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## Attracting and Utilizing ODA in Vietnam in New Context

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### Abstract:

*In 2009, Vietnam's GDP per capital reached \$1,297 and since then Vietnam has been included in the list of middle-income countries. Thereafter, the criteria set by the donors are increasingly demanding; ODA is on the downward trend. ODA which is a form of foreign portfolio investment (FPI) with the classic view and perception as official development assistance is being shifted to a new view and perception as commercial credit. Accordingly, ODA has been transformed into official development cooperation. In coming years, in order to overcome the decline in capital, in addition to the increase in the accumulation of domestic investment, it is necessary for Vietnam to have effective measures, mechanisms and policies to attract, manage and utilize these capital sources so as to effectively avoid problems of corruption, loss, inefficient investment which result in wastage, discredit, and doubts about Vietnam's investment environment for ODA supplying partners. The article analyzes the situation, identifies limitations, inadequacies and causes and proposes solutions to enhance the attraction of ODA to Vietnam and utilization of ODA in the coming years.*

**Keywords:** ODA, attraction, utilization, solutions, Vietnam

### 1. Introduction

In the period of 2011 - 2016, Vietnam attracted more than 17.7 billion USD of ODA investment capital, this capital source mainly focused on investment in transport infrastructure construction (accounting for about 36% total ODA in Vietnam). Attracting and using ODA in Vietnam in recent years has contributed positively to socio-economic development, especially ODA is the foundation for the development and improvement of infrastructure, is a solid foundation for Foreign investors investing in Vietnam in the form of foreign direct investment (FDI), ODA and FDI all play a very important role in Vietnam's socio-economic development. However, in the new context, when Vietnam has officially become a middle-income country (by 2016, Vietnam's per capita income is over 2,200 USD), attracting and using ODA has revealed many limitations, stemming from the old point of view that ODA is a form of official development aid (through preferential credit or non-refundable aid); It is necessary to have a new perspective and recognize ODA as a form of official development cooperation with equality between the parties in ODA supply and use. Therefore, on the one hand, it is necessary to affirm the role and positive contributions of ODA for Vietnam's socio-economic development, on the other hand, it is necessary to assess the limitations in attracting and using this source of capital, determining the cause, thereby proposing solutions to attract and effectively use ODA in the new context of Vietnam, both motivating but also limiting negative effects of ODA, contributing to sustainable socio-economic development of Vietnam.

### 2. Research Methods

Methods of collecting secondary data: Reports and documents of the Ministry of Planning and Investment; Statistical yearbooks from 2011 to 2016; Report on Vietnam's socio-economic development, ODA projections in Vietnam in the new context.

Methods of data synthesis and analysis: Descriptive statistical methods; comparative analysis; professional solution; correlation method. Evaluate the relationship between the quantity and quality; assess the causes and factors affecting the attraction and use of ODA in Vietnam.

Methods of data processing: Using Excel software and some information technology application software in data processing.

### 3. Research Results

#### 3.1. Situation of Attraction and Use of ODA in Vietnam

Official development assistance ODA is a method of Foreign Portfolio Investment (FPI). Accordingly, ODA is flows of finance to developing countries and / or to multilateral organizations to transfer to developing countries that: (i) Provided by governmental organizations; (ii) Main objectives: economic growth and social welfare; (iii) Preferential nature and non-refundable element  $\geq 25\%$  (OECD, 1969).

In addition, ODA is a development cooperation activity between the State or Government of the Socialist Republic of Vietnam with donors being foreign governments, bilateral donor organizations and inter-national organizations or intergovernmental (Decree No. 131/2006 / ND-CP, 2006).

