

1. ROLE AND FEATURES OF THE ODA IN VIETNAM

1. Role of the ODA In Vietnam's economic development

At present, there is a paradox that all companies are running short of capital while most commercial banks are faced with a deposit surplus and the better part of committed ODA hasn't been received.

The ODA capital in the form of either aid or soft loans is always coupled

with political conditions and has its own price. To employ effectively this source of capital, there must be skilled managers who can put it in well-selected and profitable projects. Although repaying ODA loans is easier than repaying foreign debts but experience in other countries shows that it is no easy matter to deal with. Vietnam has had to spend a lot of time and

effort in deferring loan repayment or getting an extension of loans or persuading donors in the Paris and London Clubs to write off debts. Many developing countries have used the ODA capital and foreign debts inefficiently resulting in economic decline and default.

To employ the ODA source correctly and efficiently is a good way to increase gross investment, improve social and economic infrastructure, and stimulate the FDI source and domestic investment.

The ODA capital could be used for bridging the gap between rich and poor by improving the infra-

structure. If the government fails to develop all zones and localities evenly, it won't be able to prevent unruly migrations, environmental problems in cities and poverty in rural and mountainous areas. These dangers could cause social unrest and economic stagnation.

Becoming aware of these dangers, the Government has carried out a series of projects using the ODA capital to develop the infrastructure, encouraging redistribution of wealth and improving socio-eco-

difficulties for recipient countries with such short experience as Vietnam. On the contrary, multilateral ODA capital is usually provided according international customs or treaties.

As usual, the ODA capital is used for covering some 60-70% of expenditure on the project, so the recipient country has to have a stake in it, fulfil procedural requirements and mobilize enough experts and labor to carry out the project. These qualities constitute the ability to receive the

ODA capital. International financial institutions, according to the IMF, usually examine not only profitability of the project but also external debt owed by the recipient country (the total debt mustn't exceed 50% of the GDP, or 200% of export earnings; debt service must be lower than 20%

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nomic life in rural areas.

2. Features of the ODA capital

In Vietnam, the main ODA-givers are UN financial institutions, foreign governments and NGOs. Therefore the relationship between supplying and receiving the ODA capital is a matter of mutual interest to governments and this relationship is regulated by the public international law.

The ODA-givers all have their own aims and intentions, especially in giving bilateral ODA. Each country has its own policy for supply of ODA capital and this causes many

of export earnings in the year, etc.), so a high growth rate and an increase in exports will help the recipient country to attract more ODA capital.

a. Multilateral ODA in Vietnam:

About US\$500 million of ODA capital supplied to projects ESAF1 and ESAF2 has been transferred and employed efficiently. The amount of ODA committed by the IMF is smaller than what committed by other givers but the better part of it has been transferred to Vietnam.

Of UN organizations, the UNDP

has an outstanding role in Vietnam's economic reform. It has carried out programs to develop socio-economic life and reducing poverty in Vietnam; has helped Vietnam make plans and gain access to international donors, and at present, it is helping Vietnam work out plans to improve the ability to manage ODA-financed projects and source of ODA capital.

b. Bilateral ODA:

Until recently, about 70% of ODA capital provided by such developed countries as the US, England, Germany and Canada was made conditional on agreements between recipient and donors in which the recipient would import goods and services from donor countries as a way of repaying debts. This regulation provides a means of ensuring additional exports from donor countries but makes it difficult for the recipient country to employ reasonably and make the best use of the ODA. At present, the amount of projects based on such conditions is on the decrease, because in mid-1995 the Paris Club deregulated the supply of aid and only required that the ODA capital must be put in fields neglected by the private sector with a view to improving effectiveness of ODA employment and social benefits, that is, aid from the OECD aims more at infrastructure or non-profit projects in order to improve the living standard.

Although the contribution of the Japanese ODA to the rapid development in East Asian countries is difficult to quantify, but to some extent, it has certainly produced great effects on the economic development in the region. The proportion of non-repayable aid to the Japanese ODA is small and this source usually aims at developing the economy paying no attention to humanitarian cause.

II. EMPLOYMENT OF THE ODA IN VIETNAM

1. ODA-financed projects in Vietnam

Infrastructure projects are made and call for investments on the case-by-case basis. These projects, in order of importance, on power supply (especially hydroelectric and thermal power plants), transportation (roads and bridges), seaports, airports, telecommunications, water and sewer system and irrigation are usually provided with the ODA capital.

