



Country Report **Vietnam**

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Introduction

Vietnam is a lower middle-income country with a population of 90 million and a market-based economy with a socialist orientation. Over the past 20 years the country has made rapid progress towards economic prosperity and human development. Poverty rates declined from 58% in 1993 to 7.1% in 2015 (ADB, 2018) and a number of Millennium Development Goals have been achieved.

Rapid economic growth (averaging 5-6% annually during 1991 and 2016) has transformed the country from one of the poorest nations in Asia to a lower middle-income country. Vietnam has a gross domestic product (GDP) per capita of \$2,171 (IMF, World Economic Outlook, 2018) and a Human Development Index of 0.683 (115 of 188 countries ranked in the 2016 UNDP Human Development Report).

Despite these remarkable achievements, several development challenges remain, including two unfinished Millennium Development Goals. The goals regarding environmental sustainability and HIV/AIDS still need to be achieved and disparities, particularly between majority and minority ethnic communities, still need to be addressed (UNDP Country Report, 2015).

This report presents the state of ODA received by Vietnam based on a thorough analysis of official reports from international organisations (such as the OECD, the UN, the EU, etc.) published during the period 2007-2018.

The report begins with a brief description of donor activity in Vietnam from 2007 to 2016 and continues with an analysis of the top five donor states and the top three multi-lateral development organisations to Vietnam.

This report also contains general information regarding direct investments and remittances.



*Dong Van, Vietnam
Photo: Water Lilly, 2018*

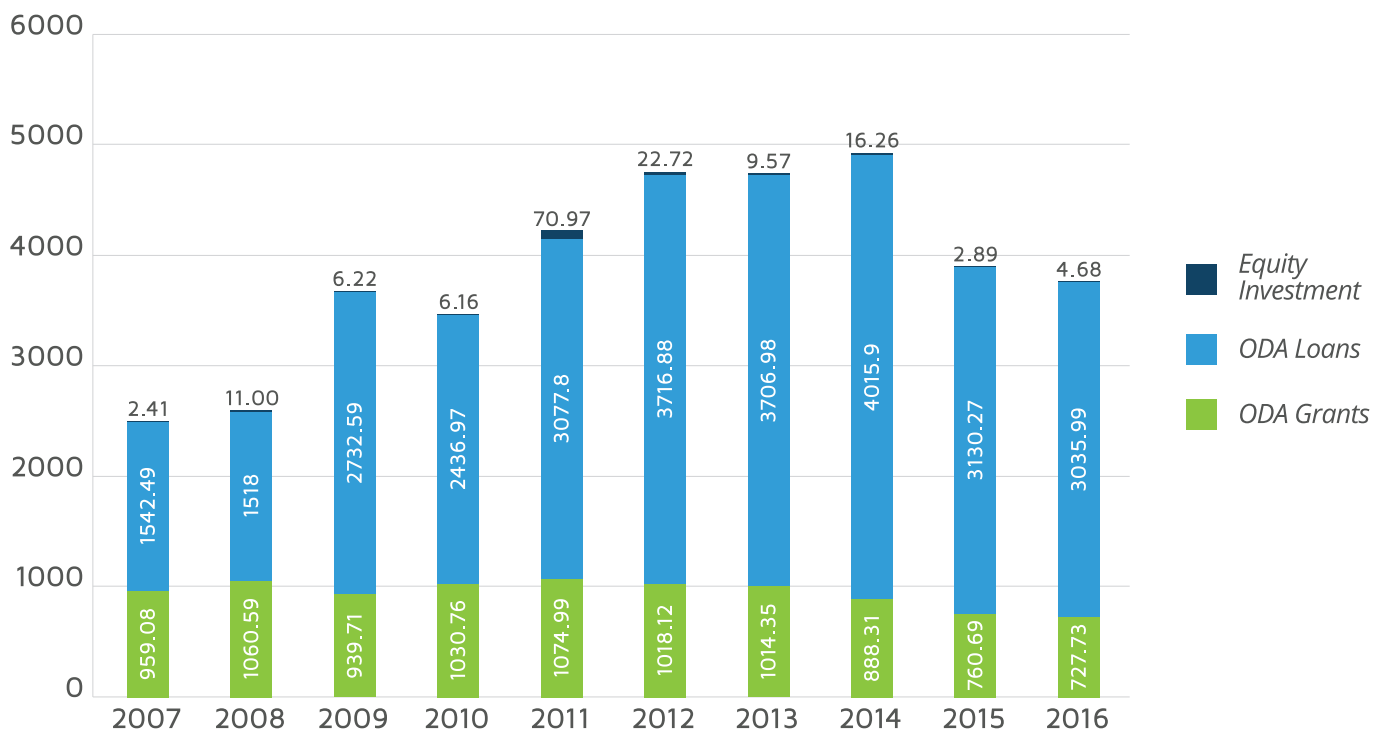
Donor Activity in Vietnam

According to the OECD database, in the period between 2007 and 2016, the disbursed development assistance to Vietnam amounted to US \$38.5 bn which placed Vietnam among the countries that benefited the most from ODA. In 2016, the OECD ranked Vietnam in sixth place by net disbursements of official development assistance. Although Vietnam is one of the world's largest recipients of ODA, mostly as concessional loans, this assistance represented only 2% of Vietnam's GDP in 2016.

The lowest levels of development aid disbursement were recorded in 2007 and 2008. In the following years monetary contributions to Vietnam saw a sharp increase, mostly due to higher volumes of ODA loans with the total development assistance peaking in 2014 with US \$4.92 bn. In 2015 and 2016 the disbursements of development assistance saw a decrease. This was as an effect of the country entering the group of middle-income countries which motivated many donors to disengage with Vietnam and decrease their levels of development assistance. This is visible in the decrease of both grant and concessional loan disbursements.