Thus, ODA is a form of investment in the form of non-refundable aid through bilateral agreements between the two Governments or lending under special preferential conditions on loan term and interest rate ... ODA aims to help underdeveloped countries boost economic growth and social welfare. ODA is implemented through multilateral aid agreements of international organizations and NGOs such as UNDP, IMF, WB, ADB, etc. (Vietnam Investment Law, 2014). Vietnam has attracted and used ODA for socio-economic development for more than 30 years since the implementation of economic innovation (1986). However, by 1993, ODA projects in Vietnam continued to increase and promote efficiency, help Vietnam replenish capital deficiency also meet the objectives of economic development - social. Along with other forms of foreign investment, ODA has really been an important resource for Vietnam's development strategy. However, along with the benefits that ODA has brought, Vietnam has also been facing negative impacts of ODA such as: The burden from foreign debt increases, the risk of dependence on partners provides ODA, inefficient use of this capital, etc. Based on research on attracting and using ODA in Vietnam, the period of 1993 - 2016, especially in the period of 2011 - 2016, the status of ODA in Vietnam is as follows:

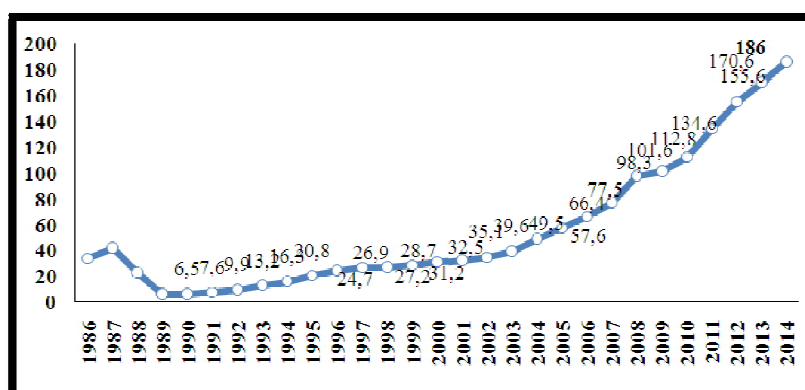


Figure 1: Vietnam's GDP (1986 - 2014)  
Source: Vietnam Statistical Yearbook, 2015

Firstly, Vietnam's 5-year average GDP growth rate (2011 - 2016) is about 5.9%. Currently, Vietnam's economic growth is ranked 2nd in Asia, the growth in the period of 1986 - 2016 averaged 6.5% per year (of which the period of 1991-1995 reached 8.2% per year; In the 1996-2000 period, it was 7.0% / year, in the 2001-2005 period: 6.9% / year, in the 2006-2010 period, it was 6.32% and the 2011-2016 period is expected to reach 5.9% / year ). Vietnam growth for more than 30 years Doi Moi ranked second in Asia after China (China reached 9.7% per year, Vietnam reached 6.5% per year, Korea 6.2% per year; Malaysia 6.0% / year, Thailand 5.2%/year. The scale of Vietnam's economy has been constantly increasing, in 1990, Vietnam's economic scale reached 6.5 billion USD, by 2000 reached 31.2 billion USD, by 2010 reached 101.6 billion USD, year 2016 reached over 205 billion USD (more than 31.5 times in 1990). Vietnam's income per capita is quite high. In 1990, income per capita reached 100 USD. 2016 will reach 2,200 USD. Vietnam officially became a low-middle income country in 2009, gradually shortening the income gap (relatively) compared to other countries. Among the resources that contribute to promoting Vietnam's economic growth, ODA is an important source of capital. The attraction and use of ODA in the new context has changed a lot.

