

OFFICIAL DEVELOPMENT ASSISTANCE (ODA) IN VIETNAM: CHALLENGES AND PROPOSED SOLUTIONS

Assoc.Prof.PhD. Nguyen Van Dan* - MSc. Le Quynh Anh*

Abstract: *Official Development Assistance (ODA) is a crucial financial resource that supports developing countries in fostering economic growth and improving social well-being. This paper evaluates key challenges and proposes solutions to enhance the effective utilization of ODA in the future.*

• Keywords: ODA, socio-economic development, Vietnam.

Date of receipt: 03rd Feb., 2025

Date of delivery revision: 27th Feb., 2025

DOI: <https://doi.org/10.71374/jfar.v25.i3.01>

Date of receipt revision: 12th Apr., 2025

Date of approval: 15th May., 2025

1. Introduction

Official Development Assistance (ODA) is financial support provided by international organizations and governments of developed countries to help developing nations achieve their socio-economic goals. This assistance may take the form of concessional loans, grants, or technical support, allowing recipient countries to access financial resources at lower costs compared to market rates.

Since the 1990s, following the normalization of international relations and economic liberalization, Vietnam has actively attracted ODA to finance key projects across various critical sectors. ODA-funded projects have primarily focused on developing transportation infrastructure, power systems, telecommunications, education, healthcare, and environmental protection. Notably, significant projects such as highways, seaports, airports, power plants, hospitals, and schools have been constructed using ODA funds, contributing substantially to economic growth and improving the quality of life for citizens.

Despite its substantial benefits, ODA utilization also presents several challenges for Vietnam. Firstly, public debt pressure has increased as concessional loans gradually transition to higher-interest loans, reflecting Vietnam's graduation from the low-income country category. Furthermore, inefficiencies in ODA management and disbursement remain, leading to project delays, cost overruns, and reduced investment efficiency. Additionally, excessive reliance on ODA poses economic risks when loan repayments become due, necessitating a more sustainable and effective strategy for ODA utilization in Vietnam.

2. Challenges in Utilizing ODA

2.1. Public debt and debt repayment pressure

One of the major challenges Vietnam faces in utilizing ODA is the shift in loan conditions as the economy evolves. In the early stages of international integration, Vietnam benefited from ODA loans with low interest rates, extended grace periods, and long repayment terms, allowing the government sufficient time to implement public investment projects without significant pressure on the national budget. However, as Vietnam achieved economic progress and transitioned to a middle-income country, concessional ODA loans began to decline. Instead, financing from international financial institutions and bilateral partners has increasingly taken the form of less favorable loans with stricter conditions, including higher interest rates, shorter grace periods, and faster repayment requirements.

This shift has significantly increased debt repayment pressure on the government and, if not managed properly, could contribute to rising public debt. In recent years, Vietnam has moved from accessing ODA loans with interest rates ranging from 0.5% to 2% per year to less concessional loans with rates reaching 4% to 6% per year. Meanwhile, loan terms have been reduced from 30-40 years to just 15-20 years. This presents a considerable challenge in balancing the need for new loans to finance development with ensuring the country's long-term debt repayment capacity.

As ODA loans reach their repayment period, the financial pressure on the state budget increases, especially as government revenue remains insufficient

* Academy of Finance; email: leqanh401@gmail.com

to meet debt obligations smoothly. Without an effective debt management strategy, the government may fall into a cycle of borrowing new loans to repay old ones, leading to an escalating public debt burden and a risk of financial imbalance.

Although the debt-to-GDP ratio remains within the officially defined safety threshold, a continued rise in borrowing without corresponding improvements in capital efficiency could lead to a loss of control over public debt. When a substantial portion of the state budget is allocated for debt repayment, the fiscal space for essential development investments in education, healthcare, social welfare, and infrastructure is constrained. This not only hampers economic growth but also slows the country's progress toward sustainable development.

In addition to debt repayment pressure, another concerning issue is the risk of inefficient ODA utilization, leading to waste, corruption, and investments that fail to generate real economic value. Without strict management, ODA-funded projects may suffer from delays, cost overruns, or failure to deliver expected economic benefits, turning their associated debts into a long-term financial burden.

In reality, many large infrastructure projects in Vietnam have experienced severe cost overruns due to poor management, resulting in construction expenses far exceeding initial estimates. This not only intensifies debt repayment pressure but also erodes trust among international donors, potentially affecting Vietnam's ability to secure concessional loans in the future.

Additionally, some ODA-funded projects have not been well-aligned with the country's development needs, resulting in excess capacity or ineffective utilization upon completion. This exacerbates financial pressure and could lead to serious fiscal imbalances in the long run.

2.2. Low investment efficiency

One of the most common issues with ODA-funded projects in Vietnam is cost overruns and delays, leading to actual expenses far exceeding initial estimates. According to a report by the Ministry of Planning and Investment, many transportation, energy, and urban development projects have faced prolonged implementation, increasing costs and reducing investment efficiency.

