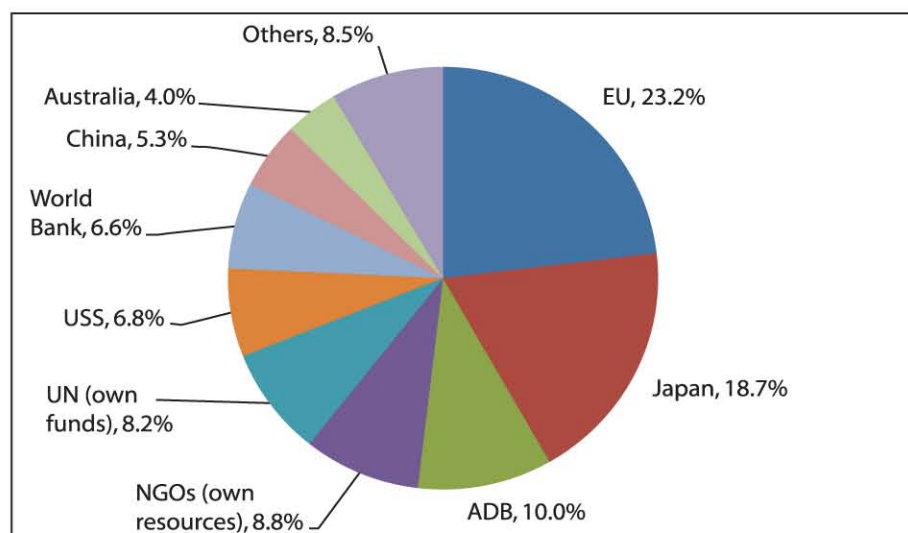


# Fact Sheet on Terms of Assistance of Foreign Concessional Loans to Cambodia

## Introduction

Cambodia continues to have a high dependence on donor aid with almost half of its total annual national budget being sourced from donor (multilateral and bilateral), which mainly support to capital expenditures (public investment). In the period 1992 to 2009, aid disbursements to Cambodia totaled 9.79 billion USD. Please note that all the following figures have been **denoted in United States Dollars (USD)**. The relative portion of development partners' total Official Development Assistance (ODA) received from 1992 to 2009 includes: 2.27 billion from European Union countries and the European Commission (23.2%), 1.83 billion from Japan (18.7%), 0.98 billion from ADB (10%), 0.86 billion (8.8%) provided by Non-Governmental Organizations (own resources), 0.80 billion from the United Nations (UN) (own fund) (8.2%), 0.66 billion from the USA (6.8%), 0.64 billion from the World Bank (6.6%), 0.51 billion from China (5.3%), 0.39 billion from Australia (4%), and 0.83 billion (8.5%) from Global Fund, IMF, other bilateral donors (i.e. South Korea), and others. When grouped by types of donors, bilateral donors have provided the biggest share at 39% followed by UN and Multilateral Institutions at 29%, EU at 23% and lastly NGOs (own fund) at 9%.

**Figure 1: Total ODA received 1992 to 2009 amounts to 9.79 billion**



Source: *The Cambodia Aid Effectiveness Report 2010, Page 9*

Recognizing the importance of aid to Cambodia, the NGO Forum on Cambodia has initiated an Aid Effectiveness Project with the intention to engage NGOs across sectors in order to enhance their cooperation on monitoring and advocating on foreign aid issues. The initiative commenced in 2008 and has been progressively implemented, focusing on a myriad of issues in advocating the Government and its donors to achieve commitment to the implementation of both the Paris Declaration and Accra Agenda for Action. The ultimate goal of this project is to support the Government and Development Partners' policies and practice in ensuring aid effectiveness and positive development results. The aim is to advocate for an alignment of benefits accruing from foreign aid to priority sectors that address needs of both poor and vulnerable groups (including women and children).

This fact sheet<sup>1</sup> provides analysis on the terms of the assistance<sup>2</sup> and makes comparison between donors based on annual interest rates, grace periods, and amortization periods of all concessional loan

<sup>1</sup> In addition to its primary objective, this factsheet also serves as an information sources for further analysis, research or tracking purpose toward further detailed terms of assistance between the Royal Government of Cambodia and donors.

