

Overview

of Official Development Assistance
in Viet Nam

Ha Noi, December 2003

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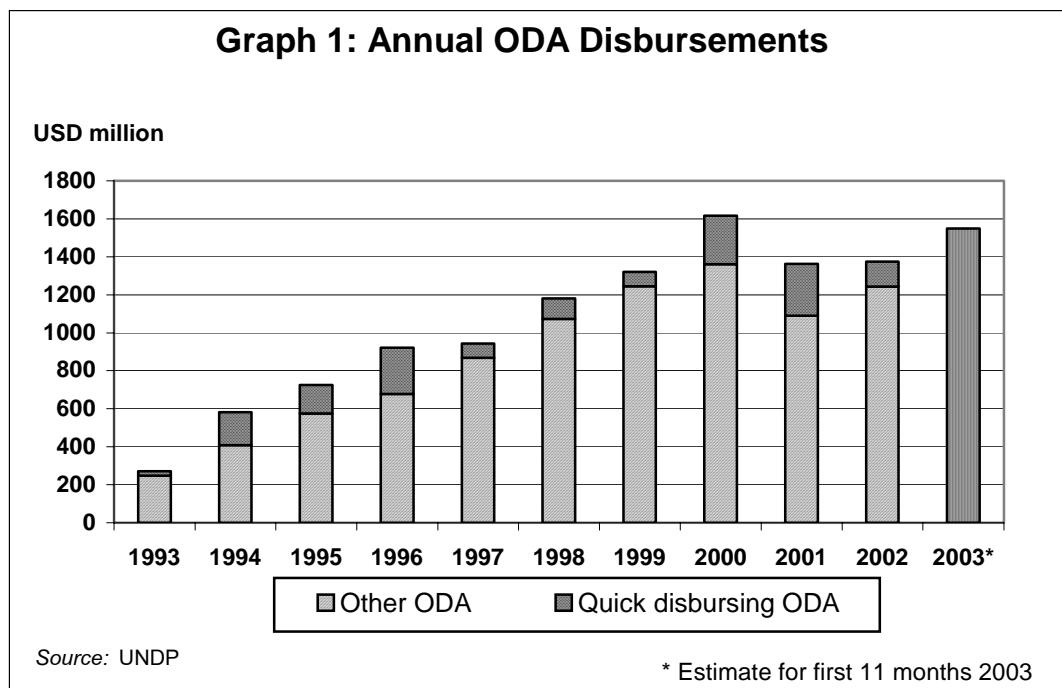
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Overview and Summary

According to the latest available data and information, annual ODA disbursements to Viet Nam could reach as high as US\$1.6 billion in 2003, up some 14% from US\$1.4 billion in 2002. Available data for the first eleven months of 2003 indicate that disbursements have already reached close to US\$1.5 billion.

As a result, disbursements for 2003 are likely to recover to their record high achieved in 2000. Recorded disbursements for this year are up partly due to some quick disbursing funds for the Comprehensive Poverty Reduction and Growth Strategy originally scheduled for 2002 slipping into early 2003. At the same time, ODA project disbursements also continue to recover following their decline in 2001.

The decrease in 2001 was the first decline since 1993. Disbursements fell some 16% in that year following eight years of consecutive increases. The decrease was due largely to the completion of a number of Japanese financed projects and programmes. These included the Phu My, Pha Lai, and Ham Thuan Da Mi power plants, as well as the Miyazawa Initiative which was in support of private sector development, and SOE and trade reform.



The gap between commitments and disbursements also appears to have narrowed significantly in recent years. Cumulative pledges by donors during the 1993-2002 period reached nearly US\$22.5 billion, and these pledges have translated into signed commitments worth around US\$18 billion. Disbursements during the period 1993-2003 amounted to some US\$12 billion. This would imply that some US\$6 billion or around one third of total commitments remain undisbursed, which is down significantly from closer to one half in the mid-1990s.

Nevertheless, the speed of ODA disbursements has never been a good measure of ODA effectiveness. The Government of Viet Nam will need adequate time to determine the next best set of high return investment projects following the completion of a number of rehabilitation projects during 2001-2002. Too many developing countries have been eventually destabilized by spending foreign debt financing too rapidly and without adequate attention to issues of investment effectiveness, quality, accountability and sustainability.

ODA effectiveness depends heavily upon the overall quality of public expenditures, especially public investment expenditures. Most ODA is invested either directly or indirectly (through fungibility) in public sector investments. Over 50% of ODA is directly invested in major and small infrastructure projects. A significant share of quick disbursing funds are also on-lent to public investments including to state owned enterprises.

Within the public investment programme, ODA is especially fungible. For example, ODA that targets needed investments like highway rehabilitation may simply free up government finance for other investments that might not otherwise take place. In order to adequately assess the quality of such investments, much greater transparency and access to information is needed to calculate real rates of return to Viet Nam.

At the same time, some emerging evidence suggests that every year passing requires a disproportionately higher level of financial investment to generate a given level of growth, pointing to the underlying weakening quality of some public investments. Hence, the public investment planning process would appear in need of careful review. Moreover, large showcase projects and on-lending to SOEs, would appear in need of more rigorous cost benefit analysis.

Allocating more of the available investment resources in State Owned Banks and the Development Assistance Fund towards the development of the private business sector would also improve overall efficiency and rates of return in terms of job creation, income generation, poverty reduction and the further development of the tax base and domestic savings, the most sustainable and stable source of development finance.

In short, efforts at improving ODA effectiveness should be much more focused on improving the allocative efficiency of public sector investments and freeing up

more resources for the private sector. Harmonization of donor procedures will help improve administrative efficiency, but not allocative efficiency. In other words, it's still possible to invest administratively efficiently, but in the wrong places.

Given the need to decentralize more decision making authority and finance to the provincial and sub-provincial levels to better meet local priorities and reach those in most need, a great deal more investment will be needed in human resource and institutional capacity building at the local levels.

In this regard, local government financial management, accounting and auditing capacities will especially need strengthening, as well as local processes to ensure community participation in decision making so that the best investments are selected, and that such investments benefit the poor and near poor. Effective investments in health, education and rural infrastructure that meet the genuine needs of local communities will also contribute to the country's overall competitiveness.

A total of 25 bilateral donor countries, some 22 multilateral donor agencies, and nearly 400 international NGOs operate in Viet Nam with substantially different procedures and disbursement criteria. In this regard, the Government and the donor community are working together in an attempt to harmonize the multitude of differing procedures and to increase the efficiency of the national administration in the management of the resources.

Japan maintained its position as the single largest donor to Viet Nam in 2002, with total disbursements of US\$315 million, followed by the World Bank, ADB and France. The IMF, Denmark, the UN Agencies, Australia, Germany and the UK completed the top-ten donor list in 2002. Bilateral Donors continued to provide more than 50 % of ODA funds. Total disbursements from the EU member countries and the EC amounted to a combined US\$331 million.

Some 46% of donors' development assistance funds, or a total of US\$631 million, were devoted to major infrastructure projects, up from US\$568 million in 2001. ODA allocations to infrastructure seemed to recover slightly after a sharp drop in 2001 caused by the completion of large Japanese projects in the energy and transport sub-sectors. The US\$63 million of additional disbursements in 2002 represented an 11% increase in absolute terms over 2001 levels

Increasingly, the transport sector is accounting for a larger share of ODA funds. Some US\$374 million, or 27.25% of total ODA in 2002, was devoted to transport infrastructure projects, a share 5 percentage points higher than that of 2001. The sector's share of investments in ODA financed infrastructure rose to 59%, up from 52% in 2001, the year in which it surpassed the energy sector as the largest area of ODA major infrastructure investment. A total of 75 projects were being

implemented in the transport sector in 2002, with about 92% of the investments supported by Japan, World Bank and the Asian Development Bank (ADB).

Almost 16.5% of total ODA in 2002 was directed towards smaller Rural Development Initiatives, representing a 3% increase over the previous year, for a total of US\$226 million. Around 75% of the Vietnamese live in rural areas, accounting for 95% of the poor in the country according to the latest data.

The decline in ODA investments in a number of critical human resource development areas recorded for 2001 have been largely reversed, but much greater investments are still needed in basic health, especially in rural areas. Similarly, much greater investment is still needed in the quality of education at all levels, which would also contribute to the further development of a more competitive human resource base.

The single most important change on the distribution of ODA by type of assistance is the probably temporary drop in quick disbursing assistance as a share of total ODA observed between 2001 and 2002. Whereas quick disbursements through general budgetary and balance of payments support represented some 20% of total ODA in 2001, or some US\$ 272 million, this share fell to some 10% in 2002, with the total reported amount of quick disbursing assistance amounting to some US\$132 million.

