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How do “Emerging” Donors Differ from “Traditional” Donors?

—An Institutional Analysis of Foreign Aid in Cambodia—

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Abstract

Debate about the role and impact of the so-called “emerging donors” is becoming increasingly heated. The common reaction to these new donors, distinct from that accorded traditional donors, has had the unfortunate effect of obscuring two important aspects of the evolving aid landscape: 1) commonalities between the emerging donors and traditional Development Assistance Committee (DAC) donors; and 2) an evident diversity among the emerging donors. The biases at play are derived not only from a lack of sufficient information about how these new donors operate on the ground, but also from a lack of effort to integrate and analyze information that is available. This paper examines the impact of four emerging donors — China, India, the Republic of Korea (hereinafter referred to as “Korea”), and Thailand — on Cambodia’s development, with a specific focus on the processes of aid provision by these new donors. By accounting for the experiences of the recipient country, this paper also challenges the conventional view that aid fragmentation should be reduced *a priori*.

Keywords: emerging donors, Cambodia, harmonization, aid fragmentation, institution

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Introduction

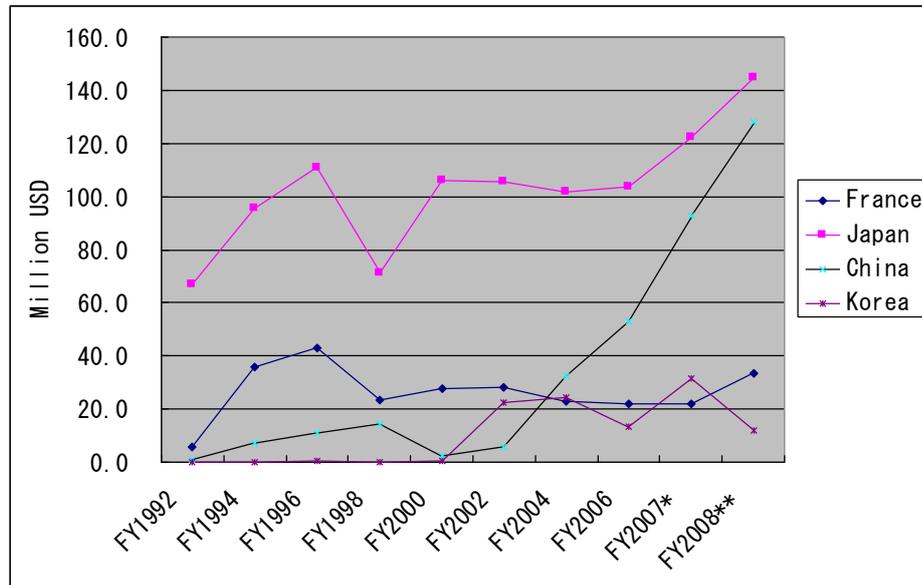
The global foreign aid landscape is changing rapidly (Woods 2008). In Asia, traditional donors such as Japan are no longer overwhelmingly dominant in terms of volume, and so-called “emerging donors” are becoming increasingly influential (see Figure 1). Among these latter, China, India, Korea and Thailand are emerging as key sources of foreign aid to poorer countries such as Cambodia, Laos and Myanmar. Unlike earlier literature which has characterized emerging donors as monolithically distinct from their traditional counterparts, we examine their commonalities with the traditional donors by placing the various emerging donors in a timeline. To follow this approach, we focus on the above four donor countries because they not only provide full aid packages, including concessional loans, grants, and technical cooperation,¹ but also because their presence in Cambodian development has become increasingly prominent.

Many emerging donors have track records of providing aid for as long as have traditional donors: China, for example, has provided grants to less-developed countries (LDCs) almost since the founding of the People’s Republic in 1949, with programs in Africa beginning in the 1950s (Woods 2008; Lin 1996). Perhaps for this reason, some commentators refer to emerging donors as “non-Development Assistance Committee (DAC) donors”². Regardless of when these countries actually initiated their aid-like activities, it is the recent impacts that we are considering as “emergent;” these countries are emerging not simply as providers of aid but as influential players in aid politics who can no longer be ignored by traditional donors.

¹ Other emerging Asian donors, such as Singapore and Malaysia, do not provide concessional loans as part of their aid packages. See our definition of “aid” in comparison to the definition of ODA in Appendix 1.

² See, for example, Informal Working Group (2008) on the question of labeling. That document criticizes the term “non-DAC donors” as defining the group by what it is not rather than what it is.

