Country case study

External finance for rural development

Country case study: Viet Nam

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Key messages

- Agriculture is no longer the main driver of Viet Nam's economic growth, but remains a strategic sector and features in many policies and programmes. Climate-resilient agriculture practices are now a top priority for the government.
- Nevertheless, government spending in the sector has not increased, and most funding for agriculture and rural development is expected to come from external development assistance, foreign direct investment and private sources.
- Additional borrowing for the sector may be difficult as a result of the government's debt limits. While there are no restrictions on borrowing for agriculture and rural development, less concessional loans can only be used for socioeconomic infrastructure development. The government also aims to maximise the concessionality of loans.
- The government prefers external development assistance that is aligned to national priorities, and is flexible and long term. The ability to leverage private resources is also seen as a key attribute, together with access to technical assistance.

Introduction

Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional $267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)[1] to agriculture and rural development rose slightly from $10.2 billion in 2015 to $10.9 billion in 2018. This is only a fraction of the total ODF disbursements of $254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Viet Nam. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Viet Nam (GoV) over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale up to support public investment in rural development.

Definitions

What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details). Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value-chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development: We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria[2] (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a perfect measure,

1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA-eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions
This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology
We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature[3] and data analysis,[4] which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Viet Nam, we conducted eight interviews between April and May 2020, and received 10 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Viet Nam: country context

Viet Nam was reclassified as a lower-middle-income country (LMIC) in 2009 and graduated from the International Development Association (IDA) in 2017. This means that, based on current World Bank rules, the country can no longer access grants and concessional loans from the World Bank, and bilateral donors have been phasing out their financial support. Viet Nam faces a changing development finance landscape and can now access non-concessional finance from international financial institutions (IFIs) including the International Bank for Reconstruction and Development (IBRD) (World Bank, 2020b).[5]

Viet Nam – one of the world's poorest countries in the mid-1980s – became one of the

3 Government strategies including the Socio-Economic Development Strategy (SEDS) 2011–2020 and the five-year Socio-Economic Development Plan (SEDP) 2016–2020; debt-management documents (Decision 251, Law on Public Debt Management and Resolution by the National Assembly on Public Debt); and sector-specific plans (such as the Agricultural Restructuring Program (ARP) 2013, the National Target Program for New Rural Development (NTP-NRD) 2010–2020, and the NTP-EM 2021–2025; and other documents from relevant ministries (such as decrees and reports on new ODA policies (2018) and management of ODA (MPI, 2020) and others, as well as IMF Article IV and World Bank diagnostic tools.

4 Spanning IMF, OECD and World Bank sources.

5 The government uses the term 'non-refundable ODA grants, ODA loans and concessional loans' to refer to grants, highly concessional loans and non/less-concessional loans (OOFs) respectively and these are the terms used in this country case study. More specifically, the government specifies that ODA loans must contain a grant element of at least 35% for loans tied to the procurement of goods and services, or at least 25% for untied loans. In concessional loans (external loans that have more concessional features than commercial loans) the grant element is not qualified to classify it as an ODA loan (MPI, 2020).

most dynamic emerging countries in East Asia within a few decades, as a result of sustained and high economic growth rates. Gross domestic product (GDP) growth averaged 6.6% between 2014 and 2018, reaching a 10-year high of 7.1% in 2018 (World Bank, 2020b).

The country's economic transformation began with the *Doi Moi* ('Rejuvenation') reforms in 1986, including the shift from a centrally planned to a market economy, the opening up of a once closed economy to international markets and trade, and pro-business reforms. These reforms were accompanied by rapid development progress and a social agenda with a clear goal of 'leaving no one behind' (Baum, 2020).

Agricultural growth, in particular, has ensured the country's food security and made a key contribution to stability and economic and social development. However, the country's economic growth has been driven largely by the service sector and industry since 1990 – a trend that has been matched by sectoral trends in employment. Agriculture's contribution to GDP, for example, has fallen from over 40% in the late 1980s to less than 15% today, and its share of the labour force has declined from 70% in 1995 to 42% in 2018 as rapid job creation and rising wages in services and manufacturing pulled workers away from agricultural production (ibid.).

Youth unemployment (among those aged 15 to 24) rose from 3.2% in 2010 to 6.9% in 2017 (World Bank, 2020b). According to the government, this trend is the result of limited access to education and a skills mismatch (MHA, 2012).

