

MINISTRY OF EDUCATION & TRAINING MINISTRY OF FINANCE
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**ENHANCING THE EFFICIENCY OF ODA ON-LENDING
AT VIETNAM DEVELOPMENT BANK**

Major: Finance - Banking

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**SUMMARY OF DOCTORAL DISSERTATION IN
ECONOMICS**

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INTRODUCTION

1. Rationale

ODA (Official Development Assistance) has played an important role in the successful implementation of Vietnam's socio-economic development strategies. ODA is used for the primary purpose of upgrading and developing socio-economic infrastructures. Accounting for about 3.5% of GDP and 12% of total social investment, ODA has contributed positively to stimulating investments, maintaining the economic growth. On-lending ODA through credit institutions is an effective capital supply channel for projects, ensuring loan and debt repayment mechanism as well as ensuring the purpose of capital use. Not only does the efficiency of on-lending ODA capital at credit institutions help the bank fulfill its development objectives, affirms its role and reputation in the national and international financial system, but it also acts as the basis for the State to provide efficient capital for ODA projects, contributing to the implementation of the Socio-Economic Development Strategy in each period.

Vietnam Development Bank (VDB) is a focal point for management of finance development, a tool to implement socio-economic development policies of the State. During the period 2012 - 2017, the on-lending ODA in Vietnam Development Bank has achieved certain results, supplementing investment capital for the society and contributing to sustainable growth of the economy. The project of on-lent ODA use through Vietnam Development Bank has created social surplus values, jobs and income for people and contributed to the social security assurance. In addition, the debt recovery is ensured, overdue debt ratio and bad debt are relative low. Nonetheless, the efficiency of ODA on-lending in Vietnam Development Bank in recent years has not been high. The ability to supervise ODA use purposes for on-lending is not satisfied, leading to some ODA projects using capital for the wrong purposes and not achieving the efficiency. The ratio of bad debt and overdue debt tends to increase in recent years. There was an downward trend in financial results for ODA on-lending activities, etc.

From the above reasons, under the orientation of instructing scientists, the

author chooses the research title: *“Enhancing the efficiency of ODA On-lending at Vietnam Development Bank”*.

2. Overview of the Research

The overview research of projects on the efficiency of ODA on-lending at domestic and foreign credit institutions (CI), the author realized some issues unmentioned or generally mentioned in previous researches.

Firstly, up to this time, there has not been any work actually researching the efficiency of ODA supply channels providing for projects through credit institutions in a sufficient and systematic way, with the mechanism of re-borrowing and repayment to utilize and effectively use ODA in the context of downward tendency in this capital source attraction. It is necessary to complete ODA on-lending tools and procedures in credit institutions.

Secondly, there has not been any project actually studying the efficiency of ODA on-lending at credit institutions on both two points of view which are objectives of on-lent ODA use for economic development and subjectives of ODA on-lending for credit institutions. It is necessary to research a criteria system for evaluating the efficiency of ODA on-lending for credit institutions and socio-economic development.

Thirdly, in practical aspects, there has not been any research project evaluating and analyzing the efficiency of ODA on-lending at credit institutions in Vietnam, as well as in Vietnam Development Bank.

The dissertation approaches the research on the efficiency of ODA on-lending in two points of view: (1) Efficiency for socio-economic development through ODA investment to develop the economy; and (2) Efficiency for the implementation of credit institution objectives. The efficiency of ODA on-lending is an aggregate indicator reflecting the level of implementing the socio-economic development objective and strategic objectives of credit institutions.

3. Research objectives of the dissertation

The development of an appropriate solution system to improve the efficiency of ODA on-lending at Vietnam Development Bank meet requirements of socio-economic development and fulfill the bank's objectives. The specific objective of the

dissertation is to systematize the theoretical basis and practical research on the efficiency of ODA on-lending at VDB, on that basis to propose synchronous and scientific solutions for this bank.

4. Research subjects and scopes

The research subject is the efficiency of ODA on-lending at credit institutions. The research dissertation at Vietnam Development Bank aims to assess the situation during the period of 2012 - 2017 and propose a solution system for efficiency improvement in the coming time.

5. Research methods

To achieve research objectives, the dissertation uses a system of qualitative scientific research methods including methods such as document search, information collection, descriptive statistics, summarization methods, comparisons and analysis.

6. Issues posed for the research

1. Efficiency of ODA on-lending at credit institutions?
2. The criteria system for evaluating the efficiency of ODA on-lending at credit institutions is based on research points of view?
3. Factors affecting the efficiency of ODA on-lending at credit institutions?
4. Current situation of efficiency of ODA on-lending in Vietnam Development Bank? Outstanding issues and their reasons?
5. Solutions to improve the efficiency of ODA on-lending in Vietnam Development Bank in the coming time?

7. New contributions of the Dissertation

- *New theoretical contributions:* The dissertation has systematized, supplemented and clarified the scientific rationale on the efficiency of ODA on-lending at credit institutions. The dissertation has studied the experiences of countries around the world, from which drawing meaningful lessons for Vietnam.

- *New recommendations drawn from research results:* The dissertation has highlighted and sharpened the reality of the efficiency of ODA on-lending at Vietnam Development Bank in the period of 2012 - 2017, assessing the research's actual situation; On the basis of providing views and orientations, the dissertation proposes

a solution system for improving the efficiency of ODA on-lending in Vietnam Development Bank. In order to achieve the feasibility of solutions, the dissertation also proposed conditions to implement solutions.

