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## **Research on ODA from Japan, its benefits as well as its impacts on Vietnam's economy in the current development stage**

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### **ABSTRACT**

Looking back on the past, we can see that our country has achieved many wonderful things. The average annual growth rate of GDP has exceeded 7%, and people's lives have improved. Not only the economic aspect but also the socio-cultural aspect and the medical aspect have been improved. Relations with the countries of the world have also expanded. In addition to the effective use of domestic resources, foreign assistance also needs to play an important role in achieving these achievements. It is the Official Development Assistance (ODA) of each country, especially ODA from Japan. ODA is a really important fund for national development. ODA not only comes into contact with the results of modern science and technology but is also useful for human resource development and adjustment of economic composition. However, ODA involves not only lending but also political and economic constraints. If you do not know how to manage and use ODA, it may be a burden to the next generation of debt or subject to foreign control. This paper clarifies the impact of Japanese ODA on the Vietnamese economy. Or, issue problems that remain in the implementation of ODA and how to improve them.

**Keywords:** Development, Economy, Japan, ODA

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### **Introduction**

#### *Definition of ODA*

Official Development Assistance "Official Development Assistance", also known as "Official Development Assistance," means that developed countries provide financial assistance or technology for the purpose of improving the economic development and welfare of developing countries (Isobe et al, 2011).

Official Development Assistance (ODA) is government grant-in-aid for aid and loan assistance (long-term loans, low interest rates, long-term grace periods). Organizations of the United Nations system, non-governmental organizations, are so-called foreign aid partners.

It is called aid because the money is not only a low interest rate loan (sometimes free money), but also a long repayment period (20-40 years) and a long grace period (8-10 years).

It is called development because it aims to improve the economic development and welfare of developing countries. ODA funds are used not only for the development of social infrastructure (infrastructure) such as roads and bridges, but also for the operation of schools and hospitals. ODA from Japan will be provided mainly to Asian countries such as Indonesia, China, Vietnam and India (Furuta, 2000).

#### *Features of ODA*

As stated in the definition, ODA (Official Development Assistance) is Grant-in-Aid for Grants, Loan Assistance, and Loan Assistance. Therefore, ODA has the following characteristics. ODA is an international transaction, indicating that the two parties involved in this transaction are not of the same nationality. Donors are usually developed or non-governmental organizations. Recipients are usually developing countries or countries that have difficulty addressing social, economic and environmental issues. ODA has a long loan period (long capital repayment) and a long grace period. For example, the ODA repayment period of the World Bank, ADB, and JBIC is 40 years, and the grace period is 10 years.

Normally, ODA has an element of grant-in-aid for aid, which is the distinction between aid and commercial lending. Donor components are not determined on the basis of loan terms, grace periods and comparisons between aid rates and commercial credit rates.

Incentives indicate that ODA is intended only for developing and least developed countries for development purposes. There are two most basic conditions for developing and least developed countries to receive ODA.

The lower the country's per capita GDP, the higher the proportion of ODA grant-in-aid, the higher the ability to borrow at low interest rates, and the longer the period of concessions.

The second condition must be compatible with the priority policies and orientations in which the purpose of use of ODA in each country is considered in relation to the relationship between the grantor and recipient of ODA. ODA providers typically have their own policies and priorities, focusing on areas of interest and technical and advisory capabilities. At the same time, the priorities of ODA providers may change from time to time. Therefore, it is very necessary to understand the priorities and potential trends of countries and ODA providers.

In essence, ODA is a refund or grant-in-aid for aid transfer under certain conditions that is part of Gross National Product from developed to developing countries. So, ODA is very socially sensitive and is influenced by the public opinion of the donor and recipient countries.

ODA may be (partially or non-bindingly) binding on the destination country. In addition, there are other restrictions on the countries that provide aid, and these restrictions can be very close to the recipient country. For example, Japan stipulates that Japanese ODA will be implemented in Japanese yen (Furuta, 2000).

There are political factors in ODA capital. Donors generally remember to benefit both by influencing politics, exporting goods and providing consulting services to beneficiaries. For example, Belgium, Germany and Denmark require about 50% assistance to purchase their own goods and services, Canada needs up to 65%, and generally 22% of DAC aid is goods and services from donor countries. Must be used to purchase.

