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**Dr Nguyen Hoang Tien**  
Saigon International  
University, Vietnam

## **Solutions to attract ODA investment into the southeastern economic region of Vietnam**

**Dr Nguyen Hoang Tien**

### **Abstract**

At present, while accumulated capital of the Vietnamese economy is still low, the issue of mobilizing foreign investment capital including Foreign Direct Investment (FDI) and indirect investment is very important. Of many indirect inflows of foreign investment, the Official Development Assistance (ODA) is a crucial fund that meets current high demands of capital for national development. ODA has been contributing significantly to the solid growth of our economy so far. Consequently, it is affirmed by the Communist Party of Vietnam that "while domestic sources of capital are pivotal to the nation's economy, the infusion of foreign investment also plays a vital role. However, there have been many problems in the mobilization, management and spending of the ODA, which bring about ineffectiveness. This article, therefore, aims at making an overall analysis and evaluation on recent mobilization and expenditure of the ODA in Vietnam and providing solutions to its future outcome improvement, creating a robust and sustainable development for Vietnamese economy.

**Keywords:** ODA, investment attraction, south-east Vietnam.

### **1. Introduction**

Over the past time, together with other resources mobilized for development, ODA has made an important contribution in supporting socio-economic infrastructure development and poverty reduction in Vietnam in general and poor areas with many difficulties, including the Southeast region. ODA has contributed to supporting the task of hunger eradication and poverty alleviation in the Southeast region to realize the United Nations Millennium Development Goals (MDGs) and Vietnam (VNGs) committed and determined to implement by Vietnam. Through the organization and management and implementation of ODA programs and projects, the staff capacity of the provinces in the region, especially at the district, commune and village levels, has been improved and ODA has provided meaningful capital. Implications for provincial development investment in the context of limited local budgets and limited support from the central budget are focusing on areas that directly affect the lives of the poor, such as production, agriculture, rural transport, domestic water supply, health care, education.

In order for the Southeast region to develop quickly and sustainably towards integration with the overall development of the country's economy, it is necessary to mobilize resources vigorously and efficiently use investment sources for socio-economic development. In particular, the strategic requirement is to develop appropriate investment policies, linking mobilization of domestic resources with mobilization of external resources; improve the business investment environment and attract ODA and NGO projects (non-governmental organizations). The purpose of this article is to find solutions to attract and use ODA in the fields: promoting decentralization of state management of the economy coupled with strengthening capacity at grassroots level, strengthening capacities for elected bodies, state management agencies, strengthening the capacity for comprehensive management of investment programs and projects funded by the state budget, implementing state management with the participation of people. Pay attention to attracting jobs, increasing the rate of female workers, the rate of trained labor, gender equality, empowering women, increasing the number of women in elected bodies at all levels, in agencies and branches. Developing social security networks to help the vulnerable and the poor. It is necessary to attract socio-economic infrastructure, irrigation and drainage works, water supply and drainage, urban infrastructure, hospital equipment, vocational training schools, and laboratory equipment. Less concessional loans (higher interest rates, short repayment periods

**Correspondence**  
**Dr Nguyen Hoang Tien**  
Saigon International  
University, Vietnam

and grace periods) are needed for economically feasible programs and projects. Speeding up the progress as well as the quality of ODA project preparation (from the stage of making, appraising, and making investment decisions), in order to soon put projects into operation, as well as ensure the feasibility and effectiveness of investment projects during the operation.

## 2. Theoretical framework

In 1967, the Development Assistance Committee (ADC) of the Organization for Economic Co-operation and Development (OECD) introduced the concept of Official Development Assistance (ODA) as the official transfers of assistance. Its to promote the socio-economic development of developing countries with preferential financial conditions. In 1972, DAC introduced a more complete definition of ODA, under which ODA was an inflow of external capital for developing countries, officially authorized by central and local government agencies or government executive agencies, multilateral organizations, non-governmental organizations. The transferred capital must satisfy: (1) The main purpose of the capital is to support the economic development and welfare of developing countries; (2) Non-refundable elements in concessional loans make up at least 25% of total aid.

According to the Regulation on management and use of development assistance capital, issued together with Decree No. 87 / CP of August 5, 1997 of the Vietnamese Government, ODA capital is defined as development cooperation between Socialist Republic of Vietnam and other countries, international organizations. Forms of ODA include non-refundable ODA and concessional loan with at least 25% of the loan value. According to the Government's Decree No. 131/2006 / ND-CP of November 9, 2006, Official Economic Development Assistance (ODA) is a cooperative activity between the Government of the Socialist Republic of Vietnam and donors that are foreign Government, multilateral donor organizations and inter-state or intergovernmental organizations. Forms of providing ODA capital 5 include non-refundable ODA, concessional loan, mixed ODA; Concessional loans must ensure that the element of non-refundable loans reaches at least 35% of the total loan value for binding loans and 25% of the total loan value for non-binding loans.

