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**SYNERGIES BETWEEN THE OFFICIAL DEVELOPMENT ASSISTANCE AND
PRIVATE INVESTMENT:
The 1993-2003 Experience in Vietnam**

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1. AN INTRODUCTION

Vietnam has been receiving aid from many foreign governments for half of century. However, for the nature of the aid changed so much in the ways they being used, we do not intend to consider them all. Instead, the focus of this study is on the official development assistance (ODA) given to this country over the course of Doi moi (Vietnam's version economic renovation), which started in late 1980s. To the unified Vietnam, ODA from Japan started in 1992, and the assistances from other major donors, such as the World Bank, ADB, and IMF, came later, after President Clinton, in 1993 authorized the United States to support international lending for Vietnam and allowed U.S. firms to join in development projects in Vietnam. This study works only with the ODA data over the period 1993-2003.

The Doi moi was launched at a special time of Vietnam's history. It was after over century of struggling for national independence and a decade of unsuccessful economic management by a government which has insufficient experience in running an economy. As the result of world development of that time, at the end of 1980s, economy of Vietnam was the centrally planned one. At that time the agriculture was unproductive, the small industry was inefficient and the war-torn infrastructure was so backward that made it harder to catch up with economies in the regions. By the end of the decade, the poverty rate of Vietnam was about 70%¹. The road to prosperity of Vietnam was expected to be long and difficult, if the foreign factors did not become well supporting.

There are a number of bottlenecks in developing economies in general and in Vietnam in particular, that is why many people remain poor in the less developed countries. The bottlenecks can be in terms of resources, technologies, institutional failures and others. Certainly, numerous economic problems can not be left for the market alone to remedy. Moreover, the governments running the economies with the bottlenecks are often not fully capable, at least in the role of resource providers, of correcting their problems. Neither domestic nor foreign private sectors can do if it concerns market failures. Thus, there is a convincing rationale for the existence of ODA flow into Vietnam. No doubt, there are many more other noble purposes, on which donor place more importance than the economic aspect.

Vietnam has been a major receiver of ODA in Asia. According to Japan's Ministry of Foreign Affairs (2003), Indonesia, India, China and Vietnam are the four largest recipients of ODA in the year 2001 from the biggest donor-economy of the world. In term of per capita ODA, Vietnam was lower only than that for Thailand and Sri Lanka. In the world, Vietnam ranked eighth among the countries receiving most of the international assistance in 1998. Thus it naturally raises the question of what the foreign factors have done to the economy. The reality is the economy of Vietnam belongs to the very few top performers of the world over last fifteen years. However, it is not so clear how big the contribution of ODA to the success of the country. The direct answer to that question goes well beyond this small scale study. In the framework of this project, we work on a part of the issue that is to investigate the effect of ODA on performance of FDI and domestic investment, which after all, influence the growth of the economy.

This paper is organizes as the following. After this introduction, an overview of ODA in Vietnam is given. The analysis of the synergies starts in Sections 3 where it concerns the impact of ODA on investment environment. The investment environment in this research paper includes Legal

¹ Dollars and Litvack (1998) estimate that poverty rate in 1994 was as high as about 75%

framework, the institutions, related set of policies and the system of public administration. A set of policies that is especially relevant to the question under consideration is the trade policies and these are presented in Section 4. In the following Section, we present the follow of ODA in the area of infrastructure, in which the programs in transport and power sectors are considered. Another factor that is equally important to the infrastructure regarding to investment is the state of human resource. The foreign activities and their effect on human resource of Vietnam is the content of Section 6. The impact of ODA flow in general on the flow of FDI is examined in Section 7. Next, we look at the performance of private sector of Vietnam. The growth of the private sector consists of two fractions: First, the setting up of new enterprises, most of which are small and medium ones; and secondly, the growth of private ownership in the public-private partnership. Both of the developments benefit from the follow in of FDI and that is the presentation of Section 8. Approaching to summing up, the macroeconomic aspects of ODA are the content of Section 9. Finally, in Section 10 we give some concluding remarks, including a brief discussion on improvement of ODA implementation.

2. OVERVIEW OF ODA TO VIETNAM

The donors and the recipients may have different definition of ODA and they often have to find common ground to work with each other. For the government of Viet Nam, according to the Government Decree 17/2001/ND-CP of 4th May 2001, official development assistance is interpreted as the cooperative activity for development between Vietnamese Government and the donors, including foreign government and intergovernmental or international organizations. The forms of ODA are non-refundable aid and preferential loan. The later has been greater than the former. There are seven broad categories: (i) economic infrastructure, (ii) human development, (iii) rural development, (iv) policy and institutional support, (v) natural resources and environment protection, (vi) emergency relief, and (vii) general disbursement-facilitating assistance. The forms of ODA provision include support to balance of payment; program support, and project support which can be technical assistance or investment projects. The government appreciates efforts in mobilization of ODA for its economy. The lobbies for ODA are conducted by central and local government agencies as well as abroad organization of Vietnam.

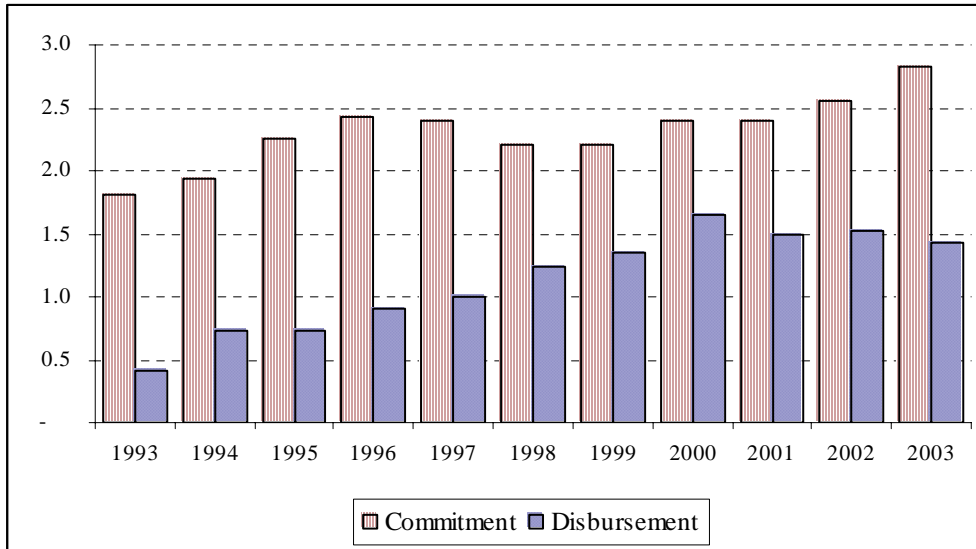
Prior to the collapse of the socialist block, Vietnam received ODA mainly from Former Soviet Union, Eastern European Socialist countries, China and a few of outside the block donors such as Sweden and several international organizations. The political development in Eastern Europe in 1989-90 led to the collapse of the socialist system and made it be really challenging for Vietnam in the beginning of 1990s as main source of economic aid stopped flowing in.

In yearly 1990s, ODA flows in Vietnam was very small amount (about 1 percent of then small GDP) from the UNDP and SIDA (Sweden)², which was technical assistance for the Government. As the diplomatic tie between the US and Vietnam improved, the landmark Paris meeting of Vietnam's donors in November 1993 established the full cooperation between Vietnam and the international financial community. Since then, the Donors' meetings become annually, and even twice a year after 1997, in Junes and Decembers. These are the forums, over which the government and the donors exchanged their views on the socio-economic policy and the implementation of ODA committed by the donors. The stability of the committed amounts indicates the confidence placed on Vietnam economy by the international financial community (see Figure 1).

² Assessing Aid - What works, what doesn't and Why, The World Bank policy research report, Oxford University press, 1998, p.105.

Figure 1: ODA committed and the Disbursed 1993-2003

Unit: US billion



Source: MPI, 2004

It is apparent from Figure 1 that the flow of ODA was not necessarily be growing. The drops happened in 1998-1999 is a reflection of the effect of Asian Financial Crisis. During the period 1993-2003, donors committed USD 25.43 billion in ODA to Vietnam. The total amount of disbursed funds over the period was USD 12.466 million, or 49 % of the total ODA commitment. In order to implement the committed funds, the Government works out International Treaties with the donors. The international treaties can be project, protocol, agreement or program. Over the ten-year period, total value of the signed International Treaties on ODA is estimated as of USD19.63 billion, or of 77.19 per cent of total committed ODA. Of the sum of the international treaties signed USD3.73 billion is in gift, and the rest is the preferential loans of USD15.90 billion. Almost all the ODA loans are with preferential interest, long term and long grace period. Almost half (48.8%) of the loans in the signed international treaties have their annual interest rate lower than 1%, term over 30 years, of which 10 years of grace period. Another third of the loans are with the annual rate of interest between 1 and 2.5%. Only 17.3% of the signed international treaties contain less favourable conditions on their loans (MPI, 2004). Generally, the share of loan aid is much higher (about 80 – 85%) than grant aid (about 15-20%).

Table 1: Major ODA Donors to Vietnam

| | Total ODA | Loans | Grants |
|------------------------|-----------|----------|----------|
| Japan | 7,470.61 | 6,457.39 | 1,013.22 |
| World Bank | 5,110.78 | 5,021.5 | 89.28 |
| Asian Development Bank | 3,506.58 | 3,391.45 | 115.13 |
| France | 748.75 | 675.69 | 73.06 |
| Germany | 564.68 | 287.73 | 276.95 |
| Denmark | 472.55 | 7.97 | 464.58 |
| Switzerland | 413.24 | 145.41 | 267.83 |

Source: MPI, 2004

The providers of ODA to Vietnam include 25 bilateral donors and 15 international organizations. Of all the donors, Japan, WB and ADB have been the three largest donors, providing about 80% of total value of the ODA related International Treaties signed over 1993-2003. Japan is the largest one, accounting for nearly 40% of the total signed values. In addition, there are 350 non-government organizations, which gave Vietnam more than USD80 million annually in grants.

ODA resources have been allocated in according to priority the Government places on sectors. Infrastructure is the largest beneficiary of ODA. 22.6% of the source was allocated to Transport. Development of Electric Generation and Transmission receives 20.3% of the fund. Nearly 15% of the source was allocated to Agriculture and Rural Development. The share of Water Supply, Drainage and Urban Infrastructure is 8.3%, and that for Education and Training, Science, Technology and Environment is 8.3%, and for Health and Social Development is 5.8%. All the other sectors received slightly less than 20% of disbursed ODA (see Table 2).

Table 2: Distribution of ODA in areas

| Areas | ODA shares |
|---|------------|
| Transport | 22.58 |
| Electricity Generation and Transmission | 20.26 |
| Agriculture and Rural Development | 14.94 |
| Water Supply and Urban Infrastructure | 8.29 |
| Education, Training, Science & Technology | 8.27 |
| Medicine and Social Affairs | 5.82 |
| Others | 19.84 |

Source: MPI, 2004

Regional distribution of ODA (see Table 3) is a sensitive issue for the authorities in Vietnam. There is a trade-off between the efficiency in terms of return to the fund and the impact on poverty. The practice suggests that the government has been focused on growth, believing it automatically causes poverty reduction. Thus, large amount of ODA was allocated to the more prosperous areas rather than to the rural and mountainous areas, where poverty concentration is high.

Table 3: Regional Distribution of ODA

1993-2003

| Regions | Poverty Rate 2002 | Per capita ODA (\$) |
|--------------------|-------------------|---------------------|
| North West | 68 | 119.9 |
| North East | 38.4 | 117 |
| Red River Delta | 22.4 | 129.5 |
| of which, Hanoi | 5.2 | 440.3 |
| Central Coasts | 38.9 | 128.4 |
| Central Highlands | 51.8 | 82.1 |
| South East | 10.6 | 157.1 |
| of which, HCM City | 2 | 274 |
| Mekong Delta | 23.4 | 49.6 |

Source: World Bank (2003), MPI, MOLISA, and GSO

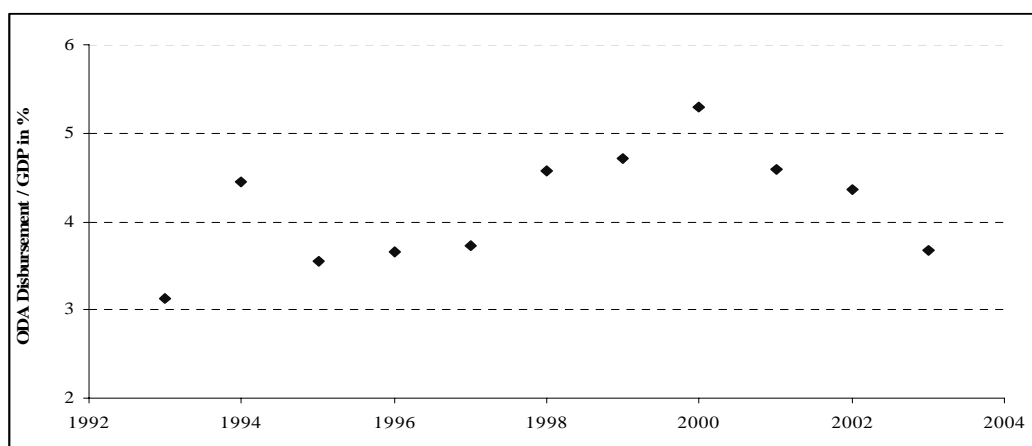
The most prosperous South East is at the same time the biggest recipient of ODA, while the North West and the Central Highlands with the highest poverty rates have low levels of ODA. Mekong Delta is poor and with little infrastructure is allocated the smallest ODA in capita. Analysis of ODA disbursed directly within specific regions of the country suggests that the Northern Uplands, the North Central Coast and the Mekong Delta received 43% of such directly disbursed ODA, considerably lower than their 70% share of poor people in the country³. The large amount of ODA poured in Hanoi and Ho-Chi-Minh City is not pro poor, but either for effectiveness or the benefit of whole economy (e.g., to be used in subjects concerning all regions).