8. Structure of the dissertation

In addition to the introduction, conclusion, list of references and appendixes, the dissertation is structured into three chapters::

Chapter 1: Arguments on the efficiency of ODA on-lending at credit institutions

Chapter 2: Current situation of efficiency of ODA on-lending at Vietnam Development Bank

Chapter 3: Solutions on improving the efficiency of ODA on-lending at Vietnamese Development Bank

CHAPTER 1

ARGUMENTS ON THE EFFICIENCY OF ODA ON-LENDING AT CREDIT INSTITUTIONS

1.1. ODA ON-LENDING AT CREDIT INSTITUTIONS

1.1.1. Overview of ODA

ODA is the capital source of the receiving country, which is a foreign donor with non-refundable aid or loans with preferential conditions to support socio-economic development for underdeveloped or developing countries..

ODA plays an important role for the socio-economic development of receiving countries, helping them: (1) achieve the economic growth and restructuring; (2) strengthen their capacity, improve the quality of public service provision; (3) implement the poverty reduction; (4) protect the environment, climate change and grow green; (5) develop the technology; (6) conduct the administrative reform, build a legal system; and (7) make the international balance of payments be fair.

Methods of ODA funding for the project: ODA is received from aid or borrowed from foreign donors by the government, using investments in development projects. Funding methods of ODA projects include: (1) allocation; (2) on-lending.

Based on the nature of the ODA project, socio-economic conditions and preferential levels, the Government will apply the funding mechanism for the project.

1.1.2. ODA on-lending at credit institutions

1.1.2.1. Definition

Credit institutions (CI) as a bridge for ODA loans of the Government play an important role in the successful and effective implementation of ODA projects. The concept of ODA on-lending is also mentioned by various authors according to different scopes.

The authori considers that: *ODA on-lending is understood as credit institutions entrusted by the Government to on-lend ODA projects under the Government's designation or on-lend ODA from the Government to on-lend programs, credit constituents of the project using ODA in order to ensure the economic development objective and improve the welfare for the country.* The ODA on-lending credit institution shall be responsible for managing the re-borrowing, loan security assets (LSA), loan recovery and implementation of reporting regimes for projects using re-lent ODA with the Government.

1.1.2.2. ODA on-lending forms

The ODA on-lending at credit institutions for projects is implemented in one of two forms: (1) Credit institutions are not subject to credit risk (CR); and (2) Credit institutions are subject to CR.

1.1.2.3. ODA on-lending procedures

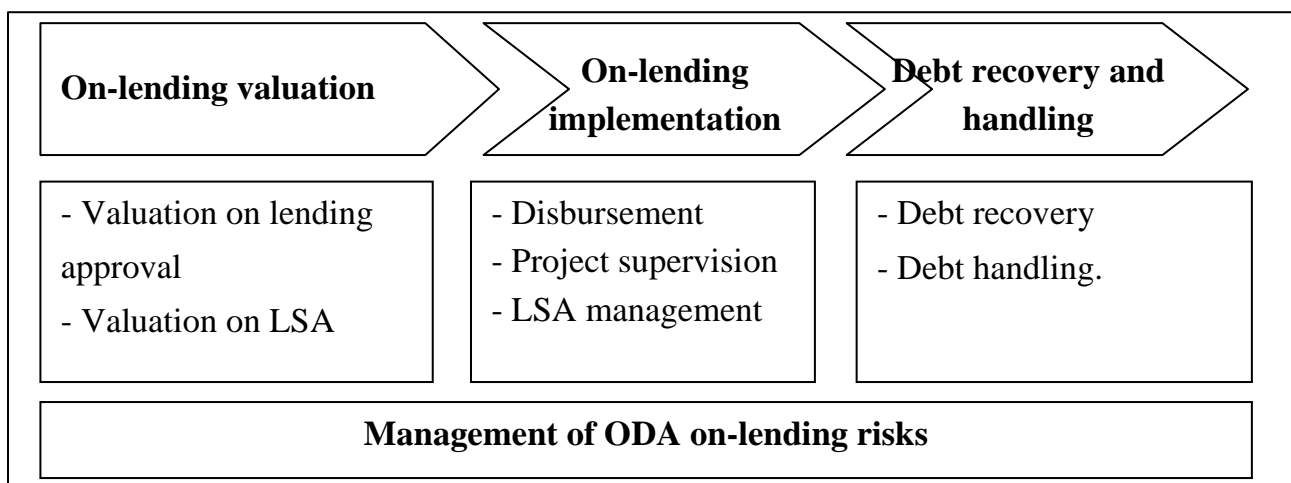


Diagram 1.1: ODA on-lending procedures

1.2. EFFICIENCY OF ODA ON-LENDING AT CREDIT INSTITUTIONS

1.2.1. Definition of ODA on-lending efficiency

Efficiency is a category that is widely used in all economic, technical and social areas. When researching the efficiency of ODA on-lending at credit institutions, the dissertation analyzes on two aspects: (1) Objectives of ODA use for the socio-economic development; (2) Objectives of ODA on-lending of credit institutions.

