

# *International Journal of Foreign Trade and International Business*



E-ISSN: 2663-3159  
P-ISSN: 2663-3140  
Impact Factor: RJIF 5.22  
IJFTIB 2020; 2(1): 115-120  
Received: 08-07-2019  
Accepted: 11-12-2019

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## **Improving policies and institutions in attracting ODA Investment in Vietnam**

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### **Abstract**

At present, a lot of Vietnam's capital comes from the collection of state budget, government bonds, foreign borrowing and ODA. In which, ODA is considered as the capital source with the lowest cost. However, ODA is not a free source of capital for Vietnam. They are often accompanied by mandatory conditions, such as the contractor of the ODA provider must carry out the project, or agreements on expert wages. However, our public debt is very high, recurrent expenditure. Increasing the remaining resources, how much to invest in infrastructure, promote economic development. Therefore, Vietnam really needs this capital. Over the past years, ODA flows into Vietnam have been plentiful and have contributed positively to socio-economic development. Many completed programs, works and projects have been put into operation to serve the people's life, contributing to economic development. Based on an overview of ODA and current situation of ODA attraction and use in Vietnam we are able to assess the achievements as well as the outstanding problems and their causes. The report proposes a number of solutions for the improvement the effectiveness of ODA usage.

**Keywords:** ODA, improvement, attraction, policy, government

### **1. Introduction**

Integration with the developing world economy at a rapid pace, Vietnam continues to accelerate the process of industrialization - modernization of the country. Vietnam is still underdeveloped; people's income is not high, starting from a low point. Therefore, in order to develop the economy and implement the industrialization and modernization process of the country successfully, in addition to the domestic capital, the Party and the State attach great importance to external capital, especially the official development assistance (ODA). Originating from that practical need, ODA aid or "official development assistance" was established to help poor countries solve the shortage of capital.

Japan from a losing country after World War II, the economy was exhausted, began to rebuild an economy thanks to foreign aid. So far, Japan has not only risen to become the second economic power in the world but now leads the largest donor in the world for many consecutive years. For developing countries, where facing many hardships, the assistance of developed countries. Including Japan is absolutely necessary. It is undeniable that Japan's ODA has contributed to addressing difficulties, especially capital in the process of economic transformation and reform, accelerating economic growth as well as improving life in recipient countries including Vietnam. At the 8th meeting of Vietnam - Japan Cooperation Committee held in Hanoi, Japanese Foreign Minister Fumio Kishida affirmed that he would continue to strongly support Vietnam in developing socio-economic development through continued provision of ODA. This ODA loan will help the Government of Vietnam to implement 4 programs and projects, including: North - South Expressway Construction Project, Danang - Quang Ngai section (30 billion yen); Project on constructing infrastructure of Hai Phong international gateway port, Lach Huyen port, port infrastructure (32,287 billion yen) and bridge and road (22.88 billion yen); Supporting program to respond to climate change VI cycle (10 billion yen). Thus, Japan is the leading country in supporting ODA capital for Vietnam. Most of Vietnam's major transport infrastructures receive ODA from Japan such as Can Tho Bridge, Road 5, Nhat Tan Bridge, Vo Nguyen Giap Boulevard, Noi Bai Airport, phase 2. This capital has become an important financial resource to invest in the development of socio-economic infrastructure areas, as a premise for industrialization and modernization of the country.

For Vietnam, during the renovation process, the shortage of capital for development has been

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partially resolved when Vietnam began receiving ODA aid in 1993. More than twenty years of ODA loans have helped Vietnam. The country attains proud achievements: the annual average GDP growth rate is over 7%, people's lives are increasingly improved and not only achieve economic achievements but also social-cultural life, education and health have also been significantly improved, the political situation is stable, national security and defense are maintained, and international cooperation relations are increasingly expanded. ODA is indeed an important source of capital for national development. ODA has helped us access and acquire modern scientific and technical achievements, develop human resources, adjust economic structures and create relatively modern socio-economic infrastructure systems.

However, the process of attracting, managing and using this capital source in Vietnam is still limited compared to its potential. Since 2010, Vietnam has again become a lower middle-income country, with non-refundable foreign investment tending to decrease. Therefore, strengthening the effectiveness of management and use of official development assistance (ODA) is an issue. Harmonization can only succeed if the partner country assumes ownership of the whole effort (Regional Harmonization Workshop, 2003). Stemming from the above thoughts, the topic "Improving policies and institutions in attracting ODA investment in Vietnam" was selected for the research in this article.

