to an established online payment processing system, such as Amazon Payments or PayPal (Kickstarter 2013; RocketHub 2013; IndieGoGo 2013)

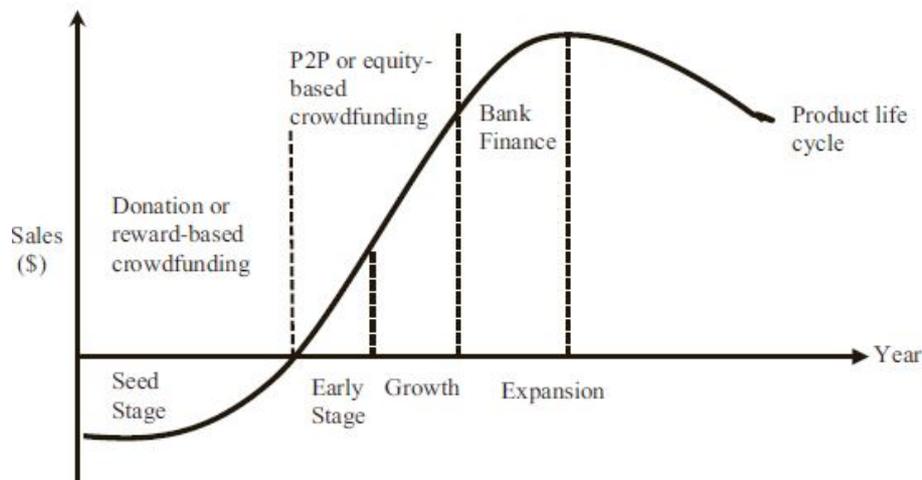
For example, with Fundstart, a popular crowdfunding platform in Vietnam, entrepreneurs are required to pledge 2 milion Vietnam dongs and this amount of money will be returned to the creators after the project funding campaign has finished. If the campaigns achieve the target, creators have to pay 4,5% - 8% of the collected fund for service usage and transaction fee. However, if it does not, the creators only pay for transaction fee and all the collected funds, no matter how much they are, are returned to the donators. In case the project is not executed as promised or the committed obligations are not fulfilled, the creators must pay money and expense to Fundstart as well as the backers as governed in the contract.

### **BENEFITS OF CROWDFUNDING**

As it is said before, crowdfunding is appropriate to the early stages of new ventures or product ideas because of two reasons. First, it can catch the attention of crowd by innovative, interesting product idea or by its social benefit purpose of the product. The investors, in this case have the feeling of sponsor to solve the common problems or motivate the launch of their favourite product through reasonable investment. Second, while a lot of professional investors

would focus on financial risk, they need pilot-report on revenue or customer satisfaction of a new product. Backers for crowdfunding platforms do not, they could choose a suitable option with their level of risk acceptance so that they can maximize their investment. Therefore, it is harder for a startup to meet the expectation of traditional finance investors. Fig. 1 indicates that crowdfunding is suitable for the seed, the early and the growth stages of a venture while at the latter growth, the expansion, finance from banks support its development.

**Figure 1: The types of financing upon the venture stages.**



**(Source: Adhikary, 2018)**

Crowdfunding is a useful way to raise community’s attention to the idea and the entrepreneur could partly assess the feasibility of the product through online traces such as views, likes and primarily through the amount of investing money. If the project fails to obtain the funding goal, the investee could modify the idea again so that it could meet the expectations of customers in the future.

When you publicize the idea, it is also a way of marketing your product. If the product is interesting enough, it will spread over the community with a fast pace. To enable this process, some online tools like landing pages, banner, clips are essential. Besides, there are a lot of crowdfunding platforms with reputation and easy access to supply convenient ways to raise fund, supplying the mentor services such as: feasibility assessment, marketing tools. Therefore, entrepreneurs could save a lot of time and focus on developing product or business concept. If there is only traditional finance, startup owners should do a range of things from idea generating, building business plan to approach the investors and solicit their investment on the plan.