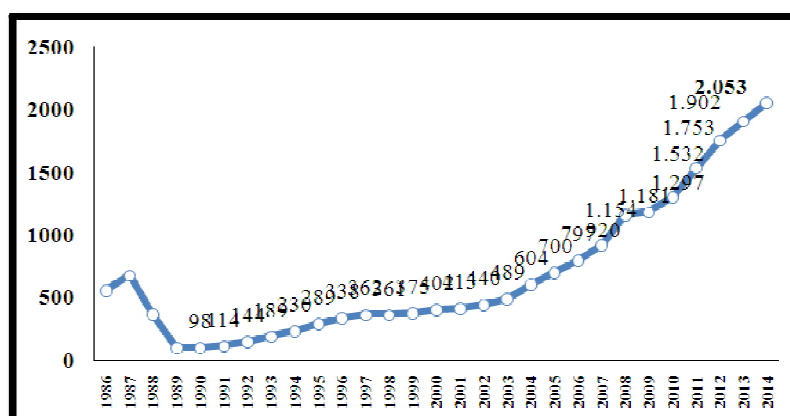


Figure 2: Vietnam's Income Per Capita (1986 - 2014)  
Source: Vietnam Statistical Yearbook and Author's Calculations

Secondly, in the period of 1993-2016, Vietnam attracted over USD 76.4 billion of signed ODA capital, the disbursement rate averaged 52%. In the period of 2011 - 2016, ODA attraction reached the highest rate (accounting for 39% of the total ODA attracted during the period of 1993-2016). Committed ODA capital during the period 1993-2016 was 94.1 billion USD, of which ODA signed was only 68.91 billion USD (reaching 73.2%), disbursed ODA rate compared to ODA signed only reached 43.2%. The period of 2006-2010 period was the largest committed ODA, but decreased after 2010

(see Table 1). This shows that, when Vietnam is classified as a middle-income country, attracting ODA is difficult and especially difficult from mechanisms and constraints for ODA and other conditions.

Period of time	1993-1995	1996-2000	2001-2005	2006-2010	2011-2016	Total
ODA commitment	6,131	11,546	14,889	31,756	29,782	94,104
ODA signed	4,954	9,006	11,495	21,131	22,325	68,911
ODA disbursed	1,875	6,142	7,887	13,860	-	29,764

Table 1: ODA in Vietnam (1993 - 2016)

Unit: USD Billion

Source: Authors' Calculations According to Data of the Ministry of Planning and Investment

In the period 2011 - 2016, ODA capital focused mainly on the sector of transport infrastructure development (accounting for nearly 36%), the sectors of environment and climate change response (accounting for nearly 19%), energy and industry sectors (accounting for 17.14%), other sectors attracting ODA accounted for less than 11% (see figure 03).

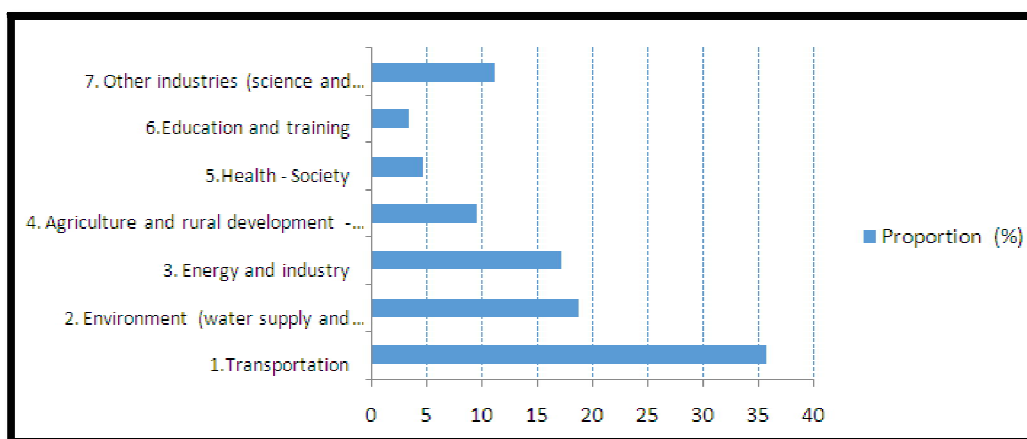


Figure 3: ODA by Sector in Vietnam (2011 - 2016)

Source: Authors' Calculations According To Data from the Ministry of Planning and Investment, 2016

ODA is provided and signed by 23 multilateral donors, 28 bilateral donors and about 600 non-governmental organizations (NGOs) from 09 international organizations and countries around the world; in which ODA is mainly provided from three major partners, Japan (accounting for 35%), the World Bank - WB (33%) and Asian Development Bank - ADB (accounting for 17%), other partners' assistance occupy lower proportion (see Figure 04).

