

# CHALLENGES AND OPPORTUNITIES FOR THE DEVELOPMENT OF INFRASTRUCTURE AFTER 'ODA GRADUATION' - MOVING TOWARDS SUSTAINABLE DEVELOPMENT: CASE STUDY OF VIETNAM

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**Abstract:** The research on ODA will be focused on its relation to Goal 17, the Partnership, considered a major issue by the researchers, especially in the case of Vietnam as a developing economy. ODA was mainly used for investing in economic infrastructure when Vietnam witnessed a downfall in receiving financial aid due to its significant economic growth. ODA helped Vietnam transform from one of the world's poorest nations into a lower middle-income country and soon, this is going to lead to the 'ODA Graduation'. However, the process has just begun. The country is still in a process of industrialization and modernization and its socio-economic situation has not been stable or solid. By all means, ODA is not only a financial resource, it also helps the country to accomplish Sustainable Development Goals (SDGs) of the UN. 'ODA Graduation' means that the economy of Vietnam has faced certain challenges such as increasing pressure of outbound debts; raising impact on social development or imbalance between high capital recovery investments and public-services investments. However, 'ODA Graduation' has brought certain opportunities such as increasing Vietnam's independence in capital mobilization, preventing the removal of

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tariffs barrier, reducing losses and waste of funds. This research gives recommendations for improving Vietnam's economic situation and can help overcome the difficulties in the period of 'ODA Graduation'.

**Key words:** ODA graduation, OECD, FDI, infrastructure, tariff barriers

**JEL:** F35.

### **Introduction**

In developing countries, the financial assistance that has been received, especially the Official Development Aid – ODA, is mainly used for investing in infrastructure such as roads, energy, industrial facilities, hospitals, schools, etc. Vietnam can be considered a special case when the country is now witnessing a downfall in receiving financial aid due to its significant economic growth. Economic and political reforms launched in the 1980s have spurred rapid economic growth, transforming one of the world's poorest nations into a lower middle-income country and leading to the ODA Graduation. However, Vietnam's transition to a prosperous and modern economy has only just begun and the socio-economic development of the country is not stable and solid. This downward trend of ODA will have impact on the progress of construction works and will constrain the investment capital on a large scale. By all means, the role of ODA is not only significant in providing potential resources for the economy of Vietnam but it can also help the country accomplish all the indicators of the United Nation's Sustainable Development Goals (SDGs). After careful consideration, the research group of authors will try to point out some recommendations or solutions to Vietnam on the threshold of the 'ODA Graduation'. In the long run of development strategies, ODA plays an important role in contributing to the development of infrastructure in terms of human resources, technologies, and investments. It should be noted that when ODA is completely cut, Vietnam will be forced to increase its independence and autonomy in capital mobilization and business activities in terms of inbound and outbound resources. Instead of relying on foreign assistance in the development of infrastructure, the country will have to rise up to the fullest by using the capacity of its economy and initiate the draw of foreign investments. What is more, Vietnam must have a series of

reparation steps for the transition from 'relying on ODA' to 'free from ODA', especially in the development of infrastructure. Unfortunately, this process faces difficulties related to investments, when important capital source invested in economic infrastructure development accounts for 40% of the total ODA capital. The government has to find a way to maintain the investments in infrastructure after cut-down in receiving ODA due to its large proportion in use. According to data from the Ministry of Finance, the State Budget repays approximately 1 billion USD per year for ODA debt, on average. It is anticipated that the highest rate of payment will be reached in the period 2022 to 2025. To respond to the problem, our study investigates several impacts of ODA cut-down, its termination on Vietnam's economy and the influence of infrastructure. This research is carried out for an all-inclusive participatory investigation into some recommendations on how Vietnam's government can better manage the remaining and upcoming ODA, as well as careful preparation for the 'ODA Graduation' period. The government considers 'ODA graduation' an important milestone and a difficult task in the national development strategy due to its contribution, debt payment rate and nature. From that point of view, the researchers have come up with two questions: (1) "To what extent does the ODA contribute to the development of Vietnam's infrastructure?" and (2) "What are the actions to be taken by the Vietnamese government to overcome the difficulties and seize the opportunities for the development of Vietnam's infrastructure after ODA graduation?".