ODA to Vietnam by type of assistance (US\$,m)

2007-2016



Source: OECD, 2018



Halong Bay, Vietnam
Photo: Water Lilly, 2018

Top 5 Donor Countries

Nr. 1: Japan

Japan is Vietnam's largest donor. During 2007 to 2016 Japan provided 36% of the overall development assistance received by Vietnam. JICA is the main agency that provides assistance from Japan through ODA loans and technical cooperation programs. Because Vietnam falls in the lower middle-income country group, Japan's ODA to Vietnam leans more towards loan aid rather than grant aid.

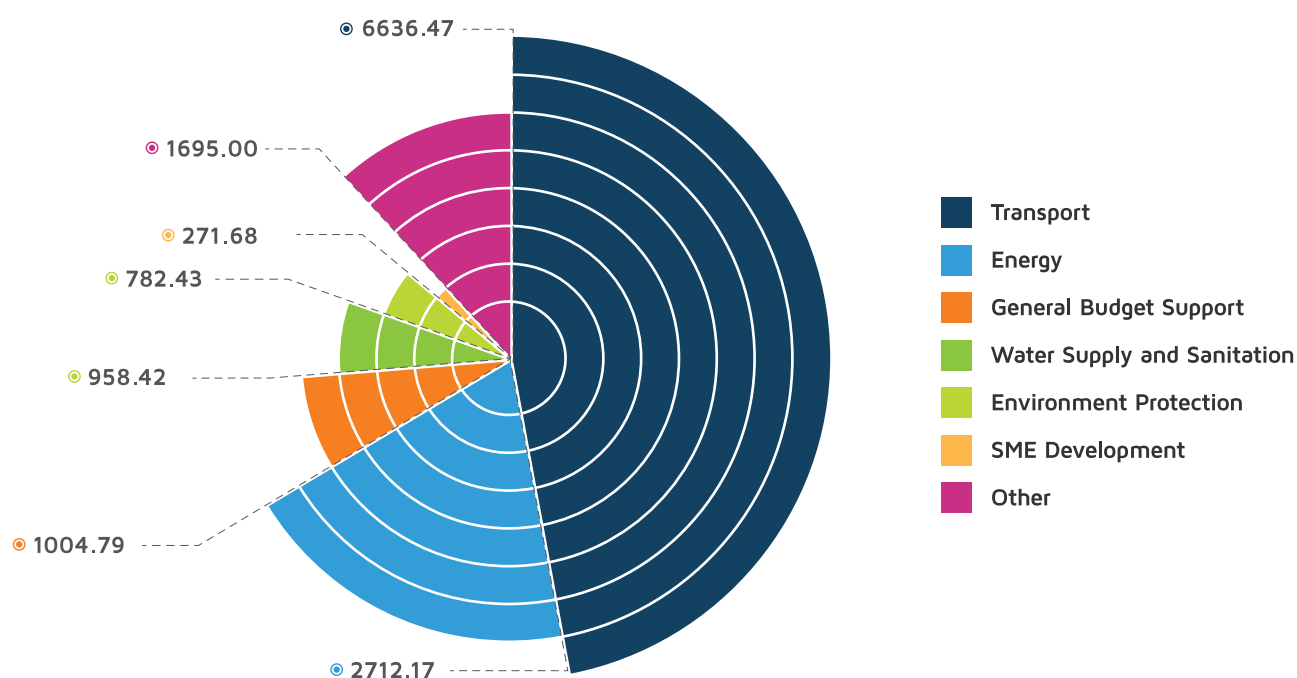
Japan's ODA focuses on five areas of assistance:

- Infrastructure development, especially in transportation and power generation structures;
- Institutional assistance and general budget support;
- Environmental conservation;
- Education and healthcare;
- Rural development.

The lion's share of all the assistance is channeled to large infrastructure projects that are essential for economic development. During 2007 to 2016 the transport sector received US \$6.64 bn, or 47% of Japanese ODA's disbursements, while the energy sector received US \$2.71 bn or 19%. Some of the most notable projects are the Nhat Tan Bridge in Hanoi, the Omon power plant and the North-South Vietnam highway program.

Top sectors by disbursements from Japan (\$,m)