A notable example is the Nhon - Hanoi Station urban railway project, which began construction in 2009 with an estimated investment of VND 18,000

billion. However, after more than a decade, the project remains unfinished, with costs soaring to over VND 34,500 billion, nearly double the initial estimate.

A similar situation occurred with the Cat Linh - Ha Dong railway project, a major ODA-funded initiative backed by China. Initially planned with a total investment of VND 8,769 billion, the project's cost escalated to VND 18,002 billion, an increase of over 205% after multiple adjustments. Additionally, the project was delayed by nearly 10 years, leading to significant financial waste and eroding public confidence in the management of ODA-funded initiatives.

Beyond the transportation sector, many other ODA-funded projects have also experienced cost overruns and delays due to poor management. The Ho Chi Minh City Water Environment Improvement Project (Phase 2), initially planned with a total investment of VND 11,281 billion, has now surged to nearly VND 25,000 billion due to unforeseen issues during implementation. These prolonged delays not only escalate costs but also diminish the socio-economic impact of the project, as residents are unable to access essential infrastructure services as originally planned.

Beyond management capacity, poor coordination among stakeholders is another key factor behind low ODA investment efficiency. With the involvement of government agencies, international donors, consultants, and local contractors, a lack of consensus and weak collaboration complicate project execution. For instance, many projects face land clearance obstacles due to disagreements between local authorities and residents, causing construction delays and increasing compensation costs.

A particularly serious issue that cannot be overlooked is corruption and wastefulness in ODA fund management, which undermines investment efficiency and imposes a financial burden on the state. Some projects have been criticized for misuse or misallocation of funds, resulting in investments that fail to deliver real benefits.

Additionally, several completed projects have exhibited serious quality issues, requiring frequent repairs and modifications. This not only wastes public resources but also reduces the long-term value and effectiveness of the projects, further straining the national budget.

2.3. Dependence on ODA

Over the past three decades, Vietnam has received substantial ODA funding from

international financial institutions such as the World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Japan International Cooperation Agency (JICA), and various bilateral partners. Between 1993 and 2019, Vietnam secured approximately \$90 billion in committed ODA, enabling the implementation of numerous key projects in transportation, energy, urbanization, education, and healthcare. As a result, major infrastructure developments, including the North-South Expressway, hydropower plants, clean water supply networks, and educational quality improvement programs, have been successfully deployed.

However, prolonged reliance on ODA has weakened Vietnam's financial independence, making the economy overly dependent on foreign loans and reducing its autonomy in development planning. As ODA loans reach their repayment period, financial pressure has significantly increased, especially as interest rates on these loans have risen due to Vietnam's transition to a middle-income country.

Before 2010, Vietnam benefited from low-interest ODA loans, with rates ranging from 0.5% to 2% per year, grace periods of 10-15 years, and repayment terms extending up to 30-40 years. This allowed the country to implement large-scale projects without short-term budgetary strain. However, after graduating from the low-income country category in 2010 and attaining lower-middle-income status, Vietnam began facing less concessional borrowing terms.

Currently, many ODA loans have shifted to preferential loan structures with interest rates between 3% and 6% per year, shorter grace periods, and faster repayment schedules. This exposes Vietnam to greater financial risks, including rising public debt, potential fiscal imbalances, and continued dependence on international donors in shaping economic policies.

Debt repayment pressure continues to intensify as ODA loans reach maturity, especially while Vietnam still requires substantial financial resources for development investment.

Beyond public debt concerns, ODA dependence also undermines Vietnam's economic policy autonomy. Excessive reliance on ODA funding may bind the country to conditions imposed by international donors. ODA loans are not merely financial assistance; they are often tied to institutional reforms, economic policies, financial management

frameworks, and legal adjustments dictated by lending institutions.

Prolonged reliance on ODA can also diminish incentives to mobilize domestic financial resources, including attracting private investment, developing financial markets, and issuing government bonds. Without policies that encourage domestic investment, the economy may lack self-sufficiency, become less sustainable, and remain vulnerable when ODA inflows decline.

3. Solutions to enhance the efficiency of ODA utilization

3.1. Strengthening the management and oversight of ODA projects

ODA has played a crucial role in developing Vietnam's infrastructure, healthcare, education, and institutional reforms.

To achieve this, the legal framework for ODA management must be improved by establishing clear project evaluation criteria to monitor progress, economic and social impact, and capital efficiency.

Strict control over the bidding and contract implementation process is also essential. Ensuring open and transparent bidding processes, preventing direct contractor selection and fraud, closely monitoring contract execution to ensure timely and high-quality completion, and strictly addressing violations in ODA fund management will enhance project accountability and efficiency.

