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**COUNTRY
STRATEGY
IN BRIEF**

Swiss Economic Cooperation and Development

Vietnam 2017-2020

In brief



State Secretariat for Economic Affairs (SECO)

■ SECO is part of the Swiss Federal Department of Economic Affairs, Education and Research (EAER). SECO's Economic Cooperation and Development Division is responsible for the planning and implementation of economic cooperation and development activities with middle income developing countries, with countries of Eastern Europe and the Commonwealth of Independent States as well as the new Member States of the European Union. The overriding objective of Switzerland's international cooperation is to reduce poverty and global risks, alleviate suffering, and promote peace and respect for human rights.

More information on SECO Economic Cooperation and Development, including the complete version of the Vietnam Country Strategy 2017-2020, is available on: www.seco-cooperation.admin.ch



SWISS DEVELOPMENT COOPERATION WITH VIETNAM

■ Diplomatic relations between the Socialist Republic of Vietnam and the Swiss Confederation were established as early as 1971 and have emerged into a strong bilateral partnership on economic, social and cultural terms.

Swiss Official Development Assistance (ODA) to Vietnam started in 1992 and was implemented by two Governmental development agencies with complementary instruments and programmes: SDC (Swiss Agency for Development and Cooperation) and SECO (Swiss State Secretariat for Economic Affairs), for which Vietnam has become a priority country as of 2008.

After two decades of fast socio-economic development and successful reforms, Vietnam achieved notable results under the Millennium Development Goals.

It became a middle-income country in 2010 as a result of rapid economic growth. Therefore, Switzerland adjusted its ODA by phasing out SDC's bilateral poverty reduction and governance programme, while substantially increasing SECO's engagement in the area of economic development cooperation.

Switzerland remains committed to support Vietnam's reform agenda, in alignment with its Socio-Economic Development Strategy (SEDS) 2011-2020, as well as the Socio-Economic Development Plan (SEDP) for 2016-2020. The SECO Vietnam Country Strategy 2017-2020 has been developed based on the Swiss framework credit for economic and trade policy measures, which is part of a four-year financial envelope for ODA granted by the Swiss Parliament.



GENERAL DEVELOPMENT CONTEXT IN VIETNAM

■ Vietnam is a development success story. Since the launch of reforms (Đổi Mới) in 1986, the country experienced one of the fastest economic growth rates in the world, increasing GDP per capital from USD 100 to over USD 2,200 in just 30 years. The fraction of people living in extreme poverty dropped from more than 50 percent in the early 1990s to 3 percent today.

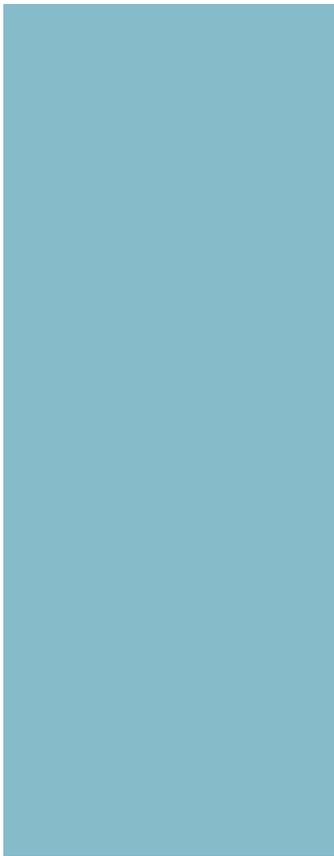
However, further reaching reforms are needed to sustain economic growth and the well-being of its citizens. Vietnam faces numerous economic, social and environmental challenges in the coming years. Inequalities are rising and demographic changes are affecting social cohesion and social protection. Vietnam has to address further reaching reforms and increase transparency and accountability to the public.

The characteristics of Vietnam’s economy are decreasing productivity growth, with the country relying significantly on foreign direct investment (FDI), cheap labour and inputs from neighbouring countries. This puts the country at risk getting caught in a “middle income trap”. Fundamental problems include a private sector that lacks competitiveness and innovation capacity, inefficient public investments, high levels of corruption, and the privileged allocation of land and capital towards state owned enterprises (SOEs).

Finally, Vietnam is assessed as one of the five most vulnerable countries to climate change, which is expected to create an increasing demand for adaptation

measures for resilient livelihoods and infrastructure. In addition, environmental degradation caused by pollution and unsustainable exploitation of natural resources becomes increasingly obvious.