Figure 1: Disbursement (gross) to Cambodia from Individual Donors (1992-2008)



Note: Thailand, apparently a significant contributor, is not included.
 *Provisional, **Planned.
 Source: CDC (2008)

In this sense, the term “emerging donor” refers not only to the magnitude of the aid provided by these donors individually, but also to their impact collectively on the institutions built by traditional donors, as is discussed later³.

Alarmed by the increasing activities of the emerging donors, scholars and commentators have begun to pay serious attention to these new participants in the international “aid market.” Although a full-scale investigation of the subject of emerging donors has yet to be launched, there is already a spectrum of perspective on them, ranging from friendly to relatively hostile.

At the relatively hostile extreme, Moisés Naím, editor of *Foreign Policy* magazine, calls aid from China, Saudi Arabia and Venezuela “toxic” (Naím 2007). He argues that non-democratic countries like China “have begun to undermine development policy through their activist aid programs” (Naím 2007, 96) that seek only “money, access to raw materials, and international politics” (Naím 2007, 95) without regard to the environment or long-term

³ Acknowledging its flaws and limitations, Rowlands (2008:3) provides another rationale for using the term: “its correspondence with the term ‘emerging market’ and because it serves as a challenge to some

concern for the well-being of the host country's inhabitants. In short, according to Naím, emerging donors represent a "threat to healthy, sustainable development" while "pricing responsible and well-meaning aid organizations out of the market in the very places where they are needed most" (Naím 2007, 95).

Other authors are much friendlier toward emerging donors. Reisen (2007) and Woods (2008) defend China by providing quantitative evidence on the issue of debt sustainability in Africa. Woods argues that Chinese aid has strengthened trade links in Africa, allowing improved growth and terms of trade, and increasing both the export volumes and public revenues of recipient African countries (Woods 2008). He argues also that China has not been deaf to international voices and has to some extent behaved in accordance with UN policies, as evidenced by its cooperative efforts with the United Nations and the African Union to end the Darfur Conflict in Sudan (Woods 2008, 1208). Woods further argues that the rise of emerging donors is a manifestation of the dissatisfaction of recipient countries with the traditional development assistance regime (Woods 2008, 1212).

Manning (2006), positioned between these two extremes, gives a pioneering overview on this issue, claiming that although emerging donors allow greater aid access and a wider range of options to poorer countries, the advent of new donors has introduced three risks: 1) that greater access to aid may once again condemn recipient countries to unsustainable debt; 2) that governance reform proposed by traditional donors in exchange for aid may be unduly postponed; and 3) that the absence of careful investment appraisals may result in the proliferation of over-ambitious or unproductive capital projects (Manning 2006, 381-82). Manning recommends that these risks be contained through heightened contact and dialogue with emerging donors, to bring their performances more or less to the same level as traditional donors.

A common thread in the literature is an emphasis on the *distinctiveness* of emerging

of the more traditional notions of donor."

donors as compared to traditional donors in terms of the negative impact they are accused of having on such socio-economic aspects of their recipients as debt sustainability, governance and environmental quality. This is a narrow characterization, however, which often fails to give due consideration to the particular institutional arrangements which these donors make with each recipient. We propose that the recent characterization of emerging donors as *distinct* has had the unfortunate effect of obscuring two important features of the new aid landscape: 1) commonalities between emerging and traditional donors, and 2) diversity *among* emerging donors. The emphasis on the distinctiveness of emerging donors leads us to take a dichotomous approach of “one or the other” — emerging or traditional — in aid coordination efforts, as is manifest in questions such as “how should we involve *them*?” Failure to perceive their diversity forces us to lump emerging donors into a single group, and an emphasis on outcome as the sole means of judging the state of affairs limits our understanding of exactly how their aid projects are managed.

These biases are derived from a lack of information about how emerging donors formulate aid strategies, set priorities, and assist development projects. To overcome this, we look at the processes of aid provision to one particular recipient country to observe the individual arrangements these donors have managed to organize. This is in order to crystallize differences among the emerging donors and not treat them as monolithic.

This paper is based on original research and is focused on the perspective of the recipient — in this case, Cambodia. Many of the criticisms of emerging donors focus on their purported negative contributions to growth, debt burdens, human rights, and the environment without supporting evidence based on research grounded on the recipient. We chose Cambodia because as one of the world’s most aid-dependent countries (Chanboreth and Hach 2008, 3) it gives us an excellent vantage point for a comparative observation of the operations of both emerging and traditional donors. We collected data through interviews with aid officials in Cambodia and donor countries (for a list of our contacts in Cambodia, see Appendix 3). The

authors are fully aware of the politically loaded nature of the topic. This paper is not written to support any particular position *a priori*; rather, it is an investigation of the facts and mechanisms of aid to Cambodia for the purpose of building a foundation for future cooperation between emerging and traditional donors.