<sup>2</sup> The analysis is mainly based on the information collected from the ODA Database of CDC Website; however, information on other terms of agreements attached to these concession loan projects that may partly guide the RGC to make decision on which loans they should contract with are not available on the website.

projects. This has been done to inform the reader of the relative trends, and terms of assistance, by donors to Cambodia. It should be noted that the scope had been limited in its coverage as details on 104 concessional loan projects<sup>3</sup> from a total 1337 aid projects had been reviewed. These exclude 1230 grant projects and 3 non concessional loan projects (of which the three are pipeline projects totaled at 39 million USD) recorded in the ODA database of the Council for the Development of Cambodia (retrieved 3 June 2010) and verified again in July 2010. Obviously, the analysis faced a number of challenges such as small sample size (fewer projects by some donors) and incomplete information on some projects (i.e. interest rate, grace period, and amortization period). Also, there is the inherent difficulty in the conversion of different currencies based on historical periods (i.e. Yen, Yuan and Euro) into USD. These inconsistencies have skewed the findings and may present different results if compared with the Aid Effectiveness Report 2010.

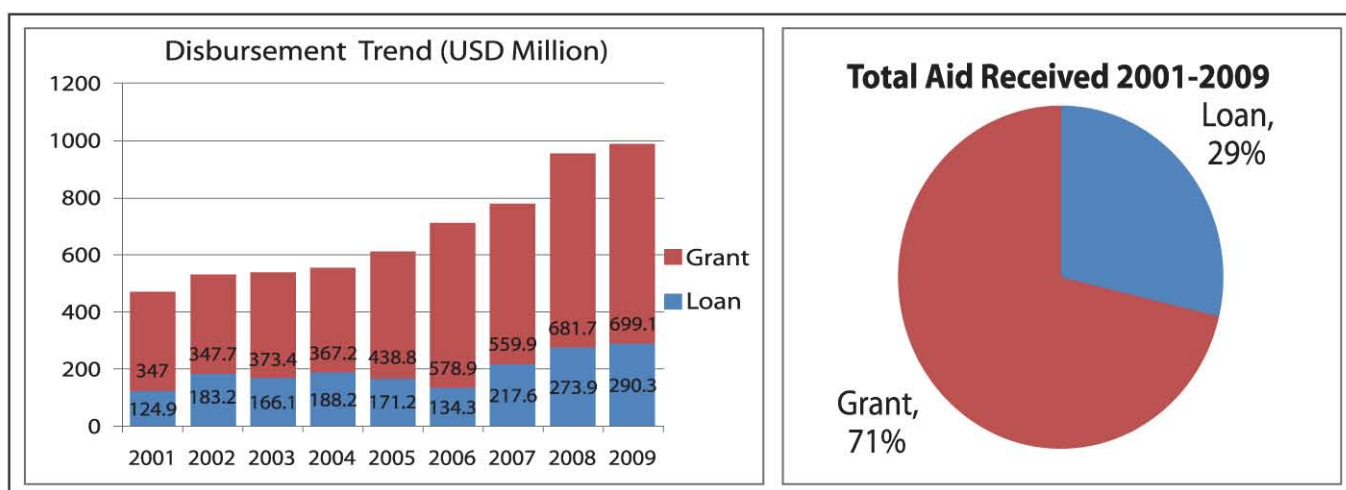
These limitations are due to the difficulty in grouping the projects by sectors from some donors like the World Bank (WB), Asian Development Bank (ADB), and Japan. The interest rates are quite diverse for each of the projects within the sector except for China who has chosen to direct most of its funding support to infrastructure development.

## Background

Cambodia's Official Development Assistance (ODA) Database is a single public data entry point which provides a complete record of all development assistance to Cambodia. It's a practical tool to promote and monitor the alignment of ODA to those priorities identified in the National Strategic Development Plan (NSDP). This also includes the aid management principles included in the Royal Government of Cambodia (RGC) Action Plan on Harmonization, Alignment and Results (H-A-R Action Plan). The database provides access to information on aid project financing, and supports routine reporting information sharing and coordination functions, to enhance dialogue and the development of more effective aid management practices at both the sector and technical working group levels. It has become a fully integrated part of the national aid management architecture which ensures a more evidence-based approach to promoting aid effectiveness; and in monitoring the contribution of aid to achieving this development which links directly to results that envisaged in the NSDP<sup>4</sup>.

