Abstract

Based on the “ABC” approach targeted to assess all available sources of financing (official development finance, private investment, domestic resources, and remittances), the Viet Nam country pilot study explores the challenges of transition finance in a middle-income country in the Asia-Pacific region. After launching a series of successful reforms beginning in the late 1980s, Viet Nam has undergone an impressive transformation, which turned the country from a centrally planned to a market-oriented economy and from a low-income to a lower middle-income country. At the same time, Viet Nam is moving from a relatively high reliance on ODA and other external sources towards non-concessional sources and domestic sources. Through evolving partnerships, development partners can align their support with newly arising needs, actively supporting Viet Nam overcome the middle-income trap and move towards a trajectory for more sustainable development.
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### Abbreviations and acronyms

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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AEOI</td>
<td>Automatic exchange of financial information in tax matters</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>CPTTP</td>
<td>Comprehensive and Progressive Agreement for Trans-Pacific Partnership</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DRM</td>
<td>Domestic resource mobilisation</td>
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<td>EU</td>
<td>European Union</td>
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<td>EVFTA</td>
<td>EU-Vietnam Free Trade Agreement</td>
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<td>EVN</td>
<td>Electricity Viet Nam</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GNI</td>
<td>Gross national income</td>
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<td>GIZ</td>
<td>Gesellschaft für Internationale Zusammenarbeit</td>
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<td>GVC</td>
<td>Global value chain</td>
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<td>ICT</td>
<td>Information communication technology</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JICA</td>
<td>Japan International Cooperation Agency</td>
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<td>KEXIM</td>
<td>Korea Export-Import Bank</td>
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<td>KFW</td>
<td>Kreditanstalt für Wiederaufbau</td>
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<td>LMIC</td>
<td>Lower middle-income country</td>
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<tr>
<td>MOLISA</td>
<td>Ministry of Labour, Invalids and Social Affairs</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>MPI</td>
<td>Ministry of Planning and Investment</td>
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<td>MPSIR</td>
<td>Master Plan for the Social Insurance Reform</td>
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<td>MSME</td>
<td>Micro, small and medium enterprises</td>
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<td>ODA</td>
<td>Official development assistance</td>
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<td>OOF</td>
<td>Other official flows</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PFM</td>
<td>Public financial management</td>
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<td>PISA</td>
<td>Programme for International Student Assessment</td>
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<td>PPP</td>
<td>Public private partnerships</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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<td>SECO</td>
<td>Swiss State Secretariat for Economic Affairs</td>
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<td>SEDP</td>
<td>Socio-Economic Development Plan</td>
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<td>SME</td>
<td>Small and medium enterprises</td>
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<td>SOE</td>
<td>State-owned enterprise</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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Executive summary

After launching a series of successful reforms beginning in the late 1980s, Viet Nam has undergone an impressive transformation, which turned the country from a centrally planned to a market-oriented economy and from a low-income to a lower middle-income country.

- The country achieved one of the highest growth rates in the world, averaging close to 7% in the period from 1990 to 2017. (World Bank, 2019[1])
- Poverty rates, as measured by the poverty headcount ratio at 1.9 USD per day, have dropped drastically from 38.6% in the early 2000s to 2% in 2016. (World Bank, 2019[1])

However, thirty years after opening its economy to international trade and investment, the country is facing important choices, which will determine its future path.

- The high-performing foreign direct investment (FDI) sector stands in stark contrast with the domestic private sector, which largely consists of household enterprises, often operating informally and at low productivity levels.
- This dual structure of the economy can give rise to inequalities and can slow down economic growth in the long term.
- While Viet Nam is highly vulnerable to climate change, demand for energy keeps rising. Viet Nam is likely to become one of the major emission emitters in the world.

Critical policy choices have to be made today for Viet Nam to move towards a trajectory for more sustainable development while avoiding the middle-income trap. To overcome transition challenges, Viet Nam will need to draw on all sources of financing for sustainable development.

A comparison of Viet Nam’s financing mix with countries at both similar and different development stages reveals:

- Reliance on official development assistance (ODA) has decreased in Viet Nam and has been replaced with more domestic borrowing.
- As a consequence, public debt levels are high compared to its regional peers, but Viet Nam has made significant efforts since 2017 to impose fiscal prudence.
- Commitments to continue cutting trade tariffs could put pressure on public revenues, since the reliance on trade taxes is high.
- The share of private sector investment is relatively low, which may be explained by relatively low levels of regulatory quality.
- Quality aspects of sustainable development such as decent work and environmental sustainability give reason to be concerned.

In tandem with these changes, the relationship between Viet Nam and development partners is evolving as well. Viet Nam’s decreasing appetite for official development finance leads to a decline in development partners’ influence and leverage. This new environment can lead to competition among partners who used to co-operate and co-ordinate effectively in the past.
However, Viet Nam still enjoys access to considerable amounts of official development finance. These funds provide access to soft skills and technical expertise, which can be critically important in supporting Viet Nam’s transition. They should be deployed strategically to target economic, social and environmental vulnerabilities.

In particular, OECD DAC members can support Viet Nam through a combination of measures along three dimensions:

- **1. Co-operative approach - Smarter public spending:** While Viet Nam has made efforts to rein in public debt levels, quality institutions are key to ensuring that scarce public funds are spent effectively and efficiently, and to achieve more with less. Development partners can support the reform of public financial and debt management, while investing in infrastructure that is strategically important in making Viet Nam’s development trajectory more sustainable.

- **2. Competitive approach - Sustainable private investment:** To build a balanced mix of sources to finance sustainable development, Viet Nam will need to strengthen the enabling environment for the private sector. This will also allow for more opportunities for local value creation. Development partners can help to promote financial sector development and support the creation of an enabling legal and regulatory framework for an increased sustainable development footprint of private sector investments.

- **3. Renewed partnerships:** As the focus of Viet Nam’s relations with partner countries is shifting from development towards economic co-operation, development partners can align their support with newly arising needs, actively supporting Viet Nam find its place in the international community. Targeted assistance can be provided to better enable compliance with requirements for structural and administrative reforms imposed by new-generation Free Trade Agreements (FTAs) such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA).
1. Assessing: Where does Viet Nam stand in the transition?

After a series of successful reforms beginning in the late 1980s, Viet Nam has undergone an impressive transformation based on rapid and inclusive growth. Thirty years after opening its economy to international trade and investment, the country is again facing choices that will determine its future development path. The current development model that relies heavily on low-cost labour and relatively weak environmental standards is not sustainable. To maintain its current growth momentum and move towards a more sustainable development trajectory, critical policy choices have to be made today.

- Viet Nam needs to upgrade its position in global value chains and enhance the local value component of its trade activities by better linking the burgeoning FDI sector and the domestic economy.
- Rapid ageing and a large informal sector give rise to social vulnerabilities.
- Greenhouse gas emissions are rising with increased demand for energy. While highly vulnerable to climate change, Viet Nam is likely to become one of the world’s major contributor to it.

Tackling the above challenges to pursue continued sustainable development requires a strategic use of all sources of finance. Such an approach needs to take into account how Viet Nam’s transition is changing the mix of available financing sources as well.

In tandem with its re-classification to middle-income status, the country is moving from a relatively high reliance on official development assistance (ODA)\(^1\) towards less concessional sources (e.g. other official flows, OOF)\(^2\) and domestic sources. The next step is to increase the contribution of private sector resources to sustainable development. This includes addressing the development quality dimension of private finance, which is key to ensuring Viet Nam’s transition towards a sustainable development trajectory.

1.1. Viet Nam faces important policy choices to remain on a sustainable development path

1.1.1 Viet Nam underwent a transition from a centrally planned to a market-based economy while turning from a low-income to a lower middle-income country.

Successful reforms turned Viet Nam from one of the poorest countries to one of the fastest growing economies in the world. Only 30 years ago, Viet Nam was one of the poorest countries in the world. A long and costly war had left the country divided, impoverished and isolated from the rest of the world. In 1986,

\(^1\) Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. It includes grants, "soft" loans with a grant element of at least 25%, and the provision of technical assistance.

\(^2\) Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) criteria. OOF include: grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose.
the Government of Viet Nam launched a series of reforms coined “Doi Moi” (economic rejuvenation) that aimed to steer the country away from a centrally planned to a socialist-oriented market economy.

In the decades that followed, Viet Nam experienced spectacular economic growth.

- The country achieved one of the highest real growth rates in the world, averaging close to 7% in the period from 1990 to 2017.
- Viet Nam was re-categorised as a lower middle-income country in 2010. The per capita income levels (GDP/GNI per capita) increased more than ten-fold from 210 USD in 1989 to 2 160 USD in 2017 (World Bank, 2019[1]).

Economic growth has not only been rapid but also stable and inclusive, bringing welfare gains for the vast majority of the population. Viet Nam achieved social outcomes typically seen at much higher income levels.

- Poverty rates, as measured by the poverty headcount ratio at 1.9 USD per day, have dropped drastically from almost 38.6% in the early 2000s to 2.0% in 2016. (World Bank, 2019[1])
- The prevalence of undernourishment declined by more than half from 24.3% in 2000 to 10.8% in 2016 (World Bank, 2019[1]).
- Viet Nam performed remarkably well in OECD’s 2015 Programme for International Student Assessment (PISA) survey. Out of all 72 participating countries, it ranked 22nd in overall assessments, and 8th for science (OECD, 2016[2]).

1.1.2 Continued progress towards sustainable development requires policy choices to address economic, social and environmental vulnerabilities.

To avoid the middle-income trap, Viet Nam needs to upgrade its position in global value chains and better link the burgeoning FDI sector to the domestic economy.

Until now, exports and FDI in labour-intensive sectors such as textile manufacturing and ICT were driving forces behind the high growth performance. Going forward, a continuation of the current growth model will be increasingly difficult. Other middle-income countries were at a similar stage of development to Viet Nam when they experienced a slowdown in growth and were held back in the so-called middle-income trap3 (World Bank; Ministry of Planning and Investment of Vietnam, 2016[3])

Despite being integrated into global value chains, the local value added of its trade activities is limited. Viet Nam serves as the final point of assembly, with a large part of supplies and equipment being imported, assembled in Viet Nam and exported again (OECD, forthcoming[4]).

While FDI is concentrated in few export-oriented sectors, the linkages to the domestic economy are weak. With the exception of a handful of emerging domestic conglomerates such as VIN group, the domestic private sector mainly consists of small household enterprises.

State-owned enterprises (SOEs)4 play a large role in the domestic economy accounting for one third of gross domestic product. (OECD, forthcoming[4]) They enjoy preferential access to resources and may also benefit from favourable regulatory frameworks and enforcement. However, they often have low levels of efficiency and productivity. OECD’s Multidimensional Country Review of Viet Nam reveals that investment efficiency of the SOEs has declined in recent years and its gap has widened vis-à-vis the FDI sector.

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3 Several empirical studies suggest that while growth does not stagnate at the middle-income level, economic factors associated with growth differ between middle income and other countries. The ADB shows that variables such as banking/currency crises, government debt as a share of GDP and capital flows beyond FDI become more important for continued economic growth among middle income countries. Avoiding a middle income trap, as a result, requires operationalising a new growth strategy. (ADB, 2017[83])

4 In 2017, the number of SOEs has been estimated at around 700.
SOE reforms (“SOE equitization”) has been a long-standing item on the government's agenda but gained some momentum in 2017 and 2018 (IMF, 2018[5]).

Without adequate measures to extend social protection to the large informal sector, the current development model can give rise to social vulnerabilities

With the majority of the private companies being household enterprises, the share of the informal sector in Viet Nam is substantial. An estimated 78.6% of workers are employed in the informal sector, which is often associated with precarious labour standards (GSO; ILO, 2018[6]).

The size of the informal sector has implications for the social protection system. Viet Nam is ageing at one of the most rapid rates in the world: the share of the population older than 65 years will rise from 6.7% in 2015 to 14.4% in 2035 (World Bank; Ministry of Planning and Investment of Vietnam, 2016[3]). The current social protection system, with a limited coverage, will have to be massively expanded to deal with these demographic pressures.

Although Viet Nam made remarkable progress in expanding primary and secondary education as indicated by the impressive PISA results, the skills level of the labour force is not compatible with labour market demands, which affects overall productivity levels. In 2014, less than one-fifth of Viet Nam’s labour force had technical training and qualifications. (ADB, 2016[7])

What development partners are doing …

- Development partners support the development and reform of Viet Nam’s university and vocational training system. GIZ worked with the Ministry of Labour, Invalids and Social Affairs (MOLISA) and selected training institutions to improve the technical and vocational education and training (TVET) system.
- IDA’s Support for Autonomous Higher Education Project (SAHEP) aims to improve research, teaching and institutional capacity of selected autonomous universities while strengthening the overall higher education system.
- Other partners (e.g. Japan, Korea, United States) support the establishment and development of specific higher education institutions directly and/or extend scholarships for Vietnamese students to study in DAC member countries.