While the inflow of ODA into Vietnam has been very significant, the rate of aid dependence is relatively low (see Figure 2). Over the period under consideration the average rate of disbursed ODA over GDP is 4.15%. For reference, the rate is much higher for a number of developing countries such as 14.1% in Uganda, 13.3% in Tanzania, 12.7% in Ghana, and 28.1% in Mozambique (UNDP and CIEM, 2003). The large share of loans in ODA should be considered in the light of Viet Nam's foreign debt. World Bank (2002a) calculated that Viet Nam's total convertible currency debt stock was approximately 37% of GDP in 2001.

³ UNDP Development Co-operation Vietnam 2002 Report

Figure 2: The Aid Dependence Rate of Vietnam, 1993-2003

Unit: percent



Source: MPI, 2004.

There has been a good consensus on the positive effect of ODA on the process of transition to market economy, general growth and poverty in Vietnam. It is less clear the magnitude of the impact in comparison to the impacts from other sources as well as the channels, through which the ODA work on the key indicators of the economy. An investigation into that kind of mechanism is the purpose of this study.

3. ODA AND INVESTMENT ENVIRONMENT IN VIETNAM

Donors are well aware of the difficulties, which the entrepreneurs in Vietnam face. In addition to the shortage in machines, equipment, skilled human resources and infrastructure, the investors in this country have problems in other areas as well. For this transitional economy, there remains a huge work to do until it has the best legal and institutional systems to support efficiency of the market economy. In fact, a significant share of ODA has been allocated for reforms in areas such as legal system development, institutional improvement, policy making process and in public administration.

3.1 ODA Provision for Reforms in “Soft Infrastructure”

To facilitate domestic investment and attract FDI to this transitional economy, it is to strengthen institutional, policy and legal framework. We will first look at the ODA portfolio in institutional, policy, legal and development administration areas. For the last years the ODA signed amount in policy and institutional support sector had been USD 257.43 millions, which is nearly 20% of the total amount of ODA. That does not count the loans given under the program loans or credit for structural adjustment. If we include all the program loans funded by WB and ADB and the Miyazawa loan from Japan to this category, the amount of ODA in this category is much higher, becoming the fourth largest category with USD 1,6801 million.

Ten biggest donors for this sectors are World Bank (USD 856.06 million, including USD 793.66 million from loans), ADB (USD 503.02 million, including USD 445.00 million from loans), Japan (USD 160 million), Swedish International Development Agency (USD 42.05 million), UNDP (USD 40.21 million), France (USD 90.30 million, including USD 83.34 million from loans), Germany (USD 66.15 million, including USD 26.59 million), EU (USD 23.33 million, including USD 22.34 million from loans), Netherlands (USD 21.49 million) and United Kingdom with USD 18.14 million.

The country assistance strategy (CAS) of Japan⁴ identifies that institutional and legal development support is one of five key areas. Government of Japan plans to support the areas such as: to give policy advice to Plans for Socio-Economic Development and Strategy for Socio-Economic Development; to facilitate economic and structure reform in order to promote a market-oriented economy; and to improve the system of Vietnam's laws, including Civil Law, Law of civil dispute-the Law of Commerce, the Law of Investment and the Law of Enterprise.

The World Bank Group has identified its assistance program in three areas. The first is to support the transition to the market-oriented economy. The strategy of the WB in the first area includes: (i) financial sector development; (ii) SOEs reform; (iii) domestic private sector support; (iv) corporate governance and social responsibility of companies; and (v) international trade promotion. Measures in second area purport of creating a level playing field for private and state enterprises and improving the efficiency of SOEs. The third area concerns the state management improvement and promotion of the best state governance. The World Bank plans to support: (i) information and transparency improvement and public financial management; (ii) development of legal system; (iii) public administration reform; (iv) ICT and e-government; and (v) anti- corruption.

ADB has been supporting private sector development through improvement of business environment, and development of financial sector. In addition, ADB funded number of projects for institutional and policy development, and good governance. ADB has provided two loans in banking and financial sector and one for SOEs reform and corporate governance. The WB and ADB have provided big program loans for budget support of government to fulfil many strong policy commitments. The fulfilment of those policy commitments helps the government to adjust macroeconomic or sectoral structure.

UNDP has also been very active in providing support for improving the business environment. UNDP provided technical assistance in addition to funding reform programs. Having earned a reputation in helping development in Vietnam, UNDP has been involved in numerous processes of building legal system of this country. Various laws have been drafted or revised with the assistance of UNDP, including the Enterprise Law, Competition Law, the Law on Cooperatives, Law on Investment, SOEs Law, Trade Law, etc. With participation of UNDP, in 2003 alone around USD10 million was raised to assist the common effort in Public Administration Reform, Legal System Development Strategy and Natural Disaster Alleviation Strategy. In addition, UNDP in co-financing with AusAid, and DFID assisted the government to draft the Revised Law on State Budget and a Degree and other legal regulations to implement this Law.

Denmark has provided supports to the government for SOEs reform, both under DANIDA administration and under administration by multilateral donors (such as the World Bank, IFC and other). For example, under DANIDA administration Denmark provides supports to industry restructuring and enterprise development by implementing equitization plans and providing post equitization assistance (USD 3,100,000- Ministry of Fisheries). Under WB administration, Denmark provided support advisory services on implementation of the Decree on divesture and establishment and use of Support Funds for Equitization and Restructure (USD 340,000). In the financial area, the government of Denmark provided a grant of USD300,000 in Technical Assistance for Vietnamese Tax with the Ministry of Finance in 1997-2000.

In the area of Public Administration Reform (PAR), ADB, Netherlands and UNDP are the major donors for. Since 1997, UNDP has been supporting 6 PAR projects, of which 4 with the co-financing

⁴ Japanese Embassy

from Netherlands. In addition to four grants for institutional and capacity building in PAR, ADB provided a program loan (USD 45 million for the first phase) to support the PAR Master Program for the period 2001- 2010 set by the Government. Other major donors for conducting Public Administration Reform are Canada, Norway and Sweden. Swedish International Development Agency (SIDA) is also a major donor in economic reform area, especially in tax reform area. By Sweden government's grant of over USD3 million, a project for Cooperation on Administrative management for Tax Sector was implemented at the General Office of Tax during 1998-2000.

The geographical distribution of ODA commitments in policy and institutional support sector is becoming more balanced, shifting from concentration on the major centres, such as Hanoi and Ho Chi Minh City, to other provinces, reflecting the objective of the Government and donors to ensure a better spread of development. However, distribution among the provinces is somewhat unbalanced, with some areas relatively neglected.

Impacts of ODA on the Institutional Environment

The institutional and policy environment in Vietnam for the several years have been considered as good by many international donors. The stability of the ODA flow in, especially by major donors such as the World Bank and ADB, is an evidence of the confidence the international donor community has on the macroeconomic condition in Vietnam. The ODA to Vietnam has made big contribution to improvement of the institutional and policy environment.

Improvement of Public Resource Management

Under the recently approved Public Financial Management Reform Project sponsored by World Bank and DfID, the goal of good governance is promoted. It ensures that budget execution and reporting by governmental agencies are accurate, timely, relevant, transparent and in compliance with international standard. One of the components of the project will support the strengthening of the government's ability to manage Vietnam's public debt and to begin monitoring fiscal risks that originate from liabilities of State owned enterprises.

Public Administration Program of Vietnam has four major components: legal and institution reform, organization reforms, human resource reform, and public finance reform. Under the program, the "Law on organization of the Government" was amended in 2001. A number of policies on decentralization, which include the following:

- The One-Stop-Shop model has been implemented in 28 out of 61 provinces. The virtue is to simplify administrative procedure and capable of reframe bureaucratic behavior of officers. That concerns registration of new enterprises. The model is overwhelmingly welcome by all parts of society, as well as foreign business community. Government is developing the legal framework for extending the One-Stop-Shop to all provinces.
- Introduction of block budgeting and staffing policy and result-oriented management mechanism in 19 provinces, 3 central agencies and a number of other units. The measures are believed to curb wastage and to enhance the efficiency of government apparatus.
- The State Budget Law, which has been amended in December 2002, provides the People's Councils with the authority to distribute the budget.

Along with the SOEs restructuring and reorganization, the auditing has been done in 43 SOEs by the end of 2003. With the assistance from UNDP, the Law on SOEs has been revised and enacted in

November 2002. Even though there has been enormous pressure to speed up reform in SOE, this process has been slow. The scale of state ownership in the economy makes it more difficult to renovate the banking sector, because the state owned enterprises depend on state-owned commercial banks (SOCBs), which dominate banking industry.

For the last decade four SOCBs have moved from fulfilling assignments in policy lending to operating in a more commercially sound basic. The Government has embarked on a multiyear restructuring and recapitalization program with the support of International Monetary Fund (IMF) and World Bank group (WBG). Other measures taken include deregulation in banking sector and interest rate regime, putting into place restructuring plans for SOCBs, establishing Asset Management companies (AMC) for non-performing loans resolution, phasing in SOCBs' re-capitalization, and phasing out directed policy lending by the state. The SOCBs have become more independent from the State Bank of Vietnam and making profit. They can set the interest rate by themselves based on the regulatory interest rate base.

Enterprises Law: A Case of Success

The project VIE/97/016, which was funded by UNDP and AusAID, is known as an example of ODA money well spent. The cost of project is relatively small, about USD2.3 million over four years. With the funding, a number of foreign experts were invited to work with Vietnamese officers during the preparation of draft law. As a result of this support, the new Enterprise Law was approved by the National Assembly and came into effect at in January 2000. There is a good consensus among economists and policy makers that the Enterprise Law is among most important reforms achieved in Vietnam over the past ten years.

The Enterprise Law has adopted the recently developed economic, institutional, and administrative thinking within both the state and private sectors into legal framework, and has therefore guaranteed economic freedom of all citizens. The most important merit Enterprise Law is the simplification of the registration procedure for new private enterprises. Business community refers to the Law as the permission "to register first, then to check" and the elimination of over hundred of business sub-licenses, that are designated in two accompanying documents, which are the Prime Minister's Decision No. 19/2000/QD-TTg on "Abolishing licenses which are in contrary to the Law of Enterprises"; and government's Decree No.30/2000/ND-CP on "Annulling a number of permits and converting some others into business conditions". The real effect is to reduce monetary and time cost of setting-up of firm. It also improves the confidence of business community in local government apparatus, diminishes opportunity of corruption. That kind of fixed costs matter more to small enterprises. Overall, the Enterprise Law allows the entrepreneurs focus on doing substance of businesses.

As at the end of September 2003, or less than four years since the Law enacted, Vietnam witnessed the birth of 72,601 new enterprises, that is a 1.6 time of the number of enterprises registered over the previous nine-year period (during 1991-1999, only 45,000 registered). Investment by the private sector has spread to all regions nationwide, including poor regions, rather than to only areas bestowed with favourable geographical conditions as it was the case prior the introduction of the Law. In the poorest Northern mountainous provinces such as Hoa Binh, Bac Kan, Lai Chau, Bac Giang and North Central coast of Thanh Hoa, the number of businesses grew four to eight times

compared to that of the 1991-99 period⁵. The success rate of new businesses is high as only 2.3 per cent of new businesses have stopped operations⁶.

Most of new private enterprises are of small scale. Seventy per cent of them have average capital of VND 50 million (about US\$ 3.3 thousand) and employ 10-15 employees on average. Despite that, the employment created by the private sector is numerous. In 2000, total employment created by newly established enterprises under the Enterprise Law was about 400 thousand. In 2001 and 2002, this figure increased to 500 thousand and 800 thousand, respectively⁷. Table 4 shows that, during 2000-2003, the annual industrial growth rate of the private sector was approximately 20%, which is higher than that of state and foreign sectors.