## **1. Methodologies**

In order to carry out the research, qualitative methods will be taken into operation by using qualitative data collection and analysis of reports from official resources such as Vietnam Ministry of Planning and Investment, the United Nations, as well as the Organization for Economic Co-operation and Development to generalize the use of investment for infrastructures and its impact on the economy. Besides, several other methods are used, such as the comparative combine analysis method, the logical synthesis method of document information. Successful nations with

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'ODA Graduation', including Korea and Cook Islands reveal important new insights into recommending how governments should prepare and illuminate a previously hidden problem. In the framework of the broad topic 'Sustainable Development Goals, the 17th goal', 'Partnership for the goals' was chosen by the researchers as the main topic. Specifically, research on ODA will be done, focusing on imperativeness and relation to the 17th goal, especially in the context of Vietnam as a developing economy. A huge amount of finance is required for SDG implementation.

### **2. Literature Review**

The researchers have studied the report from Viet Nam's Voluntary National Review on the Implementation of the Sustainable Development Goals, 04 July 2018 from Department for Science, Education, Natural Resources and Environment, Ministry of Planning and Investment, which mentions that a huge amount of finance is required for SDG implementation. To achieve success in 17 SDGs, Vietnam must enhance mobilization of all resources, especially from the private sector, promote public finance through improving effectiveness of the tax system and policies, reform management of public finance and debt, mobilize FDI, FII and formulate a plan to shift to 'ODA graduation' stage, including improved use and management of ODA and mobilization of resources from new sources for climate change and green growth. In 2017, Vietnam signed an agreement with the UN on helping Vietnam's economic growth strategy which was "One Strategic Plan 2017-2021, 05 July 2017" (The Government of the Socialist Republic of Viet Nam, p.46). It stated that "during the 2017-2021 period, the most important focus for the UN will be to help advance policies and partnerships to activate national progress on the SDGs. This could include, inter alia, assisting the Government with strategies for improved management of ODA and public investment and brokering international partnerships such as South-South cooperation". The "One Strategic Plan 2017-2021, 05 July 2017" (The Government of the Socialist Republic of Viet Nam, p.47) also mentioned "International financial institutions and development banks continue to have a very active

presence in Viet Nam, although lending is gradually shifting to less concessional terms. The general reduction in ODA grant funding has drained loan investment from softer capacity development areas, while financing the incorporate socio-economic advancement alongside commercial priorities is critical for Vietnam's progress towards the SDGs". Vietnam aims to accomplish SDGs, although these aids have commercial priorities. To act, Vietnam must find other, more attractive resources and encourage private business enterprises at national and international levels, which could drive Vietnam towards the SDGs at a faster pace. According to Korean's Office for Government Policy Coordination, Korea received ODA from foreign countries with a total of 12 billion USD ranging from emergency relief to structural readjustment programs. ODA significantly contributed to Korea's economic and social development. After the Korean War (1950~1953), ODA was the only source of capital, since the Korean economy had been almost devastated by the war. In that period, ODA was mainly invested in the form of grants to facilitate reconstruction, more preferential loans and other forms of financial aid came to Korea, allowing it to build social infrastructure and promote industrial development which played a key role in the economic growth of the whole nation. In the 1970s and 1980s, the self-financed project was implemented and introduced to heavy and chemical industries and increasingly gave way to the large scale of loans aiming at reforming the overall economic and industrial structure. In the 1990s, Korea became a perfect example in reversing its position from an ODA recipient to an ODA donor country.