The International Monetary Fund disbursed the third tranche of a total of seven in the country's Poverty Reduction Growth Facility (PRGF) in mid 2002, with no further disbursements taking place since. The IMF is currently engaged in active dialogue with the State Bank of Viet Nam (SBV) on a number of transparency issues including the revision of the SBV's audit and accounting procedures that allows the resumption of the agreed PRGF. The IMF has raised concerns about transparency on several occasions in recent years.

The second and final tranche of the World Bank's first Poverty Reduction Support Credit totaling \$197.5 million (including US\$150 million of the Bank's resources and some US\$47.5 million in co-financing from the Netherlands, United Kingdom, Denmark and Sweden), originally expected in late 2002, was disbursed in the first days of January 2003 and as such is recorded in 2003 figures.

The small delay in the disbursement of the PRSC's last tranche coupled with the temporary interruption of the PRGF are the main reasons behind the important reduction in quick disbursing assistance observed in 2002. This was partially offset by the important increase of quick disbursing assistance by the Asian Development Bank, some US\$50 million in 2002.

Regarding the terms of ODA finance, some 33% of total ODA being disbursed in Viet Nam in 2002 was in the form of grants, with loans accounting for the

remaining 67%. Viet Nam's external debt currently amounts to some 40% of GDP.

Concerning the geographical distribution of ODA in Viet Nam, some 42% of total ODA in 2002 was disbursed and aimed at the broader benefit of the country through central government agencies. The remaining 58% of ODA disbursements in 2002 can be directly attributed to specific provinces, amounting to some US\$806.2 million, a nearly 14% increase over 2001 levels. The absolute increase in provincial level ODA disbursements in 2002 has been spread relatively evenly across the country.

All regions reported higher ODA levels than in 2001 except for the Southeast. Importantly, the two main urban centers of the country, HCMC and Hanoi, with poverty rates below 5%, both reported absolute and per capita ODA increases in 2002, whereas the respective surrounding regions fell below the 2001 levels.

The most important increase in provincial ODA disbursements between 2001 and 2002 took place in the South Central Coast region, where disbursements went up by 62%. Importantly, the share of provincial level ODA disbursements to the Central Highlands region has doubled since 2000 representing some 8% of the total. Recent data shows, however, that the region accounts for 10% of Viet Nam's poor (double the level of 1998), poverty rates appear to have stalled over the last 4 years and food poverty rates have not improved since 1993.

1. International Context

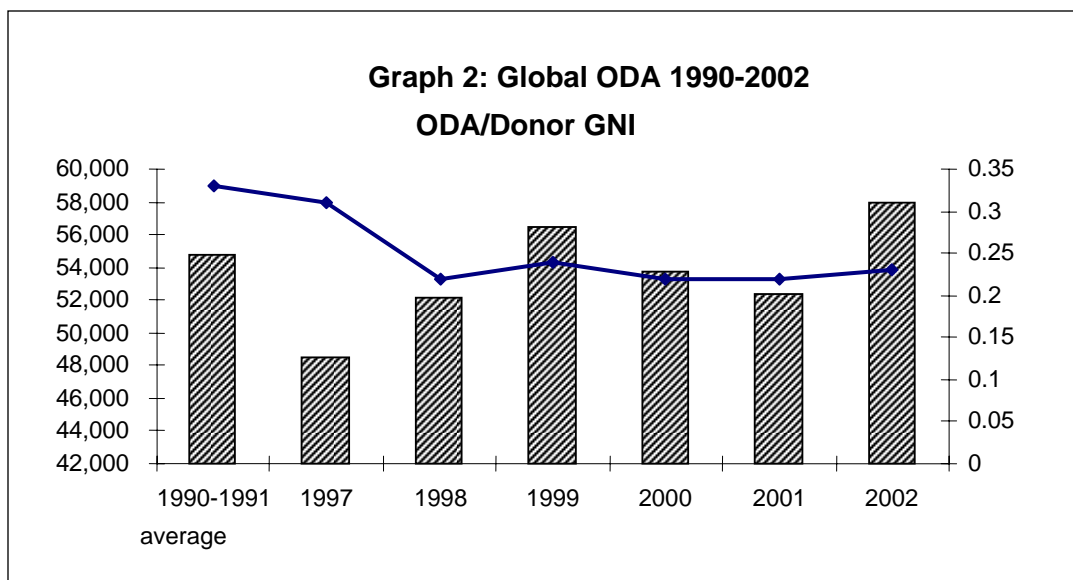
Following a global decline in Overseas Development Assistance (ODA) disbursements during 2000 and 2001, ODA to developing countries rose by 8% in absolute terms and 4.9% in real terms in 2002, amounting to US\$57 billion, up from US\$52 billion in the previous year. In spite of the international commitment to devote 0.7% of Gross National Income (GNI) to development assistance, global ODA flows in 2002 amounted to roughly 0.23% of the combined donors' GNI, only slightly higher than the all-time low of 0.22% level reported in 2001, and far below the 0.33% peak reached in the early 1990s.

As stated in the Millennium Development Goal (MDG) 8 *“Develop a Global Partnership for Development Cooperation”*, developed countries are accountable for increasing and growingly focus official development assistance flows to the most pressing current development challenges if the world is to achieve the MDGs by 2015. This represents a “Global Deal” – an understanding that the first seven Millennium Development Goals defined at the UN Millennium Summit would be the primary responsibility of developing countries, while goal 8 deals with the responsibility of OECD countries to provide an “enabling international environment” for developing countries to achieve the first seven goals.

At the International Conference on Financing for Development held in Monterrey, Mexico in March 2002, the donor community committed to increase their development assistance levels by 31% in 4 years, which would translate to a net increase in ODA of about US\$16 billion by 2006.

European Union member states, which in recent years have contributed more than half of global ODA, increased in 2002 their combined development assistance by more than 10% in absolute terms, committing some US\$29 billion or 0.34% of their combined GNI. The European Union has committed to reach the 0.39% of GNI level by 2006, which would roughly translate into an additional US\$7 billion of ODA per year.

Responding to the Monterrey commitments, the United States increased its ODA by an additional 11.6% in real terms in 2002 to a total of US\$12.9 billion, or 0.12% of the country's GNI. Importantly, the United States committed to increase its ODA by some US\$5 billion over the next three budgetary years and has announced important initiatives in the area of the fight against HIV/AIDS.



Source: OECD 2003

Japan's total ODA fell slightly by 1.8% in real terms in 2002, mostly due to the relative depreciation of the Yen towards the US dollar. Japan committed some US\$9.2 billion in ODA in 2002, with its ODA/GNI ratio remaining unchanged at 0.23%. Relative to their GNI size, Denmark, Luxemburg, Netherlands and Norway are the only donor counties to have reported ODA/GNI ratios higher than 0.7% in 2002.

Box 1. Summary of Millennium Development Goals (MDGs)

The Millennium Declaration was ratified by 189 heads of state at the United Nations Millennium Summit in September 2000. The Millennium Declaration sets the global agenda for the start of the 21st century so that globalization becomes a positive force for all the world's people. The Millennium Declaration includes the Millennium Development Goals (MDGs), representing a global commitment by all nations who signed the Declaration. The entire MDG framework is composed of eight broad goals, eighteen targets and forty-eight indicators.

The Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger

Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day, and the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Promote gender equality and empower women

Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels of education no later than 2015.

Goal 4: Reduce child mortality

Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Improve maternal health

Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6: Combat HIV/AIDS, malaria and other diseases

Halt and reverse the spread of HIV/AIDS, malaria and other major diseases.

Goal 7: Ensure environmental sustainability

Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

Goal 8: Develop a global partnership for development

Develop further an open, rules-based, predictable, non-discriminatory trading and financial system. Including a commitment to good governance, development, and poverty reduction – both nationally and internationally.

Despite developing countries' pressing needs for increased and effective development assistance and the reiterated commitments of donor countries to raise ODA levels, only moderate global increases have been reported over the last year. In recent years, aid harmonization has become one of the focal points of donors' drive to improve aid effectiveness. The heads of multilateral and bilateral development agencies expressed in February 2003 in the Rome Declaration on Harmonization, their determination to effectively address the increasing transaction costs derived from the variety of donor requirements and processes for the implementation and monitoring of development projects. Several initiatives by donor and recipient countries are currently under implementation with the ultimate aim of increasing aid effectiveness, identifying actions needed to promote a global partnership for development, and accelerating progress towards the Millennium Development Goals.

