



United Nations Development Programme



Overview of Official Development Assistance Viet Nam



Ha Noi
December 2000

Acknowledgements

As a service to the Government of Viet Nam and its development partners, UNDP provides regular analysis of the developments and trends in ODA flows in Viet Nam. The analysis in this edition of *Overview of Official Development Assistance in Viet Nam* was prepared by Ernst van Koesveld, and builds upon the previous annual editions. Nguyen Ngoc Minh and Mai Thi Thu Hong assisted in the collection of the data. The data will also be made available on CD ROM.

All ODA data in this publication have been provided by the individual donor agencies through UNDP's annual ODA survey. This quantitative information is supplemented by qualitative information received through the regular contacts that UNDP maintains with the Government and the ODA community. While data from the detailed survey are largely consistent and in line with the more aggregated data of the Government of Viet Nam, some modest discrepancies do occur due to differences in fiscal and calendar year reporting, information lags, etc.

We take this opportunity to express our sincere gratitude for the friendly and close collaboration provided by the donor community and the Government in this annual initiative, which benefits the work of all the country's development partners, and hopefully, ultimately the people of Viet Nam.

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CONTENTS

Summary	5
1. International context	7
2. ODA Trends 1993-1999	10
3. Some ODA Developments in 2000	25
4. ODA Implementation Issues	26
Acronyms	32
References	33

List of Boxes

Box 1	Why ODA – the International Development Goals
Box 2	From aid skepticism towards conditionality, ownership and selectivity
Box 3	Convergence of views on development and development cooperation
Box 4	Aid should be more than just money
Box 5	Small money but big idea: the new Enterprise Law
Box 6	National ownership and emerging partnerships – review of technical cooperation
Box 7	Avoiding the debt trap and aid dependency
Box 8	Assessing aid: what works, what doesn't, and why?
Box 9	Developing a shared vision on the development strategy for the next ten years
Box 10	Regulatory framework of ODA management and utilization
Box 11	PMUs viewpoint on ODA management - the need for decentralization
Box 12	Aid transaction costs study: towards a more programmatic approach?

List of Graphs and Tables

Table 1	ODA allocated to specific regions and urban authorities
Table 2	Government's tentative plans for financing for development 2001-2005
Graph 1:	Global ODA 1982-1998
Graph 2:	Broad ODA Trends
Graph 3:	ODA Disbursements for Major Infrastructure
Graph 4:	ODA Disbursements for Human Development
Graph 5:	Top 10 ODA sectors
Graph 6:	ODA Disbursements by Type
Graph 7:	ODA Disbursements by Terms
Graph 8:	Top 10 ODA donors
Graph 9:	Regional Shares of ODA
Graph 10:	ODA per capita in the Regions
Graphs 11:	ODA per poor in the Regions

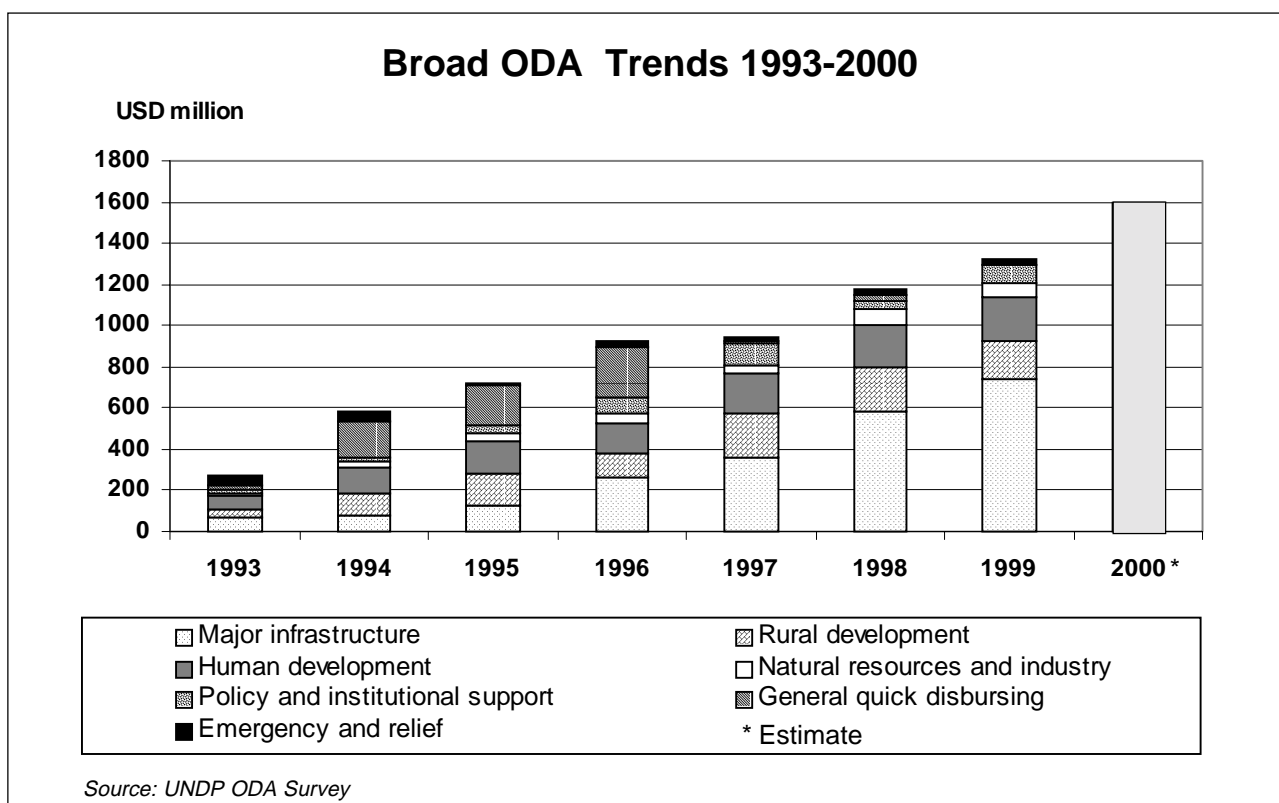
SUMMARY

This year's *Overview of Official Development Assistance in Viet Nam* contains four main sections. The first section reviews the trends in global ODA flows and developments in the international thinking on ODA. Against this background, the second section provides a detailed analysis of the ODA trends in Viet Nam during 1993-1999. The third section gives some preliminary indications of developments in 2000. The final section briefly analyses the ODA implementation environment in Viet Nam with a special focus on the latest draft of the revised ODA Decree 87. A recurrent theme, highlighted in a number of boxes throughout the *Overview*, is that aid should be more than just money, but a combination of knowledge and money (see Boxes 4, 5 and 9).

Donor support for Viet Nam's development and reform policies remains strong, which is reflected in the substantial ODA pledges and commitments made since 1993. At the last Consultative Group (CG) Meeting in December 1999, donors pledged an amount of US\$2.1 billion for 2000, while an additional US\$700 million would be made available when Viet Nam would accelerate its *doi moi* reform process. The cumulative level of pledges over the full period have reached more than US\$15 billion. According to Government data, these pledges have translated into signed commitments worth around US\$12.5 billion.

The main finding of the *Overview* is that the level of annual ODA disbursements in Viet Nam has increased to over US\$1.3 billion in 1999, and further to an estimated US\$1.6 billion in 2000. In spite of rather unfavourable international trends, the country experienced a steady growth in ODA throughout the nineties. Disbursements in 1999 rose by twelve per cent compared to the previous year, most of which can be attributed to the steep increase in disbursements to the energy sector.

According to UNDP's survey of donors, total disbursements over the period 1993-1999 amounted to nearly US\$6 billion, and almost US\$7.6 billion if our estimate for 2000 is included. Very prominent in the disbursements for 2000 is the Miyazawa programme aimed at assisting private sector development, audits of SOEs and the shift from non-tariff trade barriers to more visible tariffs. High disbursements are also expected in the further implementation of investment projects in the energy and transport sector. Of the existing commitments over the period 1993-1999, an amount of US\$6.5 billion is still undisbursed.



A more detailed analysis of disbursements leads to the following findings:

- The distribution of ODA according to types of assistance in 1999 looks different from preceding years. Most notable is the rise of capital investment programmes by more than a fifth to US\$940 million, which is 71 per cent of total ODA. Free-standing technical assistance constituted the second type of ODA with a disbursement level of over US\$280 million.
- ODA funds are increasingly oriented towards major infrastructure, particularly energy and transport. Over the last five years, infrastructure's share in annual ODA disbursements has grown rapidly to 56 per cent in 1999, and amounted to US\$741 million. Human development regained the second position with US\$207 million, or sixteen per cent of annual ODA in 1999, allocated to mostly health and education. Rural development was the third category, receiving fourteen per cent of total ODA disbursements in 1999.
- Quick-disbursing lending for balance of payments and structural adjustment helped boost disbursements in the past, especially in 1994-1996, when the IMF's Enhanced Structural Adjustment Facility (ESAF) and the World Bank's Structural Adjustment Credit (SAC) were active. Both institutions are currently negotiating with the Government a SAC II and Poverty Reduction Growth Facility (PRGF, the successor of the ESAF), which could lead to new disbursements in 2001 and beyond.
- The changing composition of ODA is mirrored in the structure of ODA in financial terms. The share of loans in ODA was at its lowest level in 1993, amounting to only ten per cent, but climbed to 54 per cent in 1996-1997, and amounted to 69 per cent in 1999. A strong institutional linkage between the mobilization of ODA and external debt management, particularly in terms of fiscal planning, would be important to manage the country's debt sustainability in the longer run and avoid aid dependency (see Box 7). The link to fiscal planning will also be very much needed to better manage the country's future operations and maintenance costs of new infrastructure.
- Japan has further strengthened its position as the largest donor in Viet Nam, disbursing US\$531 million in 1999. ADB became the second largest disburser, followed by the World Bank, France and the UN-agencies. Total assistance by international NGOs is estimated at US\$82 million.
- Based on the geographical distribution of provincial ODA, it may be concluded that the general increase in ODA over the last five years benefited all regions, albeit not to the same extent. Especially for the years 1997-1999, ODA figures per capita reveal somewhat growing disparities across the regions. While the Northern Uplands greatly improved its share in ODA disbursements, ODA per capita remained low in the Mekong Delta and the Northern Central Highlands. Nearly two-thirds of the Vietnamese poor live in these three regions.
- Over the last two years, the discussion on ODA implementation issues between the international community and the Government has intensified. This is reflected in a number of meetings and reports, such as the Do Son conference on ODA investment projects, the review of technical assistance and the aid transaction costs study. These and other reports are briefly discussed in the boxes throughout the *Overview*. Specific attention is paid to the improvements in the regulatory framework, notably the draft of the revised Decree 87.
- The latest draft of the Decree is much better in clarifying concepts, procedures and responsibilities, pays extensive attention to monitoring and evaluation mechanisms, and facilitates some decentralization of the ODA process. Donors have brought forward that increased national ownership and more decentralization would further speed up the process, while more flexibility and transparency are needed to move towards a more programmatic approach. Together with the gradually emerging partnership groups between the donors and the Government and a better donor coordination, these measures will not only raise the disbursement ratios, but may also facilitate the mobilization of more ODA for the country's development, as the Government envisages in its plans for the next five years. It should be avoided, however, that money starts to dominate the generation and absorption of new ideas, which is essential for keeping up the pace of reforms.

1. INTERNATIONAL CONTEXT

During the 1990s, global flows of ODA started to decline both in nominal terms and – more dramatically – in terms of donor country GNP (Graph 1).¹ While the need for ODA remained in full force, with an increasing number of people living in poverty worldwide (see Box 1), actual ODA reached its lowest level since the World War II. The *Development Cooperation Report 1999* (OECD, 2000) points out that if the donor effort in terms of the overall ODA/GNP ratio had been maintained at the average level of the previous decades – that is, at 0.33 per cent – nominal ODA flows from DAC Member countries would have been around US\$73 billion in 1998. In reality, they amounted to only US\$52 billion in that year, a drop of some US\$21 billion against historical donor performance. The decline has been the result of broader public expenditure cuts in a wide range of donor countries. In many cases, aid budgets were cut even more than public spending on average. This can be partly attributed to the fact that the end of the Cold War reduced the political priority to aid budgets. The climate of scarcer aid resources has also forced renewed attention to overall aid effectiveness (see

Box 1: Why ODA – the International Development Goals

The International Development Goals (IDGs) provide the rationale for continued development assistance. Being formulated at the DAC meeting in 1996, they were supported by all DAC Member Countries, the UN System and the International Financial Institutions and comprise the following targets:

- Reduce the proportion of people living in extreme poverty by half between 1990 and 2015
- Enrol all children in primary school by 2015
- Make progress towards gender equality and empowering women, by eliminating gender disparities in primary and secondary education by 2005
- Reduce infant and child mortality rates by two-thirds between 1990 and 2015
- Reduce maternal mortality ratios by three-quarters between 1990 and 2015
- Provide access for all who need reproductive health services by 2015
- Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015

In 2000, a first common donor report was published to measure the progress made towards achieving these goals. It concluded that in many fields, visible progress had been made, albeit far from sufficient to fulfil the ambitious targets set. It needs to be added that the Government of Viet Nam is assuming its responsibility to bring the country further on the path to development, by setting human development targets, particularly in the upcoming Socio-Economic Development Strategy 2001-2010, which are very much in line with the IDGs. For a number of these IDGs, such as poverty and primary education enrolment, Viet Nam is even ahead of schedule in their realization or close to fulfilling them.