Since aid, aid has always included two goals that coexist in parallel. The first goal is to promote sustainable growth and reduce poverty in developing countries. What is the motivation for donors to set this goal? Developed countries themselves see the benefits of helping and supporting developing countries to expand their product consumption and investment markets. As aid grows in poor countries' economies, donors will benefit in terms of security, economics and politics, as aid is often tied to economic conditions in the long run. This personal goal is combined with a humane spirit and community. Many global issues, such as the explosion of the world's population, habitat protection, gender equality, disease prevention, and the resolution of ethnic and religious conflicts, involve the cooperation of the international community, whether rich or poor. I need it. The second purpose is to strengthen the political status of the donor country. Developed countries are using ODA as a political tool. Determine the location and influence of the country or region that received the ODA. Japan, for example, is now the world's leading donor and is politically and economically versatile in ODA (Isobe et al, 2011).

### ***Status of ODA in Vietnam***

Since 1986, Vietnam's economy has grown exponentially from one of the least developed countries (poor countries) to a low-income country in 2009, with a per capita GDP index of US \$ 130 / each. It went up from US \$ 1100 / person.

During that period, most of ODA was spent on infrastructure development for economic restructuring through the application of modern production methods. Specifically, between 1993 and 2012, 56.3% of ODA was allocated to infrastructure development in the areas of transportation, telecommunications, energy and industry (Furuta, 2000).

In 2009, Vietnam had 51 donors, of which 28 were bilateral donors and 23 were multilateral donors. The World Bank (WB) and the Asian Development Bank (ADB) are the largest multilateral donors, funding US \$ 20.1 billion and US \$ 14.23 billion, respectively, from 1993 to 2012. Was. However, bilateral donors contributed up to 60% of total ODA to Vietnam. From 2000 to 2016, Japan was the largest ODA donor to Vietnam, totaling US \$ 15.05 billion. South Korea reached \$ 1.5 billion second, followed by the United States and the Netherlands, providing a total of \$ 996 million and \$ 474 million, respectively.

This is beneficial to the Vietnamese people. Specifically, from 2011 to 2015, ODA disbursement and preferential lending accounted for only about 3% of GDP, but up to 8.6% of the total investment in society as a whole, totaling from the national budget. It contributed 47,37% of the investment (Araki, 2007).

Over the last two decades, Vietnam has improved its ability to implement ODA. Previously, foreign donors promised and signed aid, but that was not done. For example, between 2001 and 2005, Vietnam was promised US \$ 444.44 billion in aid, but only US \$ 7.887.7 billion was implemented. However, between 2011 and 2015, the execution level improved significantly, with a commitment of US \$ 2.778 billion and US \$ 2.232 billion.

As of 2018, Vietnam has received US \$ 80 billion in ODA, making it one of the most beneficiary countries in the world. Of that amount, US \$ 7 billion is non-refundable aid, and more than US \$ 70 billion is not a 2% interest rate loan or a US \$ 1.62 billion preferred loan. The effectiveness of the project has declined significantly since the 2014-2015 period. The payment rate decreased from 23.1% in 2014 to 11.2%.

In the first few months of 2019, ODA disbursement was only close to VND2 trillion, accounting for 7% of the total allocated capital of more than VND280 billion.

### ***Types of ODA***

There are three main types of ODA. Divide each type into smaller types. Classification by refund method as below:

Grant-in-aid for aid: Foreign donors provide aid, and recipients do not need to return it. However, the beneficiary country must implement the program or project in accordance with both agreements. The sponsor lends at a preferred interest rate and an appropriate repayment period. A loan that combines grant-in-aid for ODA and part of trade credit in accordance with the Ordinance of the Organization for Economic Co-operation and Development. Some even combine the above three types. ODA provides to support the government budget. Usually done through forms: direct currency remittances and aids to ODA recipient countries. Similar to aid, but with constraints. For example, ODA donors require recipients to use most of their aid to purchase goods from suppliers. The donor and recipient countries sign the agreement for general purposes without specifying exactly how to use the aid. Occupies the largest percentage of total ODA implemented capital. The conditions for receiving project support are that the details of the items for using ODA and the specific project must be available.

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## Methodology

The paper is completed by using information from the internet, books, magazines and newspapers, the knowledge related to our research theme, then it is analyzed carefully.