Viet Nam is among the most vulnerable countries to climate change, and the country’s rapid urbanisation and economic development put pressures on natural resources and the environment.

Due to its long coastal line and the low-lying river deltas, Viet Nam is highly vulnerable to climate change-related natural disasters. According to the Global Climate Risk Index 2019, Viet Nam is among the ten countries most affected by climate change. (Eckstein, Hutfils and Winges, 2018[8]) The country is experiencing increases in temperature, sea level rise, intensifying storms, and more frequent floods and droughts, causing loss of life and damage to the economy.

As Viet Nam’s economic growth patterns and technologies are not energy efficient, it risks becoming one of the world’s major greenhouse gas emitters. The emission growth is one of the highest in the world. Projections show a fourfold increase of the total net emissions between 2010 and 2030 (UNDP, 2018[9]).

Having fully utilised its hydropower potential, the country is tempted to resort to fossil fuel energy. According to the government’s current National Power Development Plan, electricity generated from coal will rise five-fold until 2030 (Decision No. 428/QD-TTg).
Tackling the above challenges to pursue continued sustainable development requires enormous reforms and policy efforts. But capacities to implement policies remain constrained.

Citizens lack confidence in state institutions, and perceptions of corruption are high. Viet Nam scored 35 points out of 100 on the 2017 Corruption Perceptions Index, ranking 107th out of 180 countries. (Transparency International, 2018[10])

The multi-layered governance structure consisting of the central and local government, and the dual system based on a civilian government on one hand and the communist party on the other complicate the process of policy implementation. As Viet Nam’s multi-layered governance structure slows decision making and policy implementation, it also affects development partnerships, potentially complicating policy reforms.

Slow pace of decision making and policy implementation affects the effectiveness of development partnerships.

1.2 Viet Nam’s socioeconomic transition was accompanied by a change in the development finance mix

1.2.1 The financing mix of the public sector has moved from a reliance on external concessional finance towards domestic sources

Concessional finance plays a significant role in Viet Nam’s sustainable development finance landscape. In 2016-17, Viet Nam was the sixth largest recipient of ODA in the world. ODA commitments amounted to USD 4.3 billion. As of December 2018, Viet Nam’s external government debt consisted mainly of official development finance from development partners. Loans from the World Bank constituted 31.8% of total government debt outstanding, while the Asian Development Bank and Japan accounted for 17.5% and 29.8%, respectively. These resources have played an especially important role in the financing of infrastructure such as transport and energy (Figure 1.1).

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5 This includes concessional and non-concessional loans.
What development partners are doing...

Between 2010 and 2017, infrastructure made up 53% of total ODA. Some notable examples include:

- Japan International Cooperation Agency (JICA) provided a loan of 2.2 USD billion for the construction of Metro line No. 1 in Ho Chi Minh City Urban Railway Project.
- JICA also provided a loan to finance the construction of a second terminal in Hanoi’s Noi Bai International Airport, with the capacity to accommodate 10 million passengers annually.
- Korea Export-Import Bank (KEXIM) and the German Development Bank (KfW) provided USD 200 million and USD 100 million, respectively, to finance the construction of the Hanoi-Haiphong expressway, which links the country’s main port with the capital.

Figure 1.1. ODA to Viet Nam mainly finances infrastructure and production sectors

Official development assistance to Viet Nam by aggregated sector, 2010-2017

Note: Aggregation of specific sector according to methodological note (Table 3.3) constant 2016 USD terms

As Viet Nam continues to grow richer, official development finance (ODA + OOF), is likely to decline both in relative importance and absolute volumes.

Figure 1.2 depicts how ODA, as a share of Viet Nam’s GNI has consistently decreased since 2010. Going forward, ODA will likely decrease even further with the graduation from the International Development Association (IDA) in July 2017 and the Asian Development Bank’s (ADB) Asian Development Fund in January 2019. This is despite the fact that Japan and a number of bilateral partners still provide ODA to Viet Nam, albeit at higher terms than in the past.
Figure 1.2. The years following Viet Nam’s re-classification to LMIC status (2010) saw a decline in the importance of ODA while OOF increased


Moreover, Viet Nam, still has access to less concessional sources of finance from development partners. While they have phased out their ODA assistance, multilateral lenders such as the International Bank for Reconstruction and Development and Asian Development Bank’s Ordinary Capital Resources (OCR) increasingly provide loans at less concessional terms, which take the form of other official flows (OOF).

Behind the decline in official development finance is rather a decreasing demand, as the government is increasingly looking towards alternative sources of finance, especially domestic debt.

Viet Nam is consistently reducing its dependence on foreign loans, and the issuance of domestic government bonds has become a key capital mobilisation channel for economic investment and development. Altogether, this translates to lower demand of ODA from the Viet Nam’s government, which apart from the exit of some development partners, is another driver for the decline in ODA.

Demand for official development finance has decreased, as domestic government bonds and international capital markets obtain increasing relevance.

The size of the local currency bond market has grown from around 5% of GDP in end-2005 to 21% of GDP by end-2018. (ADB, 2019[12]) The borrowing rates are fairly low, with a 4.79% yield for a 10-year bond. As a consequence, the share of domestic debt in total public debt has grown. By the end of 2017, government debt was composed of 60% domestic debt and 40% external debt, compared to 50% and 50% at the end of 2013, respectively (MOF, 2018[13]).
**Figure 1.3. The local currency bond market has expanded greatly**

![Graph showing the expansion of the local currency bond market](https://asianbondsonline.adb.org/data-portal/)


Given increasing concerns around debt levels, the government has embarked on a consolidation programme to increase the fiscal space.

In tandem with the shift in the composition of debt, absolute debt⁶ levels have been rising continuously until recently and reached a peak of 63.7% of GDP in 2016, close to the 65% debt ceiling set by the National Assembly. The government initiated an ambitious fiscal consolidation programme in 2017, to rein in public spending. As a result, public borrowing slowed down in the more recent period from 2016 to 2018. The public debt-to-GDP ratio fell to 61.4% by end-2017 and to 58.4% by end-2018.⁷

As part of the efforts to better control the level of public debt, a new legal framework was created to develop modern debt management functions and strengthen public debt oversight. (Box 1.1) For example, the 2017 Public Debt Management Law tightens the conditions for government guarantees to public entities, while the 2015 State Budget Law imposes debt ceilings for local provinces. New regulations have also been put forward to tightly regulate ODA going to local governments. According to Decree 97, for instance, local governments can only receive ODA for programs and projects included in their five-year financial plans and medium-term public investment plans approved by the People’s Councils, the Central Government and the National Assembly. Different on-lending and allocation rates are applied depending on repayment ability.

However, while necessary and desirable, on-going adjustments to tighten debt management can cause confusion and indecisiveness regarding public investment, which can stifle development in the long-term. In Viet Nam co-ordination around public investment decision involves complex bureaucratic procedures, since budgeting and financing decisions are housed under different ministries (i.e. Ministry of Planning and Investment and Ministry of Finance). As the new legal framework tasks different organisations across different levels of government at the central and local levels with a number of new debt management functions, coordination among them is even more challenging. With the Law on Public Investment under

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⁶ Under Vietnamese legislation, public debt includes government debt, government guarantees, and debts owed by local governments, while debts of the central bank, state-owned enterprises, and other state-run entities without government guarantees are excluded. The public debt figures can be different from the ones referred to later in the text, which are based on IMF (2018[9]) and World Bank (2019[28]).

⁷ According to the IMF Article IV consultation 2019 press release, public debt fell to 55.5% in 2018 (IMF, 2019[80]).
revision and review by the National Assembly, the lack of clear public investment regulations causes uncertainty about how to best contract and use public debt for investments.

Overly rigid processes and requirements may also risk deterring ODA providers that would otherwise still be willing to stay in Viet Nam, thereby expediting the decline in concessional finance.

Overly rigid processes and requirements may also risk deterring ODA providers that would otherwise be willing to provide finance, thereby expediting the decline in concessional resources. In some cases, the on-lending fees added to the interest rates on ODA loans to local governments have a deterring effect on partners funding projects (e.g. social services) with low financial but high development returns.

Box 1.1. Viet Nam’s tough stance on debt: the new Public Debt Management Law


In comparison to the old Public Debt Management Law, the new Law streamlines the public debt management function by vesting it in one ministry, the Ministry of Finance, instead of three agencies (the Ministry of Finance, the Ministry of Planning and Investment and the State Bank) as previously prescribed.

As the focal point assisting the Government in performing the uniform management of public debt, the Ministry of Finance is tasked with the development of mid-term debt management strategies (five-year plans on borrowing and repayment of public debts and three-year public debt management programmes), and annual plans on borrowing and repayment of public debts.

The new Law tightens the conditions for government guarantees to public entities by imposing annual limits on government guaranteed loans, and by specifying and limiting the scope of entities eligible for government guarantees.

The Law also emphasises that heads of related agencies and organisations will take personal responsibility for any public debt mismanagement within their agencies or organisations.

The tax system has been modernised to accompany Viet Nam’s transition. In the 1990s a comprehensive legal framework was introduced to modernise the tax system. Taxes, which had applied differently to the public and private sector, were unified into one integrated system, and standard tax instruments such as value-added tax, corporate and personal income tax were introduced to systematically mobilise domestic resources. As a result, tax revenue became the main revenue source of the national budget. Tax revenue as percentage of GDP rose from 10.5% in 1991 to 14.8% in 2000 and peaked at over 20% in 2012.

However, more recently, the growth in tax revenues is not keeping up with the rapid economic growth of the country. In 2015, tax revenues as a share of GDP were down at 18.2%. (Figure 1.4) Several factors can explain this trend.
First, greater openness and deeper integration into the world economy has resulted in a decline in trade revenues. Viet Nam joined the ASEAN Free Trade Area in 1995, signed a bilateral trade agreement with the United States in 2000, and obtained World Trade Organization (WTO) membership in 2007. During this process, tariff rates were reduced. Average applied tariff rates decreased from 19.2% in 1999 and 15.3% in 2001 to 2.7% in 2017.8

Second, the considerable size of the informal economy in Viet Nam further limits the ability of the government to capture domestic revenues. While the lack of official estimates limits the ability to measure the size of the informal or so-called unobserved economy, it is large and even growing. According to the ILO (2016[15]), the informal economy makes up roughly 79% of the overall labour force. Incentives to formally register household businesses remain limited as benefits from formalisation such as expanded business opportunities do not outweigh costs due to additional tax payments (Tran and La, 2018[16]).

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8 World Development Indicators, (Tariff rate, applied, weighted mean, all products (%); TM.TAX.MRCH.WM.AR.ZS)
What development partners are doing …

- Switzerland provides financing to UNIDO to reform the business registration process, one important element to formalising businesses. The project seeks to simplify the legal framework and expand the use of the National Business Registration System, a single-point and fully computerized system to register businesses, and obtain tax, customs, statistics and seals code.
- The Mekong Business Initiative, an advisory faculty supported by Australia and the ADB, presents evidence on informal household businesses in Viet Nam and derives recommendations for business formalisation.

Third, expansionary tax policies, which took the form of a steady reduction in corporate tax rates from 28% in 2008 to 20% in 2017 (Figure 1.5), and a generous system of tax incentives, further slowed down the growth in tax revenues (OECD, 2018[17]).

Figure 1.5. Corporate tax rates have gradually decreased in Viet Nam and are below the global and regional average

![Graph showing corporate tax rates]


**Domestic resource mobilisation needs strengthening to ensure greater resilience against socio-economic vulnerabilities.**

The downward trend in the tax-to-GDP ratio may counteract government efforts to provide quality social services for inclusive growth and further poverty reduction. In Viet Nam’s 2012 budget, social spending on education, health and social insurance respectively amounted to 19%, 9% and 9% of total spending. In light of demographic pressures and structural imbalances between the FDI sector and the domestic private sector, it is likely that there will be a continued need to address social vulnerabilities.

The modernisation of the social protection system remains a challenge for Viet Nam, and a significant amount of resources will have to be devoted to tackle it. The Vietnamese Social Insurance (VSI), which is funded separately from general taxation, covers about 58% of salaried workers, but total labour force coverage was only at 23% in 2015, mainly due to low voluntary contributions by informal workers (Castel and Pick, 2018[19]). Coverage is particularly low among SME workers and short-term contractors. As pointed out in OECD’s Multidimensional Country Review of Viet Nam, concerns have also been raised over the financial sustainability of the system. (OECD, forthcoming[4]) With the rapid aging of the population...
and a relatively early retirement age, the pension system is projected to move into deficit in the near future (World Bank, 2012[20]).