Among the critical principles defined to guide the harmonization efforts of the development community, the participants at the Rome Conference expressed their commitment towards the following objectives.

Ensuring that development assistance is delivered in accordance with partner country priorities;

Reviewing and identifying ways to amend individual policies and procedures of donors as well as those of the partner countries to facilitate harmonisation.

Implementing progressively the best practice standards in development assistance delivery and management by taking into account specific country circumstances.

Intensifying donor efforts to work through delegated cooperation at the country level so as to enable the country based staff to manage country programmes efficiently.

Providing support for country focused work that will strengthen the government's ability to assume a greater role and ownership in the development agenda.

Expanding country-led efforts to streamline donor procedures and practices so as to enhance demand-driven technical cooperation.

Providing budget, sector or balance of payment support where it is consistent with the mandate of the donor and when appropriate policy and fiduciary arrangements are in place.

Promoting harmonised approaches in global and regional programmes.

As a follow up to the above undertakings, the Development Assistance Committee (DAC) Working Party on Aid Effectiveness and Donor Practices was set up in May 2003 in order to monitor progress on the implementation of the Rome Declaration. The mandate of the working party can be divided into five broad areas of interest, for each of which task forces have been established.

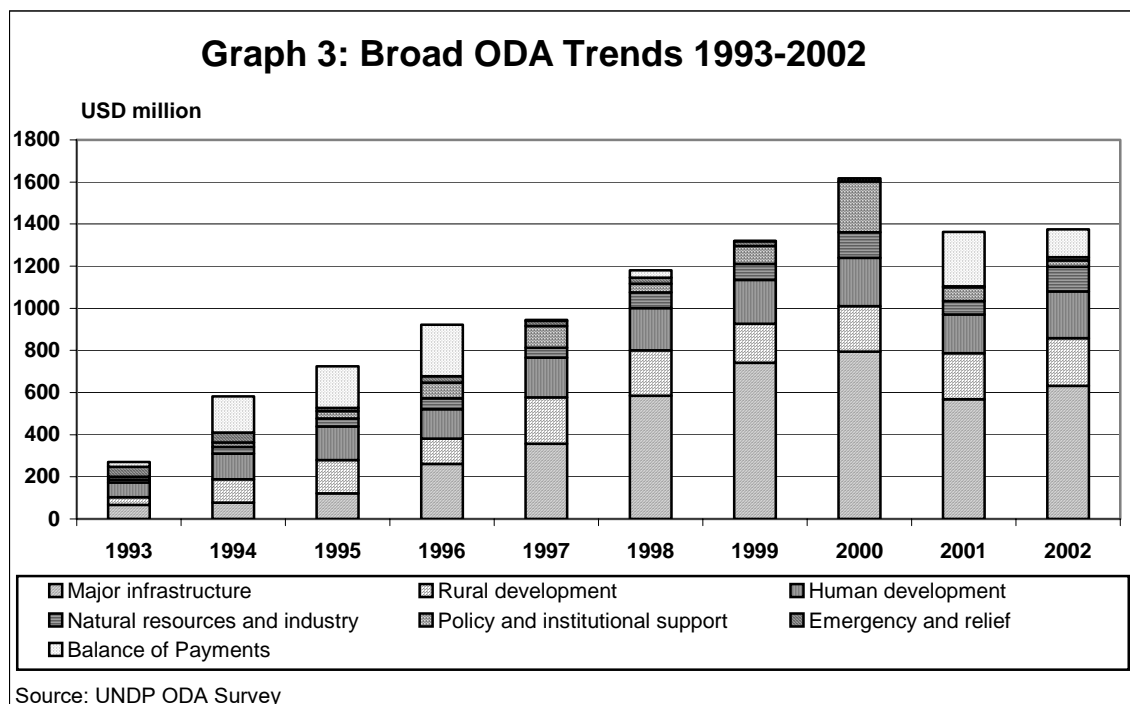
- (i) Aid harmonization and alignment.
- (ii) Strengthening partner country's capacities for effective public finance management.
- (iii) Improving aid quality and results, implementing quality assurance systems and standards taking into account partner country perspectives.
- (iv) Aid untying.
- (v) Improving efficiency of procurement processes.

The expected increasing size of ODA disbursements and the limited absorption capacity of some recipient countries' administrations, especially at the local level, highlights the need to implement efficient delivery mechanisms and assist capacity building efforts of recipient countries.

2. ODA Trends 1993-2002

2.1 Sectoral trends in ODA distribution

The Development Cooperation Assistance System (DCAS) used in this report classifies ODA flows according to 17 sectors and more than 80 sub-sectors on the basis of information supplied by the donor community. In order to facilitate the analysis of the data collected, the ODA Overview report assesses the major sectoral trends in ODA in Viet Nam on the basis of six broad categories: (i) major infrastructure; (ii) rural development (iii) human resource development; (iv) natural resources and industry. (v) policy and institutional support; (vi) emergency and relief.

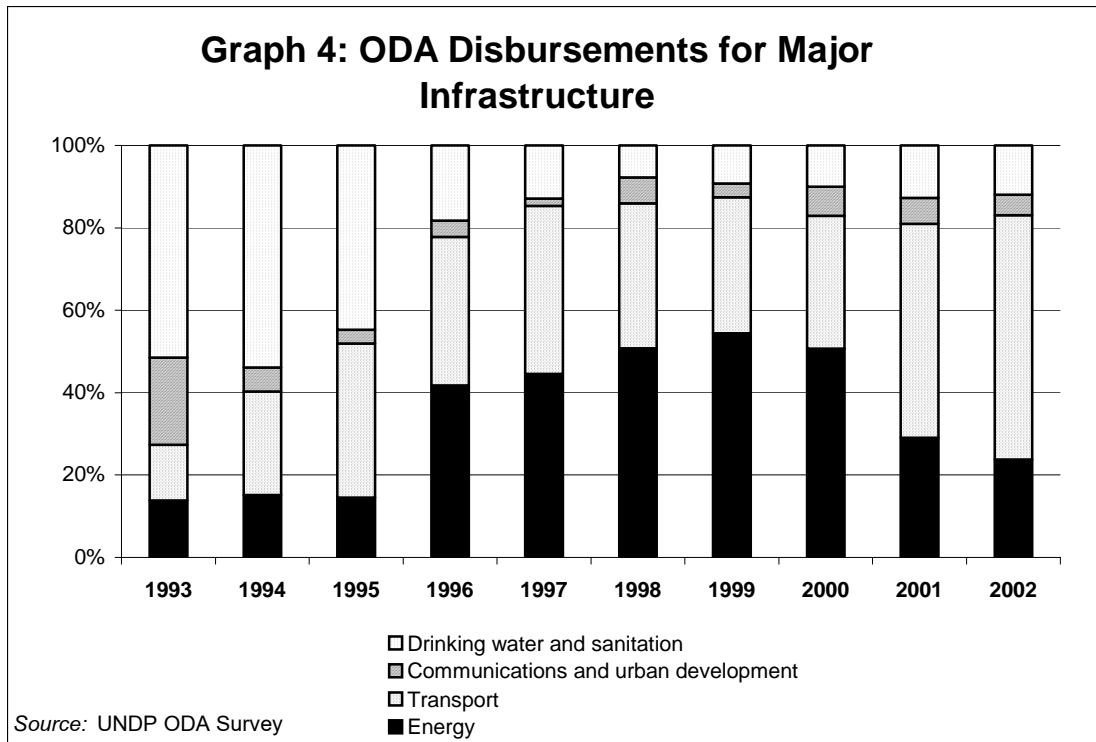


Infrastructure

As has been the case since 1996, major infrastructure projects accounted for the largest share of ODA in 2002. Some 46% of donors' development assistance funds, or a total of US\$631 million, were devoted to major infrastructure, up from US\$568 million in 2001. ODA allocations to infrastructure seemed to recover slightly after a sharp drop in 2001 caused by the completion of large Japanese projects in the energy and transport sub-sectors. The US\$63 million of additional disbursements in 2002 represented an 11% increase over 2001 levels.