According to the world economic development, the gap between rich and poor countries has become increasingly large. Underdeveloped countries cannot develop their own economies without external assistance. Due to the need for support and loans from these countries, on 14/12/1960 Economic Cooperation and Development Organization (OECD) was established with the initial membership of 20 members. The purpose is to create capital to support the least developed countries to implement their own socio-economic development strategies. Since 1970, the United Nations has required developed countries to spend at least 0.7% of their GDP to create aid for poor countries. ODA capital represents the international relationship between developed countries and developing countries through non-refundable aid and concessional loans.

ODA is an international transaction, showing that the two parties involved in this transaction do not have the same nationality. The supplier is usually developed countries or non-governmental organizations. Recipients are usually developing countries or countries that have difficulty in

dealing with social, economic or environmental issues. ODA is usually implemented through two channels, bilateral and multilateral. Bilateral and donor countries provide direct ODA to the funded national government. Multilateral channels, international organizations operate on the contributions of many member countries that provide ODA to the donor country. For member countries, this is an indirect way of providing ODA. ODA is an official transaction, its officialness is shown by how much the value of ODA is, what the purpose of use is subject to the approval and approval of the national government. Such acceptance is expressed in writing, treaties and treaties signed with donors. ODA is provided with a clear purpose, the purpose of providing ODA is to promote socio-economic development of poor countries. Sometimes ODA is also used to support countries in especially difficult circumstances such as economic crises, natural disasters and epidemics. Therefore, developed countries also receive ODA. But this goal is not always the top priority. Sometimes donors often impose their own conditions to perform other calculations. ODA may be provided by donors in financial form, sometimes in kind of material forms.

ODA has three basic forms: grant aid (Grant Aid), concessional loan (Loans Aid) and mixed form. Non-refundable ODA: This is the ODA that donors provide to poor countries that do not require repayment. There are also a number of other countries that receive this type of ODA when facing serious problems such as natural disasters and epidemics. For developing countries, this form of funding is usually provided in the form of technical assistance projects, arts, social programs or support for project preparation. Non-refundable ODA is usually money but sometimes goods, such as food, medicine or some essential goods. Non-refundable ODA often gives priority and provides regular support to education and health. European countries now devote a sizable portion of non-refundable ODA to environmental protection, especially the protection of forests and precious animals. ODA concessional loan: this is the financial amount that the recipient country must repay the lender, only this is a concessional loan. Its preference is expressed at interest rates lower than the commercial interest rates at the time of the loan, the loan period is extended and there may be a grace period. During grace period, the sponsor does not charge interest or the borrower is charged a special interest rate. This type of ODA is usually received by the host country to invest in social infrastructure projects such as roads, wharves, factories. In order to be approved by the donor, the host country must submit project documents to competent government agencies of the host country. After reviewing the feasibility and effectiveness of the project, the agency will submit it to the government for approval. This type of ODA accounts for the majority of the world's ODA today. Mixed form: ODA in this form includes partly ODA and partial ODA concessional loans. This type of ODA is popularly applied in recent times. This type of ODA is aimed at improving the efficiency of this funding.

Classifying by purpose, we have basic support ODA and technical assistance ODA. Basic support is the resources provided to invest in the construction of socio-economic and environmental infrastructures, which are often concessional loans. Technical assistance is resources for knowledge, technology transfer, capacity building, basic research or pre-

investment in institutional and human resource development. Mostly non-refundable aid. Classifying by conditions we have unbound and bound ODA. Non-binding ODA is the use of funding that is not constrained by the source of use or intended use; ODA bound by user sources means that the ODA provided for the purchase of goods, equipment or services is limited to a number of companies owned or controlled by the donor country (for aid bilateral), or companies of member countries (for multilateral aid). ODA bound by the intended use means that the recipient country can only provide ODA funds provided that it is used for certain fields or specific projects. Partially bound ODA means that the recipient country must spend a portion of ODA spent in the donor country (such as procuring goods or using services of the ODA-providing country), while the remainder can be spent at anywhere.