These challenges are recognized by Vietnam’s SEDP 2016-2020 that reaffirms the relevance of fostering favourable conditions for the private sector for improved competitiveness, ensuring macro stability and sound public debt management, promoting inclusiveness and safeguard the environment. It is also reflected in their long-term vision “Vietnam 2035”, developed in cooperation with the World Bank and released in 2016.

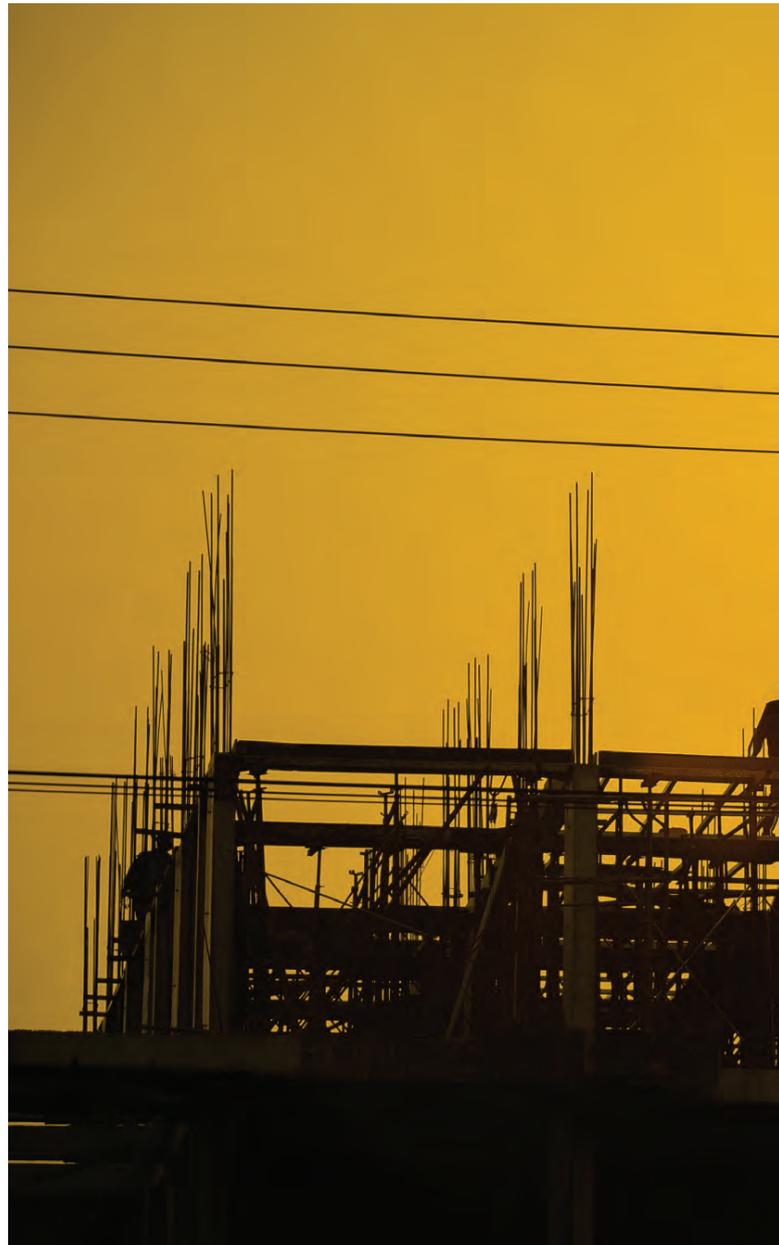


CHALLENGES ORIENTING SECO'S STRATEGY

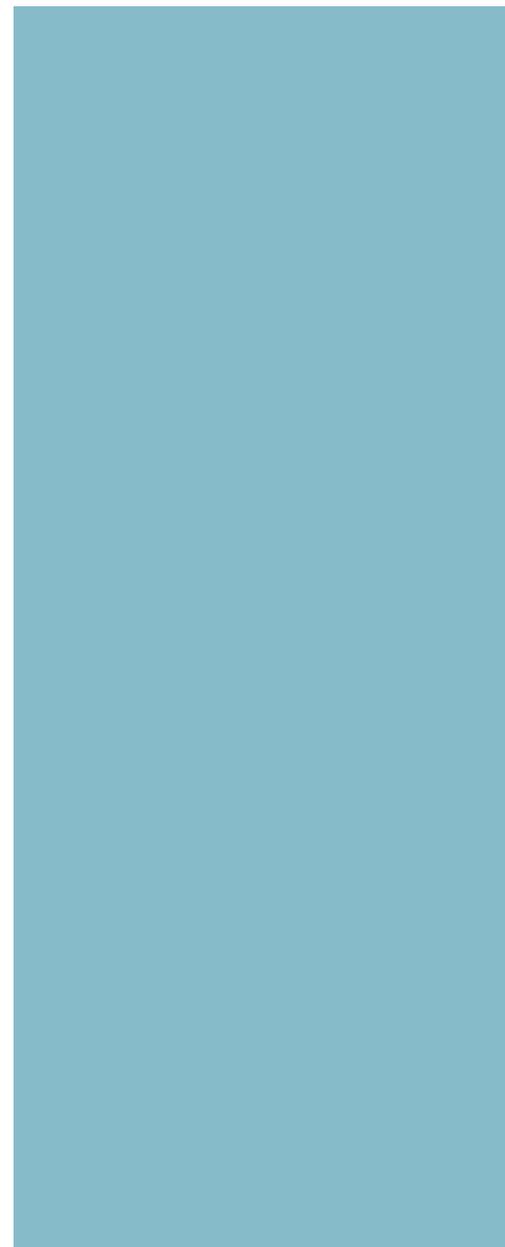
■ During recent years, Vietnam maintained **macroeconomic stability** and inflation in check. Yet, state budget revenue has been eroding fast and public expenditures have not been adjusted accordingly. Bold measures are needed to contain the fiscal deficit, improve debt management, enhance revenue mobilization, and strengthen the quality and efficiency of spending. At the same time, critical investments in infrastructure and spending on essential public services need to be maintained.

Furthermore, Vietnam's **financial sector** remains at an early stage of development. Its strengthening in line with international good practices is required to supply affordable capital for businesses. Moreover, the regulatory and supervisory framework in the financial sector remains inadequate.

While economic integration advances with free trade agreements strongly benefiting Vietnam, they result also in higher regulation and competition for enterprises, in particular small and medium-sized enterprises (SMEs). They have to improve their **competitiveness** to sustain in the local market and participate in global value-chains. This requires better quality of production and compliance with international standards, such as labour standards. A prerequisite are necessary framework conditions for trade and an enabling business environment.