## Results and discussion

Since the introduction of the Doi Moi policy in 1986, Vietnam has been promoting national modernization projects based on the integration of the market economy with the international community. However, the domestic socio-economic situation still faces many difficulties. Most of the areas to be improved are basic social services such as national education, medical care, transportation and infrastructure development such as electricity. In November 1992, Japan resumed ODA to Vietnam before other countries with the aim of supporting Vietnam. Since 1993, following Japan, the World Bank, Asian Development Bank and other developed countries have begun to provide assistance to Vietnam (Yennie Lindgren, 2021).

Since Japan resumed Official Development Assistance (ODA) to Vietnam in 1992, the Government of Japan has been actively improving human resources education, policies and institutions through technical cooperation with the aim of donating to Vietnam's economic and social development. We have provided support and implemented infrastructure development for transportation and power supply through financial cooperation (yen loan and grant-in-aid for aid).

Other than the start of ODA provision, a distinguishing feature of Japan's ODA is the close relationship between technical cooperation and financial support to ensure comprehensive and sustainable cooperation for the project.

In February 2016, the Government of Japan signed a promise to provide the Government of Vietnam with the first phase of ODA of 95,167 billion yen. The purpose of this loan is to help the Vietnamese government develop socio-economic infrastructure and create favorable conditions for Vietnam to attract foreign investment and international economic integration. Specifically, this ODA loan will help the Vietnamese government implement the following four programs and projects. It is a north-south highway construction project, Danang-Quang Ngai section (¥ 3 billion). Haiphong International Gateway Port, Lach Huyen Port, Port Infrastructure (¥ 3,228.7 billion), Bridge and Road (¥ 2,288.8 billion) infrastructure construction project, VI Cycle climate change support program (¥ 1 billion).

Calculated from 2012 to 2016, the fiscal year of Japan for the past five years, Japan has an average of 16 billion yen in yen loans, 230 million yen in grant-aid for grants, and 870 million yen in technical cooperation. Assisted Vietnam (Araki, 2007).

Currently, Japan is the largest partner in providing ODA loans to Vietnam.

As of June 30, 2018, the total amount of borrowings from Japan was approximately US \$ 2.376 billion, accounting for 26.5% of the total foreign borrowed capital of the government. The balance of loans from Japan is approximately US \$ 14.64 billion, accounting for 30.35% of the government's foreign debt. On average, in recent years Vietnam has signed US \$ 150-170 million annual Japanese loans, accounting for about 37% of the government's total annual foreign loan agreements.

From October 1, 2017, the Japanese government lowered the preferential interest rate of the Vietnamese government and raised the lending rate. Specifically, normal interest rates have risen from 1.2% to 1.5%. Preferred interest rates applicable to loans in the areas of human resources development, health education, vocational training, the environment and climate change have increased from 0.3% / year to 1% / year (Kuong, 2018).

Loan benefits are declining, but the Japanese side has put forth strict lending conditions. In addition, while examining the loan conditions, the Japanese side created regulations to increase the cost of the project and the scale of the loan, and also issued regulations on salaries for international and domestic consulting, depreciation, etc. (Yennie Lindgren, 2021).

The salary required by the Japanese side, without including allowances, to estimate Japan's 2018 loan project is approximately US \$ 30,000 / month / person (+ -10%). This is 20% to 25% higher than the average salary of foreign consulting on ODA projects and the average salary of consulting on government preferential loan projects, which is double the average income of Japanese working in Vietnam in 2016.

Vietnam is currently one of Japan's largest borrowers, along with India and Indonesia.