Increasingly, the **transport sub-sector** is accounting for a larger share of ODA funds. Some US\$374 million, or 27.25% of total ODA in 2002, was devoted to transport infrastructure projects, a share 5 percentage points higher than that of 2001. The sub-sector's share of investments in the infrastructure sector rose to 59%, up from 52% in 2001, the year in which it surpassed the energy sub-sector as the largest area of ODA major infrastructure investment. A total of 75 projects were being implemented in the transport sub-sector in 2002, with about 92% of the investments supported by Japan, World Bank and the Asian Development Bank (ADB). Japanese ODA to the transport sub-sector concentrated mainly on the railway upgrading, the construction of the Saigon east-west highway, and several port expansion projects. The ADB's investment in this sub-sector included several initiatives in road improvement, the provincial transport network, and the construction of the Ho Chi Minh City-Phnom Penh highway. Lastly, the World Bank was mainly involved in Highway rehabilitation, rural transport, inland water transport and urban transport infrastructure. Several other donors such as France, Germany, and the UK also made significant contributions to improving Viet Nam's transport infrastructure in 2002.

Achieving a better balance between urban and rural infrastructure investment will likely be required to assist in closing the observed provincial socio-economic disparities in Viet Nam. Current data would suggest that only a fraction of available ODA funds for transport infrastructure are invested in rural and isolated areas. By allowing improved access to markets, health and education services, and reducing production costs, investment in rural infrastructure are critical to ensuring more balanced development and the equitable achievement of the MDGs by 2015.



The **energy** sub-sector, as it was the case in 2001 reported the second largest share of ODA in infrastructure. A total of US\$151 million were disbursed on energy projects in 2002, accounting for 24% of the infrastructure sector funds and some 11% of total ODA. Right until the year 2000, disbursements in energy sub-sector represented on average some 24% of total ODA in Viet Nam, but in 2001 disbursements to this sector fell by 60% when the construction of the Japanese-funded major power plants of Phu My, Pha Lai, and Ham Thuan-Da Mi were completed.

Viet Nam has made significant progress in the extension of the power grid, and current estimates suggest electrification is complete for 95% of the geographical areas. The remaining 5% of territories consist mostly of remote mountainous areas with high concentration of poor households. The donor community is actively supporting projects for power generation in isolated and disadvantageous regions, with the ADB, Japan and the World Bank collectively accounting for more than 80% of disbursements in this sub-sector. Other donors such as the EC, Sweden and Netherlands were financing several rural energy and demand analysis projects. The main focus of ADB efforts is placed in the implementation of power distribution master plans, while World Bank resources are concentrated on the provision of energy in rural areas.

ODA funds allocated to **drinking water and sanitation** increased by 4.7% in 2002 to reach US\$75 million, accounting for 12% of disbursements in the infrastructure sector. The relative share of ODA funds to this sub-sector has steadily declined since the early 1990s, when drinking water and sanitation

projects attracted more than 50% of ODA funds allocated to infrastructure. Preliminary data from the Viet Nam's Household Living Standards Survey 2002 suggest that in spite of fast progress since 1998, some 50% of Vietnamese households are still deprived of access to clean water, with levels being significantly lower in rural and mountainous areas. There seem to be a need to maintain and increase investment efforts in this area, especially in addressing the pressing needs of isolated locations. The main ongoing projects in the sub-sector are the water supply and waste management projects in Hai Phong, Ha Noi, Quang Ninh and Danang. A range of several smaller projects dealing with water supply and sanitation in provincial areas are being implemented.

Expenditures in the **Urban development and Communications** sub-sector represented 5% of ODA infrastructure funds, or some US\$31 million. This sub-sector reports a small but steady increase since 2000. Upon confirmation of migration patterns towards urban centers, urban poverty might become an increasingly important feature of Viet Nam's poverty profile, highlighting the need of additional investments in urban areas. As expected, Ho Chi Minh City and Hanoi are the main focal areas for disbursements on urban development projects, with the improvement of Hanoi's drainage facility as one of the sub-sector's flagship projects.

Rural Development

Around 75% of the Vietnamese live in rural areas, accounting for 95% of the poor in the country according to the latest data. Almost 16.5% of total ODA in 2002 was directed towards small-scale **Rural Development** initiatives, representing a 3% increase over the previous year, for a total of US\$226 million. In light of the apparent disparities in access to and quality of basic social services in rural areas, an important effort is required from both the government of Viet Nam and the donor community to ensure minimum standards in the provision of health, education and other services across all provinces, and help raise rural incomes. The more than 350 projects being undertaken in rural development confirms the donor's community commitment towards rural development. Real growth in total disbursements still lags, however, behind the increasing demand for funds.

Agriculture accounted for 44% of disbursements in rural development in 2002 representing 7.3% of total ODA, or some US\$100 million. The World Bank, ADB, with France and Denmark among several bilateral donors, are contributing significantly to the agriculture and forestry sector. Reforestation, crop diversification, irrigation and research and development are among the priority areas for ODA investment. Most of the loans in this sub-sector were provided by ADB, AFD, IFAD and the World Bank, and are directed primarily towards the development of cash crops, irrigation systems and community infrastructure.

The remaining 56% of ODA funds in rural development in 2002 were devoted to **Area development**. A total of US\$126 million were disbursed in this sector,

representing 9% of total ODA. Almost 80% of the projects were aimed at integrated rural development, with over 50% of the investment originating from Japan, ADB and France. Critical areas for assistance within this sub-sector included rural poverty alleviation, credit facilities for rural population, and rural infrastructure development. Community development projects dealing with a variety of socio economic issues are numerous in this sector and widely spread across most of the country's rural provinces.

Human Resource Development

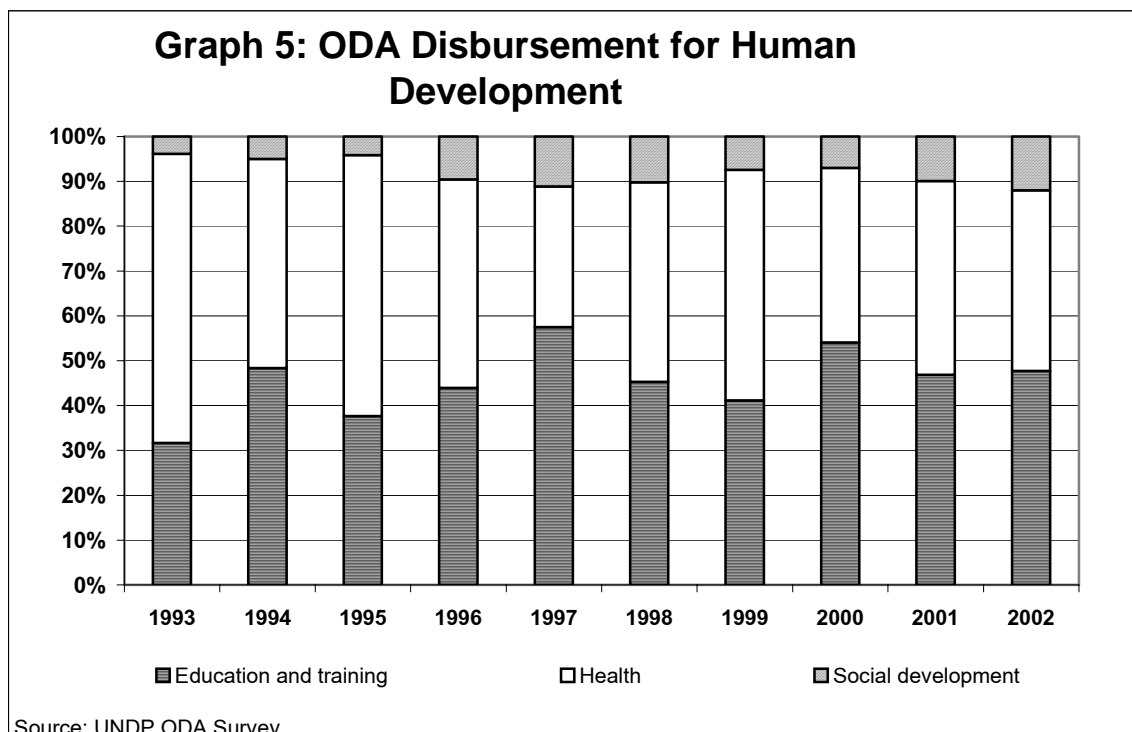
After a brief decline during 2001, ODA directed towards Human Resource Development registered an important increase of around 21%, bringing disbursements levels in 2002 to some US\$222 million. Investments in Human Resource Development represented some 16% of total ODA funds, up from 14% in 2001. The sector had reported steady increases in disbursements since 1993 before its short decline in 2001.

The ***Education and Training*** sub-sector attracted 22.5% more ODA in 2002 than in the previous year, amounting to US\$106 million in absolute terms, and representing 48% of all ODA directed at human development. Almost 70% of all funds disbursed in this sub-sector were allocated to tertiary education and managerial training, while primary and secondary schooling accounted for 16%. Australia, France, Japan and World Bank ranked as the largest donors in education and training, with almost 60% of the ODA resources in the sub-sector.