Table 4: Industrial output growth rate of private and other sectors in Vietnam

Unit: %

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|----------------|-------------|-------------|-------------|-------------|-------------|
| Private Sector | 8.8 | 18.3 | 20.3 | 19.2 | 18.7 |
| State Sector | 4.5 | 12.2 | 12.7 | 11.7 | 12.4 |
| Foreign Sector | 20.0 | 18.6 | 12.1 | 14.5 | 18.3 |
| Total | 10.4 | 15.7 | 14.2 | 14.5 | 16.0 |

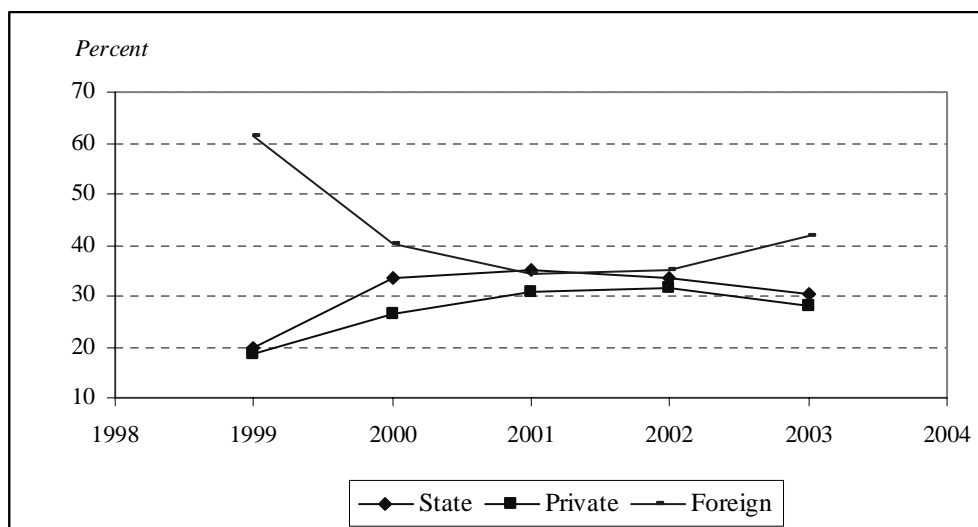
Source: GSO

The revitalized private enterprises contribute increasingly on the overall growth of economy. While the share of domestic private sector has increased for few percentages in total industry output (22% in 1999 to 25% in 2003), the contribution of the sector to total annual growth of industry sector has been grown at a remarkable high rate. This is evidenced in Figure 3 that the contribution to total industrial output growth of the private sector increased from just 20% in 1999 to 30.7 in 2001, 31.4% in 2002 and 27.9 in 2003. With respect to employment, according to estimates by the Central Institute of Economic Management (CIEM), a private enterprise needs VND70-100 million on average to create a job, while a state-owned enterprise requires at least VND210-280 million.

^{5,4}Vietnam News, 22/10/2003)

⁷ Vietnam News, 14/12/2002

Figure 3: Distribution of Industrial Output Growth by Ownership



Source: Statistical Yearbook 2002 and GSO

Notwithstanding numerous obstacles remaining in the implementation of the Enterprise Law, it is safe to say of this project that a small amount of money of ODA has brought about a big achievement for the economy. That could be the reason for UNDP being committed to support further USD 2 million through implementing another project for developing domestic private sector by establishing favourable business environment, improving capacity of private firms and increasing competitiveness of private sector in the context of economic integration.

An Evaluation

Despite the generosity of international donors and the remarkable successes of some particular programs such as the project VIE/97/016 which contributed greatly to the formation of the Enterprise Law, the overall effectiveness of the ODA program in the area of soft infrastructure has not so clear. For the issues are diversified, and there often is sensitivity when they deal with administration, the ODA programs in this area not large and their effectiveness changes from case to case.

Entrepreneurs often complained about obstacles in the “state mechanism” constraining their operations. It is understandable that there remain irrationalities in the “state mechanism” of the transitional economy and removing the irrationalities can help increase efficiency of the economy. The irrationalities in the existing institutions or just in the system of public administration may not easy to be removed because they may connect to other sensitive state mechanism. For instance, the financial matter of SOEs, or of certain state agencies are considered as sensitive. Some officers may invoke national sovereignty against a requirement of budget transparency. It may be necessary sometime for the specific nature of the economy with predominance of state sector and for the unclearly defined link between the functions of the state in generation of economic goods and that in provision of security to its citizens. There are other reasons as well.

Thus, many programs in this area do not find “country ownership” and therefore failed to generate enthusiasm in domestic partners. The results were the slow progress in some areas such as SOE reform. The changes in Public Administration, especially in budget management have been less than expected. Thus, the effectiveness of ODA program in this “soft infrastructure” has been mixed.

3.2 *ODA and Foreign Trade Policy*

All partners share the benefits of international trade, but for the transitional economy of Vietnam, a greater participation in the world market benefit it more than just the gain from trade, and that justifies an engagement by foreign governments and multinational organizations to promote foreign trade of Vietnam. The ODA in this area includes pushing for trade policy reforms, building trade capacity of Vietnamese nationals, breaking solutions to trade disputes and others. Recently, to help Vietnam become a WTO member, a number of donors provide all-round assistances to fill the deficiency in implementation of Vietnamese government commitment.

Japanese Government has set very clear policy to support Vietnam as a developing country in WTO-related capacity building. Japan's ODA is directed to facilitate effective participation of Vietnam in the multilateral free trading system which has been built around the WTO so that the country can realize economic development in harmony with global trend in trade liberalization and fully enjoy its benefits. More specifically, Japan's development assistance focuses on development of infrastructure such as trade related legal system and other systems such as the promotion of trade, strengthening of export competitiveness and trade facilitation ...which could form a solid infrastructure that are essential for Vietnam. The ODA from Japan also concerns both medium- and long-term development strategy of Vietnam so that to keep balance between the development policy and trade policy⁸.

International trade promotion has been part of the World Bank's country assistance strategy. World Bank's total technical assistance to Vietnam in WTO accession is about US\$ 57 million⁹. Since Vietnam officially applied in 1995 for joining WTO, donor community has been paid more attention to trade reforms. Total assistance for trade reforms for Vietnam, as calculated from the Appendix, is about US\$ 41.5 million, a relatively small proportion in total ODA the financial community has pledged for Vietnam over period 1993-2003. The two most important ODA projects in this field are from the EC with Multilateral Trade Policy Assistance Program (MUTRAP) and U.S. with Support Trade Acceleration Project (STAR). Other major donors include Australia, Canada, Denmark, France, Sweden, Switzerland and others.

ODA for Trade Reforms

Trade reform has been a major component in the Vietnam's economic renovation. The trade reforms have gone relatively ahead of other parts of Doi moi. The government has recognized the close connection between openness and high rate of growth in the experience of a number of successful economies in East Asia. Thus ownership of Vietnam in motivation of carrying trade reform is strong.

Trade reform is major part in ODA technical assistance for Vietnam. The summary ODA of donors for Vietnam in trade reforms in Appendix 1 clearly indicates that major beneficiaries are from government bodies such as National Assembly, Ministry of Trade, Ministry of Finance, Ministry of Industry, Ministry of Agriculture and Rural Development and few other ministry line agencies. This part is devoted for stock taking of major projects in the trade reform area. Two biggest projects are MUTRAP and STARS.

⁸ Japanese Approach for WTO-related Capacity Building Cooperation – Basic concept and measures-, JICA 2003, p.2,3

⁹ World Bank Reports.

The Multilateral Trade Policy Assistance Program (MUTRAP)

MUTRAP is the biggest technical assistance program for trade reforms in term of value and its content is quite inclusive. Started from 2001, it took 2 years for the program to formulate the plan of activities and only began its operation in 2003. After the completion of the first phase in March 2004, the project now temporarily stopped and will resume the second phase at the end of 2004.

During the 1st phase, the program has offered trainings on sanitary/phytosanitary (SPS) and technical barrier to trade (TBT) for officials from relevant ministries. Following up to this training, support has been given to the Ministry of Agriculture and Rural Development, Ministry of Fisheries, Ministry of Science and Technology and Ministry of Health to conduct feasibility study on establishment of SPS and TBT enquiry points in Vietnam. More substantial, the EU project has given assistance to WTO negotiation on services, which includes trainings in i) comparative study of different variants of offer or MFN exemption in services; and ii) study the relation between the services liberalization and investment. Further, the project experts helped the Ministry of Finance, Ministry of Trade and Ministry of Industry's staffs built their analytical capacity in selection of scenarios of tariff reduction and anticipation their impacts on the economy of Vietnam.

In addition, to facilitate the country mitigate possible problems in early stage of being WTO member, MUTRAP brings up the awareness about economic integration to Vietnamese government employees as well as local business community. Under this project, Vietnamese policymakers and public are provided with information on trade in WTO. Three seminars on economic integration have been held in Ninh Binh province and Ho-Chi-Minh City, in which about 500 businessmen participated.

Support for Trade Adjustment and Reform Project (STAR)

The Bilateral trade Agreement (BTA) enacted in December 2001 is a strategic turn in Vietnam-U.S. economic relation. The commitments in the BTA reflect the internationally recognized rules and procedures under the WTO and other international conventions that govern trade and investment relations. The purpose of the U.S. government in this project is to assist Vietnam in reforming its policy for better implementation of BTA commitments. This is the largest US technical assistance contract with the reunited Vietnam, and the first USAID-contract in coordination with the US Trade Representative to assist in implementing a trade agreement. STAR began operations in Hanoi in mid-October, 2001, which is before the BTA took effect.

Over 2001, even it was in the process of its preparation STAR helped to conduct 23 training workshops and policy seminars, organized 4 study tours and reviewed in detail more than 9 laws and regulations. Each activity was carefully crafted to provide strategic support for efforts to implement the BTA. These activities have reached directly more than 2,000 government officials and private-sector leaders, especially targeting those key senior and mid-level government officials responsible for moving forward the reforms needed to implement the BTA.

In 2002 and 2003, STAR focused on supporting Vietnam's efforts in amendment or adoption of number of laws and administrative procedures that need to be changed upon the inaction of the BTA. In particular, i) bringing Customs into conformance with WTO Standards; ii) raising awareness of Vietnamese people about the essential conformance with key international conventions for intellectual property protection and with most elements of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); iii) establishing a registration system for investment licensing procedures; and iv) expanding market access and related reforms for a number of service sectors, including value-added telecommunications, accounting, architectural, engineering, computer and

banking services. Beside, STAR has enhanced understanding among key policy and business communities of the importance of implementing the BTA, with a particular focus on the National Assembly and other political and business leadership at the national and provincial levels, many of whom play a critical role in approving and implementing BTA-related reforms.

STAR project has certainly contributed its part in the successful implementation of the Vietnam-US BTA. A report by Riedel et al. (2003) indicates that Vietnamese exports to the US increased more than four-fold over just two years following the BTA, from \$1.05 billion in 2001 to \$4.55 billion in 2003. Growth of manufactured exports dominated this trend. For the mentioned period, exports to the US contributed to over half of Vietnam's overall export growth. The authors demonstrate that most of the growth in Vietnamese exports to the US is the result of export creation rather than a consequence of diversion away from export to other countries. Thus, the impact of the BTA on private investment is large.

Rule of Origin (ROO)

Technical Assistance on ROO was funded by SIDA (Sweden). Rule of Origin is an issue of trade, and lack of observation of it has been the matter of trade disputes. The purpose of the Sweden funded project is to help the National Committee for International Economic Cooperation (NCIEC) and relevant ministries in preparing the draft of legal framework on ROO. Over the implementation period, studies have been conducted on Sweden experience in building legal document on ROO. Trainings and study tour to Sweden have also organized. It is expected that the Ministry of Justice prepare the draft regulation on ROO and will get comments and consultation on it from Sweden experts in 2004.

ODA Facilitates WTO Accession

The Vietnamese Government submitted its application to join the WTO as a developing country at the beginning of 1995 and currently has an observer status. A detailed Memorandum on Vietnamese Foreign Trade and Economic Policy was prepared for the WTO Working Party for examination. It is widely expected that Vietnam will eventually receive WTO membership around the end of 2005. Given the perspective of Vietnam acceding WTO in the near future, many donors provide their assistance to train on contents of the WTO agreements and to assist Vietnam to adjust laws and regulations, making them compliance with WTO regulations. So far, all technical assistance efforts for trade reforms have concentrated mainly at central level. However, at the latest Consultative Group meeting, donors have raised questions about the need for an alignment of provincial level economic policies with World Trade Organization (WTO) rules, and improving the implementation of WTO rules at the local level.

However, accelerating the pace of accession would not be without risk. Indeed, being a member of the WTO requires a set of long-term commitments and therefore far-reaching economic reforms. In order to embark on such process, the well known of prudent government has to have a good idea of the gains and the losses to the economy, and it is not easy. In this course, various stakeholders such as National Assembly, Ministry of Industries, Ministry of Informatics and Telecommunication, Ministry of Finance and others are cautious about WTO accession. A matter of fact is that a well-thought integration road map has not in place yet. The limited institutional capacity is also a factor that may impede the accession process. All these factors make it harder for the government of Vietnam to negotiate for joining the world trade organization.