Vietnam's industrial development is characterized by high resource intensity. **Resource efficiency** improvements therefore offer significant opportunities to increase competitiveness. This requires incentives for investments into green technologies as well as stringent enforcement of environmental regulations.



Alongside its economic development, Vietnam is facing rapid **urbanisation** throughout the country. This requires integrated urban planning to optimize resource allocation and manage future development proactively. The cities' increasing exposure to negative impacts of climate change calls for improved capacities in disaster risk management.

In particular in urban centres, **environmental pollution** from waste water, solid waste and traffic congestions poses serious health risks. The provision of basic public services in these sectors therefore needs further improvements through smart investments and sustainable operation and maintenance.

OVERALL GOAL, OBJECTIVES AND MODALITIES

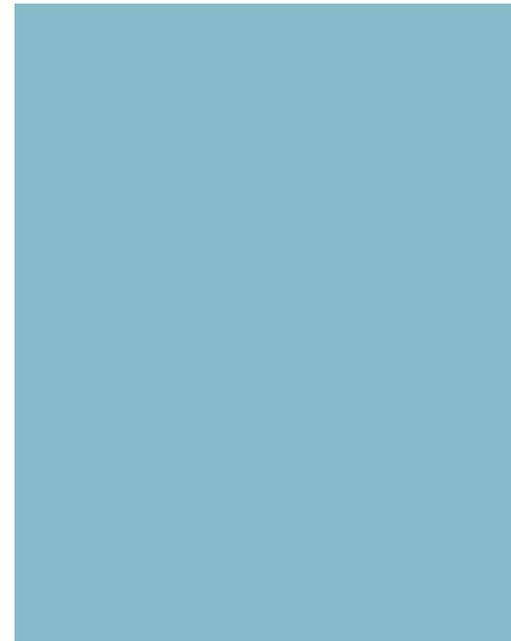
■ Based on the current development context and its challenges, experience and lessons learnt from our earlier engagement as well as in-depth consultations with various stakeholders, the SECO Vietnam Country Strategy 2017-2020 provides a new strategic framework which has the following overall goal:

- To support inclusive and sustainable economic growth to improve the lives of Vietnamese citizens.