2007-2016



Source: OECD, 2018

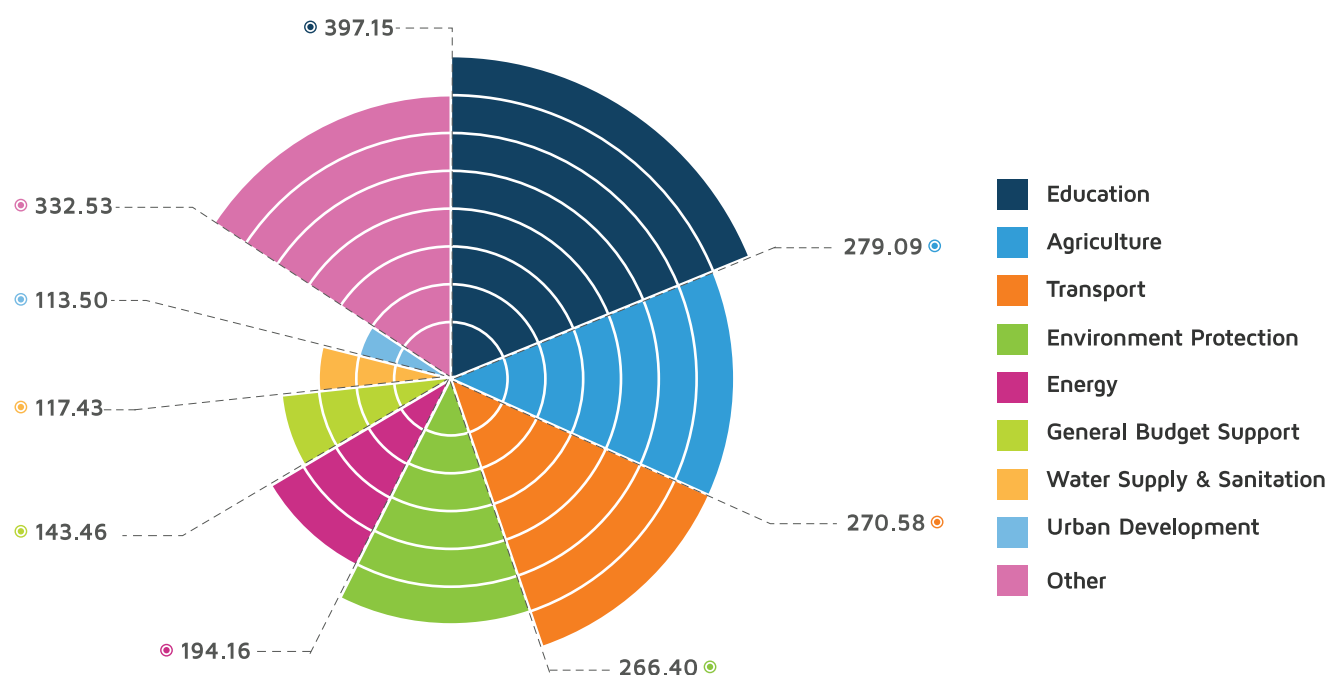
Nr. 2: France

France is the second largest bilateral partner in development cooperation with Vietnam. From 2007 until 2016 it allocated US \$2.11 bn to the financing of development projects in Vietnam. Agence Française de Développement (AFD) is the operator of France's bilateral development finance mechanism.

Almost 73% of the financial disbursements consists of sovereign concessional loans. Grants represent 27% of the total amount disbursed, with a declining trend in recent years (OECD, 2018). With regard to the sectors for intervention, we see a strong focus on education, agriculture and transport. France also focuses on sustainable development and climate change as other key areas for intervention, such as environment protection, water management and urban development.

Top sectors by disbursements from France (\$,m)

2007-2016



Source: OECD, 2018



Rice harvesting, Vietnam
Photo: Water Lilly, 2018



Nr. 3: South Korea

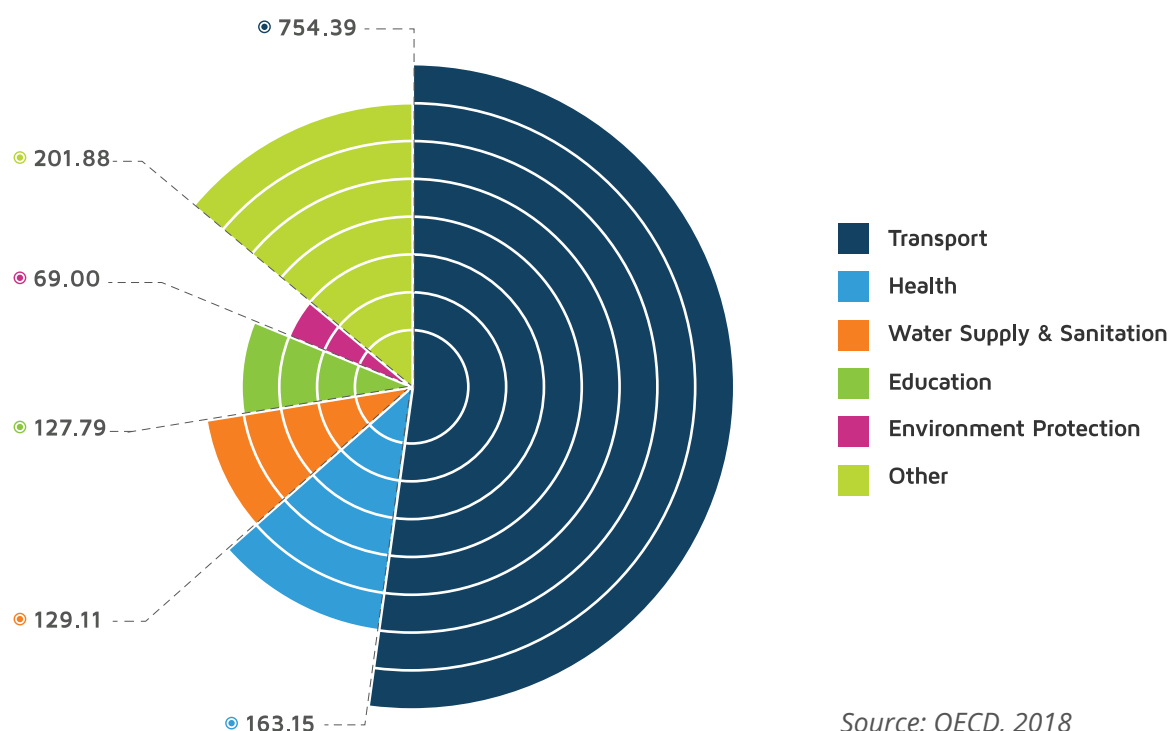
During the years 2007-2016 Vietnam received a total of US \$1.44 bn in development assistance from South Korea. The sectors receiving the largest amount of aid from South Korea are transport, healthcare, water supply and education.

Vietnam is a core partner country for the Korean International Development Agency (KOICA). A Country Partnership Strategy for the years 2016-2020 was approved two years ago and in 2017 South Korea pledged to provide US\$1.5 bn in ODA loans for the 2017-2020 period via the Korea Economic Development Cooperation Fund (EDCF).