Source: OECD/DAC (1996); IMF, OECD, UN and World Bank (2000)

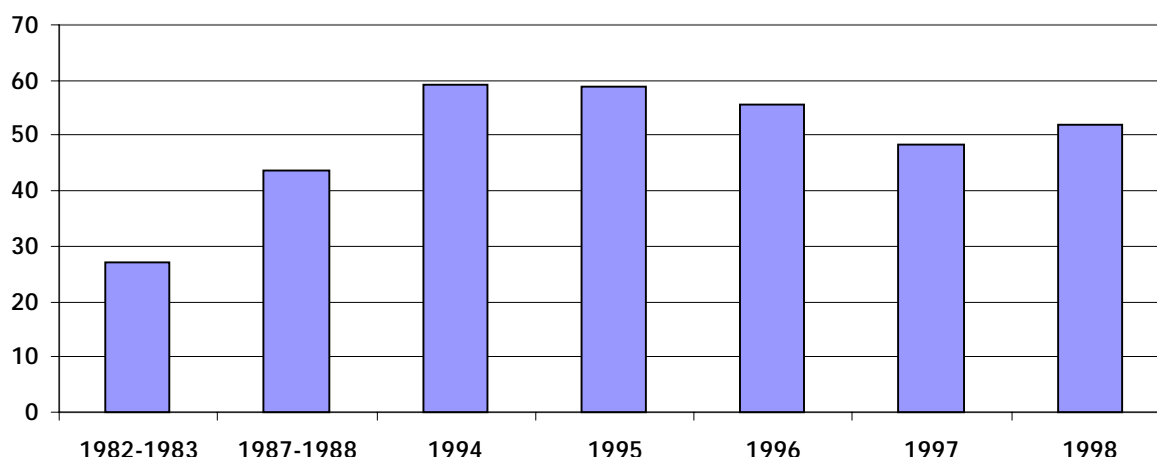
Box 2).

The good news is that after more than five years of uninterrupted decline, ODA picked up in 1998 by nearly ten per cent. This rise is expected to be consolidated, if not strengthened, in the next years. It comes together with new approaches to enhance the quality and effectiveness of aid, such as the focus on medium-term and integrated development cooperation perspectives, the gradual shift from projects to programmes, the increasing prominence of policy dialogue, and the emphasis on sound management of public affairs, partnership, and participation.

The reform of aid delivery mechanisms by most donors, and the promotion of coordination amongst donors, will be constructive in supporting this trend. Examples of joint approaches to make the transition to a country-led partnership are the UN Development Assistance Framework (UNDAF) and the Comprehensive Development Framework of the World Bank (see Box 3).

¹ Official Development Assistance (ODA) comprises all grants and loans to developing countries, which are (i) undertaken by the official sector; (ii) principally aimed at promoting economic development and welfare; (iii) given at concessional financial terms (if loan, have a grant element of at least 25%).

Graph 1: Global ODA 1982-1998



Source: OECD (2000)

Box 2: From aid skepticism towards conditionality, ownership and selectivity

Over the last decades *skepticism* has been growing about the effectiveness of foreign assistance in actually helping poor countries, particularly the poor themselves. The skepticism is found on both the right and left side of the political spectrum. On the right, there has been a revival of the old argument that foreign aid, as it mostly consists of flows between governments, only swells inefficient public sectors. On the left, there have been concerns that flows were going to corrupt elites rather than civil society organizations or that there were used to lever market-oriented strategies, which were considered as fundamentally flawed. The debate has fuelled the empirical research on the macro-impact of assistance, often supplemented by sector studies. Most of the studies conclude that development assistance has had a positive impact on growth, but often a minor and statistically insignificant one. But while aid does increase growth rates and other indicators, notably infant mortality rates, when it flows into good policy context, it often does not flow into such environments or fails to promote such environments to emerge (see Box 8).

The response of at least part of the international community was to apply *conditionality* in the sense that assistance was tied to policy intentions and actual performance. Evidence however suggests that aid cannot really lever domestic policy change. This in turn has led to more emphasis on *'ownership'*, putting governments and people of developing countries in the driver's seat. Ownership is both a matter of principle - aid should not be a vehicle for subverting national sovereignty – and of practical effectiveness in terms of the sustainability of policies and programmes. But it became also clear that if ownership is to be promoted, national capacity has to be built.

The finding that aid increases growth only in the context of sound policies may also lead to greater donor *selectivity* of projects and countries. The first kind of selectivity refers to the attempts of donors to ensure that those projects are chosen that yield substantial returns regardless of the overall policy environment. However, this frees up resources for government to spend elsewhere, which is often beyond the control of the donors (fungibility). It will be extremely difficult to break the link between unsound policies and aid ineffectiveness. It in fact highlights the importance of assessing the public sector's entire expenditure programme, and reinforces a more programmatic approach in dialogue with the recipient country. The second type of selectivity refers to the selection of beneficiary countries on the basis of capacity and performance. This risks in resulting in 'picking the winners', with assistance funds actually following private investments, and leaving aside countries whose inhabitants are most in need of assistance, which would be at odds with attempts to realize the international development goals (see Box 1).

Source: UNDP (1999), UNU (1999), OECD (2000).

The news for Viet Nam is even better. In spite of the global decline in ODA flows, assistance to Viet Nam has expanded greatly during the nineties, and the country benefited more than proportionally from the recent pick-up. As a result, Viet Nam ranked eighth among the countries receiving most of the international assistance in 1998. This is due to the impressive track record of the *doi moi* reforms, especially during the 1989-1993 period when external assistance was in fact limited, as well as the continuous support of a number of countries and international organizations and the establishment of the Consultative Group (CG) in 1993.

At present, ODA in Viet Nam seems to play an even more prominent role than before. This is firstly because of the decline in the level of foreign direct investment (FDI). After having reached a peak in 1995-1997, FDI has plummeted in more recent years. In the aftermath of the Asian crisis, the region's share in global FDI has fallen, and Viet Nam faces fiercer competition from other Asian countries. The foreign investor's perception of Viet Nam's attractiveness has suffered due to sudden changes in the regulatory environment, delays in approvals, alleged corruption, among other things, while other countries have brushed up their business reputation. Secondly, the slowdown of the reform process and weakening enforcement capacity put greater strain on public resources, with induces the Government to rely more on 'socialization' mechanisms (cost-sharing by the private sector and private households) and particularly ODA. However, continued high ODA inflows will likely depend upon further policy and institutional reforms by the Vietnamese Government.

Box 3: Convergence of views on development and development cooperation

"The international community has in recent years built a stronger consensus on what constitutes sustainable development, and how it can be achieved. Following the international conferences sponsored by the United Nations, which have set out an agenda and brought consensus to what people-centred development means in process and substance, bilateral and multilateral agencies are explicitly taking a more systematic and strategic approach to cooperation arrangements and techniques based on ownership and participation by government and civil society of development countries themselves [...].

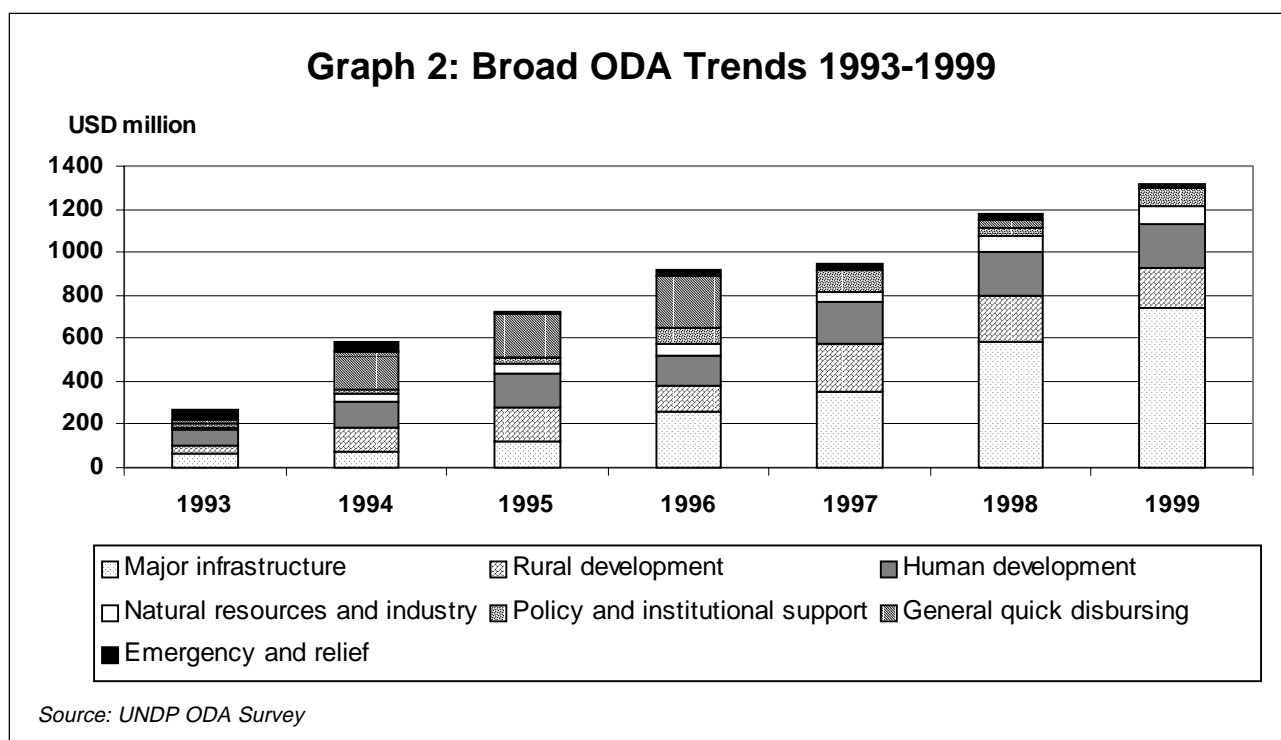
Development agencies increasingly recognize the need for a *long-term integrated vision of development*, emerging from and supporting the *country's ownership* of its own development process; they call for *partnership* with government, civil society, assistance agencies, NGOs and the private sector in defining development needs and implementing programmes. Finally, they all stress the need for concrete *development results*. Encouragingly, it appears that a wide range of developing countries in all regions of the world have moved, to varying degrees, to exercise their own leadership in designing and implementing their strategies, in monitoring results and in coordinating with their external partners."

Source: OECD (2000).

2. ODA TRENDS 1993-1999

2.1 Trends by Sectoral Distribution of ODA

UNDP's Development Cooperation Development System (DCAS) identifies sixteen sectors and 73 sub-sectors, and contains nearly 16,000 records based on the information submitted by the international community. For the *Overview*, the sectors and sub-sectors are regrouped into seven broad categories: (i) major infrastructure, (ii) human development, (iii) rural development, (iv) policy and institutional support, (v) natural resources and industrial development, (vi) emergency relief, and (vii) general quick disbursing ODA. This section analyses the major trends in the sectoral distribution of ODA for the years 1993-1999, which are also reflected in Graph 2.



Infrastructure

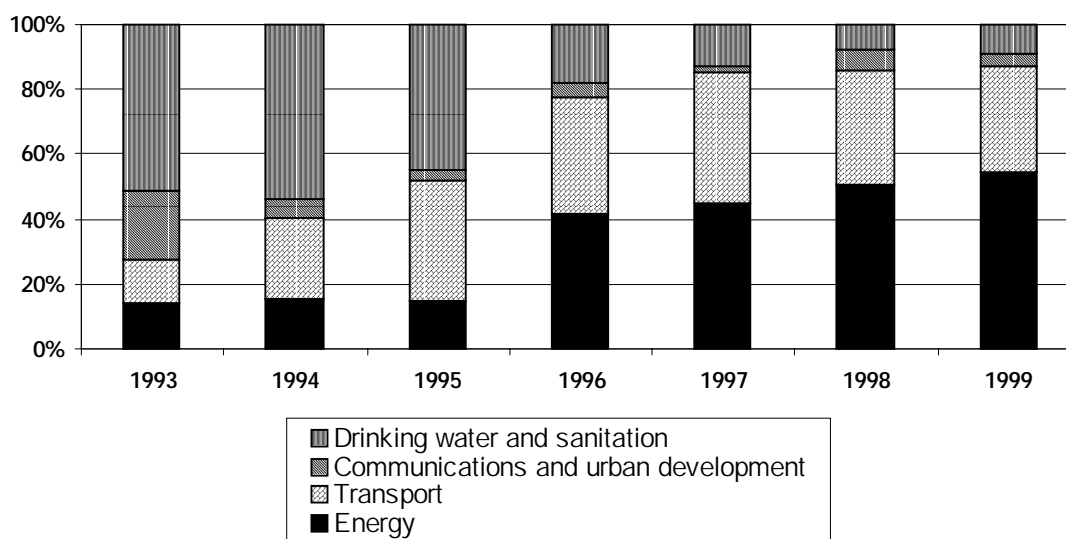
ODA funds are increasingly oriented towards major infrastructure programmes and projects. While this sector accounted for around 15 per cent of total ODA in the years 1994-1995, its share has rapidly grown to 56 per cent in 1999, amounting to US\$741 million (see Graph 3). This is in line with the ambitious Government intentions laid down in the Ten Year Socio-Economic Development Strategy 2001-2010, as well as its sector strategies for the next decade. In spite of the considerable extension of infrastructure services over the 1990s, Viet Nam still lags behind low-income country averages in energy consumption, communication infrastructure and information services.

