

# INTERNATIONAL INVESTMENT

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# COURSE STRUCTURE

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I. AN OVERVIEW OF INTERNATIONAL INVESTMENT

II. FOREIGN DIRECT INVESTMENT

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# Part I:

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## AN OVERVIEW OF INTERNATIONAL INVESTMENT



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# STRUCTURE

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## I. The concepts of Investment, Foreign Investment and International Investment

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## II. Taxonomy of International Financial Flows

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# It takes money to make money!

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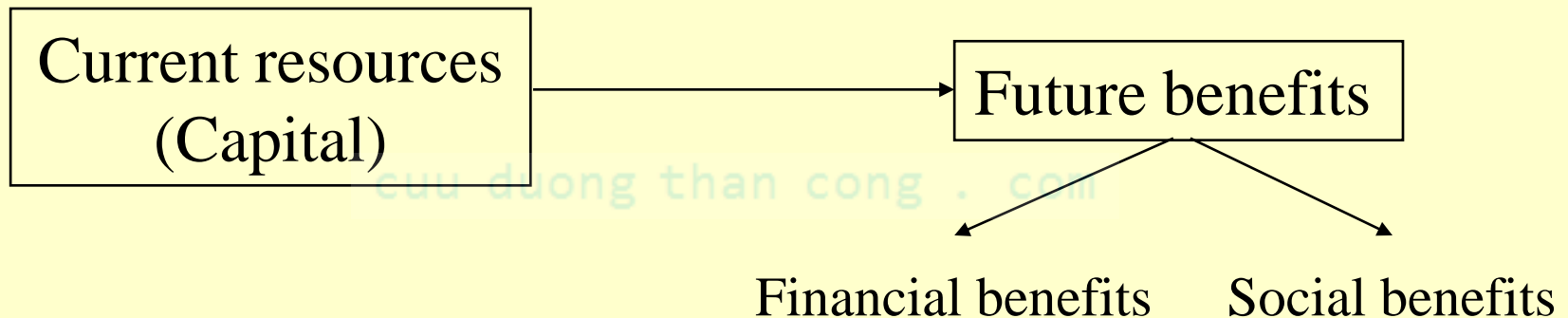
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# INVESTMENT

- You sacrifice something of value now, expecting to benefit from that sacrifice later.



- *in expectation that....*
- *“risk-return trade-off”*

# Investment

- “An Investment is the *current* commitment of money or other resources in the expectation of reaping *future* benefits.”

Z. Bodie, A. Kane and A. J. Marcus, *Investments*, 8<sup>th</sup> edition, Mc Graw-Hill Irwin, 2009

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- “A sum of money or other resources (including e.g. knowledge or time) spent with the expectation of getting a future return from it.”

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UNCTAD, Virtual institute teaching Material on *ECONOMIC AND LEGAL ASPECTS OF FOREIGN DIRECT INVESTMENT*, United Nations: New York and Geneva, 2010

# Capital

- Resources
- Investible
- Mobilization of capital
- Invested capital



# 3 approaches:

## **(a) In macro-economics and national accounts:**

expenditure on new capital goods (goods that are not consumed but instead used in future production). Such investment is the source of new employment and economic growth.

## **(b) In finance:**

investment refers to the purchase or ownership of a financial asset with the expectation of a future return either as income (such as dividends), or as capital gain (such as a rise in the value of the stock).

## **(c) Legal definitions of investment:**

found in laws and legal agreements, focus on the issue of property, notwithstanding the productive or financial nature of the investment, unless specific limitations are made.

# Financial Assets vs. Real assets

| Real assets   | Financial Assets  |
|---|---|
| <p>E.g. Land, buildings, machines, knowledge</p> <ul style="list-style-type: none"><li>- Assets that can be used to produce goods and services.</li><li>- Generate net income for the economy, contribute directly to the productive capacity of the economy.</li></ul> | <p>E.g. Shares, bonds,...<br/>(certificates, computer entries)</p> <p>Means by which individuals hold their claims on real assets.</p> <ul style="list-style-type: none"><li>-Claims on the income generated by/derived from real assets (or claims on the income from the government).</li><li>-Define the allocation of income or wealth among investors.</li></ul> |

# Composition of national wealth

- Shares and bonds are financial assets of individuals/households but are liabilities of the issuers of the securities.

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⇒ When we aggregate over all balance sheets, these claims cancel out, leaving only real assets as the net wealth of the economy.