Aware of the pressing issues in the host country, the donor requested the host country to get aid to solve these difficulties. When the government approves it, the aid will be carried out in accordance with the agreement of the two sides. This type of ODA is often provided with demands from the government of the donor country. Therefore, the government of this country must carefully consider the requirements from the donor to see whether it is satisfactory or not. If not satisfactory, negotiations must be conducted to reconcile the conditions on both sides. This type of ODA usually has a high level of non-refundable, including the following types:

- + Support of balance of payment: It is usually direct financial support (currency transfer) or goods support, or import and export support. Foreign currency or goods transferred in this form can be used to support the budget.
- + Debt repayment support: ODA provided to pay debts of aid recipients.
- + Program aid: It is an ODA fund for a general purpose with a defined time without having to determine exactly how it will be used.

In each society, there exist always the operation of non-profitable sectors and fields. For example, in the field of environment, sanitation workers can be considered as "social" because their job does not make a fortune for society. But without them only a week or a day, the smell of uncleanness will rise from the city. Whether or not a green park exists is not a matter for anyone, but without it, people will not have a place to rest and relax after stressful working hours. These are areas where the private sector is hardly interested in investing even though it is essential for any modern society today. Because this sector is not profitable, if it does, it will take a long time to pay back. Imagine what a city without the workers sweeping garbage or a green park will happen. Certainly, people will not tolerate heavy environmental pollution that is themselves the cause. The unprofitable environment has been achieved, even in the lucrative areas but the economic efficiency is slow, such as transportation, irrigation, electricity, water and there is no individual who dares to spend money to build, because it requires large capital and slow recovery time. Therefore, public works are often invested by the State. However, governments of developing countries face many difficulties in investing in public areas. These are mostly poor countries, whose people's lives still face many difficulties. Therefore, there is very little capital accumulated for development investment. Poor people, the budget revenue is not much, not enough to build public works, technical

infrastructure. Most developing countries are going up from an outdated agricultural economy, facilities and technology. Therefore, the development of infrastructure to meet the needs of industrialization and modernization of the country is becoming extremely urgent. The trend of internationalizing the world economy is a condition that requires developing countries to find ways to improve the efficiency, competitiveness of the economy and the problem of lack of capital is the biggest obstacle to finding the development roadmap for these countries. Every year, in the spirit of great humanity, developed countries have provided a significant amount of ODA worth hundreds of billions of dollars to developing countries. Such ODA plays a very important role for these countries, it allows them to have a sum of money to solve a number of urgent problems, and invest in infrastructure and public works. It can be said that a good infrastructure system will be the foundation for the development of a country. However, most developing countries have outdated infrastructure systems that do not meet the needs of economic development. Currently, the general trend of developing countries is to find ways to attract foreign investment capital (FDI and ODA), in addition to the limited domestic capital. Foreign direct investment (FDI) has the advantage of having a large volume of invested capital and receiving countries do not have to bear the burden of debt. But to attract more FDI, it requires developing countries to have a good infrastructure system, a favorable business environment. These are factors that developing countries lack. If attracting only FDI capital, it is not enough to meet the increasing demand for capital for socio-economic development. Therefore, ODA capital must be attracted to supplement the capital demand. ODA has the advantage that the recipient country is proactive in using this capital source in the fields of interest. In addition to using ODA capital to solve other problems of the country, ODA can focus on building infrastructure, making the business environment more favorable. This will positively contribute to increasing the ability of developing countries to attract FDI.

### **3. Research methodology**

Research will be based on the method of data collection. Data for this topic is collected through documents such as books, newspapers, magazines, internet, market information and other documents related to ODA. During the analysis of the article, the method of comparison, analysis, descriptive statistics, data aggregation and tabulation, making comments and comments on ODA issues from the country were used in addition to sustainable development in Vietnam in general and the Southeast in particular, in the abbreviated form to synthesize and study concepts related to textbooks, research works, and views of major economists in the world in general and apply to the context of Vietnam and the Southeast in particular to show the role and limitations of ODA capital, thereby offering solutions to overcome limitations and enhance the attraction of ODA into the Southeast region.

### **4. Research results**

#### **Actual situation of attracting and using ODA capital in Southeastern economic region**

Since ODA began pouring into Vietnam (in 1993) up to now, Vietnam's ODA mobilization, attraction and use has achieved many positive results, expressed in three main

criteria: Committed ODA, contracted ODA and disbursed ODA. Data from the Ministry of Planning and Investment shows that over the past 20 years, donors have pledged to Vietnam over US \$ 78.195 billion of ODA, including the official agreement of US \$ 58.463 billion. With 37,597 billion USD of disbursed capital, many ODA programs and projects have been put into use, creating a foundation for Vietnam's socio-economic growth and development, contributing to hunger elimination and poverty reduction.