1.2.2. External private finance in the form of FDI increased dramatically but the development quality of private finance can be enhanced

International trade and investment were important drivers behind Viet Nam’s successful transition. Since launching reforms in the 1980’s and 1990’s, Viet Nam has shown a deep commitment towards international trade and integration. The country signed 13 free trade agreements (FTAs) including with major economies such as China, Japan, and the EU. Among these FTAs are new-generation FTAs such as the EU-Vietnam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which include non-traditional contents such as commitments to legal and institutional reforms.

As a result, Viet Nam’s economy changed from one of the most isolated into one of the most open economies in the world. Viet Nam ranks fifth in the world, with a trade-to-GDP ratio of 200.3% in 2017. Between 2013 and 2017, trade grew at an average of 5.3% compared to -1.6% growth in world trade. (World Bank, 2016[21])

This rise in trade was facilitated by capital deepening in the form of foreign direct investment (FDI), which rose in tandem with trade. (Figure 1.6) From 2000 to 2017, net FDI inflows have increased dramatically from 2.8% of GDP in the early 1990s to 6.9% by 2010. In 2017, FDI in Viet Nam hit a record of USD 14.1 billion, up 12% with respect to the previous year. Most of the FDI originates from Asian states such as Japan, Republic of Korea (“Korea”) and Chinese Taipei.

**Figure 1.6. The dramatic increase in external flows has been largely driven by private flows**

[Graph showing the increase in FDI and exports from 1986 to 2017]

Note: Dashed lines represent linear trend calculated based on the depicted time periods

A look at the sectoral destination of FDI explains this link between export activities and FDI. The predominant part of foreign investment heads to the labour-intensive manufacturing sector. (Figure 1.7) The share of manufacturing in total foreign investment coming to Viet Nam amounted to 44% as of 2017.
Other sectors that have received significant foreign investment were the real estate sector, and more recently, the energy and wholesale/retail sector, a development that reflects the rise in domestic demand and consumption.

**Figure 1.7. FDI is heavily concentrated in the manufacturing sector**

![Share of total FDI inflows, 2017](chart)

Source: OECD calculations based on data from VN General Statistics Office (n.d.[22])

The next step in Viet Nam’s transition is to move up the value chain and enhance FDI spillover effects to the domestic private sector.

Despite the dramatic increase in volumes, FDI does not seem to have acted as a broader catalyst for growth with spillover effects on the domestic private sector - in the form of increased demand for local supplies and the transfer of technology and managerial techniques. The contribution of the domestic private sector to GDP and to exports is low (Hollweg, Smith and Taglioni, 2017[23]).

**Figure 1.8. Foreign-owned companies are behind the rise in exports**

Exports by domestic firms and firms with foreign direct investment

![Exports by domestic firms and firms with foreign direct investment](chart)

Source: OECD calculations based on data from VN General Statistics Office
Moreover, Viet Nam is carrying out the lowest technology step of production, specialising in final production stages for information and communications technology (ICT) hardware, textiles and apparel. The value that Viet Nam adds remains low. Viet Nam’s challenge is to benefit more from global value chains by moving into higher value-added functions. Yet this transition could be hampered by bottlenecks in the domestic economy, such as inadequate skills and infrastructure gaps (Hollweg, Smith and Taglioni, 2017[23]).

**What development partners are doing...**

- Japan supports the establishment of the ‘Hoa Lac Science and Technology City’, providing assistance for basic infrastructure to develop the integrated science and technology centre. The hub is to enhance research and education, and promote investment in science and technology.
- Switzerland, together with GRI, supports Vietnamese SMEs gaining better access to global value chains through improved sustainability reporting ('Competitive Business Program').
- Jointly with ILO, Norway and Switzerland support practical training and workplace improvement to increase the productivity of SMEs while promoting workers’ right ('SCORE' Programme)

Remittances make up the second largest source of external finance

Remittance inflows to Viet Nam reached USD 15 billion in 2017, or 6.6% of GDP, placing the country among the top ten recipients of remittances in the world. (Figure 1.9). Remittances steeply increased in the 2000s due to improvements in overseas remittance services and a change in law in 2015 that permits Vietnamese overseas to buy houses in Viet Nam.

**Figure 1.9. Remittances have grown steadily**

![Remittances have grown steadily](https://data.worldbank.org/indicator)

Note: Personal remittances, received (current USD and as % of GDP).

Remittances sent to Viet Nam are usually used for family support, and have boosted household incomes and private consumption. According to several micro-level studies, remittances have been shown to improve the health and education outcomes of recipient households in Viet Nam (Nguyen and Nguyen, 2015[24]).
While the average cost of sending remittances to Viet Nam have steadily declined from 8.9% in 2011 to 7.6% in 2017, they still lie above the regional average of 6.9% in Asia Pacific and far exceed the SDG target of 3%.\(^9\)

*Development partners can help to enhance the development potential of remittances by supporting financial inclusion.*

The development of a dynamic and inclusive financial sector is key to not only reducing the costs of remittances but also to utilising them to fill investment gaps. The share of the population with access to a banking account remains below the regional average, and weak payment and distribution systems render transfers inefficient. To effectively channel remittances into investments, access to formal financial services must be expanded, for example through the expansion of digital finance.

\(^9\) Based on World Development Indicators: Average transaction cost of sending remittances to a specific country (%) (indicator code SI.RMT.COST.IB.ZS)
2. Benchmarking: How does Viet Nam’s transition finance compare with peers?

The following section compares Viet Nam’s financing with countries at both similar and different development stages in order to understand Viet Nam’s situation within a broader transition context.

For this exercise, three groups of comparator countries have been selected. (Table 3.1) The nine fellow members of the Association of Southeast Asian Nations (ASEAN) serve as regional benchmarking countries, noting that this is a highly heterogeneous group. While Singapore and Brunei Darussalam are high-income countries, Thailand and Malaysia are upper middle-income countries. Even among the LMICs (Indonesia, the Philippines, Lao PDR, Cambodia and Myanmar) there are significant differences in terms of the structure and size of the economy. However, as members of a key regional economic community in Asia, they also have important similarities, such as exposure to a similar geopolitical environment and the importance of trade and investment through integration into global value chains.

The second group of peer countries, consisting of Angola, Plurinational State of Bolivia, India and Sri Lanka, is that of recent IDA graduates who are in a similar stage of transitioning from concessional towards less concessional sources of finance. Finally, a group of peers have been selected based on population size as well as the size and structure of the economy. Most of these countries have a higher income level than Viet Nam, and can be considered aspirational peers. In the case of the People’s Republic of China (“China”) the common experience of transitioning from a centrally planned to a market-oriented economy is of interest.

The benchmarking exercise found that:

- ODA reliance as measured by ODA over public expenditure has declined to a greater extent than in peer countries, after Viet Nam became a middle-income country. However, it has been replaced with more domestic borrowing rather than greater tax intake.
- Public debt levels are relatively high among regional neighbours, but Viet Nam is performing well in comparison to peer countries in a similar transition finance context.
- The share of the private sector in total investment is relatively low, which may be explained by relatively low levels of regulatory quality.
- Although the financial sector is reasonably well developed for the size of Viet Nam’s economy, there is room for improvement, especially in terms of financial inclusion.
- Quality aspects of sustainable development such as decent work and environmental sustainability give reason to be concerned, both in comparison with regional and non-regional peers.

2.1 A well-anticipated shift in public debt management

Country pilots conducted as part of OECD transition finance work have found that a transition from low-income to middle-income country status can entail a decline in official development finance (Kim et al., 2018[25]). In anticipation of this decline, Viet Nam has planned for a smooth substitution of financing sources by gradually moving towards domestic sources of public sector financing. In particular, the size of the domestic bond market has grown remarkably.

While exploring these new domestic sources of debt, the government is taking an anticipatory and prudent approach towards public debt management (see section above). This is noteworthy in light of the fact that
many countries undergoing transition in the financing mix face a problem of ballooning debt levels. (Kim et al., 2018[25]) (Morris, Cattaneo and Poensgen, 2018[26]) However, to further smooth transition, domestic revenues need to grow and public financial management needs to be strengthened.

2.1.1 Viet Nam prepared the shift towards greater reliance on domestic sources by developing the local bond market

Reliance on ODA as a source of finance has been significantly reduced since Viet Nam was re-classified as a lower middle-income country in 2010. ODA amounted to 8.2% of public expenditure in 2016, down from 11.7% in 2010, as shown in Figure 2.1. During the same period, only four out of 18 peer countries also showed a decline in this ratio, and most of them were starting from a much higher reliance on ODA.

Figure 2.1. Reliance on ODA as a way to finance public expenditures has declined compared to other countries


In anticipation of the transition of the financing landscape, Viet Nam has planned for a smooth substitution of financing sources by developing domestic capital markets.

As mentioned in the section above this explains the decreased demand for official development finance. Figure 2.2 shows how the difference in gross government and long-term external public debt has grown significantly between 2010 and 2017. While some other countries such as Lao PDR, Angola and China have experienced a similar transition, for most countries the indicator has not changed much over time or went into the opposite direction (e.g. Turkey, Myanmar).
Figure 2.2. The difference in general government gross debt and external debt has jumped in Viet Nam

General government gross debt minus long-term external public debt stock, % of GDP

Note: The difference in general government gross debt and long-term public external debt is to proxy the importance of domestic debt in general government gross debt. Countries displayed according to data available.

Overall public debt levels are relatively high but decreasing due to recent fiscal consolidation efforts.

With greater access to domestic debt, overall public debt levels are high, compared to the benchmarking countries in our analysis. (Figure 2.3) In 2016, gross government debt amounted to 60% of GDP, which is one of the highest among ASEAN members, with the exception of Singapore. It is also higher than for most aspirational countries.

Figure 2.3. Public debt levels are relatively high

General government gross debt as % of GDP

It is remarkable, though, that Viet Nam’s government debt levels are still lower than for other recent IDA graduates. This suggests that graduation from one form of concessional finance such as IDA, can present a turning point within the transition finance continuum, and is often accompanied by higher public debt levels, as has been seen in other countries explored in the transition finance case studies (Morris, Cattaneo and Poensgen, 2018[26]) (Kim et al., 2018[25]).

Recent fiscal consolidation efforts of the government, including the new legal framework on debt management that has been mentioned above, also reflect this prudent and anticipatory approach to tackling transition finance challenges.

2.1.2 Domestic revenues have yet to pick up

To achieve an even more balanced shift towards reliance on domestic resources, tax revenues need to increase.

Figure 2.4 illustrates how the relative importance of ODA and tax revenues has stayed quite constant as the economy grew, while tax revenues have become considerably more important for countries such as Lao PDR, Cambodia and Bolivia where the ratio of ODA over public expenditure used to be significantly higher. The relative unchanged ratio of ODA over tax revenues in Viet Nam suggests there is quite some potential for tax revenues to increase.

Figure 2.4. The ODA-to-tax ratio has not decreased as steeply as in some other countries

Note: Smoothed (polynomial) fit over data points for each country.

While Viet Nam has a relatively high tax-to-GDP ratio (18%) among ASEAN members (average 14%), it is still lagging behind its aspirational peers (Figure 2.5).

Comparing the structure of tax revenues, the share of trade tariff revenues at 12.6% between 2013 and 2015, is higher than for most peer countries, which may be explained by the high importance of trade to Viet Nam’s economy. As Viet Nam committed to new tariff eliminations as part of the new FTA agreements, tariff revenues are expected to decrease in the future, potentially leading to a further decline in the overall tax-to-GDP if not balanced out by other measures to raise revenues from alternative sources.
After their introduction in the late 1990s, value-added tax (VAT) and corporate income tax (CIT) have become the two central pillars of Viet Nam’s tax system, each accounting for about 30% of tax revenues. But additional revenues can be raised by simplifying the still complex VAT system and reviewing corporate tax incentives. (World Bank, 2017[30]) Moreover, there is scope to raise additional revenues by introducing a full property tax, which is currently divided into a fragmented system of agricultural and non-agricultural tax policies. (World Bank, 2017[30]) There are plans to increase environmental excises such as the taxes on fuel, which can contribute to more domestic resource mobilisation while incentivising environmental protection (Vu, 2018[31]).

