

Foreign Concessional Loans to Cambodia [2000-2011]

Fact Sheet 2: January 2012



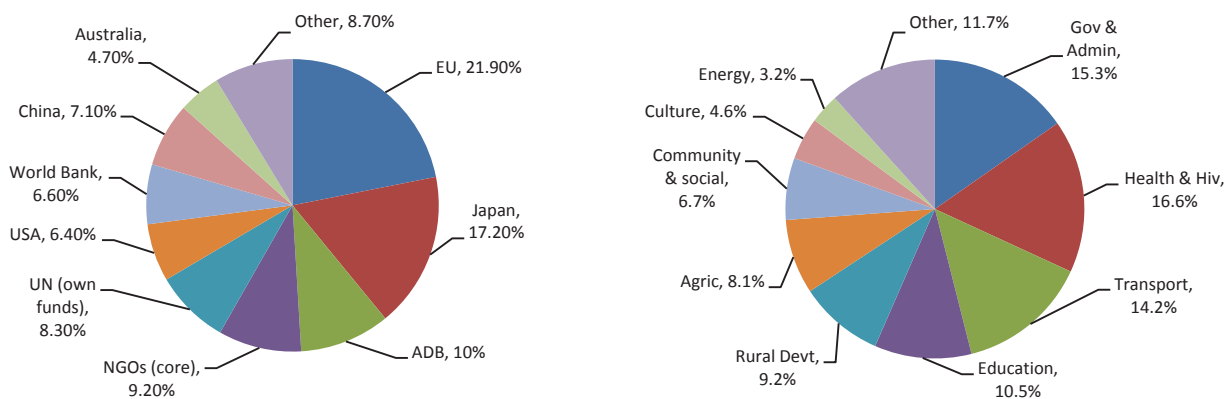
វគ្គការងារសម្រាប់មន្ត្រីស្រាវជ្រាវ និងស្រាវជ្រាវ
The NGO Forum on Cambodia

ធ្វើការរួមគ្នាដើម្បីការប្រែប្រួលវិជ្ជមាន
Working Together for Positive Change

BACKGROUND

Cambodia is in good progress to reduce aid dependency by 2030 (Phnom Penh Post: 03 August 2012). Despite the achievements in development work, development actors require more time and effort to address a range of development challenges including: poverty, human development, agricultural development, and further integration into the regional and global communities. Given these challenges, Cambodia will continue international aid relation with development partners (DPs)¹, and Overseas Development Assistance (ODA) still plays an important role as a source of funds to support the RGC’s development agenda. Over the period 1992 to 2011, a total of USD 12.13 billion ODA was disbursed to Cambodia by DPs, as reported through the Cambodia ODA Database (See figure 1). While state revenues are not able to meet all government spending, foreign aid provides extra support to the proposed amount. According to the data from National Institute of Statistics, foreign aid covered around 27 percent of state expenditures in 2011 (Eco-Today, vol 6, num 125, June 25 July 1, 2012).

Figure 1: Total ODA received 1992 – 2011 amounts to USD 12.13 billion (percentage shares)