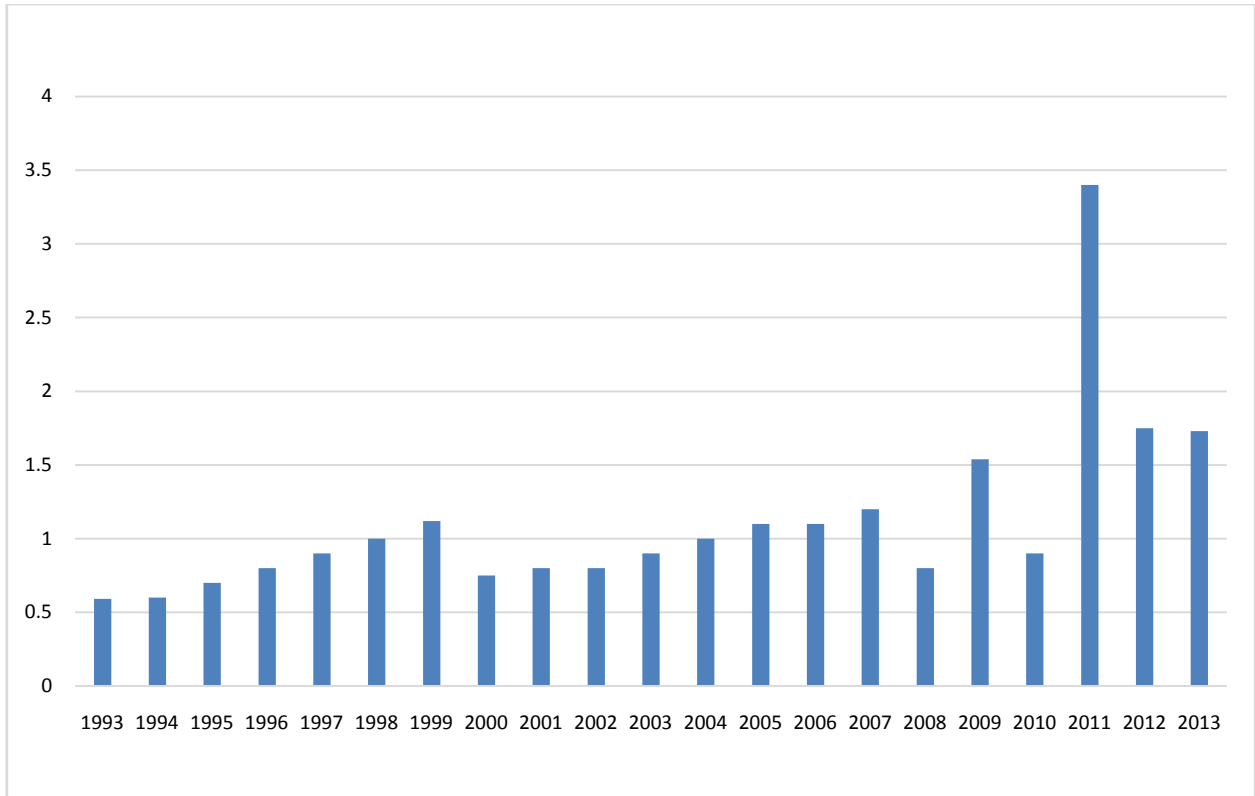


Figure 1: Japan's ODA investment in Vietnam over 20 years

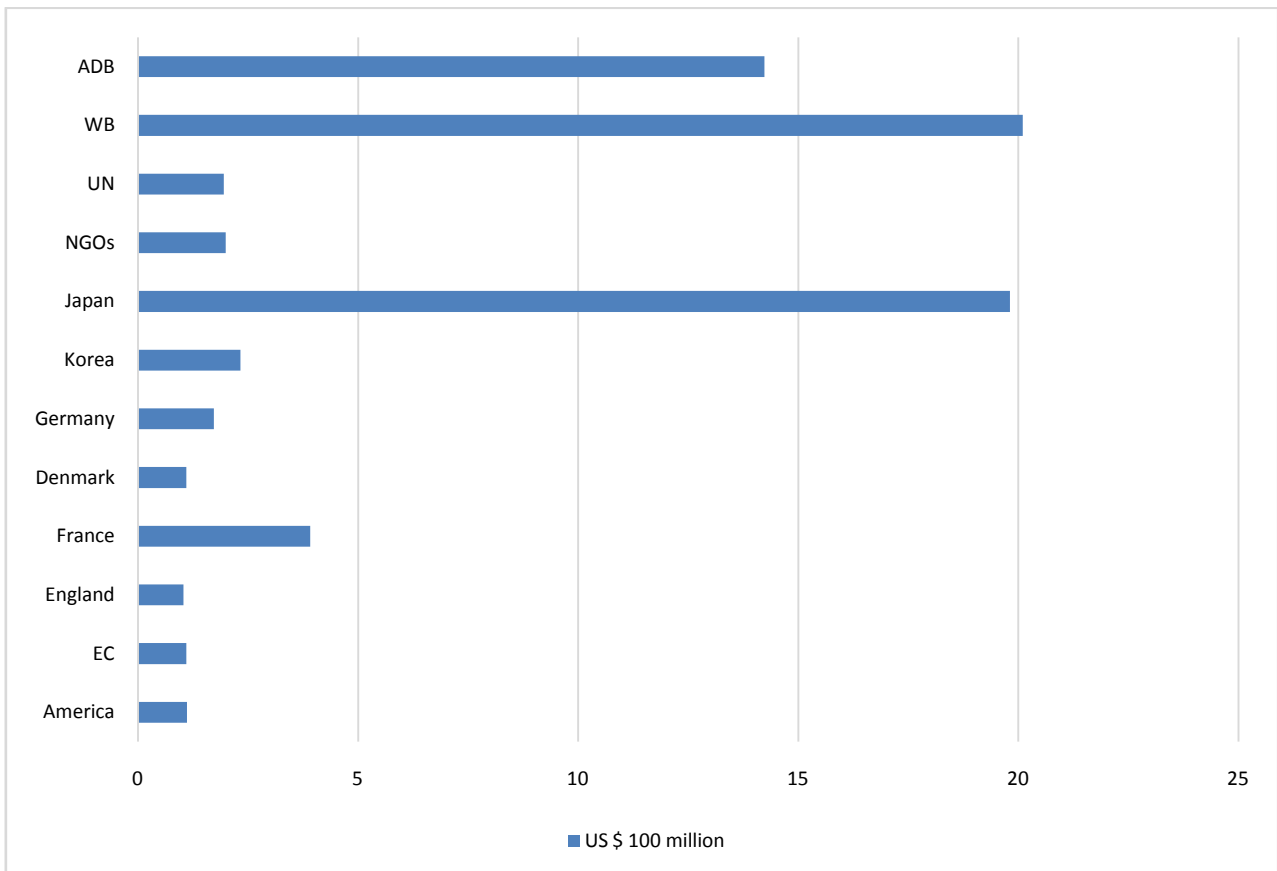


Figure 2: 1993-2013 Donor ODA Commitment (Unit: US \$)

Looking at the chart, the ratio of Japan's ODA to Vietnam's ODA has always been the highest in the 20 years from 1993 to 2013, and in 2011 it

accounted for 50% of the total ODA to Vietnam. In figure 1, Japan's increase in ODA capital to Vietnam represents a very rapid growth from US \$ 5.99 trillion (1993) to US \$ 1.12 billion (1999). This is the best year in almost 10 years (1993-2000). It is important to note that the negative impact of the East Asian economic crisis (1997-1998) has forced Japan to readjust its ODA capital sources, gradually reducing its supply to regional countries. But for Vietnam, this reduction is the smallest of many other countries. The period from 1997 to 1999 was the period when Vietnam received the largest amount of ODA from Japan (until 1999). This proves that Vietnam occupies an important position in Japan's ODA policy. In 2000, the Japanese side implemented a policy to reduce 10% of ODA to general countries, so the ODA from Japan to Vietnam decreased sharply. However, since then, Japan's ODA has been on the rise again, reaching US \$ 1,537.6 billion in 2009. From 2010 to 2013, Japan's ODA to Vietnam remained at the highest and highest levels in 2011. Investment from Japan to Vietnam has increased since 1993, except for those who received it, due to the effects of the Asian currency crisis of 1998 and the Lehman shock of 2008. It is the top position in other countries (Yennie Lindgren, 2021). If you look at the news, you probably don't often see the word "JICA" along with ODA. In fact, JICA is an abbreviation for "Japan International Cooperation Agency", and the official name in Japanese is "Japan International Cooperation Agency". Established in 2003, it is an independent administrative agency under the jurisdiction of the Ministry of Foreign Affairs.

As an ODA implementing agency, it is responsible for investigating and analyzing issues in the target countries and regions, planning and managing projects, securing and dispatching human resources who will actually carry out activities in the field. There is.