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- National wealth consists of structures, equipment, inventories of goods, and land

# Effective use of capital

- An individual project: ROI (Return on Investment)

**ROI = Profit/Total Investment**

*(Profit = Turnover - Cost)*

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- A COUNTRY: ICOR (Incremental Capital Output Ratio)

**ICOR = Total Investment/ $\Delta$  GDP**

*( $\Delta GDP = GDP_t - GDP_{t-1}$ )*

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# Harrod-Domar Model

developed by Hollis Chenery.

$$g = k/ICOR$$

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# Harrod Dormar model

$$k = \frac{I}{\Delta \text{GDP}} \quad g = \frac{\Delta \text{GDP}}{\text{GDP}}$$

$$\text{ICOR} = \frac{k}{g} = \frac{I}{\Delta \text{GDP}}$$

*(Total Investment = Domestic Investment + Foreign Investment)*

# THE CASE OF VIETNAM:

*Source: The Economy 2000-2001, 2001-2002, 2003-2004: Vietnam and the World (VET)*

|          | 91   | 92   | 93   | 94   | 95   | 96   | 97   | 98   | 99   | 00   | 01  | 03  |
|----------|------|------|------|------|------|------|------|------|------|------|-----|-----|
| g<br>(%) | 5,8  | 8,7  | 8,0  | 8,8  | 9,5  | 9,3  | 8,1  | 5,7  | 4,7  | 6,7  | 6.9 | 8.0 |
| k<br>(%) | 17,6 | 22,4 | 30,1 | 30,4 | 29,7 | 29,2 | 30,9 | 27,0 | 26,0 | 27,9 | 32  | 36  |
| ICOR     | 3,0  | 2,6  | 3,7  | 3,4  | 3,1  | 3,1  | 3,8  | 4,7  | 5,4  | 4,2  | 4.6 | 4,5 |

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# Characteristics of investment?

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# INVESTMENT TAXONOMY

- Official Flows of Investment
- Private Investment
- Domestic Investment
- Foreign Investment
- Direct investment
- Indirect investment
- Fixed capital formation – Productive investment (contribute directly to the productive capacity of the economy)
- Financial Investment (do not contribute directly to the productive capacity of the economy)

NOTE: *Capital fundamentalism* considers capital formation is the single most-important determinant of growth and development.

# International Investment

- Capital movement across borders.

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# Foreign Investment

- Capital movement across a certain country's borders

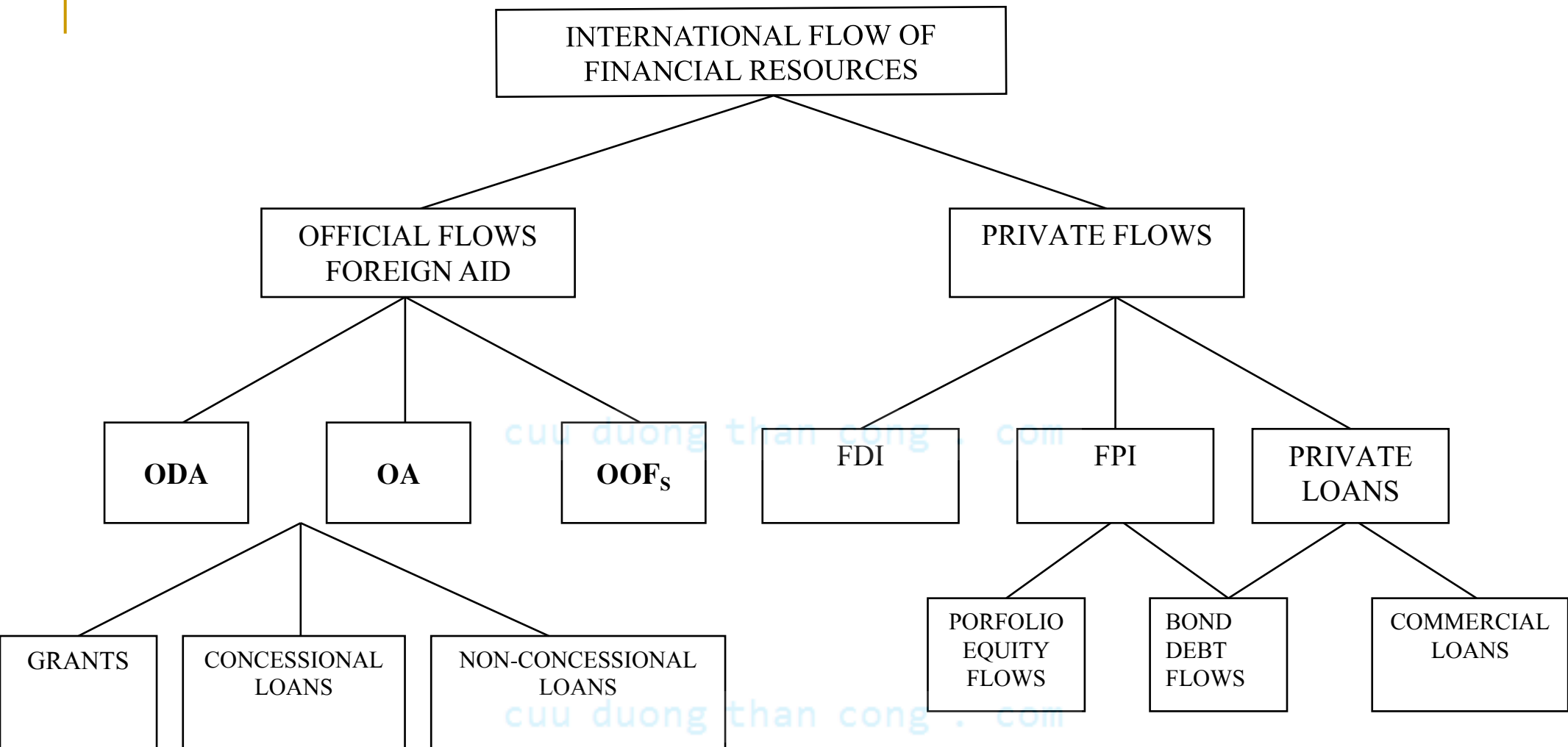
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- Inflow and Outflow