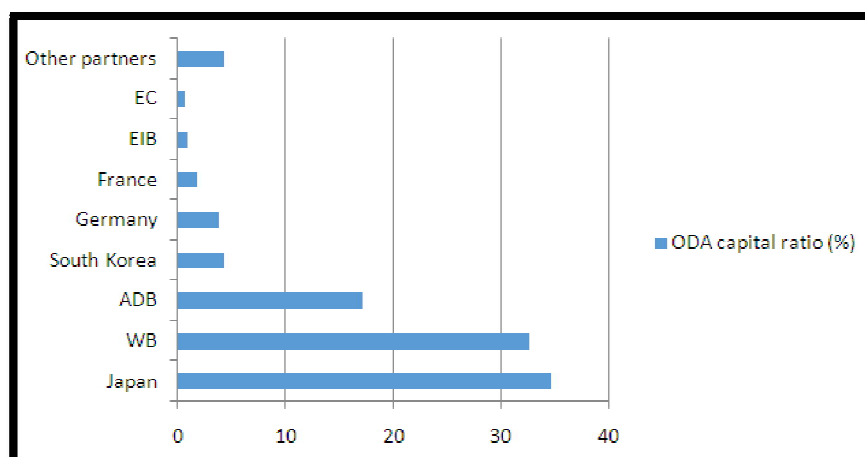


Figure 4: ODA by Partner in Vietnam (2011 - 2016)

Source: Authors' Calculations According To Data from the Ministry of Planning and Investment, 2016

Attracting and using ODA in Vietnam in the period of 2011 - 2016, there are differences between regions and localities. This capital source is mainly focused on Hanoi city (accounting for 16.4% of ODA capital) and inter-regional economy (accounting for 46.49% of ODA capital), meanwhile, in areas with difficult conditions in Socio-economic development such as Northern Midlands and Mountains or Central Highlands, ODA into these regions accounts for a small percentage, only from 1.5% to 3%. Average ODA per capita in the Northern Midlands and Mountains is the lowest, with USD 63.06 per person (see Table 2).

Economic region	ODA capital (million USD)	ODA per capita (USD / person)	The ratio of ODA to the whole country (%)
1. Red river delta:			
Not including Hanoi	2.091,58	155,43	7,53
Including Hanoi	4.557,57	223,61	16,40
2. Northern midlands and mountains	723,92	63,06	2,61
3. North Central and Central Coast	3.312,22	171,49	11,92
4. Central Highlands	416,01	76,99	1,50
5. South East:			
Not including Ho Chi Minh City	1.058,95	140,18	3,81
Including Ho Chi Minh City	3.312,78	216,60	11,92
6. Mekong Delta	2.238,54	128,56	8,06
7. Inter-region (*)	12.915,93		46,49

Table 2: ODA Divided by Economic Region in Vietnam (2011 - 2016)

Source: Authors' Calculations According to Data from the Ministry of Planning and Investment, 2016

Thus, the recipient country of ODA has not really promoted the initiative in attracting and using. According to the old point of view, ODA is entirely funded by the country receiving investment in the process of using ODA. However, with new constraints on ODA, the heavy dependence on partners' investment intentions provides increased capital, reducing the activeness of the host country and the effective use of ODA for those areas where ODA is needed were not implemented; the regulatory role of the host country is reduced, leading to the situation where there are areas and sectors with too much ODA while there are other areas and sectors without ODA to meet the socio-economic development objectives.

Thirdly, ODA in Vietnam still accounts for a large proportion of the total investment from the state budget (over 41%) in the 2011-2015 period (see Table 3).

