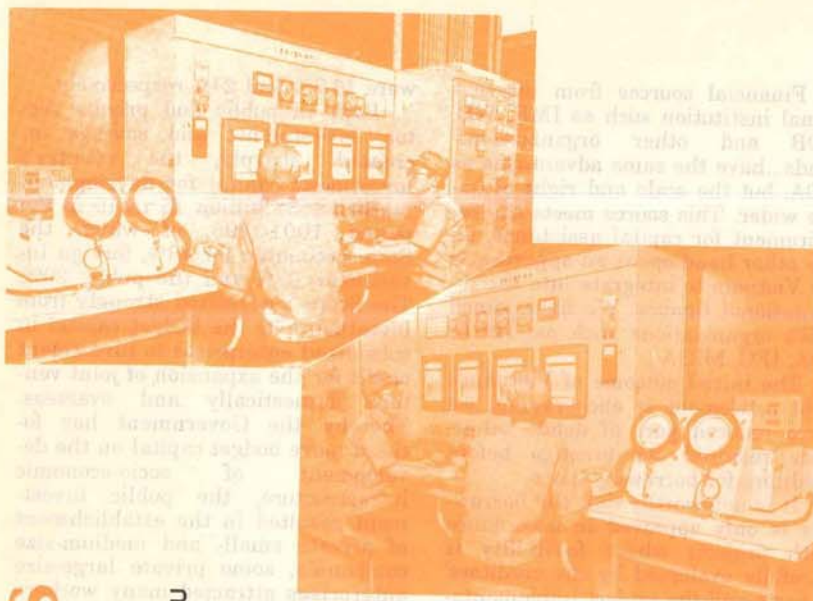


# IMPACT OF ODA ON VIETNAM'S ECONOMIC DEVELOPMENT

by MECON. NGÔ THỊ NGỌC THU



## 1. ODA and industrialization in Vietnam

To develop rapidly the economy when the voluntary saving is small and capital becomes scarce, it's necessary to attract foreign investment. Mobilizing foreign capital needed for accelerating industrialization, modernization and growth rate is one of main strategies adopted by Vietnam government after starting the economic renovation.

ODA capital has two forms:

- Aid: it is usually of small size and limited to humanitarian, educational or medical aid programs.

- Loans: this source is usually of large size with long maturity and low interest rate. This source could be used for building so-

cio-economic infrastructure needed for the industrialization. This is a form of long-term development credit with maturity varying from 20 to 30 years and could be extended for 10 or 12 years. The ODA capital is usually supplied according to plans agreed on by both parties.

In addition, there is a mixed ODA supply which is part aid, part commercial credit. Some nations even give ODA comprising aid, soft loans and commercial credit.

To integrate into a more developed region and maintain a growth rate of some 7%, Vietnam needs a large investment every year (about 30% of its GDP) in order to obtain a growth rate of some 10% in a long period, so in the coming years, it needs both FDI and ODA.

The ODA capital helps to improve the infrastructure and affects greatly the development of all localities and zones. It could also stimulate FDI source and domestic investment; improve the living standard and reduce the uneven distribution of income among different zones.

## 2. Main ODA sources

Main ODA givers are UN financial institutions, governments of OECD members and NGOs. Development aid, both bilateral and multilateral ones, is always coupled with political conditions, therefore the political stability and good foreign relations are preconditions for attracting the ODA. As for Vietnam, it isn't easy to get aid from Western nations. Vietnam has only started to get ODA after the Cambodian crisis was solved. At present, although the relation with the US was normalized, but political problems kept on preventing Vietnam from getting

American ODA. One of achievements of Vietnam is to secure aid without being dependent on foreign governments. With efforts to improve diplomatic relations and success in the economic reform, Vietnam is increasingly receiving large ODA.

In the 1980s, besides aid from the socialist bloc, Vietnam started to receive help from UNDP and the UN has helped Vietnam gain access to international aid organizations.

In the early 1990s, the Cold War came to an end and the number of nations looking for ODA increased and they competed with one another to attract ODA. The demand made by the UN General Assembly for developed countries to contribute 0.7% of their GNP to the ODA Fund is impracticable. Until recently, most developed countries could only contribute some 0.3% of their GNP and at present they are facing economic difficulties and tend to concentrate on domestic problems.

### a. Multilateral ODA

Since 1993, Vietnam has received ODA from such international financial institutions as IMF, WB and ADB. Functionally, the IMF plays an important role in the task of giving aid carried out by international financial institutions. ODA supplied by the IMF usually aims at reducing balance of payments deficit and budget deficit, and assisting alteration of the monetary and economic structure. The IMF is discussing the economic program in 1997 - 1998 for Vietnam and deciding the ODA supplied according to the ESAF3 project.

Up to now, the WB has carried out 12 projects providing Vietnam with a total loan of US\$1.3 billion. In the next three fiscal years from 1997 to 1999, the WB intends to loan US\$1.5 to Vietnam, and the ADB becomes the biggest giver of multilateral aid to Vietnam.