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## II. INTERNATIONAL FINANCIAL FLOWS

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**Bond Debt Flows X 2**

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# II.1. FOREIGN AID

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**FOCUS: Official Development Assistance**

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# Kinds of Foreign Assistance

## ■ Development Aid:

- ❑ Transfer of finance, commodities etc.
- ❑ Technical co-operation
- ❑ Debt relief

## ■ Humanitarian Aid:

- ❑ Disaster relief assistance

## ■ Military Assistance

## ■ Food Aid

- ❑ offered to countries facing food shortages

# Foreign Aid consists of

- Financial Flows
- Technical Assistance
- Commodities

given by the residents of one country to the residents of another country, either as grants or as subsidized loans.



# Official Development Assistance (ODA)

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# The origin of today ODA

- The establishment of the UN, WB, IMF
- The Marshall Plan
  - Post-World War II reconstruction plan for Europe, initiated by U.S. Secretary of State George Marshall (Nobel Prize winner) in 1947.
  - European Recovery Program (1948-1952): USD 13.3 bi to 16 countries (1.5% of U.S. GDP, >1% of major recipients' GDP)



# What is the DAC?

- Development Assistance Committee (DAC) of the OECD.
- 22 Bilateral Donors, plus European Commission (EC).
- Objective: improve development assistance through coordination and collaboration with major stakeholders.
- Collect and synthesize data on aid and foreign assistance and deliver the data to the public.



# DAC Statistics

- Measure **resources for development** (not just aid) including;
  - ✓ Official Development Assistance (ODA)
  - ✓ Other Official Flows (OOF)
  - ✓ Private Flows (NGOs)
  - ✓ Net Private Grants
- DAC statistics are the only reliable source of both **total** and **comparative** data on aid performance



# DAC Reporters

- Data is collected data from:
  - ✓ All DAC Member Countries
  - ✓ Non DAC Donors (voluntary)
  - ✓ Multilateral Agencies (voluntary)
- Limited data on **aid only** (ODA) from non-DAC members.
- In the future, we hope to improve reporting from non-DACs, multilaterals and foundations.