## 2. Theoretical framework

### 2.1. Definition and characteristics

#### 2.1.1. Concept

Official Development Assistance (ODA) is an official development assistance organization or official development assistance. ODA is a form of development assistance of Governments, international organizations, non-governmental organizations that are bilateral or multilateral in nature, including amounts that agencies and Government aid are not refundable. (for free) or lending under favorable financial conditions (Do Duc Binh, Nguyen Thuong Lang, 2010) [2]. According to the Organization for Economic and Development Cooperation, the following definition has been defined: "ODA is an official transaction established with the purpose of promoting the socio-economic development of developing countries. The financial condition of this transaction is of a concessional character and the grant element constitutes at least 25%". According to the Development Assistance Committee: "Official development assistance (ODA) is an official source of external assistance, including grants and concessional loans, which is interpreted as funding for developing countries and underdeveloped, funded by central and local government agencies or government executing agencies, intergovernmental organizations, non-governmental organizations". ODA funding arises from the necessity of a country, a locality, an industry, is considered and committed to grant funding by an international organization or a country, through an international agreement authorized by a competent representative. The two parties received support for the signed capital. This supportive international agreement is governed by international law. According to the "Development Cooperation 1998 Report" of the United Nations Development Program (UNDP), "Official development assistance is defined as support sources for

developing countries from multilateral organizations. of official agencies, the Government and local governments or government governing bodies". Pursuant to Decree 17 / CP of May 4, 2001 replacing the Government's Decree 87 / CP of August 5, 1997 on the Regulation on "Management and use of official development assistance capital "Then: Official development assistance (ODA) is understood as a development cooperation between the State or Government of the Socialist Republic of Vietnam and a donor. According to the World Bank (WB, 2000): Official development assistance, including grants, plus long-term loans and lower interest rates than market rates. The level of favor on a loan is measured by the free element - Grand element. A non-refundable grant will have a 100% free element, called grant aid. A concessional loan considered ODA must contain at least 25%.

#### 2.1.2. Characteristics

##### a) The preference of ODA capital

In ODA, there is always a significant part of non-refundable aid (ie giving away). The loans are mainly concessional loans with interest rates much lower than normal credits (usually below 3%). The level of incentives is more or less expressed in interest rates, grace period and repayment period. An ODA loan usually has a long life, usually from 20 to 50 years, depending on each donor, including two parts. Firstly, the grace period is from 5 to 10 years. Second, the repayment period is also diverse, including many stages and different debt ratios in each period. However, in order to be classified as ODA, a loan must have a minimum of 25% non-refundable. The zero factor is the basis for evaluating the concessional level of a loan. The giving factor is not determined based on the comparison with commercial credit interest rates (usually taking the standard of 10% per year).

##### b) ODA is tied to political factors

During the Cold War, ODA was used to entice allies due to the East-West confrontation, between the capitalist and socialist system. After the fall of socialist systems in Eastern Europe and the former Soviet Union, Western countries used money to help them in the transition to a market economy. ODA is influenced by the relationship between the donor and recipient. The geographical-political nature of aid provision is clearly stated. Aid often prioritizes the provision of economic, political and military allies.

##### c) ODA is associated with economic conditions

Aid providers generally want to achieve economic and economic impacts. Often these countries link aid to their purchases of goods and services, as a means to enhance their ability to penetrate and control export markets. According to the DAC report, 17.7% of DAC's bilateral aid in 1997 must be devoted to purchasing goods and services from the donor country. In particular, countries such as Germany, Italy require about 40%, Canada requires 68.5%, France is 25.1%, the UK is 13.8% and Spain is 100% of the aid that must be used to buy main goods and services offered by these countries. But receiving grant aid does not bring long-term benefits to the recipient. When aid is in the form of technical assistance, technology with equipment cannot be replaced by equipment from other countries, forcing the recipient country to depend on the country for a long time. In addition, the risk of aid currency when there are adverse

fluctuations in exchange rates makes debt repayment obligations of recipient countries more severe. Usually, the receiving country does not have the right to choose the currency of the loan, which is determined by the issuing party. For example, Japan stipulates that it can only borrow money in yen. The exchange rate between USD and Yen in the 1960s was about 1 USD = 100 Yen. Thus, Japanese borrowing countries have to pay a triple amount due to the appreciation of the Yen after 30 years.

