

The ODA Source and Development of Infrastructure in Vietnam

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Due to its nature, the ODA source is usually used by recipients to build infrastructure with a view to creating favorable conditions for economic activities and more for-

ships, ports, telecommunications, and even schools and hospitals are all still lacking while the public investment is very limited. In the years 1990-91, the budget deficit was re-

duced but it still persisted, which showed that investments in the infrastructure development was beyond its reach.

ment projects and left many other industries to private investment. To preserve high and sustainable growth rates Vietnam has to develop the social and technical infrastructure.

vestment was reduced with the result that the budget deficit was kept low in 1996-2003.

In the years 1993-95, some 35% of the ODA source was put in infrastructure for transport. The outlay disbursed for the Ministry of Transport rose from US\$110 million in 1996 to 212 million in 1998. In recent years, some 80% of this source has been used for building roads and bridges. It's worth noting that the 10 biggest projects to build roads have consumed some 90% of foreign aid for transport development since 1993.

The power industry is also supported by the ODA source. Some major ODA-financed power plants are Phú Mỹ 1, Phú Mỹ 2-1, Phả Lại 2, Hàm Thuận-Đa Mi and Sông Hinh. This sources helped upgrade the grids in many big cities and build ones in rural areas.

The ODA source also helped with building of water pipes and sewerage in many cities and towns. In the period from 1993 to 1995 alone, thousands of systems for supplying clean water in rural areas were built.

As for health care and education services, the ODA has helped upgrade and give equipment to many hospitals in HCMC and Hà Nội, and carried out various programs to develop the

Table 1: General budget incomes and expenditures in 1989- 1992

Item	1998	1990	1991	1992
As % of the GDP				
Income	16.0	16.1	14.8	18.6
Regular expenditure (no interest)	17.8	16.1	12.5	14.7
Fixed assets	6.7	5.6	3.1	5.6
Balance	-8.5	-5.6	-0.8	-1.7
Interest payment	2.9	2.4	1.7	2.1
Grand balance	-11.4	-7.9	-2.5	-3.8
Financial support	11.4	7.9	2.5	3.8
Net foreign debt and aid	4.4	4.9	1.9	2.9

Source: Ministry of Finance, *Việt Nam chuyển sang kinh tế thị trường* ("Vietnam on Its Way to Market Economy"), Hà Nội, 1994.

eign investment. That is why the ODA source always plays an important role in the building of infrastructure in developing countries. And in Vietnam in particular, this is reflected in the following facts.

(1) Increasing public investment in the infrastructure development:

Talking about the infrastructure in Vietnam after the economic reform was launched, ones usually consider it as obsolete, overloaded and poorly developed. Roads, bridges, airports, power plants,

According to the WB, the public investment in this period was cut to the bone. Public expenditure on fixed assets fell from 6.7% of the GDP in 1989 to 3.31% in 1991 and then rose to 5.6% in 1992. The demand for public investment was great and the Government has paid full attention to the infrastructure develop-

The Government couldn't ensure an appropriate public investment without huge foreign aid and a policy to promote thrift.

From October 1993 on, relations between Vietnam and the WB, IMF and ADB were normalized. The first conference of donors for Vietnam was held in November 1993. The American embargo was lifted in 1994. These improvements helped the ODA source return to Vietnam. With support from this source, the pressure for public in-

Table 2: Budget deficit in 1996-2003

Year	1996	1997	1999	2000	2001	2002	2003
Deficit (as % of GDP)	1.6	1.7	0.8	2.8	3.1	3.2	2.5

Source: www.inf.org and www.worldbank.org

Table 3: Estimate of the share of ODA in national budget in 2006-2010

	Total	2006	2007	2008	2009	2010
Share of ODA in the national budget (US\$ bil.)	9.0	1.6	1.8	1.8	1.9	1.9
Share of ODA in public investment (%)		25	25	23	22	20

Source: MPI

education service when the aid from the Soviet bloc was cut.

In short, the ODA has accounted for 22% - 25% of the public investment in recent years.

(2) The ODA is an effective solution to the infrastructure development when domestic sources of investment are limited.