Most of the funds are absorbed in the form of scholarships, managerial training courses and vocational training, while funds allocated to the primary education are mainly directed towards the construction of primary schools in rural areas and support for training of primary school teachers. Impressive progress in education enrolment rates in Viet Nam has not yet been matched by acceptable quality standards in the delivery of education services. Improving the quality of education has been highlighted in the Education for All Plan (EFA) 2003-2015 as the major challenge in the sector, together with teacher's training and achieving gender equality. The EFA Plan outlines the financial needs of the education sector over the next decade, which are expected to exceed US\$1 billion per year and reach US\$2.5 billion by 2015. The financial gap for 2004 has been estimated at 14% of total resources budgeted, highlighting the need for sustained community and donor contributions.

Achieving the MDG in primary education will also require the further integration of ethnic minority and disabled children into the formal education cycle. These two groups represent some 20% of the total primary school population of Viet Nam (18% for ethnic minorities and 2.25% for disabled children). Ensuring access to primary education services to these groups will involve an important financial effort, in light of the geographical and cultural isolation of some ethnic minority groups.

ODA disbursements in the **Health** sub-sector have hovered around 40% of the expenditure in Human development sector for last three years, with disbursements placed at nearly US\$89 million in 2002. Most of the resources were allocated to family planning, immunization campaigns and sector policy and planning. The World Bank accounts for some 25% of the funds disbursed in health, with several bilateral and multilateral agencies heavily investing in the improvement of health standards in Viet Nam. The emerging HIV/ AIDS challenge, together with family planning, have received increased attention in the form of larger disbursements over the last years.



Available data from the recently released National Health Survey 2002, and the Viet Nam Household Living Standards Survey confirm households perceptions on the low quality of health services provided by the commune health centers, including the capacity of health workers, and the stock of medicines and equipment available. Evidence of low technical capacity in rural areas calls, in addition, for important investments in the upgrading of skills at the local level.

Recent data has allowed the re-estimation of national levels on some critical health indicators, like maternal health, for which the distance towards the achievement of the MDG seems to be greater than previously thought. In other important areas, like in child mortality, although overall progress is perceived, the dearth of data does not allow establishing accurately current levels, impeding the

in-depth analysis of trends and the estimation of financial needs of the sector. Among policy priorities in this area, improving the availability of data via the implementation of an efficient vital registration system that enforces the legal requirement of registering births and deaths.

Social Development accounts for 12% of the disbursements in Human Resource Development sector, with most of the funds directed towards the development of social legislation. Housing, culture and prevention of crime and drug abuse received only marginal attention, and remain a priority area for additional assistance in 2002.

Policy and institutional support

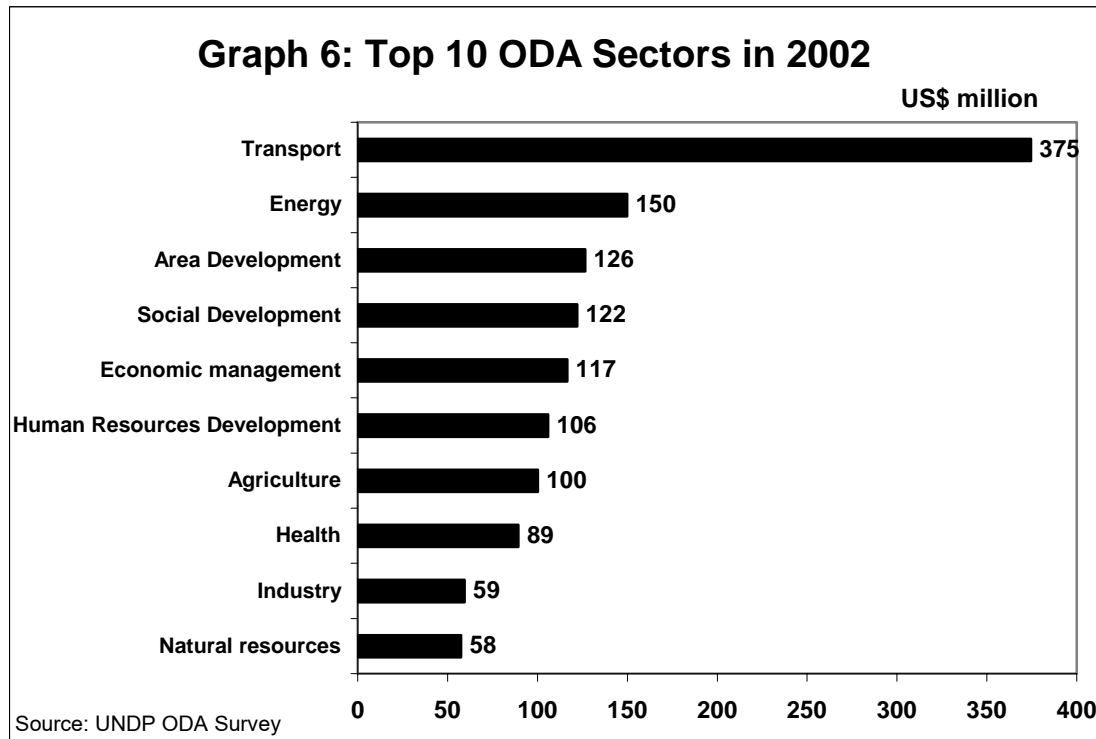
Economic management, administration development, capacity building for international and domestic trade, listed under the category of **policy and institutional support**, received a total of US\$31 million in 2002, less than 50% the 2001 allocation to the sector. An important share of the funds allocated by the donor community through the Poverty Reduction Support Programs (PRSP) and the Poverty Reduction Growth Facility (PRGF), however, are specifically devoted to policy and institutional strengthening of government agencies. The main donors in this sector are, IMF, ADB, Denmark and The Netherlands accounting for more than 50% of ODA resources allocated to this sector.

Other Sectors

A total of US\$117 million were allocated in 2002 to the **Natural Resources and Industrial Development** sub-sector, representing 8.5% of total ODA. The resources allocated to the sector increased importantly from the US\$63 million level in 2001 due to increase in donor contribution in areas of water resource planning, environmental preservation and assistance to policy support in the industry sector. ODA directed to **industry** registered a 223% increase in 2002 amounting to US\$59 million, up from US\$18 million in 2001. The bulk of this increase can be attributed to the SOE reform and Corporate Governance credit from the ADB. Assistance to Natural Resources showed an increase of some 29% in 2002 reflecting increased donor involvement in water resource planning, and environmental preservation. The main donors in this sector in 2002 were Denmark, World Bank and Japan.

Some US\$14 million were allocated to **Emergency and relief** initiatives of assistance, representing just over 1% of ODA in Viet Nam. Most of the funds for this sector originated from Australia and Germany. Initiatives in this area mainly dealt with relief planning and institutional preparedness and issues concerning refugees and returnees.

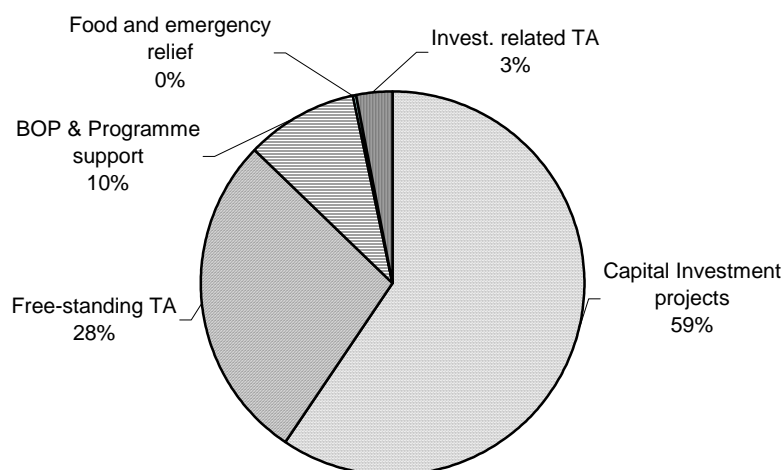
The following chart represents ODA distribution according to the sectors as registered by DCAS system.



2.2 ODA Distribution by Type of Assistance

The analysis of ODA by type provides interesting insights on the focus and disbursement terms of external development funds. The Development Cooperation Analysis System (DCAS) allows the classification of ODA by a) **capital investment project assistance**, including mainly infrastructure but also investment in capital goods, hardware, etc.; b) **free standing technical assistance**, defined as the provision of resources aimed at the transfer of technical and managerial skills and know-how without reference to the implementation of any specific investment project; c) **quick disbursing assistance** both in the form of Balance of Payments and Programme support; d) **food and emergency relief**; and e) **investment related technical assistance**, covering technical aid tied to specific investment programmes like the financing of feasibility studies.