# Current DAC Members

| Australia | France  | Luxembourg  | Sweden                                |
|-----------|---------|-------------|---------------------------------------|
| Austria   | Germany | Netherlands | Switzerland                           |
| Belgium   | Greece  | New Zealand | United Kingdom                        |
| Canada    | Ireland | Norway      | United States                         |
| Denmark   | Italy   | Portugal    | European Commission<br>(Multilateral) |
| Finland   | Japan   | Spain       |                                       |

# Current Non-DAC Reporters

|                       |                     |                        |
|-----------------------|---------------------|------------------------|
|                       |                     |                        |
| Arab Donors           | Israel              | <b>Slovak Republic</b> |
| <b>Czech Republic</b> | <b>Korea, South</b> | Slovenia               |
| Estonia               | <b>Mexico*</b>      | Thailand               |
| <b>Hungary</b>        | Latvia              | Taiwan                 |
| <b>Iceland</b>        | Lithuania           | <b>Turkey</b>          |
|                       | <b>Poland</b>       |                        |

**Bolded** countries are the non-DAC OECD Members

\* Only textual information reported, no data



# What is ODA?

- The official measure of foreign aid.
- Only internationally comparable measure of donor assistance.
- Reported by donor countries to the OECD/DAC on an annual basis.





# Official Definition of ODA

“Those flows to countries and territories on DAC List of ODA Recipients and to multilateral institutions which are;

I. Provided by official agencies, including state and local government, or by their executives agencies; and

II. Each transaction of which;

a) Is administered with the promotion of the economic development and welfare of developing countries as its main objective; and

b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of 10 per cent).”

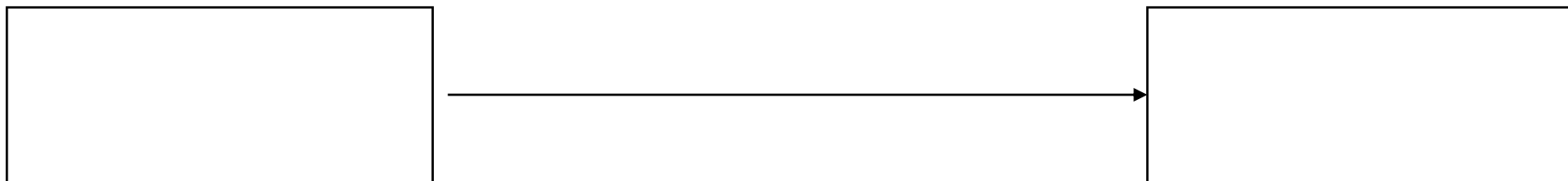


# Explanation of ODA

**ODA are official flows to or for developing countries that are provided:**

- **for developmental purposes**  
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- **by the official sector (Government, public funds)**
- **as grants or**  
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- **as “soft loans”** (ODA loans are at terms significantly softer than commercial transactions, and bear a “grant element” of at least 25% compared with a loan at 10%.)

# ODA FLOWS



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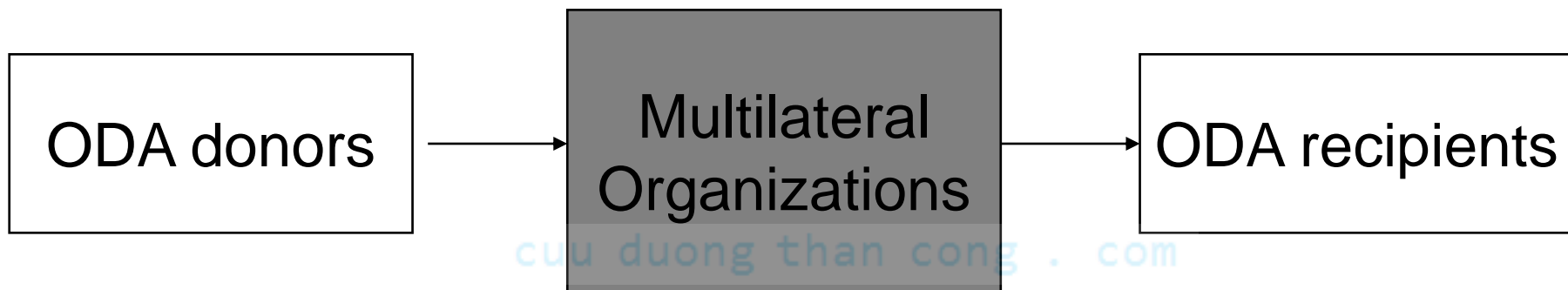
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*Multilateral*

# ODA FLOWS



*Bilateral*



*Multilateral*



# ODA Eligible Countries

- Specifically defined set of countries
- Includes all low and middle income countries
- Exceptions: G8 members, EU Members and countries with a firm date of accession to the EU
- Reviewed every three years by the DAC
- Countries may graduate from the list, or change income groups



