



ODA SOURCE OF CAPITAL ITS CHARACTERISTICS AND MEASURES TO ATTRACT IT

by MEcon. TRẦN QUỐC TUẤN & PHAN NGỌC MINH



To developing countries, the presence of various sources of capital and diverse ways of attracting them from international capital markets are conditions favorable for their development plans. However, each source of capital and way of attracting it have its own characteristics, nature and mechanism. To learn about these factors is essential to the making of a strategy for attracting foreign capital effectively.

The Official Development Aid is a source of capital used for socio-economic development supplied to developing countries (recipients) by foreign governments or international financial organizations (donors).

1. Characteristics of ODA source of capital

a. Preference:

Foreign development aid given to developing countries usually has the following characteristics:

- Low interest rate in comparison with commercial rate of interest
- Long maturities (20 years).
- Including two parts (refundable and unrefundable aid) in aid package.
- In loan maturities, there is an interest-free period and an interest payable period.

b. Employment of ODA source:

Because of said preference, the ODA source is usually used for the following purposes by recipients:

- Compensating deficit of balance of payments in order to help recipient country reform its financial system or change its economic structure.

- Realizing national investment programs, especially for infrastructure improvement, providing firm basis for economic stability and development, and encouraging private investment.

- Improving quality of education, health care, environment protection... services.

- Carrying out research programs helping local governments make policies, or supplying information about natural resources, labor, technology to private investment plans.

In short, the ODA source gives preference to non-productive projects or ones of low return on capital which are essential to the creation of conditions favorable for economic development and private investment from both home and abroad.

c. The other side of the coin:

Besides positive effects, the ODA source includes many negative effects on the economic and political situation of recipient originated from the policy of donors, the world economy



or from the course of action of recipient.

- Recipients should meet requirements posed by donors:

Both multilateral and bilateral aid donors usually use aid as a way to force recipients to change their economic and foreign policies in accordance with interests of donors. Up to now, although there are many changes in the international affairs and the number of donors increases, the aims they pursue are the same: security for capitalist bloc, diffusion of the Western democracy, to set the development of third-world countries in the order set by capitalist powers, to encourage economic liberalization in order to pave the way for foreign investment.

- Discriminatory practices in supplying ODA aid:

Nations who want to receive ODA should meet requirements of donors. Thus, those who don't accept these requirements or are considered as unwelcomed ones will not be supplied with ODA. This discriminatory practice led to the uneven distribution of ODA among different third-world nations or regions in the world.

- Risk caused by changes in exchange rate:

This risk is produced in bilateral aid where the currency unit of donors increases against the currency unit earned by recipients by exportation. Recipients should cover this difference when they repay debts.

Many Asian countries such as Malaysia, Indonesia... after borrowing money from Japan, have recently suffered great losses because the yen increased against the US dollar they earned by exportation.

2. Measures to attract and employ ODA effectively

The ODA is of great importance to Vietnam economy, it's the main source of finance used for upgrading the infrastructure, carrying out basic researches and gathering information about socio-economic situation and production capacity of various industries.

Realizing the importance of the ODA source to the economic development, the Vietnam government has tried its best to attract foreign aid. Moreover, foreign governments and international financial organizations have become aware of the promising future of Vietnam economy so they have recently agreed to supply loans to Vietnam (in the first Paris donor conference, they agreed to made loans totalling US\$1.86 billion and in the second conference, US\$2.3 billion). This was a good achievement of Vietnam in attracting foreign capital. It also showed that the world community had supported the process of economic renovation in Vietnam.

However, securing the source of capital is only a precondition, the most important thing is the way of using this source more effectively. In this matter, we suggest the following measures:

Firstly, we should grasp the new concept of the role and nature of foreign aid.

The preference given by the ODA source usually makes government's managing bodies pay little attention to allocation and employment of this source. They usually pay no attention to opportunity cost and feasibility of projects estimated, they have no list of priorities for investment projects and lean upon foreign capital instead of securing domestic sources. Many projects were realized slowly and wastefully.

These mistakes must be corrected as soon as possible because we should repay both principal and interest of these loans, so if we can't employ this source of capital more effectively, we will run into debt and face financial difficulties as many other nations did.

Secondly, we should have a list of priorities for investment and pay a lot of attention to the feasibility of projects.

We had better not divide the source of foreign aid into small amounts and allocate them to too

many industries and localities. Because this source of capital is limited, we had better invest it in projects of high feasibility which could produce good effects on development of various industries.

Thirdly, the source of domestic capital should be generated.

We should have abundant domestic resources if we want to absorb foreign aid effectively. If these resources (capital, labor, management, legal infrastructure, etc.) are poor, the foreign will not be well managed and employed effectively. This matter must be solved in order to absorb and employ the foreign aid more successfully.

Fourthly, the mechanism for managing and allocating foreign aid should be reformed.

The foreign aid, from the negotiation stage to repayment, is related to many functional governmental bodies, so it's important to establish a mechanism for managing and allocating it:

- The central government is responsible for negotiating, managing and allocating foreign aid. Other government bodies will help the Government by fulfilling the following functions:

- The Ministry of Planning and Investment will draft national investment projects and determine demand for foreign aid.

- The Ministry of Finance will control the cash flow: inspecting the amount of foreign aid received, allocation of foreign aid and watching realization of loan contracts.

- The State Bank, in coordination with the Ministry of Finance will be responsible for helping with realizing projects in monetary problems.

- The Ministry of Foreign Affairs is responsible for attracting aid from both bilateral and multilateral aid sources.

- The Ministry of Science, Technology and the Environment will deal with scientific, technological and environmental matters relating to projects.

- The National Estimation Commission will be responsible for estimating projects before submitting them to the central government for approval.

In short, the ODA source is very useful because of its low interest rate and long maturity. However, its employment requires us to be patient with negotiation and to have ability to manage investment projects and to work in partnership with foreign experts or organizations. These are preconditions for managing and employing this source of capital effectively ■