In 2008, in addition to the technical cooperation projects that have been undertaken so far, the "Grant-in-Aid for Grants" that was undertaken by the Ministry of Foreign Affairs and the "Loan Aid" that was undertaken by JBIC (Japan Bank for International Cooperation) will be integrated. It became an organization that undertakes almost all the work related to ODA. Activities such as the "Japan Disaster Relief Team", which is carried out when a large-scale disaster occurs in a developing country, and the "Japan Overseas Cooperation Volunteers", which dispatches many volunteers overseas, are also famous. The project achieved higher results than other countries (India, Indonesia, Philippines, Sri Lanka, etc.). Mr. Tetsuo Konaka of the Japan International Cooperation Agency (JICA) said that Japan's ODA was allocated to all major areas, paving the way for Vietnam's development in these areas. Large-scale infrastructure (electricity, transportation, ports), urban and rural infrastructure, education, healthcare, environmental protection, etc. Specifically, a typical transportation project using Japanese ODA loans with regional characteristics such as the upgrade of Noi Bai International Airport will increase the number of passengers from 3.6 million (2010) to 8.9 million / year (2017). Year increased. Hanoi Ring Road 3, including Tantry Bridge, Lach Huen Port will shorten the travel time on this route, equivalent to VND35.784 billion / year in 2017. Infrastructure plays an important role in the development of the country. Vietnam's infrastructure is still considered to be backward, small, rudimentary and unevenly distributed. Therefore, prioritizing infrastructure development is one of Japan's long-term economic development plans. Infrastructure development has a positive impact on poverty reduction and economic development, stimulates domestic investment and attracts foreign investment. Therefore, the Government of Japan has always supported the role of infrastructure in the development of our country. The Japanese ambassador said infrastructure development remains one of Vietnam's major priorities. In the first phase of 2011, Japan's ODA reached VND581.8 billion and Vietnam's two important transportation projects, the HCM-Long Thanh-Dau Giay Expressway Project (total investment up to US \$ 932.4 million, Japan) And the Asian Development Bank ADB ODA) and the Danang-Kuangai Expressway Construction Project (total investment is US \$ 1,472 million including Japan's ODA, World Bank WB and Vietnam Government). In the first six months of 2013, these funds focused on infrastructure development of more than US \$ 1.4 billion, accounting for 37.37% of three large projects totaling more than US \$ 550 million, including construction. Terminal T2 at Noi Bai Airport, expansion of Danim Hydropower Plant, construction of Maiditch-Nam Thanh Long Viaduct on Ring Road 3 in Hanoi. In Phase 2 of 2013, Japan continued to spend \$1 billion (Arase, 1994).

In the energy sector, JICA aims to help Vietnam to meet increasing energy demand. Most recently, the project to expand the Danin hydropower plant was completed through JICA with a total investment of over VND1.952 trillion at the end of 2018.

For the health sector, hospital construction and upgrade projects: Bachmai, Chorei, Central Hue. POLYVAC's vaccine plant construction project is actively contributing to improving the quality of people's health examinations and treatments.

Agriculture is a very important area for Vietnam's economy. Japan has also paid great attention to the development of Vietnam's agriculture, forestry and fishing. To date, Japan has funded the industry on seven projects totaling US \$ 1.3 billion. Of these, 60 projects are technical assistance, grants, emergency assistance totaling more than US \$ 300 million and 10 major financing projects in the irrigation and forestry sector of nearly US \$ 1 billion.

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## Recommendation

Since 2010, Vietnam has officially become a middle-income country. This is a good sign for the economy. However, along with this, the ODA capital provided by governmental and non-governmental organizations aimed at promoting the development of economic and social welfare in developing countries is no longer abundant. Vietnam has the advantages of lower interest rates than commercial interest rates, longer lending and grace periods, and grant aid occupying 25%, so Vietnam has the advantages of infrastructure development, introduction of scientific and technical achievements, and human resource development. We always consider ODA as an important source of funding. Make sure that ODA reductions put a lot of pressure on national budgets and development projects. However, it is not without positive things.

In poor developing countries such as Vietnam, ODA mainly invests in major projects and diseases such as infrastructure, roads, energy and industrial facilities. The fact that donors are declining and aid is suspended can affect the progress of construction and limit the development investment capital of the host country. Growth rate and competitiveness are also affected. Especially in Vietnam, the development process is not yet stable and solid, despite being out of poverty. The country is still in the process of industrialization and modernization, people's lives have just improved, and the infrastructure is still rudimentary. Therefore, the role of ODA is very important in providing potential resources to the economy. It is estimated that the source of infrastructure investment is 40% of total ODA. The difficult question is how to continue investing in development when this aid is reduced. This is a big challenge for Vietnamese managers.