Figure 2.5. Viet Nam’s share of trade taxes is still relatively high

Box 2.1. Tax systems among peers and the use of tax incentives to attract investment

Distinct rates, exemptions and specific tax design differentiates tax systems across selected countries, despite showing some commonalities.

Viet Nam’s standard corporate income tax (CIT) rate at 20% mid-ranges between that of peer countries with rates of 17% in Singapore and up to 30% in Angola. The value-added tax (VAT) in Viet Nam is set at a standard rate of 10%, common among most benchmarking countries. Highest VAT rates generally applied are 16% in Mexico and 17% in China. Myanmar, in contrast, applies a 5% turnover tax and Singapore a 7% goods and services tax (GST). Personal income taxes (PIT) are commonly progressive across selected countries with the maximum rate at 35% in Viet Nam, again mid-range compared to 20% in Cambodia and the top rate of 45% in China. Social security contribution varies across countries; the employer contribution in Viet Nam is set at 21.5% based on contracted salary while the employee contributes 10.5%. Likewise, customs duties vary considerably across countries; most countries zero-rate exports in terms of VAT. Commonly, benchmarking countries levy excises on specific goods such as but not limited to tobacco products, gasoline and motor vehicles.

Tax incentives seeking to attract foreign investment are common in ASEAN but may deprive countries of important fiscal revenue from taxing corporations.

ASEAN widely apply fiscal and non-fiscal incentives to strengthen domestic and to attract foreign investment (OECD, 2018[33]). Due to FDI liberalisation, tax incentives are among the remaining tools for policy makers to influence investment decisions. As the tax burden is only one of many factors determining investment decisions, however, it remains unclear whether tax incentives prove effective (OECD, 2018[33]).

In Viet Nam, tax holidays (full income tax exemptions) may be granted for the shortest period among ASEAN of four year, substantially less than the maximum 20 years applicable in Indonesia. With the exception of Brunei Darussalam, all countries target specific regions or industries either via special incentive provisions for less developed regions or additional incentives in special economic zones (OECD, 2018[33]). Targeted incentives for SMEs and supplier engagement have demonstrated to be effective in Malaysia and Singapore.

Corporate income taxes accounted for almost 30% of total tax revenue in Viet Nam between 2013 and 2015 and are even more important in other countries (see Figure 2.5). Tax incentives can thus put strain on fiscal revenue and may negatively influence public spending capacity. OECD (2018[33]) estimates that revenue loss due to incentives corresponds to about 1% of GDP in Viet Nam, similar as in the Philippines but below estimates for Cambodia (6% of GDP).


Development partners can support Viet Nam to achieve a more balanced financing mix by investing more resources in domestic resource mobilisation.

Development partners can increase support for domestic resource mobilisation in Viet Nam. In comparison to peer countries, amounts spent on domestic resource mobilisation on a per capita basis are relatively limited. (Figure 2.8) Viet Nam can benefit greatly from technical assistance to enhance capacities to fight
tax avoidance and evasion including from multinational companies and to assess undue tax incentives (Box 2.2).

**Figure 2.6. Viet Nam receives relatively little support for domestic resource mobilisation**

![Graph showing domestic resource mobilisation](image)

Note: DRM refers to domestic revenue mobilisation and is identified by purpose code 15114, PFM refers to public finance management and is captured by purpose code 15111; purpose codes referring to the source data.

Box 2.2. Viet Nam could benefit more from international tax co-operation

In light of the importance and growth of foreign investment, Viet Nam is benefiting considerably from international tax co-operation. Having received support on transfer pricing and international taxation since 2012, Viet Nam joined the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in 2017 committing to implement the minimum standards to protect its boundaries from aggressive tax planning by multinational enterprises. Viet Nam is now gaining additional access to external support in building tax capacity.

Viet Nam has further committed to joining the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) in 2019, which ensures the implementation of the internationally agreed standards of transparency and exchange of information in the tax area, and the Multilateral Convention on Mutual Administrative Assistance (MAC) at a later stage. Access to these instruments will strengthen Viet Nam’s capacity to tackle tax avoidance and evasion.

However, Viet Nam may face difficulties in meeting the transparency standards to join the instruments in time. This is why international support is critical. Moreover, three of Viet Nam’s preferential tax regimes (including tax benefits for Special Economic Zones, disadvantaged areas and IP benefits) are under review as they present some potentially harmful features. As a result, Viet Nam is currently on the European Union’s grey list of non-cooperative jurisdictions. However, the OECD continues to provide support to Viet Nam to ensure it meets all of its international commitments and amends/abolishes those regimes to make them compliant with the internationally accepted BEPS standards.

2.1.3. Public financial management has room for improvement

Public financial management is more important than ever. The current context of tight debt ceilings necessitates quality investments. Institutions and mechanisms are responsible for the planning and execution of the budget, as well as for the assessment of public investments that are key to ensuring that fiscal prudence does not stifle continued development.

The World Bank’s 2013 Public Expenditure Financial Accountability (PEFA) findings provide a mixed picture of Viet Nam’s public financial management performance (Table 3.2). Compared to peer countries, for which PEFA assessments have been carried out (2011 PEFA framework), Viet Nam is performing relatively well in terms of external budget scrutiny (for example by the legislative branch), as well the availability of fiscal information (e.g. on inter-governmental fiscal relations; the resources received by service delivery units). However, the credibility of the budget is low in comparison with peers, as there is some misalignment between the planned and actual budget. As opposed to strong external scrutiny over the budget, internal control functions are weak.

The PEFA results are already dated and do not take into account recent improvements and reforms in public financial management. Notably, Viet Nam adopted a new State Budget Law in 2015, which has been effective from January 2017, and provides for a medium term view of public finances. Moreover, the implementation of the centralised Treasury and Budget Management Information System (TABMIS), which aims to modernise Viet Nam’s public financial management and increase transparency and accountability, is viewed as a success (World Bank, 2016[52]).

The complexity of the multi-layered fiscal system puts constraint on effective public financial management

Viet Nam has four levels of government, namely the central government, provinces, districts and communes. In the nested budget system (“Matrioska”) of Viet Nam, the lower budgetary level is a
component of the upper budgetary level, which means that the budget of the higher administration level is to ensure the balance for the budget of the lower. (ADB, 2017[53])

This significantly complicates the budget process and poses a challenge to the monitoring and tracking of public expenditure. Budgets of local governments are prepared through a bottom-up process requiring approval by the higher level of government and must be eventually integrated into the single state budget. Co-ordination between the budgeting functions of the Ministry of Planning and Investment and the financing overseen by the Ministry of Finance add another challenge.

Weak capacities, especially at the local level, to assess, prioritise, select and manage projects, make it difficult to ensure high quality and efficient public investment. There is a lack of documented practices, procedures, and criteria to guide project selection processes. Due to weak project preparation, estimates of the work and the funds to implement a project are not accurate. (Jenkins et al., 2017[54]) (World Bank, 2017[30]) Too many projects are approved without sufficient resource allocation, leading to large carry-over of the budget and slow disbursement of committed funds from development partners.

What development partners are doing …

- The EU’s ‘Enhancing Governance in Vietnam’ programme supports the Ministry of Finance (MoF) strengthen its PFM system with interventions including medium-term budgeting, market-oriented debt management, assessing tax policy and risk-based compliance management in revenue administration. It also supports the Ministry of Planning and Investment to improve the transparency of the procurement system and enhance the regulatory environment for doing business.

- The US OTA (Office of Technical Assistance) advisor assists the MoF in designing, implementing and institutionalizing international public sector accounting standards (IPSAS).

2.2 The next challenge: mobilising private sector resources

While Viet Nam has made a very promising start with a gradual shift from a reliance on external towards domestic sources, there needs to be a move from a reliance on public towards private resources to further ensure a smooth transition.

With fiscal consolidation efforts on-going, fiscal space for more investments is constrained. Investment rates have dropped accordingly, from over 35% in the early 2000s to around 27% in recent years. The government is increasingly looking to the private sector to finance investments crucial for continued sustainable development. At the Viet Nam Reform and Development Forum, the annual platform to bring together the government and development partners, private sector development was identified as one of the key drivers for Viet Nam’s further development (Lan, 2018[55])

2.2.1. Private sector investment remains low despite a burgeoning foreign direct investment sector

Although it is growing, private sector investment is not picking up fast enough to compensate for the decline in public sector investments.

Private investment is increasing, from 17.7% of GDP in 2012/13 to 20% in 2015/16. However, gross fixed capital formation as a whole has been declining since 2011. (Figure 2.7) It seems that the increase in private sector investment has not been sufficient overall to cancel out the decline in public investments.
At the same time, the level of national saving rates has stayed relatively stable around a considerable level of about 25%. As a result, gross fixed capital formation, which has previously been higher than domestic savings, is now lagging behind the availability of domestic funds. The gap between the level of savings and investment hints at inefficiencies of the financial sector as an intermediary.

Figure 2.7. Gross fixed capital formation has decreased and is below the level of domestic savings


The share of the private sector in total investment lags behind peer countries.

Although private investment (20% of GDP in 2015/16) is growing and surpasses public investment levels (8% of GDP), its share in total investment is lower than for other countries in our comparison, with the exception of Bolivia, Cambodia and Malaysia. In light of the fact that Viet Nam has been highly successful in attracting FDI over the years, which averaged 6% of GDP, the relative weak performance of private investment is surprising. Removing the FDI component from the private gross capital formation would paint an even less favourable picture.
Figure 2.8. The private sector share in total investment is relatively low

Public and private gross investment, % of GDP

Note: Averages over 2015 and 2016
Source: Most recent IMF Article IV consultations for Cambodia, India, Indonesia, Malaysia, Mexico, Morocco, Philippines, Thailand, Turkey and Viet Nam; World Bank Gross Fixed Capital Formation for China, Korea, Myanmar

What development partners are doing...

- Switzerland, with the International Finance Corporation (IFC) as implementing partner, supports the improvement of Viet Nam’s investment climate via its ‘Multi-Country Investment Climate Program’. The programme is designed to foster private investment by reducing compliance costs for companies and improved competition regulation in Viet Nam.

- USAID’s ‘Governance for Inclusive Growth (GIG)’ programme worked with public and private stakeholders to enhance areas of governance that facilitate broader-based growth, with an emphasis on improving the regulatory environment, building systems for accountability and increasing social and economic inclusion, overall promoting investment in the country.

- A programme funded by the United Kingdom Government’s Prosperity Fund aims to enhance capital market development through bond market development and expanding the investor base. It also finances expert analysis of the PPP financing framework to develop ground rules for government support in financing PPP projects and to improve management of the Viability Gap Funding scheme.

- The United Kingdom also works towards increasing the effectiveness of intellectual property rights enforcement, reduce intellectual property rights infringements, and to deter production of and trade in counterfeit goods. Overall, the project can promote investment by improvements in the business environment.
2.2.2 Financial sector imbalances need to be removed to unlock private sector development

The gap between availability of domestic finance and investments suggests inefficiencies in the financial sector.

Financial sector development as measured by IMF’s Financial Development Index (Figure 2.9) consisting of indicators on the depth, access and efficiency of the financial institutions and markets, leaves room for improvement. Although the level of financial sector development is relatively high given the size of Viet Nam’s economy, it is lagging behind regional peers such as Indonesia and the Philippines.

**Figure 2.9. The financial development index is reasonably high for Viet Nam’s economy but leaves room for improvement**

Financial Development Index and GDP per capita (2016)

Note: ISO country codes have been used to show the performance of the following countries: Lao PDR (LAO); Myanmar (MMR); Cambodia (KHR); Brunei Darussalam (BRN); Indonesia (IDN); Philippines (PHL); Malaysia (MYS); Singapore (SGP); Thailand (THA); Angola (AGO); Bolivia (BOL); Sri Lanka (LKA); India (IND); Bangladesh (BGD); Morocco (MAR); Mexico (MEX); Turkey (TUR); China (CHN); Republic of Korea (KOR)


Viet Nam’s financial sector is dominated by banks, especially state-owned ones.