The author considers that: *The efficiency of ODA on-lending at credit institutions is an economic category reflecting the level of achieving the state's objectives for socio-economic development and credit institution's state through on-lending partly or entirely ODA to economic agencies and organizations to implement investment projects.*

1.2.2. The need to improve the efficiency of ODA on-lending

Firstly, The role of ODA for the economic development

Secondly, contribution to enhancing the effectiveness of credit institution management

1.2.3. Criteria system for evaluating the efficiency of ODA on-lending

1.2.3.1. Criteria group for the efficiency evaluation of credit institutions

(1) Growth of ODA on-lending's outstanding loans

In order to evaluate the growth of ODA on-lending's outstanding loans to analyze the efficiency of credit institutions' operation, the author uses the following criteria:

- *Growth of ODA committed for on-lending* according to credit contract.

$$\begin{array}{rcc} \text{Growth of} & & \text{Growth of} \\ \text{ODA} & & \text{ODA} \\ \text{committed for} & = & \text{committed for} \\ \text{on-lending} & & \text{on-lending of} \\ & & \text{current year} \end{array} - \begin{array}{r} \text{Growth of ODA} \\ \text{committed for} \\ \text{on-lending of} \\ \text{previous year} \end{array}$$

If this criterion is high, it is demonstrated that the ODA on-lending scale of credit institutions is growing and this activity is increasingly expanded.

- *Growth rate of ODA disbursement.*

$$\text{Growth rate of ODA disbursement (\%)} = \frac{\text{ODA disbursement of current year} - \text{ODA disbursement of previous year}}{\text{ODA disbursement of previous year}} \times 100\% \quad (13)$$

This criterion is used to compare the annual ODA disbursement to assess the on-lending ability. This criterion indicates the ODA disbursement progress compared with assigned plans of credit institutions or the State.

- *Growth rate of ODA's outstanding loans.*

$$\text{Growth rate of ODA's outstanding loans (\%)} = \frac{\text{Current outstanding loans} - \text{Previous outstanding loan}}{\text{Previous ODA's outstanding loan}} \times 100\%$$

- *Implementation level of ODA on-lending plans.*

$$\text{Implementation level of ODA on-lending plans} = \frac{\text{Actual on-lent ODA}}{\text{Planned on-lent ODA}} \times 100\%$$

(2) Credit quality of the ODA on-lending

- *Debt recovery rate of due ODA loans.*

$$\text{Debt recovery rate of due ODA loans (\%)} = \frac{\text{Amount of recovered ODA debt}}{\text{Total due outstanding loan}} \times 100\%$$

This criterion evaluates the ability of credit institutions to recover debts from ODA on-lending; to urge and recover debts. This is a criterion to evaluate the bank's efficiency of debt collection and planning the ODA on-lending.

- *Rate of overdue debts.*

$$\text{Rate of overdue debts from ODA on-lending (\%)} = \frac{\text{Overdue debts from on-lent ODA}}{\text{Total outstanding debts from on-lent ODA}} \times 100\%$$

- *Rate of bad debts.*

$$\text{Rate of bad debts from ODA on-lending (\%)} = \frac{\text{Bad debts from on-lent ODA}}{\text{Total outstanding debts from on-lent ODA}} \times 100\%$$

The higher the rate of bad debt is, the lower the credit quality of credit institutions is, the greater the risk of on-lent ODA is and the lower the ability of credit institutions to recover loans is.

- *Rate of risk provision against bad debts.* This criterion is used for ODA on-lending in the form that credit institutions are subject to credit risks:

$$\begin{array}{l} \text{Rate of risk} \\ \text{provision against bad} \\ \text{debts (\%)} \end{array} = \frac{\begin{array}{l} \text{Number of risk provision funds against} \\ \text{on-lent ODA} \\ \text{Bad debts from ODA on-lending} \end{array}}{\text{Bad debts from ODA on-lending}} \times 100\% \quad (17)$$

(3) Profits from ODA on-lending of credit institutions

- *Financial results from ODA on-lending.*

$$\begin{array}{l} \text{ODA on-lending} \\ \text{results} \end{array} = \text{Income from ODA on-lending} - \text{Expense} \quad (18)$$

ODA on-lending results of credit institutions are criteria to assess the ability to generate income and profit from this activity.

- *Income growth level from ODA on-lending.*

$$\begin{array}{l} \text{Income growth level} \\ (\%) \end{array} = \frac{\text{Income from ODA on-lending in year}}{\text{Income from ODA on-lending}} \times 100\%$$

If this criteria is high, it is indicated that the ability to manage ODA loans of credit institutions is strengthened and gains more efficiency.

1.2.3.2. Criteria group for evaluating the socio-economic efficiency

The efficiency of ODA on-lending at credit institutions in the aspect of implementing socio-economic development objectives, including the overall efficiency of ODA projects.

(1) Net value added. This is the basic criteria representing the whole impact of the project, the area of ODA use to the economy.

$$\text{Net value added} = \begin{array}{l} \text{Output} \\ \text{value} \end{array} - \text{Input value} - \text{Investment capital}$$

This criterion indicates the direct contribution of the ODA project to the economic growth of each country. The higher this criterion is, the greater the contribution of the project to economic growth is and the more effective the investment is and vice versa.

(2) Indirect value added

The socio-economic efficiency must be evaluated in terms of the causal relationship between ODA project and the attraction of other resources for the socio-economic development. In addition to creating its value added, the ODA project also contributes to attracting other projects, modernizing or expanding operating units and bringing other benefits.

- + Total value added by attracting investment capital into regions and localities;
- + Additional value added of relevant projects;
- + Value added of units within the project;
- + Created economic benefits of household, etc.

(3) Annual income of employees

$$\text{Income of employees} = \text{Salary} + \text{Social insurance} + \text{Other incomes}$$

ODA projects generate income for employees in order to improve the quality of life, further present effectively social contributions and vice versa.