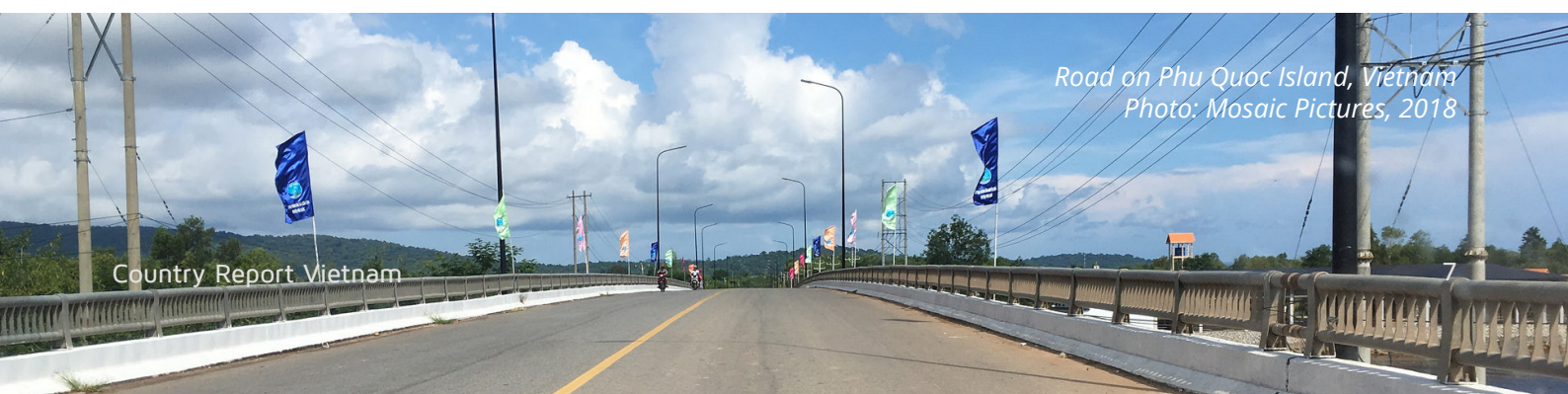
The priority development cooperation areas for South Korea in Vietnam are:

- Transport;
- Water Management and Healthcare;
- Governance (Public Administration);
- Education.

Top sectors by disbursements from South Korea (\$,m) 2007-2016



Source: OECD, 2018



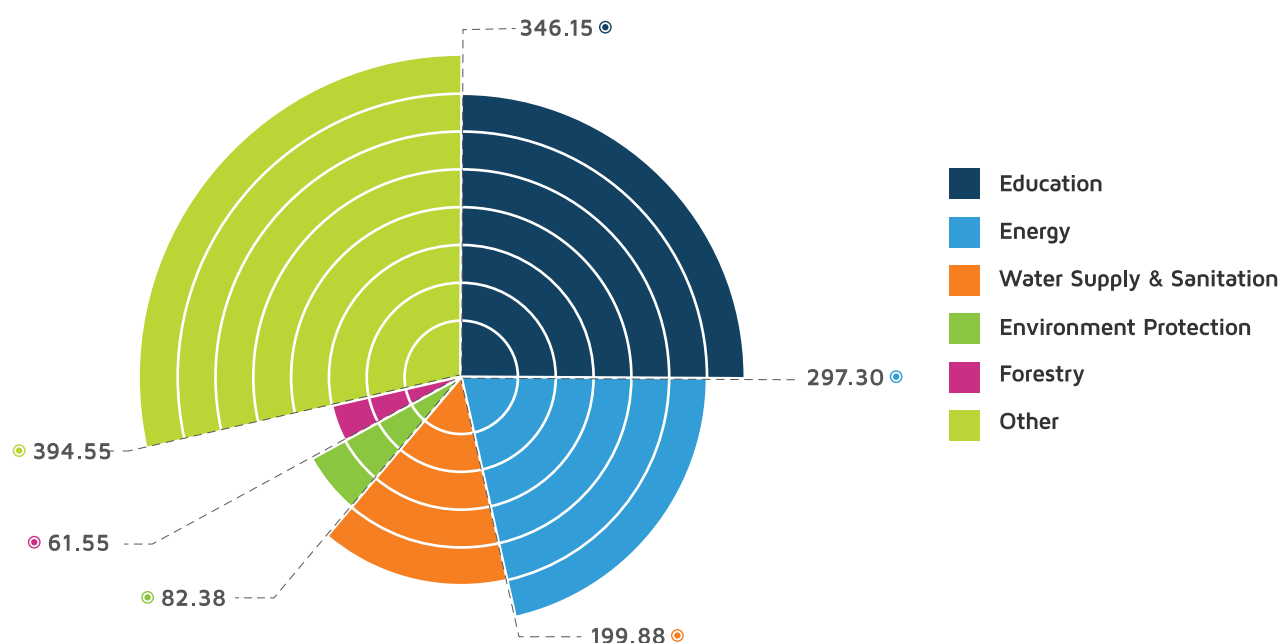
Road on Phu Quoc Island, Vietnam
Photo: Mosaic Pictures, 2018

Nr. 4: Germany

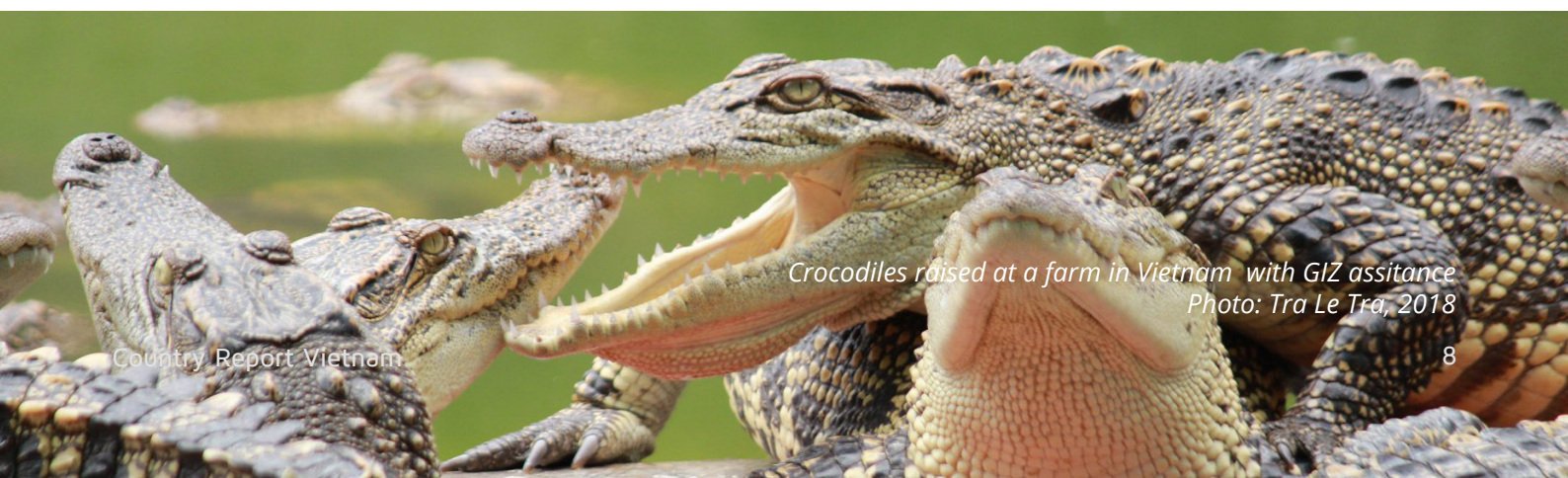
Germany has been a consistently reliable contributor of ODA to Vietnam. Between 2007 and 2016 Germany allocated US \$1.38 bn in official development assistance to Vietnam. The bilateral development cooperation focuses on three priority areas: technical and vocational education and training (TVET), energy and environment. Through these efforts, Germany works to ensure that Vietnam has a well trained workforce, an efficient and sustainable energy supply and an economic growth path that preserves the country's environment and biodiversity.