Lastly, independent auditing and supervision must be reinforced. State Audit agencies and international auditing organizations should assess ODA utilization effectiveness, while ensuring that the public and civil society organizations have access to project information to monitor progress and report inefficiencies.

By implementing these comprehensive solutions, Vietnam can enhance ODA utilization efficiency, ensuring that development funding generates lasting positive economic and social impacts for the country.

3.2. Strategic orientation for ODA utilization in priority sectors

The effective utilization of Official Development Assistance (ODA) is a crucial factor in ensuring Vietnam's sustainable development and gradually reducing its dependence on foreign loans. As concessional ODA funds become increasingly limited and borrowing conditions become stricter, Vietnam needs a focused strategy for ODA

utilization, directing funds toward sectors with widespread impact rather than spreading them across too many projects, which leads to resource waste and reduced investment efficiency. The top priority sectors currently include transportation infrastructure, digital transformation, education, and healthcare, as these are key pillars that not only drive economic growth but also improve quality of life and enhance national competitiveness.

Among them, transportation infrastructure plays a pivotal role in connecting economic regions, reducing logistics costs, promoting trade, and attracting investment.

In addition to transportation infrastructure, digital transformation is another key sector that should be prioritized for ODA utilization to enhance the economy's competitiveness in the context of the Fourth Industrial Revolution. Investing in telecommunications infrastructure, expanding the 5G network, and developing e-government will optimize state management efficiency, reduce administrative processing times, and increase transparency in public financial management. The digitalization of administrative data, the application of technology in economic sectors, and support for small and medium-sized enterprises in their digital transformation processes are also essential directions to create a modern digital economic ecosystem, enabling Vietnam to achieve long-term sustainable growth.

Furthermore, education and workforce training are among the key determinants of a country's long-term development. Vietnam should focus ODA resources on highly competitive industries, particularly in advanced technology sectors such as artificial intelligence, data science, and renewable energy, to align with global development trends.

Finally, healthcare and social welfare are critical sectors that must be prioritized to improve the quality of life for citizens, especially in the context of an aging population and the rising risks of global pandemics. Utilizing ODA to invest in healthcare systems, build hospitals, medical centers, strengthen preventive healthcare, and enhance the capacity of medical professionals will significantly improve public health services. Additionally, it is essential to develop a comprehensive health insurance and social welfare system to ensure that all citizens, particularly vulnerable groups, have access to quality healthcare services.

Strategically directing ODA toward these priority sectors will not only maximize the effectiveness of development funds but also create long-term, sustainable economic and social benefits for Vietnam's future growth.

3.3. Promoting private sector participation

As ODA funding becomes increasingly constrained by stricter conditions and Vietnam aims to reduce its dependence on foreign loans, promoting private sector participation in ODA-funded projects through Public-Private Partnership (PPP) models has emerged as a crucial strategy. This approach not only optimizes domestic resources and reduces fiscal pressure on the state budget but also enhances investment efficiency. Private sector involvement in ODA projects mobilizes additional off-budget capital, improves management quality, increases operational efficiency, and introduces innovative methods in project implementation.

However, to attract stronger private sector participation, the government must improve the legal framework and support policies for private enterprises, ensuring transparency and fairness in the bidding and project implementation process. Additionally, facilitating access to ODA funding through preferential loans and credit guarantees is essential to encourage private investment in key projects. Strengthening project management and oversight in PPP initiatives is also crucial to ensure that private partners execute projects effectively and on schedule.

Moreover, establishing a reasonable risk-sharing mechanism is a vital solution to minimize risks for private investors participating in ODA projects. With these comprehensive measures, private sector participation will be significantly enhanced, contributing to more efficient ODA utilization, sustainable development, and improved infrastructure, healthcare, education, and other essential services.

References:

- Báo Đầu tư Online (2025), "Enhancing the Efficiency of ODA Loan Management in Vietnam". <https://baodautu.vn/hang-cao-hieu-qua-quan-ly-hoat-dong-cho-vay-lai-von-oda-tai-viet-nam-d250922.html>
- Hà Nguyễn (2024), "Accelerating ODA Disbursement", Báo Đầu tư Online. <https://baodautu.vn/tang-toc-giai-ngan-von-oda-d211775.html>
- Nguyễn Anh Dũng (2023), "Attracting and Utilizing ODA in Vietnam in the New Context", Tạp chí Tài chính. <https://tapchitaichinh.vn/thu-hut-va-su-dung-von-oda-o-viet-nam-trong-boi-canh-moi.html>
- Nguyễn Đoàn Trang (2021), "Effective Attraction and Utilization of Development Investment Capital for Economic Growth in the 2021-2025 Period", Tạp chí Tài chính. <https://tapchitaichinh.vn/thu-hut-va-su-dung-co-hieu-qua-cac-nguon-von-dau-tu-phat-trien-kinh-te-giai-dao-2021-2025.html>