If you are afraid of the intervention of any dominant investor, crowdfunding is the good way to reduce this risk. With diverse choices of compensation and the rule when participating in crowdfunding financing, you can choose the appropriate way to avoid the manipulation from outside investors but make them satisfy with the return

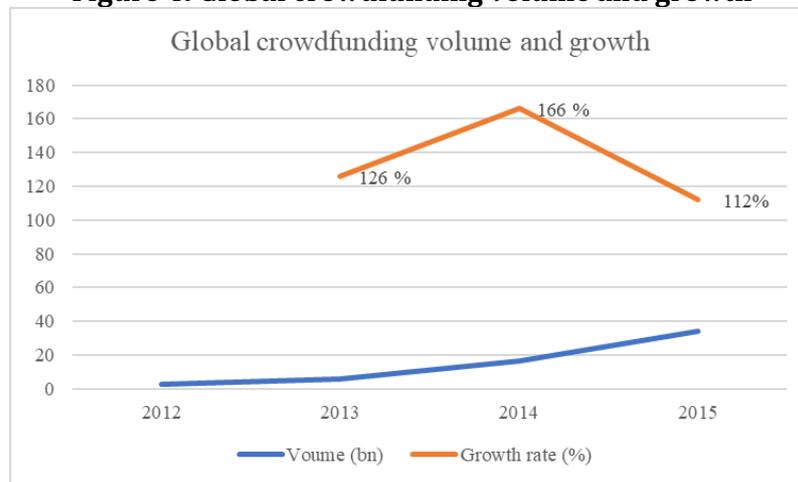
There are also drawbacks of alternative finance. For examples, the risk of being copied the idea or being refused by community by the unfulfilled assessment from unprofessional estimators. However, the benefits outweigh the drawbacks.



### KEY STATISTICAL NUMBERS OF GLOBAL CROWDFUNDING

Since the first crowdfunding platform was established in 2001 (Wharton, 2010), there have been more than 400 crowdfunding platforms all over the world. According to Massolution Crowdfunding Industry 2015CF Report, these platforms gained 34,4 billion USD in funding activities.

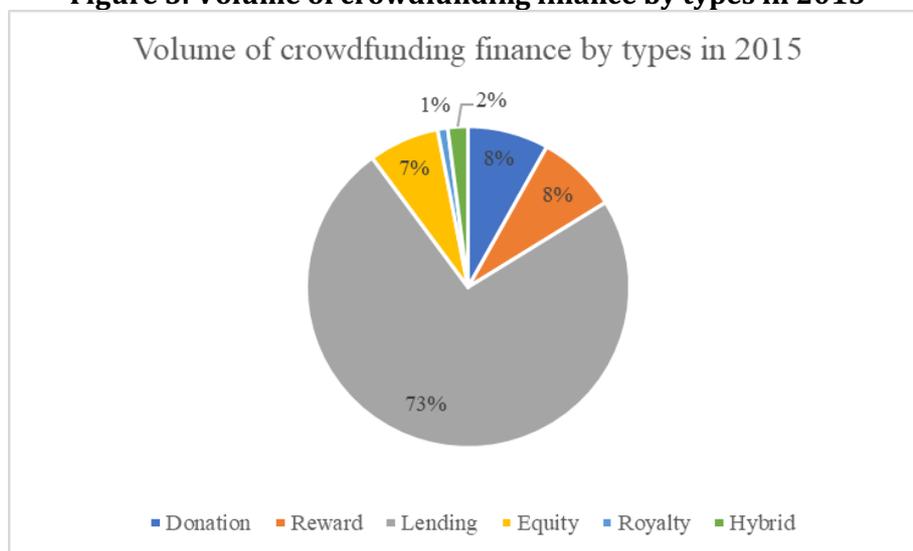
**Figure 4: Global crowdfunding volume and growth**