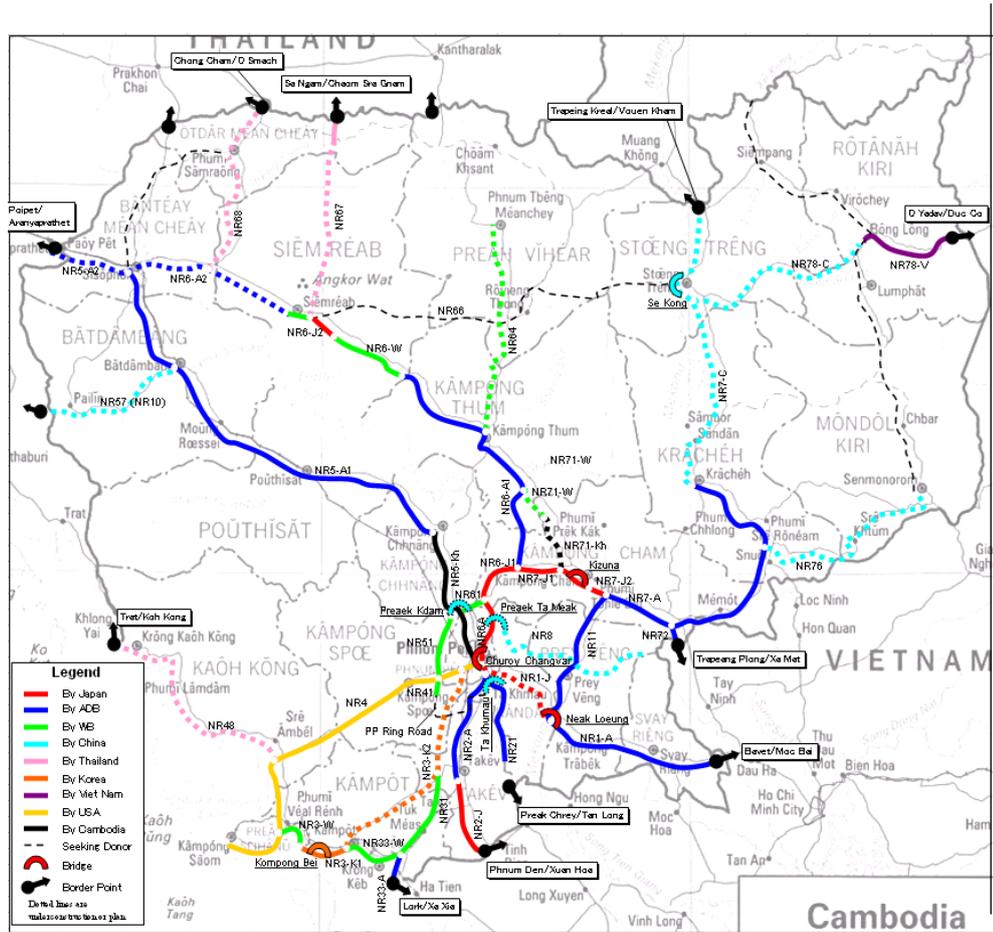
The structure of the paper is as follows. First, we describe the “aid market” in Cambodia, review the relevant literature, and discuss our approach to the issue of emerging donors. Second, we provide evidence, based on our own observations, of the “on-the-ground” operations of emerging donors in Cambodia and suggest the possible driving forces behind these operations. Third, we discuss the implications of emerging donor activities for the institutional landscape of foreign aid, challenging conventional notions of aid dominated by traditional donors. Practical and theoretical implications are highlighted in the conclusion.

1. Analytical Framework and Case Selection

1-1 Why Cambodia?

A map of roads in Cambodia built or restored by foreign donors reveals the participation of a striking number of various aid agencies (Figure 2). Since 1993, 96.7% (in length) of Cambodia’s main national roads have been built or rehabilitated by foreign donors. Multilateral donors such as the Asian Development Bank (ADB) and World Bank (WB), traditional bilateral donors such as Japan, and newer donors such as China, Korea, Thailand and Vietnam are all significant financiers. (India has thus far not provided aid in this sector.). During our fieldwork, we learned that Kuwait also is preparing to fund a road project close to the Thai border (interview with MPWT, 17 February, 2009).