More than half of the investments in major infrastructure benefited the **energy sector**. With disbursements of US\$403 million in 1999, this sector absorbed 31 per cent of total ODA. ODA projects are largely aimed at plant construction. Often attached to these investments is technical assistance to improve and reinforce the capacity in managing the power supply systems. The bulk of it was related to Japanese projects, which seemed to come really off the ground in 1998/1999, particularly the power plants in Pha Lai, Phu My and Ham Thuan – Da Mi.

Receiving 19 per cent or more than US\$244 million, the **transport** sector was again the second largest sector in terms of ODA funds in 1999. No less than 85 per cent of the programmes are concentrated in a few donor

portfolios, namely JBIC (US\$95 million), ADB (US\$61 million) and the World Bank (US\$50 million), with all three disbursing more funds than in 1998. A huge majority of these funds remain targeted at highways, such as the National Highways 1, 5 and 18, as well as bridge rehabilitation programmes, such as for the National Highway No. 1A and the Reunification Railway. The underdeveloped all-weather rural road system however still receives limited donor attention.

Graph 3: ODA disbursements for major infrastructure



Source: UNDP ODA Survey

The sub-sector *drinking water and sanitation* used to receive about one eighth of all ODA in the mid-nineties, but its share fell to five per cent at the end of the decade. The absolute level of disbursements, however, has been rather stable around US\$50 million until 1998, jumping to nearly US\$70 million in 1999. This amount is distributed over around fifty, often regional, projects supported by wide range of bilateral donors. Except for ADB, which accounted for one-third of ODA, the multilateral institutions were largely absent in this field. Much more needs to be done in this area, as official surveys indicate that still only about half of the Vietnamese population have access to safe supply and effective sanitation facilities.

Finally, *urban development* programmes amounted to US\$19 million in 1999, somewhat lower than in the previous year. In the light of the growing urbanization of the country – one-third of the population is projected to live in urban areas in 2010 (up from 24% currently), the sub-sector is expected to receive more donor support in the future. At present, most of the funds are spent on Ha Noi and HCMC drainage systems, financed by JBIC and Switzerland, respectively. These projects support the Government's aim to increase the proportion of the urban population to have access to safe drinking water from 65-70 per cent in 2000 to 80-85 per cent in 2010.

It is suggested that in the future, international donors like JBIC, the World Bank, ADB, Sweden and other bilaterals, may not continue to finance a large share of infrastructure projects. Their medium term strategies indicate a shift to a greater focus on direct poverty alleviation and increasing access to the remote areas, a declining interest in the financing of thermal power generation and other projects that the private sector could be prepared to finance. These strategies also indicate an increased willingness to help catalyse private investments through guarantees and other credit enhancements (WB/ADB/UNDP, 2000). This may, at least initially, result in a severe gap between the country's investment needs and the direct investment support by the international donors.

Box 4: Aid should be more than just money

Aid is more than simply increased finance. It is in fact a combination of money and ideas, or knowledge. In countries that lack the policies and institutions to make good use of large financial flows, aid agencies can sometimes help foster a climate for successful reform without offering large-scale financial assistance. Examples are providing upstream policy advice and sponsoring forums in which government officials can learn from other countries. The recent World Bank study on the effectiveness of aid, as discussed in box 7, refers to Viet Nam as a case in point. The country initiated the home-grown reforms to open up the economy to trade and private businesses in 1986, but due to its political estrangement from the west, the country received no large scale financial assistance. It did, however, receive a significant amount of policy advice, training and technical assistance, supported by UNDP and the Nordic countries, sometimes with involvement of the international financial institutions. A concrete example was the initiative to set up the first representative household survey ever done in Viet Nam, which has recently been carried out for the second time. Only after a marked policy improvement between 1988 and 1992 did considerable amounts of financial assistance begin to flow into the country in a sustained way. ODA rose from about one per cent in the early nineties to around three per cent in 1995. But by then, a sharp improvement in socio-economic performance had already taken place with growing incomes, falling inflation and decreasing poverty.

The important lesson from Viet Nam's turnaround is that donor agencies can help with policy reform and institutional development before providing large amounts of money. The sequence – ideas first, money when the country is ready to use it well – proved very effective. Of the world's poorest countries in 1986, Viet Nam enjoyed the highest growth over the next decade, whereas the number of poor nearly halved between 1993 and 1998. Given the considerable increase in ODA, amounting to almost five per cent in 1999, there is, at some point, also a risk that the reverse might become true: money starts to dominate the generation and absorption of new ideas, which is essential for keeping up the pace of reforms. Taking up new obligations, particularly loans, should therefore be part of careful macroeconomic and financial management (see also Box 6 and Box 7).

Source: World Bank (1999 and 1998/1999) and UNDP (1999)

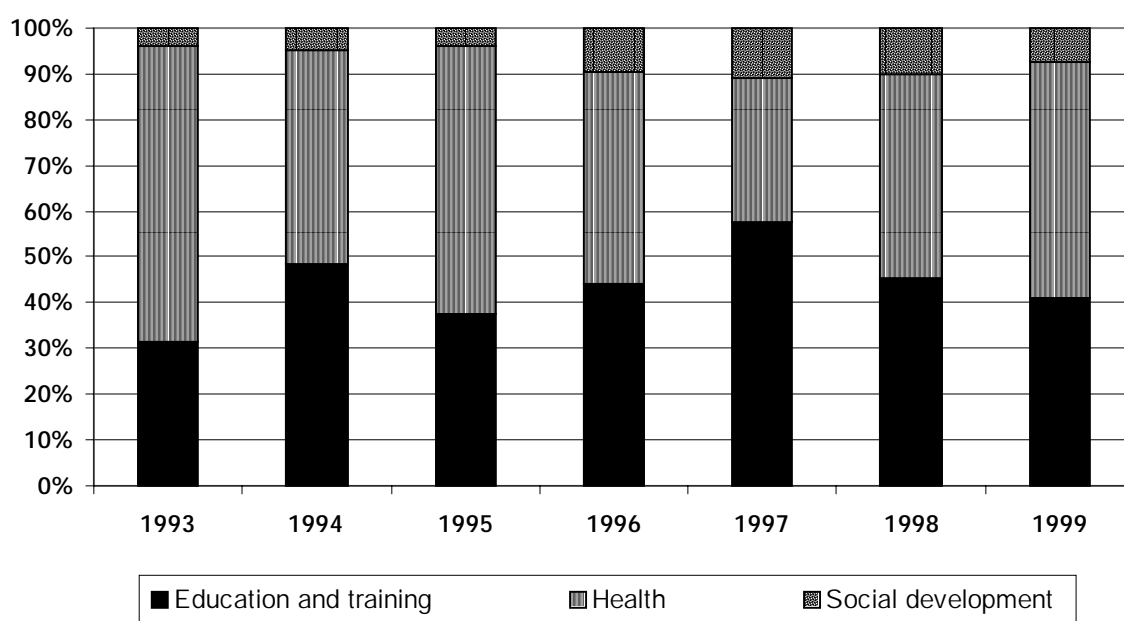
Human development

In the years 1997-1998, human development was the third category in terms of ODA-disbursements, only slightly behind rural development. In 1999, it regained the second position, receiving US\$207 million or 16 per cent of total annual ODA (see Graph 4). This is largely due to high expenditures on the renovation of the Bach Mai hospital, for which JICA granted US\$33 million. By far most of the funds for human development were allocated to health (US\$107 million) and education and training (US\$85 million). The remainder of approximately US\$15 million was spent on a variety of sub-sectors of social development, like social legislation and administration, housing, culture, prevention of crime and drug abuse and media development. Over the period 1993-1999, education and training and health each absorbed around US\$0.5 billion of assistance, most of it in the form of free-standing technical cooperation on a grant basis.

Over most recent years ODA disbursements for **health** have been gradually moving out of immunization and other disease control programmes – still nearly US\$11 million in 1999 – towards sector policy and planning, now amounting to almost US\$18 million. This trend may also reflect the success of national public health programmes such as the immunization campaign. In spite of its low average income, Viet Nam's health indicators are comparable to those of middle-income countries, which is not to deny the significant rural disparities and the serious problems the country still faces (see WB/ADB/UNDP, 2000). Furthermore, in 1998 and 1999, assistance for reproductive health and family planning was two to three times as high as in the two preceding years. In this area substantial support was received from the ADB, the World Bank and Germany. On the health sector as a whole, the UN agencies, notably WHO, UNFPA and UNICEF, spent more than US\$14 million in 1999, partly cost-shared by a number of bilateral donors.

In the field of **education and training**, the international organizations like ADB, the World Bank and UNICEF focused their funds on primary and secondary education, whereas the bilateral donors such as JICA and AusAID concentrate more on tertiary education and vocational training. Of particular interest, are the new initiatives for

Graph 4: ODA Disbursement for human development



Source: UNDP ODA Survey

educating future IT workers, which corresponds to the Government intention to move swiftly towards a knowledge-based economy. However, much more effort and support will be needed to achieve this ambitious goal.

Both education and training and health face a large number of individual and often small projects. In 1999, for example, more than 200 health projects were ongoing, not even including those directly supported by NGO's. Out of more than 150 projects that led to disbursements in 1999, less than half had a total commitment level of above US\$1 million, leading to relatively small disbursements over the individual years. These stand-alone projects may be very effective in improving the population's health, but will also involve high transaction costs on the side of both donors and recipients. The relatively high fragmentation prompts the question whether a more sector-wide or programmatic approach would not be more suitable in these and other sectors. This issue is taken up in the section on ODA management and Box 12 on a recent aid transaction costs study. In this respect, it is positive that both in absolute and relative terms, increasing disbursements in the form of technical assistance are directed to sector policy and planning.

Rural development

Rural development has become the third ODA category, receiving 14 per cent of total ODA. Total disbursements have been decreasing over the period 1997-1999. Although many other projects may often benefit the rural population, the decrease is somewhat worrying in the light of the fact that 85 per cent of the poor live in rural areas and 79 per cent of the poor work in agriculture. There is an acute need to raise agricultural productivity as well as to promote off-farm employment opportunities, which is acknowledged in both the Ten-Year Socio-Economic Development Strategy and the sectoral strategy.

Most of the funds for rural development related to loans for rural finance and credit, infrastructure and transport, the largest of which are provided by the World Bank, JBIC and France. In terms of grant assistance, various UN agencies sponsor a number of direct poverty reduction projects in rural areas, for example in Ha Giang, Quang Tri, and Tra Vinh provinces. These projects have either implicit or explicit linkages with the Government's Hunger Elimination and Poverty Reduction Programme and the 1,878 Poor Communes Programme. The Government aims to eliminate chronic hunger by 2005 and reduce poverty from seventeen per cent in 2000 to

five per cent in 2010, using the new MOLISA poverty line. Taking all these initiatives in the so-called field of *area development* together, disbursement amounted to US\$101 million in 1999.

Direct disbursements for *agriculture* were less at US\$84 million. The six biggest projects were loans concerning irrigation and flood protection by both ADB and the World Bank, and French and Spanish support to the sugar industry, and grants by the Denmark and Norway for improved paddy production, processing and marketing as well as integrated pest management, respectively. Forestry and fisheries also receive attention from a wide range of bilateral donors.

Box 5: Small money but big idea: *The New Enterprise Law*

One of the most significant reforms in recent years in the area of policy and institutional development has been the drafting, approval and ongoing implementation of the new Enterprise Law with the assistance of a UNDP technical assistance project at the Central Institute of Economic Management (CIEM) of the Ministry of Planning and Investment. The new law is widely considered to be one of the single most important reforms approved by the National Assembly in recent years as it is aimed at the development of a healthy domestic private business sector in the still heavily state-dominated economy of Viet Nam.