(4) Annual social surplus value

$$\text{Social surplus value in Year } i = \frac{\text{Net value added in Year } i}{\text{in Year } i} - \frac{\text{Income of employees in Year } i}{\text{in Year } i}$$

The higher the social surplus is, the higher the socio-economic effect of the project is and the greater the contribution of ODA loans to the economic growth is.

(5) Contribution to achieving job creation objectives

- The absolute efficiency group includes the following criteria: (1) The total number of skilled and unskilled employees needed for ODA projects; (2) The total number of employees of the relevant project increased (or decreased) due to new projects; (3) The total number of skilled and unskilled employees increased for the economic sector.

- The relative efficiency group includes criteria reflecting the number of jobs created per ODA on-lending units: (1) The number of direct jobs for employees per unit of investment capital; (2) The number of indirect jobs per unit of investment capital; (3) Total number of full-time jobs for employees per ODA on-lending units.

(6) Contribution to realizing income distribution objectives

Value added is created in projects distributed differently among population

groups in society as well as among territories. Value added distribution structure of the project affects the income regulation. This structure is expressed through criteria:

- Value added is distributed annually to different subject groups;
- Value added distribution for each subject group on the annual total value added.

(7) Evaluation of the impact on environmental protection

Evaluating positive and negative impacts of ODA projects in all aspects:

- + Changes in ecosystem conditions;
- + Environmental pollution level;
- + Impacts on the landscape of natural environment, tourism potentiality;
- + Influence on traditional cultural values.

(8) Other criteria assessing the efficiency of ODA on-lending

(i) Impacts on economic structure policies: The on-lending ODA for each sector shows the concentration of investment in infrastructure development of that sector, creating regional and local development momentum as well as promoting the economic restructuring.

$$\text{On-lending rate according to economic sector (\%)} = \frac{\text{On-lent ODA in each area}}{\text{Total on-lent ODA}} \times 100\%$$

(ii) Impacts on social services and poverty reduction.

1.2.4. Factors affecting the efficiency of ODA on-lending

1.2.4.1. Group of objective factors

- Orientation of economic and social development;
- Development - cooperation relations and policies of international donors;
- Legal system on ODA on-lending;
- Capacity to use re-lent ODA of investors.

1.2.4.2. Group of subjective factors

- Mechanism of ODA on-lending at credit institutions;
- Reputation and credit ratings of credit institutions
- Internal credit rating system;
- Professional capacity and management of ODA on-lending officials;
- Technical facilities supporting the ODA on-lending.

1.3. EXPERIENCES TO IMPROVE THE EFFICIENCY OF ODA ON-LENDING IN THE WORLD AND LESSONS FOR VIETNAM

Research to improve the efficiency of ODA on-lending at credit institutions of countries in the world, typically Malaysia, China and Thailand. The dissertation draws lessons for Vietnam as follows:

- ODA on-lending procedures for the State and credit institutions.
- Completion of ODA on-lending instruments.
- Assessment on the social efficiency of investment projects with ODA loans.
- Enhancement of the supervision to ensure re-lent ODA used effectively and for right purposes.
- Debt recovery and risk management.
- Financial efficiency assurance in ODA on-lending.

CHAPTER 2

CURRENT SITUATION OF EFFICIENCY OF ODA ON-LENDING AT VIETNAM DEVELOPMENT BANK

2.1. ODA ON-LENDING AT VIETNAM DEVELOPMENT BANK

2.1.1. Overview about Vietnam Development Bank

VDB is an important financial institution providing financial resources to the economy, ensuring that investment and development activities are more professional and effective in line with the socialist-oriented market economy and in accordance with Vietnam's commitments on international economic integration. VDB has corporate capacity, has a chartered capital of 30,000 billion dong, and operates for non-profit purposes. VDB is subsidized by the state budget for interest rate difference and management fees, guaranteed solvency by the Government, is not required to reserve and participate in deposit insurance, is exempted from paying taxes and payables to the state budget.

VDB's management apparatus is organized according to the vertical system, performing unified tasks from Head Office to affiliated and dependent units.

2.1.2. Overview about ODA on-lending at Vietnam development bank

ODA on-lending accounts for a significant proportion of VDB's total assets and annual growth. In the period of 2012-2017, VDB on-lent about 60.47% of the total ODA signed. As of 2017, VDB is managing 447 projects, committed capital of 14,507 million USD, outstanding loans equivalent to 155,951 billion dong.

2.1.3. Form of ODA on-lending at Vietnam development bank

At VDB, ODA on-lending activities are carried out in two forms: (1) VDB does not bear credit risks and (2) VDB bears credit risks. In the period of 2012 - 2017, VDB carried on-lending in the form of not bearing average credit risk of about 99.1%, on-lending ODA in the form of VDB is subject to credit risk of only 0.9%

2.1.4. Process of ODA on-lending at Vietnam development bank

The regulation on ODA on-lending of VDB is built based on the system of State legal documents related to the management of foreign capital. Before 2017, ODA on-lending was carried out in accordance with the Regulation issued under Decision No. 63 / QD-HDQL dated December 19, 2008 and Decision No. 88 / QD-HDQL dated October 31, 2013 of VDB. Since June 2017, the ODA on-lending activities at VDB are carried out in accordance with the Regulation on foreign loans on-lending issued under the Decision No. 145/QD-HDQT dated May 15, 2017 of the VDB Board of Directors.