Viet Nam has made incredible progress on poverty reduction at a national level, with the proportion of people living below the national poverty line falling from more than 70% in 1993 to under 10% in 2016 (World Bank, 2018). The rapid urbanisation triggered by the sectoral changes of the 1990s means that the country has now more than 30 million urban residents (up from 13 million in 1986) (Baum, 2020). Yet 64% of the country's people still live in the rural areas where poverty persists (World Bank, 2020b).

The average income per capita in rural areas is less than 50% of that in urban areas, the rural poverty rate is nearly three times higher than the urban rate (IFAD, 2019), and rural areas were home to around 95% of Viet Nam's poor people in 2016 (World Bank, 2018). Poverty is also concentrated in the upland areas of the north-east and north-west mountains; the central coastal region, and parts of the Central Highlands and Mekong Delta where ethnic minorities live (IFAD, 2019).

Rural people depend on subsistence agriculture and natural resources for their livelihoods and well-being. Most of their income comes from forestry and aquaculture production, as well as unskilled manual labour. This leaves them particularly vulnerable to unexpected climate shocks and natural disasters, which are fairly common in Viet Nam and more so in rural areas (IFAD, 2019). Extreme weather events have been increasing, such as floods and cold spells in the north and north-central coast, saltwater intrusions in the Mekong River Delta and droughts in the Central Highlands (Nguyen et al., 2017).

Government priorities for rural development

Despite losing its prime position as Viet Nam's leading driver of economic growth, sustainable agriculture remains a strategic sector for the country, as agricultural commodities dominate its export sector. The government's development vision for the country is laid out in its Socio-Economic Development Strategy (SEDS) 2011–2020 and the five-year Socio-Economic Development Plan (SEDP) 2016–2020, which have aimed to make Viet Nam a modern, industrialised country by 2020, focusing on the quality of growth and efficiency of investment.

The major pillars of the SEDS and SEDP have been sustainable development, human-resource development, improvements in market institutions and public administration, and the development of an infrastructure system with modern facilities. Agriculture is mentioned as a key export sector for the country and the main goal, therefore, is to move the sector towards modernity, effectiveness and sustainability.

When it comes to sector-specific strategies, government programmes include the Agricultural Restructuring Program (ARP) 2013, and the National Target Program for New Rural

Development (NTP-NRD) 2010–2020.[6] As well as promoting green growth and sustainable development, these provide a comprehensive package of support that ranges from human capital development and access to credit, to basic services (education, health and agricultural extension, land rights and legal aid) and specific programmes for female-headed households and ethnic minorities.

Looking ahead, a greater role for the private sector is expected, and this is seen as vital for agriculture and rural development. Engagement with the private sector aims to go beyond small and medium-size enterprises and large corporations to include the smallholder farmers whose commitment is crucial for improved value chains, better access to markets and stronger linkages with other countries (IFAD, 2019).

Climate-resilient agriculture is a top priority for the government over the next five to 10 years, given that Viet Nam is highly vulnerable to climate change. The government aims to maintain agricultural production despite increasing climate risk. Climate-smart agriculture (CSA) emerged as the main priority for agricultural development during discussions with all of our interviewees and was the top priority in all responses to our survey.

CSA initiatives promote a sustainable increase in productivity while enhancing resilience and reducing greenhouse gas emissions. With almost 90% of public agriculture expenditure spent on adaptation to climate change, mitigation efforts have been largely neglected (Nguyen et al., 2017). One of our interviewees noted that a key challenge for Viet Nam is how to address the trade-offs and synergies between productivity, adaptation and mitigation. This will be highlighted in the next five-year plan for agriculture and rural development, which is currently being drafted.

Climate-resilient agriculture practices are particularly important for Viet Nam's most climate-vulnerable regions, which are also the regions where agriculture is a key sector, particularly for the small farmers who depend on it for their livelihoods. According to our interviewees, the next agricultural plan will aim to help farmers cope with – and mitigate the impact of – climate change by, for example, increasing storage capacity so that they are more prepared for unexpected events.

The other top priorities for the government are rural basic infrastructure (particularly water and irrigation, local roads and storage facilities), value-chain development and access to agriculture technologies (research and development). For example, the government wants to upgrade infrastructure for agricultural production (roads, communications and irrigation) to strengthen the country's capacity to prevent diseases and calamities, improve access to markets and reduce costs.