Vietnam has also managed to get the ODA from many other multilateral financial institutions such as International Development Association, International Financial Corporation, etc.

Nine specialized organizations of the UN have opened offices in Hà Nội. Some of them, such as FAO, UNESCO, WHO, UNIDO and UNDP, have supplied advisory and training assistance and helped Vietnam get aid from the UN funds.

### b. Bilateral ODA

Vietnam has received a lot of bilateral ODA from developed countries (most of them are OECD



members), and the most important givers are Japan, France and Australia. Scandinavian nations have given aid to Vietnam by the past tradition. The Koweit Fund has also financed certain projects in Vietnam. The number of ODA givers to Vietnam is on the increase but the size of these projects isn't big. In addition, Vietnam also received help from many NGOs such as the Swedish SIDA.

Japanese ODA (from the Japanese OECF) is of large size, and of ODA - financed projects in Vietnam, ones financed by the Japanese ODA represent the biggest percentage. The Japanese ODA is concentrated in Asia and plays an important role here. Although the contribution of the Japanese ODA to the rapid development in East Asian countries hasn't been quantified, but to some extent, the Japanese ODA has certainly produced great effects on the economic development in the region. The Japanese ODA is usually targeted on infrastructure building and technical assistance. It also created conditions favorable for attracting FDI from Japan.

American ODA still play a remarkable role but its importance is on the decrease in Asia. Because of the Vietnam War, the US - Vietnam relation hasn't been really good and it will take a long time for us to get the ODA from the US.

France acts as an intermediary between Vietnam and donor countries. The French ODA is concentrated in Africa. It isn't as big as the Japanese ODA but rather important to Vietnam. Moreover, Vietnam needs French assistance for such problems as training, technology and capital. More importantly, Vietnam has acted as the host na-

tion for the Francophone summit conference. This shows that the importance of the French ODA to Vietnam will increase in the future.

### 3. Mobilization of the ODA capital

From 1993 to 1996, there were four Vietnam's donor conferences. Many international financial institutions and ODA donors have committed themselves to providing Vietnam with some US\$8.5 billion of ODA capital. If we know to use it correctly and effectively, and if it is transferred to Vietnam on time, it will affect greatly the industrialization and help Vietnam attract more development investment.

We can't take the initiative in attracting the ODA capital as we could do with the FDI because it depends on donors, and donors' objectives are sometimes different from those of recipient countries. Besides looking for donors, the task of selecting projects and sites for projects could only be done after long and difficult negotiations. The ODA source almost makes no increase but the need for it will certainly increase incessantly.

The ODA capital mobilized in large quantities is supplied to many fields. The better part of it is used to finance projects to develop socioeconomic infrastructure along with special projects to reform the administrative machinery and struggle against drug addiction.

An ODA-financed project could be targeted on various objectives: projects financed by IMF, for example, aim simultaneously at improving the balance of payments deficit, budget deficit and struggling against hunger and poverty. As for the source of capital, an ODA project could be financed by many donors:

the Rural Credit Project for example, has been invested by the ADB and the Canada government.

#### a. The ODA capital used for developing the economic infrastructure

Infrastructure projects are made and call for investment 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, irrigation... are usually provided with the ODA capital.

• Power projects: These projects are of great urgency and important to the national industrialization and modernization. The Government has mobilized various sources of capital to invest in the national grid (500KV, 220KV, 55KV) and especially in power stations.

Although other sources of finance are also important but the ODA source has supplied the best part of capital needed for such projects as Phú Mỹ 1 and Phú Mỹ 2 thermal stations, Yaly and Hàm Thuận-Đa My hydropower plants (US\$650 million, 85% of it from the Japanese ODA).

• Communications projects: Some 20 projects worth over US\$1 billion on infrastructure building financed by the ODA have been under way, and a commitment to finance over US\$1 billion to other 10 projects has been settled.

The transportation authorities have estimated that for the period from 1996 to 2000 there must be some US\$5 billion to be put in the building of transportation infrastructure. Road building projects represent around 50% of total investment of US\$6.2 billion planned





for the transportation development, or 15% of total investment planned for public works, and it's the ODA source that supplies the better part of this investment.

Certain projects on infrastructure, power supply, irrigation, telecommunications ... in rural areas have not only affected local economies but also influenced the social progress in these areas and reduced the uneven distribution of wealth caused by fast economic development.

**b. The ODA capital for the building of social infrastructure**

Social infrastructure projects included in 29 national programs and financed by the ODA have been carried out several years ago. Many of

these projects aimed at rural development and human resources development such as anti-poverty and hunger program, afforestation, primary education, settlement for nomads, family planning, etc.).

The health care service has attracted the multilateral

ODA to the greatest extent: in the period between 1991 and 1996, some US\$100 million from OECD members and UN organizations are put in public health programs.

