

Flow of The ODA and Measures to Attract It to Vietnam

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1. Distribution of the ODA over the world

Africa accounts for one-third of the world aid from 1980 until now in spite of some falls at times. In 2003 for example, Africa received over US\$26 billion worth of emergency aid because of its famines and epidemics. After it was Asia (some US\$20 billion) and South America (6 billion). In Asia, Middle East received some 5.5 billion, South Central Asia 8.2 billion and Far East Asia 6.2 billion. Vietnam is one of three most-aided countries in Asia while Thailand changed from a recipient to an aid donor in 2003.

The distribution of international aid will change in the coming years. Firstly, low middle income countries and upper middle income countries, such as China and Malaysia, will not receive as much aid as usual. Africa, including mainly least developed countries, will be prioritized at the expense of Asia. The best part of the non-refundable aid aims at controlling diseases and water supply, and improving agriculture and nutrition. Secondly, proportion of the non-refundable aid to the international aid will decrease. In other words, refundable aid and soft loans will increase because such donors as France, Germany and Japan thought that this principle would make the international aid be used more effectively, and cost and benefits of projects be given more attention.

2. Flow of ODA to Vietnam

According to the UNDP, the ODA fund disbursed for Vietnam in 1993-2003 amounted to US\$12.8 billion equaling 50.5% of what donors

committed in the past 11 years. In 2000, the disbursement rose drastically making Vietnam the world's third biggest ODA recipient. In 2001-02, Vietnam received some 1.4 billion a year, and nearly 2 billion in 2003. With its GDP equaling some US\$38 billion, the ODA equals some 5% of its GDP, which brings Vietnam to the top-ten list of ODA recipients.

Vietnam is ranked among low income countries (LIC). Its per capital aid has been always higher than those of other LICs since 1995 (see Figure 2). This means that Vietnam has tried to reform its economy and social system and gained some targets set forth by the OECD. Its growth rate stayed at 7% in the past decade. The proportion of the poor fell from 58% in 1993 to 37% in 1998 and 24.1% in 2004. It aims at reducing this figure to 15% by 2010. Apparently, the international aid has played an important role in the economic development and poverty alleviation by supporting reforms in policies and regulations, infrastructure

building, rural development and encouragement to private investment.

However, the rate of ODA disbursement is not a good measure of effectiveness of the ODA. Many developing countries face social unrest because they spend foreign aid too fast without paying attention to performance of projects, investment quality and responsibility for reporting. The use of the ODA for improvements in transportation, water and power supply, policy reforms and rural development failed to produce effects as expected. Let's have a look at the use of the ODA in public investment projects and in its Development Support Fund in the past few years.

a. ODA in public investment projects

In the years 1996-2000: Major transportation and power projects financed by the ODA and public funds, such as Mỹ Thuận Bridge, Saigon Port, Hải Phòng Port, Trans-Asian Highway, Yaly Hydropower Plant, and other educational and medical projects brought about many improvements in the infrastructure and socioeconomic benefits. In this period, the ODA for Vietnam increased steadily and it surpassed the FDI realized capital at times.

In the years 2001-05: The Vietnamese growth rate was about 7.2% and investments in development projects contributed a lot to this result. The annual gross investment rose to some US\$15 billion. The ICOR