#### **d) ODA is tied to social factors**

ODA is partly extracted from GNP of donor countries, so it is very sensitive to public opinion in donor countries. In general, people of OECD countries always support those in need, 80% of Europeans think that EU development budget needs to be increased. In countries providing ODA less than 0.7 GNP, more than 70% of people believe that the government should increase its development assistance budget. In addition to the amount of aid, people in aid countries are also concerned about the quality of aid. In many countries, people are asking the government to cut aid to focus on addressing difficult domestic issues and appear to be concerned about problems in the provision of aid, such as slow project reception, low project results, the recipient fails to comply with commitments and signs of aid corruption by officials. On the contrary, in recipient countries, people are also hesitant to receive aid and are afraid of adverse impacts on life, identity and national cultural traditions.

## **2.2. Classification**

### **2.2.1. According to the repayment method**

**Non-refundable aid:** The foreign party provides aid (which the recipient is not required to return) for the recipient to execute the program or project according to a prior agreement between the parties. Non-refundable aid is usually provided in the form of: technical assistance and in-kind aid.

**Grants refunded:** Donors need to borrow money from a country (depending on the size and purpose of the investment) with a favorable interest rate and appropriate repayment period. The preferential conditions are usually: Low interest rate, long loan term (from 20-30 years), and grace period (from 10-12 years).

### **2.2.2. According to supply**

**Bilateral ODA:** Direct aid from one country to another through an agreement signed between the two Governments.

**Multilateral ODA:** Official aid of an international organization (IMF, WB, etc.) or a regional organization (ADB, EU) or a Government of a country for a Government of any country. However, it can be done through multilateral organizations such as UNDP, UNICEF, etc.

### **2.2.3. According to the target of use**

**Balance of Payments support:** Including ODA provided to support the Government's budget, usually through: Direct transfer to the recipient country or import assistance.

**Trade credit:** Similar to commodity aid but with conditions attached.

**Program aid:** Aid and recipient countries sign an agreement for a general purpose without determining exactly how the aid will be used.

**Project aid:** accounting for the largest proportion of the total

ODA implementation capital. Conditions for receiving project aid are: "Must have specific projects, details of the items that will use ODA"

## **2.3. The role of policy institutions to attract, use and effectively manage ODA**

At present, our country has become a developing country with middle-income status, so the policy of ODA and concessional loans of foreign donors to Vietnam will have fundamentally changed from development aid to partnership. The policy orientation and solutions to ensure the effective mobilization and use of ODA and concessional loans of foreign donors have contributed to the successful implementation of the Economic Development Strategy - society for 10 years from 2011 to 2020 and a 5-year socio-economic development plan from 2016 to 2020. Strategic orientations, policies and synchronous solutions to institutional improvement, organization and management capacity building manage and implement ODA and concessional loans of foreign donors in order to effectively use signed aid and mobilize new aid for the period after 2020.

Not only does the National Assembly pay attention to the effectiveness of ODA use, but the National Assembly's Committees also organize specialized monitoring of the quality and effectiveness of investment projects using ODA and concessional loans. in specific areas. This is an encouragement and at the same time a request of the National Assembly for state management agencies on ODA and concessional loans, ministries, branches and localities must ensure the attraction, management and use to ensure investment efficiency, project quality and in accordance with the provisions of law; proactively prevent and strictly handle negative behaviors, corruption, waste and ensure public debt safety.

The Government has issued Decree No. 38/2013 / ND-CP on management and use of official development assistance (ODA) and concessional loans of donors replacing Decree No. 131/2006 / ND-CP. This Decree has made many progresses towards compactness and lightness to reduce transaction costs. Drastic direction and administration of the Government to accelerate the signing, implementation and disbursement of ODA programs and projects and concessional loans to enhance the preparation and implementation of programs, ODA projects and concessional loans, speeding up key and large-scale investment projects which are behind schedule to improve the implementation and raise the disbursement rate of programs and projects.

National Steering Committee on ODA and concessional loans was established under Decision No. 216 / QĐ -TTg dated January 23, 2013. After more than 5 years of operation, the Steering Committee has actively promoted its role to solve difficulties and problems of programs and projects to improve the implementation situation and accelerate the disbursement progress. organizing the field trip to promptly catch and remove obstacles, the Steering Committee also established a coordination mechanism with Group 6 Development Bank (WB, ADB, AFD, JICA, KEXIM, KFW) periodically organize joint reviews meetings on the implementation of construction projects and organize the implementation of action plans to improve the implementation situation and accelerate the disbursement of ODA capital, including harmonization and streamlining the

procedures and procedures between the Vietnamese side and the donors of interest and attention.