In recent years, the Southeast region's economy has grown impressively with an average annual GDP growth rate of over 15% and has become one of the most dynamically developing industries in the region. The development process has contributed many economic sectors, in which the economic sector with ODA capital is most effectively used in the industrial production process to make a breakthrough for Vietnam's economy. In 2014, the South East region attracted 644 newly licensed projects and 283 capital raising projects with a total capital of both newly and additionally registered capital of US \$ 7.21 billion, accounting for 35.9% of the total investment capital with the whole country and was the leading region in foreign investment in 2014.

The Southeast region plays a particularly important role and role in the country's socio-economic development; is a region that meets all conditions and advantages for industrial and service development, leading the cause of industrialization and modernization (industrialization and modernization); especially developing high-tech industry, electronics industry, informatics, petroleum industry and petrochemical products; developing high-class services, tourism services, telecommunications services, finance and banking; researching, applying and deploying science and technology, training highly qualified human resources. The Southeast region consists of 8 provinces: Ho Chi Minh City, Ba Ria - Vung Tau, Dong Nai, Binh Duong, Binh Thuan, Tay Ninh, Binh Phuoc and Ninh Thuan. In 2014, the East region attracted 644 new projects and 283 capital raising projects with a total capital of both newly registered and increased capital of 7.21 billion USD, accounting for 35.9% of total investment capital compared to both the country and is the leading area of foreign investment in 2014.

Accumulated to December 15, 2014, the Southeast region has 9,764 valid foreign direct investment (FDI) projects with a total registered capital of 114.95 billion USD. This is the largest FDI attraction in the country, accounting for 56% of the projects; 45.8% of the total registered investment capital. Ho Chi Minh City takes the lead in foreign direct investment in the region with 5,196 projects, total registered capital of 38 billion USD, accounting for 31.1% of total investment capital, Ba Ria - Vung Tau ranked second with 303 registered projects, total capital is 26.7 billion USD, accounting for 23.2% of total investment capital; Dong Nai ranked third with 1,249 projects, with a total registered capital of 22.35 billion USD, accounting for 19.4 of total investment capital. Followed by Binh Duong with 19.98 billion USD, accounting for 17.4% of investment capital; the remaining provinces are Binh Thuan, Tay Ninh, Binh Phuoc and Ninh Thuan respectively accounting for 3.1%; 2.1%; 0.82, 0.7% of total investment capital of the region. Foreign investors in the Southeast region have invested in 18/21 Vietnam's economic sectors, but the projects mainly focus on the manufacturing and processing industry with 5,411 projects, with total registered capital of 57.6 billion

USD, accounting for 55% of projects and 50.1% of registered capital. Real estate business ranked second with 240 projects with a total registered capital of 27.18 billion USD, accounting for 23.6% of registered capital. Accommodation and catering services ranked third with 105 projects with a total registered capital of 6.18 billion USD, accounting for 5.4% of registered capital. To date, there are 86 countries and territories investing in the Southeast region. Leading is Singapore with 962 projects, total capital of 15.31 billion USD, accounting for 9.9% of total projects of 13.3% in registered capital; South Korea ranked second with 2,016 projects with total capital of 14.96 billion USD, accounting for 20.6% of total projects and 13% of registered capital. Taiwan ranked third with 1,659 registered projects with a total registered capital of 13.1 billion USD, accounting for 11.4% of investment capital. Japan ranked fourth with 1,195 projects with a total registered capital of 12 billion USD, accounting for 10.4% of investment capital. 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. By locality, the disbursement of major cities like Ho Chi Minh City, Dong Nai and Binh Duong are 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 to absorb national ODA capital as well as at the sectoral and local levels has not met the requirements. Moreover, in the context of deep integration into the regional and world economy, Vietnam needs to prove its strengths and development potential, so that it can attract better investment capital from abroad.

### **Solutions to attract ODA into the southeastern economic region**

In order to attract and effectively use ODA capital in the coming time, especially in the context that Vietnam is a country with low average income; the following issues need to be well implemented:

- Firstly, adequately and timely preparing counterpart funds for ODA programs and projects so that these projects can achieve the highest and fastest disbursement rates.
- Second, it means that Vietnam will become a low-middle-income country, the source of non-refundable ODA and low preferential loans for Vietnam will decrease. This situation requires Vietnam to strengthen its capacity and make drastic improvements in the implementation of ODA projects, using more concentrated investments to build large-scale socio-economic infrastructure and create spillover effects radiating to the overall development of the country.
- Thirdly, finalize legal documents, innovate in ODA project management processes and procedures based on a combination of reference with donor standards, especially for the following procedures: procurement contractors; compensation, migration and resettlement; financial management of programs and projects.
- Fourthly, appropriate policies and institutions are needed to create an environment for new aid models. In particular, encourage the participation of private and non-governmental organizations. In addition, it is necessary to work closely with donors to access the new aid model, in order to improve the efficiency of use, reduce procedures and

contribute to improving management systems according to international standards.

