



MEKONG BRIEF

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Ordinary Capital Resources (OCR) of the
Asian Development Bank (ADB) in the Mekong Region

- ❖ **OCR currently represents 84 per cent of ADB's total lending.**
- ❖ **Australia's contribution to OCR amounted to US\$24.5 million at the last General Capital Increase (1994) in addition to US\$1.2 billion in loan guarantees.**
- ❖ **OCR loans are classified as Overseas Development Assistance (ODA) yet are provided on a commercial basis.**
- ❖ **OCR funds are only available to developing member countries with relatively high levels of Gross Domestic Product.**
- ❖ **In 1999 OCR lending stood at US\$3.9 billion.**
- ❖ **A key objective of the ADB's lending policy is to encourage poorer countries to graduate from ADF (Asian Development Fund) to OCR loans.**
- ❖ **Thailand, PR China and Vietnam borrow OCR funds, with Cambodia and Lao PDR only receiving ADF funds.**
- ❖ **Vietnam has received a combination of ADF and OCR funds since 1999.**
- ❖ **The ADB currently does not have any projects in Burma, however at the end of 1999, two public sector and 11 private sector OCR loans were in 'nonaccrual' status.**

What is OCR?

Ordinary Capital Resources (OCR) constitute the ADB's largest lending pool, totalling 84 per cent of all loans. OCR is distinguished from the ADB's 'special funds' which include: the Asian Development Fund (ADF), Technical Assistance Special Fund, Japan Special Fund and the ADB Institute Special Fund.

OCR loans are offered at variable interest rates, with the repayment period largely determined by the economic life of the project, usually for a period of 15-25 years. Eligibility for OCR loans is based on an assessment of a country's per capita GDP and credit risk rating.

OCR loans are also made available to private enterprises operating within ADB member countries or the Asia Pacific region. During the period from 1966-1999 OCR loans to the private sector amounted to US\$1,153 million.

Funding sources for OCR

- i. Borrowings from private capital markets - The Bank takes out commercial loans from financial institutions operating in international capital markets. These borrowings are the main source of finance for OCR.
- ii. Bank profits - Part of the Bank's profits, generated largely from loans, are fed back into the fund.
- iii. Subscribed funds from donor governments - ADB donor member countries contribute cash resources to the OCR during replenishment calls for a General Capital Increase by the Bank.

Initially, the Bank's capital was the major source of funds for loans; however since 1982 ADB borrowings have been greater than its own capital and reserves. Subscribed capital by donor countries, such as Australia, provide the essential guarantee (or collateral) the ADB requires to be a significant borrower in international financial markets.

The OCR replenishment facility

The general capital increase (GCI) is the primary facility for replenishment of donor member's contributions to OCR. It involves a strategically timed process by which the Bank makes a call for

subscriptions over a specified period during which donors pledge their commitments to the GCI. GCI replenishments to date are shown in Table 1.

Table 1: GCI Replenishments¹

Year	US\$ mill	CGI round
1966	1,100	Original
1971	2,750	1
1977	8,711	2
1983	15,461	3
1994	25,847	4

The OCR replenishment process has been strongly criticised by NGOs as a closed and undemocratic process with limited scope for input and scrutiny from civil society groups. The public availability of the Capital Resources Review, produced for donors in the lead-up to the GCI, is unclear and up to the discretion of the Bank.

The ADB is a development institution which is largely dependent on public monies. Since 1967 it has consistently made a profit from its ordinary operations, the cost of lending to borrowing countries has increased over time and the proportion of OCR vis-à-vis ADF funds has increased. The question arises - should public monies continue to be provided to an institution which operates increasingly like a corporate entity?

Objectives and criteria for OCR allocations

OCR loans are allocated to projects / programs through a series of country specific studies, as outlined below.

- Country Operational Strategy Study (COSS)
- Country Assistance Plans (CAP)
- Country Economic Review (CER)

The CER and the COSS feed into the CAP, providing the basis of the Bank's "assistance strategies" and for the identification of specific areas of lending by the Bank. The studies are based on a dialogue between the Bank and the

¹ Data from: Pua Villamor, E in Pua-Villamor, E and Mae Buan Ocampo, M (eds.) *NGO – PO Campaign Manual on the ADB for Beginners*, NGO Working Group on the ADB, 1996.

government's of borrowing countries and are central in defining the ADB agenda in respective borrowing countries. Concerns regarding the adequacy and meaningfulness of engagement with NGOs and broader civil society within this process remain considerable.