## Overview of Total Aid Disbursements (Loan and Grant) in Cambodia

**Figure 2: Disbursements of Aid 2001-2009**



Source: the Cambodian Aid Effectiveness Report 2008 and 2010

<sup>3</sup> Information on each project was collected between January and 03 June 2010, and was verified once again in July to ensure reliability of the information.

<sup>4</sup> The Cambodia ODA Database User Manual 2007, Version 2.1, <http://cdc.khmer.biz>



Figure 2 indicates an upward trend in total aid disbursements for the past decade. The total aid increase is equivalent to 138 million in years 2001 to 2005. This doubled to 379 million in the years 2005 to 2009. The ratio of grant support in total development assistance remained stable from 2001 to 2004, averaging 359 million, before reaching almost 700 million in 2009. These figures also highlight a decrease in grant funding of 19 million in 2007. Loan disbursements increased by 58.3 million in 2002. There was a slight fluctuation in the following four years before declining 36.9 million in 2006, prior to returning to 290.3 million in 2009. Furthermore, smaller than anticipated increase in the levels of aid (either grant or loan) from 2008 to 2009 can be attributed to the impacts felt by donor agencies following the global economic crisis. Importantly, the total aid disbursed to Cambodia during the last decade was 6.14 billion of which 1.75 billion (29%) has been provided in loans while 4.39 billion (71%) had been provided through grant disbursements. During this period, the average annual percentage of grants of total aid received has decreased from 74% in 2001 to 71% in 2009 while percentage of loans has increased slightly across the same period from 26% in 2001, to 29% in 2009.

### **Analysis on the Terms of Concessional Loan Assistance by Donors to Cambodia**

Please refer to the figures presented in the table 1 below entitled 'Analysis on the Terms of Concessional Loan Assistance by Donors to Cambodia.' The lowest annual interest rate terms of 0.01% have been offered by Japan while the highest annual rate of 2% being offered by China. Total concessional loan amounts<sup>5</sup> are approximately 2.5 billion with an average annual interest rate of 0.92% accruing to an average loan amount per project of 23.7 million. Again, from the information below the ADB is found to have a greater number of concessional loans and projects than other donors. It also accounts for almost half of the total number of all projects (50 projects) with more than one third of the total amount in concessional loans (nearly 1 billion). Most commonly donors applied a fixed rate of interest on loan projects funded through this mechanism.

Japan is a bilateral donor requiring only 0.03% for 3 projects totaling 67 million and 0.9% for another 2 projects valued at 70 million. This is significant as it demonstrates how Japan provides one of the lowest comparative interest rate of all projects funded in Cambodia. Japan also provides the most favorable terms at an average interest rate of 0.36% in addition to a 10 year grace and 30 year amortization period on all concessional loan projects.

South Korea's has typically been a nontraditional donor. They arrived in Cambodia in 2006 and have since then provided the lowest interest rate (0.01%) on projects totaling 60 million. While for other projects, it still offers a low rate of 0.5% on 27 million and 1.0% in interest payments on the amount of 17 million. Overall, they offer a low average interest rate (0.38%) at almost the same compared with Japan (0.36%). Indeed, South Korea also offers a 10 year grace period and a further 20 year amortization term in addition to the already low interest rates applied to projects (based on 2 projects) available for this analysis.

<sup>5</sup> As of 2009, total loan (both concession and non-concession) Cambodia owed to foreign donors was at 3 Billion USD (223 USD per person\*total population: 13,395,682) as announced by Deputy Prime Minister and Minister of Economy and Finance during National Assembly debate on 2011 Draft Budget Law in November 2010 and reported by Raksmeay Kampuchea Newspapers dated 03 December 2010. This means that 83% of loans are concessional while the Joint IMF/World Bank Debt Sustainability Analysis 2009 showed that Cambodia faces a moderate risk of debt distress.