The institutions responsible for the implementation of Germany's development cooperation are the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the KfW Bank. Germany is also engaged in various projects co-funded by the Australian and Swiss Governments as well as the European Union.

Top sectors by disbursements from Germany (\$,m) 2007-2016



Source: OECD, 2018



Crocodiles raised at a farm in Vietnam with GIZ assistance
Photo: Tra Le Tra, 2018



Nr. 5: Australia

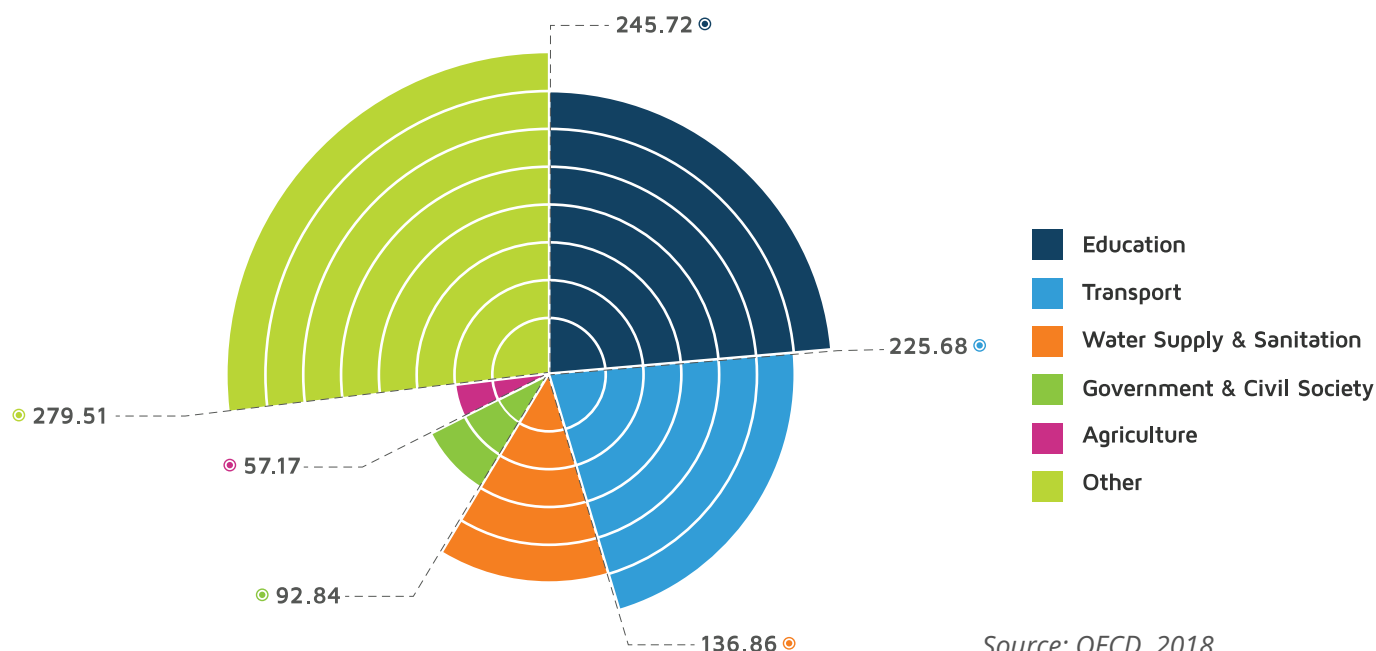
Between 2007 and 2016, Australia's official development assistance to Vietnam totalled US \$1.04 bn. Almost half of all the disbursed assistance was channeled to the education and transportation sectors. Australia supported the construction of two critical bridges which link the Mekong Delta to the rest of South East Asia – the My Thuan Bridge and the Cao Lanh bridge, inaugurated in May 2018.

Since Vietnam became a middle-income country, Australia has reshaped its aid program. Instead of subsidizing the delivery of essential public services, development aid will be directed to developing the private sector and facilitating economic inclusion.

Australia has committed to a five year development cooperation program with Vietnam, outlined in the Aid Investment Plan 2015-2020. Structural reform, macroeconomic stability and environmental sustainability are the key themes of the Aid Investment Plan. Australia plans to support these three objectives by enabling and engaging the private sector, skilling up the workforce and supporting inclusive economic growth.

Top sectors by disbursements from Australia (\$,m)

2007-2016



Australian funded Cao Lanh Bridge
Photo: DFAT, 2018



Top 3 Contributors by Multilateral Organisations

Nr.1: World Bank



Including both IDA and IBRD disbursements, the World Bank allocated US \$9.99 bn in the period 2007-2016. In 2007, World Bank disbursements totalled just US \$0.6 bn, rising steadily in the following years. In 2014 the disbursements reached their highest level with US \$1.36 bn, later dropping to US \$0.75 bn in 2016.