The donor community has been implementing a number of projects in the areas of trade negotiation and facilitation (e.g. MUTRAP, STAR, ROO and others). The World Bank provides

financial and technical support for the Vietnam Institute of Economics to study “Vietnam’s Readiness for WTO Accession” as well as a number of workshops with participation by NA member or officers from the ministries. In the workshops, international and domestic experts present their analyses of the potential impacts of WTO accession on the economy. Another example is TA worth US\$ 1,800,000 provided by Switzerland for enforcement of Intellectual Property Rights as set forth in international treaties which has resulted in amending Vietnamese laws and regulations to the level almost compliance with TRIPS. The improved state of conformance with international laws on IPRs and better protection of IPRs will be causing FDI into Vietnam and domestic investment to increase.

An Assessment of the Effectiveness ODA in Foreign Trade Policy

Vietnam has come from its centrally planned economy, in which trade was conducted by plan, and was therefore its trade policy was very different from those acceptable to be of a WTO member. The ODA projects like MUTRAP, STAR and ROO are the right kind of aid. The overall impact is that Vietnam’s trade partners such as EU few others have seen the gap has been narrowed and the country is close to be ready as a member of the WTO. That is confirmed by counterpart members of Vietnam’s trade negotiation mission and partly accredited to ODA.

The impact of the WTO readiness on private investment is not necessarily overwhelming. In fact, when the event of WTO accession seemed remote, there were many cases of private investment and foreign as well was made in part to take advantage of protection. Such kind of behavior remains and that means a move closer to WTO accession discourages certain projects, and for that reason, ODA sets off the part of the (inefficient) investment. One may assume the opposite effect is more certain because the expansion of export dominates the shrinkage in part of economy, the product of which is imported under the WTO. That is perhaps correct in terms of output and employment, but not necessary in terms of investment because of the nature of Vietnam exports, which is labor intensive and with relatively low content of capital.

3.3 ODA in Infrastructure Development

An Overview of ODA in Infrastructure Development

Around a half of the ODA signed commitment has been put into infrastructure development. Transport is the sector receiving the biggest share of signed commitment. Most of the ODA resources for transport are loans. Grants have been given to transport projects mostly for helping the Government to do the loan feasibility studies or for sector policy adjustment. Big part of the ODA to infrastructure has been allocated for rehabilitating highways and building bridges. It is notable that the top 10 road projects have accounted for around 90% of the total road assistance since 1993. The top projects are concentrated in a few donors, namely Japan, the World Bank and Asian Development Bank.

Japan is the biggest donor in supporting infrastructure development to Vietnam. The following priorities have been identified in the Japan’s ODA country operational strategy to Vietnam:

- Upgrading and improving transport and traffic system such as; ports, national roads, bridges, airports and railways.
- Improvement of bridges in provinces in Northern Mountain, Central Coasts and Me Kong Delta areas.

- Improvement of urban infrastructure such as; improvement of traffic system in Hanoi and the Northern Thang-Long area.
- Improvement of thermal power stations. Japan provides loan for building and upgrading six power projects, which will, upon the completion, have the share of 20% in nation's power capacity.

The second largest donor of World Bank has been supporting projects in improving infrastructure access for the Northern mountainous regions, the Mekong Delta and the Central coasts through provincial road improvement, rural electrification and community-based rural infrastructure development.

Asian Development Bank (ADB) gave numerous loans to projects in national and provincial road improvement, clean water supply and urban development. For this donor, energy industry must go ahead to ensure energy security for the country. Power generation will be balanced by hydropower (in combination with water resources development purpose), gas and coal power stations. ADB has been providing fund for modernizing the national power distribution network.

Major ODA Project in Transport of Vietnam

The war-torn backward infrastructure is certainly an obstacle for attracting FDI to Vietnam and to grow in general. The government recognized that and has been working to alleviate the problems. Over last ten years, large amounts of State fund and ODA have been pooled into infrastructure sector. During 1996-2000, about 40 percent of the total public investment (state budget, state credit and SOE investment) was directed to transport and power infrastructure. More over, since 1996/97, major infrastructure has received the largest portion of ODA, particularly in transport and energy sectors. ODA and the investment from the state budget have made noticeable changes in the infrastructure of Vietnam.

Over the period, many of large ODA-funded infrastructure projects such as National Highway No.5 and Hai-Phong Harbor, My-Thuan Bridge, National Highway No.1, National Road No.10, National Road No.18, etc, have been completed and that significantly improved the country's infrastructure. Various provincial and rural roads have been built or upgraded. Saigon Port, Cai-Lan Deep Sea Port, and about twenty fishing ports have also been upgraded by the funds from ODA.

It is hard to have an exact estimation of the impacts caused by a particular set of project. In addition to the long-term nature of the effect of transport, when the above mentioned projects being implemented, other changes to the economy such as numerous policy reforms, diplomatic relation, and others taken place as well. We just bring about what is following the implementation of particular project, and in no way mean they were the pure results of the project implementation. The following cases are successful and they present a big picture of the area.

Case 1: The National Highway No.5 Upgrade and Hai-Phong Harbor Rehabilitation

The Project for upgrading National Highway No. 5 and rehabilitation of Hai-Phong Harbour were agreed upon between the Vietnamese and Japanese governments soon after the resumption of the Japanese ODA loan to Vietnam in 1992. The two projects were intended to meet the needs of the rapidly increasing road traffic in the Red River Delta of Northern Vietnam and to strengthen the capacity of Hai-Phong Port. ODA provided by JBIC of which USD 175 million to Highway No 5 project (implementation period: 1994- 2000), and USD 33 million to Hai-Phong Harbour

rehabilitation (phase 1: 1994- 2000). The main direct beneficiaries are provinces of Hai-Phong, Hai-Duong, Hung-Yen, Bac-Ninh, and Capital of Ha-Noi.

The National Highway No. 5 is 100 kilometres long, connecting the major economic centre of Hanoi to the country's most important harbour of Hai-Phong, which has a tremendous advantage for being nearest to Japan, Korea, Hong Kong, and China. The highway has been the main road for transportation of raw materials, components, and final products that are produced, processed in Northern Vietnam and for domestic consumption, export and import.

According to the research done by GRPIS(2003a) and Mitsui (2003), travel time between the Hanoi and Hai Phong was cut by half (from 3.5-4 hours to 1.5-2 hours), and the traffic volume on NH No.5 doubled during 1999-2003. As the result of the NH No.5 and Hai-Phong Harbour Upgrading, as of mid-2003, foreign investment in four existing Industrial Zones attracted about 85% of the entire FDI to northern IZs, a number of industrial zones have been set up in Hai-Duong and in Hung-Yen. More of the impact of this project on the economic activities in the Red River Delta and areas nearby will be described in Section 4.

Case 2: My-Thuan Bridge and National Highway No.1, Linking Ho-Chi-Minh City to Can-Tho

First component of this project is building the first ever bridge crossing Tien River. Project financier: Australian and Vietnamese governments. Capital Cost: A\$ 90 million (USD 60 million); Overall length: 1560m, of which, the length of the main bridge is 600m. The second component is for rehabilitation of National Highway No.1's part, which connects Ho-Chi-Minh City and Can-Tho. The fund of USD176 million was provided by the World Bank. The World Bank's project completed half year before the My-Thuan Bridge was built in 2000.

Tien River is one of the two long branches of Mekong. Prior this project, none of them has ever been crossed by bridge and from Can-Tho, the centre Mekong Delta to Ho-Chi-Minh City, trucks and cars had to be carried on ferryboats and that slowdown the economic activity in Mekong Delta where main source of export rice is produced. After the opening of the My-Thuan Bridge in 2000, travel time between the two centres was reduced from 4.5-5 hours to 3.5 hours (with the time for crossing the Tien River being cut from 32 to 5-6 minutes, and further time reduction thanks to road improvement). Between 1999 and 2001, traffic volume at the My Thuan Bridge doubled, and therefore, freight and passenger movement has significantly increased. The daily traffic flows have increased from 3,980 vehicles in 1994 to 20,100 in 2002 (e.g., from 1,660 to 10,600 motorcycle; from 1440 to 5800 car, van and bus; and 880 to 3700 trucks). The number of people daily crossing the river has also increased from 22,000 in 1994 to 87,000 in 2002 (or with the growth rate of 18%) (see GRIPS, 2003b).

The freight growth rate was 16% from 4,100 tones in 1994 to 13,100 in 2002. As the result, Can-Tho became the fastest growing province in the Mekong Delta, and its industrial growth has accelerated, particularly from 2000 with three industrial zones: Tra Noc I and II, and Hung Phu Industrial Zones. More of the impact of this project on the economic activities in the Mekong Delta will be described in Section 4.

Power Sector

The power industry in Vietnam is solely managed by Electricity of Vietnam (EVN), a state-owned monopoly, which is, in turn, administered by the Ministry of Industry (MoI). Lack of competition and limited generation capacity has been the reason for the high price. The price of electricity in Vietnam is higher than in neighbouring countries. For instance, price of electricity for businesses in Ha Noi and Ho-chi-Minh City is higher than in Singapore and Kuala Lumpur, double of

that in Shanghai, and more than double those in Bangkok and Jakarta. As it is well known that, production is sensitive to prices of certain inputs that include energy, and that is why the current status of the energy sector has been one of factors holding back private investment. In that sense, the inflow of ODA in the sector brings about more FDI and local private investment.

In order to overcome that problem, in addition to institutional reforms regarding to power market, a large fund is necessary for expanding the generating capacity. Primary sources of finance for the investment are from ODA grants and loans committed by World Bank, Asian Development Bank, and from Vietnamese and foreign governments. Over 1996-2000, donors provided USD2.9 billion for the development of the power sector, of which JBIC: USD1.9 billion, the World Bank: USD694 million, ADB: USD180 million, SIDA and other bilateral donors given about USD150 million. According to EU Economic and Commercial Counsellors (2004), over the last decade, foreign loans provide 46% of the total investment by Electricity of Vietnam, while domestic credit lines supply only 18% of the funds and other sources count for the rest 36%. Thus without ODA, the problem in high energy price is hard to be solved.

Counting only the projects completed before 2002, Japan has contributed to the construction of 1,865 MW generating capacity, or 23% of the electric power supply in Vietnam at the end of 2001. For the increased capacity over 1992-2001, the share of the construction by Japanese ODA was 38%. The power generating projects built with the assistance from Japan include Phu My Thermal Power Plan, Pha Lai Thermal Power Plan, Ham Thuan-Da Mi Hydropower, Dai Ninh Hydropower and others. Yaly and Hinh River hydropower plants, Ham-Thuan- Damy plant, Pha-Lai 2 thermoelectric plant, Phu My Complex and few others have been supported by the World Bank, JBIC, SIDA...

An Assessment of the Effectiveness of ODA in Infrastructure

With recognition of the profound impacts of ODA project on the economy of Vietnam, is very difficult to separate these from those brought about by the internal efforts. For that reason, we just present the results of all-partner jobs. The contribution of ODA is thus a rather loosely determined share of overall impact, for which the shares in invested capital may serve as a proxy.

Over the period 1990-1999, the strong development in the infrastructure services has contributed substantially in the overall growth of Vietnam and its success in poverty reduction. In the area of transportation, the total amount of goods transported on roads was more than doubled. The marine transportation increased six times. For the last five years there have been more 1,200 km of new roads constructed, more than 4,000 km upgraded. By the end of 2000, about 95% of commune centers are accessible by cars, of which it was 99.9% in red river Delta, 99.4% in Southeast Region and 72.4% in the Central Highland.

Energy generation capacity was tripled over the period 1990-1999. For 1996- 2000 the power capacity has increased by 2000 MW. The population with access to electric power source increased from 47% in 1990 to 75% in 1999. By the end of 2003, 93 percent of communes nationwide, with 83.3 percent of rural households, have access to the national grid¹⁰. Notwithstanding the progress, Vietnam is in need to increase its power generation capacity for a number of years to come. The electricity price remains high even though the share of hydraulic generating facility is relatively high compared to neighbour countries.

As noted above, ten top road projects and several major energy ones together can tell the story of the effectiveness of ODA in infrastructure. Moreover, since the share of Japanese ODA is large and it

¹⁰ Vietnam Development Gateway, 2004

covers most of major projects in infrastructure, the estimated return to project with funding from Japan. As a point of reference, we take the estimation by IDCJ (2003) estimated that the “macroeconomic internal rate of return” for Japanese ODA to Vietnam over the period 1991-2000 was 19%, which is relatively high. It implies that in most of the ODA project in Vietnam’s infrastructure, the effectiveness is high.

3.4 ODA and the Investment in Human Resources

Vietnam has done relatively well in terms of the percentage of literate adult population. As of 2002, the ratio was 91% and that is an achievement for a country with GDP per capita less than USD500 yearly. United Nation report 2003 indicates that Vietnam’s ranked 109th out of 175 nations in Human Development Index. However, as it is indicated in World Bank (2001), the quality of education is an issue- primary schooling averages 500 hours per year, which is one half of the international average, and the curriculum and style of learning is outdated. Almost one-third of children do not complete to grade 5 and 70% of dropouts are girls, reflecting their traditional roles and obligations at home¹¹. More important, it is well consent that domestic education system is backward and the quality of its product (the workforce) is low.