2.2. CURRENT SITUATION OF EFFICIENCY OF ODA ON-LENDING AT VIETNAM DEVELOPMENT BANK

2.2.1. Efficiency for Vietnam Development Bank

2.2.1.1. Growth of outstanding loans for ODA on-lending

The scale of ODA on-lending in VDB in the period of 2012 - 2017 had a relative good growth. The average ODA capital committed to on-lending under annual credit contracts was about 13,176 million USD / year. The growth rate of on-lending ODA reached an average of 7.18% / year. In recent years, the growth rate of outstanding loans for ODA on-lending is quite low and tends to decrease.

In the period of 2012 - 2017, the implementation of the plan of ODA committed to on-lending under credit contracts was quite good. On average, this

period reached 95.2% of the proposed plan, proving that VDB did relatively well from planning to implementing the target of on-lending ODA. However, the level of implementation of the annual plan tends to decrease in recent years.

2.2.1.2. Quality of ODA on-lending

(1) Growth rate of ODA disbursement

In the 2012-2017 period, the average annual ODA disbursement growth rate reached about 39.5%. In 2017, the level of ODA disbursement in VDB reached 35,248 billion VND, an increase of 1.93 times compared to 2012 and an increase of 1.34 times compared to 2016.

(2) Debt retirement rate of due ODA loans

The rate of original debt retirement for ODA on-lending in the period of 2012 - 2017 tended to decrease, averaging about 81%. Although the amount of the original debt retirement for ODA has increased every year, but compared to the amount of the due original debt, it is shown that the recovery of ODA loans at VDB has not achieved good results. In 2012, this target was 85.6%, in 2016 only about 75.4%, in 2017 it was 79.1%. Some key economic projects pay debts incomplete and on time. Typically, in the construction project of Thanh Tri Bridge and the section of the Southern Ring Road III; Hanoi borrowed Japanese ODA; Phuoc Hoa irrigation project are loans from ADB and AFD; Hai Phong port renovation and upgrading project is Japanese capital; construction project of phase 1 of Dai Pha Ngai - Soc Trang is Danish capital.

(3) Overdue debt ratio

In the period 2012 - 2017, the average annual overdue debt ratio was about 1.35%. In overdue debts, the ratio of overdue principal debt accounts for an average of 69.6%. Overdue debt ratio in on-lending ODA at VDB is low, but tends to increase over the years. If analyzing in the form of bearing credit risk for on-lending activities. In 2016, 50 ODA projects were overdue, of which on-lending in the form of VDB without credit risks is 46 projects with overdue principal debt of VND 2,597.9 billion (equivalent to 1.69%) and 4/38 ODA projects borne credit risks by VDB with overdue principal debts of 44.53 billion VND (equivalent to 2.74%). In 2017, there

were 43/441 on-lending projects, VDB did not bear credit risks arising from overdue original debt of 2,159 billion VND, equivalent to 1.38% of the foreign loan outstanding under authorization.

(4) Bad debt ratio

In 2017, bad debt for on-lending ODA of VDB was 4,242 billion VND, accounting for 2.72% of the ODA outstanding loans. The average bad debt ratio in the period of 2012 - 2017 was about 2.91%. If compared with bad debt ratio as recommended by Basel Committee on Banking supervision, only on-lending ODA, bad debt ratio at VDB is lower than the safety threshold according to international standards and regulations of the State Bank of Vietnam. The bad debt ratio has tended to decrease in the period before 2015, but has begun to increase since 2015 until now.

(5) Provisions for on-lending risk against bad debts.

The ratio of risk provision against bad debts for ODA re-lending in the form of VDB bearing credit risk was very low and tended to decrease. In the period of 2012 - 2017, this rate only reached an average of about 18% annually.

2.2.1.3. Financial results from ODA on-lending activities

In the period 2012-2017, ODA on-lending and foreign loans has brought surplus for VDB. However, in addition to the increase in operating scale, the annual growth rate of financial results was significantly reduced. The on-lending result in 2017 was about 179.96 billion VND, down about 64.85 billion VND compared to 2012. The average annual decrease was about 10.8 billion VND, equivalent to 4.5% / year. This shows that the financial efficiency for the on-lending of ODA in VDB was not high.

2.2.2. Efficiency for socio-economic development

2.2.2.1. Overview about projects using on-lending ODA through VDB

ODA structure by sector

In the period of 2012 - 2017, on-lending ODA in VDB was focused on investment in projects in the sectors of industrial infrastructure and services. The ratio of disbursed ODA to industry and services reached an average of 96.4% and tended to gradually increase. In the areas of using on-lending ODA, the electricity sector accounted for the largest proportion (50.6%), followed by the construction and

urban infrastructure sectors (17.8%), water supply & drainage (14%), transportation (12%)... On-lending ODA in VDB has added a large amount of capital for investment in economic and social infrastructure.