### 3. Research methodology

With the objective of contributing to promoting policies and institutions to attract foreign investment, special attention is paid to ODA capital, proposing solutions to improve government policies and institutions in attracting ODA investment in Viet Nam. The authors used the information collection and analytical methods used primarily in the paper. Information collected through many channels such as book materials, newspapers, economic-financial magazines, information from the media and reports over the past years. The analytical method is from the use of collected information, combined with the method of summarizing, statistical, analyzing, comparing and comparing, from which the comments on the issues of attracting capital are obtained to propose solutions to improve the institutional and policy to attract ODA investment in Vietnam.

Objectives of the study: To analyze policies and institutions in attracting ODA investment in Vietnam, propose research models on the topic, and propose solutions to improve the policy institutions in attracting ODA investment in Vietnam. The object of this paper is the source of ODA investment, how to attract ODA investment, the government's policy institutions on attracting ODA, and solutions to improve these policy institutions.

### 4. Research results and discussion

#### 4.1. Current status of institutions and policies in attracting ODA investment in Vietnam

Total ODA and concessional loans signed according to specific international agreements in the period of 2011 - 2015 as of December 25, 2015 reached over 27,782 billion USD, 31.47% higher than the level of 2006 period. - 2010, in which ODA loans and concessional loans reached USD 26,527 billion, accounting for about 95.48% and non-refundable aid reached USD 1,254 billion, accounting for about 4.52% of the total ODA and concessional loans signed for this period. The structure of ODA and concessional loans by donor is shown in Figure 1 below. It is easy to see that the sponsors of ADB, AFD, JICA, KfW, KEXIM and WB still occupy a dominant position. The total value of ODA and concessional loans signed with these donors during the period of 2011 - 2015 is about USD 26,308 billion, of which about USD 4.5 billion is from concessional loans from ADB, AFD and the World Bank.

According to the Ministry of Planning and Investment, the implementation and disbursement of ODA programs and projects and concessional loans, though having positive changes, are still slower than the committed progress. In addition, the disbursement level across sectors, fields and localities is not even. The disbursement for major cities such as Hanoi and Ho Chi Minh City is much higher than other localities. The management and use of ODA also has some limitations. The most general drawbacks and weaknesses can be mentioned, namely that the capacity of managing and using ODA capital at national as well as at sectoral and local levels has not met the requirements. Besides, the time to review and approve the funding list of agencies before submitting to the Prime Minister is still long, there are still many problems related to the regulations on capital withdrawal management or related to the use of ODA and concessional loans for items of regular spending for

development cause; related to the domestic financial mechanism for ODA and concessional loans; Differences in procedures and procedures between Vietnam and the donor. Facing the new requirements of development cooperation, the development of the ODA Project 2016 - 2020 to implement the five-year socio-economic development tasks 2016-2020 by the 12th National Delegation of Vietnam The Party set out, the Party and the State advocated based on their own strength, and actively and actively mobilized foreign capital sources, including official development assistance (ODA) and concessional loans continues to have an important role. The total amount of ODA and concessional loans that have not been disbursed from programs and projects that have been transferred from 2011-2015 to 2016-2020 is quite large, about 22 billion USD. Therefore, one of the key tasks in the 2016-2020 period is to concentrate highly to complete these programs and projects according to the committed schedule and time limit, putting works into operation, meeting the country's socio-economic development requirements. According to incomplete reports of ministries, sectors and localities, the total demand for mobilizing and using ODA and concessional loans in the period 2016-2020 is very large, about 39.5 billion USD. Capital needs for the projects mainly focus on transportation, urban development, agriculture and rural development, environment, education and training, health care, science and technology. The attraction, management and use of ODA and concessional loans must be considered, balanced and selected in the overall development investment capital sources, must closely follow the objectives of the public debt strategy and national external debt period 2011 - 2020 and vision to 2030, Socio-economic development plan, Medium-term public investment plan and 5-year financial plan 2016 - 2020, ensuring public debt indicators, government debt and the level of state budget overspending within limits.