Figure 2: Cambodian Roads Built or Rehabilitated by Foreign Donors



Source: IRITWG 2008, p.5

Its extremely diverse development needs attract a continuous flow of foreign aid into Cambodia. In fact, Cambodia is among the most aid-dependent countries in Asia — the proportion of its total public expenditure derived from aid has remained at nearly 90% since 2005 (CDC 2008). Total aid provided to Cambodia amounted to about USD \$5.5 billion over the last decade (1998-2007) alone, totaling roughly USD \$640 million each year for the past 5 years (2003-2007) (CDC 2008). Cambodia’s per capita aid received in 2005 was USD \$38, more than double the average among low-income countries (USD \$17) (Chanboreth and Hach 2008).

As a post-conflict LDC struggling to cope with the legacy of a protracted civil war and the

brutal Pol Pot regime, Cambodia is one of the poorest countries in Asia⁴, with a desperate need for development at all state strata. Its social conditions also are poor; Cambodia was ranked 136th out of 179 countries on the UN Human Development Index 2008. Life expectancy at birth is 58.6 years, giving Cambodia a rank of 142nd out of the 179 countries. At the same time, however, Cambodia has successfully maintained a trajectory of robust economic growth⁵, necessitating significant infrastructure upgrades⁶.

Another of Cambodia's important features is that it shares borders with regional economic engines, including Thailand and Vietnam, with roads providing connections on to more distant countries such as China. As a result, Cambodia has been obliged to pursue diverse development goals, ranging from the eradication of fatal diseases such as HIV/AIDS to the establishment of a basic infrastructure network that will allow economic connections with fast-growing foreign economies.

Against this backdrop of enormous development challenges, a massive influx of aid began flooding into Cambodia after the 1991 Paris Peace Accord. The flow of aid has maintained its momentum to the present day. This is partly because of robust economic growth averaging 9.8% for the past 5 years (World Bank 2009) and the concomitant need for infrastructure, and partly because traditional donors have accelerated their focus on Cambodia and other LDCs to attain the Millennium Development Goals (MDGs) (Figure 3). It is important to note not only the total volume of aid and Cambodia's degree of aid dependency, but also the sheer variety of the aid agencies active in Cambodia. As of June 2008, 35 official donors were assisting 710 on-going projects in Cambodia (Chanboreth and Hach 2008, 23)⁷. Table 1 shows the

⁴ Per capita income in Cambodia was USD \$592 in 2008; among East Asian countries, only Myanmar was lower (IMF 2008).

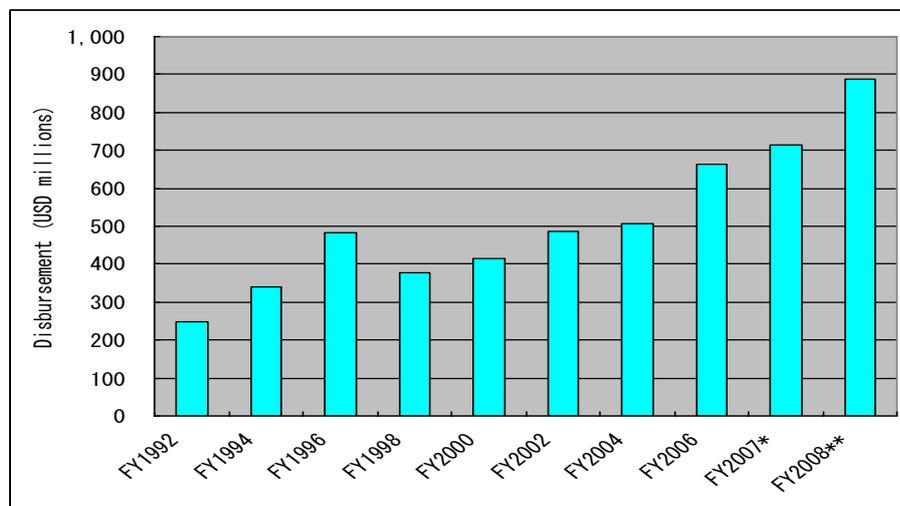
⁵ The average growth rate over the past decade exceeded 8.2% per annum (CDRI 2008).

⁶ An illustrative example of Cambodia's underdeveloped infrastructure is its extremely low electrification rate (countrywide) of 20.1%, nearly the same as Eritrea (20.2%) (IEA 2006:568-570).