Agriculture value-chain development is seen as equally important, through diversifying and increasing export production and strengthening competitiveness. It emerged during our discussions that investing in value-chain development is seen as crucial for rural communities, as this would 'allow them to access markets and get a fair share of the wider agriculture income', as one interviewee commented. A need for greater investment in agricultural research and development also emerged from our interviews and survey results, with limited investment in this area by the government at present.

Ethnic minorities were already targeted in the previous NTP-NRD (2010–2020) and this will continue in the new NTP-NRD (2021–2025), which is being approved. In addition, a specific National Target Program for Ethnic Minorities (NTP-EM) was approved in September 2020 to cover the years 2021–2025, targeting 2,000 of the poorer communities where many members of ethnic minorities live. This programme follows on from the 2010–2020 Sustainable Poverty Reduction (NTP-SPR).

These target programmes provide dedicated policies and investment to support ethnic minorities and their socioeconomic development. One of the main priorities for these groups, according to our interviewees, is to ensure that they can connect to the value chain and get their fair share of the wider agriculture income.

6 At the time of writing, the new NTP-NRD 2021–2025 had not yet been published.

The Covid-19 pandemic has reinforced the importance of agriculture and rural development in the government's response to the crisis. The response, as noted by one interviewee, includes policies such as Resolution No. 84/NQ-CP of 29 May 2020, which aims to solve difficulties in production and business, promote faster disbursement of public investment and ensure social order and safety in the context of the Covid-19 pandemic.

The agriculture sector, in particular, faced serious challenges in the first six months of 2020. The pandemic's disruption of the global supply chain had a severe impact on Viet Nam's exports to China, at the same time as a drought in three regions and saltwater intrusion in Mekong Delta. Agriculture has always been seen as the backbone of Viet Nam's economy in difficult times, and our interviewees stressed its crucial role during the pandemic.

Financing rural development

Public finance

Viet Nam has recorded larger than normal fiscal deficits and the rapid accumulation of public debt. Like many governments in the region, the government increased spending to substitute for export demand and prevent a sharp downturn in economic activity following the 2008–2009 global financial crisis (MPI, 2018). The country's fiscal deficits have widened since 2012 as a result of revenue shortfalls and a rise in recurrent expenditures, with the former averaging 24% of GDP between 2014 and 2018, versus 29% of GDP for the latter (World Bank, 2020b). There is, therefore, less room for public investment (MPI, 2018).

Government spending on agriculture as a percentage of total expenditure has been fairly stable in recent years, at 6% (GoV and World Bank, 2017). According to our interviewees, public investment from government sources is not expected to increase in relative terms (although the budget for the sector that is being planned in the current agriculture draft might increase in absolute value). The government expects additional funding from the private sector, foreign direct investment (FDI) and external development assistance to cover the needs of the agriculture and rural development sector. There are, however, binding restrictions on the public debt ceiling, while the need for development finance remains very high (IFAD, 2019).

External development assistance

Viet Nam is not an aid-dependent country, with an ODA to gross national income ratio of 1% in 2017, down from 2.4% in 2014. Viet Nam's ODF has been decreasing. This is, however, the result of a fall in ODA, as OOFs have increased to become nearly equivalent to ODA loans in 2018. ODA loans declined significantly, from $3.8 billion in 2014 to $2 billion in 2018, while OOFs increased from $1.6 billion in 2014 to $2 billion in 2018. Loans (ODA loans plus OOFs) represented 86% of total ODF in 2018 (Figure 1).