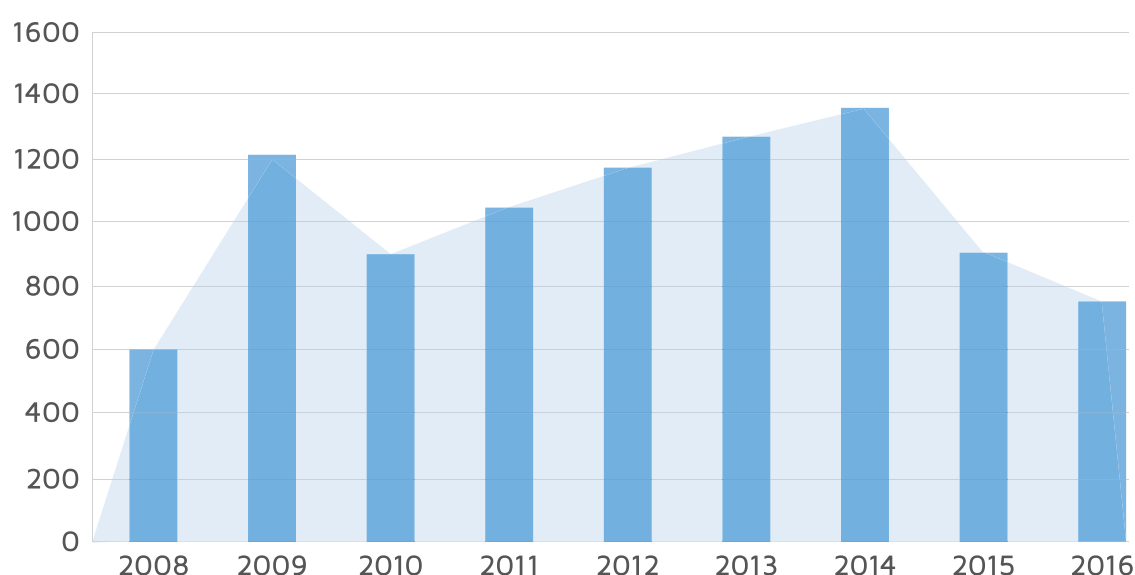
The World Bank prepared a new Country Partnership Framework with Vietnam which was approved in 2017 and which will provide a long term financing agreement for the period 2018-2022. The focus of the World Bank's engagement in Vietnam over this period will be to:

- Strengthen private sector development and inclusive growth;
- Achieve financial sustainability of public services;
- Strengthen links between education and the labour market;
- Promote and support low carbon energy generation.

As Vietnam moves forward into middle-income country status, the World Bank financing will shift to IBRD loans only. However, until the end of the current Country Partnership Framework, Vietnam will remain eligible for both IDA and IBRD financing. The first IBRD loan, the World Bank's lending arm for middle-income countries, was disbursed to Vietnam in 2009.

World Bank disbursements to Vietnam (\$,m)

2007-2016



Source: OECD, 2018

Nr.2: Asian Development Bank

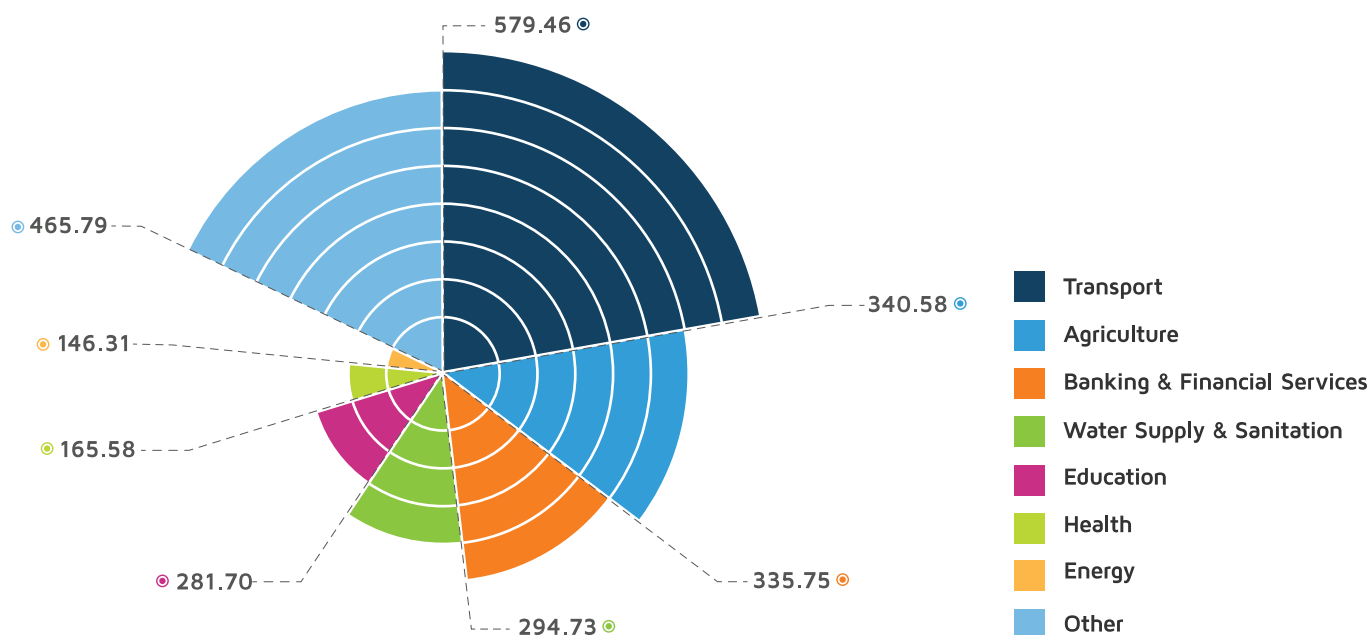
Vietnam was one of the founding members of the Asian Development Bank in 1966. After a break in operations in 1978, ADB resumed relations with Vietnam in 1993. Currently ADB is one of the country's largest multilateral partners in development cooperation. For the period between 2007 and 2016, ADB disbursed over US \$2.6 bn for development assistance to Vietnam. Priority sectors included transport with US \$579 m, agriculture with US \$341 m, banking and financial services with US \$336 m and water supply and sanitation with US \$295 m.