#### 4.2. Some measures to improve institutional and policies to attract ODA capital

Foreign investment capital in general and official development assistance capital in particular are very important. ODA has contributed significantly to the achievement of socio-economic achievements of the country. In order to be able to attract and effectively use ODA resources in socio-economic development, specific and comprehensive measures must be taken. In order to attract and effectively use ODA in the coming time, especially in the context that Vietnam has become a country with income level, the following issues need to be done:

First, it is necessary to raise awareness and understand the true nature of ODA: ODA should be considered an additional resource, not a replacement of domestic resources for each beneficiary level. It is also important to improve the autonomy in mobilizing and using ODA to meet the national, sectoral and local socio-economic development, and to improve the efficiency of ODA use.

Second, we need to use ODA selectively, appropriately and harmoniously with other investment sources. In fact, the main policy debates are no longer on whether or not to attract ODA, but rather on how to maximize the benefits of ODA. Therefore, the quality of ODA attraction will be more important than the amount of ODA.

Thirdly, it is necessary to accelerate the speed of ODA. State agencies in charge of ODA should continue to

improve institutions and procedures to shorten the time for approval by the Vietnamese side. Officials, branches and localities should enhance the completion of the planning work in the direction of minimizing the change and adjustment of investment projects with ODA capital.

Fourth, to maximize the effectiveness and spillover effects of ODA, the mobilization and utilization of ODA must be based on the correlation of the costs and benefits of programs and projects to ensure that This process and project is highly effective, creating maximum spillover effects and contributing to economic development. Another important issue is to avoid the widespread and lengthy use of ODA, leading to a debt burden for the country.

Fifth, expand the scope of ODA beneficiaries to the private sector to implement programs and projects to serve the public interest. Mobilizing the participation of beneficiaries is an important way to ensure that ODA funds are used publicly, transparently, effectively and avoid loss, waste and corruption.

Sixthly, building a reasonable plan for ODA decentralization, decentralizing ODA management and use is an irreversible process in the world as well as in Vietnam. It is important that Vietnam needs to identify decentralization. From this perspective, the results and decentralized experiences of the recent period need to be considered. A set of criteria for ODA decentralization including project implementation time and cost, ODA management capacity and operational efficiency also needs to be developed.

Seventh, strengthening monitoring and management of ODA, including the following solutions:

- Ensuring the uniformity, consistency, clarity, simplicity and transparency of the legal system related to ODA management and use;
- Strengthen government's anti-corruption efforts;
- Promote administrative reform and efficiency of the main state goods;
- Enhancing professional training and retraining of project managers;
- Improving financial policies for ODA including implementation of foreign debt management and ensuring open tax policy for ODA programs and projects;
- Strengthen ODA management according to state budget law.

Eighthly, developing an ODA plan with a short repayment period and close conditions, experience from ASEAN countries and China shows that the amount of ODA mobilization depends on the level of economic development in each period. ODA tends to decrease in ASEAN countries and per capita. Vietnam also needs to start studying plans and strategies to gradually reduce ODA, especially conditional ODA, while increasing the attraction of capital.

## 5. Conclusion and recommendation

Obviously, the attraction of official development assistance (ODA) is always an important issue not only for Vietnam in particular but also for developing countries or poor and underdeveloped countries in the world in general. ODA is not a free of cost capital. It can benefit the recipient country and cause losses such as debt repayment burden if it cannot be used properly and effectively. Therefore, ODA attraction must always be associated with the most efficient use of this capital source.

In fact, in recent years, Vietnam has attracted a lot of ODA. This is a great advantage of Vietnam. But up to 80% of ODA has been borrowed, which is paid, must be paid. So, how to choose the investment plan to best promote the huge amount of loans, and then implement them in the most economical and economical way. If we still keep the ideology of enjoyment, and the payment has been generated by the next generation, the ODA will never be used effectively. Therefore, it is very important and necessary to quickly adopt measures and policies to improve the attraction and use of ODA capital of the Government. In order to develop the economy at a fast pace while small-scale economy is seriously lacking in capital, foreign capital sources such as ODA are perfectly suitable. With the current growth momentum of Vietnam in the future, it will need to attract a lot of support from the international community through ODA. However, much attraction must be accompanied by efficient use. Although in recent years Vietnam had made a lot of progress in attracting and managing ODA, it is still not enough compared to the requirements of the country's renovation. Therefore, it is necessary to improve, continuously and continuously renew this work so that Vietnam is always a reliable destination of the international aid community.

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