Viet Nam’s financial system is large for a middle-income country as shown in the high levels of credit extended to the private sector. (Figure 2.10) However, the financial sector remains bank-centric and dominated by state-owned banks, while non-bank financial institutions are relatively small. The four major state-owned credit banks (SOCBs) account for 45% of the banking sector assets, providing half of total credit. (IMF, 2017[57])

Moreover, the rapid expansion of credit, which outpaces economic growth in Viet Nam, may present a risk to financial stability. (IMF, 2017[57]) According to the World Bank, credit growth stood at 21% in 2017 and 18% in 2018. (World Bank, 2019[1]), by far exceeding the growth of the overall economy (6.8% in 2017 and 7.1% in 2018).
Viet Nam is doing well in terms of domestic credit extension

Domestic credit to the private sector as % of GDP (2010 and 2017)


Despite rapid credit growth, small and medium enterprises (SMEs) face barriers to credit, as they have to compete with SOEs and large and politically well-connected private enterprises, who have preferential access to credit, particularly in the state-owned banks. According to a survey on Vietnamese enterprises, financial access was the main business environment constraint for the SMEs. (World Bank, 2015[58]) Only 29% of the small enterprises (1–20 employees) have an active line of credit, compared to 57% of large firms (+100 employees). There are a number of funds and facilities to provide finance for SMEs such as the MPI’s SME Development Fund, which provides preferential loan programmes. However, according to Government officials, their effectiveness is hampered by a lack of awareness and a lack of SME capacities to meet applications requirements.

What development partners are doing...

- The International Finance Corporation (IFC) provides a financing package of USD 100 million combined with advisory services to Orient Commercial Joint Stock Bank (OCB), a local bank. At least 50% of the financing will be used to support women-led SMEs.
- In partnership with the Swiss State Secretariat for Economic Affairs (SECO), IFC also supports OCB to develop its supply chain finance business by building an electronic supply chain finance platform to provide the financing of smaller businesses.
- Australia and the Netherlands support UNCDF’s ASEAN wide initiative ‘Shaping Inclusive Finance Transformations (SHIFT)’, a financial-market facilitation, technical assistance and funding facility. It aims to improve financial inclusion in the ASEAN region.
- The MetLife Foundation, a charitable and grant-awarding foundation, supports MicroSave to utilise technologies that deepen financial inclusion. The programme works with FinTechs like mobile financial service providers to expand access to and use of formal financial services.

Relatively low levels of financial inclusion hold back the potential of the sizable remittance flows to Viet Nam. The number of bank branches and ATMs per capita is relatively low, at 3.4 and 24.3 per 100 000 adults in 2017. (Figure 2.11) Due to limited access to finance, remittances cannot be effectively channelled...
into productive investments. Moreover, weak payment and distribution systems render transfers inefficient, which explains why the costs of receiving remittances are often high.

**Figure 2.11. Access to banks is still a hurdle**

Number of commercial bank branches and ATMs per 100,000 adults


Moreover, capital markets are not sufficiently developed to effectively channel resources into the domestic private sector. Stock markets remain underdeveloped, with market capitalisation amounting to 39% of GDP in 2017, compared to the ASEAN average of 114%. For many companies including SOEs, transparency and accounting requirements for listing on the stock market can be a burden (OECD, forthcoming[4]). The bond market, though growing rapidly as mentioned previously, is predominantly tilted towards public sector borrowing. Figure 2.12 shows that government bonds (including sovereign, sub-sovereign, SOE bonds) constitute more than 90% of the local currency-denominated bond market.
2.2.3. The enabling environment for private sector investment needs to be strengthened

Low levels of perceived regulatory quality can deter investors.

To realise a transition towards a more balanced financing mix, the private sector enabling environment needs to be strengthened. Viet Nam has recently made significant efforts to improve the business environment, as reflected in a jump in scores on the IFC’s Ease of Doing Business Indicators. In the 2019 Ease of Doing Business Report, Viet Nam ranked 69th among 190 countries. In the previous year, Viet Nam had jumped from 82nd in 2016 to 68th in 2017. The improved performance was due to the simplification of tax payment and customs clearance procedures, for example through the introduction of online filing systems. Despite improvements, the average time it takes to pay taxes (rank in ease of paying taxes: 131) and/or complete customs procedures (rank in trading across borders: 100) is still quite long in international comparison. Resolving businesses due to insolvency remains another challenging area (rank: 133).

Moreover, overall regulatory quality is still perceived to be low, although it has improved since 2010 and is higher than in some regional neighbours and other recent IDA graduates such as Bolivia and Angola (Figure 2.13). The Regulatory Quality Index ranks Viet Nam 121st out of 193 countries. There is a general scepticism about the private sector in political and bureaucratic circles (ADB, 2012[59]), and an unwillingness to cater to investor needs and concerns. There are also other shortcomings in areas not fully captured by the Ease of Doing Business Indicators. For example, the absence of clear guidance on land ownership rights and usage, as well as a lack of clarity on procedures for land transfers, are named to be one of the key concerns of investors. (OECD, forthcoming[4])
Strengthening the PPP framework is an important next step.

Although Viet Nam has made significant progress in mobilising private sector resources through public-private partnerships (PPP), there is still scope to mobilise greater volumes to meet vast investment needs. Multilateral development banks estimate annual infrastructure investment needs to be around USD 16 billion to USD 20 billion, while current spending covers less than half of this amount. (UNESCAP, 2017[61]) In terms of volumes of greenfield PPPs, Viet Nam is lagging behind regional peers such as Thailand, Indonesia, Lao PDR, and the Philippines. (Figure 2.14) Moreover, the great majority of PPP projects are in the energy sector, and there is only little participation of foreign investors. (World Bank, 2019[62])

Figure 2.14. PPP volumes are below potential

Average of PPI projects volume by type in 2017/2018 across benchmarking countries

Note: Only active projects; excluding China due to very high levels of greenfield activity.
A main constraint is the lack of a comprehensive legal framework for public-private partnerships. A number of decrees have been put forward to mobilise PPPs such as Decree 15, which has been recently replaced by Decree 63. However, laws take precedence the provisions in the PPP decrees. (Foster, 2019[63])

The lack of clear risk-sharing mechanisms is another factor to hamper the take-off of PPPs. In theory, PPP decrees provide for the possibility of gap funding from the government to incentivise investment but do not give clear guidelines on eligibility and assessment criteria. In practice, the government seems reluctant to provide guarantees and availability payments in light of the debt ceiling. (APEC Policy Support Unit, 2018[64])

A new PPP law is under review and scheduled to be passed in 2020, which will elevate the legal status of PPP-related provisions. However, its effectiveness will only be ensured if backed with a strong political commitment on the part of senior political leadership to promote private sector engagement.

**Development partners could play a key role in advancing PPPs by providing financing coupled with valuable technical assistance.**

PPP can be a strategic area to gain from the support of development partners. Beyond the financing they can provide, many multilateral and bilateral partners have experience related to PPP investments and can provide valuable technical expertise on how to design the regulatory framework around it. Moreover, PPPs present an effective modality to use official development finance to crowd in and catalyse private sector resources.

**There is need for action to enhance the development quality of private sector activities.**

The quality of employment in Viet Nam is, on average, still low with a high share of vulnerable employment (Figure 2.15). This is especially due to the lack of sufficient links between the high-performing FDI sector and the domestic private sector, which remains fragmented and dominated by small-scale household enterprises.

**Figure 2.15. The share of vulnerable employment is high**

Vulnerable employment, total (% of total employment), modelled ILO estimate

![Graph showing the share of vulnerable employment](image-url)

*Note: Vulnerable employment is contributing family workers and own-account workers as a percentage of total employment.
Moreover, environmental quality is a growing concern. Despite a strengthened environment protection law, which was amended in 2014, there are still major shortcomings in its enforcement. Apart from weak regulatory and enforcement capacities, there is a dire shortage of infrastructure and facilities to prevent environmental damage such as waste treatment and water treatment facilities.

Pollution violations by industrial manufacturers have drawn much attention recently. In 2016, an estimated 70 tonnes of dead fish washed ashore along Viet Nam’s central coastline, which is assumed to have resulted from toxic waste-water released by a Chinese Taipei-owned steel plant (Tri et al., 2017). Regulating a large number of enterprises poses a significant challenge for under-resourced local authorities even though there is a self-reporting system that requires firms to report the management of industrial waste (OECD, forthcoming).

Viet Nam is a highly energy-intensive economy (Figure 2.16). Driven by industrial growth, energy consumption is expanding at a rapid pace. Demand for electricity, for example, is forecast to grow at 8% per annum during 2021–2030 (ADB, 2016). Investments in buildings and infrastructure, which are necessary for continued economic growth, entail high energy consumption for many years, making energy-efficiency investment policies particularly important. Assessment on energy efficiency potential shows that the energy savings in the period 2025-2035 could reach from 5.9% to 10.0% (MOIT; DEA, 2017).

Although the energy mix has included a substantial portion of renewables including hydro and biomass, these conventional renewable energy sources seem unable to meet the growth in energy demand. In 2000, renewables including biomass and hydro contributed 53% of the total primary energy supply. However, with the depletion of the country’s biomass and hydropower potential, this share dropped to 24% in 2015, while the share of coal has grown from 15% to 35% of total supply (MOIT; DEA, 2017).

**Figure 2.16. Viet Nam’s energy intensity has increased considerably**

Change in CO2 emissions (kg per 2010 USD of GDP) with respect to 2010, Index 2000 = 100

![Graph showing CO2 emissions](image)

Note: Index calculated by authors.

Viet Nam is at a critical point to set out on a path towards sustainable investments. For example, Box 2.3 illustrates how well Viet Nam is situated to receive climate finance from the private sector. But strong political will is necessary to achieve an effective transition towards environmental sustainability. To ensure that Viet Nam’s trajectory leads to sustainable development, the government needs to set the framework...
and conditions that can effectively regulate and control environmental damage caused by industrial activities while actively promoting green investments.

**What development partners are doing…**

- Japan’s ‘Support Program to Respond to Climate Change’ provides financial support and policy dialogue to improve environmental policy and administrative management for mitigating and adapting to climate change and for solving cross-sectoral issues.
- Germany’s ‘Renewable Energy and Energy Efficiency (4E)’ project seeks to put in place the legal basis for a large-scale expansion of renewable energy sources and for the promotion of energy efficiency in Viet Nam. KfW also finances the construction of a wind farm in Phu Lac with nominal capacity of 24 megawatts.
- IDA’s project ‘Vietnam Energy Efficiency for Industrial Enterprises (VEEIE)’ creates a lending programme to promote energy efficiency and builds capacity in the Ministry of Industry and Trade to monitor and supervise the project.

**Box 2.3. How can Viet Nam mobilise more climate finance from private investors? The case of the renewable energy sector**

Viet Nam has significant but underutilised potential to develop renewable energy sources such as solar and wind power. Although Viet Nam was fairly successful in mobilising climate finance from international development partners, most of it has been for adaptation projects. The 2015 Climate Public Expenditure and Investment Review, for example, found that 88% of the climate-relevant expenditure in Viet Nam related solely to adaptation. (Vietnam Ministry of Planning and Investment; World Bank Group; United Nations Development Programme, 2015[68])

In an attempt to boost the renewable industry, the government offered attractive feed-in tariffs and other investment incentives to renewable power producers in 2017. Coupled with rapidly declining costs associated with renewable technology, especially solar PV, this initiative has begun to attract a high level of investor interest.

As a result, Viet Nam saw a rapid expansion of its solar generation capacity, especially in the lower central and southern regions where solar irradiation is strong. Project proposals summing up to a combined generation capacity of 20 GW in solar power, or half the size of the country’s installed power generation capacity, were approved.

However, it is expected that many of the recently approved solar power projects will not be able to materialise, as only a fraction have received finance (Financial Times, 2019[69]). One factor impeding the viability of these projects is the mismatch between the planning for solar power projects and that for transmission infrastructure. Solar projects would risk operating below their capacity if the transmission infrastructure were not able to fully accommodate the solar power generated.

The risk would have to be borne entirely by private investors, as under the current PPP framework it is difficult and practically impossible to obtain guarantees from the government and public entities (see above). Furthermore, the policy framework including new feed-in-tariffs to be applied for projects from July 2019 is still uncertain, as it needs to be approved by the Prime Minister.
The combination of these factors make investors hesitant to finance and implement renewable energy projects.

Continued government action is necessary to build on the new momentum. The effective mobilisation of climate finance from the private sector requires measures to upgrade the transmission and distribution network and to improve grid management quality to accommodate renewable energy generation. The PPP framework needs to be further strengthened to allow for effective risk-sharing mechanisms between the public and the private sector.

*New-generation FTAs offer an opportunity to upgrade the development quality of private sector activities.*

Both the CPTPP and the EU-Vietnam free-trade agreement (EVFTA) require improvement of working conditions and implementation of international standards. The entry into force of ILO conventions has been a critical issue. Viet Nam has committed to upholding through its domestic laws the following rights: (i) freedom of association and collective bargaining; (ii) elimination of forced labour; (iii) abolition of child labour; and (iv) elimination of employment discrimination.