**Table 1: Analysis on the Terms of Concessional Loan Assistance by Donors to Cambodia**

Scope: only 104 concessional loan projects available on ODA Database

Status of ODA Data updated on 3 June 2010

| DPs (%)                      | Concessional Loans (USD) | Interest Rate (%) | No. Proj   | Grace Period |           | Amortization Period |           | Type of Rate (No. of Proj.) |          |
|------------------------------|--------------------------|-------------------|------------|--------------|-----------|---------------------|-----------|-----------------------------|----------|
|                              |                          |                   |            | Years        | Proj.     | Years               | Proj.     | Fixed                       | Varia.   |
| Japan<br>(10%)               | 67,371,758               | 0.01              | 3          | 10 yrs       | 5         | 30 yrs              | 5         | 7                           |          |
|                              | 69,924,908               | 0.9               | 2          |              |           |                     |           |                             |          |
|                              | 111,831,017              | N/A               | 2          |              |           |                     |           |                             |          |
|                              | <b>249,127,684</b>       | <b>0.36**</b>     | <b>7</b>   | <b>N/A</b>   | <b>2</b>  | <b>N/A</b>          | <b>2</b>  |                             |          |
| South Korea<br>(7%)          | 59,960,000               | 0.01              | 2          | 10 yrs       | 2         | 20 yrs              | 2         | 7                           |          |
|                              | 26,700,000               | 0.5               | 1          |              |           |                     |           |                             |          |
|                              | 17,050,000               | 1.00              | 1          | 15 yrs       | 1         | 25 yrs              | 2         |                             |          |
|                              | 84,915,918               | N/A               | 4          |              |           |                     |           |                             |          |
|                              | <b>188,625,918</b>       | <b>0.38**</b>     | <b>8</b>   | <b>N/A</b>   | <b>5</b>  | <b>N/A</b>          | <b>4</b>  | <b>N/A</b>                  | <b>1</b> |
| EU<br>(3%)                   | 14,718,318               | <b>0.02</b>       | 1          | 1 yrs        | 1         | 9 yrs               | 1         | 7                           | 3        |
|                              | 25,487,782               | 0.75              | 2          | 4 yrs        | 1         | 10 yrs              | 1         |                             |          |
|                              | 53,445,230               | N/A               | 7          | 10 yrs       | 2         | 40 yrs              | 2         |                             |          |
|                              | <b>93,651,330</b>        | <b>0.5**</b>      | <b>10</b>  | <b>N/A</b>   | <b>6</b>  | <b>N/A</b>          | <b>6</b>  |                             |          |
| IBRD/<br>World Bank<br>(12%) | 5,000,000                | 0.75              | 1          | 10 yrs       | 15        | 40 yrs              | 15        | 14                          |          |
|                              | 193,000,000              | 1.25              | 9          |              |           |                     |           |                             |          |
|                              | 88,610,000               | N/A               | 5          |              |           |                     |           |                             |          |
|                              | <b>286,610,000</b>       | <b>1.2**</b>      | <b>15</b>  |              |           |                     |           | <b>N/A</b>                  | <b>1</b> |
| ADB<br>(38%)                 | 447,170,100*             | 1                 | 24         | 8 yrs        | 28        | 24 yrs              | 7         | 43                          | 7        |
|                              | 419,760,000              | 1.5               | 21         |              |           | 32 yrs              | 20        |                             |          |
|                              | 83,300,000               | N/A               | 5          | 10 yrs       | 1         | 40 yrs              | 2         |                             |          |
|                              | <b>950,230,100</b>       | <b>1.23**</b>     | <b>50</b>  | <b>N/A</b>   | <b>21</b> | <b>N/A</b>          | <b>21</b> |                             |          |
| China<br>(30%)               | 137,525,000              | 1.25              | 2          | 7 yrs        | 11        | 13 yrs              | 11        | 13                          |          |
|                              | 60,398,356.01            | 1.75              | 1          | 10 yrs       | 1         |                     |           |                             |          |
|                              | 502,275,250***           | 2                 | 10         | 20 yrs       | 1         | 20 yrs              | 3         |                             |          |
|                              | <b>700,198,605</b>       | <b>1.86**</b>     | <b>14</b>  | <b>N/A</b>   | <b>1</b>  |                     |           | <b>N/A</b>                  | <b>1</b> |
| <b>Total (100%)</b>          | <b>2,468,443,637</b>     | <b>0.92</b>       | <b>104</b> | <b>N/A</b>   | <b>35</b> | <b>N/A</b>          | <b>33</b> | <b>N/A</b>                  | <b>3</b> |