# ODA Eligible International Organizations

**Agencies to which core contributions are reported as ODA in whole or in part include:**

- Many United Nations & UN Administered Funds
- European Commission
- International Monetary Fund (concessional windows only)
- World Bank (IDA)
- World Trade Organization (technical assistance activities)
- Regional Development Banks
- Other Multilaterals

# OFFICIAL AGENCIES

|                  |   |
|------------------|---|
| <b>Sweden</b>    | SIDA  |
| <b>Australia</b> | AusAID  |
| <b>USA</b>       | UsAID (18 departments and agencies: The Peace Corps, Departments of Agriculture, Defense, Health and Human Services, The Millennium Challenge Corp. Etc.) |
| <b>Japan</b>     | JICA, JBIC  |
| <b>Canada</b>    | CIDA  |

# OFFICIAL AGENCIES

|                  |  |
|------------------|--|
| <b>Sweden</b>    |  |
| <b>Australia</b> |  |
| <b>USA</b>       |  |
| <b>Japan</b>     |  |
| <b>Canada</b>    |  |





# Grant element

## Determining Factors:

- **Interest rate (%)**;
- **Grace period**, i.e. the interval from commitment date to the date of the first payment of amortisation);
- **Maturity**, i.e. the interval from commitment date to the date of the last payment of amortisation.)

# Grant element (cont)

## Meaning:

The present value of a the loan (taking into account its interest rate and maturity structure ) must be at least 25% below the present value of a comparable loan at market interest rates (presumed 10% by DAC)

# Grant element (cont.)

$$\text{Grant element} = \frac{\text{PV(Loans)} - \text{PV (Payments)}}{\text{PV(Loans)}} \times 100\%$$



# Definition of ODA Flows

- **Commitment:** Firm undertaking to provide specified funds
- **Disbursement:** Actual payment or expenditure of funds
- **Grant:** Non-repayable
- **Loan:** Initial Loan plus Repayments. Only report repayments of loan principal, not interest
- Performance assessed on net disbursements
- **Net disbursements** = disbursements of grants +  
disbursements of loans - repayments of loan principal



# Important Notes

- ODA is a measure of donors' expenditures on aid.

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- It is NOT a measurement of the amount of value received by a recipient country.

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- ODA is a subset of foreign assistance.



# Notes (cont.):

- Grant vs. grant element

- ODA vs. OA cuu duong than cong . com  
(official aid)

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# Notes (cont.):

- ODA vs. OOFs (other official flows)
- ODA vs. ODF (official development finance)
- ODA vs. TC (technical cooperation)



# Examples of ODA Activities

- Development Projects – schools, clinics, water supply systems etc...
- Emergency Aid for Natural or Man-made Disasters
- Contributions to Multilateral Development Agencies
- Food Aid, Emergency and Developmental
- Aid to Refugees and IDPs
- Debt Relief outlined by Paris Club Agreement
- Officially Financed Scholarships for students in developing countries





# Non Eligible ODA Activities

- Military or Security Assistance
- Cultural programmes for the donor's nationals resident in other countries
- Aid from NGOs financed from private sources
- Foreign Direct Investment
- Official export credits or other commercially motivated transactions
- Guarantees on private export credits or investments
- Reduced tariffs or other concessions on imports from developing countries



# ODA Targets & Performance

- 1970 UN Resolution urged advanced countries to provide 0.7% of their national income as ODA.
- The average ODA/GNI ratio for DAC countries was only 0.31% in 2006.
- Only five countries achieve the 0.7% target, but several others have plans to do so.
- The EU has set ambitious ODA targets of GNI of 0.17% of GNI by 2010 and 0.33% by 2015 for the 12 new members.