Graph 7: ODA Disbursement by Type-2002



Source: Donor reporting to UNDP ODA Survey, 2002 Data

The single most important change on the distribution of ODA following this classification is the important drop **on quick disbursing assistance** as a share of total ODA observed between 2001 and 2002. Whereas quick disbursement through Budget and Balance of Payments support represented some 20% of total ODA in 2001, or some US\$ 272 million, this share fell to some 10% in 2002, with the total reported amount of quick disbursement assistance placed at US\$ 132 million.

Table 1. Quick Disbursing Assistance 2001-2002 (thousand dollars)

	2001	2002
IMF	105,000	56,283
WB	144,547	1,237
AsDB	603	49,595
Australia	-	547
Canada	214	119
Denmark	5,331	4,824
Netherlands	4,993	5,165
Norway	-	121
Sweden	-	1,868
Switzerland	1,069	180
United Kingdom	10,049	9,986
NGO		2,614
Total	271,806	132,539

Source: DCAS System (2003)

The International Monetary Fund disbursed the third tranche of a total of seven in the country's Poverty Reduction Growth Facility (PRGF) in mid 2002, with no further disbursements taking place since. The Fund is currently engaged in active dialogue with the State Bank of Viet Nam (SBV) on a revision of the SBV's audit and accounting procedures that allows the resumption of the agreed PRGF.

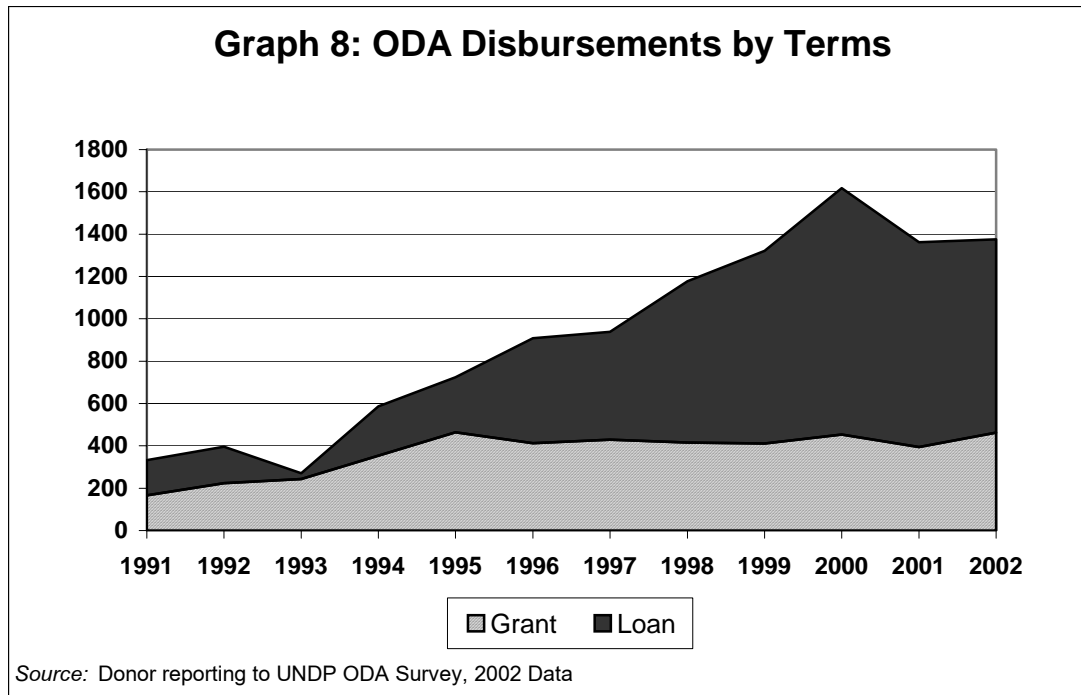
The second and final tranche of the World Bank's Poverty Reduction Support Credit for a total of 197.5 million dollars (including 150 million of the Bank's resources and some 47.5 million in co-financing from the Netherlands, United Kingdom, Denmark and Sweden), although expected for the last months of 2002, was disbursed in the first days of January 2003 and as such is not reported in last year's records. The small delay in the disbursement of the PRSC's last tranche, coupled with the temporary interruption of the PRGF are the main reasons behind the important reduction in quick disbursing assistance observed in 2002. This has not been offset by the important increase on quick disbursing assistance disbursed by the Asian Development Bank, to a total of some US\$ 50 million in 2002.

A total of US\$ 795 million, or 59% of total ODA, was disbursed in Viet Nam in 2002 through **capital investment project assistance**, up from US\$ 755 million in 2001 (a 5.3% increase over 2001 levels). Three main donors accounted for 84% of all assistance disbursed in the form of capital investment, with the World Bank disbursing 243 million in 2002, followed by Japan (US\$ 239.5 million), and the Asian Development Bank (US\$ 182.4 million). Of the total, some US\$ 742 million were disbursed in the forms of loans, with the remaining US\$ 53 million being non-refundable grants. In terms of the sectoral distribution of capital investment assistance, some US\$ 300 million were devoted to road infrastructure, over US\$ 95 million to the energy sector, and US\$ 65 million on the agriculture fisheries and livestock sector. Water and sanitation projects received some US\$ 65 million through this type of ODA in 2002.

Free standing technical assistance remained the second largest ODA category in 2002. A total of US\$ 361 million were disbursed, representing 27.6% of total ODA in 2002, up from US\$ 303 million in 2001. Importantly, over 97% of available funds were disbursed in the form of grants, and distributed through a broad range of beneficiary institutions. The Education sector, together with Health and Rural Development were important recipients of free standing technical assistance, although available funds were broadly spread.

An important amount of technical assistance is linked to the implementation of investment projects and is sometimes included in total capital investment figures, resulting in overall figures being somewhat underestimated. In 2002, **investment related technical assistance** constituted 3% of ODA, or a total of US\$ 38 million up from US\$ 30 million in 2001. Most of the funds were disbursed in the form of

loans and concentrated in the Health sector. The last category of ODA, food an emergency relief, represents a very marginal share of total ODA in Viet Nam, amounting to just US\$ 3,7 million in 2002.



Stability in the composition of ODA financial terms has been the predominant note over the last years after the important increase in the loan component up to 2000. Some 33% of total ODA being disbursed in Viet Nam in 2002 was in the form of grants, with loans amounting for the remaining 67%. Expected quick disbursing loans in the coming years may somewhat increase the size of the loan component of official development assistance in Viet Nam. Viet Nam's external debt to GDP ration remained at some 38% in 2003 (World Bank 2003).

Box 2. The need for allocative efficiency

While Viet Nam's GDP growth rate has been relatively high and rising over the past year, recent research supported by UNDP for the Prime Minister's Research Commission has called into question the underlying quality of a significant share of such growth. On the basis of available data, analysis by Professor David Dapice from Harvard's Kennedy School suggests that Viet Nam's investment resources in recent years have been shifting increasingly towards inefficient high cost, lower return investments, rather than towards more efficient low cost high return investment.

The report finds that every year passing seems to require a disproportionately higher value of investment to generate a given level of growth, which would clearly not be sustainable over the longer term. Importantly, the analysis highlights the need to review the real value of some

investments in state owned enterprises and some large public sector projects in light of their perceived low contribution to the sustainable well being of Vietnamese people.

The low economic efficiency of initiatives like the One Million Ton Sugar Programme and the Dung Quat oil refinery are used to illustrate how poor public investment decisions translate into inflated consumer prices well over import prices, and huge government subsidies are required to maintain inefficient state owned enterprise industrial ventures. As Professor Dapice puts it, "investment decisions such as this one cause Viet Nam to take on more debt, grow more slowly due to high costs, and create fewer jobs than it could".

Given that ODA like most finance is fungible, and most ODA is allocated either directly or indirectly to public investments, the overall effectiveness of ODA will depend heavily on the overall effectiveness of public expenditures, especially the public investment programme. Hence, a careful review of Viet Nam's Public Investment Programme by the country's policy makers and decision takers would appear urgently needed to improve allocative efficiency of public investment and official development assistance. Large public investments would best be subject to effective cost benefit analysis to help better determine their real value to Viet Nam and the Vietnamese people.