**Note:**\* Total amount of loan for 23 projects except 24<sup>th</sup> project as its amount was unavailable

\*\* Average interest rate was calculated by dividing the number of projects by each donor

\*\*\* Total amount of China loan by only 9 projects as one project is unavailable

- China has 14 loan projects (an interest rate on one of these projects is not available)

- Loan recording beyond USD is converted upon the start year of project, except unknown project based on the exchange rate in 2010 as the most project is fixed term. It was done through this <http://www.bankofcanada.ca/en/rates/exchform.html>

- N/A: Not available or data cannot be found in the ODA database

- Average interest rate 0.92 for the average amount of 23.7 million per project

EU has a low rate of interest (0.02%) on one project at a costing of almost 15 million and 0.75% on two projects totaling nearly 25 million. Unfortunately, the interest rate applied to 6 projects with a total value of 55 million was not recorded by the ODA database. EU's interest rate is slightly higher than Japan and South Korea at an average of 0.5%. Although EU has lower interest rate when compared to other donors, except Japan and South Korea, it has the shortest periods for both grace period (between 1 to 4 years) and amortization period (between 9 to 10 years). This has been based on only two projects. Similarly, the World Bank and EU offer a 10 year grace period and a 40 year term on amortization of the other 2 projects. As there are different bilateral donors within this union, it is not representative of the entire EU and EC grouping.



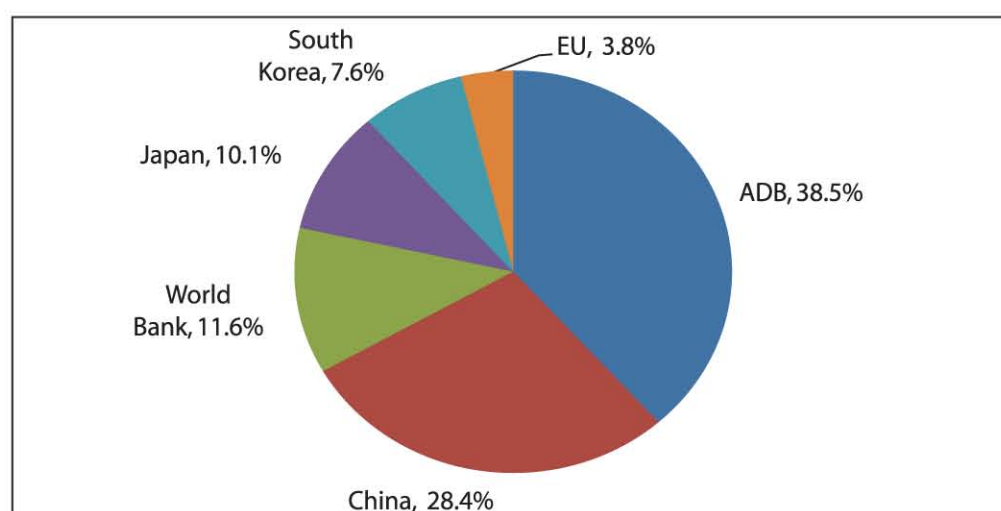
Among 15 World Bank projects, only 1 project of 5 million accrued interest at 0.75% while the other 9 projects valuing 193 million were charged out at 1.25%. The Bank's interest rate on another 5 projects amounting to 89 million has not been analyzed within this document as information on the interest rate was not available. However, through the available data, the World Bank's average interest rate is 1.2%. In addition, the World Bank and Japan tend to have their own standard grace period of 10 years while the amortization period is 40 and 30 years, respectively.

From a total of 49 projects, the ADB loaned Cambodia 447 million for 23 projects at an interest rate of 1.0% and an additional 420 million on 21 projects at a subsequent rate of 1.5%. Unfortunately, the interest rate on other 5 projects accounting for almost 84 million is not available in the database. On average, interest rates charged out by ADB is 1.23%. ADB typically offers 8 years for a grace period and 32 years as an amortization period.