In the period 1996-2000, other \$135 million will be put in these programs. UNFPA, WHO, FAO, SIDA, the Swedish SIDA and the Vietnamese government have also agreed a loan US\$101.2 million to a \$123.4-million program to supply public health service to 15 poor provinces in Vietnam. In the population and health project, the WB and ADB have agreed to loan \$50 million and US\$43 million respectively. The ADB planned to supply a US\$50-million loan to the health project.

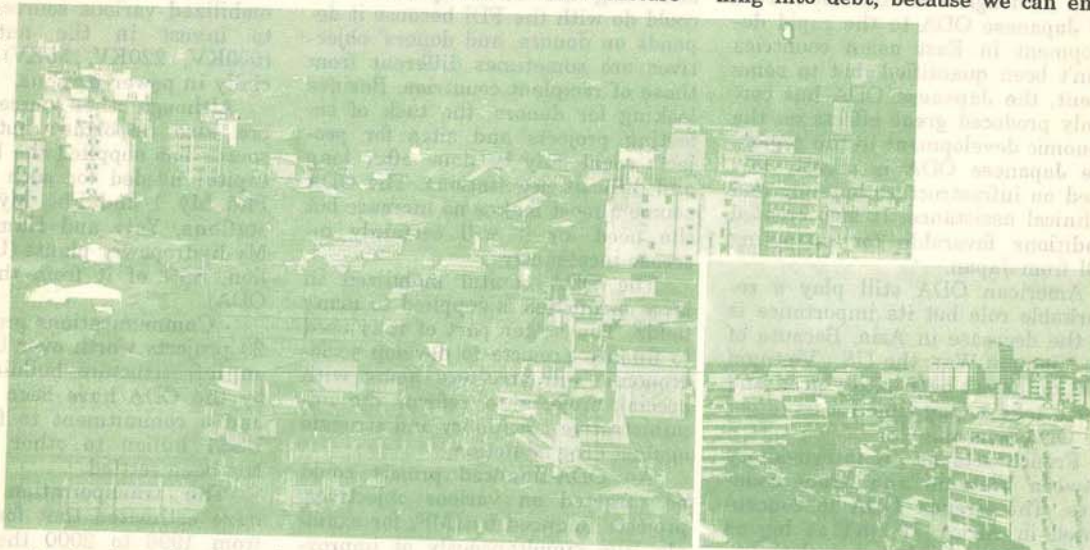
The bilateral ODA from OECD the period 1990-1995 amounted US\$120 million and was used for building and equipping hospitals. Under the socialist orientation, Vietnam's development programs al-

ways aim at developing socio-economic infrastructure and bridging the gap between social classes, industries or provinces with a view to ensuring social stability and sustainable development.

Of infrastructure projects, the Ministry of Planning and Investment has given top priority to the communications network because of its great impact on the alteration of local economic structure.

Up to now, the three biggest ODA givers to Vietnam are Japan, the WB and ADB. They supplied around 70% of ODA committed to Vietnam. The better part of this source of capital is distributed to the following programs:

- Industrial infrastructure



(mainly power supply): 25%

- Communications infrastructure

(mainly road network): 15%

- Irrigation and afforestation: 12%

**4. Prospects of the mobilization of ODA**

According to the WB, Asian developing countries, from 1995 to 2004, will have to spend some US\$1,400 billion on infrastructure in order to maintain their present growth rates. Because Asian capital markets haven't been developed, the competition for ODA, besides long-term commercial credit, will be very keen.

Both WB and ADB have appreciated Vietnam's economic development and realization of projects financed by them and they have planned to supply more loans to Vietnam's infrastructure projects. In May 1996, the WB agreed to loan US\$1.5 billion to Vietnam in the next 3-year period (1997-1999)

ranking Vietnam second, below India, in their list of priority. Before that month, the WB President also said in Hà Nội that all WB commitments to Vietnam originated from Vietnam's economic achievements. This shows that a lot of donors and financial institutions have had trust in Vietnam's economic development.

The lesson of being forced to borrow more money to repay overdue debts to IMF and WB, and ask Paris and London Clubs to write off debts has made all governmental bodies controlling or employing the ODA become more cautious and more responsible for their tasks. However, we shouldn't be reluctant to secure more loans for fear of running into debt, because we can em-

ploy external debts more reasonably and effectively now. With the policy to put ODA capital in infrastructure and other development projects, and the prospects of maintaining the present growth rate for many years, we had better secure more loans from ODA source without fear of insolvency.

In the process of carrying out the economic reform, our diplomatic service has contributed a lot to the mobilization of ODA capital. Because the ODA has its political meanings, so the mobilization of ODA is coupled with diplomatic activity. However the economic development and ability to repay debts constitute a basis for deciding on giving multilateral ODA. Thus, to employ effectively the ODA capital is the best way to attract more foreign capital for our industrialization. ■