The ADB country partnership strategy for 2016-2020 supports investments and policy reforms that promote more inclusive and environmentally sustainable economic growth. ADB's strategic framework is based on three pillars:

- Promoting job creation and competitiveness;
- Increasing the inclusiveness of infrastructure and service delivery;
- Improving environmental sustainability and climate change response.

Top sectors by disbursements from ADB (\$,m)

2007-2016



Source: OECD, 2018



Rice field in Gio Mai commune
Photo: ADB, 2018

Nr.3: The European Union

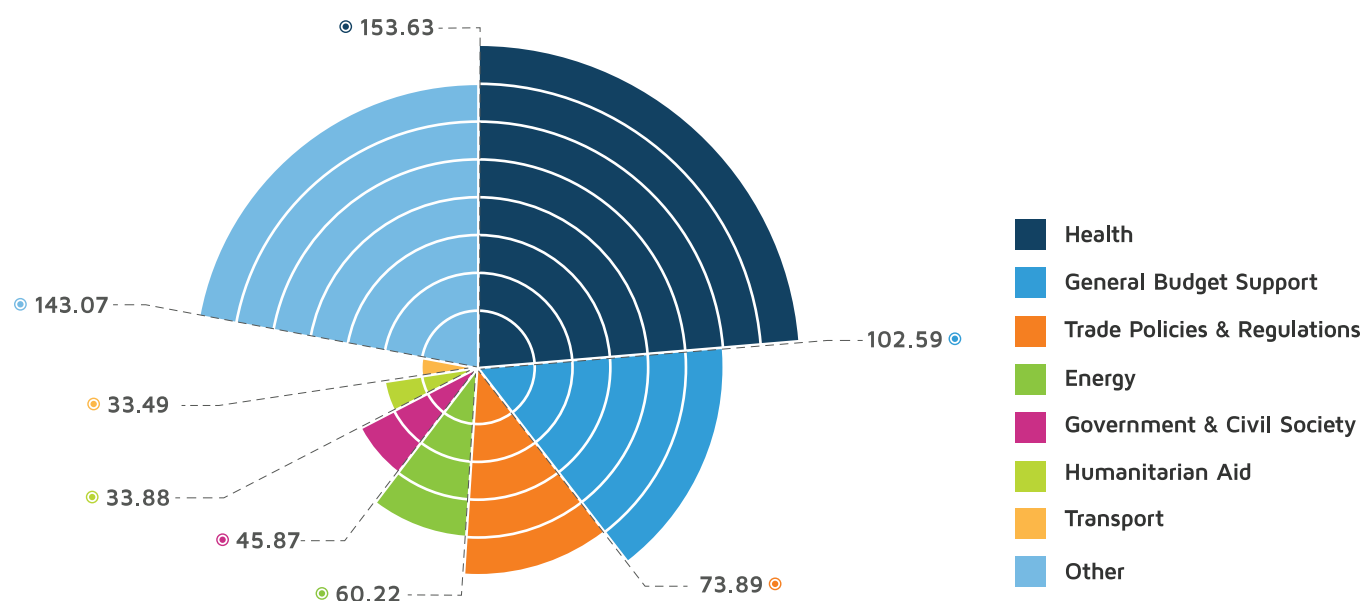
The European Union is the third largest multilateral donor to Vietnam. The total assistance for the period 2007-2016 reached US \$646 m in the form of grants with the European Union being the largest grant donor to Vietnam. EU development cooperation has focused on supporting the health sector with disbursements of US \$154 m. The general budget support (US \$103 m) also supported the health sector because it contributed to the increase of budget allocations at national and provincial level and consequently improved the quality of health services. In addition, the EU has provided financing for trade-related assistance, the governance and civil society sectors and the energy sector.

The Multiannual Program for Vietnam 2014-2020 has set new sector objectives that will accompany the country in its transition to an upper middle-income country, focusing on two sectors:

- Sustainable energy;
- Governance and the rule of law.

Top sectors by disbursements from EU (\$,m)

2007-2016



Source: OECD, 2018



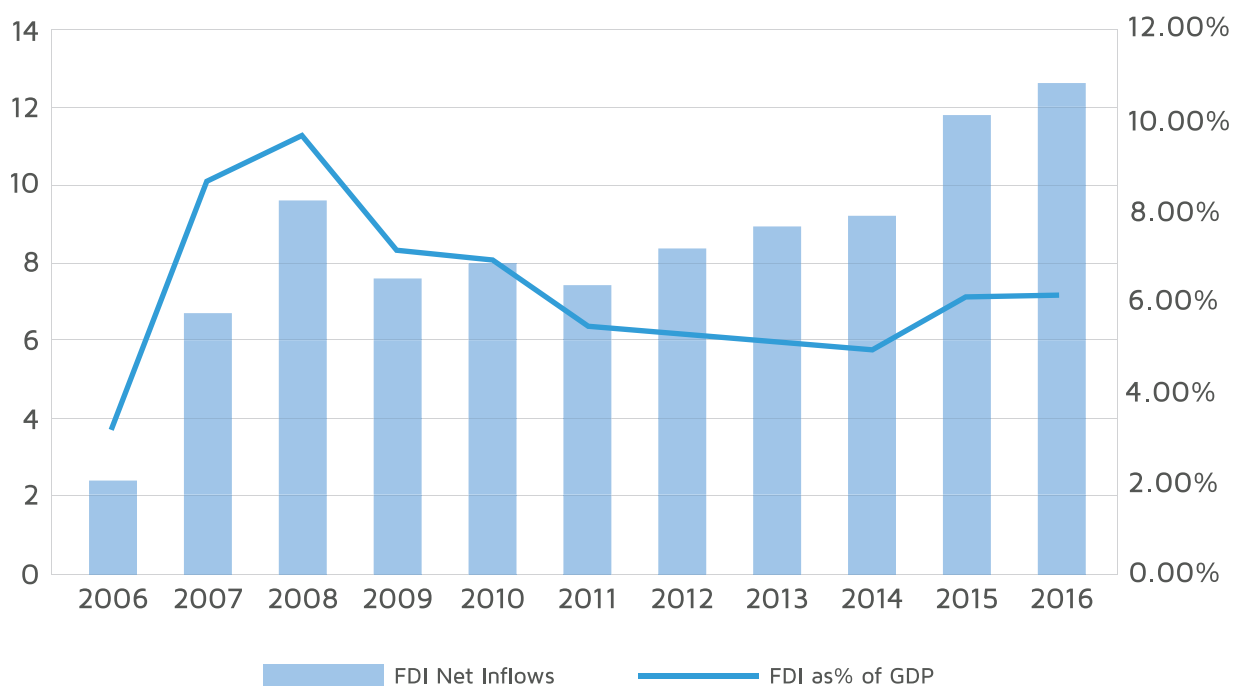
The Mekong Delta
Photo: Evangelos Petratos, 2014