This goal is further specified into the following three objectives, as further explained on the subsequent double pages:

- 1 Foster effective economic policies and institutions
- 2 Create a competitive and resource efficient private sector
- 3 Enable sustainable and climate resilient urban development





Modalities

SECO uses a mix of modalities for its development cooperation such as budget support, project support to provide technical and financial assistance, capacity building at individual, organizational and institutional level, as well as infrastructure financing. SECO engages either through bilateral projects or in collaboration with multilateral organizations and development banks.

SECO's Vietnam Country strategy is implemented in line with the principles of Aid and Development Effectiveness, including alignment with government and development partner harmonization, use of country systems and mutual accountability as well as continuous interaction with public and private actors.

The cross-cutting themes for the Swiss cooperation programmes in Vietnam are gender equality and economic governance, a sub-set of good governance.

Financial Resources

Under the Vietnam Country Strategy 2017-2020, SECO indicatively foresees commitments of CHF 90 million of ODA grants. In addition, SECO also supports Vietnam through regional and global programmes and initiatives.

Results Monitoring

Based on the three objectives of this country strategy, SECO has developed a comprehensive results framework. It contains monitoring and evaluation indicators at outcome level, which are aligned with Vietnamese development objectives, and make both countries accountable for results achieved under this cooperation.



Objective 1: FOSTER EFFECTIVE ECONOMIC POLICIES AND INSTITUTIONS

■ Under this objective, SECO fosters growth conducive economic policies and market institutions by promoting a transparent and reliable public finance management system and a diversified and competitive financial sector.

As a first priority, SECO focuses on **public finance management** (PFM) reforms. Support can be provided both in state budget planning and execution policies at national and sub-national levels. SECO promotes international good practices for improvement of PFM systems, which can be monitored with the help of diagnostic instruments, such as the Public Expenditure and Financial

Accountability (PEFA). The Ministry of Finance (MoF) as the direct partner is committed to these reforms and an excellent collaboration has been built up in the past.

As a second priority, SECO pursues activities in the **financial sector**, predominantly focusing on the banking sector. SECO supports implementation of critical reforms and improvement of capacities in financial institutions and the State Bank of Vietnam. This involves strengthening of financial market infrastructure and financial sector resilience. Ultimately, SECO aims to increase access to finance of the private sector leading to job creation.



Public finance management reforms follow an international benchmark

As response to the urgent need to improve fiscal disciplines and effectiveness and efficiency of resource allocation, Vietnam made for the first time use of the PEFA tool (Public Expenditure and Financial Accountability) to benchmark strengths and weaknesses of its PFM systems against global best practices. On this basis, SECO provides comprehensive support in the following areas: linkages between plans and budgets, effectiveness of budget execution controls, production and supply of quality fiscal information, and management of fiscal risks. SECO support has also been extended to the sub-national level following the accelerating PFM decentralization process.



A strong partnership to promote access to finance for Vietnamese SME

SECO has strongly increased the portfolio implemented by the International Finance Corporation (IFC) to expand financial access for SMEs, while improving operational efficiency and risk management systems of Financial Institutions. These projects to date improved financial access for over 365,500 SMEs and 994,000 micro-clients in Vietnam. They facilitated over USD 51 billion in financing for private sector development and enabled USD 33 billion of financing to be screened against new Environmental & Social risk management guidelines.



Better skills for better banking

SECO is convinced that investment in human resources is a prerequisite to strengthen market integrity and soundness. The programme for Bank Executives, implemented by the Swiss Finance Institute, has therefore provided first class training to 120 senior bankers and bank directors to improve management practices. A train-the-trainer component is expected to enable sustainable knowledge transfer. Former graduates have been able to access top level positions.



Objective 2: CREATE A COMPETITIVE AND RESOURCE EFFICIENT PRIVATE SECTOR

■ Under this objective, SECO supports Vietnamese SMEs to improve their international competitiveness and gain access to international markets. SECO promotes an efficient business enabling environment, sustainable trade, resource-efficient production as well as targeted skills development.