Harmonization of donor procedures will help improve administrative efficiency, but not allocative efficiency. In other words, it's still possible to invest administratively efficiently, but in the wrong places.

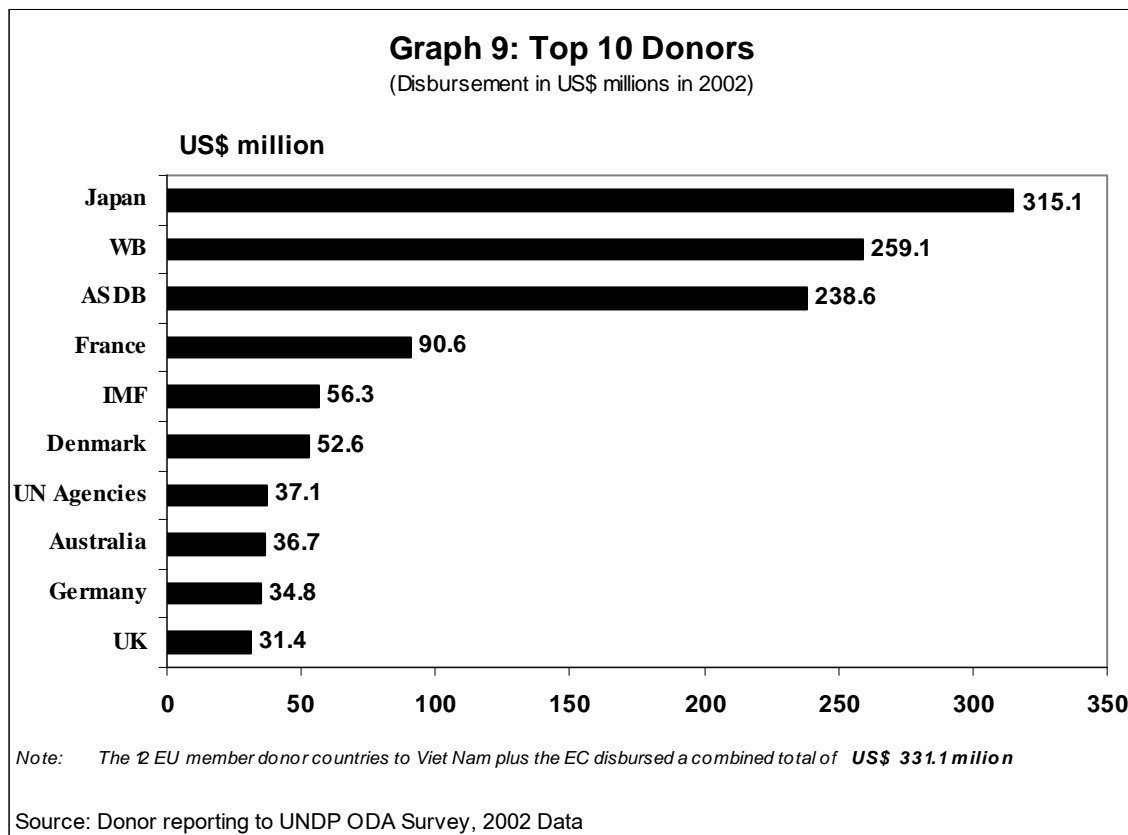
Source: Dapice D. (2003), *Viet Nam's Economy: Success Story or Weird Dualism? A Special report prepared for the United Nations Development Programme and the Prime Minister's Research Commission.*

2.3 ODA Distribution by Donor

With some US\$315 million disbursed in 2002, **Japan** maintained its position as the largest donor in Viet Nam, contributing more than one fifth of total ODA. Even though Japan's disbursement levels showed a slight decline of 1.8% during the past year in absolute terms, its relative share remained stable. Japan has continued to invest massively in the transport sector, with almost US\$166 million devoted to this area, up from US\$142 million in 2001. Most of this amount was directed toward railway upgrading, construction of the Sai Gon east-west highway, and several port expansion projects. Despite a significant drop of around 45% from the 2001 level, the energy sector remained the second largest development priority for Japanese ODA, with total disbursements amounting to US\$48 million in 2002. Japanese ODA investment in human resource development has doubled during the last year and concentrates on construction of primary schools in rural areas and managerial education and training.

Notwithstanding a decline of about 17% in disbursements during 2002, the **World Bank** still is the second largest disburser in Viet Nam accounting for about 18% of total ODA. The reported decline is due to the slight delay in the disbursement of the second tranche of the PRSP of US\$150, which was disbursed during the first days of 2003. As a result of this delay, resources

devoted to economic management registered a sharp decline in 2002. In comparison, World Bank investments in the transport and energy sector have registered significant increases during the last year. Transport has attracted 50% more funds than in 2001, with investment in the energy sector increasing fourfold to the total amount of US\$61 million. Rural electrification remained as one of the World Bank main areas of concentration in the Energy sector.



Disbursements from **ADB** increased by 30% during 2002 making it the third largest donor in Vietnam accounting for some 17% of total ODA. Since 1995, operations have expanded to the financial sector, human resource development through health and education, and rural development through credit, forestry, infrastructure, and crop diversification. In 2002 investment in transport increased by 30% making it the ADB's main area of concentration. Another area that has increased its share in ODA originating from ADB is the industry sector, which accounted for more than 20% of disbursements in 2002, and included financing of SOE reform and initiatives of assistance in the area of corporate governance.

France has strengthened its position as the second largest bilateral donor by increasing ODA disbursement by 35%, which makes it the 4th largest donor overall. French assistance to small-scale rural development initiatives

experienced a sharp rise by almost 50% and attracted 45% of French ODA in 2002. Human resource development accounted for another 17%, most of which is directed towards financing studies in France.

As reported above, **IMF** disbursements decreased by 50% in 2002 to US\$ 56 million, making the Fund the fifth largest donor of Viet Nam. The IMF's official development assistance is directed towards economic management in the form of Budgetary Support and as such classified as quick disbursing credit. In April 2001 the IMF approved a three-year PRGF arrangement amounting to US\$368 million for Viet Nam that was to be disbursed in seven tranches. So far, only three of seven tranches have been disbursed, causing the outstanding fund credit and loan to reach US\$268 million. The IMF and the State Bank of Viet Nam are currently discussing an agreement on Safeguard Policies that allows resuming PRGF disbursements in 2004.

Denmark remained as the sixth largest donor of Viet Nam, with total disbursements of US\$52.6 million. Natural resource management and agriculture and forestry remain the priority areas for Danish assistance, representing 52% of its disbursements. The assistance to these sectors is concentrated within three main areas (1) Capacity building and awareness raising, (2) Sustainable management of natural resources, and (3) Sustainable development of urban areas and industry. In addition, Denmark was one of the countries that co-financed the World Bank's PRSC, while bilateral assistance has also been significant in the area of private sector development and SOE reforms.

Disbursements by the **United Nation's Agencies** declined by almost 12%, amounting to US\$37 million in 2002, down from US\$42 million in 2001. UNICEF disbursement was highest among the grant-disbursing UN agencies with US\$8.8 million, followed by the UNDP and its administered funds with US\$7 million, and WHO with US\$ 6.6 million. IFAD led the UN loan-disbursing agencies with 25 % of the UN loan disbursements, mostly consisting of rural credits. Most of the resources disbursed by UN agencies were aimed at policy advisory assistance, area development, social development and health.

With a 34% rise in disbursement in 2002, **Australia** re-entered the top- ten donors list at the 8th place. Total Australian ODA funds stood at US\$36.7 million in 2002, up from US\$27 million in 2001. More than 25% of Australian assistance was aimed at supporting human resource development. Natural resource management was another priority area for assistance, followed by rural development and social development.

With total disbursements of over US\$34 million, a 55% increase over 2001 levels, **Germany** entered the top-ten donors list in 2002 at ninth place. Major areas of disbursement were transport, health, rural development and humanitarian aid. **United Kingdom** is the tenth largest donor with US\$31 million disbursements in 2002. The level of UK's assistance to transport sector and PRSC credit remained constant, whereas assistance to rural development rose by 163% with increased involvement of DFID in area development.

2.4 Trends in the geographical distribution of ODA

An equitable achievement of the Millennium Development Goals in 2015 will involve a balanced process of development that addresses the significant provincial and regional disparities observed in critical human development indicators in Viet Nam.

As outlined in Viet Nam's MDG Report 2003 *Closing the Millennium Gaps*, addressing provincial disparities in Viet Nam will require substantial investment in capacity building at the local level to facilitate effective use of available financial resources both from domestic as well as international sources. The increasing size of ODA disbursements, coupled with limited absorption capacity of local administrations, highlights the need for effective delivery mechanisms to curb corrupt practices that tends to reduce the impact of ODA.