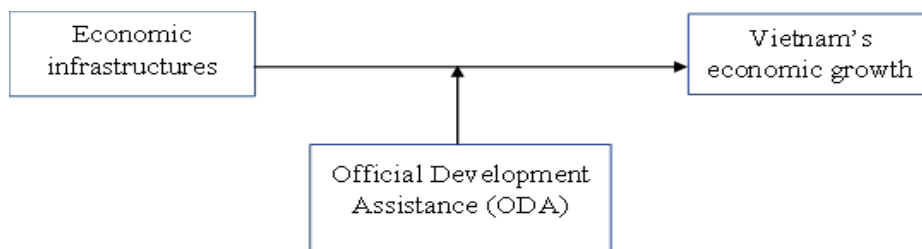
### **3. Analysis**

Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. Otherwise, loans and credits for military purposes are excluded. Aid may be provided bilaterally, from donor to recipient, or channeled through multilateral development institutions such as the United Nations or the World Bank. Soft loans are loans, where the grant element is at least 25% of the total. Economic infrastructure refers to the facilities,

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activities, and services which support the operation and development of the economy of the country. These terms help increase the overall productivity of the economy. Moreover, they play an essential role in facilitating the smooth running of all the sectors of the economy. As mentioned above, economic infrastructure is one of the important elements which can drive economic growth and influence on Vietnam's economy. In addition, it requires a huge money supply for implementation, so that ODA is seen as a valuable resource that provides 40% of the money supply for economic infrastructure. The researchers examined the relationship between the variables as shown in the Figure 1.



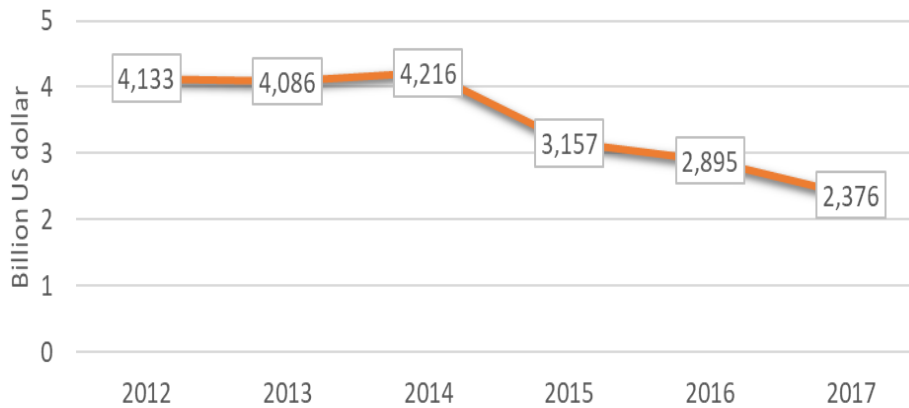
Source: Researchers' own study

Figure 1. Relationship between variables of the research

### 4. Results

SDG achievements require huge financial resources and Vietnam is not an exceptional case as long as the government's budget remains limited, the contribution of ODA is indispensable for achieving all SDG indicators. On the other hand, Vietnam has witnessed a marked decline ODA since 2014, when it was assessed as a middle-income country in 2010 and managed to maintain a stable GDP growth rate.

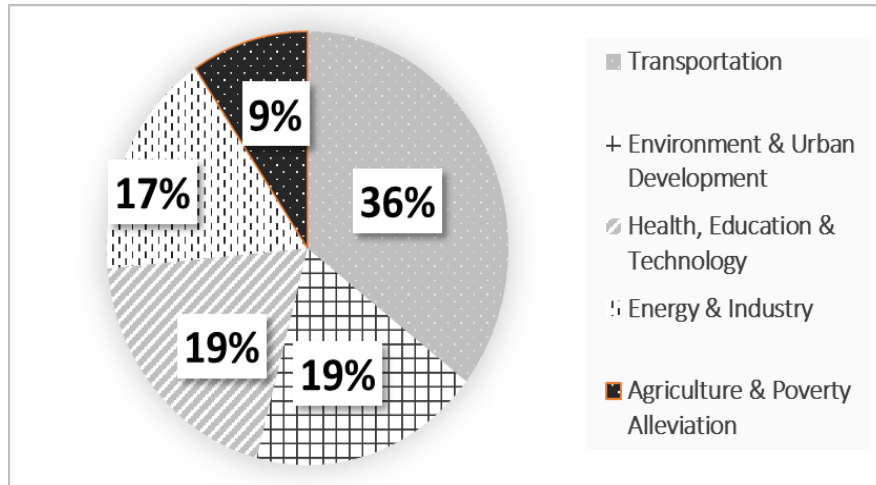
In this context, the Vietnamese government needs to propose effective strategies to improve ODA governance and be well-prepared before entering the 'ODA Graduation' period in the coming years. Figure 2 shows the downward trend in receiving ODA in Vietnam since 2014.