- Fifth, it is necessary to identify investment priorities when using ODA capital and improve project monitoring, monitoring and evaluation; at the same time, improve the capacity and awareness of the team involved in the management and use of ODA. The nature of ODA is still a loan and is obliged to repay the debt, so the need to eliminate the idea of "asking" for ODA in a part of cadres at all levels has resulted in insufficient attention to the effective use this capital.

- Sixthly, it is necessary to study plans and strategies to gradually reduce ODA capital, especially conditional ODA capital, and at the same time, increase the attraction of other foreign investment capital sources such as FDI. In this way, Vietnam not only maintains an increase in total investment but also improves the efficiency of all sources of capital, including ODA.

### 5. Research discussion

In 1993, the first round-table Conference on ODA for Vietnam was held in Paris (France), marking the opening of development cooperation relationship between Vietnam and the international donor community road of innovation. About 80 billion USD that donors have pledged to Vietnam in the past 20 years has not only provided Vietnam with an important additional funding source for socio-economic development, poverty reduction, and agricultural development, rural development, infrastructure construction, training and development of human resources. More importantly, this commitment also affirmed the strong support of the international community for innovation and policy. At the same time, the Southeast is one of the economic regions that converges full of advantages and conditions for diversified and comprehensive economic development, such as abundant labor resources, economic situation and political stability. Therefore, this area has attracted many ODA projects over the years.

According to the Ministry of Planning and Investment, ODA disbursement level compared with committed capital is still low and unstable. The slow disbursement leads to losses such as the reduction of preferential terms for the loan period, the reputation of Vietnam's ODA absorption capacity, which will make it difficult to attract capital. In addition, there are many shortcomings leading to low disbursement of ODA, such as: The time to complete the preparation and implementation of ODA projects in Vietnam is longer than the world average; Many ODA-funded projects have been slow to be implemented due to the lack of reciprocal capital from the Vietnamese side because they rely mainly on the State budget; The compensation and site clearance for ODA loan projects is still slow. This situation occurs more in transport and urban development projects due to the limited ability to allocate reciprocal capital from the central and local budgets. The capacity and qualifications of staff involved in project management are limited, especially in localities. Project management personnel are often unstable, in many cases working on a part-time basis. The project management training has not been conducted regularly, systematically and methodically, leading to the limited management and use of capital. Through the synthesized researches, we can clearly see the realities of the parallel ODA capital, which are the difficulties facing the ODA capital source in the

Southeast. Therefore, we can find solutions. Feasibility can improve the efficiency of ODA in this region, helping to shorten the current difficulties that we are facing, accelerate the process of attracting investment capital, thereby helping the economy to become stronger.

### 6. Conclusion and recommendation

Through research, it can be seen that the leading importance of attracting ODA investment affects the economic development of Vietnam today. In particular, for the Southeastern economic sector, it currently contributes about 45% of GDP, about 50% of the total industrial production value, export turnover, and the national budget. The Southeast is clearly a region that is truly superior in productivity and growth to the rest of the country (Vu Thanh Tu Anh, 2017). Therefore, the attraction of ODA capital into this area is a "momentum" for the country's steady economic development. But this official development aid is a double-edged sword, which is not a complete donation. It has just brought benefits to the recipient country, if the organization and management of this capital is well managed, fully exploiting advantages and limiting disadvantages. The ODA will be foreign, but very important forces contributing to the rapid growth of the economy, such as the success of Japan in the period 1950-1960 and South Korea in the period 1960-1970. On the contrary, ODA will cause loss as a burden of repayment in the future if it is not used properly and effectively as well as avoiding trade-off benefits with aid countries. However, the current trend in the world is that developed and developing countries always want to attract ODA capital, at the same time, research and propose the most effective management and use of capital. Therefore, how to use ODA capital to achieve efficiency is also a decisive factor for economic development in the Southeast region in particular, Vietnam in general. In the current trend of internationalization of the economy, in the position of being one of the potential economic areas, the Southeast region could not help but take advantage of opportunities to seek and attract ODA investment in Vietnam. However, opportunities always come with challenges and in order to achieve the goals of economic development in the region, as well as contribute to the promotion of the overall national economy, it must overcome the challenges ahead.

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