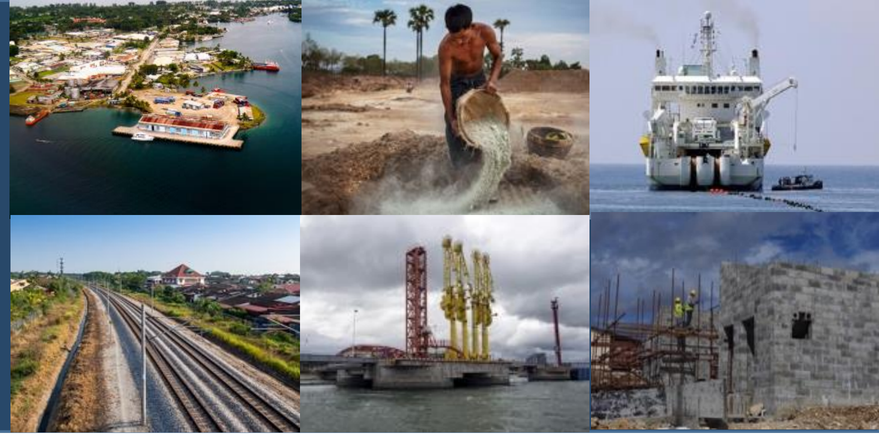
BRI MONITOR

POLICY BRIEF:
EMPOWERING CHANGE



BRI Monitor is a joint initiative started by think tanks in Asia and the Pacific to track the impact of China's Belt and Road Initiative projects. A key aim is to promote transparency and accountability around the terms and full costs to countries and communities. With support from the Center for International Private Enterprise, BRI Monitor partners developed a new methodology to assess the level of disclosure about various infrastructure projects and contract data. This can help identify governance gaps that make countries vulnerable to corrosive capital situations.

EMPOWERING CHANGE: THE ROLE OF DONORS IN SHAPING INFRASTRUCTURE STANDARDS

Infrastructure is critical for economic growth: roads, ports, and other transportation pathways serve as the connective tissue for distributed supply chains, reducing the time and cost of getting inputs to businesses and end products to consumers. Addressing global infrastructure needs requires trillions in spending – with the gap between needs and actual spending estimated to be as large as $15 trillion from 2015 and 2040. Consequently, many countries leverage every source of funding available, including multilateral development banks and a variety of bilateral donors such as China, Japan, and the U.S. But not all donors do it the same way. Development institutions from most democratic countries require significant planning and risk management, and a transparent and accountable process for themselves as well as for recipient states. Other donors put very few checks in place. China in particular has earned a reputation for offering loans and building infrastructure without heeding such standards.

Do higher standards of transparency and accountability lead to better foreign assistance project outcomes? This policy brief explores that question by comparing three roads built in Cambodia and funded by different bilateral donors: Japan, China, and South Korea. The brief is based on BRI Monitor case studies carried out by CIPE partner Future Forum, an independent think tank based in Phnom Penh. The three studies use a common methodology adapted from the Construction Sector Transparency Initiative's Infrastructure Data Standard, which evaluates projects based on the disclosure of relevant data. The case study findings support other research on constructive and corrosive capital since 2016, which consistently shows countries that lack robust laws and regulations leave it to foreign investors to set standards, and then must live with the consequences, which can be both negative and positive. In contrast, in countries with strong laws and regulations, governments can maintain a greater degree of control and mitigate the potential downsides of unregulated capital.

CASE STUDY SELECTION

The projects compared—Cambodia's National Roads (NR) 1, 6, and 21—were selected because they are all bilateral road reconstruction projects that were implemented over a similar time and by the same governing regime in Cambodia. Each roadway represents a vital economic corridor connecting various parts of Cambodia.

