

For a Better Employment of the ODA Source

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ODA is a source of loan with low interest rates varying from 0.7% to 0.8% a year. Its long maturity (40-50 years) along with a generous grace period (10 years) make it the most attractive and sought-for source of finance. In Vietnam in recent decades, however, the employment of this source hasn't been as effective as expected. This paper suggests some urgent and feasible measures to deal with this problem.

After relations between Vietnam and international financial institutions were normalized, some 28 bilateral creditors, 23 multilateral ones and 350 NGOs have been supplying soft loans to Vietnam through some 1,500 programs and projects. Leading suppliers include Japan, the WB, ADB and many UN agencies.

Table 1: Vietnam's ODA suppliers in 1993-2005

Supplier	Committed loan (US\$ bn.)	As % of total committed loan
Japan	10.2	30.20
WB	7.6	22.49
ADB	4.4	13.03
UN agencies	2.8	8.29
France	1.9	5.63
Germany	0.8	2.37
Others	6.078	17.99
Total	33.778	100.00

Source: MPI

Up to the end of 2005, the total committed loan for Vietnam reached US\$33.778 billion and 49.54% of which (some US\$16.731 billion) has been disbursed. In 2005 alone, suppliers agreed to give Vietnam US\$3.747 billion (US\$2.249 billion from bilateral



suppliers; 1.358 from multilateral ones; and 0.41 billion from NGOs). This is the highest level since 1993.

Table 2: Committed and disbursed ODA in 1993-2005 (US\$ billion)

Year	Committed ODA	Growth rate	Disbursed ODA	% of disbursed to committed ODA
1993	1.810	-	0.413	22.81%
1994	1.940	7.18%	0.725	37.37%
1995	2.260	16.49%	0.737	32.61%
1996	2.430	7.52%	0.900	37.04%
1997	2.400	-1.23%	1.000	41.66%
1998	2.700	12.50%	1.242	46.00%
1999	2.910	7.77%	1.350	46.39%
2000	2.400	17.52%	1.650	68.75%
2001	2.400	0.00%	1.650	68.75%
2002	2.500	4.16%	1.794	71.76%
2003	2.839	23.56%	1.720	60.58%
2004	3.441	21.20%	1.650	47.95%
2005	3.747	8.69%	1.900	50.80%
Total	33.778	-	16.731	49.54%

Source: MPI

In the years 1993-2005, ODA suppliers provide Vietnam with some

US\$2.598 billion a year equaling some 6% of its GDP; 10% of export value; 12% of the gross investment; 28% of the public investment; and 50% of the state capital investment.

According to the MPI, the ODA source is divided among following industries:

- Economic reform and restructuring and related fields: 23.8%

- Transport and communications: 22.41%

- Energy and electricity: 18.7%

- Agriculture and rural development: 14.3%

- Educational, health caring and scientific research services: 10.73%

- Hygiene and water supply: 9.98%

In recent decades, the ODA has played an important role in the economic development strategies, poverty alleviation, improvements in structure of industry, and institutional reform. Positive changes brought about with help from the ODA have been recorded by international aid donors. Particularly, the ODA has changed the face of the infrastructure in Vietnam with many major projects to build and upgrade roads and bridges. They have produced positive effects on the socio-economic life.

Besides these achievements, however, there are many shortcomings in the employment of this source: huge losses and waste; and poor quality of ODA-funded public works. Recently, many corruption cases have been discovered in ODA-funded projects, such as the scandalous PMU18.

Numerous factors have caused such shortcomings but the most noticeable are loopholes in the management mechanism; different financial procedures for carrying out each ODA project; and differences between policies on ODA control and other policies. Under current regulations, six ministries and agencies of ministerial level are responsible for managing the ODA source. They are Ministries of Planning and Investment; of Finance; of Foreign Affairs; and of Justice; the central bank and Government Office. Their tasks usually overlap, which causes obstacles to implementation of ODA-funded projects and provides chance for corruption and waste and poor employment of this source.

Fortunately, the ODA prospects for Vietnam are still bright in spite of these shortcomings. In the years 2006-2010, it's estimated that Vietnam will attract from US\$16 to 18.2 billion in the ODA. (see table 3)

To reduce waste and losses when employing the ODA, win trust from international aid donors and ensure ability to repay debts, in my opinion, the following measures must be taken:

(1) Making regulations on

ADB Headquarters



management of the ODA consistent: All of inappropriate and unreasonable regulations must be revoked. Practices and tasks carried out by different ministries must be coordinated in order to avoid overlaps and unnecessary difficulties, which may lead to corruption and waste.

(2) The ODA source must be put into the budget income. The National Treasury must make reports on a periodical basis and upon completion of the projects. Books kept by constructors for the project must be audited as required by law and foreign donors. A mechanism for observing and evaluating the ODA-funded projects must be established.

(3) A strict system of financial control must be observed, especially in buying assets needed for the project. All purchases must be put out to tender,

all regulations or conditions of contract must be publicized and available for anybody who may concern in order to avoid losses caused by insiders.

(4) A standard model of the project management board must be worked out along with its functions, tasks, and rights. These boards of various levels will constitute a system running from the central to district level in order to control and employ consistently the ODA and ensure cooperation and proactivity of these boards.

(5) A law or ordinance on foreign debt and aid must be made as soon as possible in order to enhance efficiency of the employment of foreign financial sources and ensure financial safety for Vietnam in its process of integrating into the regional and international communities ■

Table 3: Estimates of the ODA source in 2006 - 2010

Industry	ODA approved in 2001-05		Estimated ODA approved in 2006-10		Estimated the committed ODA (US\$ billion)
	US\$ billion	As % of the total	US\$ billion	As % of the total	
Agriculture, sea-farming, irrigation, rural development	1.6	14.6%	2.2 - 2.5	18%	2.9 - 3.3
Energy and industrial production	2.1	18.7%	1.9 - 2.2	16%	2.6 - 2.9
Transport, post, telecommunications, urban water supply and sewerage	2.9	26.3%	3.6 - 4.1	30%	4.8 - 5.5
Health care, education, environmental protection, technology and others	4.5	40.4%	4.3 - 4.9	36%	5.8 - 6.6
Total	11.1	100%	12 - 13.6	100%	16.0 - 18.2