The FTAs also include commitments relating to environmental protection, for instance the implementation of international environmental agreements, such as the Paris Agreement. Moreover, commitments have been made to act in favor of the conservation and sustainable management of wildlife, biodiversity, forestry and fisheries.

However, one limitation of the sustainable development content of the FTAs that is pointed out by critics, is that many of the social and environments provisions are not binding, leaving their implementation at the discretion and good will of Viet Nam’s government. Often, enforcement is challenging due to a lack of administrative capacities (Harrison et al., December 2016/January 2017).
3. Counselling: Promoting mixed transition finance strategies

Depending on the policy choices today, Viet Nam can continue on its impressive path towards sustainable development. However, strong political will and deep reforms are needed for Viet Nam to overcome the middle-income trap and for economic growth to remain inclusive and environmentally sustainable.

Viet Nam will need to fully utilise all sources of financing for sustainable development to successfully continue its transition. While the level of concessionality may be decreasing, Viet Nam still enjoys access to a considerable amount of official development finance. Apart from the financing they bring, these funds provide access to soft skills and technical expertise, which can be critically important in supporting Viet Nam’s transition. They should be deployed strategically to target economic, social and environmental vulnerabilities.

OECD DAC partners can support Viet Nam to achieve this goal through a combination of measures:

1. Cooperative approach - Smarter public spending: As Viet Nam has made efforts to rein in public debt levels; quality institutions are key to ensuring that scarce public funds are spent effectively and efficiently, and to achieve more with less. Development partners can accompany these efforts by supporting reform of public financial and debt management, while ensuring that ODA contributes to strengthening social protection systems to prepare for upcoming challenges such as population ageing. Official development finance can be invested in infrastructure that is strategically important in making Viet Nam’s development trajectory more sustainable.

2. Competitive approach - More sustainable private investment: To build a balanced mix of sources to finance sustainable development, Viet Nam will need to strengthen the enabling environment for the private sector. This will also allow for more opportunities for local value creation. Development partners can help to promote financial sector development and support the creation of an enabling legal and regulatory framework for an increased sustainable development footprint of private sector investments.

However, decreasing demand for official development finance leads to a decline in influence and leverage for development partners. This new environment can lead to competition among development partners who used to co-operate and co-ordinate effectively in the past. There is a need for a change in the attitude and mind-set as well as in the institutional arrangements.

3. Renewed partnerships: As the focus of Viet Nam’s relations with partner countries is shifting from development towards economic co-operation, development partners can align their support with newly arising needs, actively supporting Viet Nam find its place in the international community. Targeted assistance can be provided to better enable compliance with requirements for structural and administrative reforms imposed by new-generation FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA).
3.1 Co-operative Approach: Smarter public spending to ensure continued socio-economic progress

3.1.1 Upgrade the quality of institutions to do more with less

While public funds are scarce, their effective and efficient use is hampered by the lack of effective co-ordination to ensure the quality of public investments. In the absence of sufficient technical and institutional capacities to assess the feasibility of projects and contractual conditions of debt, tightened control over debt levels leads to a wide-spread hesitation to make public expenditure decisions.

Solutions: A three-pronged approach

**Better governance of debt.** The transition in Viet Nam’s financing requires more in-depth changes in administrative systems and structures, which have long been adapted to an ODA-recipient context. An administrative overhaul is taking place to reflect the greater importance of domestic and non-concessional borrowing. In this context, the streamlining of the debt management function under the new Law on Public Debt Management can be seen as a move in the right direction.

However, while necessary and desirable, these on-going adjustments can exacerbate the lack of clarity on public investment decisions. This risks holding back the effectiveness of the public sector in accomplishing the ambitious vision of the political leadership. Over USD 18 billion of external loans that have been committed remain undisbursed. Development projects have often been put on hold for several years.

Development partners, especially multilateral development banks, have been active in accompanying changes in Viet Nam’s public debt management system. There is a wealth of training opportunities, but for greater effectiveness they could be timed ahead of the emergence of new tasks and risks. For example, as Viet Nam is aiming to achieve investment grade (BBB) rating status by 2020, greater amounts of funds are likely to be raised from international capital markets. This calls for the timely investment in related capacities.

**Better value for money.** The quality of public investment institutions leaves room for improvement. To make more effective use of public borrowing, the prioritisation of projects needs to be clear, and the selection process transparent. Investment efficiency has been hampered by the fact that too many projects were approved without sufficient resource allocation, leading to large carry-over of the budget and slow disbursement of committed funds from development partners. To avoid cost overruns and project delays in the future, budget allocation needs to be based on more rigorous costing and appraisal.

Continued support from development partners is critical. There is great demand for development assistance to enhance public investment efficiency, especially around capacity building for medium-term budget planning and fiscal forecasting. With on-going fiscal decentralisation, there is an increasing need for capacity building at the local level. Development partners can support and advise to set up mechanisms to ensure accountability and transparency of local public expenditure while providing training for local government staff to conduct cost-benefit analysis and project appraisals.

Development partners can continue efforts to harmonise ODA processes with domestic systems and regulations. While there have been significant improvements, development assistance projects often involve separate rules and procedures. While this practice facilitates quality assurance for individual projects, it also foregoes opportunities to strengthen domestic PFM systems. This becomes even more relevant with the greater availability of alternative funds, as the government has reduced incentives to undergo the additional work required for ODA funding.
3.1.2 Pre-emptive management of social and environmental vulnerabilities

To ensure that economic growth remains inclusive and to continue the socioeconomic progress made so far, Viet Nam needs to overcome social vulnerabilities. Rapid population ageing will add to fiscal pressures, while social inequalities are likely to increase, in light of the discrepancy between the large and growing informal sector on the one hand, and the FDI sector and emerging domestic conglomerates on the other hand.

While access to highly concessional sources is decreasing, considerable amounts of less concessional sources of finance are still available. It often comes with highly valuable technical assistance, which can be used strategically to upgrade Viet Nam’s technology and systems.

Long-term approach to inclusive growth and sustainable development

Reflect changing educational needs. Viet Nam has made great strides in raising basic educational attainment, and performs well on international education rankings such as OECD’s PISA assessment. However, Viet Nam needs to modernise its tertiary and vocational education system, to enhance the skill level of the labour force and adapt skills to the changing needs of the rapidly evolving economy. Although ambitious reforms have been undertaken to upgrade the vocational education and training system, the implementation process could benefit from more support. Development partners can help engage the private sector, and increase financial and technical support for training institutes.

Invest in social protection. Currently, favourable economic conditions present an ideal environment to build a resilient social protection system. Initiatives are already under way to address concerns around the sustainability of the social protection system, and to increase its coverage. The government is preparing a Master Plan for the Social Insurance Reform (MPSIR) by 2035 as an overarching framework to guide future reforms. Development partners are encouraged to provide assistance to target the priority areas identified in this plan.

Invest in sustainable infrastructure. Viet Nam is at a critical point to choose the right path for sustainable infrastructure investments. The potential for climate finance – both adaptation and mitigation - is significant. In light of its high vulnerability to climate change, Viet Nam faces massive financing needs in enhancing the climate resilience of its infrastructure. At the same time, rapid growth in energy demand and the current level of development of renewable technologies offers ample opportunities for Viet Nam to transition towards a clean, low-carbon development trajectory.

Support from development partners can be critical in realising this potential. Concessional finance can be deployed to finance infrastructure projects to facilitate the energy transition, especially in areas with limited potential for private sector investments. Examples are investments to expand the transmission and distribution network and to the improvement of grid management quality. Moreover, funds from development partners can have great impact in supporting provincial and city-level programs to enhance resilience to natural disasters such as floods and droughts.

Tackle high informality. Viet Nam has a large informal sector, where workers are disproportionately exposed to precarious working conditions such as low incomes, limited opportunities for skills development and often without access social protection. Consequently, measures to improve the social protection will need to focus on formalising the informal sector. This will require streamlining administrative procedures for business registration and enhancing their transparency, for example by introducing simplified regimes for MSMEs. Development partners can accompany reforms in the business registration process, as is already being done by UNIDO with Switzerland’s support (see above).
Modernise domestic resource mobilisation

Continue modernisation of the tax system. Viet Nam needs to further build on its track record of successful tax reforms to increase and diversify domestic public revenues. Efforts are already underway to implement recommendations to introduce a full property tax. (IMF, 2018[5]) Given the environmental challenges Viet Nam is facing, environmental taxation can play an especially important role in Viet Nam.

To further modernise and strengthen domestic resource mobilisation, Viet Nam needs to simplify the still fragmented tax system, including through limiting wasteful tax incentives such as tax holidays, and reducing the number of preferential tax rates. According to the 2018 OECD Investment Policy Reviews, this would not only increase tax revenue but also reduce administrative costs of servicing the tax system. (OECD, 2018[17])

As development assistance for domestic resource mobilisation is relatively limited, development partners can scale up support. Viet Nam can especially benefit from technical assistance to enhance capacities to fight tax avoidance and evasion including from multinational companies and to assess undue tax incentives (Box 2.2).

Strengthen international tax co-operation. Further to its membership in the Inclusive Framework on BEPS, Viet Nam will need to step up efforts on international tax co-operation. For example, Viet Nam still needs to join the Global Forum and implement the Automatic Exchange of Financial Information in tax matters (AEOI). In parallel, preferential tax regimes to attract investment into economic zones and disadvantaged areas as well as the IP regime are viewed as being potentially harmful. This could negatively affect Viet Nam as it would be listed as a non-cooperative jurisdiction in accordance with the EU listing process, while other countries could impose protective/counteractive measures that would affect investment.

3.2 Competitive approach: More sustainable private investment to move from quantity to quality

3.2.1 Balancing the financing mix by promoting private sector investments

While Viet Nam has been successful in initiating a shift from external towards domestic sources of finance, a balanced transition requires a concurrent shift from a reliance on public towards private financing for sustainable development.

The emerging domestic bond market, for example, is predominantly tilted towards public sector borrowing, as government bonds (including sovereign, sub-sovereign, SOE bonds) constitute more than 90% of the local currency-denominated bond market.

Leaner public sector. Promoting private sector development involves addressing the dichotomy between the fast-moving economy and the opaque administrative system. The five-year planning cycle can stifle innovation, especially when combined with long chains of command. Mechanisms should be put in place to allow for more managerial flexibility in budget allocation to adapt to changing demands and needs.

In addition to the multi-layered bureaucratic structures, lack of clear legal guidance and the fear of punishment for failed initiatives causes a wide-spread hesitance among public servants to make innovative attempts (OECD, forthcoming[4]).

Given the considerable support for PFM, development partners can help to introduce ideas to allow greater receptiveness to innovative approaches while ensuring fiscal discipline, for example by sharing best practices.
Champion PPPs. The ambitious vision for development and the maximisation of private sector resources needs to be better translated into effective policy implementation.

For example, the lack of a comprehensive and clear legal framework for public-private partnerships is a key constraint. Despite efforts to vitalise the PPP landscape in Viet Nam, the number of transactions remains low in international comparison. A new PPP law is under review and scheduled to be passed in 2020. There is need for continued political commitment and championship for such measures to bear fruit.

Through their dialogue with the government, international partners, in addition to providing technical assistance, can help to elevate the PPP agenda on the list of government priorities. Moreover, development partners can use concessional finance strategically to crowd in private finance. While blended finance receives widespread attention, it is even more relevant for Viet Nam’s current stage within the transition finance continuum.

3.2.2 Enhancing the development quality of private finance

Viet Nam has been highly successful in attracting large volumes of foreign investment, which helped to integrate Viet Nam in global value chains. However, the impact on sustainable development could be enhanced. The gap between the burgeoning FDI sector and an underdeveloped domestic private sector remains considerable, while private investment is often promoted at the cost of the environment. Ensuring the development quality of private sector resources requires re-thinking and re-designing the ecosystem for private finance.

Support local value addition. Development partners can scale up their support to link SMEs with the FDI sector. There are a number of initiatives supporting local SMEs, linking them with multinational companies and integrating them in global value chains. For example, USAID has recently launched the LinkSME initiative to facilitate transactions between linkage-ready local SMEs and foreign firms in the electronics and metal sectors.

The LinkSME initiative deserves particular attention for its ambition to move from downstream to upstream support. Based on the experience of working with a smaller sample of SMEs, the initiative aims to identify systemic issues and bottlenecks constraining the growth of local SMEs, which will be used to inform key reforms for local value creation.

Support financial sector development. Various international partners emphasise the need for continued support for financial sector development. The forward-looking approach taken by partners such as the World Bank who invested in capital market development in anticipation of the need for greater domestic borrowing has achieved impressive results. There is a need to continue these efforts by supporting corporate bond market development.