Human capital has been recognized as the deciding factor to the country development. The government’s Poverty Reduction Growth Strategy rightly emphasizes the importance of education and human capital for economic growth. The Strategy has defined that lower secondary education is to be universal for the whole country. Vietnamese government committed to deliver education with quality to every ones, especially girls and young people in remote rural and mountainous areas. Along with education, vocational training will be paid attention to have skilled workers. The investment from the state budget for education and training will be raised from 15% of the total state budget (or 3.5% GDP) in 2000 to 18% in 2005 and 20% in 2010 along with the strengthening public- private partnership in education and training development. Private investment is encouraged and ODA is being invited.

Review of ODA in Human Resource Development

According to MPI’s source, from 1993 to the end of 2003, the total committed ODA signed for the area of education and training was about USD 1,100 million, of which USD 600 million was in loans and USD 500 million in grants. The loans to this sector of Vietnam is not a big proportion in total ODA loans (slightly above 5%), but grants to education and training is as significant as nearly 12% of total of ODA grants. Most of the ODA in this area are intended for education, rather than for vocational training, which received only 15% of ODA to the category under consideration in this sub-section.

Major donors in the education and training sector are World Bank, ADB, Japan, Australia and the UK. World Bank has provided USD 354.32 million to support Vietnam’s education. Beneficiaries of World Bank are high education and primary education. In the coming years, the focus of World Bank assistance is the “Education for all” program.

Japan and ADB are the second largest donors, each of them has provided Vietnam’s education and training sector with about USD 240 million. Most of the funds from Japan have been allocated to primary school facilities development. One project with amount of USD 24 million from Japan was for vocational training. As at the end of 2003, nearly two hundred elementary schools had been constructed by Japanese ODA, most of them in the communes with high poverty rate such as in

¹¹ UNDP Development Co-operation Vietnam 2002 Report

Central Coasts, the Mekong Delta and Northern Mountainous areas. Moreover, the schools are sturdy and many have shelter for residents around the schools against typhoons that frequently hit the localities (IDCJ, 2003). Japan has yearly been giving large number scholarships to Vietnamese students and government officers to study in higher education institutions in Japan.

Social development is one of the four strategic priorities of ADB. For the last ten years ADB is a big donor to Vietnam in education and training sector. ADB provided a very big loan in co-financing with France and the Nordic Development Bank (NDB) for “Technical and Vocational training” project to help the General Department of Vocational Training (GDVT) to restructure the whole vocational training system (ADB: USD 54 million, NDB: USD 7 million and France: USD 15 million). Education and training has been on high priority of ADB assistance to Vietnam.

For the last decade Australia was the one of major donors for education and training to Vietnam. The AusAid scholarship has been given for hundreds of Vietnam student every year to go to Australia for undergraduate and graduate study. It has been providing opportunities for Vietnamese young people and at the same time helped Vietnam in human resource development.

**Box 2. Switzerland funded “Strengthening Vocational Training centers” project-
Strategic focus and impact level of the SVTC**

- Project EA, phase 1 (1994- 1997) and 2 (1998- 2001): MOET
- Project EA, phase 3 (2001- 2004): Ministry of labor, Invalid and Social Affairs;
- Objective of the project: To support the socio-economic reform in Vietnam through providing skills to unemployed young people to get jobs and to improve the skills for the unskilled and semi-skill workers.
- Five specific objectives of the project: (i) Upgrading the vocational training equipment in classrooms and practicing workshops; (ii) Curriculum development based on the newest knowledge of subjects; (iii) Teacher training capacity development; (iv) technical and vocational training centers management capacity strengthening and (v) making contribution to the policy dialogue on informal vocational training system.
- Impacts of the project include:
 - o Improved the technical and vocational training capacity at vocational training centers that reflected in modernized vocational training curriculums, upgraded equipment; improved training quality and strengthened management capacity. The enrollment of the centers covered in this project has increased by 15-20%.
 - o Built up administrative capacity of state management agencies at local levels though involving local authorities (provincial and district levels) and the National Institute for Education Development Studies into the project’s working groups or training workshops on management skills.
 - o Introduced the best practice of a vocational training center to disseminate it national-wide through sharing with policy makers on good experience and lessons learned from the centers participating in the project.

Although the funds provided by the South Korea, France and Switzerland are not among the largest, they were very important for vocational training sector of Vietnam. They have supported various vocational training centres and GDVT in building capacities on vocational training. South Korea has provided three grants to support the technical schools in Hanoi, Nghe-An and Quy- Nhon with USD 10 million. Switzerland has provided grants to support 3 phases of the “Strengthening Vocational training centres in Vietnam” which is described in Box 2.

Impacts of the ODA on Human Resource Development

The coordinated efforts, the internal commitments and the assistance of international donors, made big progress for Vietnam over last ten years. The country’s target “Education for All” is gradually being realized. The net enrolment rates at the primary level rose from about 80% in 1990/91 to nearly 94% in 1999/2000. The upper secondary education enrolment rate increased as well. The number of lower secondary education students in the 2002- 2003 academic year is 2.3 times higher than the one in 1992-1993 academic year, and 4.3 times for the upper secondary education. By the end of 2002, 15 out of 61 provinces/cities have reached the goal of universal lower secondary education. The school facilities such as classrooms, teaching aid, laboratories and libraries have been upgraded substantially. The reformed national curriculum for primary and lower secondary schools (grade 2 and 7 respectively) continues to be phased in.

Almost all the donors in education sector have supported education management capacity building, especially the education management at local levels. In the National Education for All (EFA) Action Plan 2003- 2015, provincial education planning is defined as the central component of EFA implementation that aimed to strengthening provincial capacity in education planning and supporting decentralization processes. To improve education management, MOET has been developing a modern budget system for education in collaboration with MOF, WB and other donors within the Medium Term Expenditure Framework. With the support from EC, a national Education Management Information System (MIS) has been developed by MOET to strengthen education management. A national Personnel MIS has been in place to assist employment planning. Provincial and district education management offices have been trained to apply MIS.

For professional training sub-sector, most of the projects are small and cover one or some specific schools or colleges. And there is little coordination between the donors and between them and the government agencies. The “Technical and Vocational Training” funded by ADB in co-financing with AFD of France and the NDF is the only project working with the technical and vocational training nationwide system. This project operates on curriculum development, institutional strengthening, industry and school partnership development, and access improvement (through supporting the facilities upgrading for 15 technical colleges and schools). The project has been delayed for a number of times, and more than a half of time elapsed, but less than 20% of the fund has been disbursed.

An example of successful project in this area is the Switzerland funded project “Strengthening Vocational Training Centres in Vietnam”. Encouraged by good performance of the project, the Government of Switzerland has expanded its support for this project with phases 2 and 3. The project has helped strengthening 18 vocational training centres through providing equipment, curriculum development, teachers training and management capacity improvement (See Box 2).

With the assistance of the international donors, many new skills have been introduced in vocational teaching centres, and the overall quality of training in those centres has been also improved. The graduates from ODA- supported schools have met the demand of competitive industries such as telecommunication, airplane and airport service, oil and gas, garment, foot-ware, mechanical, electric

and electronics industries. As one of the reliable indicators that the technical and vocational education system has become more marketable is that the student enrolment rate increased steadily.

Conclusions on the ODA in Human Resource Development

The impact of the investment in education is certain and important, at least from the society's point of view. The impact may, nevertheless, not be persuasive in short run, but mostly in long run instead. Not all the projects include some sort of "graduates tracing" studies. In some big loan projects there has budget for benefits monitoring and evaluation activities. But the activities which have been done are more monitoring and much short of evaluation. Thus it is difficult to pick up enough evidence of ODA success in this area.

Generally, there had been a wide gap between the newly emerged market economy and teaching contents in Vietnamese technical-professional schools until recently, and ODA have been very helpful in fulfilling that gap. Most of the curriculum sets have been developed to help the training to be more relevant to the market needs. Teacher training capacity has been improved. Management capacity of the technical and vocational training centres which benefited from those projects has been strengthened. This is demonstrated by the continuously increased enrolment of the students in the levels where ODA was provided. Nevertheless, the benefits from the ODA projects in education and training sector will continue beyond the observable in the short term.

Irrationality in behaviour of many young people and their families is an issue related to the effect of education. As it is being mentioned in local newspapers and in social debates in Vietnam is that the gap between learning in local schools and real economic needs has been wide, and Vietnamese young people try too hard to be accepted into universities and do not appreciate enough vocational education because they do not earn a bachelor degree in there. The implication of that is that many young people and their parents have been made decision on education not in the best way, and that cut short benefits of the foreign aid in Technical and Vocational Training.

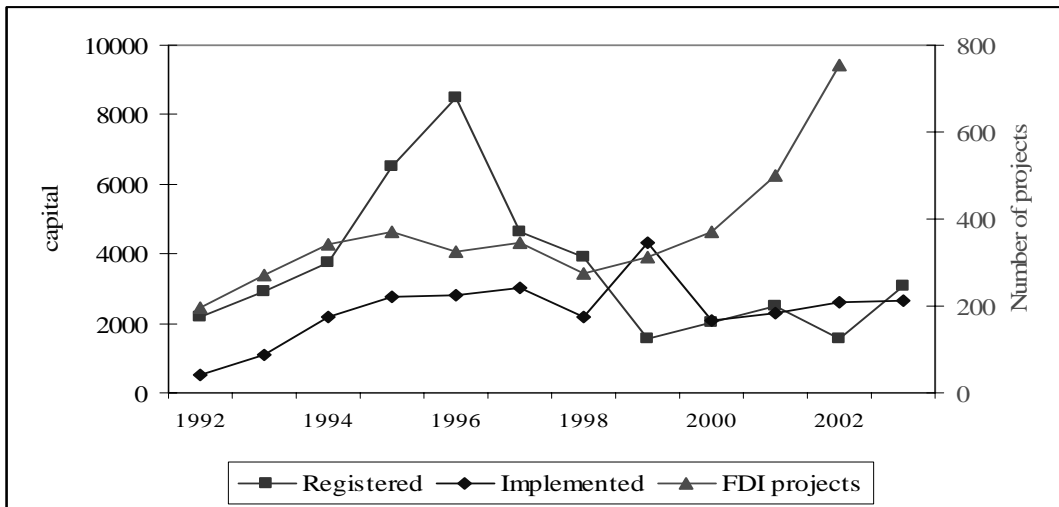
Given the moderate funding of ODA projects in education and training sector, their effectiveness has been high. The technical expertise transfer by the ODA programs is potentially very valuable for the low developed economy. The Information technology provided to the MOET made management and administration of public services in the ministry more transparent and efficient. The international donor supports have been indispensable supplement to the internal efforts in modernizing and upgrading human resource of Vietnam.

4. THE SYNERGIES BETWEEN ODA AND PRIVATE ECONOMY

4.1 *The Impact of ODA on FDI*

Data on the foreign direct investment over the period 1993-2003 is presented by Figure 4. In the Figure 4, the horizontal axis carries years, the left vertical axis measures the amounts of registered capital and the implemented capital of all projects, while the right vertical axis measures the number of projects implemented in the years. In all the measures considered, the FDI in 1998-99 were lower than that of 1997, notwithstanding the fact that the real conditions (e.g., the legal framework, infrastructure, and the price of services) in the following years were more favourable for the investors. The difference was caused by change in investors' expectation about the stability which shifted during the Asian Financial Crisis.

Figure 4: FDI performance 1992-2003



Sources: Number of projects, capital: Statistical Yearbooks: 1996 – 2001; others: Vietnam Economic Times.

Apart from the shock to the world or regional economy such as the Asian Financial Crisis, the real factors have been improving steadily. As the result of public investment and the ODA made over the period, the system of transportation expanded wider into rural areas. Of the total 8937, the number of communes with out access to car road declined from 663 in 1996 to 515 in 1999, and further down to 269 in 2002¹². National highways were upgraded both in the North, Central coasts and in Mekong Delta, as described in Section 3.

Electrification, an essential factor for industrial production and consumption (for instance, electric fan, radio, TV, and refrigerators) grew at high rate. Data of EVN indicates that, if in 1990 only 13.9 per cent of Vietnamese households had access to electricity grid, only six years later, in 1996 slightly above 60 percent of all communes were with electricity and about 50% of rural communes had the access. In 2002, the rates increased to 93% and 83% respectively, and that certainly spurred private investment. With respect to the generating capacity, in 1992, the total electric energy generation was 1000 GWh, and that in 2002 was slightly above 6000GWh¹³. For the most aspects, the trend benefited from the state investment as well as from ODA programs, as it is clearly presented to in previous sections of this study.

Thus the measures of FDI do not fully reflect the real status of the economy, which has gradually been improved in all aspects of the economy, as presented previously. Nevertheless, even though the shift in foreign investors' perception in the stability of the region business caused them reduce their project sizes, the number of project or, the number of investors committed their capital increased strikingly. Given that what happened in Vietnam over the period under consideration was the result of multiple shocks, we try to detect some of impact that can reasonably be attributed to ODA. Let's start with a provincial analysis, which may shed some light on how the variation in provincial ODA be reflected on variation of provincial FDI.