**(Source: from Massolution report, 2015)**

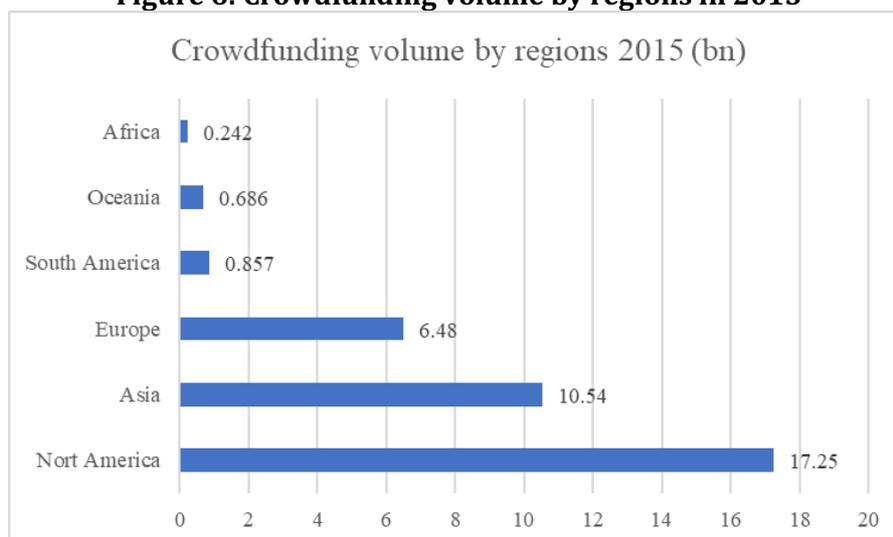
Fig.4 shows that the crowdfunding industry gradually grew from 2.7 billion in 2012 to 34.4 billion in 2015 and the average growth rate is 134 %. In 2014, the industry increased nearly 166 % in comparison to 2013 and it was the highest growth rate over the period. After 2014, the growth rate decreased to 112 % in 2015 compared to 166 % in 2014. However, the growth rate of the industry is still absolutely considerable.

**Figure 5: Volume of crowdfunding finance by types in 2015**



**(Source: from Massolution report, 2015)**

Fig. 5 exhibits that among four typical crowdfunding models, the lending models valued the highest portion - 73 % with 25 billion USD while the reward and donation models were 8 % and 7 % respectively and were 5.5 billion USD totally, occupying 15 %. The smallest portion of the fours is equity – based one, accounting for 7% with 2.5 billion USD. These numbers show that lending model was the most attractive one at that time.

**Figure 6: Crowdfunding volume by regions in 2015**

(Source: from Massolution report, 2015)

In terms of the size of crowdfunding industry in 2015 by regions, figure 6 indicates that the highest crowdfunding volume was in North America (17.25 bn dollars) followed by Asia (10.54 bn dollars), and Europe (6.48 bn dollars). The figures in crowdfunding finance of South America, Oceania and Africa, which were 0.875 bn dollars, 0.686 bn dollars and 0.242 bn dollars respectively, were far behind those of North America, Asia, and Europe. These number reflected that North America was the most intensive area in crowdfunding globally.

### CROWDFUNDING IN VIETNAM MARKET

Until now, there have been around 40 crowdfunding platforms in Vietnam. Some of them are domestic such as Fundstart, Comicola while others get headquarters in foreign countries like Alix Global (Malaysia), Crowdfunder (Mexico). Some typical national crowdfunding platforms in Vietnam are presented below:

#### **Fundstart**

Founded in 2015, Vietnam

Type: Reward- based model

Aim: Bridging the gap between the community and the creative project. Fundstart cares about diverse fields: Film, music, art, design, games, electronics, technology ....

Headquater: Vietnam

Active countries: Vietnam, Laos

#### **Comicola**

Founded in 2015, Vietnam

Type: Reward - based model

Aim: supporting comic industry so that every innovative idea could get fund and bring profit to both creators and investor. Besides, after the comics were published, authors could consider the option of selling them through Comicola eCommerce website.

Active country: Vietnam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Thailand