Index	2011	2012	2013	2014	2015
GDP at current prices (VND 1,000 billion)	2.535	2.953	3.589	3.937	4.230
ODA disbursed (VND 1,000 billion)	75,93	87,12	108,06	120,15	80,53
ODA disbursed /GDP (%)	3,00	2,95	3,01	3,05	1,90
ODA disbursed /Total investment capital of the whole country (%)	8,65	8,81	9,90	9,84	5,99
ODA disbursed /Total investment capital from the state budget (%)	42,66	42,5	52,53	57,85	41,30

Table 3: ODA Capital in GDP and State Budget (2011 - 2015)

Source: Authors' Calculations According to the Statistics Yearbook of Vietnam 2016

The increase of Vietnam's public debt has many causes, due to inefficient use of ODA, the ratio of public debt and Vietnam's Government debt on GDP continuously increased in the period of 2011 - 2016 (See Figure 05). Thus, attracting and using ODA in Vietnam is facing difficulties, failing to achieve the goals for economic growth.

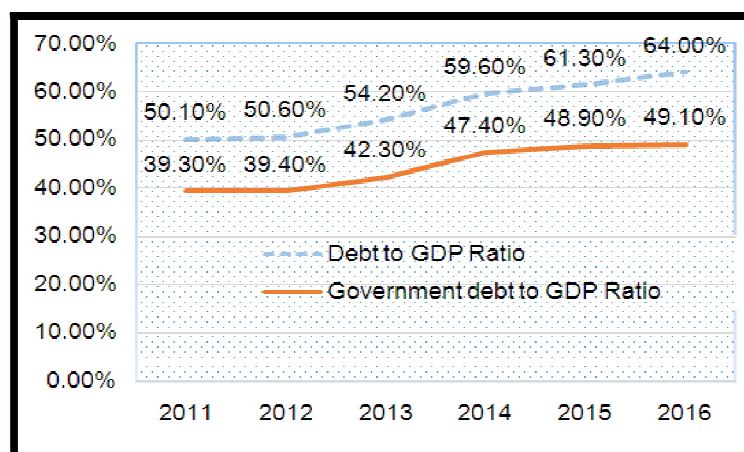


Figure 5: Public Debt and Vietnam's Government Debt / GDP (%)

Source: Authors' Calculations According To Data of the Ministry of Planning and Investment

In the period of 2011 - 2016, in the new context and after Vietnam became a middle-income country, non-refundable aid ODA for Vietnam fell sharply (see Figure 06).

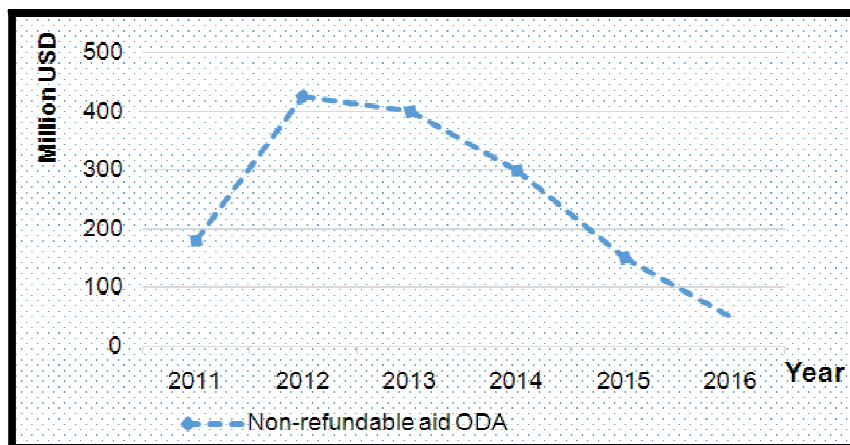


Figure 6: Non-Refundable Aid ODA to Vietnam (Million USD)  
Source: Authors' Calculations According To Data of the Ministry of Planning and Investment

On the other hand, most ODA projects are slow to disburse, the difference between the estimated investment capital and the implemented capital is very large (see Table 3). This shows that ODA attraction and use face many difficulties, the level of passivity and dependence on ODA partners is very high, the legal constraints in ODA management are still inadequate.