¹² GRPIS, 2003b

¹³ GRPIS, 2003b.

A Provincial Look at the Correlation between ODA and FDI

Decision makers of both ODA suppliers and recipients tend to encourage private investment. Big ODA funds have been allocated for infrastructure development. Power plants, which were built under ODA projects make several industrial zones and export processing zones to be more attractive for foreign investment. Drinking water also has received a significant amount of ODA.

Unlike ODA, the goal of FDI enterprises is profit, at least in the long-run. That means foreign investors allocate their asset to where the expected return is higher than in other places. An important factor for attracting FDI is developed infrastructure. Red River Delta and the South East region, already ahead of the rest of the country in number of FDI projects operating in, and the development of a vibrant private sector continue (the regions having the nation's highest number of new enterprise registrations per 1,000 people, and the highest rates of FDI per capita), continue being reinforced by ODA inflows.

The provinces with better infrastructure and/or higher purchasing power tend to attract more FDI. In that sense, high concentration of ODA in Ho-Chi-Minh City, Ha Noi, Dong Nai, Tay Ninh and Ba Ria-Vung Tau is one of many factors causing the inflow of FDI into these provinces. Nevertheless, there is an exception that is the province of Binh Duong which has been a leading province in FDI attraction having received nearly zero ODA. In addition, public investment funds per capita tend to favour the more prosperous provinces, as the cost of providing basic social services to these regions is arguably cheaper than in remote isolated areas, due to economies of scale.

At the first glance, there seems to be a strong correlation between provincial data on FDI and the provincial data of ODA. However, further analyses do not verify a direct causal relationship between the two. More likely, there is some third factor (perhaps, more than one factor) causing high amounts of both ODA and FDI in certain provinces. Statistically, the connection between ODA and FDI exists, but not always significant. The statistical significance varies substantially across sources and samples. The examples we bring up here are chosen with an intention to display the existence of any connection at all between provincial ODA and provincial FDI. The amounts of FDI and ODA in the top ten FDI receivers-provinces are listed on Table 5. The two series have their correlation coefficient of 0.82. The correlation coefficient diminishes when all the provinces are included.

Table 5: Foreign Direct Investment by provinces, 1988-2004¹⁴

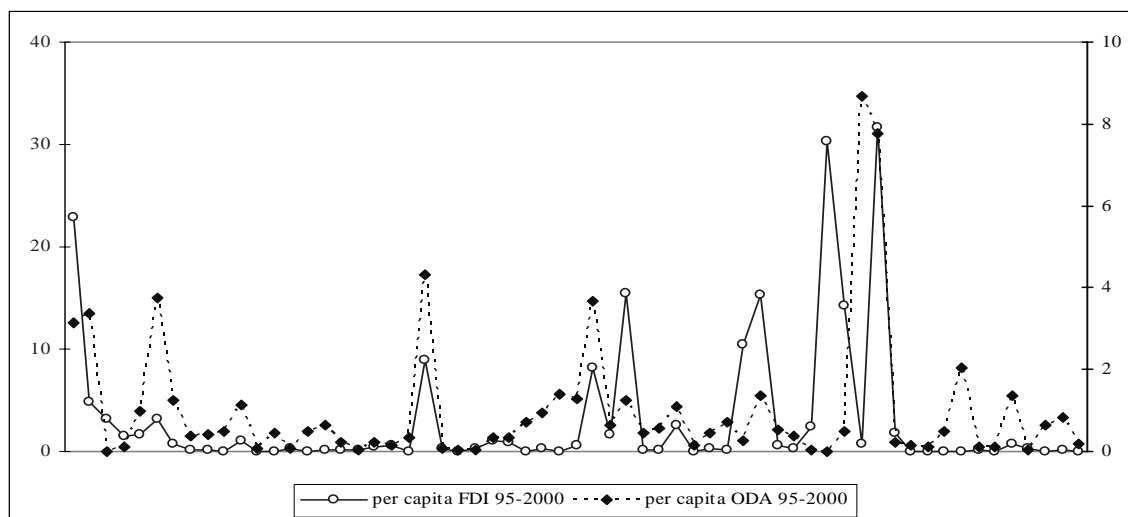
Unit: USD mil.

| Province/City | Registered FDI | ODA committed |
|---------------|----------------|---------------|
| HCM city | 10,994.11 | 736.06 |
| Hanoi | 7,763.25 | 641.34 |
| Dong Nai | 7,018.07 | 65.24 |
| Binh Duong | 3,895.79 | 29.17 |
| Baria-Vungtau | 2,081.87 | 71.22 |
| Hai Phong | 1,698.31 | 197.85 |
| Lam Dong | 881.18 | 27.21 |
| Long An | 596.66 | 16.20 |
| Hai Duong | 583.68 | 89.78 |
| Vinh Phuc | 560.52 | 29.17 |

Source: MPI, 2004

Even though economic rationale supports a strong correlation between ODA and FDI, the causality has not been robustly established. Both variables are endogenous, and after population is taken into count, the correlation becomes weaken substantially. In Figure 5, the horizontal axis carries provinces, the left vertical axis measures for the provinces' FDI per capita, while the right vertical axis measures per capita ODA made to provinces. There are 61 provinces and cities in the data set. The correlation the series is weak, but significant. For this particular data set over years 1995-2000, the correlation coefficient is 0.42.

Figure 5: Correlation of provincial per capita ODA and that of FDI (1995-2000)



Source: MPI

¹⁴ Data set counts all the funds available at June 2004

In an attempt of detecting for any causality, we run total FDI (made over 1995-2000 to the provinces) on a number of independent variables. The information about the initial conditions of a province is carried by the per capita gross provincial product of 1995 and the percentage of urbanization in that year. Other explanatory variables are the state investment and ODI over the 1995-2000 period. The choice is justified by the need to capture the impacts going beyond short-run framework. It is expected that the ODA, together with the state investment, explain the variation in FDI. However, the result Table 6 provides a real status which does not support the expectation of the causal relationship between ODA and FDI. It turns out that the initial conditions decide and not the recent investment. Per-capita gross provincial product is absolutely significant, and the degree of urbanization is statistically significant at 10%. Against economists' expectation, neither ODA nor state investment is statistically significant in explanation of FDI. The R-squared and the F-statistics indicate the OLS model makes sense.

Table 6: An OLS Regression of FDI on ODA

Provincial data 1995-2000

Dependent Variable: Per capita total FDI 1995-2000 of 61 provinces

| Variables | Coefficient | t-Statistic | Probability |
|---|-------------|-------------|-------------|
| Constant | -2.8137 | -2.3927 | 0.0201 |
| Per capita gross provincial product 1995 | 1.6475 | 5.7753 | 0.0000 |
| Urban percentage 1995 | 9.6743 | 1.6853 | 0.0975 |
| Per capita total ODA 95-00 | -0.1872 | -0.3882 | 0.6993 |
| Per capita total state ¹⁵ investment 95-00 | 0.3428 | 0.4488 | 0.6553 |

R-squared: 0.5647; **Probability for F-statistic:** 0.00

Source: MPI

The overall observation is that there is a group of provinces having high concentration of both ODA and FDI, which both may be caused by other factors, mainly the pre-existing condition such as infrastructure, geographical position, purchasing power of local population, in provinces. That is why the correlation is more significant for the group of provinces in Table 5. However, there has been no evidence of a causality relationship between these two variables over the period. Further analyses reveal that the causal relation is very weak, if any found econometrically. One of the difficulties for econometric researchers is that the impacts of multiple shocks have been mixed. Additionally, error term is likely to be auto-correlated. For instance, the pre-existing infrastructure or purchasing power in a province creates FDI attractiveness not only for itself, but also for neighbouring provinces as well.

Case Study on the Connection between ODA and FDI

The Impact of National Highway No.5 Habilitation and Hai-Phong Harbour Upgrading Project:

The report by GRPIS (2003) indicates that, as of mid-2003, the four Industrial Zones around Hanoi and Hai-Phong which are at two ends of the project site, account for about 85% of the entire FDI to northern IZs, both in terms of the number of projects and registered capital. Two-thirds of these investments came in or after 2000. Their firm survey suggests that nearly 90% of new FDI to the North would not have realized without the improvement of the two transport facilities.

¹⁵ The state investment in regression is the total government investment in transport, power and urban water projects.

Thanks to the modernized National Highway, a number of industrial zones have been set up in Hai-Duong (Dai-An, Nam-Sach, and Phuc-Dien) and in Hung-Yen (Pho-Noi A and Pho-Noi B). Domestic investment to these areas increased as well. The better transport system led to an expansion of tourism industry in Ha Long Bay. The number of tourists (both Vietnamese and foreign) quadrupled from 1995 to 2002, with a sharp increase from 2000. Thus, the total private investments followed this project is very large. Even though not all of the changes can be reasonably accredited to the project, it is the main factor behind the development.

The Impact of My-Thuan Bridge and the National Highway Part Connecting Ho-Chi-Minh City to Can-Tho Project.

Can Tho recently is the fastest growing province in the Mekong Delta, and its industrial growth has accelerated, particularly from 2000. Can Tho province currently has three industrial zones (Tra Noc I and II, and Hung Phu Industrial Zones). Altogether they boast about 80 firms (including about 20 FDI firms), employing 13,000 workers. Easier transport has also promoted tourism development in Can Tho, particularly since 2000. The benefit of the project is persuasive enough so that another bridge, (which is crossing Hau River) is under preparation. As the Can Tho economy is activated, its effect will be spread over the Mekong Delta. Not only does it effect the provinces along the National Highway between Ho chi Minh City and Can Tho, but also the other in the region.

Summary

It may not too hard to presume the effect of ODA on FDI in Vietnam, but it is much harder to establish a causal relationship based on data. First of all, panel data or time series in the form suitable for an econometric analysis are not available despite our effort. Secondly, there have been so many shifts taken place in this economy ranging from the Asian Financial Crisis, which very much affects investors' sentiment, to the numerous policy reforms, lapping over each others. Finally, for a big part of the ODA, the economic payoffs are mainly in long run (e.g., the investment in transport, education, and healthcare) and therefore it is harder to observe a causal relation, if any.

Given that the economic benefit of infrastructure development to be very limited until sometime after project is completed, the immediate impact has been encouraging. Recent survey by JBIC of 932 Japanese enterprises, which have at least one factory overseas each, found that Japanese companies rank Vietnam the fourth most attractive destination in the world. The surveyed companies placed Vietnam behind only China, Thailand and the United States. Respondents agreed the Vietnamese investment environment was improving and poised to become Southeast Asia's best place to do business. Most Japanese investors currently operating in Vietnam said they would expand their operations in this country¹⁶.

4.2 Public Private Partnership Generated by ODA

Public-Private Partnership (PPP) has always been a part of the ideas of ODA donors when they come to Vietnam. Most of the donors are of market economy and bear in their mind that Vietnam is a transitional economy and is moving toward an economy which must be with many times greater private sector than it had been. For all the donors, the country strategies have their goals of promoting private economy. Two forms of PPP have been particular raised at the impact of ODA: first, the partnerships between domestic partners which are often the result of equitization of state owned enterprises; secondly, the joint venture between a state entity (an agency or SOE) and a foreign company. ODA has caused development of both groups of PPP.

¹⁶ Vietnamese newspaper of Nhan Dan, 14-15 February, 2004

In a broader sense, the ODA programs and the government efforts in fostering the mostly infant private economy, by nature is PPP. For instance, the process leading to the Enterprise Law and the following expansion of SMEs is the result of PPP. PPP is vital for the transitional economy, in which, the private sector has not been strong enough and state alone does not have enough resource to provide the services necessary to private sector. In most of rural road projects implemented recently, PPP have also been vital. Even in these projects, ODA is not neutral because the demand for rural roads depends on national highway system, power facility and others.

ODA Based Projects Facilitate Creation of Public-Private Partnerships

Public-Private Partnership Created by SOE Reform:

After the end of war against French in 1954, the State sector of Vietnam was established by both nationalizing the existing private enterprises and building new SOEs. By the end of 1960, hundred percent of industrial establishments, more than 99% of commercial establishments and transportation facilities were transformed into SOEs. In their operation, SOEs were under direct control and management of ministries or different departments of central and local government. The function of the SOEs was to receive and carry out plans given to them. The plans specified detailed production targets, sources of inputs and output disposal. After the unification of North and South Vietnam in 1975, the private and public business establishments in the South were also transformed into Northern-style SOEs.

After it had been clear that the SOEs were very inefficient, partial measures to the problem had been applied by the government of Vietnam. In November 1991, the Council of Ministers enacted Decree 388/HDBT on the regulations for setting up and closing down of SOEs, which forced an SOE to be dissolved or merged with another if they were judged to be inefficient or lacking capital or technology or did not have sufficient market demand for their outputs. The State sector was further reorganized with Government Decisions on establishment of General Corporations in 1994. In 1995, the law on SOEs was enacted, providing the first legal basis for the operation of SOEs.