Extending finance to SMEs can be an area that deserves more attention, in tandem with efforts to establish business links between SMEs and multinationals. In addition to increasing funds and facilities for SMEs, there is a need to simplify access. While there are a number of funds for SMEs, their effectiveness is hampered by a lack of awareness and complex administrative procedures.

Unlock climate finance. Development partners have an active role to play in unlocking private investments into the renewable energy sector.

Viet Nam needs to establish a more reassuring regulatory framework to realize the potential for climate finance. The standardised power purchase agreements contain legal weaknesses, leading to “low bankability” of projects. In the absence of government guarantees to risks associated with energy SOEs, foreign investors perceive the risks in the sector as too high. Another concern is that Viet Nam’s transmission infrastructure will not be able to absorb significant increases in renewable energy generation.

Many development partners are already active in providing technical assistance to improve Viet Nam’s readiness to attract climate finance including through advice on the enabling and regulatory framework.
The World Bank provides technical assistance to EVN to tap into new sources of finance, for example through the issuance of corporate bonds.

In designing their support for PFM systems, development partners can help to mainstream climate action in Viet Nam’s budgeting allocations and investment decisions. Rather than imposing their own standards and procedures in accessing climate finance, development partners are encouraged to invest in domestic systems, and to allow flexible arrangements that can incentivise innovation. At the same time, to avoid green washing and ensure the effective and appropriate use of scarce concessional funds, rigorous results assessment and monitoring will need to be embedded in domestic systems.

3.3 Towards renewed partnerships: Establishing Viet Nam as a partner with shared responsibilities in the international community

The focus of Viet Nam’s relations with partner countries is shifting from development co-operation towards trade and other economic areas. Among others, this is reflected in the emergence of new free trade agreements such as the CPTTP and the EU FTA. Such a transformation of partnerships involves a change in the attitude and mind-set as well as in the institutional arrangements on both sides.

Re-thinking co-operation. Administrative structures need to be adapted to new forms of partnerships. For both Viet Nam and development partners this means revisiting modes and channels of co-operation. For example, the relationship between Viet Nam and Denmark underwent a transformation, shifting from a strong development focus to one that reflects the mutual political and economic interests (Box 3.1).

During this transition period, where new approaches and initiatives are being tested and tried, there can be frustration about a lack of clarity on priorities and direction. At the same time, with the decreasing relative importance of ODA and external concessional funds in volume terms, government resources need to be re-allocated and can limit the ability to deal with individual requests of development partners. Lack of engagement and responsiveness of the government can lead to frustration, accelerating the decline in official development finance.

While there is a greater need for experimental attempts with innovative instruments and forms of partnerships, this can involve a misalignment with the long-term planning cycle and bureaucratic structures. The need for more managerial flexibility in budget allocation was mentioned earlier in this paper. Provisions and mechanisms for more flexibility in budget executions are also highly relevant to ensure more effective relationships with development partners.

Co-ordination mechanisms among development partners need to be revisited as well. While co-ordination among key development partners was effective and smooth in the past, it is more difficult in a changing environment with low absorptive capacities for official development funds.

Pooling support and going through multilateral funds and organisations help to increase leverage and streamline communication channels. This is especially true of technical assistance for better governance including in public financial management and domestic resource mobilisation, where uncoordinated partner engagement can exacerbate existing challenges in co-ordination between different agencies.

By clearly stating priorities for the use of official development finance, the government can help to form the bases of a division of labour among development partners along their comparative advantages. This is especially important in the engagement with bilateral partners such as Japan who can provide sizable volumes of concessional finance.

Sharing responsibilities for global public goods. New-generation FTAs include social and environmental chapters, imposing rigorous standards such as the ratification of ILO Conventions (the Right to Organize and Collective Bargaining Convention, 1949 (No. 98); the Abolition of Forced Labour
Convention, 1957 (No. 105); and the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87). But often the capacities to implement them are lacking.

To ensure enforcement of the new standards and support Viet Nam as it assumes greater responsibility on global public goods, development partners can focus their resources and efforts to providing targeted technical assistance in meeting the new obligations that arise under the new FTAs. For example, Australia supported Viet Nam in implementing competition reforms. The new Competition Law, which reduced the role of state-owned enterprises in the economy, was prepared with technical assistance from Australia. Moreover, Australia provided capacity building of regulatory agencies by facilitating linkages and knowledge exchange with Australian competition agencies.

Partnerships can also be established and extended with new partners including the OECD. The OECD is carrying out a Multidimensional Country Review to feed into the 2021-2025 SEDP, and will launch a Country Partnership Programme to support Viet Nam in achieving OECD standards and best practices in various policy areas. These new forms of partnerships are both a recognition of the impressive development Viet Nam has undergone in recent years as well as a step forward in establishing Viet Nam as a partner with shared responsibilities in the international community.

Box 3.1. The Danish experience - the transformation of a partnership

Viet Nam was a priority country for Danish development assistance from 1993 to 2015 during which Denmark was an important bilateral development partner providing not only funding but also considerable technical expertise across the board from support for good governance and the rule of law, to the sectors of fisheries and agriculture, infrastructure, environment, and water.

In response to fast economic progress and changing demands, the Danish government decided in 2007 to change the relationship between the two countries by increasingly transforming the co-operation from its strong development focus to one that reflects the mutual political and economic interests. Denmark was among the first development partners to design a gradual transformation strategy for their relationship with Viet Nam.

A new approach was developed and implemented over several years – as part of the Danish-Vietnamese development cooperation – and embedded in high-level policy consultations. In this transformation agenda, the focus of development cooperation has shifted increasingly towards private sector development and climate change.

In consultation with the Government of Viet Nam, the Danish Ministry of Foreign Affairs developed a phasing-out action plan for Danish development assistance to Viet Nam for 2011-15, putting emphasis on strengthening links between development aid and Danish commercial interests. In 2013, Viet Nam and Denmark signed a Comprehensive Partnership Agreement that provides the formal framework for relations in the post-ODA era, envisioning increased cooperation in the education, environment and climate sectors.

In 2016, the Danish International Development Agency made recommendations for the design of the post-2015 partnership, which can be a point of reference for other partners facing a similar situation. These recommendation included the following:

- Make available small grant funds under new partnership agreement to support strategic interventions in the governance, human rights and culture sectors.
- Create a knowledge facility capable of capturing and disseminating good practices and lessons learned on specific sectors, with the aim of building and linking sector-specific stakeholder partnerships with potential Danish investors.

- Create a pool of local green-growth sector experts, making them available for advising interested Danish investors on a pay-for service basis.

- Ensure that the transition from the ODA to private partnership in the green growth sector has a viable exit strategy that documents lessons and assigns responsibilities for follow-up.

Source: Lattanzio Advisory, (2017[71]), Vietnam-Denmark: Transformation of a Partnership, Evaluation Department, Ministry of Foreign Affairs/Danida, Denmark
### Annex A.

#### Table 3.1. Viet Nam and peer countries in comparison

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>GDP (USD mn)</th>
<th>GNI/capita</th>
<th>Income classification</th>
<th>Trade (% of GDP)</th>
<th>Industry, value added (% of GDP)</th>
<th>Last year of IDA credit</th>
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<td>95 540 800</td>
<td>223 779</td>
<td>2 160</td>
<td>LMIC</td>
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<td>16 853</td>
<td>2 270</td>
<td>LMIC</td>
<td>75.8</td>
<td>30.9</td>
<td>IDA</td>
</tr>
<tr>
<td>Malaysia</td>
<td>31 624 264</td>
<td>314 710</td>
<td>9 650</td>
<td>UMIC</td>
<td>135.8</td>
<td>38.7</td>
<td></td>
</tr>
<tr>
<td>Myanmar</td>
<td>53 370 609</td>
<td>67 068</td>
<td>1 210</td>
<td>LMIC</td>
<td>48.0</td>
<td>36.3</td>
<td>IDA</td>
</tr>
<tr>
<td>Philippines</td>
<td>104 918 090</td>
<td>313 595</td>
<td>3 660</td>
<td>LMIC</td>
<td>71.8</td>
<td>30.5</td>
<td>FY93</td>
</tr>
<tr>
<td>Thailand</td>
<td>69 037 513</td>
<td>455 302</td>
<td>5 950</td>
<td>UMIC</td>
<td>122.8</td>
<td>35.1</td>
<td>FY79</td>
</tr>
<tr>
<td>Singapore</td>
<td>5 612 253</td>
<td>323 907</td>
<td>54 530</td>
<td>HIC</td>
<td>322.4</td>
<td>23.2</td>
<td></td>
</tr>
<tr>
<td>Recent IDA graduates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>29 704 193</td>
<td>122 123</td>
<td>3 570</td>
<td>LMIC</td>
<td>52.3</td>
<td>42.2</td>
<td>FY14</td>
</tr>
<tr>
<td>Bolivia</td>
<td>11 051 600</td>
<td>37 508</td>
<td>3 130</td>
<td>LMIC</td>
<td>56.7</td>
<td>26.4</td>
<td>FY17</td>
</tr>
<tr>
<td>India</td>
<td>1 339 180 127</td>
<td>2 600 818</td>
<td>1 800</td>
<td>LMIC</td>
<td>41.0</td>
<td>26.5</td>
<td>FY14</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>21 444 000</td>
<td>87 357</td>
<td>3 850</td>
<td>LMIC</td>
<td>51.0</td>
<td>27.4</td>
<td>FY17</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>164 669 751</td>
<td>249 723</td>
<td>1 470</td>
<td>LMIC</td>
<td>35.3</td>
<td>27.8</td>
<td>IDA</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>51 466 201</td>
<td>1 530 750</td>
<td>28 380</td>
<td>HIC</td>
<td>80.8</td>
<td>35.9</td>
<td>FY73</td>
</tr>
<tr>
<td>Mexico</td>
<td>129 163 276</td>
<td>1 150 887</td>
<td>8 610</td>
<td>UMIC</td>
<td>77.5</td>
<td>30.0</td>
<td></td>
</tr>
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<td>2 860</td>
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<td>26.1</td>
<td>FY75</td>
</tr>
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<td>Turkey</td>
<td>80 745 020</td>
<td>851 549</td>
<td>10 940</td>
<td>UMIC</td>
<td>54.1</td>
<td>29.2</td>
<td>FY73</td>
</tr>
<tr>
<td>P.R. China</td>
<td>1 386 395 000</td>
<td>12 237 700</td>
<td>8 690</td>
<td>UMIC</td>
<td>37.8</td>
<td>40.5</td>
<td>FY99</td>
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</tbody>
</table>

Note: The selection of peer countries has been made in consultation with the Multidimensional Country Review (MDCR), and many of the peer countries overlap with comparator countries of the MDCR. The item “Last year of IDA credit” refers to World Bank Fiscal Years.