As a first priority, SECO fosters international competitiveness and market access of Vietnamese SMEs as well as resource efficiency of the private sector. At core is the promotion of sustainable trade and investment. This includes strengthening of value chains of different commodities and sectors, for instance through the promotion of environmental and social sustainability standards. SECO also supports training

and trade promotions services to SMEs, in order to improve productivity and working conditions and to access foreign markets. Finally, Switzerland aims at improving resource efficiency and adoption of cleaner production methods within Vietnam's industrial sector and among SMEs.

As secondary priority, SECO strengthens favourable **framework conditions for sustainable trade** as well as an **efficient business enabling environment**. Given the high needs, SECO is piloting activities in the field of entrepreneurship and skills development. In addition, SECO continues to support strengthening of core labour standards, the importance of which has been heightened with the recent conclusion of FTAs.



Starting a business has become much easier

With SECO support, Vietnam has established a national business registry. Before, the registration process was entirely paper-based, time-consuming and costly. Today, business registration can be done in only 3 days and legally binding information of over 0.5 million businesses (including FDIs and SOEs), is accessible online. Currently, business registration and investment licensing processes are being harmonized to establish a single-point-registration mechanism.



A longstanding collaboration with MOIT brings Vietnamese SMEs to foreign markets

SECO successfully supported the setup of Vietrade (Vietnam Trade Promotion Agency). In parallel, Vietcraft (Vietnam Handicraft Exporters Association) was created as a pilot business association, representing 75% of the total export turnover of the handicraft sector. The current focus of the program is to strengthen capacity for decentralized trade support services to SMEs. To date, 45 provincial trade promotion organizations and 40 SMEs in selected sectors have been trained in market research, export marketing, e-commerce, trade finance and product development. This is expected to increase national exports.



Improved working conditions benefit employees and employers

The relevance of SECO's longstanding collaboration with the International Labour Organization (ILO) has further increased through recent free trade agreements. Since 2012, more than 490 enterprises and 540,000 workers have benefited from improved working conditions and industrial relations in the textile and wooden furniture sectors. Improved compliance of factories with core labour standards contributed to a 10% increase in worker incomes, 9% increase in remittances. Factories improved their international competitiveness, evidenced by an increase of indefinite or open-term contracts by 21%.



Objective 3: ENABLE SUSTAINABLE AND CLIMATE RESILIENT URBAN DEVELOPMENT

■ Under this objective, SECO contributes to sustainable urban development by improving integrated urban planning capacities and promoting reliable public services.

As a first priority, SECO supports Vietnamese cities in **urban integrated development**. The goal is to enable informed and proactive decisions on urban development and investment priorities that take into account environmental and socio-economic dimensions. Specific focus is given to improving cities resilience to climate change, supporting innovative approaches to urban mobility and land use, and mitigating GHG emissions through urban green growth.

As a second priority, SECO continues to support cities to provide **reliable basic public services**. Activities focus on water and waste management addressing the outstanding challenges in these sectors. Service coverage and quality is still inadequate, and SECO continues to focus its support to foster corporate development in public utilities in view of sustaining hardware investments and improving quality of public services.



A shift to green public transport for Vietnam's mega-city

Ho Chi Minh City is facing severe traffic congestion due to the absence of a competitive public transport system. Alongside with a World Bank investment in the first Bus Rapid Transport line, SECO supports the urban transport and planning departments to develop and operationalize Transit-Oriented Development (TOD). The adapted land-use around the public transport corridor will increase the connectivity and attractiveness for public transport users, residents and private sector investors. In the long run, it will contribute to a modal shift from private to public transport.



For a climate resilient urban development of Can Tho

Can Tho, the socio-economic centre of Mekong Delta, is particularly affected by climate change and flood-related disasters. SECO supports the city to improve spatial planning, information management and long-term urban planning processes. This is expected to increase the city's resilience to climate change and sustain Can Tho's role as a regional economic and social hub.



Clean wastewater for Ba Ria - Vung Tau

Ongoing urbanisation and industrialization in Ba Ria - Vung Tau causes increasing pollution of surface and groundwater. This is posing a hazard to human health and the environment. SECO supports the city in developing a wastewater treatment plant, building and upgrading the sewer network and connecting households to the new system. In parallel, SECO is working with the responsible utility to set up a comprehensive system for operation and maintenance of the plant. The project will benefit 90,000 inhabitants of Ba Ria municipality.

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