#### **Betado**

Founded in 2015, Vietnam

Type: Reward – based model

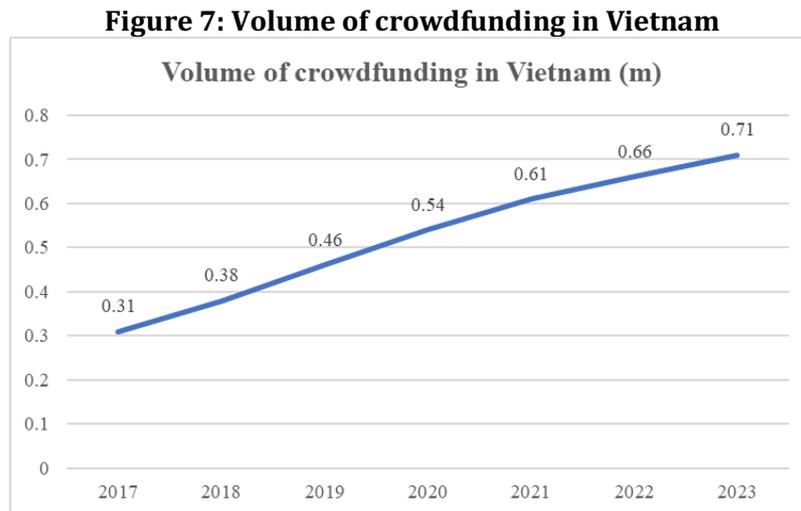
Aim: supporting authors in funding for their publishing comic

Headquater: Vietnam

Active country: Vietnam

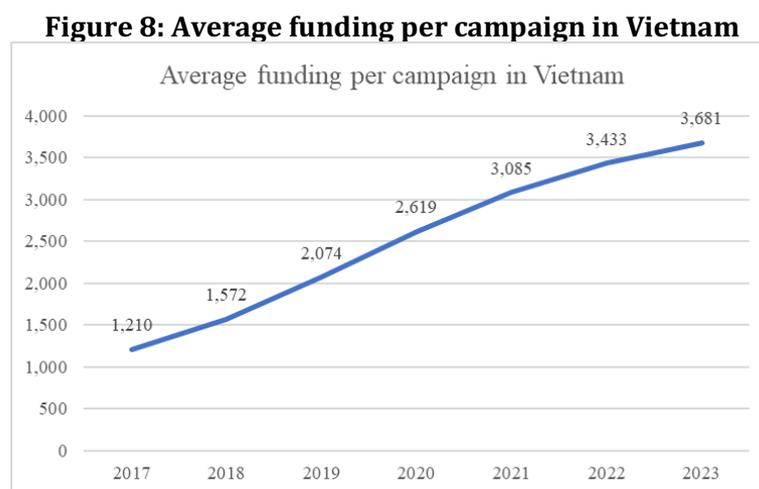
Among the three platforms above, Fundstart is evaluated as the most popular and decent page with various types of project, clear regulations and frequently updated information to both creators and investors.

According to Statista (2019), total transaction value of crowdfunding in Vietnam amounts to 0.5 million dollars in 2019, comparing to 5,575 million dollars in China, the highest crowdfunding volume in Asia region. This value is expected to show an annual growth rate (CAGR 2019-2023) of 11.4% resulting in the total amount of 0.7 million dollars by 2023 (Fig. 7)



**(Source: from Statista report, 2019)**

The average funding per campaign is predicted to grow. Fig. 8 shows that there is an increase in the amount of funding per campaign in Vietnam from 1,210 dollars in 2017 to 3,681 dollars in 2023. In fact, the average amount of a campaign in 2019 is 2,704, rising nearly 32 % compared to 2018 and over the 2019 – 2023 period, the growth rate is 20,7 % on the average which is quite impressive.



**(Source: from Statista report, 2019)**

From these statistics, crowdfunding in Vietnam market is growing however its volume is relatively negligible to the figures of other typical countries in Asia (Singapore – 2,7 million dollars, Thailand – 3,2 million dollars, Korea – 13,3 million dollars, Japan – 14,4 million dollars) and the popular of crowdfunding platforms is still subtle. There are some reasons for this issue Despite of the large number of Vietnamese using, few of them use it for the investment purpose and they are not familiar with interacting through an online platform. So, there is little

awareness of crowdfunding from the community. The fact that, startup phenomenon has gained the attention from society recently also contribute to the less common of crowdfunding, leading to the modest investments through this method.

People are more strongly influenced by the fear of being copied by others hindering them to share and discuss the business ideas online. Moreover, Vietnamese business culture which depends on personal relationships also creates the barriers for investors' intention. It is hard for them to support money to strangers, not to mention through virtual network.

There is still lack of government's regulation to monitor the crowdfunding platform as well as their activities. As a result, if there is the conflict between backer and campaign creator, it is hard to find a third party to judge the case and solve the problems. In turns, this obstructs the investors to support through this way.