A much healthier domestic private business sector will be essential to meeting almost all of the other economic and social challenges facing Viet Nam over the coming ten years. In particular, a much healthier domestic private business sector will be essential to generating the jobs, incomes, poverty reduction, domestic savings, and taxes needed to finance and financially sustain increasingly higher levels of development and improved human well-being. Notably, in the coming years Viet Nam's young labour force will grow rapidly. Meanwhile, employment plus underemployment is already well in excess of 30% and rising, and the capital intensive state owned enterprise sector offers little potential for substantial employment generation. While the private sector, including foreign-owned businesses, accounts for some 50% of GDP, the domestic private sector accounts for only some 40%, and has been largely confined to low value-added and low-income areas such as household farming and small shop services. Moreover, the state's domination of the economy extends well beyond its share of GDP to include its influence via the policies, laws and regulations that have been constraining private sector business development, including via control over licensing approvals, land allocation and bank credit through the state dominated banking system which controls 80% of bank lending (much of which is directed to state owned enterprises). As a consequence, overall GDP for the nation remains much smaller than otherwise (at only some \$400 per person per annum) relative to the country's large population and huge potential.

The new Enterprise Law is aimed at reducing the cost and administrative burden of setting up a private business enterprise in Viet Nam by substantially reducing licensing requirements and related fees. Since the passage of the law by the National Assembly in May 1999, some 10,000 new enterprises have been registered according to data from MPI. While this figure includes both new enterprises as well as the registration of previously informal enterprises, it reflects a new and growing confidence by private entrepreneurs in the country's evolving business environment. While many challenges remain in the effective implementation of the law, which is also being assisted with UNDP technical assistance, as well as other needed improvements in the policy, legal and institutional environment, early indications are highly positive. Notably, the CIEM/UNDP project VIE/97/016 which is also being supported by AusAID, involved a relatively small investment of only US\$2.3 million over four years with potentially very high returns thanks to a highly committed and dedicated national counterpart institution.

Source: MPI, UNDP, Viet Nam News

Policy and institutional support takes the fourth place with six per cent of total ODA disbursements in 1999. This form of ODA is important to support the country's transformation to a socialist oriented market economy as well as its integration into the world economy. The support was mostly orientated towards improving economic management and public administration reforms. With financial disbursements of US\$45 in 1999, ADB was the biggest donor in this sector. Nearly all funds, namely US\$43, were released in the framework of its financial sector loan programme. Sweden and UNDP ranked second, each of which granted an amount of US\$5 million. The biggest Swedish projects in terms of disbursements were an economic reform programme for tax policy

and tax administration, the establishment of a fund for consultancy services and training, and support to the Government Committee on Organization and Personnel (GCOP) to modernize the personal management system for civil servants. UNDP supports a number of prominent projects that aim at institutional strengthening and capacity building as well as improving socio-economic policies and the regulatory environment for non-state private businesses (see Box 5 for the project that resulted in the New Enterprise Law).

The next broad category comprises *natural resource management and industrial development*. It reached a total disbursement level of US\$76 million in 1999. About half of this amount was absorbed by four big projects: a French research project for new sugar cane varieties; German support for industrial imports; an ADB-funded water control and delivery project to stabilize food crops in the Red River Delta; and the construction of the cement plant in Quang Ngai, for which Kuwait provided a loan.

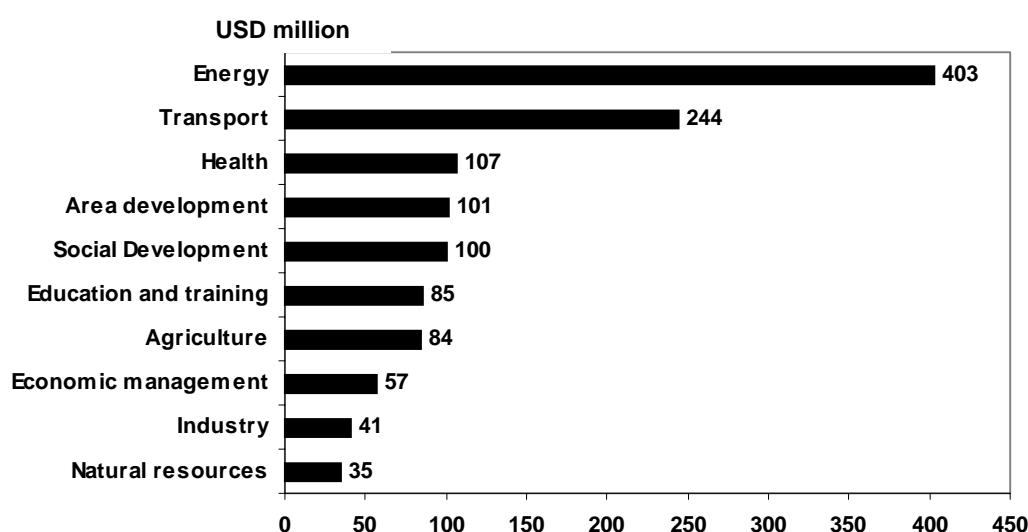
Emergency and relief programmes were particularly active in the early 1990s, mainly with two reintegration projects for Vietnamese returnees supported by the European Union and UNHCR. Since 1995 however, they represent only around two per cent or US\$24 million of total ODA activities, with the largest share going to disaster preparedness. Both the amount and its composition are expected to change in 2000, in the light of the relief given to the victims of the floods in the Mekong Delta.

General quick-disbursing assistance accounted for a major share of ODA during the SAC and ESAF programmes' implementation from 1994 to 1996. In 1998, the World Bank still provided US\$34 million for debt alleviation purposes, but the year after, this category reached a historical low, with only some balance of payment support by Switzerland and debt reduction by Denmark. Viet Nam's total convertible debt stock is nearly 45 per cent of GDP and is expected to rise further over the next years, partly due to the increase of concessional loans. A new phase of SAC/PRGF is currently under negotiation but disbursements will not resume before early 2001.

Top ten sectors

Graph 5 presents the top ten of individual sectors in terms of disbursements in 1999. As in 1998, energy takes the lead, with transport at the second rank. On a few accounts the overall ranking is different from that in 1998. Firstly, the health sector now occupies a third place, directly followed by rural development and social development, which includes urban development and drinking water and sanitation. The latter overtook education and training. Another swap in the ranking took place between economic management projects, where funds for

Graph 5: Top 10 ODA Sectors in 1999



Source: UNDP ODA Survey

especially macroeconomic planning and employment policies increased, and development administration. Together the ten sectors accounted for more than 82 per cent of all ODA in 1999.

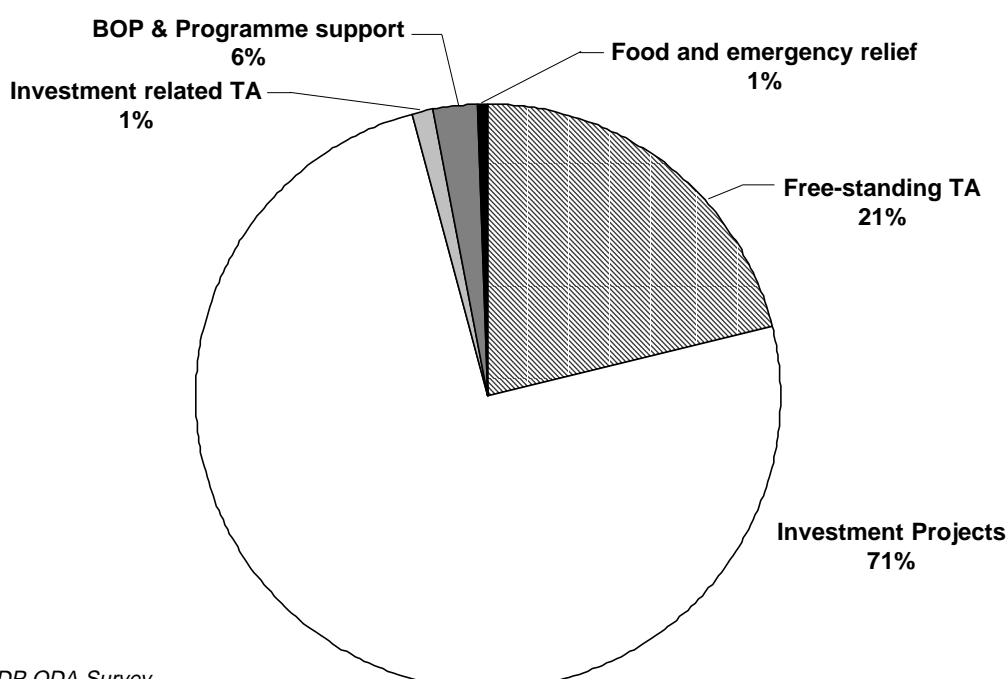
2.2 ODA distribution by type of assistance.

The distribution of ODA according to types of assistance in 1999 looks somewhat different from that in the two preceding years (Graph 6). Most notable is the rise of **capital investment programmes** by more than a fifth. Its share in total ODA rose from 66 per cent in both 1997 and 1998 to 71 per cent in 1999. These investment programmes are dominated by JBIC, ADB and the World Bank.

Following a relatively modest increase of seven per cent, **free standing technical assistance** (see Box 6) constituted 21 per cent (US\$ 280 million) of total ODA in 1999, somewhat lower than figures presented by OECD for other developing countries worldwide. The sectors health, education and training, economic management and public administration continued to attract the bulk of technical assistance, mostly given on a grant basis. Some technical aid is tied to investment programmes, like the financing of feasibility studies and other reports in energy, transport and industrial development. This is recorded as investment related technical assistance, which decreased to one per cent of total ODA in 1999. Yet part of it is likely to be included in the overall figure for investment projects. Finally, emergency and food aid decreased in absolute as well relative terms, and accounted for another one per cent of total ODA.

Quick-disbursing assistance fell back by one-third compared to the level of 1998, resulting in a disbursement level of roughly US\$75 million. Quick-disbursing projects typically provide loans to central Vietnamese institutions, which then on-lend to other organizations. The quick-disbursing general purpose programmes have a broad scope, as is the case of ESAF (or the new PRGF) and SAC programme aiming at developing an enabling macroeconomic environment, while the quick-disbursing sector programmes focus on a special area like rural credit or the financial sector. In the continuing absence of active ESAF/PRGF and SAC programmes, quick-disbursing ODA mainly comprises sector-focused loans. The largest individual disbursement in 1999 was recorded in the framework of ADB's financial sector programme, which released nearly US\$43 million.

Graph 6: ODA disbursement by Type - 1999



Source: UNDP ODA Survey

Box 6: 'National ownership and emerging partnerships' - review of technical cooperation support to Viet Nam

On request of the Government and with UNDP funding, an independent review of technical cooperation (TC) was prepared in Spring 2000. Technical cooperation is defined as that part of ODA that primarily focuses on 'software' inputs into development: support for the development of human resources and institutions, transfer of knowledge and the funding of technical inputs. The Report concludes that the TC programme in Viet Nam has been successful overall. At the same time, a continuation of TC is needed given the complexities of the reform process and the regional and international integration of the country.

Other major findings and recommendations include the following:

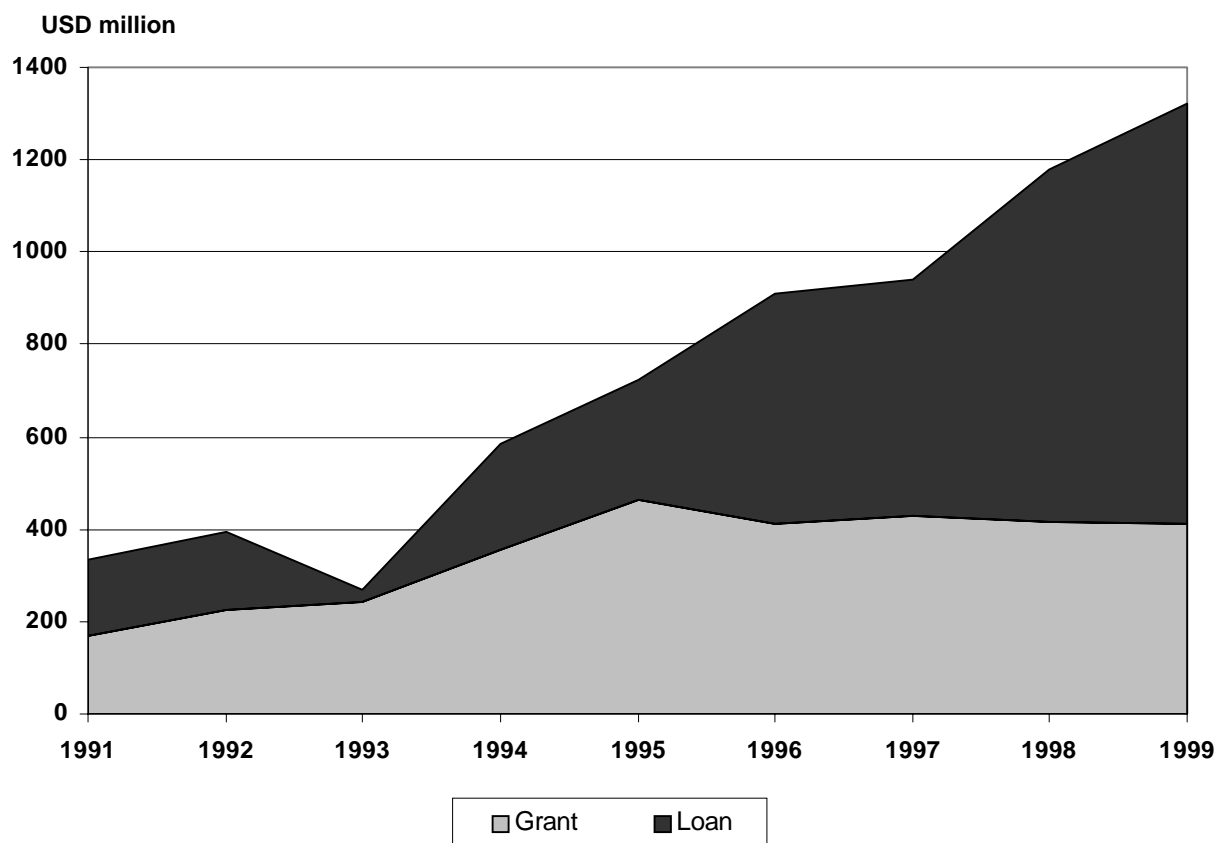
- Viet Nam should develop a more systematic strategy for TC utilization (objectives, approach, principles of project design, entry points, priority areas, phasing out modalities, etc.)
- More attention should be given to the sustainability of the TC activities with explicit attention to institutionalize skills and the development of a national competitive consulting market industry
- Capacity building and organizational development are by nature long-term processes, which is often at odds with the donor's limited time horizon and pressure to come up with short-term results
- The increasing decentralization of programmes and projects, highly desirable to tackle poverty and ensure equity, particularly calls for capacity building at a sub-national level (see also Box 8)
- The achievement of a more effective aid partnership requires a commitment to transparency, particularly sharing of information and dialogue, also to prevent TC being too 'donor driven'
- TC activities should be monitored and evaluated more closely, as quantitative information on their impact is largely unavailable or unknown (see also Box 12 on the transaction cost study)
- The country needs to avoid aid dependency by giving priority to creating sustainable national capacity, with TC as a temporary, or transitional part of the country's development programme (see Box 7)

The programme aims to increase savings and improve efficiency in the resource allocation by fostering competition and greater reliance on a market-based approach. The second major disbursement of US\$25 million was related by the World Bank loan for credit for people in rural areas in order to improve their living conditions. Total disbursements of this type of ODA were somewhat lower than in 1998 due to lower disbursements of the ADB programme on rural credit and the completion of the World Bank debt service programme to settle outstanding private commercial debt and promote access to the international capital market.

For the period of 2001-2005, the World Bank projects the need for quick-disbursing resources at around US\$250 million per year or US\$1.2 billion cumulatively. If quick-disbursing assistance is provided, it will finance the additional balance of payments needs arising from the further liberalisation of the import regime and the additional import demand for input and capital goods as well as the fiscal costs of restructuring SOEs and the banking sector. It is expected to be financed by the IMF, the World Bank and ADB together with several bilateral grants (WB/ADB/UNDP, 2000). Recently, Japan has made a first step by releasing a quick disbursing loan under the Miyazawa initiative, amounting to 20 billion yen (US\$187 million in March 2000).

The changing composition of ODA is mirrored in the structure of **ODA financial terms** with the loan proportion of global assistance continuously growing. The share of loans in total ODA was at its lowest level in 1993, amounting to only ten per cent. It climbed to 54 per cent in both 1996 and 1997, and then accelerated to 65 per cent in 1998 and finally to 69 per cent in 1999. Loan-funded ODA is likely to further increase with the new commitments made in 1999 as well as the eventual resumption of the SAC and ESAF/PRGF programmes beyond 2000. They need to be invested carefully in order to ensure the sustainability and stability of Viet Nam's development process (see Box 6). A strong institutional linkage between the mobilization of ODA and external debt management, particularly in terms of fiscal planning, would be important to manage the country's debt sustainability in the longer run. The link to fiscal planning will also be helpful to better manage the country's future operations and maintenance costs of new infrastructure. On a practical level it is suggested that the revised ODA Decree 87 (see section 4) should include an explicit reference to the national debt strategy. Finally, some bilateral and multilateral donors continue to provide almost 100 per cent of their assistance in grant terms, mostly in the form of technical assistance.

Graph 7: ODA disbursement by Terms



Source: UNDP ODA Survey

2.3 ODA distribution by donor

The top ten of donors in 1999 looks very similar to that in the previous year. Together they accounted for more than ninety per cent of all ODA to Viet Nam. Their individual disbursements are presented in Graph 9. **Japan** has strengthened its position as the largest donor in Viet Nam, reaching US\$531 million. The Japan Bank for International Cooperation (JBIC) has significantly accelerated the disbursements for several large-scale transport and power projects. As a result, the energy sector absorbed more than two-thirds of all JBIC-disbursements in 1999, with most of the remainder going to transport sector for highway construction, bridge rehabilitation and rural infrastructure. JICA grant-based ODA was more or less stable compared to 1998 and was particularly allocated to (technology) training, transport and health programmes. One of the most well-known projects is the renovation of the Bach Mai Hospital including the supply of medical equipment, which was largely completed in 2000.

ADB became the second largest disburser in Viet Nam, with nearly US\$200 million. Transport remains ADB's largest sector, absorbing disbursements worth of US\$60 million. It intensified its activities in the energy sector by fivefold. Its increased involvement in policy and institutional support was even more impressive, making it the second largest area of ADB assistance. This is mainly due to the aforementioned financial sector programme, for which US\$43 million was released in 1999. For 2000, the ADB expects to further increase its total disbursement level.

Peaking in 1998, the disbursements of the **World Bank** fell back by roughly US\$100 million to a level of US\$158 million in 1999. More than half of the decline can be attributed to a slowdown in the implementation of a power rehabilitation project, whereas about a third is due to the completion of the debt reduction programme. The disbursements allocated to transport were speeded up, resulting in a stable share for major infrastructure of more than fifty per cent of total World Bank financing. The second largest area of World Bank

Box 7: Avoiding the Debt Trap and Aid Dependency

Looking back over the past 40 years of developing country experience, there is a remarkable but frightening and recurring coincidence between large amounts of misallocated foreign finance and destabilized development. The main lesson learned through this experience is that large amounts of foreign finance that are invested too quickly into a weak policy and institutional environment, risk building upon existing financial and structural imbalances, developing national capacities that are much more relevant to the past than to the future, facilitate corruption, and create excessive indebtedness and aid dependence.

More than sixty developing countries have had their development processes derailed or destabilized because of such misallocations. Most of these countries remain impoverished, over-indebted, and aid dependent today. In many of these countries, governments used foreign finance to buy political time to postpone and delay difficult, but ultimately unavoidable, decisions that would have been better made earlier than later. This was the case for many countries during the latter half of the 1970s and early 1980s in Africa, Latin America and Eastern Europe. In many cases, the foreign finance was supply-driven by generally well-meaning but over enthusiastic foreign bankers and often impatient donors eager to build up portfolios and programs. Donor financing often unwittingly freed up state financing for less effective investments for example in large politically-motivated projects, inefficient state owned enterprises, and other ultimately loss making ventures. Such ODA initially gave the appearance of being effective by stimulating economic activity for a number of years through increased spending and temporarily higher than otherwise GDP growth rates. Even some of the pure grant financed technical assistance displaced rather than built sustainable national capacities.

In addition, because much of the money was spent unwisely, the financial inflows contributed over time to an invisible over-valuation of exchange rates, which in turn hurt farmers and rural areas where most of the poor live. The over-valued exchange rates also temporarily under-valued the real cost of the underlying debts, and related debt ratios used to monitor indebtedness. Once exchange rates eventually corrected, concessionary debt terms suddenly became quite expensive. Since most of the foreign finance including ODA was in the form of debt, the resulting repayments frequently resulted in painful adjustments, cutbacks in social expenditures, inflationary printing of money to finance debt repayments (which also impacts the most vulnerable), or higher taxes, which holds back the development of a healthy non-state business sector, and ultimately translate into less jobs. The resulting financial and structural imbalances that developed ultimately destabilized development and a number of governments. Also, it was not just short-term liquid financing that proved destabilizing. All debt eventually became short-term debt once it began to fall due.

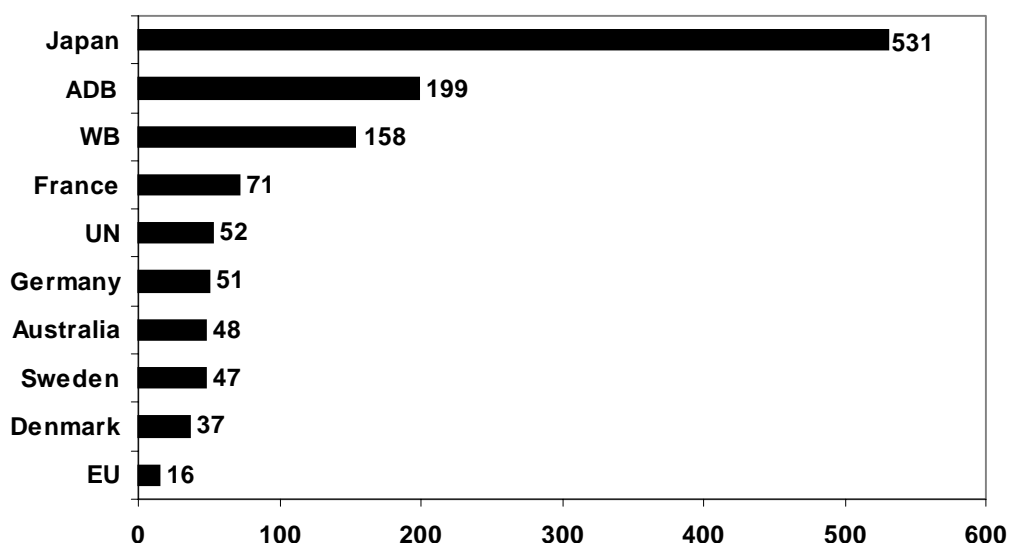
Ironically, the very small group of developing countries (largely in East Asia) that actually succeeded in developing over the past forty years from low income to middle income and some to high income countries did so largely on domestic savings, with only limited but strategic recourse to foreign finance and ODA. High and rising domestic savings reflected the development of high and rising sustainable productive capacities and growing self reliance. The main source of such savings rates were the domestic private sectors of such countries.

Viet Nam's current foreign debt levels are significant, but still quite manageable and sustainable, at around \$14 billion or 45% of GDP. However, large amounts of new public sector foreign borrowing are planned over the next ten years, and as GDP growth picks up, there is also likely to be renewed foreign investor and foreign lender interest in Viet Nam, and possibly additional increases in financial inflows. Moreover, the domestic savings rate remains relatively low at some 18% of GDP, far below the well-over 30% savings rates that sustainably financed development in successful developing countries. Therefore, avoiding the debt trap and aid dependency will involve a combination of further policy and institutional reform, development of a much healthier private business sector needed to generate the domestic incomes, savings and taxes to sustainably finance increasingly higher levels of development, and strategic but careful use of foreign finance, including ODA.

Source: UNDP (December 1998); Vietnam Investment Review (June 1999);

Graph 8: Top 10 Donors - Disbursement in 1999

(based on donor reporting, adjusted for calendar year, in USD million)



Source: UNDP ODA Survey

involvement is rural development. Its rural finance programme is biggest in this area, with total commitments of US\$113 million of a quick disbursing nature. More than half of this amount has been freed over the last two years. Its aim is to promote private sector investments, enhance the banking sector capacity to finance these investments, and to improve the access of rural poor to financial services. New projects that were approved in 1999, and will lead to future expenditures, concern water management in the Mekong Delta, and water supply and sanitation facilities in a number of Vietnamese cities.

The disbursements by the **United Nations agencies** appeared roughly constant during the years 1998-1999, at US\$52-53 million. Among the agencies, UNDP with its administrated funds, remained the largest donor, closely followed by UNICEF and WFP, each spending US\$11-12 million in 1999. After a few years of decline, UNDCP more than doubled its disbursements. ODA is predominantly delivered in the form of pure grant-funded technical assistance. By far, the health sector received most of the contributions, particularly from the WHO, UNFPA and UNICEF, amounting to US\$14.3 million. It covered areas such as expanded immunization programmes, national health and drugs programmes, primary health care and nutrition, reproductive and maternal health strengthening. Considerable sums were also flowing to disaster preparedness, institutional development, education and rural development and the Global Environment Facility (GEF).

As in 1998, France, Germany, Australia, Sweden, Denmark and the EU completed the group of the top ten donors. **France's** US\$71 million went largely to industry, human development, communications and infrastructure. The two biggest disbursements, adding up to a quarter of total disbursements in 1999, concerned the Quang Ngai sugar factory and the sugar cane factory in Tay Ninh province. The importance of rural development nearly doubled to almost a quarter of total disbursement, though the largest share of more than thirty per cent continues to flow to infrastructure, that is energy, transport, urban development, drinking water and sanitation.