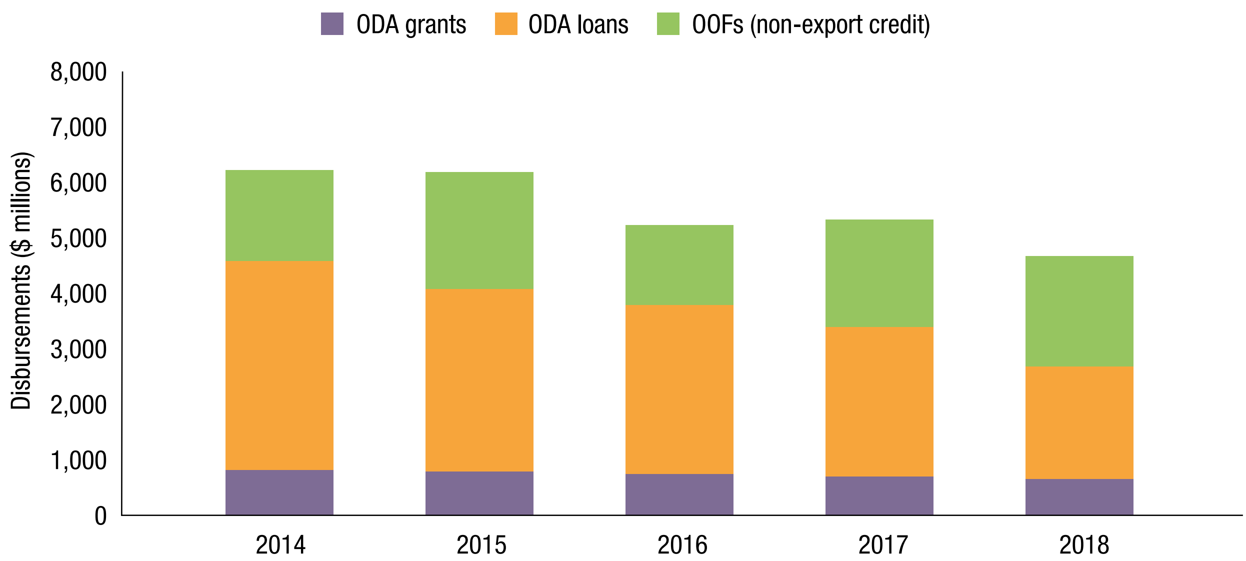
The vast majority of ODFs support project-type interventions (98% of total ODFs in 2018). Japan is the largest donor in terms of ODA, contributing approximately 15% of total ODA (gross ODA, 2017–2018 average), followed by IDA, the Asian Development Bank (ADB), Germany, the Republic of Korea, France and the United States, among others (OECD, 2020).

Despite irregular contributions from development partners since 2009, the share of agriculture and rural development aid (as a percentage of total aid) increased, on average, from 4% in 2009 to 15.1% in 2018 (Figure 2).

Agriculture and rural development have been funded primarily by ODA loans, with average contributions of 80% of total ODF to the sector between 2014 and 2018, essentially from the ADB, the World Bank (IDA) and the International Fund for Agricultural Development (IFAD). The peak of funding in 2015 was the result of major finance from IDA, which ceased in 2018 after Viet Nam's graduation. The volume of OOFs is limited and goes only to the agriculture sector, not to rural development (OECD, 2020).

The government's demand for external development assistance to fund agriculture and rural development is expected to continue over the next five to 10 years, mostly in the form of grants and concessional loans. According to our interviewees, investment capital for inclusive sustainable rural development needs to be mobilised from various sources, including grants and concessional loans. However, according to

Figure 1 Official development finance disbursements to Viet Nam, across sectors



Note: constant 2018 prices. ODA, official development assistance; OOF, other official flow.
Source: OECD (2020)

the government's Decree No. 97/2018/ND-CP of 30 June 2018, on 'on-lending of ODA loans (i.e. highly concessional loans) and foreign preferential loans, ODA loans must consider repayment capacity of the receiving provinces'. As a result, and despite demand, actual disbursement might be difficult.

For the government, the most advantageous aspects of external development assistance are access to additional financial resources at below market rates and technical assistance, according to our interviewees and survey results. This is not surprising, given that the government expects additional funding, including from external development assistance (but also the private sector), to help the country meet the needs of agriculture and rural development. Our interviewees noted that public spending on the sector (in comparison to other sectors) is not expected to increase in relative terms over the next five to 10 years, and has been fairly stable at 6% of GDP in recent years.

Given the limits on borrowing for the sector, it is not surprising that access to financial resources at below market rates is highly valued. Our interviewees also highlighted the need for non-financial instruments too, such as policy dialogue, knowledge management and partnerships, to support priority areas that need significant technical assistance and capacity-building.