Source: CRDB/CDC Development Effectiveness Report 2011, page 15

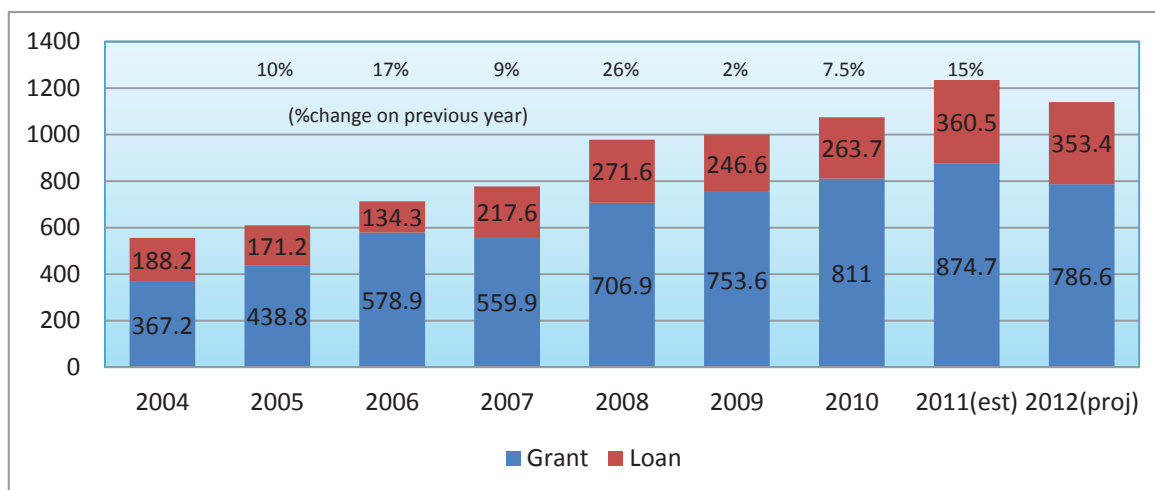
The first fact sheet on “Terms of Assistance of Foreign Concessional Loans to Cambodia” was published and disseminated to stakeholders in the early 2011, and the second one as of the current publication was updated with 2011 data input for further dissemination. This fact sheet provides analysis on the terms of the assistance and makes comparison between development partners (DPs) based on annual interest rates, grace periods, and amortization periods of all concessional loan projects. This is done to inform the public of the relative trends and terms of assistance by DPs to Cambodia. It should be noted that the scope of this fact sheet had been limited in its coverage as details on 143 concessional loan projects. The analysis faced a number of challenges such as small 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 represent different results if compared with the Development Effectiveness Report 2011 and other debt data sources.

¹ **UN/Multilateral DPs:** UN (delivered), UN (core), World Bank, IMF, ADB, Gavi Alliance, Global Fund (ATM)
EU DPs: European Commission, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Spain, Sweden, United Kingdom
Bilateral DPs: Australia, Canada, China, Japan, New Zealand, Norway, Republic of Korea, Russian Federation, Switzerland, USA.

OVERVIEW OF TOTAL AID DISBURSEMENTS (LOAN AND GRANT) IN CAMBODIA

The CRDB/CDC development effectiveness report 2011 indicates that the actual disbursements have risen from USD 555 million in 2004 to USD 1,075 million in 2010 (See Figure 2). The disbursement represents an annual average increase of 11.6% compared with the rate of growth of aid to all developing countries of 10.9% per annum over the same period. Despite constraints on public resource availability in donor countries, disbursements in 2010 for Cambodia show an increase of 7.5% compared to 2009. Overall the grant share of support rose steadily over the reporting period, increasing from 66% of all disbursements in 2004 to 75% in 2010, although loan-financed cooperation is projected to grow from 2012 onwards.

Figure 2: Disbursements and projections 2004-2012 (USD million)



Source: CRDB/CDC Development Effectiveness Report 2011, page 13

ANALYSIS ON THE TERMS OF CONCESSIONAL LOAN ASSISTANCE BY DONORS TO CAMBODIA

With reference to table 1, 143 concessional loan projects were retrieved from the Cambodia ODA database² in October 2011 with the amount of USD 3.95 billion excluding one suspended project³ (USD 20 million of World Bank). Of this, 36 pipeline projects⁴ are recorded and totaled USD 1.1 billion.

Among the 143 concessional loan projects, the row of the total section shows: 28 projects do not have information on the grace period; 27 do not have information about the amortization period; 13 do not have information on whether the interest rate is fixed or variable; and 19 do not have information on the interest rate (this is shown in yellow mark-up of N/A in interest rate column).

Asian Development Bank (ADB)

From a total of 68 concessional loan projects, the ADB loaned Cambodia the amount of USD 1.66 billion which could be broken down into the following loan projects: USD 447 million for 23 projects with 1% interest, USD 25 million for 1 project with 1.2% interest, USD 1.13 billion for 40 projects with 1.5% interest, and USD 58 million for 4 projects as marked with N/A indicating no information on the interest rate. On the average, the interest rate charged by ADB is 1.31%. Typically, ADB offers 8.03 years for a grace period and 30.37 years for an amortization period.