Foreign Direct Investments

Vietnam is an attractive FDI destination and in the period between 2006 and 2016 received a total of US \$92.6 bn in foreign direct investments. Many investors are attracted by Vietnam's geographical position near the global supply chains, its young and abundant workforce - almost 62% of the population is under 35 (Source: Vietnam Population and Housing Census 2009), its political stability and a favourable business climate.

In 2015 the country adopted a series of legislative reforms to facilitate the acceptance of foreign investment such as the new Law on Investment and Law on Enterprise that have done away with many of the restrictions for foreign companies and reduced bureaucracy in the foreign investment approval process. Reflecting the improvement in Vietnam's business environment, the WBG Doing Business ranking for Vietnam has improved from 98 in 2012 to 68 in 2018.

Foreign Direct Investment Net Inflows, USD billion 2006-2016



Source: World Bank, 2018

The Republic of South Korea is the largest investor in Vietnam. In 2016 the FDI inflows from South Korea registered a 4.3% increase, compared with the previous year, and reached US \$3.64 bn. One of the biggest investments in 2016 came from LG which began the construction of a diode screen plant in Vietnam with a US \$1.5 bn investment. The acceleration of Korean investment in Vietnam is occurring because Vietnam is increasingly being seen not only as a manufacturing base but also as a growing domestic market with proximity to customers and supply chains.

The second biggest investor in Vietnam is Japan, with US \$1.34 bn, followed by Singapore (US \$1.25 bn) and China (US \$ 0.97 bn). FDI inflows in Vietnam are dominated by strong investment in manufacturing. According to the ASEAN Secretariat, manufacturing activities accounted for more than 64% of all FDI inflows in 2016. Thanks to FDI, Vietnam produces many high value-added products such as smart phones and tablets.

Main investing countries in Vietnam, (\$,m)

2015-2016

Country	2015	2016
South Korea	3,488.01	3,637.57
Japan	954.96	1,338.89
Singapore	638.48	1,250.60
China	381.01	969.44
Taiwan	725.04	961.65
Hong Kong	620.24	847.91
Malaysia	1,285.01	427.53
Virgin Islands	632.18	443.69
Thailand	136.05	365.24
Cayman Islands	133.95	333.32

Source: ASEAN FDI Database, 2018



Fuji Xerox printer manufacturing plant in Vietnam
Photo: asia.nikkei.com, 2018

Remittances

Remittances from overseas have constantly grown over the last decade and totalled US \$111.54 bn during the 12 year period between 2006 and 2017. Although the total amount has consistently increased, their share of gross domestic product remained constant at about 6 to 8%. A record high value of US \$13.8 bn in remittances in 2017 placed Vietnam among the top 10 recipients of remittances globally.

Money sent home by the diaspora is almost three times higher than the international development assistance to Vietnam, of which Vietnam is also a top recipient. According to the State Bank of Vietnam report from 2016, over 70% of remittances went to the production and business sectors, 21.6% went to the real estate market and only 7% was used for personal consumption and family support.

There are about 4.5 m Vietnamese living and working overseas and, as we can see, their remittances are an important source of income, contributing significantly to expenditure and investment in their home country.

Annual Remittances inflow to Vietnam, USD billion 2006-2016



Source: IMF and WB, 2018

Conclusion

Vietnam is considered to be a true development success story marked by remarkable poverty reduction and stellar economic growth. Official development assistance has likely played an important role in transforming Vietnam from a poor country to a middle-income country. In the period between 2007 and 2016 Vietnam has received a total of US \$38.5 bn, making it one of the biggest recipients of official development assistance worldwide. The top five individual country contributors to Vietnam were Japan, France, South Korea, Germany and Australia. Multilateral institutions including the World Bank, Asian Development Bank and the EU contributed a combined total of US \$13.2 bn.

International donor assistance focused on large scale infrastructure projects in the transport, energy, water and sanitation sectors. Establishing key infrastructures such as a reliable transport system, stable power supply and an improved institutional framework are seen as prerequisites for the further development of domestic industry and the attraction of foreign investment.

Due to Vietnam's improved human development indicators many donors are expected to shift their support to countries facing greater needs and challenges. Coupled with its entry to middle-income country status, this has already led to a gradual change to the country's ODA profile. Donors are phasing out their traditional support and shifting to concessional loans. As a result, the role of ODA is expected to decline.

In the last few years, FDI in Vietnam has increased exponentially. Foreign investors in Vietnam have been mostly interested in manufacturing activities. Geographically, FDI in Vietnam has been dominated by investors from the Asia region.

Remittances also represent an important source of external funds for the economic development of Vietnam. The flow of remittances has increased rapidly and is equivalent to 6-8% of the gross domestic product. Statistical data from the State Bank of Vietnam shows that remittances play a different role in Vietnam compared to the majority of developing countries: they are invested in local businesses and the manufacturing sector.

Ho Chi Minh City
Photo: Thai Nguyen Phan Huy, 2018



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