Borrowing for rural development

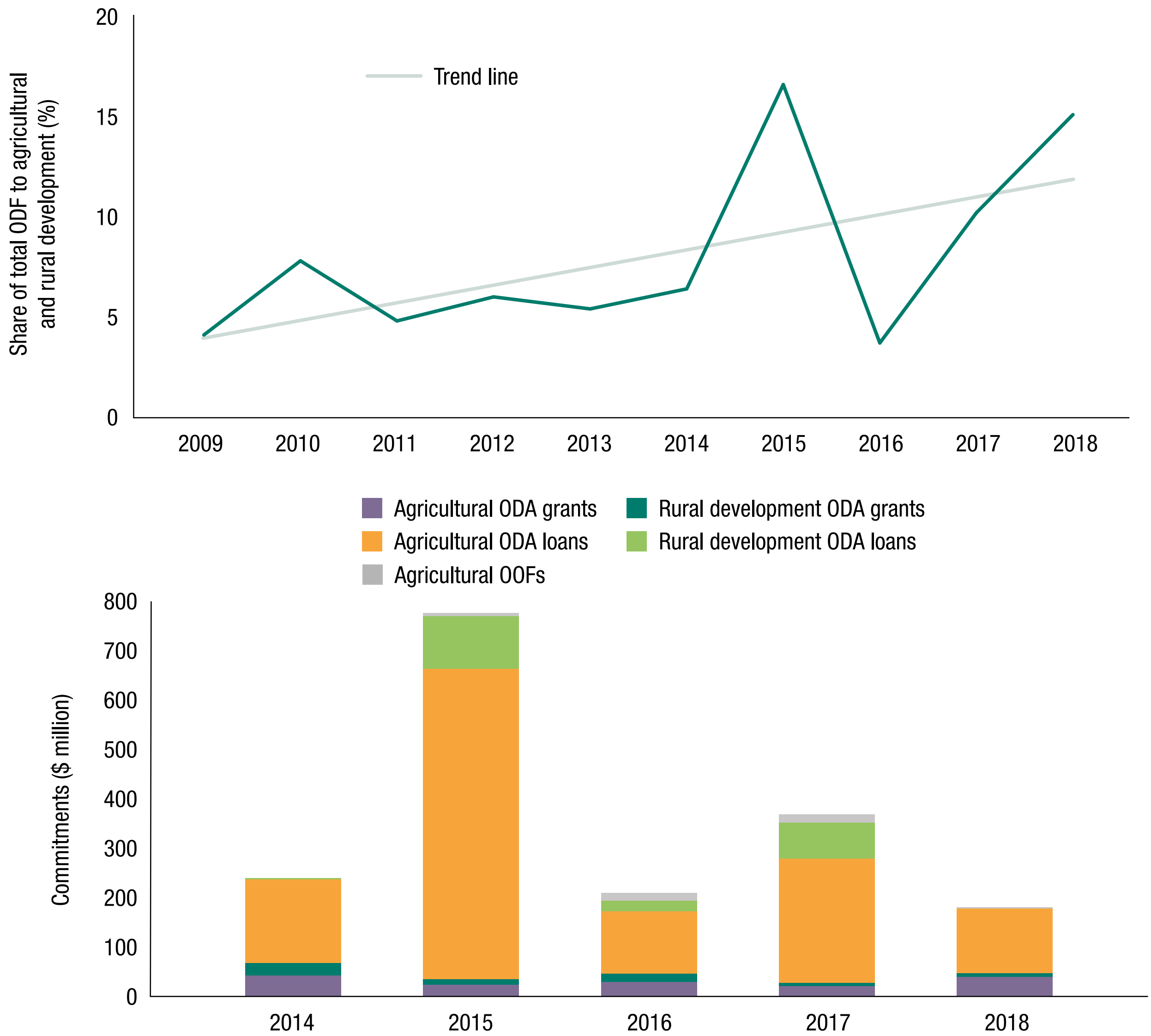
Debt trends and composition

The rise in public debt over recent years raises concerns about the economic risks of excessive borrowing. Viet Nam's public debt has been expanding since 2010 and the country's budget deficit has been high ever since as a result of, for example, the impact of the 2008–2009 global financial crisis and economic recession, falling oil prices, the elimination of tariffs under free trade agreements (FTAs),[7] pressures from a growing wage bill in the public sector, and a hike in the cost of foreign borrowing (MPI, 2018).