Further reforms in this sector received assistances from foreign donors. ADB provides two parallel projects with total US\$ 3 million. The aims of these projects are to enhance institutional capacity of key agencies in diagnostic audit of SOEs and in review and approval of SOEs seeking to equitize and obtain public and to formulate and implement a strategy and practical method for transforming SOEs into corporations. In addition, ADB helps to implement and to enforce the adoption of international best practice in corporate governance.

ASEM provides over US\$2 million for a number of projects in this area. The ASEM programs include three components: i) Social safety net to deal with labor displaced by SOE; ii) acceleration of equitization and restructuring SOEs in the Ministry of Transport; and iii) implementation of SOE reform in three line ministries (industry, agriculture, and construction) and two provinces /municipalities, one of which is Hanoi.

Danida (Denmark) assistance covers a wide range of the process of SOE reform. This agency administered a project with funding over US\$ 3 million that “Support to Industry Restructuring and Enterprise Development” by implementing equitization plans and providing post equitization assistance. Other Danida’s projects administered by World Bank provide advisory services, public awareness campaign, and capacity building in research and development. The projects also provide Support Fund for Equitization and Restructure. In addition, Danida administered a major program (US\$ 1,700,000) that supporting capacity building for the SOE reform process.

In addition to the reforming at the macro scale, similar programs have been applied in specific segment of economy. The DFID of UK assisted a pilot restructuring of three general corporations – Vinatex, Vinacafe, and the Seaprodex. With respect to local activity, GTZ (Germany) administered US\$ 5,600,000 project that support to restructuring SOEs in agriculture (Quang Tri Province, Tan Lam area) by providing advise in implementing equitization plans (People’s Committee Quang Tri, CREM). IFC administered a pilot project in Dak Lak, which helps to equitize and divest 51 SOEs, using the auction process for equitization. In Hai-Phong, IFC administered and AusAID supported in Haiphong People’s Committee a pilot divestiture program for small SOEs, using the auction process for equitization. In addition, Japan, Australia, Denmark and UNDP have provided large funds in many facilitating SOE reform activities such as data collection and monitoring system for SOEs, diagnostic audits to assess financial health and performance of selected SOEs, and strengthening the capacity of the General Department for the Management of State Capital and Assets in Enterprises.

Notwithstanding the generous assistance from international community and the government strong commitment, the progress in the state-owned enterprise reform has been slower than expected. According to World Bank (2002b), after a good start in 1990-1992, the number of transformations was very low between 1993 and 1997. From 1998 onwards, thanks to the implementation of equitization mechanism, the process regained some momentum, but it is not kept stable. From 1998 to September 2002, less than 900 SOEs transformed part of their equities to private sector. Nevertheless, of the equitization taken place between January 2001 and September 2002, seventy percent had involved the sales of more than 65 percent of the equity to non-state share holders and therefore, created substantial public-private ownership.

Domestic Public – Foreign Private Partnership: a product of FDI

Presence of Public-Private Partnership is apparently in major part of foreign direct investment enterprises. The partnership can be in forms of Business Co-operation Contracts and Joint-ventures. The MPI’ Database shows that most of the domestic partner in big FDI projects are either state or local public enterprises. The overall weakness of private sector in Vietnam is an explanation for that reality. The foreign investors are the businesses with capital and technological know-how come to Vietnam, if they found doing business alone not to be the best choice, they would seek partners with best contribution. The biggest contributions in most of the cases are in real-estate, and public enterprises have their big advantage in that regards. Moreover, given the low level of development of the legal framework, especially those concerns economic activities and the arbitrariness of many officers in the public administration system that includes unfair treatment against private enterprises, the public partners often extend very significant non-material contribution to the partnerships’ businesses.

Table 7: FDI Classification by Form of Investment 1988-2003

| Forms | Number of Projects | | Total Investment (\$mil.) | |
|-------------------------|--------------------|-------|---------------------------|-------|
| BOT | 6 | 0.1% | 1,370 | 3.4% |
| BCC | 157 | 3.7% | 3,874 | 9.6% |
| 100% foreign Investment | 2,956 | 69.3% | 17,075 | 42.1% |
| Joint-venture | 1,147 | 26.9% | 18,232 | 45.0% |
| Total | 4266 | 100% | 40,551 | 100% |

Source: MPI, 2004

In Table 7, it shows that, slightly above 30% of FDI projects have public-private partnership. In terms of capital, the share is nearly 55%. Given the domestic partners in big projects are public, it is

expected public-private partnership in businesses with foreign capital has been substantial. The existence of partnership requires certain conditions in terms of business environment and no doubt, diplomatic ties between the host country and the home state of the investors. ODA, as it is commonly interpreted, creates the condition for the partnership.

PPP for Creation of Small and Medium Enterprises

Private economy in Vietnam had been tiny before the Doi Moi was launched. As the conditions for this sector has been steadily improved, many private enterprises are set up. Most of these are in small or medium size. Both the government of Vietnam and the foreign donors have been promoting SME, and the process itself is the biggest PPP.

SME sector development is one important pillar in Vietnam Country Assistance Program (CAP) of Japan. Japan's assistance focused on policy support and support to business. The former assistance includes policy planning, management diagnosis, financing and technical support for SMEs; the latter concerns the development of supporting industries. Fund from Japan is also used in a number of research projects on SME in Vietnam and that bolstered the effect of Japan's ODA in this area.

ADB supports the SME sector in Vietnam in two ways: one is the joint ADB-DFID initiative "Making Markets Work Better for the Poor". The other is a technical assistance "Preparing the SME Sector Development Program". Furthermore, ADB assistance aims at improvement of regulatory framework, access to finance and to land (in particular for private enterprises), technology and technical standard issues for businesses in Vietnam.

The EC cooperation in Vietnam includes three programs: the establishment of a SME Development Fund (SMEDF II) with a total budget of €20 million for loans and €1 million for technical assistance; a Private Sector Support Program (€9 million) aimed at promoting an enabling business environment in nine provinces and the establishment of two incubators in Hanoi (food processing and packaging) and in Ho Chi Minh City (information technology); In addition, a grant of €10 million is used for a labour market project. The German Development Cooperation GTZ is in cooperation with all the programs.

The International Labour Organization's "Start and Improve Your Business" (SIYB) program aims at facilitating small-scale entrepreneurship development in Vietnam. The ILO and its Vietnamese implementing partner of VCCI operate in eight provinces and their activities include: the creation of a business enabling environment, the support to business associations, and the strengthening of public-private partnership and of BDS. The total budget for this program is of US\$ 4 million.

The Netherlands's program of cooperation with MPI of Vietnam has its activities in facilitating and financing pilot projects in the SME sector, by proving a 50 % grant of the total project value to the counterpart company. The Vietnamese implementing partner is the VCCI. One of the program's objectives is to determine favourable conditions for matchmaking with Dutch companies willing to operate in Vietnam. Dutch government provides with a budget US\$2 million for this project in Vietnam.

SNV, a Dutch NGO, has been in Vietnam since 1995. The organization worked to generate income and employment. The part of the NGO activities was conducted in a poor region with non-agricultural opportunities fewer than elsewhere. That is the central provinces of Quang Binh, Quang Tri and Thua Thien Hue. The sub-program emphasizes the creation of incomes for women in the three provinces, supported by training initiatives and a micro-credit scheme (with VBARD); it also promotes rural enterprises and the development of market.

The relatively new donor USAID launched the multi-phase program of the competitiveness Initiative. The content of the American program concerns the SME regulatory policy and environment, with the goal to create enabling business conditions, such as land and tax reforms. With the purpose to strengthen the private SME sector, the agency approach is to help the local enterprises to raise productivity. Setting up of clusters is one of such initiatives. Other activities of USAID are support to Business Associations, creation of favourable conditions for improving the market for financial services in Vietnam.

For the German Development Cooperation GTZ the main thrust of the cooperation framework is on technical and financial support to SMEs. The technical assistance program by GTZ is focused on four areas of intervention: SME policy, local economic development, value chain development and advanced technical services. As for financial assistance, another German company of KfW extends credit lines to rural SMEs (through VBARD, in particular) and strengthens in general the market for micro-finance in rural areas, as a way to promote reforms at local level and foster the links between informal and formal businesses. GTZ and KfW work in close coordination with partners such as the ADB, the EU and MPDF. Within a PPP program, GTZ is increasingly working together with the private sector. The Program is designed to combine the expertise of development agencies with the business know-how of German and other international companies working in developing countries in order to strengthen local businesses.

The generous support of international community in this area is paying off. The number of small and medium enterprises of Vietnam grew rapidly over the course of Doi moi. Together with SOE privatization, fostering the growth small and medium enterprises is essential for the transitional economy of Vietnam. An excellent example of efficient ODA project in this regard is the building and lobbying for the Enterprise Law mentioned above. Following up the adoption of Enterprise Law, in November 2001, the government of Vietnam issued Decree 90/2001 of on “Promotion of SMEs’ Development”. This Decree brings about two institutions, the Department for SME Development under the Ministry of Planning and Investment (MPI), and the Council for promotion of SMEs under Prime Minister. The Department’s job is to assist MPI in carrying out the state management on SMEs promotion, and the Council, the chairperson of which is the Minister of Planning and Investment, has the responsibility of provision advice on SME development promotion policies to the Prime Ministers. One of the measures designated by the government is to create the so called “Incubators of Enterprises” in which, the future entrepreneurs are provided with the fundamental knowledge of setting up businesses, consultancy on the issues essential for newly created enterprises. Implementing the Decree, MPI established three Centers for Technical Assistance to SMEs in Hanoi, Ho-chi-Minh City and Da-Nang. These centers have their functions of consulting the Department of SMEs and being the consulting sources of SMEs on technological issues. On the ground of the above Decree, on December 20, 2001 Prime Minister issued his Decision 193/2001/QD-TTg on the statue of the Fund of Credit Guarantee for SMEs. All of the government enthusiasm follows the initial success of the Enterprise Law, for which the modest fund (USD2.3 million) from UNDP and AusAid was well paid.

4.3 *Macro Economic Aspects of ODA*

Shortage of capital has been a major bottleneck for the private economy. The resources needed for mitigation the problem of war-torn backward infrastructure is too big that it is very difficult for the Government alone to deal with while private sector has not been up to the task. A simple way, but perhaps not very accurate, of measure the importance of ODA is its share in total investment in the economy. On Table 8, the content of the third column are the implemented ODA funds. Over the period 1995-2002, ODA supported around one fourth of state investment. Since ODA is more concentrated to infrastructure than state investment, it implies that more than one fourth of the change in the infrastructure over the period as described previously can be accredited to ODA. The ODA

funds allocated to the sectors other than infrastructure, such as in legal system reform, institutional improvement, or human resource development also have their impact on private investment and FDI.

Table 8: The Scale of Implemented ODA in Vietnam, 1995-2002

| Years | State (USD mil.) | ODA (USD mil.) | ODA/State | ODA/Total Investment |
|---------|------------------|----------------|-------------|----------------------|
| 1995 | 2,758 | 737 | 0.27 | 0.11 |
| 1996 | 3,888 | 900 | 0.23 | 0.11 |
| 1997 | 4,585 | 1,000 | 0.22 | 0.11 |
| 1998 | 4,902 | 1,242 | 0.25 | 0.14 |
| 1999 | 5,519 | 1,350 | 0.24 | 0.14 |
| 2000 | 5,898 | 1,650 | 0.28 | 0.16 |
| 2001 | 6,452 | 1,500 | 0.23 | 0.14 |
| 2002 | 6,178 | 1,528 | 0.25 | 0.13 |
| Average | | | 0.25 | 0.13 |

Note: ODA is the disbursed amount

Source: MPI, 2003

Even though the roads, bridges, electric generators and classrooms built in the ODA programs have been recognized as to contribute greatly to the economic growth of Vietnam, the actual contribution of ODA is far above the sum of the individual project. According to recent report by UNDP, the most important contribution of ODA in Vietnam over the past 15 years has been in the transfer of knowledge, skills and valuable experience from elsewhere to help facilitate the so far highly successful Doi Moi reform process which has been initiated, led and managed by the Vietnamese since 1986¹⁷. No doubt, the knowledge, skills and valuable experience are an important factor bringing about more private investment and FDI.

However, it is very difficult to measure the whole effect of the transferred knowledge and the learned skill. This part of production factor becomes increasingly important in today economy. Thus, what ever the assessment of ODA based on materially economic impacts of individual projects will not be complete. Moreover, small scale of this research does not allow us to conduct a rigorous estimation of the effects by the ODA inflows from all sources. Instead, to have some ideas about the issues under consideration, we make use of literature on the impacts of Japanese ODA in Vietnam.