Projects	Initial Capital	The Last Capital	Capital Difference	Rate of Difference of Capital (%)
Renovating national highway 3 of Bo Dau - Ta Lung area	545	1.291	746	137
Ho Chi Minh City - Trung Luong highway	6.5	9.9	3.4	52
Road No.5 (Hanoi)	3.131	6.664	3.533	113
Ben Thanh - Suoi Tien urban railway No. 1	17.4	47.325	29.925	172
Phu My bridge	1.8	3.25	1.45	81
Cát Linh - Hà Đông railway (million USD)	553	892	339	61
Improving drainage system of national highway 13 - Ung Van Khiem (HCMC)	40	219	179	442
Lang - Hoa Lac road (Thang Long boulevard)	3.7	7.5	3.8	103
Cau Gie - Ninh Binh highway	3.734	8.974	5.24	140
Embankment of Can Tho river	712	1.555	843	118
Vinh Tuy Bridge	3.589	5.5	1.911	53
Consolidate and upgrade Red river dike (Hung Yen)	1.536	2.766	1.23	80
Urban railway No. 2 in Hanoi	19.555	51.75	32.195	165
Nhon urban railway- Hanoi station (million euros)	538	1.176	638	119

Table 4: Projects in Vietnam Continuously Capitalized (Including ODA Projects)

Source: Huynh the Du and Do Thien Anh Tuan, 2015

### 3.2. Overall Assessment of ODA Attraction and Use in Vietnam

First, ODA has an important contribution to supplement the missing funds for economic development - society of Vietnam, especially in the period of industrialization and modernization. ODA capital has been continuously increased during the period of 1993 - 2016, the positive contribution of ODA to Vietnam is undeniable. Vietnam has created a reputation and maintained ODA supply from traditional partners such as Japan, Korea, Germany, WB, ADB ... and the amount of ODA from these partners to Vietnam has continuously increased year by year. The disbursement rate of ODA has also increased significantly, many ODA projects have been put into operation, creating a motivation for attracting other capital sources such as FDI and FPI and stimulating domestic trade and investment growth. ODA disbursement rate on GDP, disbursed ODA rate on total social investment and disbursed ODA on the total investment from the state budget tends to decrease over the years in the period of 2011-2016; This shows the positive in using ODA for Vietnam's socio-

economic development. ODA capital has been attracted and used in all fields and industries, widely distributed throughout economic regions throughout the country; some essential areas such as transport infrastructure development, response to the impacts of climate change, poverty reduction, sustainable development ... have been prioritized to attract and use ODA; A number of regions and areas prioritized for ODA attraction and use, such as Hanoi capital and Ho Chi Minh City capital and economic regions, have been focused on attracting and using ODA.

*Secondly*, in addition to the positive results of ODA brought to Vietnam in the past time, the attraction and use of ODA also revealed many difficulties, limitations and shortcomings; The view and awareness of attracting and using ODA in the new context is changing as Vietnam becomes a low-middle income country. ODA capital into Vietnam continuously decreased in the period of 2011-2016; In particular, non-refundable aid ODA reduced deeply. Public debt and government debt increased, public debt to GDP ratio continued to increase, of which there was a cause of ineffective and somewhat wasteful use of ODA; ODA partners' constraints and conditions are tight and create barriers to attracting and using ODA in Vietnam. Many ODA projects are difficult to control, depending on ODA partners; Some big projects are not feasible and inefficient. Attracting and using ODA no clear direction, with large disparities between regions fairly, domain, different geographical areas in the country; places where ODA is needed and the efficiency of ODA use is high but not prioritized for investment; Corruption and wastefulness in ODA management and use have not yet been resolved. Opinions on ODA are not clear, still consider ODA as an allowance for ODA partners; skills in negotiation, mechanisms, policies and the purpose of attracting ODA are not clear and transparent.