Source: The World Bank Data

Figure 2. ODA Vietnam received from 2012 to 2017 (billions of USD)

ODA plays an important role in contributing to infrastructure development in terms of human resources, technology and investment, although this process faces investment difficulties when the important source of capital invested in infrastructure development is estimated at 55% of the total ODA capital. The government needs to find a way to sustain infrastructure investment following the reduction in ODA due to its high share of use. In addition, ODA financial assistance is gradually becoming less preferential, interest rates are rising, loan terms are declining, and bond terms are more binding. Vietnam is currently facing and will face increasing debt repayment pressures. According to the Ministry of Finance, the average State Budget repays about 1 billion USD a year in ODA debt. The highest repayment rates are expected to occur between 2022 and 2025. The use of ODA by sectors shows that the largest areas of aid use are transport, environment and urban development (representing more than 50%), as precisely explained in the Figure 3 below:



Source: *Electronic News of the Communist Party of Vietnam*

*Figure 3. ODA use by sectors from 2011 to 2015 (%)*

‘ODA Graduation’ means that Vietnam’s economy has taken certain steps towards development, but it is accompanied by increasing shortcomings which will lead to difficulties in the process of reducing poverty and inequality, and that the development of economic infrastructure is one of the most important factors for achieving this. The Cook Islands case study shows that the Cook Islands have graduated and OECD has classified this country as a high-income country, ending eligibility for ODA from 1 January 2020. This is a significant achievement, as the Cook Islands became the first Pacific Island to achieve this status. (Henderson, 2019): “Graduation is an important milestone in our country’s development, and serves as evidence of effective government strategies, fiscal discipline, and good governance”. According to The Ministry of Finance and Economic Management, the Cook Islands are well prepared for all challenges of being a high-income country. From this point of view, the importance of ODA Graduation for a developing country has been shown, which means that the country is ready to attract or implement a higher form of economic growth.



- **Challenges**

Vietnam will face growing debt pressure as aid sources gradually become less preferential, interest rates rise, loan terms decline and conditions become increasingly binding and restrictive. Therefore, Vietnam is currently facing and will face increasing pressure to pay off. In this case, even the implementation of contractionary fiscal policy by increasing taxes or fees to increase money supply in circulation, or borrowing new loans to repay old debts are not a long-term measure. On the other hand, Vietnam has a modest amount of foreign exchange reserves due to the pressure of foreign currency on VNĐ. Increasing the impact on social development (poverty reduction, environment protection, gender inequality, ...) is the second challenge. 'ODA graduation' usually shows that the economy has made some progress on inequalities in poverty, gender, as well as environment. Unfortunately, the possibility of increasing inequality in society can be a challenge that needs to be identified. The cost of living will skyrocket with rising household and consumer prices, making a big difference between low-income and high-income employees or the rich and the poor. Lessons learned from Thailand and the Philippines are still hot, as both countries are bridging the growing gap between rich and poor, after more than 20 years of "graduating" ODA. In the case of the Philippines, the ODA process has failed and has been nominated in the list of ODA recipient countries. Vietnam must therefore carefully examine its context and macroeconomic approach to addressing social issues. Thirdly, priority investment projects will be activities involving a high return on capital, therefore, projects that serve social purposes are unlikely to compete. From this point of view, the investment projects with a high return on capital (can be defined as economic infrastructures) should be prioritized because of their impact on economic growth such as commercial buildings, road extensions, banks, etc. Therefore, they could help to slow down the fall of Vietnam's economy, repay the debt in the short term and attract new investments from new players. Therefore, investors will consider the economic infrastructure as a major object that can expand business, increase money in circulation and increase its influence on the country, as well as the economic recovery for the country. On the other hand, this act

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will threaten the social balance and the public service infrastructure will be forgotten.