In Viet Nam, some 42% of total ODA in 2002 was disbursed for the benefit of the country through central government agencies (e.g. balance of payments support or the assistance to the reform of the legal sector), and nationwide programmes whose benefits are broadly spread across the provinces of Viet Nam (e.g. the national measles immunization campaign, or a teacher's a national training programme).

The remaining 58% of ODA disbursements in 2002 can be directly attributed to specific provinces, amounting to some US\$ 806.2 million, nearly a 14% increase over 2001 levels. ODA disbursed directly to provinces fell to US\$ 708.6 million in 2001 for the first time since 1995, with currents level still far from the US\$ 954 million high of 2000.

The absolute increase in provincial ODA in 2002 has been spread relatively evenly across the country. All regions reported higher ODA levels than in 2001 except for the Southeast, where provincial ODA has been halved in the last 2 years and is now some US\$ 104 million, even below the 1999 levels.

Table 2. Regional Distribution of ODA Allocated to Specific Provinces and Urban Authorities

Region	ODA (US\$ million)			%Share of Provincial Allocation			% Population	Share of poor households	ODA per capita (US\$)		
	2000	2001	2002	2000	2001	2002	2002	2002	2000	2001	2002
Northern Uplands	185.7	153.4	161.2	19.5	21.7	20.0	17.1	23	14.17	11.71	12.32
Red River Delta	231.7	151	164.3	24.3	21.3	20.4	19.3	17	15.68	10.21	11.1
<i>excluding Ha Noi</i>	148	97	91.8	15.5	13.7	11.4	15.8		12.23	8.01	7.57
<i>Ha Noi</i>	83.7	54	72.4	8.8	7.6	9.0	3.5		31.33	20.22	27.11
North Central Coast	82	75.9	84.5	8.6	10.7	10.5	13.1	21	8.2	7.56	8.45
South Central Coast	57.1	74.7	121.4	6.0	10.5	15.1	10.5	7	7.08	9.25	15.04
Central Highlands	35.6	47.9	62.3	3.7	6.8	7.7	5.3	10	8.78	11.79	15.36
Southeast	194.7	124.1	104	20.4	17.5	12.9	13.3	5	19.16	12.22	10.23
<i>Excluding HCMC</i>	145.3	88.6	62.6	15.2	12.5	7.8	6.7		28.36	17.3	12.22
<i>Ho Chi Minh City</i>	49.3	35.5	41.3	5.2	5.0	5.1	6.6		9.8	7.05	8.21
Mekong Delta	166.8	81.3	108.3	17.5	11.5	13.4	21.1	17	10.34	5.04	6.71
Total	953.6	708.3	806	100	100	100	100	100	12.5	9.28	10.56

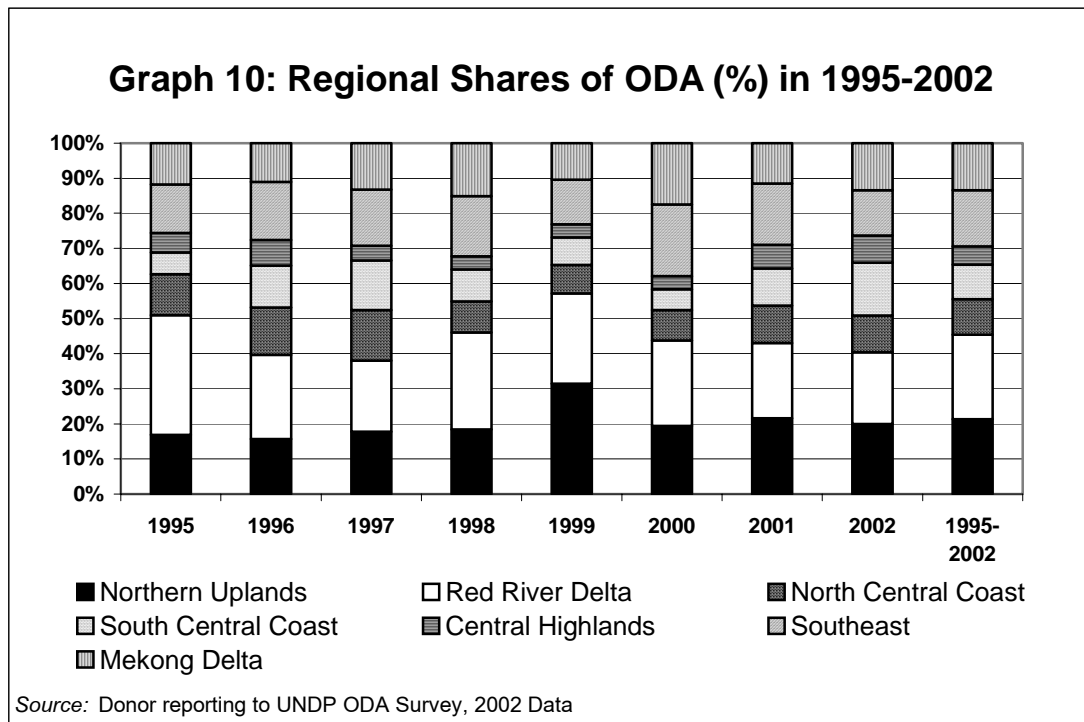
Source: DCAS System (2003)

Importantly, the two main urban centers of the country, HCMC and Ha Noi, with poverty rates below 5%, both reported absolute and per capita ODA increases in 2002, whereas the respective surrounding regions fell below the 2001 levels. Increments in ODA disbursements in Hanoi were behind the higher ODA levels in the Red River Delta region, amounting to a total of US\$ 164.3 million in 2002, up from US\$ 151 million in 2001. However, the Red River Delta region excluding Ha Noi received US\$ 91.8 million of “provincial” ODA in 2002, lower than the US\$ 97 million received the previous year, and significantly lower than the average of over US\$ 140 million received in 1999 and 2000.

The most important increase in provincial ODA disbursements between 2001 and 2002 took place in the South Central Coast region, where disbursements went up by 62%. A total of US\$ 121 million dollars were disbursed in 2002, compared to just 75 million in the previous year. Increased disbursements in rural energy, water supply and transport infrastructure projects are behind this important

increase. ODA levels in the Mekong Delta region recovered slightly after a sharp drop in disbursements of more than 50% between 2000 and 2001. The region reported US\$ 108 million dollars of ODA disbursements in 2002.

Despite traditionally high annual volatility, the regional distribution of ODA seems to be steadily mirroring the regional distribution of poor households in the country. For most regions, share of provincial ODA was similar to their share of poor in the country. Importantly, the share of provincial ODA to the Central Highlands region has doubled since 2000 representing some 8% of the total. Recent data shows, however, that the region accounts for 10% of Viet Nam's poor (double the level of 1998), poverty rates appear to have stalled over the last 4 years and food poverty rates have not improved since 1993. In light of perceived stalled poverty reduction patterns in the region, and the high share of ethnic minority population, important additional expenditure efforts might be required to reduce the communities' isolation and create income generation opportunities in the area.



The Red River Delta region witnessed a steady decline in its share of provincial ODA, and most of this reduction was borne by the provinces other than Ha Noi.

The Southeast continued to be an exception. Whereas the region accounts for some 5% of Viet Nam's poor, it received nearly 13% of all provincial ODA. An overall downward trend is perceived, but as reported above, ODA disbursements seemed to be falling in the outer city areas, predictably poorer than HCMC itself.

In ODA per capita terms the Mekong Delta region continued to be the lowest recipient, with some 6.7 dollars, followed by the Red River Delta region excluding Ha Noi. In comparison, the Central Highlands region had almost doubled its ODA per capita levels over last 4 years, and registered highest ODA per capita in 2002 with 15.3 dollars. If the regional distribution is not taken into account, ODA/habitant in Ha Noi reached US\$27 representing the highest level of ODA per person in the country.

Future challenges to poverty reduction in Viet Nam include attending to the predictable increase in urban poverty in light of current migration patterns, and further addressing the stalling poverty levels of ethnic minorities in isolated mountainous areas. As local capacities are strengthened and with them the ODA absorption capacities, a shift towards higher provincial ODA resources to more remote and isolated areas, ethnic minority groups and urban migrants might be achieved. The rapid increase of ODA resources to local governments prior to the establishment of efficient delivery mechanisms that allow for increased local accountability might have important negative effects on provincial development. It is the shared responsibility of government and the donor community to address the potentially pervasive effects of uncontrolled aid increases.