



FACT SHEET

Private Sector Development



Name of Programme

Private Sector Development Programme

Budget:

• for Funds:

Approximately USD 15 million (2004 – 2007)

• for Technical Assistance:

Approximately USD 12 million (2001 – 2007)

Development Funds:

- Mekong Enterprise Fund
- Mekong Enterprise Fund II
- Vietnam Equity Fund
- Blue Waters Growth Fund
- Green Credit Trust Fund

Ongoing Technical Assistance Projects:

Mekong Private Sector Development Facility (MPDF) managed by the International Finance Corporation (IFC), covering Vietnam, Lao PDR and Cambodia.

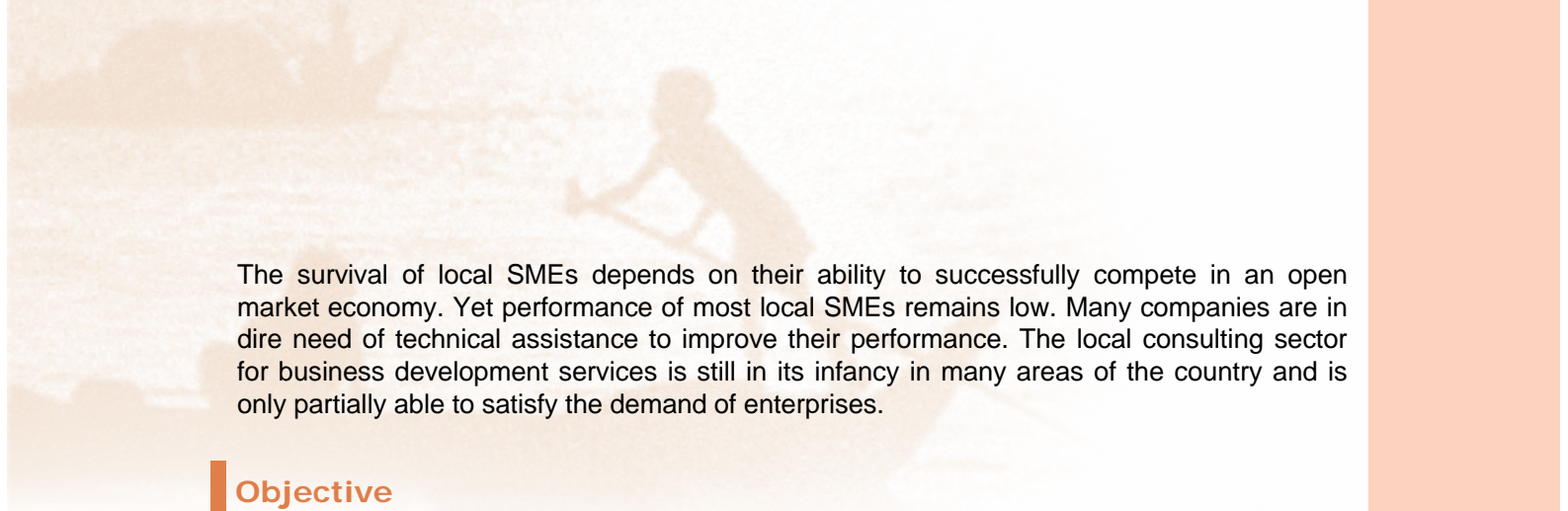
Background

Creating favourable conditions for the development of a local private sector and equitisation of state-owned companies are high on Vietnam's ambitious economic reform agenda. The government has recognised that one of the key pre-conditions for private sector development is an enabling institutional, legal and regulatory framework. Recent reforms are aimed at tapping into the significant potential contribution of Small- and Medium-sized Enterprises (SMEs) for job creation, technology innovation, diversified exports and economic decentralisation, broadening the base of tax payers, and the related positive impact on poverty reduction.

A new enterprise Law and a new Investment Law, both enacted in 2006, have led to substantial improvements in the local business environment. This, along with other reform efforts, has resulted in a boom in both local and foreign investment. Nevertheless, persistent red-tape, widespread corruption and administrative barriers still hamper the creation and development of private enterprises. Further improvements of the business environment are needed to create favourable framework conditions for enterprises to operate. The Government has expressed a strong commitment to gradually remove obstacles for businesses and create a level playing field for enterprises from all economic sectors.