Germany disbursed some US\$51 million, focusing on industry, health and agriculture, respectively. The strongest increase took place in the energy sector, although this field still covers less than ten per cent of total German disbursements. **Australia's** disbursements rose by one-quarter to US\$48 million of pure grant assistance during 1999, and concentrated on human resources development, transport and health. **Sweden** became even more committed to the energy sector, reflected in disbursements of US\$20 million. Total disbursement rose by 25 per cent and amounted to US\$47 million in 1999, most of which is provided on a grant basis as well. As in earlier years, priority areas for **Danish** support were agriculture, fisheries and water supply as well as social

development. Total support rose to US\$37 million, almost all in the form of grants. The **European Union** closes the top ten donors in financial terms with a total sum of disbursements of about US\$16 million, slightly less than the year before. Health and humanitarian aid were the areas that received the largest sums, together almost half of the EU assistance.

A number of other donors showed an impressive increase in disbursements in 1999. Especially Norway, Belgium and Kuwait, each of which spent each in the range of US\$9-14 million, considerably more than in previous years. Bilateral donors that allotted similar amounts were the Netherlands, Switzerland, UK and US. Due largely to the strong growth of Japan's assistance bilateral donors spent more than twice as many funds as the multilaterals.

Large combined funds were released by the **foreign NGO community** in Viet Nam. However, they are only partly included in total ODA-figures as the UNDP ODA database records only those projects that amount to more than US\$50,000 and are funded and reported by bilateral or multilateral donors. The NGO Resource Centre estimates that the total assistance provided by the international NGOs accounted for around US\$82 million in 1999, a similar level as in 1998. They brought to Viet Nam important lessons and practical methods from international experience, particularly in poverty reduction programmes on district and commune levels.

2.4 Trends in Geographical Distribution of ODA

This section analyses the geographical distribution of ODA in Viet Nam. For this purpose, projects are classified into three categories: (i) 'central/national', or ODA that is spent by the central Government but with benefits that are, in principle, national (eg. general purpose balance of payments lending), (ii) 'nationwide' or spending of ODA across the country, which cannot be attributed to any specific provinces (eg. national immunization campaigns); and (iii) 'provincial' or ODA that is allocated to specific provinces, including the three urban authorities of Ha Noi, HCMC and Hai Phong. Focusing on the third category, this section examines how ODA has been disbursed to the various provinces and urban authorities. The results are displayed in Table 1.

At least four conclusions can be drawn on the basis of the geographical distribution of ODA. First of all, the share of typical provincial ODA has grown considerably. While central/national and nation-wide ODA constituted around seventy per cent of all ODA disbursements in 1995, the situation in 1999 turned out to be exactly the reverse with seventy percent of ODA spent on a provincial level. This suggests a growing decentralization of ODA funds in the sense that development assistance is increasingly directed to initiatives on a sub-national level. It however, does not imply that the implementation and management of ODA has been decentralized to the same degree. Although a number of important steps have been taken in this field over the last years, the overall ODA process remained largely centralized (see section 4). The foregoing seems to correspond to the tendency towards more decentralization of public expenditures. Although the power to influence expenditure decisions mostly remains at a central level, local authorities have been assigned a larger role in the provision of public services over the last decade (PER, 2000).

Secondly, all regions benefited from the general increase in ODA over the last five years, albeit not to the same extent. The Northern Uplands profited far more than the proportional overall rise in ODA. Especially in 1999, it witnessed a steep increase of disbursements due to investments in the Pha Lai power plants, now receiving US\$281 million. Cumulative over the years 1995-1999, the Red River Delta ranked highest in terms of ODA disbursements (see Table 1 and Graph 9). The Central Highlands, on the other end, received least of all regions, both in 1999 and over the entire period. In the light of the support to manage the effects of the floods in the Mekong Delta, the regional picture is likely to be somewhat different for the year 2000 and beyond (see section 3).

As development assistance ultimately aims to improve people's well-being, Graph 10 presents ODA figures per capita for the seven regions in the country. It reveals that over the last three years the disparities across the regions have somewhat widened. Since in reality the people in the Northern Uplands and the Red River Delta receive considerably more than would be the case if ODA would be distributed on the basis on population figures, ODA per capita is relatively high. For the south-east, including HCMC, ODA disbursements are more in line with their respective population shares. In all other regions in Viet Nam, particularly in the Mekong Delta, ODA per capita is lower than the national average of over US\$14.

Table 1: ODA allocated to specific regions and urban authorities

(in million USD)	1995	1996	1997	1998	1999	1995–1999
Northern Uplands	38.8	51.3	78.0	128.6	280.8	577.5
Red River Delta	78.4	78.4	88.5	192.3	234.5	672.1
Of which Ha Noi	41.2	29.6	41.4	71.8	90.6	264.6
North Central Coast	27.0	43.9	63.2	61.8	70.3	266.3
South Central Coast	4.3	39.2	62.0	63.0	70.8	249.3
Central Highlands	12.8	23.8	18.3	26.5	33.3	114.7
Southeast	31.9	54.2	70.1	119.3	114.7	390.2
Of which HCMC	11.2	24.3	37.8	50.7	50.3	174.3
Mekong Delta	27.0	36.1	58.0	105.5	93.3	319.9
Total	230.2	326.9	438.2	697.1	898.0	2590.1

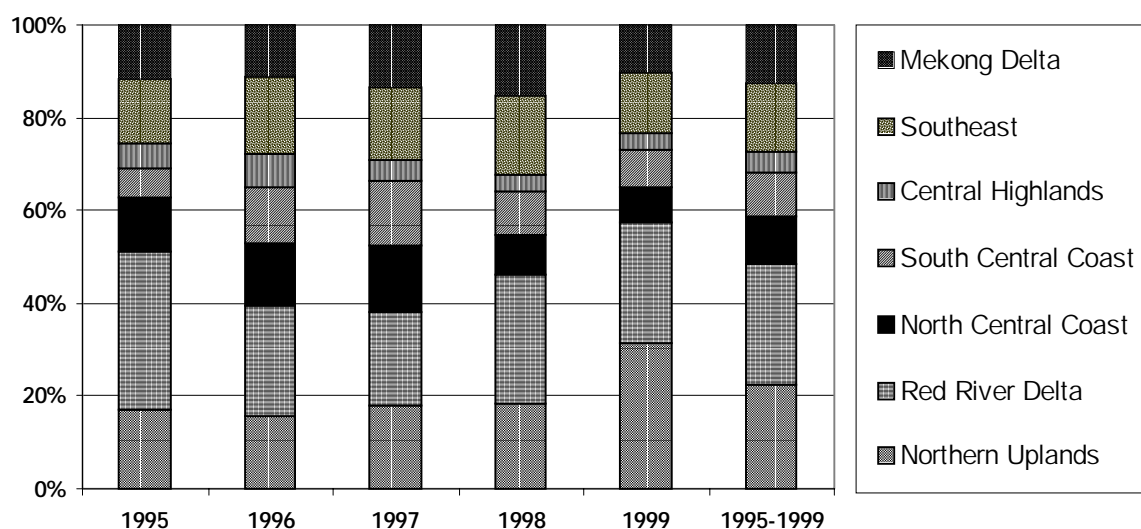
Fourthly, the significant and increasing differences in ODA per capita between the regions in Viet Nam might be fully justified if the geographical pattern of ODA disbursements would be in line with the spread of poverty over the country. According to the Viet Nam Living Standard Survey II for 1997/1998, using a poverty line on the basis of food and non-food expenditures, poverty in the country lies in the range of 30–45 per cent or a point estimate of 37 per cent. Almost two-thirds of Viet Nam's poor live in three regions: the Northern Uplands (28% or nearly 8 million people), the Mekong Delta (21% or more than 6 million persons) and the Northern Central Coast (18% or 5 million people).

The fundamental question of whether ODA is effective in reducing poverty would need further analysis, not only of the exact target groups of the numerous projects, but also of the effectiveness of the actual deliverance of the benefits foreseen, and whether the projects 'crowd in' or 'crowd out' other sorts of funding. The data in Graph 11 nevertheless, indicate that ODA disbursements flow more than proportionally to the population in the South-East region which is already relatively well-off. Receiving up to one-sixth of total ODA over the last three years, only three per cent of all poor in Viet Nam live in this region with poverty more shallow than elsewhere.

On the other hand, and contrary to earlier years, the poor in the Northern Uplands now potentially receive more than the national average. However, in the Northern Central Coast the poor are still worst off, with ODA per poor only at one-third of the national average, and having experienced a minimal increase over the period 1997–1999. The situation is not much better in the Mekong Delta, where ODA per poor is about half of the average with even a slight drop in 1999. It is nevertheless encouraging that in terms of new commitments made, these two poorest regions in Viet Nam have improved their relative position over the last five years, which should lead to higher proportions of total disbursements in the near future.

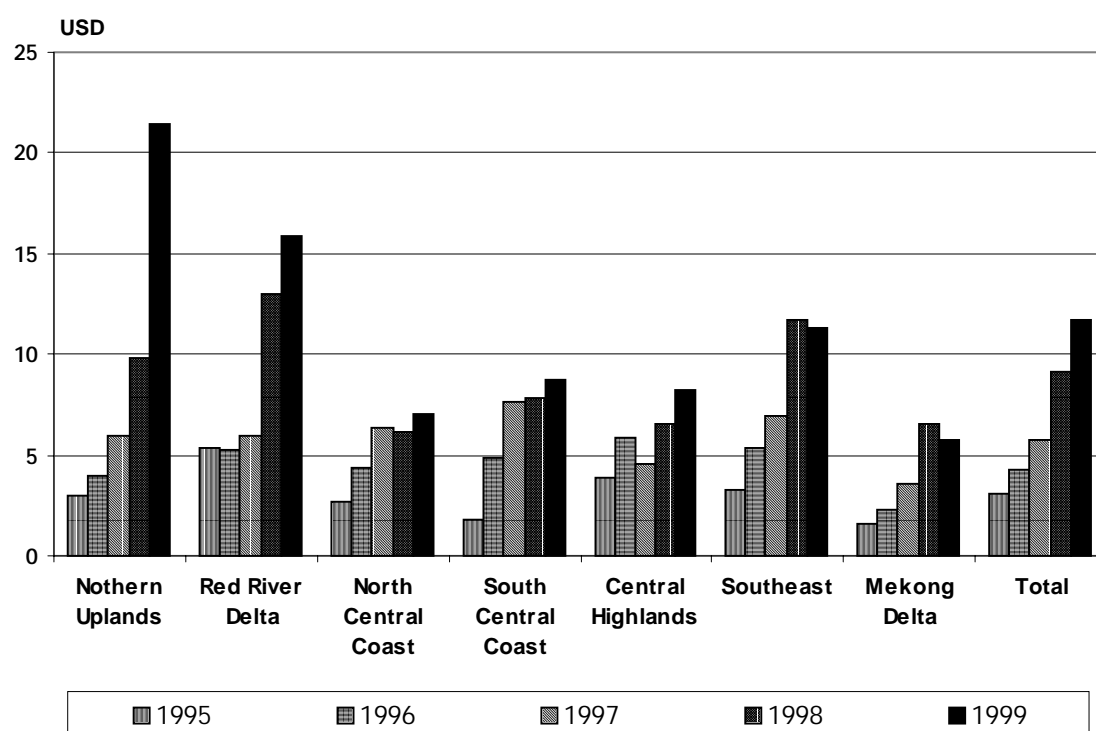
On the basis of the foregoing it is tempting to argue that international resources should be better targeted to the population in the poor provinces. Although this is principally correct, practical implementation issues should not be lost out of sight. More precisely, it should be borne in mind that the regional ODA distribution to some extent also reflects differences in absorption capacities in the country. In certain cases, more assistance would not translate into the better results due to the lack of experience in project and programme management. In those cases, institutional strengthening and capacity building should be an integral part of new projects and programmes. This would promote a level playing field for all potential beneficiary organizations. However, donors often prefer building on existing experience and past successes in order to achieve the desired results in a relatively short period of time. In this sense, capacity building has certain characteristics of a public good, which will be underprovided, unless proper coordination mechanisms are put in place. Rewarding good performances might ultimately result in a certain path-dependency in the regional pattern of ODA. Yet the aggregated regional figures for the years 1995–1999 do not give much grounding for such a conclusion.