Table 3.2. Results of Public Expenditure and Financial Accountability (PEFA) Assessments

<table>
<thead>
<tr>
<th>Year of assessment</th>
<th>Viet Nam</th>
<th>Cambodia</th>
<th>Philippines</th>
<th>Thailand</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Myanmar</th>
<th>India</th>
<th>Bangladesh</th>
<th>Bolivia</th>
<th>Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate expenditure out-turn compared to original approved budget</td>
<td>C</td>
<td>A</td>
<td>NR</td>
<td>B</td>
<td>C</td>
<td>B</td>
<td>C</td>
<td>B</td>
<td>B</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>Composition of expenditure out-turn compared to original approved budget</td>
<td>D+</td>
<td>D+</td>
<td>NR</td>
<td>A</td>
<td>D</td>
<td>NR</td>
<td>D+</td>
<td>C</td>
<td>D+</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Aggregate revenue out-turn compared to original approved budget</td>
<td>D</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Stock and monitoring of expenditure payment arrears</td>
<td>NR</td>
<td>D+</td>
<td>D+</td>
<td>A</td>
<td>B+</td>
<td>C+</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
<td>NA</td>
<td>C+</td>
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<tr>
<td>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Classification of the budget</td>
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<td>C</td>
<td>D</td>
<td>B</td>
<td>A</td>
<td>C</td>
<td>D</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>A</td>
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<tr>
<td>Comprehensiveness of information included in budget documentation</td>
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<td>C</td>
<td>B</td>
<td>B</td>
<td>A</td>
<td>B</td>
<td>D</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>Extent of unreported government operations</td>
<td>C+</td>
<td>C</td>
<td>A</td>
<td>B+</td>
<td>C+</td>
<td>D+</td>
<td>D+</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>C+</td>
</tr>
<tr>
<td>Transparency of inter-governmental fiscal relations</td>
<td>B+</td>
<td>B</td>
<td>B</td>
<td>D+</td>
<td>B</td>
<td>D</td>
<td>D</td>
<td>B+</td>
<td>D</td>
<td>C+</td>
<td>C</td>
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<tr>
<td>Oversight of aggregate fiscal risk from other public sector entities</td>
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<td>C+</td>
<td>C+</td>
<td>A</td>
<td>C+</td>
<td>D+</td>
<td>C</td>
<td>C</td>
<td>D+</td>
<td>C</td>
<td>B</td>
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<tr>
<td>Public access to key fiscal information</td>
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<td>B</td>
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<td>C</td>
<td>D</td>
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<tr>
<td>C. BUDGET CYCLE</td>
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<tr>
<td>C(i) Policy-Based Budgeting</td>
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<td>Orderliness and participation in the annual budget process</td>
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<td>A</td>
<td>B</td>
<td>A</td>
<td>A</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
<td>B</td>
<td>D+</td>
<td>A</td>
</tr>
<tr>
<td>Multi-year perspective in fiscal planning, expenditure policy and budgeting</td>
<td>C</td>
<td>C+</td>
<td>D+A</td>
<td>C</td>
<td>C+</td>
<td>D+</td>
<td>D+</td>
<td>D</td>
<td>B</td>
<td>C</td>
<td>C+</td>
</tr>
<tr>
<td>C(ii) Predictability and Control in Budget Execution</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Transparency of taxpayer obligations and liabilities</td>
<td>C+</td>
<td>C+</td>
<td>C</td>
<td>A</td>
<td>B</td>
<td>D+</td>
<td>C+</td>
<td>C+</td>
<td>C</td>
<td>A</td>
<td>A</td>
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<tr>
<td>Effectiveness of measures for taxpayer registration and tax assessment</td>
<td>C+</td>
<td>D+</td>
<td>C</td>
<td>B</td>
<td>C+</td>
<td>C</td>
<td>D+</td>
<td>B+</td>
<td>C</td>
<td>B+</td>
<td>B+</td>
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<tr>
<td>Effectiveness in collection of tax payments</td>
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<td>D+</td>
<td>A</td>
<td>C+</td>
<td>NR</td>
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<tr>
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<td>C+</td>
<td>D+</td>
<td>A</td>
<td>C+</td>
<td>B+</td>
<td>D+</td>
<td>C+</td>
<td>C+</td>
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<tr>
<td>C(iii) Accounting, Recording and Reporting</td>
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<td>B</td>
<td>B+</td>
<td>B+</td>
<td>D+</td>
<td>C+</td>
<td>A</td>
<td>C+</td>
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<td>A</td>
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<tr>
<td>Effectiveness of payroll controls</td>
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<td>D+</td>
<td>C+</td>
<td>B</td>
<td>C+</td>
<td>C+</td>
<td>D+</td>
<td>C+</td>
<td>D+</td>
<td>D+</td>
<td>D+</td>
</tr>
<tr>
<td>Competition, value for money and controls in procurement</td>
<td>C+</td>
<td>D+</td>
<td>B</td>
<td>B</td>
<td>C</td>
<td>D+</td>
<td>D</td>
<td>NR</td>
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<td>Effectiveness of internal controls for non-salary expenditure</td>
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<td>C</td>
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<td>C+</td>
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<td>D+</td>
<td>D+</td>
<td>D+</td>
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</tr>
<tr>
<td>Effectiveness of internal audit</td>
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<td>D+</td>
<td>C+</td>
<td>D+</td>
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<td>D+</td>
<td>D</td>
<td>C</td>
<td>C+</td>
</tr>
<tr>
<td>C(iv) External Scrutiny and Audit</td>
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<td>C</td>
<td>D</td>
<td>C+</td>
<td>B</td>
<td>C</td>
<td>C+</td>
<td>B</td>
<td>B</td>
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<td>A</td>
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<tr>
<td>Timeliness and regularity of accounts reconciliation</td>
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<td>D</td>
<td>D</td>
<td>B</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>A</td>
<td>D</td>
<td>D</td>
<td>B</td>
</tr>
<tr>
<td>Availability of information on resources received by service delivery units</td>
<td>D+</td>
<td>C+</td>
<td>D</td>
<td>B+</td>
<td>C+</td>
<td>C</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
<td>B+</td>
<td></td>
</tr>
<tr>
<td>Quality and timeliness of in-year budget reports</td>
<td>D+</td>
<td>D+</td>
<td>D+</td>
<td>C+</td>
<td>B+</td>
<td>D+</td>
<td>D+</td>
<td>C+</td>
<td>D+</td>
<td>D+</td>
<td>D+</td>
</tr>
<tr>
<td>Quality and timeliness of annual financial statements</td>
<td>B+</td>
<td>C+</td>
<td>C+</td>
<td>B+</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
<td>C+</td>
</tr>
<tr>
<td>Scope, nature and follow-up of external audit</td>
<td>C+</td>
<td>NR</td>
<td>B+</td>
<td>B</td>
<td>B+</td>
<td>D+</td>
<td>C+</td>
<td>D+</td>
<td>D+</td>
<td>D+</td>
<td>D+</td>
</tr>
<tr>
<td>Legislative scrutiny of the annual budget law</td>
<td>B+</td>
<td>C+</td>
<td>C+</td>
<td>B+</td>
<td>B+</td>
<td>C+</td>
<td>NA</td>
<td>A</td>
<td>D+</td>
<td>D+</td>
<td>B+</td>
</tr>
<tr>
<td>Legislative scrutiny of external audit reports</td>
<td>B+</td>
<td>B</td>
<td>D</td>
<td>D</td>
<td>C+</td>
<td>C+</td>
<td>NA</td>
<td>D+</td>
<td>D+</td>
<td>D</td>
<td>D+</td>
</tr>
</tbody>
</table>

**D. DONOR PRACTICES**

| Predictability of Direct Budget Support | D+ | D | NR | B+ | D+ | NA | D+ | NA | NA |
| Financial info provided by donors for budgeting/reporting on project/program aid | B | D+ | D | D+ | C+ | D | B | C | D+ |
| Proportion of aid that is managed by use of national procedures | C | D | D | C | D | D | D | C | B |

**Note:** The latest available PEFA assessment of Viet Nam was conducted in 2013 and applied the 2011 Framework. Assessments for peer countries applying the revised framework from 2016, were excluded in this comparison. NR = Not rated; NA = Not applicable

**Source:** World Bank (2019), PEFA Assessment Pipeline, [https://www.pefa.org/assessments/listing](https://www.pefa.org/assessments/listing)
### Table 3.3. Clustering of sectors

<table>
<thead>
<tr>
<th>Aggregated sector</th>
<th>Sector (sectorcode) in CRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Governance and civil society (150); general budget support (510)</td>
</tr>
<tr>
<td>Humanitarian</td>
<td>Emergency response (720); reconstruction relief and rehabilitation (730); disaster prevention and preparedness (740)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Water (140); transport (210); communications (220); energy (230)</td>
</tr>
<tr>
<td>Multisector</td>
<td>General environment protection (410); other multisector, excl. rural development (430)</td>
</tr>
<tr>
<td>Production</td>
<td>Banking and financial services (240); business and other services (250); agriculture, forestry, fishing (310); industry, mining, construction (320); trade policy and regulations (331); tourism (332); other multisector, only rural development (430)</td>
</tr>
<tr>
<td>Social</td>
<td>Education (110); health (120); population policies and reproductive health (130); other social infrastructure and services (160)</td>
</tr>
<tr>
<td>Other</td>
<td>Food aid (520); other commodity assistance (530); action relating to debt (600); administrative costs of donors (910); refugees in donor countries (930); unallocated or unspecified (998).</td>
</tr>
</tbody>
</table>

**Note:** Authors’ mapping

### Table 3.4. Merging OECD Revenue Statistics and UNU-WIDER/ICTD Government Revenue Dataset

<table>
<thead>
<tr>
<th>GRD variable</th>
<th>GRD description</th>
<th>OECD tax codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>tax_inc_sc</td>
<td>Taxes including social contributions</td>
<td>1000 + 2000 + 3000 + 4000 + 5000 + 6000</td>
</tr>
<tr>
<td>tax_ex_sc</td>
<td>Taxes excluding social contributions</td>
<td>1000 + 3000 + 4000 + 5000 + 6000</td>
</tr>
<tr>
<td>tax_income</td>
<td>Taxes on income, profits, and capital gains</td>
<td>1000</td>
</tr>
<tr>
<td>tax_indiv</td>
<td>Individuals</td>
<td>1100</td>
</tr>
<tr>
<td>tax_corp</td>
<td>Corporations and other enterprises</td>
<td>1200</td>
</tr>
<tr>
<td>tax_payr_workf</td>
<td>Taxes on payroll and workforce</td>
<td>3000</td>
</tr>
<tr>
<td>tax_property</td>
<td>Taxes on property</td>
<td>4000</td>
</tr>
<tr>
<td>tax_g_s</td>
<td>Taxes on goods and services</td>
<td>5000 - 5123 - 5127</td>
</tr>
<tr>
<td>tax_gs_general</td>
<td>Taxes on goods and services, of which general</td>
<td>5110</td>
</tr>
<tr>
<td>tax_gs_vat</td>
<td>VAT</td>
<td>5111</td>
</tr>
<tr>
<td>tax_gs_excises</td>
<td>Taxes on goods and services, of which excises</td>
<td>5121</td>
</tr>
<tr>
<td>tax_trade</td>
<td>Taxes on international trade and transfers</td>
<td>5123 + 5127</td>
</tr>
<tr>
<td>tax_other</td>
<td>Other taxes</td>
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</tr>
<tr>
<td>sc</td>
<td>Social contributions</td>
<td>2000</td>
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</table>

**Note:** Authors’ mapping

**Source:** (ICTD/UNU-WIDER, 2018[14]) and (OECD, 2017[32])
Background

In 2017, the OECD Development Assistance Committee (DAC) initiated a work-stream on transition finance to shed light on the interplay of sources of financing at different stages of development. Recognising the multidimensional nature of development, the work on transition finance tries to compare countries that share similar development challenges beyond income level, such as least developed countries (LDCs), small island developing states (SIDS), landlocked countries and countries that experience fragility. In the biennium 2017-2018, work concentrated on a methodological concept note (Piemonte et al., 2019[73]) in addition to country-level analysis in Cabo Verde (Morris, Cattaneo and Poensgen, 2018[26]), Zambia (Kim et al., 2018[25]) and Uganda (Thompson, Scott and Poensgen, forthcoming[74]).

The biennium 2019-20 extends the scope of the analysis, including several country pilots to provide analysis on a broader range of financing needs of governments and vulnerable people in countries at different stages of development. This includes examining countries in more geographic regions, at different income levels and presenting diverse thematic issues (e.g. anticipating graduation from official development assistance; responding to shocks, crises and disasters, etc.). In addition to the present study, country pilots have been conducted in Chile (Piemonte, forthcoming[75]) and Lebanon (Chiofalo and Poensgen, forthcoming[76]). Additional country pilots will be conducted in the third and fourth quarters of 2019.

Furthermore, the OECD is developing a Transition Finance Toolkit providing an evidence base, diagnostic tools and policy instruments to adopt and implement transition finance approaches in developing countries. A Transition Finance Compendium that builds on the individual country pilots will synthesise emerging transition finance findings across countries.

Viet Nam was selected for a country study based on the following criteria:

- Conducting a case study in the Asia Pacific region, extending the geographical scope of the transition finance work;
- Exploring the evolution of the financing for sustainable development landscape in a country transitioning from a centrally planned to a market-oriented economy;
- Addressing the changing role of official development finance in country graduating from concessional windows of multilateral development banks (MDB)

The present paper follows the Assess, Benchmark and Counsel (ABC) approach developed in Piemonte et al. (2019[73]). This approach helps to identify specific transition characteristics of a selected country (assessing), to compare development finance with peer countries (benchmarking) and to derive recommendations and policy options for development partners (counselling).

The preparation of the study entailed desk-based research using data publicly available and a fact-finding mission in Hanoi (February 25 – March 2 2019). The mission was conducted in parallel with the fact-finding mission of the Development Centre’s Multidimensional Country Review (MDCR) and involved semi-structured interviews with major public and private stakeholders, such as representatives of Viet Nam's
government, bilateral and multilateral development partners and private sector representatives. Some of the findings of this paper feed into the initial phase of the MDCR.

The study benefited from contributions of several bilateral and multilateral development partners and government representatives who commented on earlier versions.

Generous support for the study was provided by the governments of Ireland and Japan.
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