Poverty and Commercial Viability Incongruence in OCR Loans

Whilst there has been considerable attention paid in recent years to the stated poverty focus of ADF lending, there has been less direct attention paid to the linkages between the OCR and poverty alleviation.

The Bank states poverty alleviation as its overarching goal. However, the extent to which this goal has been integrated into projects and programs of the Bank is limited. In a recent study by Walden Bello², director of the NGO Focus on the Global South, it is argued that there is increasing confusion amongst ADB staff regarding the multiple, and often conflicting, number of goals to be integrated into project design. An ADB publication quoted by Bello, states that:³

"although poverty reduction has been a central concern and is now the 'overarching vision and goal' ... 'few projects have been designed specifically to address this objective.'"

There is considerable scope for conflict between the Bank's poverty alleviation objective and the need for OCR loans to operate on a commercial basis in order for borrowers to meet the repayment schedules, interest rates and loan fees. The Bank has a preference for lending in the sectors of energy, infrastructure and finance, rather than direct social and environmental projects (see Figure 1). The principle reason is the need to maintain a high rate of return on lending and to meet the needs of foreign capital (roads, ports, electricity, banking reform etc.) in order to facilitate foreign investment in borrowing countries.

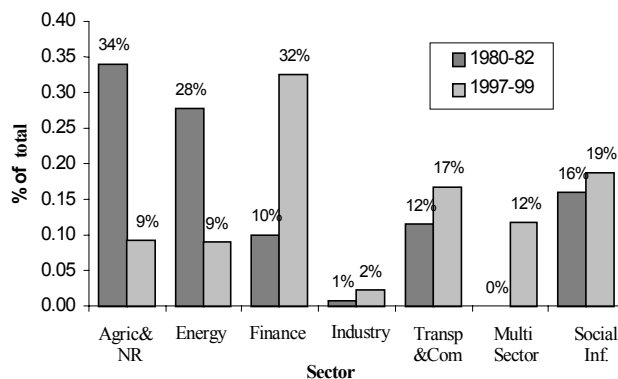


Figure 1: Proportion of loan approvals by sector over time: 1980/82 and 1997/99

ADB loan approvals to the social sector have remained at less than 20 per cent of the total loans approved over the Bank's lending history. The Bank's increased emphasis on the privatisation and corporatisation of public utilities in the areas of education, health and water supply, indicates the Bank's efforts to maximise potential for implementation of the *user-pays principal*. This is consistent with the need for borrowing countries to generate income from the provision of social services in order to service loan repayments. This particular strategy can be seen in the Bank's lending and technical assistance activities in the 'water sector' in numerous countries in the Mekong Region and elsewhere in the Asia Pacific where water is now treated as a commodity, entitlements are defined, access is regulated by market mechanisms, such as fees, and allocation is sought to be determined by the 'productivity' and 'efficiency' of users.

The Bank is now faced with the challenge of continuing to ensure the commercial viability of OCR funded projects and at the same time, being seen to be addressing their stated poverty alleviation goals while attempting to meet the target of a 50:50 ratio⁴ of lending for social and environmental projects compared with lending for traditional growth projects. The criteria used to classify projects are often unclear. For example the East West Corridor, (a regional ADF project linking Thailand, Laos and Vietnam), is ostensibly

² Bello, W. "Why Reform of the ADB is the wrong agenda", *Accounting for Development Conference*, University of Sydney, June 23-24, 2000

³ ADB, "Draft ADF VIII Donors' Report", Manila, 2000

⁴ The Bank set a target of a "50:50" ratio for lending in 1992 where 50 per cent of projects must have social or environmental objectives as their primary or secondary objectives. According to the 1999 Annual Report this target was met in 1999. It does, however, only apply to public sector lending and excludes technical assistance.

a road infrastructure project to facilitate the movement of goods and the extraction of resources. Yet this project is classified by the ADB within the category of ‘poverty alleviation’. The project’s links to poverty alleviation are unclear, yet the social and economic risks to remote and ethnic minority communities in Laos and Vietnam posed by this project are substantial.