The ODA database recorded 14 of the loans provided by China. These accounted for 502 million in projects which had a 2% interest rate applied. Two more projects totaling 138 million had a 1.25% interest rate with an additional project with an approximate value of 60 million receiving a further interest rate of 1.75%. On average, China has the highest interest rate in the context of this comparative analysis (averaged at 1.86%). Moreover, China's concessional loans with a majority of them in the infrastructure sector were provided at an average of 1.87% per annum, based on available project data. This is the highest when compared with other major donors who offer more favorable terms in the same sector, including: ADB (1.23%), World Bank (1.2%), Japan (0.37%), and People Republic of Korea (0.38%). Furthermore, it has the least favorable terms of loans for both grace period of 7 years and an amortization period of 13 years, excluding 2 projects at 2% interest rate with amortization period for 20 years. Overall, from the facts provided above and through a comparative analysis, it is concluded that China offers the least favorable terms of assistance based on concessional loans.

Beside the above discussion on terms of assistance, 33 of the 104 concessional loan projects in the above table do not have information on either grace or amortization periods while another two projects have only grace period information (which accounts for 35 projects or 34%). Of the preceding 33 projects, 23 also do not have interest rate information while only three projects do not have information on their type of interest rate. It should be noted that these 104 concessional loan projects amounted to 2.47 billion which is 0.72 billion more than the total loan amount received between 2001 and 2009 (1.75 billion), recorded in the aid effectiveness reports 2008 and 2010. It is not possible to provide a clear timeframe for when all of these concessional loans were provided to Cambodia because 22 out of 104 projects in the ODA database do not have information on their starting and completion dates.

**Figure 3: Percentage Share of Concessional Loans by Donors up to June 2010**



Source: Analysis on 104 projects retrieved from ODA Database of the CRDB/CDC as of June 2010

Based on Figure 3, the ADB is the largest donor (38.5%) with China being a key donor (28.4%) in which both total almost 70% of all concessional loans to Cambodia. Meanwhile, the World Bank (11.6%) and Japan (10%) share almost equal proportions, with the exception that EU contributes the smallest relative proportion of such loans (only 3%).

**Conclusion**

This analysis has highlighted the importance of considering the terms of concessional loans being provided to Cambodia. Japan, South Korea and EU provided loans with an interest rate of less than 0.5%. This rate attributes one third of the World Bank’s interest rate (1.2%) and ADB’s (1.23%), while China contributing the highest rate of 1.86% which is almost five times higher than the rate of funding sourced from Japan and South Korea, and almost four times higher than the EU. Of all donors, China offers the least favorable terms at an interest rate of 2% on most of its loans.

China also provides the shortest grace and amortization periods despite the EU reflecting the same trend; their interest rates are still much lower than China. ADB, like Japan, offers a more favorable grace period than China and has the same amortization period of 30 years for a majority of its projects. Interestingly, the World Bank has a standard 10 year grace period and 40 year amortization period.

In summary, it can be observed that a good approach taken by the Royal Government of Cambodia involves diversifying the sources of concessional loans to consider the most appropriate mix of multiple donors with different interest rates depending on the length and nature of the project. This allows the RGC to make informed decisions and Cambodian citizens to have a level of discretion over which donors provide the most favorable terms of assistance to Cambodia. Looking forward, the significance of this is to help Cambodian citizens with their current assessment of how much these loans will cost the country as they will ultimately bear this taxpaying burden in the repayment of these loans, into the future. Therefore, recognizing the challenges and complexities in the management of ODA database, the NGO Forum on Cambodia would like to call on both the Royal Government of Cambodia and Development Partners (or donor community) to publish all information on the relative ‘terms of assistance’ of the concessional loans to Cambodia so that Cambodian citizens will be well informed about the real cost of these donor choices.



**វេទិកាសម្រាប់ការមិនមែនរដ្ឋាភិបាល ផ្លូវចិត្តកម្ពុជា**  
*The NGO Forum on Cambodia*  
*Working Together for Positive Change*

Published by:  
**Aid Effectiveness Project in the Development Issues Programme**  
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