Having achieved LMIC status quite recently, Viet Nam can still manage to service its debt (although it has been rising since 2010) as most of the debt is still at concessional terms. However, according to the Ministry of Planning and Investment (MPI) (2018: 5) the country needs to 'control budget deficits in the future and finance them in the least costly way and at acceptable risk'. The authorities continue to focus on

7 Viet Nam has signed numerous FTAs, showing its strong commitment to diversify its trade (IMF, 2019).

Figure 2 Share and composition of official development finance to agriculture and rural development



Note: ODA, official development assistance; ODF, official development finance; OOF, other official flow.
Source: OECD (2020)

improving debt management: public guarantees are rarely granted, external debt is being reduced and bond maturities are being lengthened.

Viet Nam's debt composition is dominated by official creditors (about 88% of total public and publicly guaranteed debt in 2018) distributed equally between multilateral and bilateral sources. Concessional loans have been larger than non-concessional loans, but the gap between the two has been shrinking, mostly as a result of the country's graduation from IDA, with the latter reaching 40% of total official creditors' debt in 2018. In terms of multilateral debt, 47% was non-concessional in 2018, up from 26% in 2010. Viet Nam borrows commercially and has also issued bonds, with the former representing a share of 76% of private creditors' debt in 2018 (World Bank, 2020a).

Policies and preferences for borrowing and debt management

Debt thresholds are a major concern for the government's borrowing decisions. In response to concerns on debt sustainability, the government has enacted laws and regulations (Decision 251, Law on Public Debt Management, and a resolution by the National Assembly on public debt) to improve debt management, which impose ceilings on public debt, external debt, budget deficit and debt service, among other measures (MPI, 2018).

Foreign loans are assessed on the basis of four criteria: the ceiling of medium-term investment from the state budget (which has been $86 billion over the 2016–2020 period, including the foreign loans granted from the Central Budget of $3 billion); the public debt ceiling (domestic and external debt), which is set at 65% of GDP; the central government debt ceiling of 54% of GDP; and the state budget deficit ceiling of 3.9% of GDP for the period of 2016–2020 (comprising a central budget deficit ceiling of 3.7% of GDP and a local budget deficit ceiling of 0.2% GDP) (MPI, 2018). In addition, following the government's Decree No. 97/2018 /ND-CP of 30 June 2018, which decentralised external borrowing to the provinces, each province has a debt ceiling that limits its borrowing capacity with the government.

The government's new policies mandate that less concessional loans can only be used to finance socioeconomic infrastructure development and other cases that are deemed to be a priority by the prime minister 'in his or her indicative guidance on the attraction, management and use of ODA and [less] concessional loans period by period' (Decree No. 56/2020/ND-CP) (MPI, 2020: 5). This is a departure from the previous decree (Decree No. 132/2018/ND-CP) (MPI, 2018), which mandated that less concessional loans could only be used to finance capital investments that promote growth directly and as defined by the government, including projects that generated high returns to investment, addressed infrastructure bottlenecks, leveraged private investments, and that had widespread spillover effects, payback capacity and the characteristics of public goods (ibid.).

The agriculture sector could also benefit from less concessional loans if they support socioeconomic infrastructure development. Our interviewees cited, as examples, irrigation and drainage, agricultural research, rural electrification and more. According to Decree No. 56/2020/ND-CP, highly concessional loans (or 'ODA loans' – the term used by the government) 'are prioritized for use in programs and projects in health, education, vocational training; resilience to the climate change; environmental protection, essential economic infrastructure works that are not cost recoverable' (MPI, 2020: 5).

The decree also states that:

> non-refundable ODA grants are prioritised for use in socio-economic infrastructure development projects; capacity building; supports in policy, institution formulation and reforms; natural disaster prevention, control, mitigation and resilience to the climate change; social protection; preparation of investment projects or co-financing projects using less concessional loan(s) for the purpose of enhancing the grant elements of the loan(s). (MPI, 2020: 5)

In addition, borrowing should not be used to strengthen institution strengthening, capacity-building, training, technical assistance or technology transfer. These are considered 'recurrent costs' under the new policies and must be financed through public budgets or grant resources (IFAD, 2019; MPI, 2020). Furthermore, the government wants to finance highly prioritised projects and programmes, and use cheap funding sources, because Viet Nam is still making its transition as a country away from concessional ODA. The government wants to avoid a sudden shift to non-concessional borrowing from all donors at the same time (MPI, 2018).