According to the survey conducted by CONCETTI, a Vietnamese consulting and research firm, in 2001-2002 to evaluate the impact of Japanese ODA. The survey was conducted in Hanoi and Ho-Chi-Minh City and focused on two groups: i) businessmen having import/export relation with Japanese market; and ii) Government officials involved in Japan's ODA. Among business group, 24.6% was FDI enterprises and 40.7% domestic private. Main contents of the CONCETTI's report are

¹⁷ Vietnam Investment Review, No. 675, September 20, 2004

presented on Table 9. It indicates that the impact of the projects in infrastructure is best perceived by businesses. Other than that, the effects of Japanese ODA in Vietnam have been moderately felt.

Table 9: Impact of Japan's ODA Projects on Surveyed Businesses

| | |
|--|-------|
| • Your business is to enjoy better infrastructure | 50.0% |
| • Your business has more opportunities to supply goods and services to Japan's ODA projects | 37.5% |
| • Your business is to enjoy more "open" policies under the impact of Japanese funded projects on mechanism, policy and institution reforms | 25.0% |
| • Export to/import from Japan become easier | 25.0% |
| • Japanese investment to Vietnam increases | 22.9% |
| • Others | 8.3% |
| • Your business receives direct support from Japan's ODA projects | 6.3% |

Source: Evaluation Results and Recommendations on Japanese ODA for Vietnam, International Development Center of Japan, Hanoi, 2003.

More officially, the result of major study by the International Development Center of Japan (IDCJ), tells a more encouraging story. The Report by the IDCJ (2003) demonstrates that, "Japanese ODA pushed up the Vietnamese GDP by 1.57%, capital stock by 4.65%, imports by 5.94% and exports by 3.84% in the year 2000."

Kawasaki (2004) uses GTAP model to perform his simulation on the impacts of Japan's ODA loans. The annual size of such total amount of capital flows is calculated by a simple five-year average (1996 to 2000) of Japan's ODA loans to Asian countries in terms of gross-disbursement. The main results of Kawasaki's simulation are presented on Table 10. It demonstrates that the effect of Japan's ODA on Vietnam over 1996-2000 was important as more than one and a half percent increase in real GDP and two and a half percent increase in export volume. Trade balance of Vietnam improved as well and as nearly one percent of welfare was added.

Table 10: Impact of Japan's ODA Loans

Unit: %, except Trade Balance

| | Real GDP | Export Volume | Import Volume | GDP Deflator | Trade Balance* | Utility |
|-------------|----------|---------------|---------------|--------------|----------------|---------|
| Japan | -0.10 | -0.12 | -0.01 | 0.03 | -387 | -0.07 |
| China | 0.12 | 0.14 | 0.05 | -0.06 | 139 | 0.08 |
| Indonesia | 0.50 | 0.59 | 0.35 | -0.22 | 67 | 0.41 |
| Malaysia | 0.20 | 0.19 | 0.16 | -0.13 | 13 | 0.14 |
| Philippines | 0.71 | 0.90 | 0.54 | -0.60 | 6 | 0.49 |
| Thailand | 0.49 | 0.34 | 0.20 | -0.29 | 29 | 0.42 |
| Vietnam | 1.65 | 2.53 | 1.24 | -0.69 | 28 | 0.99 |
| World | 0.00 | 0.02 | 0.02 | -0.01 | 0 | 0.00 |

Note: Trade Balances are in million US Dollars

Resource: Kawasaki (2004).

While an assessment for the overall effectiveness of all the ODA programs in Vietnam has not been in place, there has been evaluation of performance of the ODA projects funded by Japan, which counts for between 40% and 50% of the total, depends on time periods and data sources. According to IDCJ (2003), even though not all the effects have fully realized, “Japan ODA has generated concrete enough impact to satisfy the intention of investment.” The IDCJ report estimated that the “macroeconomic internal rate of return” for Japanese ODA to Vietnam over the period 1991-2000 was 19%. Based on this estimation, it can be judged that Japanese ODA to Vietnam has so far been efficiently implemented.

In most of the cases, ODA from other sources have been as efficiently used as that from Japan. Since the ODA disbursement from Japan at the time (2000) was about 40% of total, it is expected the total ODA impact on the economy of Vietnam to be of two and a half times of that by Japanese ODA. Since other donors have not all allocated their funds into infrastructure, the total ODA effect on capital stock is hard to imply from the above estimation, but it may imply that 3 to 4% of Vietnam’s GDP in year 2000 could be attributed to ODA.

5. CONCLUDING REMARKS

World economic activity today is not the same as it was fifty years ago. In the past, the producers of poor countries did not have to compete as severely with foreign suppliers as they do today. On the other hand, even there had been substantial exchanges for hundred years the speed of knowledge transfer had never been as high as it is now. Thus, the expansion of the negative and positive externality makes it desirable to have measures to remedy the adverse and at the same time to bolster the favour.

It is very difficult to determine exactly which share of the growth was brought about by ODA in separation. In practice, any movement in the economy of Vietnam over the course of Doi Moi is the results of the internal and external factors, public and private efforts. Given the relatively small scale of this research, instead of rigorous assessment of the ODA projects’ impacts, we mainly look at what followed the implementation of ODA projects. That does make sense because what happens is the result of ODA and perhaps in a bigger part, of other factors. The latter, however, is not independent of the former.

The assistance of international donors to any country, including Vietnam is most productive where there is national ownership of the program and a strong commitment to use this resource effectively. National ownership, an important feature of ODA programs, has been generally strong in ODA programs to Vietnam. Most of the activities which have been done with the supports from ODA donors are in compliance with the Vietnamese Government’s development priorities. The funding in sectors such as transport, power, water supply, human resource and agriculture and rural development are all in the focus of the development set by government.

There could have been parts in ODA packets that drew little enthusiasm from authorities. But that does not exactly mean the lack of country ownership. A good interpretation of the performance in such cases is the principal-agent problem, when the real principal (the constituency and the high ranking elected officers of both supplying and receiving countries) do not have enough information of real process of certain reforms being carried by bureaucrats. It seems some of such programs concern reform in the areas of Public Administration, institutional issues and state owned enterprises. For instance, the issue of auditing the SOEs and budget disclosure were considered as sensitive and part of the factors slowing down a number of programs. While some reforms, in trade policy for instance, were ahead of the schedule, others were much behind, such as SOE privatization.

Effectiveness in many ODA project could have been higher. According to the study by CIEM and JICA (2003), most of the interviewees expressed the view that internal procedures for project appraisal and approval of new projects were complicated and generally not harmonized with donors' procedures. Even though there has been the Government Decree No.17¹⁸ on the issues, many recipient agencies recognized that the Decree is not put into practice properly. Both government and donor project staff have to spend lots of time to be familiar to those procedures, causing big delays in many cases. Another problem that often delays the implementation of ODA projects is the complication of the procedure for securing counterpart funds. In some case, it was difficult to persuade the ministries concerned in the understanding the necessity of the projects and the counterpart fund. More often and more fundamental, the ministries concerned are unable to provide the necessary fund citing to lack of budget. As the result, delays in disbursement of counterpart funds impede the smooth implementation of projects. Thus, it is necessary to ensure transparency and accountability of aid management though implementation of Decree No.17 on Vietnamese side.

Limited capacity of the government staff has been a factor hindering the effectiveness of many ODA projects. Because of poor capacity government staff has to depend on donors or consultants in projects/programs designing, preparing and implementing. The controlling role of consultants under ODA projects in each project cycle steps takes the opportunities for voice sharing from aid recipient agencies. Many consultants don't understand the local situation, local legal and institutional framework and their outputs are poor. The local staff in many cases failed to make necessary comments or raised relevant requirements to the consultants to improve the outputs. Low quality of consultants has been shown in many projects. The missions of many consultants are short. The policy recommendations they made are sometimes based on their theoretical understanding only, but not always best for particular circumstance of the projects.

Poor coordination between the government and donors and between the government agencies themselves leads to delays in various steps of project design and implementation. The inefficient system of the public administration in this has not been very successful, as many cases of leakage of state resources have been reported. There is little reason to expect that the resources of ODA program to be managed very effectively. In that sense, in order to improve ODA effectiveness, greater investment in local government and administration capacities is necessary.

Being one fourth of the state investment and above ten percent of total investment in whole economy, ODA in Vietnam is very important. The impact of ODA on private investment is perhaps more than proportionally to the budget share for the contribution in transfer knowledge, skills and experience is believed to be the biggest merit of ODA. Regarding to concrete areas of ODA, our research find the effectiveness of ODA in infrastructure has been concrete and highly perceived. The effectiveness of the funding on education and training is potentially very high in the future, but it is hard to measure the short run impact of the programs in this area. The performance of ODA in the area of reforms in legal system, policy, and public administration has been mixed. However in this category of ODA there are very successful cases. For instance the program leading to adoption and implementation of the Enterprise Law has been considered as very well paid program. Overall, a significant part of the success of Doi moi in terms of the newly registered enterprises and the inflow of FDI can be attributed to ODA in Vietnam.

¹⁸ Decree No. 17/2001/ND-CP dated 4th May 2001.

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APPENDIX: ASSISTANCE TO TRADE REFORM*

| Donor & Grant or Loan Amount | Purpose | Status |
|--------------------------------------|--|----------------------|
| AFD/DREE (France) EUR 3,000,000 | Program of Enforcement of Vietnam Commercial Capacities | 2003-2005 |
| Belgium US\$ 89,000 | Assess socio-economic impact of WTO accession | Ongoing |
| CIDA (Canada) US\$ 860,000 | Strengthen the capacity of the Ministry of Justice (MOJ) in identifying and developing legislation, including amendment to existing legislation, for their conformity with WTO accession requirements | 2002-2007 |
| CIDA (Canada) US\$ 5,800,000 | The Economic Integration Program (EIP) in Southeast Asia will assist six countries (Thailand, Philippines, Vietnam, Indonesia, Cambodia and Lao PDR) to develop their capacity to meet WTO obligations and integrate their economies into the global trading system in the following areas: trade in goods, trade facilitation and customs administration, and GATS and financial services. | 2003-2008 |
| European Commission EUR 3,100,000 | Multilateral Trade Policy Assistance Program (MUTRAP) – Training in trade policy and WTO framework/ Studies on agriculture and services trade related issues – Support to the management of the WTO accession process for the Ministry of Trade – Research on the impact of service liberalization – Fostering knowledge of the Doha Development Agenda; - Establishment of the Technical Barriers to Trade (TBT) and Sanitary/Phytosanitary (SPS) enquiry points. | Ongoing 2001-2004 |
| European Commission EUR 5,100,000 | MUTRAP – phase II, Strengthen the capacity of the government of Vietnam and Vietnamese stakeholder for managing WTO accession and meet their commitments and challenges from other international trade related agreements. (activities are similar to MUTRAP phase I) | Planned 2004 |

| | | |
|---|--|--|
| European Commission US\$ 1,700,000 (Vietnamese component) | EU-ASEAN Intellectual Property Rights Cooperation Program. The general objective of this regional EC/ASEAN program is to enhance EU/ASEAN investment and trade. The specific objective is to achieve further economic co-operation by upgrading the ASEAN intellectual property rights system, in line with the highest international standards and practices. | 1999-2006 |
| France – Ministry of Foreign Affairs US\$ 1,850,000 | Training programs and technical assistance to the National Committee for International Economic Cooperation (NCIEC) and the line ministries for economic integration and WTO accession | 2003-2006 |
| Italy US\$ 400,000 | Assistance to develop subsidy and countervailing policy in relation to WTO accession | 2002-2003 |
| NZAID (New Zealand) US\$ 185,000 | English language training for trade policy specialists Scholarships for Masters level study at Hanoi National Economic University on trade liberalization topics | Current |
| Sida (Sweden) US\$ 200,000 | Technical assistance on rules of origin | Ongoing |
| Sida (Sweden) US\$ 47,500 | Strengthening of research capacity for Vietnam Institute of Trade | Ongoing – 2005 |
| Switzerland (seco) US\$ 1,800,000 | Technical assistance in enforcement of Intellectual property Rights as set forth in international treaties. | Ongoing |
| Switzerland (seco) US\$ 300,000 p.a | Policy Advice towards Vietnam's WTO accession | Ongoing |
| Switzerland (seco) (ITC executed) US\$ 2,000,000 | Support to Trade Promotion and Export Development. Assistance to the Government in trade promotion both at central and local levels | Phase II: in preparation mid-2003 _ 2006 |
| UNDP US\$ 3,000,000 | Equitable management of Globalization | 2002-2005 |
| USAID (United States) US\$ 8,000,000 | Support for Trade Acceleration (STAR) program. Assistance to the Government of Vietnam in legal and policy reforms consistent with the trade and investment commitments under the US-Vietnam Trade Agreement (BTA) | 2001-2004 |
| USAID (United States) US\$ 2,000,000 | Trade and law Exchange and Partnership program – a grant to the U.S. Vietnam trade Council (U.S.VTC) to provide assistance to the BTA implementation with particular focus on the BTA commitments related to WTO disciplines. | 2002-2004 |
| World Bank | Work with the National Center for Social Studies and Humanities to assess Vietnam's readiness for WTO accession | Ongoing |

*Status as of December 2003
Source: www.undp.org.vn