Many ODA-financed projects on transportation have affected favorably local economic development,

such as National Routes 1A, 5, 10 and 18; Nội Bài-Hà Long Highway; Hà Nội-Điện Biên Phủ Highway; Láng Hòa Lạc Highway; National Route 51; Mỹ Thuận Bridge; Hải Phòng Port and Saigon Port.

Many projects on rural transportation, power supply, irrigation and telecommunications not only help to improve the infrastructure in rural areas, but also aim at bridging the gap between rich and poor, and between cities and rural areas.

In 1996, 29 national programs was rearranged into 16 larger programs, however, the realization of these programs still meets with organizational problems. These programs require big investments (VNĐ2,300 billion in 1996 and 2,500 billion in 1997). They are:

- Afforestation Program.
- Health Care Program.
- Informatics Program.
- Anti-drug Program.
- Anti-AIDS Program.
- Land Reclamation Program.
- Cultural and Educational Programs
- National Television Network Program.
- Child Caring Program.
- Anti-Poverty and Hunger Program.
- Employment and Family-Planning Program.
- Anti-Prostitution Program.
- New Economic Zones Program.
- Mountainous Settlement Program.

Medical care service got the most investments from the multilateral ODA. Projects to develop the social infrastructure have helped to improve the living standard in rural areas. The said national programs are being rearranged with a view to facilitating the task of realizing them, controlling them and supplying new capital. However, the most basic measure is to invest in the economic infrastructure in order to increase the gross investment, create new jobs and remove imbalances between regions.

To turn grants-in-aid and the ODA capital into community investments is the right policy to adopt. Generally, infrastructure projects aren't attractive in the eyes of private investors because these projects aren't much lucrative and have long payback periods. Besides certain profitable projects, such as building of industrial estates or main roads in cities, which can attract the FDI or private investment, the remainder of infrastructure pro-

jects must depend on the ODA and grants-in-aid.

However, the best part of the ODA comes as loans and we should, sooner or later, repay them, therefore if we put them in projects which produce no profit or have low return on investment, we will run into bedt. As for projects to develop the infrastructure and rural areas, there is no way other than to depend on grants-in-aid and the ODA. The right employment of foreign aid appropriate to donors' policies has been appreciated by foreign governments. This will help Vietnam attract more ODA capital in the future.

All ODA capital must be treated as budget income and turned into public investments. Although there have been agencies managing the ODA capital allocated to projects, and a central body that helps the Government supervise the employment of this source of capital, certain agencies have employed the ODA incorrectly or placed obstacles to the realization of projects because of their provincialism. This is one of the most outstanding shortcomings in the process of setting up and realizing ODA-financed projects in the past few years.

2. Positive effects of the ODA

a. Effects on the national industrialization:

The source of ODA capital, as an important source needed for the economic development, must be added to other sources, especially grants-in-aid, in order to attract foreign investment, facilitate rural development, and encourage domestic investments in the national industrialization and modernization.

Generally, Vietnam's policies to attract and employ the ODA are reasonable, however, in certain localities, this source of capital was employed wrongly. The ODA capital was used to realize projects on the following fields:

- + Economic infrastructure:
 - Dams and hydroelectric power, and thermal power plants.
 - National routes and large bridges.
 - Seaports and airports.
 - Telecommunications works (radar antennas, fibre-optic cable)
 - Irrigation, flood control.
 - Water and sewer systems.
- + Social infrastructure:
 - General and vocational education.
 - Teacher training courses, administrative reforms.
 - Health stations, family plan-

ning.

- Rural development.

Under the socialist orientation, development projects in Vietnam are concentrated on improving the social infrastructure, removing imbalances between regions and classes, and facilitating the sustainable development.

Up to December 1996, of US\$8.5 billion of committed ODA and US\$5 billion of signed ODA, only US\$1.7 billion had been provided representing around 30%. This small percentage reflects urgent problems with the process of controlling the flow of ODA capital.

In 1995, the ODA capital was put in the following industries:

- Manufacturing (including power supply): US\$150 million.

- Agriculture and irrigation: US\$115 million.

- Transportation: US\$130 million.

- Health care and social welfare: US\$250 million.

- Education, scientific and cultural activities: US\$130 million.