# Official Development Assistance Disbursements from Major Donor Countries, 1985, 2002, and 2005

| Donor Country        | 1985                     |                   | 2002                     |                   | 2005                     |                   |
|----------------------|--------------------------|-------------------|--------------------------|-------------------|--------------------------|-------------------|
|                      | Billions of U.S. Dollars | Percentage of GNI | Billions of U.S. Dollars | Percentage of GNI | Billions of U.S. Dollars | Percentage of GNI |
| Canada               | 1.6                      | 0.49              | 2.0                      | 0.28              | 3.4                      | 0.34              |
| Denmark              | —                        | —                 | 1.6                      | 0.96              | 2.1                      | 0.81              |
| France               | 4.0                      | 0.78              | 5.5                      | 0.38              | 9.9                      | 0.47              |
| Germany              | 2.9                      | 0.47              | 5.3                      | 0.27              | 10.0                     | 0.36              |
| Italy                | 1.1                      | 0.26              | 2.3                      | 0.20              | 4.9                      | 0.29              |
| Japan                | 3.8                      | 0.29              | 9.3                      | 0.23              | 13.5                     | 0.28              |
| Netherlands          | 1.1                      | 0.91              | 3.3                      | 0.81              | 5.0                      | 0.82              |
| Sweden               | —                        | —                 | 2.0                      | 0.83              | 3.4                      | 0.94              |
| United Kingdom       | 1.5                      | 0.33              | 4.9                      | 0.31              | 10.6                     | 0.47              |
| United States        | 9.4                      | 0.24              | 13.3                     | 0.13              | 26.9                     | 0.22              |
| Total (22 countries) | 29.4                     | 0.35              | 58.3                     | 0.23              | 104.8                    | 0.33              |

Sources: World Bank, *World Debt Tables, 1991–1992* (Washington, D.C.: World Bank, 1992), vol. 1, tab. 2.1; World Bank, *World Development Indicators, 2004 and 2007* (Washington, D.C.: World Bank, 2004, 2007), tabs. 6.9 and 6.10.

# Official Development Assistance (ODA) by Region, 2005

| Region                       | ODA Per Capita<br>(U.S. \$) | GNI Per Capita<br>(U.S. \$) | GNI Per Capita<br>(\$ PPP) | ODA as Share<br>of GNI (%) |
|------------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| Middle East and North Africa | 88                          | 2,198                       | 6,084                      | 3.9                        |
| Sub-Saharan Africa           | 44                          | 746                         | 2,004                      | 5.5                        |
| Latin America and Caribbean  | 11                          | 4,045                       | 8,116                      | 0.3                        |
| East Asia and Pacific        | 5                           | 1,630                       | 5,914                      | 0.3                        |
| South Asia                   | 6                           | 692                         | 3,142                      | 0.9                        |
| Europe and Central Asia      | 11                          | 4,143                       | 9,152                      | 0.2                        |

Source: World Bank, *World Development Indicators, 2007* (Washington, D.C.: World Bank, 2007), tabs. 1.1 and 6.11.

# Foreign Aid: The Development Assistance Debate

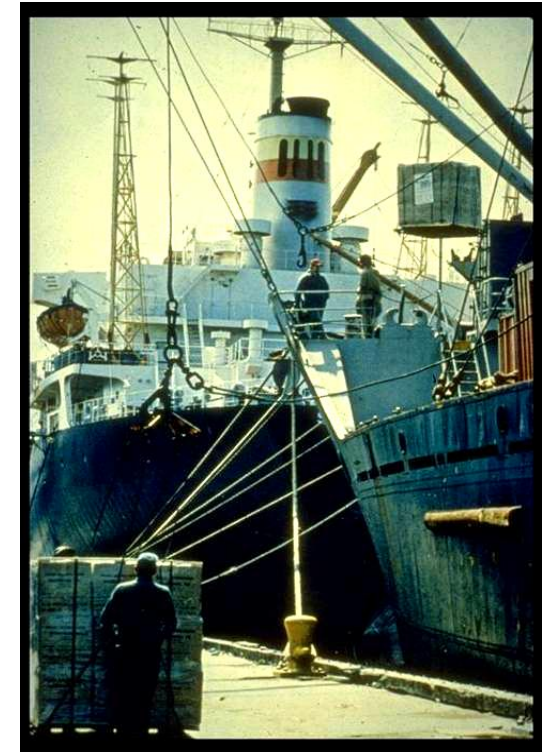
- Why donors give aid
  - political motivations
  - economic motivations:
    - Foreign exchange constraints (two gap model)
    - Growth and savings
    - Technical assistance
    - Absorptive capacity
    - Self interest

# What is the rationale for foreign development assistance?



# Rationale for aid

- Humanitarian (moral or ethical responsibility to help the poor)
- Political (strategic self interest)
- Economic (develop markets)



# Rationale for foreign aid

1. Humanitarian (moral or ethical)
  - a. Compensation for past injustices
  - b. Uneven distribution of global natural resources
  - c. Moral obligation to help the poor improve their nutritional status and standard of living
2. Political (strategic self interest) (buy friends) (security assistance)
3. Economic self-interest
  - a. Develop markets for developed country's goods
  - b. Dispose of surpluses