² Through the ODA database, the data of concessional loans provided to Cambodia was initially recorded in year 2000; however, it is not known whether all loans (concessional and non-concessional) are recorded in the database.

³ Suspended project: The activities of the project have been officially suspended at the request of one of the signatory parties.

⁴ Pipeline project: Donor is identified and a concept paper or project document is being/has been drafted, with funding identified (but not committed). Source: http://cdc.khmer.biz/documents/user_guide_annex3.asp

China

China has provided Cambodia with 24 concessional loan projects in the amount of USD 1.16 billion which could be broken down in the following loan projects: USD 321 million for 5 projects with 1.25% interest, USD 78 million for 1 project with 1.75% interest, USD 731 million for 17 projects with 2% interest, and USD 35 million for 1 project as marked with N/A indicating no information on the interest rate. On the average, the interest charged by China is 1.82%. China offers 7.26 years for a grace period and 13.87 years for an amortization period.

European Union (EU)

The EU has provided Cambodia with 11 concessional loan projects in the amount of USD 102 million which can be broken down in the following loan projects: USD 15 million for 1 project with 0.02% interest and USD 87 million for 10 projects as marked with N/A indicating no information on the interest rate. On average, the interest charged by EU is 0.02%. The EU offers 4 years for a grace period and 9.5 years for an amortization period.

Japan

Japan has provided Cambodia with 8 concessional loan projects totaling USD 386 million which can be broken down in the following loan projects: USD 290 million for 6 projects with 0.01% interest and USD 96 million for 2 projects with 0.9% interest. On the average, the interest charged by Japan is 0.23%. Japan offers 10 years for a grace period and 33.75 years for an amortization period.

South Korea

South Korea has provided Cambodia with 11 concessional loan projects totaling USD 258 million which can be broken down in the following loan projects: USD 130 million for 5 projects with 0.01% interest, USD 94 million for 3 projects with 0.5% interest, USD 17 million for 1 project with 1% interest and USD 17 million for 2 projects as marked with N/A indicating no information on the interest rate. On the average, the interest charged by South Korea is 0.28%. South Korea offers 11.66 years for a grace period and 22.5 years for an amortization period.

United Nation (UN)

UN has provided Cambodia with 5 concessional loan projects worth USD 51 million which can be broken down in the following loan projects: USD 32 million for 3 projects with a 0.75% interest and USD 19 million for 2 projects as marked with N/A indicating no information on the interest rate is available. On average, the interest charged by UN is 0.75%. UN offers 10 years for a grace period and 40 years for an amortization period.

World Bank

World Bank has provided Cambodia with 16 concessional loan projects in the amount of USD 326 million which can be broken down in the following loan projects: USD 278 million for 12 projects with 1.25% interest and USD 47 million for 4 projects with 1.75% interest. On average, the interest charged by World Bank is 1.37%. World Bank offers 10 years for a grace period and 40 years for an amortization period.

Table 1: Analysis on the Terms of Concessional Loan Assistance by Development Partners to Cambodia

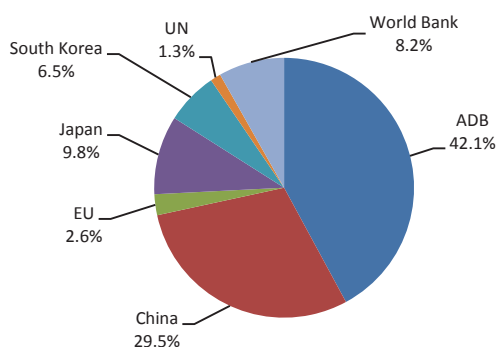
Scope: The analysis is limited to 143 concessional loan projects available on the ODA database
(Retrieved on 08th October 2011) that has been recorded in 2000-2011.