For the years 1996-2000, the ODA capital put in the social infrastructure projects will be of greater proportion. National programs financed by the ODA capital and other sources have succeeded in reducing poverty and uneven distribution of wealth among classes and regions in the process of developing the market economy.

b. Effects on the mobilization of

Source	Committed Aid	Signed Aid	Aid Transferred	%
ODA -1993 -95 (total)	US\$ 6bil.	US\$ 5bil.	US\$ 1.7bil.	30%
ODA-August 1996			US\$ 365mil.	36%
ODA from WB 1993-Aug.1996		US\$ 1.296.7mil.	US\$175.4mil.	13.5%
ODA from IMF		US\$ 725 mil.	US\$ 460.4mil.	63%
ODA from ADB				<20%

investments:

- ODA-financed projects to improve the infrastructure in cities and to build industrial estates have helped to attract the FDI.

Modern infrastructure is a precondition for the economic development in an era of global competition based on the techno-scientific revolution, so the infrastructure and facilities of a country must be modernized with a view to meeting requirements posed by both local and foreign investors. The infrastructure produces great effects on investors' decision-making process, that is why most foreign investors want to do their businesses in the

Northern or Southern Vital Economic Zones where the infrastructure is better. This will lead to imbalances between regions unless the Government take appropriate measures to develop the infrastructure in all provinces.

- ODA-financed projects aim at luring the FDI to underdeveloped regions.

The development of the market economy usually leads to imbalances between regions: certain provinces will stay backward, a lot of laymen will fail to keep up with changes in the economy. The Government had better use the ODA source to deal with bad effects caused by the economic development.

Agriculture and rural development projects, together with education programs, aim at such a goal. These programs will help rural laborers improve their skills and knowledge, help to change local economic structure and prevent unruly migration. Well-trained labor force is a real magnet for foreign investment which is necessary for the building of new cities and industrial estates.

c. Introduction of tendering procedure

Most ODA-financed projects are put out to tender by the donor party. The Decree 43/CP issued on July 16,1997 providing the tendering procedure for projects regulated by investment regulations, projects financed by the public fund or by

the ODA capital, and joint venture projects with a 30% stake (or more) taken by the Government was considered by businesspeople and investors as a step forward taken by the Government to detail the tendering procedure and create a legal basis for tendering business.

The introduction of the tendering procedure has produced good results: from 1994 to 1996, US\$87.2 million were saved as tenderers offered lower prices in comparison with the planned prices, that is, by tendering, the expenditure was reduced by 5.4-5.8%. Moreover, the tenderers usually performed the contract more satisfactorily (goods

and services supplied are of better quality, contracts are completed in a shorter time, etc)

3. Shortcomings in control over the ODA capital

a. Slow transfer of the ODA

In the past few years, the ODA was transferred to Vietnam too slowly with the result that the structure of capital wasn't in proportion.

In the Vietnam's gross investment, the ODA capital was much smaller than the FDI in the past few years.

When the ODA capital transferred to Vietnam is much smaller than the amount committed, the employment of various sources of capital now assume greater importance than before.

In the *Strategy for Development until 2000*, Vietnam assumed that the ODA capital would be equal to some 80% of the FDI, but in fact, the FDI capital is three times higher than the ODA because of procedural problems. Meanwhile, in local commercial banks, there is a deposit surplus but bad debts tend to increase in spite of falls in interest rates. These facts show that there are problems with the employment of sources of capital in Vietnam.

Although Vietnam has succeeded in persuading ODA-givers to commit funds to many projects, but only some 30% of these funds were transferred to Vietnam: US\$850 million in 1996. It's only a small sum in comparison with an amount of US\$1.5 billion that Vietnam planned to receive every year for the period 1996-2000.

b. Problems to be solved:

+ Procedural problems

- Projects, especially projects of top priority, weren't designed carefully because of a lack of a master plan to attract and employ different sources of capital.

- These projects, after completion, weren't evaluated minutely with the result that various changes had to be made to agreements between Vietnam and donors, whereas projects designed by donors weren't suitable to Vietnam's conditions.

- Procedures for negotiating, evaluating projects, and obtaining approval are time-consuming.

- The Vietnamese parties are new to this field and these parties didn't know how to coordinate their efforts.

- There was a lack of cooperation and mutual understanding between

Vietnamese governing bodies and donors.

- Tendering procedures were carried out too slowly.

- + Skills of projects managing bodies

- These managing bodies were new to the task of receiving aid and to international customs.

- The Vietnamese mechanism for controlling external loans is complex and completely different from international practices.

- Regulations on transfer and receipt of aid are inconsistent and need improvements.

- There is no policy on taxation of ODA-financed projects.