Another challenge for many fast growing SMEs is access to capital to finance their rapid growth, which requires the strengthening of the financial infrastructure and of financial institutions. The lack of access to term financing is not only one of the main impediments to their business growth, but it also threatens their survival. While both local and international investment funds have recently mushroomed in Vietnam, they tend to focus on large companies and real estate projects, while local SMEs are below the typical size of their investments.

Against the background of rapid economic growth in the region, there is a need to move towards the adoption of more sustainable business practices, in order to reduce associated environmental consequences and costs. On the one hand, firms need to adopt more efficient production technology and move towards compliance with Corporate Social Responsibility (CSR) practices; on the other hand, banks need to be enabled to offer financing products suitable for energy efficiency and cleaner production investments.



The survival of local SMEs depends on their ability to successfully compete in an open market economy. Yet performance of most local SMEs remains low. Many companies are in dire need of technical assistance to improve their performance. The local consulting sector for business development services is still in its infancy in many areas of the country and is only partially able to satisfy the demand of enterprises.

Objective

The overall goal of the Programme is to mobilise private sector resources to fight poverty by promoting strong and sustainable development of the private sector, namely by contributing to a business enabling environment, facilitating access to capital for SMEs and improving the access of local SMEs to business development services.

Approaches


The State Secretariat for Economic Affairs (SECO) applies a three-pronged approach to contribute to the development of the private sector:

- **Access to finance for SMEs**

SECO uses both commercial and grant money to facilitate SMEs' access to finance. Grant money is used to support the build-up of a sound financial infrastructure and to provide assistance to financial institutions. These measures include the introduction of innovative financing schemes with a strong demonstration potential (e.g. Green Credit Trust Fund). SECO's interventions are not intended as a substitute for private funding, and are based on risk-sharing. As a public investor, SECO fulfils an important catalytic role in mobilising private investment. In addition, SECO invests in private equity funds on commercial terms through the private management company SIFEM (Swiss Investment Fund for Emerging Markets). These funds provide longer-term finance to non-listed companies, through equity participation or quasi-equity participation on commercial terms, expecting a positive return and a successful market exit over the medium term. SIFEM must follow strict investment guidelines to ensure proper development impact as well as a good financial return. Beyond this, many of the investment funds SECO has contributed to also add value to investee companies by providing technical assistance in selected areas.
- **Strengthening the Business Environment**

SECO's support for improving the business environment in Vietnam is mainly channeled through the Mekong Private Sector Development Facility (MPDF). MPDF has been actively lobbying the Government on ways to enhance conditions for private sector development by assisting in the reform process of the Investment and Enterprise Laws. The programme is also actively engaged in supporting the development and implementation of key policies, regulations and institutions at the national and sub-national level. To address the problem of complicated procedures, corruption, and red-tape, the Programme is working with the national and local authorities to simplify business registration and licensing.
- **Sustainable Management for SMEs and Financial Intermediaries**

Another aim of SECO's assistance programme in Vietnam is to render the local economy more competitive. SECO is active in providing SMEs, financial intermediaries and service providers with targeted business services and assistance through its partner, MPDF. One of MPDF's main activities has been to strengthen local enterprises' core business skills and to contribute to the development of a local business development service sector.



The Private Sector Development Programme is fully aligned with the Government's strategy of economic reform, in particular its aim to create favourable conditions for private sector SMEs to develop. The programme is well coordinated with initiatives of other donors. It results in synergies SECO's Trade Promotion Programme, which contributes towards enhancing the competitiveness of local enterprises and enhancing their access to international markets. It is also complementary to SECO's Financial Sector Programme, which aims at improving banking services to SMEs, strengthening financial markets and contributing to the establishment of favourable macro-economic conditions in general.