Should OCR funding be regarded as aid, when it is operated essentially on a commercial basis with the poverty alleviation benefits of such lending remaining highly contentious?

ADB internal review mechanisms for OCR

Internal review mechanisms of the Bank include:

- Project/program and Technical Assistance Performance Audit Reports
- Project and Technical Assistance Completion Reports
- Re-evaluation studies
- Impact evaluation studies
- Special evaluation studies
- Country Assistance Program Evaluation & Country Portfolio Reviews
- Annual Performance Evaluation Program

Many of these tools are non-compulsory and are selectively carried out by the Bank on its own operations. For an analysis of the gulf between ADB predicted and actual outcomes in assessment and post-evaluation procedures refer to study conducted by Khonthapane, Wyatt, and Phraxayavong⁵ on ADB activities in Laos.

Graduation from ADF to OCR

The Bank released its formal graduation policy in December 1998, which defines developing member countries into four groups:

- ADF-only
- ADF with limited OCR
- OCR with limited ADF
- OCR-only.

The groups and graduation from each group is based on GDP/capita and a judgement about loan repayment capacity. These limited criteria are consistent with the focus taken by the Bank on economic growth as the primary strategy for achieving poverty alleviation and GDP as the main measure of ‘development’.

In keeping with the Bank’s graduation policy, there has been a general decline in ADF loans in relation to total lending since the first half of the 1980s⁶. ADF loan approvals constituted 34.8 per cent of total loan approvals between 1983-87, declining to a low of 16.5 per cent of total loans by 1998⁷.

AMRC’s Mekong Brief Series

This Brief is the second in a series produced by the Australian Mekong Resource Centre (AMRC), University of Sydney, for students, teachers and others with an interest in the Mekong Region. The topic of Mekong Brief Number 1 was “The Asian Development Fund (ADF) & Asian Development Bank (ADB) in the Mekong Region”. The AMRC was established in 1997 to promote research, discussion and debate on development and environmental issues in the Mekong Region. The AMRC is a focal point for information, dialogue and activities in support of an equitable and sustainable development path for the Mekong Region.

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⁵ Khonthapane, S., Wyatt, A. and Phraxavong, V. “Investment Models – social and environmental impacts in Laos”, *Accounting for Development Conference*, University of Sydney, June 23-24, 2000.

⁶ Sta. Ana, III, Filomeno *in* Pua-Villamor and Mae Buan Ocampo (eds.) 1996. *ibid*

⁷ ADB, *Annual Report 1999*, Manila, ADB 2000



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Ordinary Capital Resources (OCR) Lending in the Mekong Region

Vietnam, Thailand and Cambodia were in the top 10 ADB borrowing countries in 1999, with 13 per cent of ADB lending going to these three countries alone. An equivalent proportion went to Thailand and Vietnam alone in 1998. China is one of the top recipients of loans, receiving 20 per cent of total ADB lending in 1998 and 25 per cent in 1999. All four countries of the lower Mekong Region were among the top ten countries receiving technical assistance grants in 1999, accounting for 22 per cent of the total allocated that year. The purpose of many technical assistance grants includes loan project preparation, and policy and institutional reform. China is also the top recipient of technical assistance grants, receiving a total of 14.7 per cent in 1999.

Table 3: Number of OCR projects across sectors over the last 3 years: 1998-2000

Sector	China	Thailand	Vietnam	Total
Agric&NR	1	1	-	2
Energy	4	-	-	4
Finance	-	2	-	2
Industry	-	-	1	1
Social	3	2	1	6
Trnsp&Com	10	-	-	10
MultiSector	-	1	-	1

This table indicates the preference for OCR lending in the sectors of transport and communications, and energy. While there are a significant number of projects in the social infrastructure sector, further investigation reveals that five of these six social infrastructure projects are for wastewater treatment facilities. Many of these projects qualify for Social Development Objective classification (in terms of Human Resources Development). In the case of the Samut Prakarn Wastewater Treatment project in Thailand (currently under investigation by the ADB Inspection Committee) one can see that the potential

impacts of projects considered environmentally benign or contributing to human development might be contrary to those anticipated. No environmental impact assessment was conducted after the decision to relocate the plant site, furthermore no social assessment of project impacts on the Klong Dan community was conducted. Yet the project threatens to destroy estuarine-based fishery livelihoods while acting as a disincentive to industry to invest in on-site waste management. While projects may be considered by the Bank as meeting their criteria on social development and poverty alleviation, a more detailed on-the-ground assessment of projects in consultation with affected communities, reveals the gulf between the ADB rhetoric and reality.

