



Photo by Thiên Triều

ODA – Program-Based Approaches or Project-Based Approaches?

by MEcon. NGUYỄN THỊ HUỖN

Official development assistance (ODA) is the financial support from bilateral or multilateral institutions with the aim to promote socio-economic development of developing countries with preferential conditions. The grant element referred to measure the preference rate accounts at least 25% of total aids.

Program-based approaches (also called general budget support) and project-based approaches are two forms for development targets commonly used by donors. Vietnam - one of the world's ten countries which receive the largest ODA funds - is no exception and considered as an effective ODA utilizers. However, which form is the most effective in Vietnam over the past years?

Program-based assistance

The program-based assistance (PBA) is aimed at such fields as balance of payments and the Government's budget. There are some conditions related to how the Government uses the aid and to its policy reform. The PBA is directly given to the Government or ministries at the

national level. (For example, the annual Poverty Reduction Support Credit (PRSC) or at the sectoral level based on each program (e.g., Strength - Weakness - Opportunities - Threats - SWOTs approach). The PBA can combine a lot of donors having the same targets, so it reduces transaction costs and accelerates the procedure completion and disbursement. Vietnam has disbursed US\$3.6 billion in the 1993-2006 period, including more than US\$2 billion used for this form in the 2001-2006 period.

The PBA has the following advantages: the disbursement is faster and the recipient has to make the best use of these preferential loans for its policy reform and establishment because after all its reform costs will burden the state budget without donor's financial supports. Therefore, Vietnam has fully utilized these sources over the past years (as indicated in its implementation of PRSC programs).

One of successful programs for the general budget support is PRSC. The PRSC helps Vietnam's government reform its policies and institutions. It is also a way for the

WB, ADB and other donors to cooperate with the Government in its poverty reduction issues. This is seen via the five PRSC programs from 2001 to 2007 (see Table 1).

The Poverty Reduction Support Credit (PRSC) in Vietnam is a general budget support instrument managed by the World Bank, with 11 multilateral and bilateral co-financiers. First established in 2001 to promote a package of structural adjustment reforms, it has evolved considerably over the past 5 years to become the main platform for dialogue between Government and donors on high-level policy priorities. It has a number of innovative features, including a lack of formal conditionality and a structure for policy dialogue that is open to non-financing donors. The Joint Evaluation rated it as an effective instrument which has brought about a number of benefits for Vietnam's development program, despite its relative youth.

The PRSC is managed by the World Bank with active involvement from other multilateral and bilateral donors. The number of co-financiers has increased from three for PRSC1 and 2, to a possible 12 for PRSC5 and as many as 14 for the next cycle. For PRSC4, the World Bank provided US\$100m, while the co-financiers jointly contributed US\$125m. The World Bank, ADB and JBIC provide loans on concessional terms, while the other financiers provide grants.

The number of donors has increased since the launch of PRSC in 2001. Total annual aids amount to US\$120 million to US\$200 million. High rates of disbursement and non-refundable aids (over 65% of total aids) intensify the effectiveness of PRSC in policy reform as well as its spillover effects. The PRSC programs bring benefits as follows:

- These loans are mainly used in institutional reforms and annually approved in June. The PRSC is also well aligned to the annual budget calendar, affecting reforms in many areas, for example, public adminis-

tration, legislation and state management. As a result, program-based ODA capital may be included in the budget estimation from establishment and implementation.

- The PRSC programs have fetched successful dialogues on policy between donors and the Government. The Government receives, evaluates and selects donors' comments on policy contents and realizing institutions while donors can make access to the reality and understand the Government's reform lines and processes better. Therefore, the quality of policy reform will be higher and the Government's pledges are undertaken in accordance with the specific roadmap. This task will be harder and the process slower without ODA funds.

- The PRSC has helped with state-owned commercial banks' reforms, built social security networks for redundant labor from state businesses, increased the national budget for education and established provincial health care funds for the poor (see Table 2).

Table 2: Utilization of PRSC

Utilization (US\$mil.)	2002	2003	2004	2005
Restructuring state commercial banks	307	292	101	0
Social security	2	34	83	95
Health care	0	29	45	178
Education	0	46	160	362
Total	309	401	389	635
PRSC share in reform costs (%)	39.5	31.7	42.9	28.8

Source: Vietnam Development Report 2007.

- The PRSC is a typical example of donor's coordination in program-based approaches and budget support. This is an evidence for principles stated in Rome Declaration on harmonization of multilateral development banks and Paris Declaration on aid effectiveness. Its actual benefits are reducing transaction costs of both the Government and donors, accelerating disbursement and sharing administrative burdens. The form also allows each donor stakeholder to concentrate its aid on specialized areas and cooperate with other donors to forward comprehensive programs of growth and poverty reduction.