The creators lack of skills to build attractive contents as well as take advantages of contribution form community. Therefore, multi-media like video, clip, online banner, additional websites and interaction have been not used efficiently to **reinforce a feasible product**. As a result, the audience do not feel the product appealing enough to invest.

There are some confusions between charity donation and project donation. Therefore, a lot of people care about the social purpose more than profit result and they just give money for product that help solving the social problem and neglect the others which makes not all the project get fund. Besides, the shortage of diverse returns also contributes to the demotivation of funding for project. Almost the crowdfunding platform in Vietnam are reward – base type.

### **RECOMMENDATIONS FOR DEVELOPING CROWDFUNDING IN VIETNAM**

Government primarily plays a role in increasing the awareness of population about the crowdfunding and the effectiveness of crowdfunding activities. This can be done by action: spreading information of new financing method, setting the regulation for crowdfunding platforms, giving supports for crowdfunding financing.

Increasing the awareness and the trust of community in new financing method through government programs, conferences and multi -media channels are necessary. Next, government should give their intervention through laws and regulations. Law for supporting small and medium business as well as decree of investing in small innovative venture went into effect in 2017 and 2018. However, there is still not Regulation for crowdfunding in Vietnam. Practically, there should be guidance for both investors and investees to not jeopardize each other's benefit like copying others' ideas or using the fund for inappropriate purpose. The operation of crowdfunding platforms should be also laid under the control of government. In this case, the USA with the Jumpstart Our Business Startups Act and the Crowdfunding Regulation enacted in 2012, 2016 respectively would be a good reference. Regulation Crowdfunding provides an exemption from the registration requirements for securities-based crowdfunding allowing companies to offer and sell up to \$1.07 million of their securities without having to register the offering with the SEC.

In a quite conservative culture like Vietnam society, crowdfunding activities should be held in region to utilize the local resources. The platform could be built on online pages of local authority to officially spread the information about the project. By this way, local citizens would focus on the projects that are raising fund in their areas and believe in the visibility of them. This also gives the motivation to local citizens to start a venture based on local

advantages and people with a modest amount of money opportunity to earn a profit. As a whole, this will affect positively on local economy.

Besides, government could enable the activities of crowdfunding platforms by establish the relationship between government office, platforms and traditional investors. Japanese crowdfunding model for example, is viewed as a "relationship-based crowdfunding model" that is oriented to generate benefits for the community or stakeholders (platforms, investors, and financial institutions) both in the short and long term. A typical crowdfunding platform - Music Securities incorporated local banks and government officials from City Office in its lending model to find attractive candidates and to receive funding supports as well, besides its registered common investors.

In terms of entrepreneurs, they should learn and improve the skills to be effective with their plans on an online platform. They should find out which platform suits their goals and master well online tools to make videos, to assess the interests of people and to modify the presentation if necessary. Besides, the business plan writing skill, clarifying the goals and the distribution of collected money are necessary to build the trust between both participants as well as make a thoughtful introduction about the project.

Innovating the reward categories as well as the type of crowdfunding models to make more appealing to the audience and stimulate them to fund the project is another essential task of the creators, platforms' operators and government. A market survey with potential investors to create demanding returns could benefit this purpose. Besides, platforms' activities should follow the direction of authority and clarify their own rules to make people clear about the responsibilities and rights could foster a healthy and various crowdfunding platform system.

## CONCLUSION

Crowdfunding is potential in Vietnam market, it gives an effective way to both entrepreneurs and small investors solving their own problems. Startups often get difficulties from obtaining funds from traditional financing method like lending from banks or through equity market, whereas, small investors do not seem to get expected interest from their small amount of money through the same investing method, not to mention the complex process when having transaction with traditional funding organizations. In practice, crowdfunding way proves it critical role through the increase of amount of money and transactions. However, in Vietnam, there are still barriers for the development of this method. Government, crowdfunding organizations and entrepreneurs are entitled in solving the problems to give the equal conditions for crowdfunding method.

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Regulation crowdfunding: <https://www.sec.gov/smallbusiness/exemptofferings/regcrowdfunding>