Investment Funds

- **Mekong Enterprise Fund (MEF)**

MEF is a highly successful USD18 million private equity fund established in 2002 with an expected lifespan of 10 years. Managed by Mekong Capital in Ho Chi Minh City, its focus lays on investments in well-managed private SMEs in Vietnam. The Fund's Official Net Asset Value was approximately USD37 million at the end of 2007. The average annual revenue growth rate of the Fund's investee companies has been 34.5% within the period of investment, while their average annual net profit reached approximately 46.9%. MEF strives to add significant value to the companies in which it invests. This is done through supporting them, building up their management teams, making improvements to financial reporting systems and increasing operational efficiency – all of which is intended to lead to faster growth and successful listings of the companies' shares on a stock market. Technical assistance provided to investee companies played a pioneering role in introducing best practices such as Lean Manufacturing, Six Sigma and Activity Based Costing to the Vietnamese business community. Besides SECO (represented by SIFEM), investors are chiefly developing finance institutions, including the Asian Development Bank (ADB), the Finnish Fund for Industrial Cooperation (Finnfund), the Belgian Investment Company for Developing Countries (BIOS) and the Nordic Development Fund (NDF). SECO's investment into the fund amounts to USD 3 million.
Further information is available at: www.mekongcapital.com
- **Mekong Enterprise Fund II (MEF II)**

As the successor fund to MEF, MEF II is a USD 50 million private equity fund, launched in June 2006. The Fund invests into the most well managed private companies in Vietnam, mainly those which have a serious plan to list on a stock exchange in Vietnam, and which have demonstrated a high level of commitment to continuous improvement with a typical investment size of USD 4 – 6 million per investment. The expected lifespan of the Fund is 10 years. When the Fund makes an investment, it expects to hold the investment for 5 to 7 years. As with MEF, MEF II puts an emphasis on adding significant value to investee companies through post-investment assistance projects, particularly in areas that will contribute to profit growth and improve opportunities for exits. MEF II has 25 shareholders, including emerging markets funds, family offices, high net worth individuals, financial institutions and government-related agencies, mostly investors of MEF. SECO invested a total of USD 5 million into the fund.
Further information is available at: www.mekongcapital.com
- **Vietnam Equity Fund**

The Vietnam Equity Fund is a private equity fund, managed by Finansa Fund Management. Its primary investment focus is Vietnamese State Owned Enterprises (SOEs) that have equitised or are in the process of equitisation. Equitisation refers to the process of selling SOE shares to employees and outside investors.



It will seek to add value through advising investee companies in areas such as improving financial structuring and corporate governance, and preparing for a listing. By investing in equitising or equitised SOEs it will contribute to the improved management of these enterprises, as well as to the transformation of the Vietnamese economy into a market-oriented economy. The Fund has a capital of EUR 15 million and expects to make investments in the range of EUR 500,000 to EUR 1 million, although it will consider smaller investments in companies identified as candidates for more significant investment at a later date (“facilitating investments”). Besides SECO, four other development finance institutions have invested in the Vietnam Equity Fund: the “Deutsche Investitions- und Entwicklungsgesellschaft” (DEG), the Finnish Fund for Industrial Cooperation (Finnfund), the Norwegian Investment Fund for Developing Countries (Norfund), and Proparco (France). SECO’s investment into the fund totals EUR 2 million.

Further information is available at: <http://www.finansa.com>

- **Blue Waters Growth Fund (BWGF)**

The Blue Waters Growth Fund, managed by the Small Enterprise Assistance Fund (SEAF), is a USD 20 million equity investment fund, investing into private sector SMEs in Vietnam at an early stage of their expansion, using an innovative risk-sharing investment strategy, complemented with comprehensive and demand-driven technical assistance. The BWGF seeks to provide the growing Vietnamese private sector with a cash flow based lending instrument, answering to an extensive and largely unmet market demand for SME finance. Typical investment size is between USD 100,000 and 2 million, thus below the typical investment size of MEF I and II. Initially structured as a closed-end 10-year life fund, it is intended that the BWGF be converted into a finance company upon achievement of an adequate track record. BWGF managed to raise USD 20 million, with the initial investors being SECO (USD 7 million), FinnFund (USD 7 million) and FMO (USD 6 million). The involvement of other investors, which either enter into a due diligence arrangement or have shown interest in joining, are expected to bring BWGF’s size to approximately USD 30 million.