- **Opportunities**

In the long run of development strategies, ODA plays an important role in contributing to the development of infrastructure in terms of human resources, technology and investment. It must be said that when ODA is completely curtailed, Vietnam will be forced to increase its independence and autonomy in capital mobilizing capital and business activities in terms of inbound and outbound resources. Preventing the removal of tariffs barrier on the goods from creditor countries is one of the most important factors that Vietnam should not skip. Preferential and low-cost aid capital always comes with the conditions and requirements for ensuring the profits of companies from the donor country, thus losing or reducing the opportunities and profits of Vietnamese companies. Borrowing countries may need to gradually remove tariff barriers on the goods of creditor countries, or may have to purchase equipment, hire services and staff from lenders at relatively high costs. For example, in the case of loans from Korea, one of the mandatory requirements is that the contractor is a Korean company or a partnership with more than 50% of the shares. In the case of China, the ODA recipient country was forced to allow Chinese workers to carry out the project. Thirdly, facing more expensive loans, Vietnam is forced to use its loans most efficiently. In fact, the effectiveness of projects invested in ODA has always been a hot issue; many project implementation units are not strictly considered, causing many losses and waste. In this way, local authorities will have to assess whether the capital source can be effective by collecting fees and taxes to pay debts.

### **Conclusions**

In summary, we can see the current investment situation in Vietnam that the country's investment budget has been spent on many unnecessary and inefficient economic infrastructures. Many studies show that there has been a big loss in the implementation of public investment projects, so the cost of building infrastructure has been very high. The

choice of investment projects for economic infrastructure is reckless when the assessment of debt repayment capacity and effectiveness of increasing the competitiveness of the economy in some projects is still incomplete or only visual. Consequently, Vietnam has been carelessly receiving an abundance of ODA, which was much more than Korea's experience. The Committee for International Development Cooperation (CIDC) (White paper, 2017, page 112): "In each sector, Korea has shown a clear upward trend in social infrastructure and services. In 2015, USD 1,119 million was disbursed in social infrastructure and services, accounting for 48.4% of Korea's total bilateral aid. This is followed by aid sent for economic infrastructure and services (USD 760.22 million or 32.9%) and manufacturing sectors (USD 141.01 million or 6.1%)." As mentioned above and as a result of this report, we could answer the first question that ODA has contributed significantly (approximately 55% of all ODA used) to economic infrastructure, which plays an important role in the economic growth of Vietnam. Using ODA to invest in economic infrastructure projects aimed at stimulating private investment, including FDI, in the export of industrial goods which is likely to promote economic growth and provide foreign currency for future debt payment. Finally, 'ODA Graduation' must be a priority in the near future with the joint effort and cooperation of the government, the authorities and all the citizens of Vietnam.

- **Recommendations**

The difficulties caused by the decline in aid capital sources can be fully overcome if Vietnam is well prepared for the ODA graduation process. The overall demand for mobilization and use of ODA and soft loans in the period 2016-2020 is expected to be very high. This act could give a response to the second question: "What are the actions that can be taken by the Vietnamese government to overcome the difficulties and take advantage of the opportunities to develop Vietnam's infrastructure after ODA graduation?". To answer this question, researchers make general recommendations as follows:

- 1) Vietnam will be forced to increase domestic and preferential foreign trade loans to mobilize additional financial resources. However, the burden of public debt will become more severe, as this capital is subject to higher interest rates and more restrictive. The relevant ministries should focus on

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the disbursement capacity depending on the agreements signed, and the sponsor can pump out the money supply for construction, if necessary. Instead of borrowing purely for debt, programs and projects should come with long-term and decisive factors in the development of transfers, support for experience, ideas, expertise, data, etc.