DPs (%)	Concessional Loan (USD)	Interest Rate (%)	No. Proj	Grace		Amortization		Type of Rate	
				Year	Proj.	Year	Proj.	Fix.	Var.
ADB 42.1%	446,670,000	1	23	8	59	24	14	58	7
	25,000,000	1.2	1	10	1	32	43		
	1,135,435,903	1.5	40	N/A	8	40	2		
	58,300,000	N/A	4			N/A	9		
	1,665,405,903	1.31	68	Avg:8.03		Avg:30.37		N/A	3
China 29.5%	321,278,941	1.25	5	7	21	13	21	23	
	78,860,543	1.75	1	10	2	20	3		
	730,762,963	2	17	N/A	1				
	35,498,285	N/A	1						
	1,166,400,731	1.82	24	Avg:7.26		Avg:13.87		N/A	1
EU 2.6%	14,911,743	0.02	1	4	1	9	1	1	3
	86,823,959	N/A	10	4	1	10	1		
				N/A	9	N/A	9		
	101,735,702	0.02	11	Avg:4		Avg:9.5		N/A	7
JAPAN 9.8%	289,974,023	0.01	6	10	8	30	5	8	
	95,723,631	0.9	2			40	3		
	385,697,654	0.23	8	Avg:10		Avg:33.75			
South KOREA 6.5%	129,602,000	0.01	5	10	2	20	2	11	
	94,570,000	0.5	3	15	1	25	2		
	17,050,000	1	1	N/A	8	N/A	7		
	17,045,918	N/A	2						
	258,267,918	0.28	11	Avg:11.66		Avg:22.5			
UN 1.3%	32,177,782	0.75	3	10	3	40	3	4	
	19,393,336	N/A	2	N/A	2	N/A	2		
	51,571,118	0.75	5	Avg:10		Avg:40		N/A	1
World Bank 8.2%	278,400,000	1.25	12	10	16	40	16	15	
	47,500,000	1.75	4						
	325,900,000	1.37	16	Avg:10		Avg:40		N/A	1
TOTAL 100%	3,954,979,027	0.83	143	N/A	28	N/A	27	N/A	13

Note:

- **EU:** France and Spain ; **UN:** FAO and IFAD ; **N/A:** Not available or data cannot be found in the ODA database
- **Avg:** Either average grace or average amortization period is calculated by divided the number of projects by each donor.
- Average interest rate was calculated by dividing the number of projects by each donor. Average interest rate 0.83 for the average amount of 27.6 million per project.

Figure 3: Percentage share of concessional loans by DPs



Based on the figure 3, the ADB is still the largest DPs in the area of concessional loans (42.1%) while China is ranked the second largest one (29.5%) in which both ADB and China total 71.5% of all concessional loans disbursed to Cambodia. The remaining 28.4% is shared by EU (2.6%), Japan (9.8%), South Korea (6.5%), UN (1.3%), and World Bank (8.2%).

The analysis has highlighted the importance of considering the terms of concessional loans provided to Cambodia by seven development partners such as ADB, China, EU, Japan, South Korea, UN, and World Bank. Japan, South Korea, and EU provided loans with an interest rate of less than 0.5%. Among the seven DPs, China offers loan with the highest average interest rate at 1.82% per annum followed by World Bank at 1.37% and ADB at 1.31%. Of all development partners, China offers the least favorable terms at an interest rate of 2% but a shorter grace and amortization period on most of its loans.

EU provides the shortest grace and amortization period, but the interest is offered with the second lowest rate (0.02%) after Japan's lowest interest rate (0.01%). After EU, China offers shorter grace period with 7.2 years and shorter amortization period with 13.8 years in average. Interestingly, the shorter grace period is followed by ADB with 8 years in average. For the longer amortization period of more than 30 years, ADB, Japan, UN and World Bank has offered the most favorable one.

PUBLIC DEBT MANAGEMENT STRATEGY OF THE GOVERNMENT

CSOs appreciate the RGC on the Strategic Paper on Debt Management 2011-2018 adopted by the Council of Ministers on 10 February 2012. The Strategic Paper on Public Debt Management is aimed at two kinds of potential financing: 1) Borrowing including the borrowing from DPs and from the issue of state share and/or independent state certificate and 2) Public investment from the infrastructure sector. Through the strategic paper, the RGC says that Cambodia's total debt stock is USD 3,300 millions⁵ including the old debt (debt in repayment process) which is in equivalence to 29% of GDP. Most of the debt (more than 99% of the total debt) is external public debt. These concessional loans are mostly the loans that have high concession including the interest between 0% and 2% per annum, amortization period from 20 years to 40 years, and grace period from to 7 years to 15 years.