- Projects managing bodies had no capital to buy a stake in the project and it took them a lot of time to get needed capital from the Treasury.

- + Site clearance

Site clearance is always carried out very slowly. In the project to upgrade the National Route 1A, although the Government has issued an order to accelerate the site clearance, the HCMC government had to instruct local authorities to complete this task quicker. Many other projects also met with the same difficulty. Causes of this situation are as follows:

- There was no cooperation between local authorities and central government bodies.

- Provincialism is very common among local authorities and project governing bodies.

- There is no appropriate policy to pay compensation and help local residents migrate to new settlements.

- Foreign advisors didn't want to cooperate.

- Difficulties in getting clearance plans approved.

- Dispute between contractors.

Most ODA-financed projects targeted on infrastructure development and involved paying compensation. This expenditure usually represents a large percentage of the capital allocated to the projects. If the budget doesn't provide for this expenditure, the site clearance will be carried out slowly with the result that the ODA capital won't be provided on time. This lateness could lead to increases in running costs and other expenses, and particularly, it makes the completion date become nearer.

- + Problems with foreign experts

Expenditure on expertise is of great importance to the realization of projects but this expenditure is sometimes too high and unreasonable.

In projects invested by foreigners, this expenditure can amount to 11%. It even tops 30% in projects financed by NGOs. According to an expert in the Ministry of Planning and Investment, in the past ten years, expenditure on expertise has cost projects financed by ODA and FDI capital some US\$1 billion. This expenditure was reduced remarkably when the tendering procedure was applied. Vietnamese Government had better use the public fund instead of non-repayable aid to cover the expertise costs in order to make the best use of this expenditure, because if foreign experts receive payments from donor countries, they will only work under the direction of donors.

- + Wrong employment of aid

The press and inspectors have many times reported on wrong employment of aid, especially when it was supplied to social programs. This situation has become more widespread but no information about total damage and losses caused by this has been published.

III. MEASURES TO SOLVE THESE PROBLEMS

1. Causes of inefficient employment of aid

- Policies aren't consistent, procedures are complicated.

- Managing bodies lack skills and knowledge, and moreover, they are affected by provincialism.

- Vietnamese parties have no capital (or meet with difficulty in securing capital from the Treasury) to put in ODA-financed projects. There are many problems with foreign experts and procedures for receiving ODA.

2. Measures

a. The Government should re-examine the legislation on public finance control and procedures for making, evaluating and approving projects; tendering procedures; and methods of inspecting and evaluating effects produced by projects. The process of getting projects approved and preparing capital for projects must be perfected and made more consistent.

b. Tax incentives must be given to ODA-financed projects. There must be policies to carry out site clearance, pay compensation and help local residents migrate and settle down.

c. There must be plans to improve knowledge and skills of project managing bodies, give preferential treatment to competent

officials and pay for the expenses of their training programs.

IV. IMPROVEMENT OF THE EMPLOYMENT OF AID

To improve the ways we employ the ODA capital is an important measure to help Vietnam receive more aid and become less dependent on the FDI. Many economists are of the opinion that the structure of investments of Vietnam is unreasonable and out of proportion because the transferred ODA capital is small, domestic investment is low, government investment is high, and in joint ventures with foreigners, Vietnamese parties can only contribute their land use right which is equal to 30% of equity capital at most. The better part of the government investment comes from foreign loans. The trade gap is widening. Many local companies (both state-owned and private companies) have run into debt to foreign parties. In short, the burden of external loans has become too heavy.

At present, the public sector is developing incessantly and holding the better part of gross investment although the Government has adopted new policies to encourage diversification of ownership and equitization.

The proportion of the FDI capital in on the increase while the return on investment rises slowly. With advantages of a plentiful source of capital and modern technology, together with preferential treatment given by the Government, joint ventures between state companies and foreign investors have caused a lot of troubles to the process of industrialization in Vietnam. Being slow to deal with them will be harmful to our stable growth and economic independence.

One of urgent problems is to struggle against the red tape which has hindered the process of receiving aid and clearing the site for projects, and has encouraged wrong employment of aid.

The proportion of private investment shows sign of decreasing. To encourage domestic investment, it's necessary to reform procedures and control more strictly ODA-financed projects. Realities in the past few years show that procedures and control of the ODA source has become a problem of great urgency to authorities at both central and local levels. To solve this problem can help to reduce the burden of debts, encourage profitable projects and make the best use of foreign aid.