Further information is available at: www.seaf.com

- **Green Credit Trust Fund (GCTF)**

The Green Credit Trust Fund (GCTF) is an instrument for the promotion of SME investments which result in a positive impact on the environment. GCTF facilitates access to finance for SMEs with insufficient collateral by guaranteeing 50% of credits granted to the SMEs. If a company achieves certain environmental improvements, measured against pre-defined indicators, GCTF reimburses up to 25% of the investment costs. The environmental improvements to be achieved as well as the indicator are determined and subsequently verified by the Cleaner Production Centre (VNCPC), which received technical assistance under a SECO/UNIDO project. The green credits are provided by local banks, which are responsible for handling the credits and the possible reimbursement of the investment costs. Thus, GCTF does not directly subsidise credits or provide direct, ex-ante subsidisation for investments; instead it relies on an incentive structure. The aim of the GCTF Vietnam is to facilitate SME investment in Cleaner Production Technology and thereby to contribute to the improvement of the economic, environmental and social performance of Vietnamese SMEs. It is also expected to promote sustainable finance and the introduction of environmental risk assessments in the credit risk assessment procedures of banks. Potential synergies exist with the equity investment funds, which may introduce possible beneficiary companies to GCTF. SECO’s contribution amounts to CHF 5 million.

Further information is available at: http://vncpc.org/gc/html/home_english.html

Support to Technical Assistance Facilities

Mekong Private Sector Development Facility (MPDF III) covering Vietnam, Lao PDR and Cambodia.

- **Objectives**

The overall goal of MPDF is to support the development of a dynamic private sector in Vietnam, Cambodia and Lao PDR. MPDF builds on its extensive experience by focusing its efforts to bring about an improvement in the investment climate and in firm level competencies, thereby contributing to sustainable economic growth and poverty reduction.

- **Approaches**

MPDF III focuses its advisory services on five programme areas:

The Business Enabling Environment programme seeks to improve the framework conditions for business by supporting the development and implementation of key policies, regulations and institutions at the national and provincial level.

The Access to Finance programme aims to expand SME's access to finance by improving the financial infrastructure and strengthening financial institutions.

The Sustainability programme encourages the adoption of sustainable business practices by local private firms.

The Supply Chain Linkages programme seeks to increase the value added in selected agribusiness supply chains.

The Access to Infrastructure programme provides capacity building to SME service providers and banks. This will help to increase private sector participation in the provision of public services.

The regional approach of MPDF III allows to adapt projects that have proven successful in one market and apply them to the other two countries. The regional approach is a response to the increasing regionalisation of private sector activities in the Mekong region. The multi-sector approach allows synergies between the different areas to be exploited.

The programme links into other initiatives supported by SECO, such as the Better Work Programme, executed jointly by the International Labour Organisation (ILO) and the International Finance Corporation (IFC), the Vietnam Cleaner Production Centre, and SECO's support to improving financial infrastructure within the Financial Sector Programme.

- **Background**

The first 5-year cycle of the IFC-led MPDF was launched in 1997. It focused on facilitating access to finance by private firms, helped improve local service providers, and conducted policy research. Through its support of business services more than 1000 managers and over 800 bank personnel have been trained, and it had compiled and disseminated 12 substantive reports on private sector policy issues. Starting in 2003, MPDF II has aimed to create a business enabling environment, provide capacity building for local service providers that offer management training, and improve access to finance for SMEs. To increase impact, the focus has been on three sectors of particular importance to the national economies: garments and handicrafts, tourism and agribusiness. Several independent evaluations have concluded that MPDF I and II have been highly successful.

- **Funding and Timeframe**

The overall budget of MPDF III is USD 50 million, with SECO contributing USD 4 million for five years. Other donors of MPDF III include the European Commission, Finland, Ireland and New Zealand. The third five-year cycle of the programme will be implemented between 2008 and 2013.

- **Additional Information**

Further information is available at: www.mpdf.org