## U.S. Official Development Assistance (ODA) to Top 10 Recipients (Millions of 2000 U.S. Dollars)

| 1970-71     |       | 1988-89         |       | 2000-01     |       | 2003-04     |       |
|-------------|-------|-----------------|-------|-------------|-------|-------------|-------|
| Country     | ODA   | Country         | ODA   | Country     | ODA   | Country     | ODA   |
| India       | 1625  | Israel          | 1553  | Russia      | 815   | Iraq        | 2,157 |
| Vietnam     | 1227  | Egypt           | 1180  | Egypt       | 789   | Congo, D.R. | 758   |
| Indonesia   | 912   | Pakistan        | 485   | Israel      | 555   | Egypt       | 724   |
| Pakistan    | 584   | El Salvador     | 410   | Pakistan    | 428   | Russia      | 695   |
| Korea       | 526   | India           | 236   | Ukraine     | 240   | Jordan      | 628   |
| Brazil      | 421   | Philippines     | 224   | Colombia    | 223   | Afghanistan | 596   |
| Turkey      | 421   | Pacific Islands | 199   | Jordan      | 169   | Pakistan    | 557   |
| Colombia    | 351   | Guatemala       | 186   | Yugoslavia  | 155   | Colombia    | 506   |
| Israel      | 199   | Bangladesh      | 174   | Peru        | 154   | Israel      | 495   |
| Laos        | 187   | Honduras        | 174   | Indonesia   | 154   | Ethiopia    | 472   |
| Total above | 6452  | Total above     | 4821  | Total above | 3682  | Total above | 7,588 |
| Total ODA   | 11689 | Total ODA       | 12426 | Total ODA   | 11163 | Total ODA   | 18217 |

# Motives for giving AID

- Economic objectives (Germany and Japan)
- A mission to maintain close relationships (France and Britain)
- Relief and Reconstruction after disasters
- National Security Concerns (USA)

# Motives for giving AID ...2

- Humane Objectives (Canada, Netherlands and Scandinavian countries)
- Assist with Democracy and good governance (USA, Britain)
- Promoting respect for human rights
- Poverty reduction

# Which countries provide AID

- Over 95% of ODA now comes from members of the Development Assistance committee (DAC) of the OECD members

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- The OECD comprises 22 developed countries including the European Union

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How much aid does the  
United States contribute  
relative to other developed  
countries?



## United States and World Official Development Assistance (ODA), 1960-2003 (Millions of 2000 U.S. Dollars) (Source: OECD Database)

| Year | Total ODA | U.S. ODA | U.S. as % of Total |
|------|-----------|----------|--------------------|
| 1960 | 22256     | 13137    | 59.0               |
| 1965 | 28879     | 17904    | 62.0               |
| 1970 | 24835     | 11665    | 47.0               |
| 1975 | 35514     | 11150    | 31.4               |
| 1980 | 49248     | 13420    | 27.2               |
| 1985 | 41845     | 13683    | 32.7               |
| 1990 | 65578     | 14108    | 21.5               |
| 1995 | 64351     | 8045     | 12.5               |
| 1996 | 59578     | 10044    | 16.8               |
| 1997 | 50948     | 7226     | 14.2               |
| 1998 | 54035     | 9115     | 16.9               |
| 1999 | 57623     | 9347     | 16.2               |
| 2000 | 53735     | 9955     | 18.5               |
| 2001 | 51121     | 11163    | 21.8               |
| 2002 | 54825     | 12410    | 22.6               |
| 2003 | 64694     | 15280    | 23.6               |
| 2004 | 69011     | 17923    | 26.0               |

# Foreign Aid: The Development Assistance Debate

- Why developing recipients accept aid?
- The effects of aid
- The role of nongovernmental organizations (NGOs)

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# Three views on AID, GROWTH and DEVELOPMENT

- View 1: Although not always successful, on average aid has a positive impact on economic growth and development
- View 2: Aid has little or no effect on growth and actually may undermine growth
- View 3: Aid has a conditional relationship with growth, stimulating growth only under certain circumstances, such as in countries with good policies or institutions