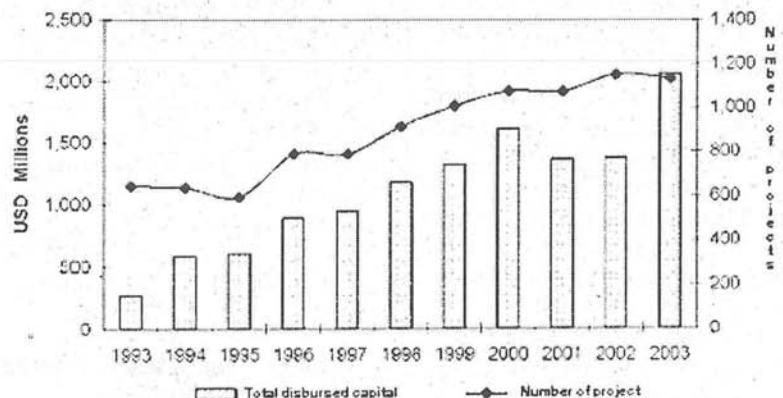
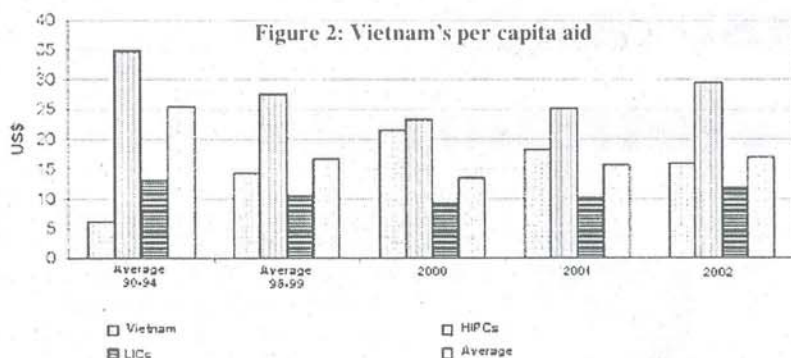


Figure 1: Disbursed ODA in Vietnam in 1993-2003



increased over years (4.87 in 2002 and 4.96 in 2003). The productivity of investment, however, was still low. According to the WB, Vietnam ranked third in terms of capital accumulation, poverty reduction and economic growth, but ranked 17th in terms of productivity of investment.

According to the Ministry of Planning and Investment, shortcomings in the investment planning are as follows:

- Widely distribution of investments and huge waste.
- Poor performance of zoning task.
- Ineffective use of sources of finance, especially public ones.
- Unreasonable structure of investments (small investments in agriculture and protected industries for example).
- Huge debts in public investment projects (some VND13,000 billion in 2005).
- Slow progress of ODA-financed projects (due to red tape on the local side, differences in procedures adopted by Vietnamese and foreign sides, lack of counterpart funds and well-trained managers, etc.) leads to slow disbursement and rises in costs.

b. The ODA used by the Development Support Fund

The DSF was established on Jan. 1, 2000 and responsible for using the ODA, public funds and some mutual funds to supply government loans to development and export projects. After five years, the DSF gave financial support to 6,606 projects (6,354 local ones and 252 ODA-financed ones) with a total loan of VND69,000 billion. However, many state-financed projects

produced poor performance or caused great losses:

- Sugarcane and sugar program: After seven years, from 1996 to 2002, 36 sugar refineries were built at a total loss of VND2,048 billion and 5,080



billion worth of principal and interest.

- Deep-sea fishing program: From June 1997 to June 2003, 1,362 fishing boats were built within this program with a total loan of concessionary rate of VND1,338 billion (1,100 billion from the DSF and the rest from the Bank for Investment and Development). Up till now, only 15% of the loan was repaid. The principal and interest due amounted to some VND500 billion while 69% of boats were in default on their loans because of contracted fishing ground and natural disasters.

The ratio of public investment to private one increased. When banks reduced the loan supplied to the public

sector, the DSF became an important source of finance for public projects. When this fund supplied low-interest loans to the public sector, it couldn't gain higher performance and the productivity of investment was low.

When the ODA aims strongly at economic growth and poverty reduction and the distribution of international aid is expected to change remarkably in the coming years, Vietnam should deal with causes of the poor productivity of investment. The following are some measures to achieve this aim.

- + Accelerating the administrative reform by making the best use of the ODA for improvements in capacity and institutions in the years 2001-2010, and technical assistance from donors for

tasks of zoning and building the structure of investment.

- + Decisions on investment projects must be based on their costs and benefits.

+ Accelerating the disbursement rate by preparing the counterpart fund, reforming procedures and improving the managerial skills of relevant bodies.

- + Low-interest loans must be oriented toward benefits for the poor instead of industries.

+ Struggling against corruption and embezzlement that are eroding trust, morale and resources; and widening the gap between the rich and the poor ■