Donors' technical and resource assistance in the programs have significant contributions to Vietnam's reform of policy and institution. The reform process is accelerated, state management enhanced, and investment climate improved. All of these factors have created favorable conditions for the accomplishment of development goals. Donors highly appreciate Vietnam's results in poverty reduction and policy and institutional reforms over the past year. They also suggest the PRSC programs have specific effects on the country's

Table 1: Commitments and disbursements of the five PRSC programs in Vietnam

Programs	Commitments (US\$ mil.)			Non-refundable aids (%)	Year	Disbursements (US\$ mil.)		
	The WB	Co-financiers	Total			The WB	Co-financiers	Total
PRSC1(I)	150	22	172	66	2001	150	0	150
PRSC1(II)	100	27	127	69	2002	100	22	122
PRSC2	100	31	131	70	2003	100	27	127
PRSC3	100	116	216	75	2004	100	67	167
PRSC4	100	118	218	73	2005	100	80	180
PRSC5	100	154	254	75	2006	100	113	213
	-	-	-	-	2007	-	159	159

Source: Vietnam Development Report 2007.

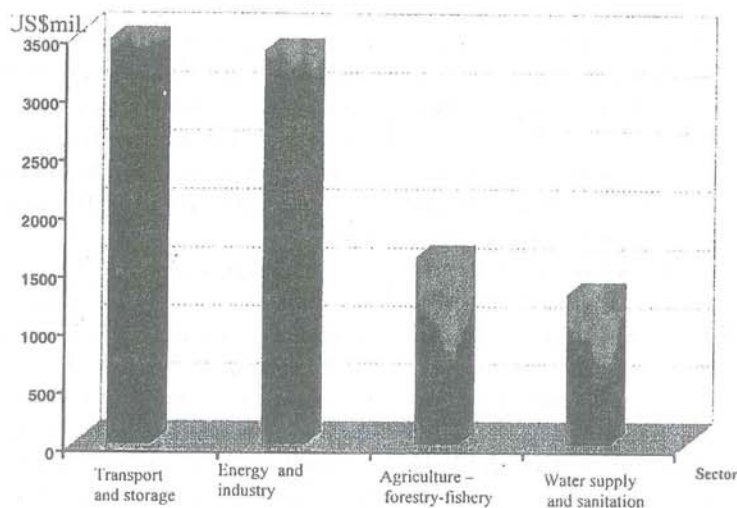
socio-economic development course.

Project-based assistance

Project-based assistance is given and attached to specific targets and projects. Operations and expenditures of the project will be detailed and there are commonly no accompanying conditions related to policy renovation. They include projects of building expressways, bridges, water pipes in residential areas and water supply, etc. These projects usually procure great plenty of goods and services, which requires close inspection to secure proper utilization of the financial aid. As a result, the disbursement speed depends on the project realization pace. Project-based assistance is strictly controlled and its outputs are visible.

Project-based assistance makes up the lion's share in Vietnam's total ODA capital. Nearly US\$12 billion was disbursed in the 1993-2006 period, accounting for 70% of total disbursement. Project-based ODA has made great contributions in building socio-economic infrastructures such as transport and communication, energy, and clean water supply, and development of agriculture, education, health...It improves the Government's financial supply to major industries in Vietnam. There are so many industries receiving ODA over the past years. (See Figure 1)

Figure 1: ODA disbursement via project-based approaches in the 1993-2006 period



Source: <http://dad.mpi.gov.vn>.

Nevertheless, these approaches remain not a few shortcomings in Vietnam, thus decreasing opportunities in utilization of preferential ODA capital in the early stage of development. The low pace of ODA disbursement has lengthened the time of construction and increased investment costs. The obstacles to hurdle the process of ODA disbursement are as follows:

- Processes and procedures are not yet harmonized

between donors and the recipient;

- Officials in project management boards are not competent enough to meet requirements in the process of project establishment, development and realization;

- Legal documents concerning the project realization, for example, site clearance, compensation, and expenditure limits, are not in unison and accordance with the market; and

- The quality of estimates in the phase of pre-feasibility study is not high, thus sparking off troubles to slow down the project.

Program-based approaches or project-based approaches?

These two approaches of assistance are coordinately used in the process of transferring ODA resources. Nowadays international donors (multilateral institutions) attach importance to the program-based assistance and increasingly pump their aids into the recipient's budget. Program-based aids and project-based aids are not substitutes but complements because:

- The PBA's good impacts on the Government's policy and institutional reform (reduction of bureaucracy and perfection of mechanism) will help promote the effectiveness of project-based aids. In addition, this approach will share the costs in the process of reform.

- Technical supports accompanying the PBA will establish solid grounds and steps for technological training and absorption, new method introduction in evaluation and pre-feasibility study with the aim to strengthen the recipient's capability of ODA absorption via approaches including project-based one.

- The PBA aims at macro-economic objectives, which helps improve environmental conditions, fulfill the millennium goals and purposes and generate momenta for development.

- Donors will improve procedure harmonization and on the other hand increase the ratio of program-based assistance in order to reduce shortcomings in project-based assistance.

In short, the ODA capital transferred via the two approaches based on programs and projects at the same time will be effectively utilized in Vietnam's economic restructuring, policy and institutional reform as well as development investment ■

References

1. Database of Vietnam's official development assistance (<http://dad.mpi.gov.vn>, <http://mpi.gov.vn>).
2. Vietnam's national strategies and programs 2007-2010, ADB (2006).
3. Vietnam Development Report 2007.