Space for additional borrowing for agriculture and rural development might be limited in the near future as a result of debt limits. Investment capital for sustainable rural development could be mobilised from various sources, including grants and loans, as discussed. However, Viet Nam's current debt levels are close to the debt ceilings outlined earlier, while, at the same time, the government target for the country's foreign debt in 2021–2025 is to be no more than 45% of GDP. In addition, according to Decree No. 97/2018, decisions about ODA loans provided directly to the provinces must consider their repayment capacity – as some provinces tend to have higher levels of debt, narrowing the space for additional borrowing still further.

Some of our interviewees revealed that even existing loans have had to be restructured in the past. Foreign projects that are less likely to use less concessional loans were reviewed on the basis of their efficiency, financial options and repayment capacity, and this had, on occasion, halted the process.

The availability of grants to finance project components was ranked as the most valued characteristic of financial instruments by our interviewees. This is not surprising, given the limits on accessing loans. At present, the government can borrow at less concessional loans if these loans have a grant element of 25%, at the national level. Grants can be also blended with less concessional loans to increase the grant (concessional) component. However, this percentage is higher for some provinces that take 'on-lending' if their repayment capacity is low. Furthermore, the government expects grant-funded contributions to support innovations and policy development.

In summary, the GoV might mobilise foreign loans to meet development needs, but it will strive to negotiate for the highest possible degree of concessionality. In addition, the selection of prioritised sectors and activities for foreign loans at less concessional terms should target socioeconomic infrastructure development.

Preferences and instruments for rural development

Preferences for development assistance for rural development

According to our interviewees and the MPI (2018) report on new ODA policies, project implementation faces many obstacles, such as changes in the investment orientation of the government. As a result, the government has a strong preference for external development assistance that is aligned to national priorities and is flexible and long-term, to ensure project effectiveness in a changing context. This is corroborated by our survey results, with 100% of respondents considering these attributes as desirable or extremely desirable features of external development assistance.

Project sustainability and predictability ranked also high in our survey results with 90% of respondents considering these attributes as desirable or extremely desirable. Some interviewees also mentioned faster disbursement rates, an attribute cited by the MPI's report (2018) as critical for the management of foreign loans. As a result of the changes in national policies for ODA (MPI, 2018) and delays in budget approvals, slow disbursement has affected the portfolios of many development partners. The ability to leverage resources, particularly those from the private sector, also emerged as a key attribute of external development assistance, with the private sector playing a key role in areas such as value-chain development.

Demand for other types of instrument

Across the instruments suggested in our questionnaire, multi-phase programme lending came particularly high on the list, with 70% of respondents suggesting strong demand from the government for this approach, which provides long-term support over more than one project cycle, using independent programme phases to achieve development objectives. This is in line with the government's perception of the added value of flexible and long-term external development assistance. Policy-based lending (i.e. funding to support policy reforms or institutional changes in a sector) and project preparation facilities were also highlighted by our survey respondents.

Conclusions

Our analysis of the experience and perspective of Viet Nam on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Despite losing its position as Viet Nam's main engine for growth, sustainable agriculture remains a strategic sector for the country. Its relevance is confirmed in many national policies and sector-specific programmes, which include a focus on rural development. Climate-resilient agriculture practices are now a top priority for the Government of Viet Nam.

- Nevertheless, government expenditure in the sector has stood at 6% of total expenditure for some time, and the government expects most of the funding for agriculture and rural development to come from external development assistance, FDI and private sources.
- Space for additional borrowing for agriculture and rural development might be limited in the near future as a result of the government's binding limits on debt though. While there are no restrictions on borrowing for agriculture and rural development specifically, less concessional loans can only be used to finance the development of socioeconomic infrastructure. In addition, the government aims to maximise the concessionality of loans.
- The government values the alignment of external development assistance to national priorities, as well as flexibility and long-term financing. The ability to leverage private resources emerged as a key attribute of external development assistance, together with access to technical assistance to support priority areas and capacity-building.

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Annex 1 List of interviewees

Name	Institution
Naoki Kyano	Japan International Cooperation Agency (JICA)
Phuong Hoang Ai Nguyen	World Bank
Thomas Rath	International Fund for Agricultural Development (IFAD)
Alison Rusinow	Netherlands Development Organisation (SNV)
Nguyen Song Ha	Food and Agriculture Organization (FAO)
Tran Cong Thang	Institute of Policy and Strategy for Agriculture and Development (IPSARD)
Nguyen Minh Tien	Ministry of Agriculture and Rural Development (MARD)

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