Debt in the Mekong Region

As ADB lending in the Mekong Region shifts from 'soft' (ADF) to 'hard' (OCR) loans the spectre of debt increases. Both Laos and Vietnam are officially Highly Indebted Poor Countries. In 1997 Laos had an outstanding foreign debt of US\$2.32 billion (annual GDP was US\$1.9 billion), with an annual debt service of approximately US\$34 million (Debt service ratio of 7.9 per cent). Approximately 20 per cent of the Lao Government's indebtedness is held with the ADB, this is primarily debt accrued under concessional lending terms of the ADF⁸. The situation is potentially more serious for a country such as Vietnam, which currently receives both ADF and OCR monies. Vietnam is the only Highly Indebted Poor Country member of the ADB to receive OCR funds which carry a higher debt burden. Burma and Laos are the other two Highly Indebted Poor Countries who are members of the ADB⁹.

⁸ Cornford, J and Simon, M., *Breaking the Banks: The impact of the Asian Development Bank and Australia's role in the Mekong Region*, OxfamCAA, Victoria, 2001

⁹ DFAT "Questions to Minister for Foreign Affairs - Asian Development Bank: Debt Management", 2000 <URL:http://www.dfat.gov.au/qwon/000814_e.html>

The Australian – OCR Connection

The Australian government plays a crucial role in maintaining the high level of OCR lending through its paid-in cash contributions as well as the provision of guarantees to the Bank for its loans to member countries and commercial enterprises.

The Australian connection is summarised in Table 2 below.

Table 2: Summary of Australian – OCR links

Category	Amount	Significance
Paid-in cash (GCI 4)	US\$24.5 million	Amounts to 2 per cent of the total Australian dollar commitment to ADB.
Guarantor to ADB Borrowings (GCI 4)	US\$1.2 billion	Australian taxpayers carried the financial risk of US\$ 1.2 billion of ADB borrowings.
Commercial lending by Australia to ADB in the form of 5 yr bonds: <div style="display: flex; justify-content: space-between; margin-left: 150px;"> <div style="text-align: right;">1998</div> <div style="text-align: right;">A\$1 billion</div> </div> <div style="display: flex; justify-content: space-between; margin-left: 150px;"> <div style="text-align: right;">1999</div> <div style="text-align: right;">A\$500 million</div> </div>		These loans are not classed as Official Development Assistance and constitute a hidden form of Australian government support for the ADB, particularly OCR. The loans provide significant material support for ADB operations from Australian public funds. These funds, however, are not directly scrutinised in the important, though inadequate, monitoring of Australian contributions to the ADB conducted by the Australian government departments of AusAID and Treasury.
Australia's voting power in ADB	5 per cent in 1999	These voting rights are based on Australia's total subscribed capital to the ADB, which accounts for 5.9 per cent of the total ADB capital resources. In comparison, the subscribed capital of the four countries of the lower Mekong Region amount to 1.8 per cent, with a combined voting power of 2.8 per cent
Return on Australian investments in the ADB	US\$214.2 million between 1997-99.	Between 1997-99 Australia was awarded 5.83 per cent of total value of consulting services and 1.57 per cent of total values of goods, related services and civil works for OCR lending. This amounted to a total of US\$214.2 million dollars return in funds to Australian companies. In 1998 Australia's procurement with the ADB \$270 million, higher than Australia's \$148 million capital contribution to the ADB over the same period ¹⁰

¹⁰ Adams, Chris., "Punishing the Poor: Development, Corporate Subsidies and the ADB", Focus on the Global South, Bangkok, 2000.