# Foreign Aid: The Development Assistance Debate

The two-gap model:  
*savings constraint*

$$I < F + sY \quad (15.1)$$

Where

$I$  is domestic investment

$F$  is the amount of capital inflows

$s$  is the savings rate

$Y$  is national income

# Foreign Aid: The Development Assistance Debate

The two-gap model:  
*foreign-exchange constraint*

$$(m_1 + m_2)I + m_2Y - E \leq F \quad (15.2)$$

Where

$I$  is domestic investment

$F$  is the amount of capital inflows

$E$  is the level of exports

$Y$  is national income

$m_1$  is the marginal import share

$m_2$  is the marginal propensity to import

# **THE NEED FOR ODA**

- **Private capital may not flow to:**
  - ❑ Poor countries without strong fundamentals
  - ❑ Countries that cannot open capital account because of the under developed financial markets
  - ❑ Projects in soft area including HRD and governance
- **Private capital flows, even the FDI, in presence of distortions can be immiserising**

# ***Revival of Public Trust for ODA in Donors Countries***

- **Project selection and implementation**
  - Transparent procedures
  - Involvement of Stake Holders, especially the civil society
  - Decentralization
  - Pro-poor and gendre specific projects
- **Good governance including proper auditing and accountability**
- **Prompt utilisation of committed aid**

# Benefits from foreign development assistance

- Foreign Aids supplement local savings
- Enhances investment which makes possible expansion in productive capacity.
- It furnishes foreign exchange for essential imports such as machinery fuel and food.
- Aid builds large construction projects.

- Is foreign development assistance in the economic self interest of both donor and recipient?
- Usually. Why?
- Why aid rather than just relying on commercial investment flows?
- Aid relieves a capital constraint that arises in part due to high risk in developing countries. It can also be tied to technical assistance

# Why the Conditionalties in granting AID to the Third World...1

- A substitute for collateral assets which private lenders require as a safeguard against danger of default
- A safeguard against a government that might not be inclined to undertake policy reforms
- Donors have an obligation to ensure that tax payers monies are effectively disbursed in achieving the objectives for which the aid was given

# Why the Conditionalties in granting AID to the Third World...2

- Conditionalties might tip the balance in favor of officials in a government that favor reforms
- Can improve domestic economic policies by inducing greater consistency over time.
- An insurance that might guarantee that reforms and policies might not be reversed in the near future.

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# Why AID might not be a panacea to Third World Development...1

- The lack of progress in Third World countries reflects factors that cannot be overcome by aid.
- Capital can be secured without Aid. Governments who are capable of using capital productively can always attract investment or borrow money from abroad.
- Aid does not descend indiscriminately on the population who may need it most but goes directly to the government.
- Aid can therefore increase the patronage and power of an unpopular government.

# Why AID might not be a panacea to Third World Development...2

- Foreign aids enable governments to pursue policies that retard growth and exacerbates poverty
- Foreign aid makes it easier for governments to restrict internal private investment so to serve their political interests.
- Aid has often been applied to dictate unpopular and unsuitable external development models.

# Why AID might not be a panacea to Third World Development...3

- Aid breeds dependency and promotes the belief that economic improvement depends on circumstances and influences outside one's control
- The influx of money from aid drives up the exchange rate and adversely affects inflation at home and foreign trade competitiveness

# Foreign Aid: The Development Assistance Debate

- Conceptual and measurement problems
- Amounts and allocations: public aid
  - Official development assistance (ODA)

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# **ISSUES IN AID UTILISATION**

- **Modalities of aid administration**
- **Feasibility reports and cost-over runs**
- **Counter-part funding**
  - Poor projections of fiscal space
  - Conditionalities to reduce fiscal deficit at the cost of public investment
- **Capacity Building in recipient countries**

# **ISSUES RELATING TO** **MULTI-LATERAL INSTITUTIONS**

- **Focus on poor countries**
- **Focus on soft sectors including HRD**
- **Program vs. Project loans**
- **Structural Adjustment and Stabilisation Programs to improve fundamentals of the Economy**

# **Conditionalities and Ownership Programs**

- **Capacity to come-up with alternative programs**
- **Co-ordination amongst donors**
  - ❑ Inter-agency conditionalities
  - ❑ Duplication of programs/projects
- **Donor driven projects especially TA projects**
- **Need Based country specific program**

# ***Public and Private Debt Relief***

- **Norms, laws or discretion for debt relief**
- **Co-ordination of Debt restructuring**
- **Moral Hazard problem**
- **New Financial Architecture**
  - International bankruptcy mechanism
  - International lender of last resort



# Conclusions: Toward a New View of Foreign Aid

- Dissatisfaction among donors and recipients may create the possibility for new aid arrangements
- Future aid is likely to be linked to market reforms and institutional capacity-building

# Case Study: Vietnam

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