On-lending ODA structure by Sponsors

Currently, ODA loans at VDB are funded by 24 bilateral and multilateral sponsors; more than 90% of on-lending ODA belongs to 6 major sponsors, namely ADB, WB, JBIC, KfW, AFD and KEXIM. Japan is the largest bilateral donor at 34%, followed by South Korea at 3.5%, China 2%, France 1.5%. The biggest WB financed among 6 development banks with 29%, followed by ADB with 23%, AFD 1.7% of total on-lending committed ODA

2.2.2.2. Socio-economic efficiency of the project using on-lending ODA at Vietnam Development Bank

Current status of socio-economic efficiency according to evaluation criteria

In the period of 2012-2017, the number of projects using on-lending ODA through completed VDB was 98 projects (energy: 35, water supply & drainage: 23, urban infrastructure and transportation: 26, industry: 6, others: 8 projects). The dissertation conducted a survey of 26 typical ODA projects, distributed questionnaires for 3 groups of project management units and investors (62 valid votes), beneficiaries (726 valid votes) and other enterprises in the project area (309 valid votes). Overall assessment of the level of socio-economic efficiency that the project brings to the development of the targeted groups was surveyed in the following table:

Table 2.1: Overall assessment of the level of social efficiency of the project

No.	Targeted group	"High efficiency" and "Efficiency"	Low efficiency and Inefficiency
1	Management Board and Employer	76%	24%
2	Beneficiary	39%	61%
3	Businesses in the project area	43%	57%

Source: Author summarizes survey results

(1) Suitability and sustainability of the project

The surveyed ODA projects have high suitability. Survey results show that the

proportion of officials, people and businesses agreeing on the suitability of ODA projects is very high. Projects invested by ODA via VDB have high sustainability.

(2) Progress and cost of project implementation

Most of the surveyed ODA projects do not guarantee the planned time schedule in the notes and feasibility study reports. 89% / 62 officials agreed that the project was adjusted with a total investment compared to the initial approval with a significant increase in the adjustment, 36% / 55 officials said that the total adjustment increased in the 50 to 100 %, 29% / 55 officials agreed that the project was adjusted to increase by over 100%.

(3) Value added and social surplus

The survey results of indicators to analyze net added value of the project using ODA re-lent by VDB show that the majority of projects do not meet the set objectives as stated on the criteria of profit, revenue and output. Some projects owe tax and other amounts payable to the state budget, failing to guarantee payment of interest and original debt to re-lending agencies.

The indirect value added of the project from the increase in the income of the beneficiary group is not high. 61% / 726 beneficiaries did not comment or disagree on the impact of the project to promote the local household economy; 55% / 726 people said that the project has little or no impact on increasing income for people; 53% / 726 people do not agree the project increasing local housing prices. For businesses in the project area, indirect value added is highly appreciated.

(4) Creating jobs and increasing income for employees

The survey results show that the number of employees regularly working in ODA projects is quite large, 21% / 62 votes believed that the project has used regularly over 300 employees; 32% agreed that the project has used about 200 to 300 employees. Most employees working on projects are satisfied with income levels (71% / 62) to improve the quality of life. Comments on the project's ability to create more jobs also received agreement from beneficiaries, 33% / 726 said that the project has created many jobs, 37% / 726 agreed that the project has created more employment is not much, 83% of the surveyed people said that the project has

increased the quality of life of the local people. The business survey also showed the project's ability to create more jobs and income. 58% / 309 commented that the number of employees used by businesses increased due to the expansion of scale and area, 76% agreed with the project to improve income and increase the quality of life of employees working in businesses.

(5) Other criteria for social efficiency

ODA projects impact on environmental protection, security and order and strengthening social and local defense on both positive and negative aspects.

- Conditions of ecosystems and environmental pollution.
- Value of cultural tradition and tourism development.
- Local connection with economic areas.
- Contribution to realizing income distribution goals.

Current status of socio-economic efficiency in the sector of ODA use

(1) ODA projects in the sector of water supply and drainage

Water supply and drainage projects on-lent by VDB from loans of ADB, WB, Finland, Japan, Korea, Denmark, Netherlands, Italy, Germany ... with total ODA loans is 2,040.8 million USD. Many projects are quite successful, contributing to promoting socio-economic development. In addition, there are still some projects that are not effective such as the target, high rate of water loss or fail to fulfill the obligations committed to VDB, arising overdue debts.

(2) ODA projects in the sector of energy

In the energy sector, VDB currently manages 150 on-lending ODA projects, the capital amount under the credit contract is 6,355.6 million USD, the outstanding loan is equivalent to 68,742 billion VND, which belongs to loans of WB, ADB and Japan, Korea, Spain, Belgium, NIB, Thuy Dien, Finland ... Projects that contribute to the economy of billions of KWh of electricity; improve and upgrade the length of electric lines; built and upgrade many hydropower, thermal and wind power plants with large capacity; reduce power loss rate. Some ODA projects do not meet the original objectives. Some projects have broken the local landscape and environment and reduced the quality of life of the people

(3) ODA projects in the sector of urban infrastructure and transportation

VDB currently manages 86 on-lending ODA projects belonging to German, ADB, WB, French, Danish and JBIC capital sources ... The total amount of on-lending capital is about 3,791.3 million USD, the outstanding loan is equivalent 58,437 billion VND. These are projects with large investment capital, which directly affect the socio-economic development of the invested region and locality.

(4) Projects in the sector of industry, environment, agriculture...

Most ODA projects using on-lending ODA in VDB in sectors such as industry, sanitation, environment, processing of agricultural, forestry and fishery products ... are promoting efficiency, contributing to improving, upgrading and perfecting the infrastructure system for the economy for sustainable development.

2.3. CURRENT SITUATION ASSESSMENT OF EFFICIENCY OF ODA ON-LENDING AT VIETNAM DEVELOPMENT BANK

2.3.1. Achieved results

- *Firstly*, on-lending ODA at VDB is gradually used for the right purpose to implement the socio-economic development objectives

- *Secondly*, the scale of on-lending ODA in VDB grows in reducing condition of attracting sponsors.