Graph 9: Regional shares of ODA (%) in 1995-1999



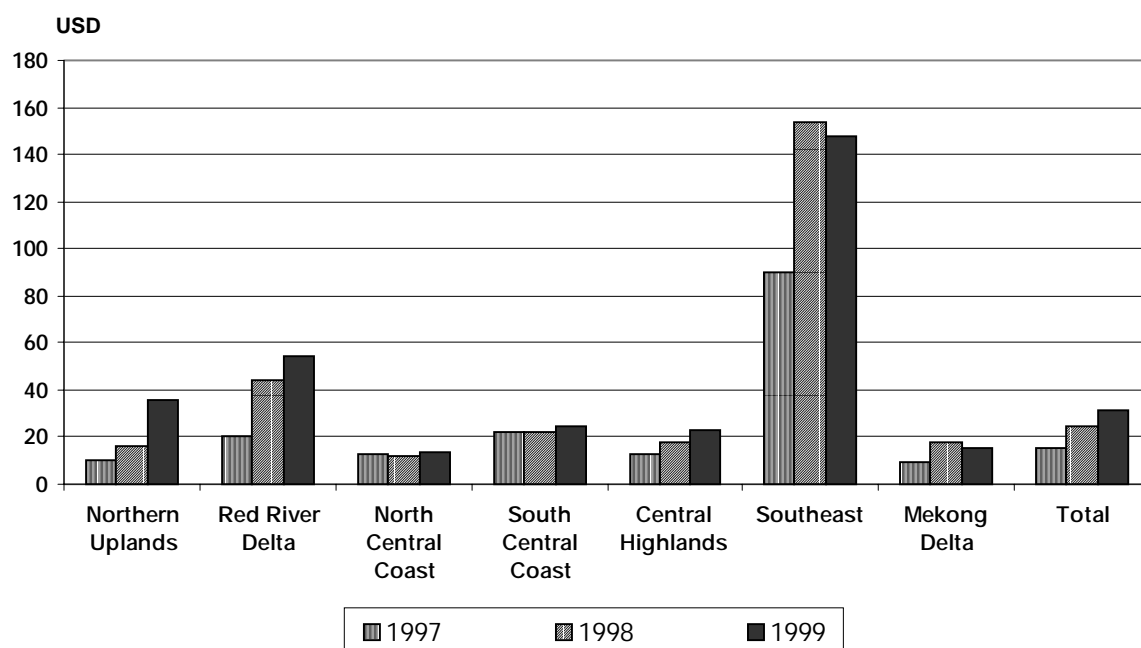
Source: UNDP ODA Survey

Graph 10: ODA per capita in the regions



Source: UNDP ODA Survey

Graph 11: ODA per poor person in the regions



Source: UNDP ODA Survey

Box 8. Assessing aid: what works, what doesn't, and why?

A recent World Bank study revisited the field of assessing aid and produced the following main findings:

- Financial aid works in a good policy environment. With sound management, one per cent of GDP in assistance translates into a one per cent decline in poverty and a similar decline in infant mortality. Aid to countries with sound management is more than three times as effective as across-the-board assistance.
- The key to a rapid reduction of poverty is to improve institutions and policies. Aid should be aimed at strengthening the governance, including civil society involvement in providing of public services.
- Since it increases the confidence of the private sectors and improves public services, effective aid may 'crowd in' private investments by a ratio of almost US\$2 to every US\$1.
- Aid can nurture reform even in difficult environments, but it requires patience and focus on ideas, not on money (see Box 4). External support for policy and institutional reform is staff-intensive, and results in little disbursement of funds. It can however, help reforming countries to develop and test their ideas.

The study refers to Viet Nam in the mid eighties as an example of how large amounts of financial aid can have no impact in an environment of distorted institutions and policies. Despite Soviet aid of no less than ten per cent of GNP each year, there was virtually no progress in terms of poverty reduction and improved social indicators. Economic management was poor, the trade regime was closed, there was no scope in the economy for the private sector, and a large financial imbalance was financed by printing money, leading to hyperinflation. This situation was exacerbated by the sharp drop in Soviet aid in the late 1980s, although eventually this might have spurred the formulation and implementation of the *doi moi* reform process.

Source: World Bank (1999).

3. SOME ODA DEVELOPMENTS IN 2000

In 2000, the Ministry of Planning and Investment (MPI) as the coordinating body for ODA started to publish a quarterly ODA Bulletin to improve information sharing among Vietnamese institutions, an initiative that UNDP was keen to support. Apart from discussing ODA events and donor profiles, it takes stock of the new commitments made throughout the year and presents preliminary data on disbursements. Approaching the end of the year, MPI has recorded new commitments amounting to roughly US\$1.8 billion for 2000. This amount is close to the average of the new commitments made in the period 1993-1999.

Nearly three-quarters of the new commitments concern loans, mainly to be provided by Japan and meant for infrastructure projects, such as the Hai Phong port rehabilitation, the Highways 10 and 18, the Thanh Tri and Binh bridge in Hai Phong, and the Viet Nam TV centre. Furthermore, ADB agreed with the Government of Viet Nam on funding upper primary teacher training and SOE reforms. With UNICEF, UNFPA, WHO, it was also involved in the signing of a US\$98.7 million programme to improve primary and preventive health care facilities for the poor in the rural areas of 33 provinces across Viet Nam. The project also includes a pilot scheme to develop community health insurance. Finally, the World Bank entered into agreements on loans for rural transport, rural energy and coastal wetlands, with support by Denmark and the UK.

MPI further reports that ODA disbursements for 2000 stood at US\$870 million by the end of June. For the full year, the Government expects that a disbursed amount of US\$1.68 billion. This implies a significant increase in disbursement ratios, particularly in the energy sector. In addition to the further implementation of big infrastructure projects, the release of a loan worth 20 billion yen (US\$ 187 million) under the Miyazawa initiative is especially noteworthy.

The floods in the vast areas of the Mekong River Delta was probably the most noteworthy event in Viet Nam during 2000. In early July, heavy monsoon rains started inundating areas along the Mekong River. The floodwaters reached peak level in early August, but receded only slowly due to extensive heavy rainfall from upstream of the Mekong River in neighbouring countries. In the midst of October, the Government figures showed that more than five million people have been affected by the floods, with close to 400 casualties. Economic losses caused by the floods were initially estimated by the Government to be US\$250 million. The International Federation of Red Cross and Red Crescent Societies (IFRC) launched a first appeal on 13 September 2000, followed by a United Nations Inter-Agency Appeal for Emergency Relief and Initial Rehabilitation on 20 October 2000. The amounts requested were around US\$1.5 million and nearly US\$9.5 million, respectively. The donor community has responded generously to these appeals. In the period from 15 September to 1 December, total international relief donations amounted to nearly US\$11 million. It is expected that more donations will be collected over the following months.

Looking ahead, the Government projects a further rise in ODA disbursements over the next years. Government estimates of the financing required for the investment plans for the upcoming Five-Year Plan 2001-2005 for socio-economic development has tentatively been put at US\$56-57 billion. These tentative plans imply that the ODA share of total investments is envisaged to remain largely the same as in the previous period while annual disbursements are expected to significantly rise to US\$1.8-2 billion (see Table 2).

Table 2: Government's Tentative Plans for Financing for Development 2001-2005

(Billion US\$)	1996-2000 Estimated	2001-2005 Plan
Annual Growth targets	7%	6-7%
Total investment	36	6-57
<i>Financing</i>		
Domestic Resources	19.1	35-36
Foreign Resources	16.9	19-21
of which FDI	10.8	10-11
of which ODA	6.1	9-10

Source: Government of Viet Nam (2000), First High Level Roundtable Consultation on the Socio-Economic Development Strategy, June 2000.

4. ODA IMPLEMENTATION ISSUES

In the seven CG meetings held since 1993, pledges have averaged around US\$ 2.2 billion per year, to reach a cumulative amount of over US\$15 billion. The total value of the signed ODA-agreements in the period from 1993 to October 2000 amounts to nearly US\$12.5 billion. According to the same Government data, cumulative disbursements for the same period are estimated at US\$6.5 billion, only slightly higher than according to the UNDP survey among the donors. Both figures imply an implementation ratio of just above fifty per cent. Various donors have indicated that their disbursement ratios have been improving in recent years. The above nevertheless suggests that at present an approximate amount of US\$6-6.5 billion is still undisbursed.

In some cases, projects and programmes explicitly foresee a spread of disbursements over time to allow for a gradual implementation. In others, the time lag between donor commitment and the actual disbursement is due to unanticipated delays. One of the explanations for these delays is the sharp and rather sudden rise in ODA commitments. Since 1993, Viet Nam has witnessed a rapidly growing number of donor agencies becoming active and expanding their programmes in the country. This heavily taxed the capacity of the Government, especially as it had to become acquainted with a variety of donor procedures and conditions, while donor coordination was still in its infancy. As a consequence, the Vietnamese administration has been, and in many aspects still is, faced with a fairly steep agenda to develop the legal framework, institutions and capacity to effectively absorb increasing ODA inflows.

Over the past years, Viet Nam, together with its development partners, have been making significant progress in areas related to ODA coordination and implementation. On the Vietnamese side, the capacity has been strengthened considerably, roles and responsibilities have been defined more clearly, and public reporting on the Government budget has been improved. The Public Investment Programme (PIP) and the Public Expenditure Review (PER) in particular have contributed to more transparency in public finances, which facilitates the identification of new areas for international cooperation. At the same time, donors have gained experience in operating in Viet Nam, and embarked on a more results-oriented partnership towards increasing policy dialogue with the Government as well as closer coordination among themselves.

Some notable results of the improved management and coordination of ODA are that in general, preparation periods have been shortened and ODA disbursements (apart from quick disbursements) have shown a continual increase to reach an unprecedented level of US\$1.3 billion in 1999.

The gradual emergence of a number of partnership groups between donors and the Government is also noteworthy in this respect. These groups provide a forum to discuss the development agenda and areas for potential cooperation to contribute to the country's long term objectives, although more efforts are needed to ensure that they function effectively.²

At present, the formulation of the Government's Socio-Economic Development Strategy 2001-2010, and its related implementation plans, further offers a unique opportunity to develop an effective and coherent framework for comprehensive development and partnership. During 2000, two unprecedented High-Level Round Table Consultations took place, hosted by the MPI and the UNDP (see Box 9).

Improvements in the regulatory framework

In spite of the progress made, there is still ample scope for improvement, given the fact that undisbursed commitments remain high. This is acknowledged by the Government and its development partners. This year's *Overview* focuses on the renewed discussion on improvement in the regulatory framework for the management

² See for an overview: World Bank, ADB and UNDP, *Viet Nam Development Report 2001 – Viet Nam entering the 21st century*, part II, 2000.

Box 9: Developing a shared vision on the development strategy for the next ten years

Over the past two years the Government of Viet Nam has been preparing a new Ten Year Socio-Economic Development Strategy for the period 2001-2010. The new ten year strategy is to be reviewed, discussed and approved at the 9th National Party Congress tentatively scheduled for end March 2001. This new development strategy will be aimed at mapping out the broad strategic directions, and the key policy and institutional reforms needed for Viet Nam to capitalize on emerging opportunities and meet emerging challenges over the coming five and ten years. Development objectives include high and sustainable economic growth, further international economic integration, industrialization and modernization, more knowledge-based development and a further substantial reduction of poverty.

In early 1999, the Minister of Planning and Investment entrusted to UNDP the responsibility for assisting the Government in undertaking strategic background research in four areas critical to Viet Nam's future. In addition, UNDP was requested to organize a series of High Level Round Table Consultations and technical workshops between senior officials and experts within the Government and the international community. A policy-based research project was set up with MPI's Development Strategy Institute, which has been mandated the responsibility for facilitating the work of the Government's Strategy Preparatory Group headed by the Prime Minister. UNDP subsequently mobilized additional technical and financial assistance from a number of other development partners, particularly AUSAid, Swedish SIDA, and UNIDO.

During the latter half of 1999 and the first half of 2000, strategic policy-based research was carried out in four broad areas critical to Viet Nam's future development: **1. Role of State and the Market in Viet Nam;** **2. Globalization and International Economic Integration;** **3. Rural Development and Job Creation;** and **4. Science & Technology for Industrialization, Modernization and Knowledge-based Development**

In addition to a series of technical workshops involving the sharing of ideas between national and international experts, two High Level Round Table Consultations have so far been organized on 9 June 2000 and 21 November 2000. The first Round Table focused on the strategic background research, while the second one focused on the first draft of the new ten year strategy. Both High Level Round Table Consultations were closed to the media in order to facilitate an open and candid exchange of ideas and suggestions between the Strategy Preparatory Group and the international community. So far these Round Tables have involved the active participation of a wide variety of senior Vietnamese officials and the international donor and NGO community. The Round Tables have so far benefited from the leadership and active participation of a large number of senior Vietnamese officials including His Excellency Nguyen Tan Dung, First Deputy Prime Minister, His Excellency Nguyen Khanh, Former Deputy Prime Minister and Head of the Political Report Preparatory Committee, His Excellency Minister Tran Xuan Gia of MPI, and the heads of all of Viet Nam's key research institutes including the Prime Minister's Research and Advisory Group, the Central Institute of Economic Management and the Development Strategy Institute. On the international side participants included Ambassadors and Aid Counselors from a wide variety of countries, Resident Heads of the ADB, IMF, World Bank and UN agencies, a variety of NGOs, and a team of eminent international experts.