2) Tightening budget spending for bureaucracy means the government has to tighten spending budget to the public authority and cut down extra activities causing the increasing of unexpected price.

3) It is necessary to enhance the inspection and provide more supervision to ensure the investment efficiency, accelerate the progress of all projects, to avoid long-term costs causing cost increases. Vietnam must also fight corruption and the wastefulness of authorities that take advantage of financial resources for investing in economic infrastructure for personal use, so that the economy can be smoothed out.

4) Vietnam must encourage the participation of private sector enterprises. Private enterprises are an indispensable force in controlling the economy. In addition, when many economic sectors are involved such as openness, transparency, etc., a perfectly competitive market will be built which creates a more equal environment. Enabling private companies to access preferential aid will help reduce the thirst for capital by helping businesses reduce capital costs, collusion of interest groups, corruption and promote technology transfer.

5) Improving the form of Public-Private Partner (hereby called PPP), where the state and private investors will jointly cooperate in the development of economic infrastructure and providing services. In fact, Vietnam created and promulgated legal documents such as the Government's Decree No. 15/2015 / ND-CP of February 14, 2015; on investment in the form of PPP and Decree No. 30/2015/NĐ-CP on March 17, 2015; for the implementation of a number of articles of the Bidding Law regarding investor selection. These documents helped the governmental agency attract investment resource while reaping the benefits of the private sector. However, the impact of these documents is still limited in order not to create an attractive competitive environment as well as flexible and favourable investment regimes for investors, especially foreign investors, to

join governmental agencies in implementing important national infrastructure projects.

The government must be aware of the need and urgency not to rely on foreign aid and to encourage 'ODA Graduation' as soon as possible.

- **Limitations**

Researchers have to face many difficulties in collecting data and accessing relevant literature and our group is no exception. First of all, "ODA Graduation" is a new and unique term for the aid and assistance environment, so there is a lack of preliminary research on the subject without a precise framework or case study. Although there is a lot of research on ODA in general and ODA in Vietnam, few articles about the 'ODA Graduation' need to be considered. Secondly, Vietnam has been accepting and receiving ODA loans to improve infrastructure for 20 years and this has caused many problems in cash flow management. However, the country still uses ODA as its main financial resource and is struggling to pay off long-term debt. Therefore, only a few Vietnamese economists mention the 'ODA Graduation' in the Official Gazette, which is based on a common way of completing financial aid graduation normally. From this point on, the research team will have a limited view on a large scale.

- **Suggestions for Further Research**

First, based on the findings of our research, future research may relate to findings that do not yet anticipate or address unanswered aspects of our research problem - ODA-related issues such as public administration or restructuring the use of ODA. Another option is to construct the same research in a new context, place and/or culture. Most likely, the new research focuses on 'ODA Graduation' within the settings of another country that has a similar economic and aid situation as Vietnam.

Secondly, future research should address the limitations we have mentioned above. The study will not be free of limitations and they may relate to the formulation of the purpose and objectives of the study, the application of the data collection method, sample size, the scope of discussions and analysis, etc. We suggest that future research take more time and effort to collect data and make sure it is accurate and up-to-date. The other thing that needs to be introduced is that research has direct

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access to data, research-related documents and receives help from appropriate people and institutions.

Thirdly, in another context, such as the preparation of a thesis or report of an institution, with extended length limitation, future research may re-evaluate and expand theory and the framework we have considered in our research. Future studies may address the effects of specific events, the emergence of new theory or evidence and/or other recent phenomena on our research problem.

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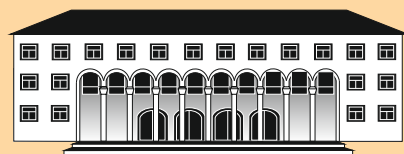
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