From 2011 onward, Cambodia will face a new trend that disbursement elements of Cambodia's ODA will change as DPs move from approach-based aid disbursement in which 50% is grant and 50% is concessional loans to the 100% disbursement of concessional loans. Based on NSDP-update 2009-2013 and PIP 2012-2014, Cambodia has 10% on average of increased demand for public capital investment financing. Through the prediction for 2011-2018, Cambodia has demand for the total financing of the public capital investment to nearly USD 12,000 millions in which domestic financing accounts for more than USD 3,100 millions and foreign financing accounts for almost USD 8,700 millions. Based on the financing plan, context of economic and finance policy framework, budget policy, and currency policy, the RGC has limited the size of borrowing concessional loans for 2011-2018 within 400 million SDR⁶ in a year and can extend the size to 700 million SDR per annum according to the context of budget policy and macro-economy development.

CONCLUSION

In summary, the Royal Government of Cambodia has taken good approach by diversifying the sources of concessional loans and has taken a good strategy for public debt management in order to ensure debt sustainability without dangerous risk to debt crisis, recently occurred in EU. Recognizing the challenges and complexities in the management of ODA database, the NGO Forum on Cambodia would like to call on both

⁵ Cambodia's total debt figure looks different between USD 3,300 millions in the strategic paper on debt management 2011-2018 and USD 3,954 millions in the table 1. The strategic paper is based on the debt data of the public debt management committee of the Ministry of Economy and Finance while the data in table 1 is based on the Cambodia's ODA database and inclusive of pipeline projects.

⁶ One SDR = USD 0.65 (converted using the rate of December 12, 2012 http://www.imf.org/external/np/fin/data/rms_five.aspx) The SDR (Special Drawing Rights) is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies.

the Royal Government of Cambodia and Development Partners to publish all information on the relative ‘terms of assistance’ of the concessional loans to Cambodia to ensure consistency of debt data management among the existing debt data management sources so that Cambodian citizens will be well informed about the real cost and future burden of these donor choices. CSOs believe in the RGC’s commitment to implement the public debt management strategy [2011-2018] to ensure the effectiveness and efficiency of sustainable public debt management. CSOs strongly hope that Ministry of Economy and Finance will publish a debt bulletin to inform and update the public of Cambodia’s public debt status.

KEY TERM

General Term	Definition
Official Development Assistance (ODA)	Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element of at least 25 per cent]. In addition to financial flows, Technical Co-operation is included in aid. Grants, Loans and credits for military purposes are excluded.
Grant	Transfers made in cash, goods or services for which no repayment is required.
Concessional Loan	The provision of funds by a donor as a loan which consists of a minimum 25 percent grant element, thus qualifying it as an ODA transaction. It is also commonly referred to as a “soft” loan.
Technical Cooperation	Includes both (a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries, (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and not separately identified as technical co-operation in statistics of aggregate flows.
Development Partner / Donor	The funding agency or country making a financial commitment to the project from its core funds. Agencies who receive funds from others as part of a co-funded project are not donors (or are donors only for that portion of funding that they have contributed from their own core funds). Donors can be multilateral, bilateral and/or NGOs.
Grace Period	The grace period for principal is the period from the date of signature of the loan or the issue of the financial instrument to the first repayment of principal. http://stats.oecd.org/glossary/search.asp
Amortization Period	The amortization period refers to a repayment period, the period from the first to last repayment of principal. Maturity is the sum of both periods: grace plus repayment periods. http://stats.oecd.org/glossary/search.asp

RELEVANT WEBSITES

- ODA Database of CRDB/CDC: <http://cdc.khmer.biz>
- NGO Forum on Cambodia: www.ngoforum.org.kh
- Cambodian Budget Website: www.cambodianbudget.org
- International Aid Transparency Initiative: www.aidtransparency.net
- Organization for Economic Cooperation and Development: www.oecd.org
- Open Forum for CSO Development Effectiveness: www.cso-effectiveness.org
- International Budget Partnership: www.internationalbudget.org
- Better Aid Website: www.betteraid.org

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