The Round Table Consultations have been extremely rich in content and helped to further develop a more common understanding of some of the more difficult issues still needing resolution in order to further define the country's strategic directions. A variety of Ambassadors noted that such open consultations on a country's development strategy are "*remarkable and unique, not just for Viet Nam, but for any country*". A third High Level Round Table Consultation is planned for late February or early March 2001 to further help the Government define the country's strategic directions while developing a shared vision among all development partners and a strategy for Government-led comprehensive development.

and utilization of ODA (see Box 8), and will particularly consider the revisions in Decree 87 that are currently under discussion. Some key issues concerning ODA implementation and its effectiveness have been highlighted in the various boxes throughout the *Overview*.

Decree 87 constitutes the core of the regulatory framework for ODA. In order to improve the overall management and utilization of ODA, the Government recently decided to revise the Decree, an exercise that was assigned to the MPI. As part of the process, all 61 provinces/cities and most ministries/government agencies were consulted to share their views on major directions and proposals for revisions and additions in the current decree. Subsequently, revised versions were presented and discussed at two meetings of the UNDP organized during Monthly Donor Group Forum in June and September 2000. They offered the opportunity to the donor countries and agencies to share their views and comments. Earlier, ADB, JBIC and the World Bank organized a conference on ODA-funded investment project management in April 2000 (referred to in Box 11). One month later, the technical cooperation support to Viet Nam was reviewed on request of the Government and with funding by UNDP (see Box 6), and more recently an aid transaction cost study was undertaken (discussed in Box 12). During the last months of 2000, MPI has further modified the version of the Decree, which will have to be agreed upon by the Prime Minister.

Box 10: Regulatory Framework ODA management and utilization

The regulatory framework for ODA-funded projects/programmes comprises four major decrees:

- *CP87 on Management and Utilization of ODA*, which constitutes the overarching decree for all ODA from all kinds of donors (although regulations for NGOs are elaborated upon in Decree 80 issued in 1991). It regulates the mobilization, negotiation, signing, approval and ratification of ODA as well as its management and implementation and outlines the responsibilities of all agencies involved;
- *CP52 on Regulations on Investment and Construction Management (1999)* identifies the role of the State in managing investment and construction based on projects, planning and legal regulations.
- *CP88 on Regulations on Tendering* sets rules with regard to the selection of consultants and partners, procurement of materials and equipment, construction and installations, etc.
- *CP22 on Resettlements* regulates the compensation for State recovery of land to be used for the purposes of strategic sectors and public interest (in accordance with the Law of Land of 1993).

Draft of the revised ODA Decree (Decree 87)

Generally, the draft of the new Decree includes considerable improvements in many areas in comparison with the existing one. It clearly takes stock of the lessons learned and includes many of the suggestions made by the various stakeholders. After a brief introduction in which concepts are defined and the whole ODA process is summarized, the new draft logically follows every step of the process, and concludes with a description of the responsibilities of the respective institutions and the implementation provisions. It in fact formalizes current policies and practices and will thus provide more guidance to those involved in the mobilization, management and utilization of ODA. A number of improvements are particularly noteworthy:

- *Increased overall clarity.* The revised version of the Decree clarifies concepts, procedures and responsibilities. To give a few examples, the revised Decree stipulates the early establishment of a Project/Programme Preparation Unit (PPU), delineates a time-bound process for the approval of new projects and programmes, specifies the responsibilities of relevant agencies in providing counterpart funds for project preparation and implementation, and clearly spells out the tasks of the Project/Programme Management Unit (PMU). Furthermore, the revised Decree reinforces the leading role of MPI in ODA management and coordination. MPI is now explicitly entrusted with the task to take the lead in coordination, act as the centre for information flows, and establish an overall monitoring and evaluation information system. This implies that MPI will be held more accountable for the overall ODA process, though it will also add to its already high work load.

- *Mechanisms for monitoring and evaluation (M&E) strengthened.* In a completely new chapter, the draft of the revised Decree pays extensive attention to M&E, which is no longer considered as a shared responsibility of various institutions. In the future, PMUs are expected to carry out M&E activities as an integral part of their day-to-day work. The Executing Agencies, such as Ministerial-level bodies and Provincial People's Committees, will then establish a M&E system for their respective branches, whereas MPI will develop an overall M&E information system, and ultimately report to the Prime Minister. The emphasis on the formulation of an ODA strategy, again under MPI's responsibility, will further facilitate results-based ODA programming. However, it is not yet completely clear how the findings and recommendation concerning M&E will be followed up.

Acknowledging the significant improvements that are proposed in the new draft of the Decree, donor organizations have tabled a number of other proposals in order to ensure that a less time-consuming and a more transparent ODA process will indeed be achieved:

- *Flexibility is needed to move towards programmatic support.* The draft of revised Decree does not fully comply with the general direction being followed by Viet Nam's external partners. Many of them attempt to move away from the traditional stand-alone projects and to work with the Government in a more comprehensive and programmatic manner. It would therefore be useful to consider the option that Prime Minister level approval in principle is given for all phases of a large programme, but specific approvals for smaller components of the programme are delegated to a lower level. This would reduce the incentive to overprogramme, and would mitigate the burden on the absorption capacity at the beneficiary organizations.
- *Increased ownership can speed up the process.* It is an improvement that the draft of the revised Decree has foreseen the establishment of a PPU within fifteen days after the donor's agreement to consider funding. Also a positive feature is that it has envisaged that at the next stage, some members of its staff could be transferred to the PMU, which provides an opportunity to build-up sustainable expertise and capacity. Other measures to increase national ownership and to speed up the process would be to strengthen the Vietnamese involvement in the identification and preparation of new programmes and projects. To this aim, it would be worthwhile considering the establishment of PMUs well in advance of the formal negotiations of the funding arrangement instead of only after its conclusion. Furthermore, donors have pointed out that although counterpart funds are in principle available at the preparation phase, they often do not materialize. More in general, increased transparency is needed to know how the counterpart funds are managed or used.

Box 11: PMUs viewpoint on ODA management – the need for decentralization

The ADB/IBIC/WB report *Vietnam - ODA project management and performance issues and recommendations*, discussed during the Do Song conference in April 2000, reports on three stakeholder surveys among 51 PMUs. With the risk of overgeneralization, the following PMU 'viewpoint' with regard to utilization and management of ODA-related investments can be discerned:

- *Organization:* operational management guidelines, often coming from several government authorities, have to be clarified and made more uniform.
- *Preparation:* donor and government procedures differ, preparation funds are not always available, and functions, powers, organization and particularly staffing of the preparation unit need to be improved.
- *Manpower capacity:* PMUs have difficulty in recruiting staff with the right skills, particularly as they cannot compete with employment packages of other potential, mainly private, employers.
- *Decision making:* there is a lack of delegation from the Government level to Executing Agencies, while the PMUs have limited decision-making authority and too many authorities and consultative bodies interfere in their decision-making process.
- *Financial capability:* funds are insufficient for competitive salaries, facilities, training and travel.

Based on: ADB/IBIC/WB (2000).

Decentralization has been a rather contentious issue in the discussion on the draft of the revised Decree. The draft Decree explicitly notes that the Government will unify its ODA management on decentralization, among other principles, and indeed reflects improvements on this account. But even after the revised Decree will become effective, executing agencies and PMUs are still subject to the many decisions and heavy supervision of the various higher authorities (see Box 9). This reduces the flexibility to adjust to a changing project or programme environment, loosens the incentives on a lower level, and might even result in informal or illegal facilitation techniques. Simplification and streamlining of procedures and deliverance of authorities from central and higher level to the local and lower level is certainly needed. At the same time, such decentralization requires tremendous efforts in terms of staff training and institutional capacity building. Limited capacity at province, district and commune level may in fact have been one of the reasons for the still highly centralized ODA-process. Special attention needs to be given to the translation of individual skills into institutional capacities. Decentralization needs to be further guided to avoid ‘scatterization’ and duplication. There is clearly a need for attempts to find an optimal mix of ‘coordination by higher authority’ and ‘provision of incentives and autonomy’.

On at least two accounts, the latest draft of the Decree increases the autonomy at lower levels. The first is that project implementation agency will be authorized to make revisions in the budget due to fluctuations of the exchange rate or due to adjustments in the value of counterparts’ funds that it has generated on its own. It is also allowed to modify the structure of the budget as far as this does not lead to changes to the objectives or the overall budget. A second concrete example of decentralization is the raising of the threshold that determines the need for the Prime Minister’s signature, from US\$0.5 million to US\$1 million for technical assistance, and from US\$30 million to US\$40 million for investment and mixed projects. Furthermore, the latest draft of the Decree stipulates that approval in such cases no longer requires MPI’s endorsement.

Donors have proposed a further increase to US\$2 million and US\$50 million respectively. In a similar vein, the thresholds for amendments during the implementation phase could be increased in the same proportions. The fact that amendments and supplements exceeding US\$1 million should be submitted to the Prime Minister is rather restrictive and a ten per cent limit might be sufficient, although certain provisions might be needed for the periodic revisions or indexation of the ceiling. These sorts of measures will not only expedite the ODA process but also increase the sense of ownership as well as facilitate a more programmatic approach.

Box 12: Aid Transaction Cost Study: towards a more programmatic approach?

Given the growing number of projects and donors in Viet Nam, ODA management issues, particularly the aid provision modality, have become increasingly important in the dialogue between the Government and the donors. So far, aid has been programmed predominantly through stand-alone projects, often without clear and effective coordination mechanisms between them. Various partners have proposed to adopt a sector-wide or more programmatic approach based on the government sector strategies and its leadership. To stimulate further discussion on the issue, the UK Department for International Development (DFID) funded a study on aid transaction costs. With management support by UNDP, the Overseas Development Institute (ODI) conducted the research and recently published the first draft of the report.

The study defines aid transaction costs broadly as “the costs arising from the preparation, negotiation, implementation, monitoring of agreements on the delivery of ODA”. Too high transaction costs influence the volume of aid delivered and new pledges made, reduce aid efficiency due to misallocation and overspending, and lower aid effectiveness when aid activities do not address development priorities or undermine institutional goals. As collecting quantitative information in itself would involve unacceptably high transaction costs, the report is based on qualitative questionnaires and interviews together with an examination of eleven projects under the Ministry of Agriculture and Rural Development.

Among others, the report reaches the following recommendations at the *macro level*:

- Improve medium term resource planning by Government by developing a medium-term fiscal outlook, together with medium-term sector expenditure programmes based on clearly defined sector strategies, as well as by improving the overall quality of public expenditure information.
- Ensure donor support for this process, by providing information on donor commitments and programmed disbursements over the medium term, synchronising fixed term country programmes with the Government’s five year planning cycle and in considering adopting medium to long-term (five to ten years) country programmes with annual roll forward plans.
- Improve donor coordination by rationalizing the structure of working groups and its meetings, increasing government ownership of the coordination function, and by synchronizing coordination groups meetings with government planing and budgeting cycles.
- Move from many small projects to fewer larger projects, with individual donors concentrating upon a few rather than many provinces as well as sectors, and implement joint and co-financing arrangements.

At the *project cycle management level* it further mentions the following key tasks:

- Improve the project identification and appraisal process, by clearer and more consistent project appraisal criteria, further decentralizing authority for project appraisal and approval to line agencies and provincial government, and by building national capacity for project design and appraisal.
- Address problems with project implementation, monitoring and evaluation by considering collective regulation of incentives and the personnel implications of PMUs, and to better integrate PMUs into ministerial human resource planning.
- Standardize procedures between government and donors to generate efficiency savings, strengthen government capacity building and national ownership of ODA. Examples are, joint donor missions for the identification and proposal of projects, adoption of common forms for project proposals and feasibility studies, common project appraisal criteria, standardized procedures for procurement and monitoring and synchronisation government and donor project cycles, etc.

The report finally notes that the prospect of moving towards a more programmatic approach in Viet Nam is probably a long term one in that the institutional and macro-environment of aid delivery and budgetary management does not yet meet several of the pre-conditions needed to embark on it fully. In the short term however, there are things that government and donors could do to achieve a more programmatic approach with the potential advantage of increasing aid effectiveness, although an immediate reduction in transaction costs arising from these developments is not likely. These initiatives include bringing projects under one (sub)sectoral strategy, consolidating and rationalizing donors projects through joint funding, further improving the quality of donor coordination, improving public expenditure management, etc.

ACRONYMS

ADB	Asian Development Bank
BOP	Balance of payments
CG	Consultative Group
DAC	Development Assistance Committee of OECD
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HCMC	Ho Chi Minh City
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
MPI	Viet Nam's Ministry of Planning and Investment
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PER	Public Expenditure Review
PIP	Public Investment Programme
PRGF	Poverty Reduction and Growth Facility (replacing the ESAF)
SAC	Structural Adjustment Credit
TA/TC	Technical Assistance/Technical Cooperation
UN	United Nations
UNDCP	United Nations International Drug Control Programme
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
WHO	World Health Organization

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