- *Thirdly*, the quality of on-lending ODA at VDB is guaranteed, basically complying with the prescribed rates, overdue debt ratio and low bad debt ratio.

- *Fourthly*, ODA on-lending has created a good source of income to offset VDB's operating costs.

2.3.2. Limitation

Firstly, investment by on-lending ODA at VDB was better than before, but the socio-economic efficiency was not high.

Secondly, the scale of ODA on-lending is on a downward trend.

Thirdly, the ratio of overdue debt and bad debt tends to increase.

Fourthly, the surplus from ODA on-lending activities decreases annually.

2.3.3. Reasons of limitation

Objective reasons

Firstly, the mechanism of on-lending ODA is still inadequate.

Secondly, there are no specific regulations on social performance evaluation criteria for projects invested with on-lending ODA.

Thirdly, regulations on loan security assets make it difficult for credit institutions.

Fourthly, the time for deciding solutions to handle bad debts of competent authorities is slow, leading to long-lasting bad debts.

Fifthly, the capacity to use ODA capital of employer is limited.

Subjective reasons

Firstly, the ODA on-lending organization in VDB still has some shortcomings.

Secondly, the team of inspecting and supervising ODA projects is not professional.

Thirdly, the professional capacity of some officials performing ODA on-lending has not met the requirements.

Fourthly, the information system has not been professionally organized

Fifthly, technology infrastructure is still weak.

CHAPTER 3

SOLUTIONS ON IMPROVING THE EFFICIENCY OF ODA ON-LENDING AT VIETNAMESE DEVELOPMENT BANK

3.1. VIEW POINTS AND ORIENTATIONS FOR IMPROVING THE EFFICIENCY OF ODA ON-LENDING AT VIETNAMESE DEVELOPMENT BANK

3.1.1. Strategic orientation of Vietnam Development Bank

Developing VDB to become a policy bank towards sustainability and efficiency; ensuring sufficient capacity to implement the credit policy of the State; contributing to the implementation of the country's socio-economic development strategy and plan.

3.1.2. Viewpoint to improve the efficiency of ODA on-lending at VDB

Firstly, improving the efficiency of ODA on-lending towards the goal of restructuring VDB's operation and financial autonomy.

Secondly, improving associated with socio-economic development viewpoint and ODA capital using orientation of the State.

Thirdly, ODA on-lending must ensure the socio-economic efficiency of investment projects.

3.1.3. Orientation of improving the efficiency of ODA on-lending at VDB

Firstly, reviewing the promulgated but not synchronized policies.

Secondly, increasing autonomy and self-responsibility for activities and results.

Thirdly, strengthening the management of ODA on-lending.

Fourthly, completing and modernizing operations in the on-lending process.

Fifthly, meeting the bank's innovation and development requirements.

Sixthly, creating a unified mechanism which operates effectively.

3.2. SOLUTIONS ON IMPROVING THE EFFICIENCY OF ODA CAPITAL ON-LENDING AT VIETNAMESE DEVELOPMENT BANK

3.2.1. Ensuring that ODA capital is used for the right purpose and effectively

Firstly, completing regulations on supervision of ODA use

- Disbursement controlling.
- Controlling through Employer's records.
- Regulating the implementation of the regime of ODA use reviewing monthly, combined with unexpected inspection of investment projects with overdue debts arising.
- Regulating the responsibilities of credit officers in case of not strictly supervising the use of loan capital of project Employer.

Secondly, strengthening inspection and supervision activities in projects.

The process of monitoring and supervising after disbursement should create a number of specific targets for each type of project and industry. Indicators such as project scale, location, progress and effectiveness.

Thirdly, enhancing the effectiveness of the monitoring mechanism

Not only the credit department, but also other departments, especially the internal inspection department have to organize the monitoring mechanism for ODA use purpose of investment projects to enhance the objectivity of checking. Performing the inspection of the stages in the lending process to help VDB detect errors early to correct and limit risks, thereby improving the efficiency of ODA on-lending. VDB needs to perform unexpected inspections instead of checking as planned.

Fourth, supervising with using of external information

VDB needs to pay more attention to the information collected from stakeholders to ensure an objective assessment of the purpose of capital use and the effectiveness of the project. External sources of information collected for checking and supervising the use of capital of ODA projects including: Supervision reports of the National Assembly on the use of foreign loans (mostly ODA capital); Post-project assessment reports of entities related to ODA using projects; Information from beneficiaries from ODA projects.

3.2.2. Improving the effectiveness of debt recovery on ODA on-lending

Firstly, regularly comparing and warning the debt to the Employer

- Preparing detailed debt collection plan for each loan, each time of loan, each ODA project based on the ODA on-lending contract.

- Analyzing and evaluating specifically each investor of the project on the ability to repay ODA loans due.

- Submitting the Minutes of debt Reconciliation and Confirming monthly (quarterly) and warning the Employer about the ability to recover historical debt, interest and management fees.

Secondly, promoting the handling of overdue debts

In order to minimize loss of assets as well as clean up the financial situation, VDB needs to accelerate the implementation of overdue debt handling measures.

Thirdly, completing the early warning system for overdue debt

Completing on the basis of developing automated screening and classifying input information systems, expanding the ability and speed of data processing. Screening of information in 2 levels: (1) based on information from Employer's data warehouse, internal credit rating system and risk management system; (2) based on the survey results of Employer's business activities and reliable sources of information from outside.