*Thirdly*, there are many reasons leading to limitations and shortcomings in attracting and using ODA in Vietnam over the past time. They are: (i) There are changes in attracting and using ODA in the new context when Vietnam is no longer a low-income country; awareness of ODA in the new context is not comprehensive; not really appreciate ODA as other capital sources such as FDI, etc.;(ii) The mechanism of state management policies on attraction and use of ODA is insufficient and inadequate; (iii) Strategic planning activities in attracting and using ODA are not clear; (iv) ODA disbursement rate is slow; (v) The decentralization and decentralization of investment capital for grassroots level according to the Law on Public Investment has not been implemented in time; (vi) The preparation of programs and projects for ODA registration is sketchy and unscientific; (vii) Vietnam lacks the overall orientation and lack of counterpart funds for ODA attraction and use.

## 4. Conclusions and Policy Solutions

### 4.1. Conclusions

Attracting and using ODA plays an important role in promoting socio-economic development of Vietnam, especially in the new context with industry 4.0 and Vietnam joins the group of middle-income countries. It is important to have awareness and synchronous implementation of solutions to attract and effectively use ODA capital to sustainably develop Vietnam's economy, meeting the requirements of the trend of economic integration international economy. It is necessary to have an effective solution to attract and use ODA associated with new constraints and conditions, contributing to bringing Vietnam out of the middle income trap.

### 4.2. Solutions to Enhance the Attraction and Use of ODA in Vietnam in a New Context

*Firstly*, raising awareness about attracting and using ODA in the new context. Accordingly, it is necessary to organize training, propaganda and guidance activities so that all levels, sectors, officials and people understand ODA in the new context.

*Secondly*, the Government needs to improve the management policies and institutions in attracting and using ODA in accordance with the changes in the legal system and environment for development cooperation; in accordance with new conditions and constraints of ODA supply partners.

*Thirdly*, promoting Vietnam's ownership role, strengthening coordination in ODA attraction and utilization, building sustainable partnerships with ODA supply partners; increasing the autonomy in attracting and using ODA in line with the objectives of the socio-economic development strategy in each certain period, it is necessary to transparent procedures in attracting and using ODA.

*Fourth*, continue to accelerate the disbursement of signed ODA for transition programs and projects; promote program and project preparation to support the post-2020 period; to fully and promptly prepare reciprocal capital sources for ODA programs and projects so that these projects can achieve the highest and fastest disbursement rates.

*Fifthly*, strengthening planning for ODA capital; there should be a plan to attract ODA in the long term; sector, regional, local planning and priority areas in ODA attraction for sustainable development.

*Sixthly*, focusing on improving the quality of ODA promotion, focusing on attracting traditional partners and partners with appropriate technology.

*Seventh*, ensure transparency and accountability for attracting and using ODA.

*Eighth*, strengthen monitoring and evaluation of ODA reception and use through the improvement of ODA management and data information system; develop national statistical indicators on ODA signed and disbursed. Combining periodic and extraordinary tests to rectify the activities of ODA projects. Timely detect violations to get solutions. Considering the impact and creating an equal competitive environment in attracting and using ODA with other forms of investment.

*Nine*, improve the quality of ODA projects; implementing synchronously and consistently investment mechanism, combining domestic investment with FDI, and ODA to invest in infrastructure, developing services for ODA projects.

Ten, regions and localities need to promote propaganda and awareness raising on ODA. Enhancing innovation and promoting planning; capacity building in ODA attraction and use; well solving land issues, training, arranging and effectively using human resources who are doing external economic activities, promoting investment and using ODA projects effectively; consolidating the government apparatus at all levels and sectors, speeding up the administrative reform process, improving the investment environment. Localities need to improve management and executive capacity of the state management and ODA project implementation; equipping information technology systems, creating links with ODA partners and ministries and agencies in selecting and determining ODA sources for localities and regions; prepare preliminary proposals, detailed outlines for specific ODA projects to work with ODA suppliers, ministries and central agencies.

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