The NR1 project was funded by an $84 million grant from the Japan International Cooperation Agency (JICA), and implemented between 2005 and 2018. The NR6 project, which likely cost more than the initial estimate of $255 million, was financed by a loan from The Export–Import Bank of China with a small contribution from the Cambodian government, and built between 2013 and 2018. Future Forum's study of the NR21 project has yet to be published but offers the same level of detail. The road was completed between 2015 and 2019 with a $61 million loan from South Korea's Economic Development Cooperation Fund (EDCF), a fund operated by The Export Import Bank of Korea and dedicated to providing concessional loans for international development projects.

All three projects were overseen by Cambodia's Ministry of Public Works and Transport (MPWT), suggesting that domestic regulatory oversight was relatively consistent across the three projects. Therefore, the main sources of variation between projects would have come from the donors and the companies that carried out the work. In each case, the contracted companies were well established organizations based in the donor country with prior experience implementing projects in Cambodia.

COMPARISON

Future Forum's research team observed significant differences in how each of the three donor agencies performed on core metrics for transparency and implementation: information disclosure, financing terms, and project overruns. The researchers also detailed how these variations contributed to different outcomes in project quality. In general, JICA performed better than the other two donors on most metrics, while China's institutions lagged behind.

Information Disclosure: Neither China EXIM Bank nor the EDCF published project reports on their respective roads for public disclosure. While the EDCF published project evaluation reports and environmental assessments for some of its other projects in Cambodia, the researchers could not find evidence that China published any documentation at all. In contrast, JICA's publicly accessible e-library contained various NR1 project reports including a feasibility study, basic design report, and implementing review reports. JICA has also published on its website many institutional frameworks and policy documents governing its practices when providing official development assistance to countries.

While the EDCF has published such documents, they are not compiled in a centralized location and are not always easily accessible, according to Future Forum's researchers. If China EXIM Bank has published such documents, they are either unavailable to the public or difficult to find. When directly asked for information about NR1, the JICA office in Cambodia was proactive and forthright in responding to queries. The Korea Eximbank was responsive to requests and shared some additional information but did not approve Future Forum's request for official documents related to the NR21 project. Chinese institutions did not respond to requests for information about NR6. There is no governmental development agency office in Cambodia to contact, and the Chinese embassy in Phnom Penh did not respond to queries.

Financing: NR1 was funded with a grant from JICA, while the EDCF and China EXIM Bank financed their projects with loans. To obtain a representative sample of the financing terms, Future Forum's researchers analyzed all infrastructure loans from Japan, South Korea, and China between 2010-2023 in the Council for the Development of Cambodia's ODA database. About 95 percent of Japanese loans featured an interest rate of 0.02 percent. Japan did not limit competition to Japanese contractors and did not stipulate that the funds were to be used to acquire goods or services from only the donor country. Funding from South Korea offered a 0.01 percent interest rate, with some preferential treatment for Korean companies when choosing contractors for the project. Meanwhile, three quarters of Chinese loans came with a 2 percent interest rate and the remaining quarter at 1.25 percent. Aid was fully tied, requiring goods and services to be procured from only Chinese contractors.

Cost and Timeline Overruns: The JICA-funded NR1 was financed and completed in over the course of thirteen years, with the fifth stage resulting from a design change that raised the cost of the project by $2 million. While the project was completed according to its established timeline, discrepancies between Cambodian and Japanese figures make it difficult to determine whether the project cost more than the amount set by the budget. Likewise, the EDCF and Cambodian budget figures for NR21 differ—at $64 million and $61 million, respectively—complicating efforts to evaluate cost overruns. However, the EDCF extended an additional $11.5 million loan in 2017 above its original loan amount for NR21, citing inflation in Cambodia (Future Forum's forthcoming BRI Monitor report on NR21 is expected to be published soon). It is worth noting that both the JICA and China-funded projects were still active when the additional EDCF loan was announced, yet neither the Japanese nor Chinese institutions needed an inflation-related budget adjustment.