Vietnam faces increasing debt repayment pressure due to the fact that aid sources are at a disadvantage, interest rates are rising, lending conditions are declining and the situation is increasing. According to information from the Ministry of Finance, the average national budget pays about US \$ 1 billion in ODA debt each year, with the most paid in 2022-2025. This is an important issue in the context of Vietnam's relatively weak public financial industry, including relatively high and continuously increasing public debt. Specifically, the current budget deficit has been going on for many years. The state's budget deficit in 2017 was about 174.3 trillion dong, equivalent to 3.48% of GDP. Although still lower than the National Assembly's approval of 3.5% of GDP, the ongoing budget deficit of the state makes it difficult to reduce government spending to meet debt repayment needs. Raising taxes and fees to increase revenues or borrowing new ones to repay old debt is not a long-term measure, especially if Vietnam's financial markets are still relatively young and not fully developed. Also, Vietnam's foreign exchange reserves are limited to comparisons, so ODA reductions will partially cause foreign currency shortages. The scale of local currency and government debt has also increased.

From April 2019 to September 2019, he did not sign a new loan agreement. According to JICA, from April 2019 to September 2019, 28 ODA loan projects have been implemented by this institution in Vietnam, and no new loan agreement will be signed. At the end of 2008, the two countries took steps such as setting up a hotline, disclosing bid information, inviting third-party bid evaluations, and overseeing and overseeing the bidding process. Of the anti-corruption measures described in the report of the Vietnam-Japan Joint Committee, the supervising unit and JICA will supervise in cooperation with the Government of Japan. The loan agreement signed this time comes from the anti-corruption measures committed and widely announced by both countries. I hope there will never be a negative situation again. In the future, Japan will work closely with Vietnam to fully implement these measures (Hien, 2008).

The Japan-Vietnam Joint Committee established a third intermediary to supervise and consider bids, but belonged to the Ministry of Planning and Investment of Vietnam. In construction, the Vietnamese executing agency organizes bids and there are third parties participating in the monitoring to increase the transparency of the bid evaluation process. This third party must be a unit with a high degree of expertise in bidding mechanisms and institutions for fulfilling international bidding contracts. The Bid Support Center of the Ministry of Planning and Investment is a very important third party for bid evaluation. JICA monitors the implementation method and effectiveness and proposes a solution if there is a solution in Vietnam.

Work needs to be completed in order to improve the progress of payments. So far, the preparatory process has been found to include site clearance, resettlement and postpaid construction procedures that take longer than expected. Many projects have been completed in the 15 years that Vietnam has implemented ODA projects. However, projects in big cities in Vietnam such as Hanoi and Ho Chi Minh City generally have more difficulties and feel that progress is relatively slow. Therefore, JICA proposed that the Ministry of Construction and Transport needs assistance to accelerate the progress of spending more quickly (Trinidad, 2007).

In April 2009, JICA established a contact to receive information and reports on fraud and corruption related to ODA projects. The Ministry of Foreign Affairs (including overseas embassies) has the same contact information, but JICA responded positively from the beginning according to information on fraud and corruption. This connection, initially, the function of this contact was limited to receiving information. However, due to increased demand, the contacts have been renamed to the Anti-Corruption Advisory Division and have begun to provide advice to companies facing the requirements, which is an unjustified allegation of fraud and suspicion of corruption.

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## Conclusion

In on word, it is essential to establish an independent government agency responsible for ODA management. This agency is directly and fully responsible for the management and use of ODA. This agency works with other central ministries and local People's Committees to implement the principles of centralized management in the implementation of certain projects. Organizations are responsible for this budget shortage, as the nature of corruption is not personally identifiable. All relevant organizations need to be coordinated in order to effectively and rationally attract and implement ODA. Governments need to set up special management systems to avoid creating gaps that are easily exploited for corruption purposes.

## Ethical clearance

We are ensuring the quality and integrity of our research. The ideas and opinions expressed in this paper are our effort. By writing this, we surely respect the confidentiality and anonymity of our research respondents since they participated in our study voluntarily.

## Conflict of interest

No conflicts of interest is noted.

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