3.2.3. Strengthening the management of ODA on-lending risks

Firstly, organizing the mechanism to manage the risk of ODA on-lending

VBD needs to build its own risk management mechanism in accordance with

practices to advise leaders at all levels in implementing regulations on risk management in ODA on-lending activities.

Secondly, determining the model to manage ODA on-lending risks

The author argues that VDB needs to apply centralized risk management model with quantitative measurement and double control. The application of this risk management model helps VDB meet the requirements of risk management in accordance with international practices and ensure the safety of on-lending ODA, credit activities, as well as helping VDB improve efficiency in risk management of ODA on-lending.

Thirdly, classifying debt based on loan risk rating

VDB should assess the level of risk of loans base on the standard system, then classify debts into appropriate debt groups. VDB needs to carry out the debt classification of ODA on-lending quarterly. VDB needs to develop a regular inspection mechanism for ODA projects that generate overdue debts and bad debts.

Fourthly, setting up a reserve fund in accordance with the risk level

For the form of credit risk that VDB meets, it is necessary to set up a reserve fund for credit risk based on the classification of debts, to properly reflect the risk level of the loan, limit the losses caused by risks. VDB needs to determine the specific provision level based on the loan classification results according to the ratio prescribed by the SBV. VDB proposed to the Government the right to take initiative in making provisions for risks of ODA on-lending.

Fifthly, building data system to serve risk management

The Information System supporting Risk Management must be developed to ensure the provision of information, database of credit activities in a complete, clear, accurate and regularly updated way to support management to be carried out effectively and limit losses due to lack of information. Including: Macro information, orientation; Information serving directly for credit risk management.

3.2.4. Improving financial efficiency for ODA on-lending activities

Firstly, Reviewing the cutting down on non-essential costs to increase profits. VDB needs to implement continuous improvement methods, analyzing the factors

affecting the profit from ODA on-lending, thereby cutting unnecessary costs to improve financial results.

Secondly, expanding ODA on-lending in the form of VDB subject to credit risk. The VDB needs to propose to the Government about the viewpoint of risk sharing to expand this form of on-lending ODA capital.

Thirdly, promoting activities of normal ODA on-lending, VDB will not subject to credit risks.

3.2.5. Improving the assessment quality of ODA on-lending

Firstly, organization and process of ODA projects assessment.

Secondly, completing the contents of the project socio-economic efficiency assessment.

Thirdly, risk assessment by method of script analysis.

Fourthly, creating information system for assessment.

Fifthly, setting up a network of experts, strengthening cooperation in ODA projects assessment.

3.2.6. Additional solutions

3.3. RECOMMENDATIONS ON IMPROVING THE EFFICIENCY OF ODA CAPITAL ON-LENDING AT VIETNAMESE DEVELOPMENT BANK

3.3.1. For the Government

Firstly, completing policies and institutions for ODA capital on-lending.

Secondly, focusing on managing ODA on-lending through policy banks.

Thirdly, completing appropriate management mechanisms for ODA projects.

Fourthly, strengthening the monitoring and assessment after the project.

3.3.2. For the Ministry of Finance

Firstly, issuing circulars and specific guiding documents to assess the social effectiveness of projects using ODA capital on-lending.

Secondly, regularly instructing VDB and CIs.

Thirdly, promptly recording the payables and receivables, comparing data with Credit Institutions, as well as solving difficulties and obstacles of ODA projects.

3.3.3. For Project Owner

Firstly, improving capacity and awareness in ensuring the use of capital for the right purpose and effectively.

Secondly, ensuring the effectiveness of the working stages in the ODA project process.

Thirdly, improving the management and operation capacity of ODA projects.

CONCLUSION

ODA capital on-lending provides the economy a considerable amount of capital with many advantages for investment in infrastructure and key projects contributing to the achievement of socio-economic development objectives. Improving the efficiency of ODA capital on-lending helps VDB optimize operational efficiency, achieve sustainable development goals, restructure operations and ensure financial autonomy. According to the objectives have been set, the dissertation has implemented the following contents:

- Systematizing and analyzing scientific theoretical base on the effectiveness of ODA capital on-lending at credit institutions;
- Researching on experiences of some countries in the world, drawing lessons for Vietnam to improve the effectiveness of ODA on-lending at credit institutions;
- Analyzing, interpreting and evaluating the status of the effectiveness of ODA on-lending at Vietnam Development Bank, finding out the causes of the problems;
- Proposing a synchronous solution system to improve the effectiveness of ODA on-lending at VDB. Proposing conditions for implementing the solution.

The author hopes that the research results of the dissertation will contribute in both theoretical and practical aspects in order to improve the efficiency of ODA capital on-lending at Vietnam Development Bank.

LIST OF ARTICLES RELATED TO THE DISSERTATION

1. Tran Thi Luu Tam (2018), *The system of criteria for evaluating the effectiveness of ODA capital on-lending at credit institutions*, Finance Journal, No. 685, July 2018, page 7-10.
2. Tran Thi Luu Tam (2018), *Efficiency of ODA capital on-lending in Vietnam Development Bank: Current situation and solutions*, Financial Journal, No. 687 of August 2018, page 19-22.
3. Tran Thi Luu Tam (2018), *Completing the assessment of ODA capital on-lending at credit institutions*, Finance Journal, No. 695, 12/2018, page 18-21.

**The work is completed
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**The dissertation is upheld at Dissertation Examiner Council in
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At..... hour..... date..... month..... 2019

**The dissertation is available at National Library of Vietnam
and Library of University of Finance**