The China-funded NR6 project did not release any official budgets or timelines at all, making it impossible to evaluate whether overruns occurred. Cambodian government officials indicated that total expenditure for the project was $315 million, according to Future Forum—well over the $255 million budget indicated in most press coverage of the project. In short, all three projects suffered from information disclosure failures that make estimating overruns difficult. However, JICA and the EDCF both released data that provide estimates, which Chinese institutions failed to do.

Project Quality: Future Forum's team identified significant variance in construction quality between NR1, NR6, and NR21. While Cambodia's MPWT deemed the Japan-funded NR1 satisfactory, both the China-funded NR6 and Korea-funded NR21 experienced significant quality issues during construction. MPWT attributed at least two road deaths on NR21 to the improper installation of construction safety signs by Hanshin, the Korean project's implementing company. This, alongside other quality issues, prompted MPWT to notify the EDCF that Cambodia would blacklist Hanshin if the company didn't improve the quality of its work. In response, the EDCF indicated it would cut off funding to Hanshin if the issue wasn't resolved. Similarly, Shanghai Construction Group (SCG), the implementer for NR6, agreed in 2017 to repave the road at its own expense after MPWT deemed the original work unsatisfactory, an effort which cost $10 million.

KEY TAKEAWAYS

This comparison demonstrates that donors can play an outsized role in setting governance and transparency standards for infrastructure projects. JICA's ODA policies required the publication of various project reports and studies, making reliable information on NR1 easy to find. Chinese ODA policies do not mandate such information disclosure, and details on the NR6 project were scarce and had to be compiled from media and other non-government sources. The difference in standards likely contributed to a better outcome: the high-quality project completed on time and on budget was also the transparent one with accountability mandates; the lower-quality roads that required extra time and money, and for which there is little documentation in the public domain, were substandard and needed fixing.

It is crucial that donor states and institutions set high governance standards for the projects they fund. Donor countries like South Korea and China could use their official development assistance to better effect by establishing practices more like those of Japan. Japan, in turn, can take further steps to ensure that the information it publishes reaches audiences. Doing so could resolve discrepancies like the differing budget numbers between JICA and Cambodian sources and enable the public to become more informed and engaged.

The case studies also show that recipient states are not powerless to hold donors accountable. When Cambodia's MPWT expressed dissatisfaction with the quality of NR6 and NR21, the EDCF and China put pressure on the implementing companies to do better. In these instances, Cambodia's influence on project outcomes was reactive: it only intervened after problems occurred. MPWT could have increased its impact, and avoided fatalities, by being more proactive in setting and enforcing standards. Cambodia and other recipient states can mandate disclosure requirements for construction companies that exceed the requirements of the donor states. Even when donors establish high standards of conduct, they may not be able to completely address issues of mismanagement and corruption, which seemed to occur when Hanshin violated the terms of its contract by hiring a sub-contractor to perform the majority of NR21's construction. The adoption of specific oversight mechanisms, such as government and parliamentary committees or independent auditing authorities, can help ensure quality control throughout the project cycle.

In short, both donors and recipient states have a role to play in ensuring infrastructure projects are transparent and well-governed. Ideally, both parties heed rigorous reporting and monitoring requirements for all projects and make information publicly available and easily accessible, including bidding documents and contracts. However, this is often not the case. Traditional development models have emphasized the power of donors over recipients in using conditionality to trade aid for governance reform. This research shows it is time to flip the script by exploring ways that recipient states can hold donors to a higher standard of transparency and accountability.

*BRI Monitor founding members include the Institute for Democracy and Economic Affairs (IDEAS) in Malaysia, Future Forum in Cambodia, Institute of National Affairs (INA) in Papua New Guinea, Sandhi Governance Institute in Myanmar, and Stratbase ADR Institute for Strategic and International Studies (ADRi) in the Philippines. To view their latest research and sign up for newsletters and briefs, visit **brimonitor.org** or email **contact@brimonitor.org**.*