Like other Southeast Asian countries, Vietnam uses this source for infrastructure development in order to provide preconditions for economic growth in the postwar period. This source has been used in projects to repair and build National Routes 1, 5, 10 and 18; and TransAsia Highway, major power plants (Phú Mỹ, Phú Mỹ 2-1, Hàm Thuận- Đa Mi, Sông Hinh, Đa Nhim, Phả Lại and Ô Môn); and hydropower plants (Yazunha, Phan Rí - Phan Thiết, Hong Delta and Mekong Delta, etc.)

(3) The ODA helps develop the infrastructure effectively and consistently.

With abundant supply of capital, long maturity and low interest rates, the ODA allows implementation of various projects in different industries and sites at the same time, which brings about consistent and even development in many industries. Better infrastructure allows producers to improve their business performance and cut

production cost. In short, the consistent and even development has positive effects on the socioeconomic growth.

(4) The ODA helps local concerns and organizations get access to modern equipment and technologies.

When taking part in ODA-financed projects, local companies have had chances to get access to modern software and technologies. Improvements in the telecommunications service also facilitated this process. In the air transport business, the ODA source brought about modern equipment and control systems, and new faces for such airports as Nội Bài, Tân Sơn Nhất and Đà Nẵng.

The ODA source has changed and improved the health care service in Vietnam by modernizing major hospitals, such as Saint Paul Hospital, Central Maternity Hospital, and Bạch Mai Hospital in Hà Nội, Từ Dũ and Chợ Rẫy Hospitals in HCMC. In Saint Paul Hospital for example, the ODA source accounted for 74% of expenditures on new equipment in 2003 (some VND2.9 billion) while the hospital itself and grant-in-aid accounted for the rest.

(5) The ODA improves business performance of the public sector.

At present, some 40% of projects supported by the WB relate to public institutions,

which improve the performance of the public sector and public service. The better part of foreign aid is also used for reforming the administrative machinery. Distribution of this source is as follows: 40% in social infrastructure and public management; 40% in technical infrastructure; 12% in agriculture and 7% in manufacturing and other industries.

Foreign experience shows that governments that supply good public services and utilities have great chances to receive foreign aid and investment. Vietnam is pursuing this effort in order to improve the state management and create better conditions for the socioeconomic development. However, Vietnam has to repay both principal and interest, although low, when due. So better management of this source of finance is a critical task. ■

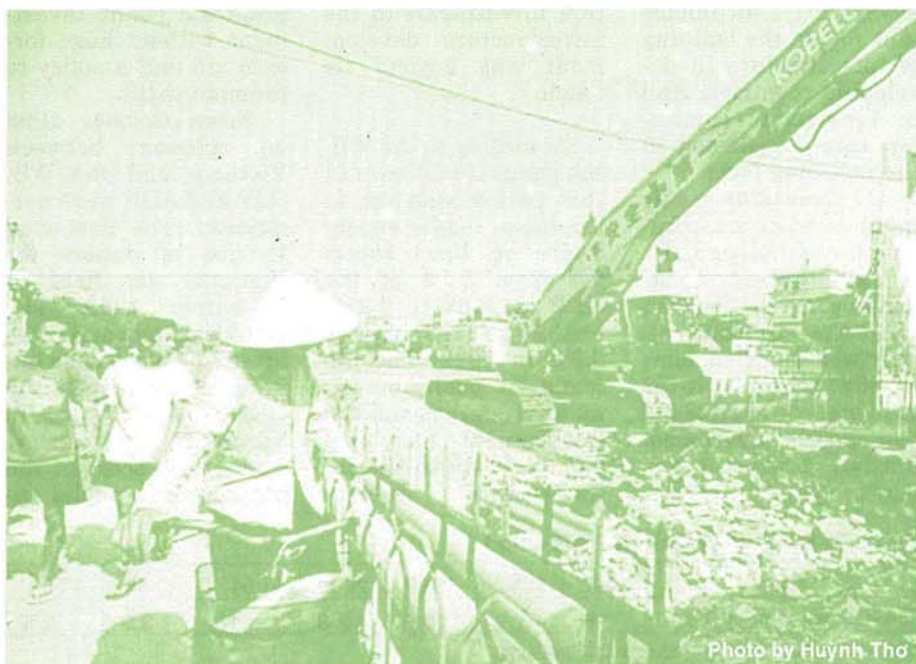


Photo by Huỳnh Thọ