⁷ In addition to government aid, considerable investments are made by NGOs, particularly in the health sector. There are 1495 local NGOs registered in Cambodia under the Ministry of Interior and 337 international NGOs registered under the Ministry of Foreign Affairs and International Cooperation (CDC 2007:15). The important point here is not the volume of aid provided by NGOs but the fact that government donors rely on NGOs to implement aid projects. For example, the Netherlands implements

approximate division of labor among the major donors in the major sectors. We notice that certain sectors, such as transportation and water and sanitation, are dominated by a limited number of donors, while education and health involve many more. Based on this situation, we consider Cambodia to be a typical example of a post-conflict country in which aid needs run the gamut from basic infrastructure to human resources development.

Figure 3: Official Donor Disbursements (Gross) in Cambodia



*Provisional, **Planned.

Source: CDC (2008)

aid programs in Cambodia exclusively through NGOs, while countries such as the Finland, New Zealand and the US have mixed records (CDC 2007: 15).

Table 1: Disbursement (Gross) by the Five Largest Donors to Selected Sectors in 2007

Health	Agriculture	Transport Infrastructure	Education	Water & Sanitation					
USA	33.5	Japan	10.3	China (L)	42.3	ADB (L)	15.3	ADB	5.8
Global Fund	21.1	UN(IFA D/WFP)(L)	8.1	Japan	37.9	Japan (L)	13.1	France (L)	4.6
UNFPA/WHO/UNICEF	13.6	Australia	6.5	ADB (L)	8.5	Sweden (D)	7.7	World Bank (L)	3.5
UK (D)	9.5	France(L)	3.8	Korea (L)	6.4	World Bank (L)	7.3	UN (UNICEF)	1.4
Japan	7.4	ADB (L)	3.6	World Bank	1.6	EC	6.8	Japan	1.0
Sub-total	85.0	Sub-total	32.2	Sub-total	96.7	Sub-total	50.2	Sub-total	16.4
Total sector aid	152.1	Total sector aid	43.3	Total sector aid	99.2	Total sector aid	88.2	Total sector aid	17.4
5 largest (% share)	56%	5 largest (% share)	74%	5 largest (% share)	98%	5 largest (% share)	57%	5 largest (% share)	94%

[Units] USD millions.

[Notes] D, some or all funds are delegated to other implementing partners such as NGOs; L, some or all funds are loans.

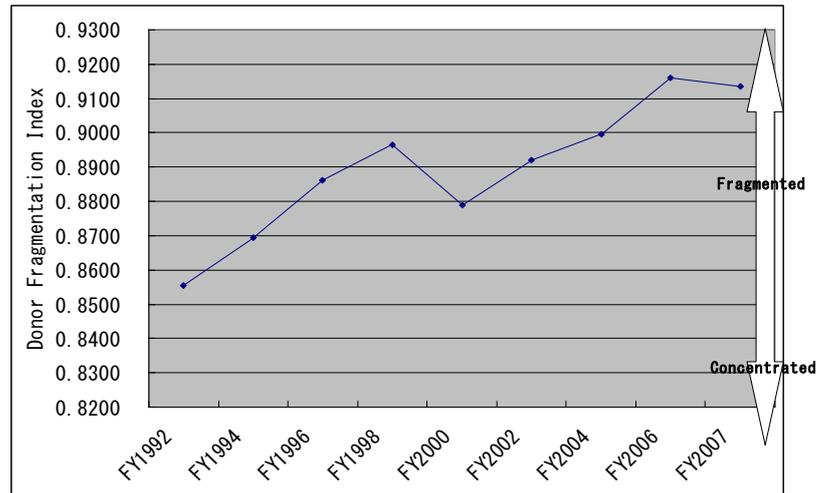
Source: CDC (2008), pp. 27.

Cambodia thus suffers from serious donor fragmentation⁸. In 2007, the Donor Fragmentation Index in Cambodia was 0.91, significantly higher than the average value of all recipient countries (=0.7) and nearly equal to heavily aid-dependent African countries such as Mozambique (0.91) and Ethiopia (0.92) (Knack and Rahman 2008, 336). Donor fragmentation in Cambodia has been a constant issue for foreign aid commentators. It has continually worsened since 1992, with only a temporary alleviation between 1998 and 2000 due to the increased share of Japan in total aid disbursement (Figure 4). Fragmentation is thought to impose increased transaction costs on a recipient due to the increased administrative burden required to accept donor missions or to a heightened competition for capable officials. The result is degraded aid effectiveness and skewed public investment decisions (Knack and

⁸ Cambodia ranks 9th among 11 countries in Asia on its level of technical cooperation harmonization in the field, lower than other Southeast Asian countries (OECD 2009).

Rahman 2008).

Figure 4: Trends in Donor Fragmentation in Cambodia



Source: Calculated by the authors based on CDC 2008, p. 35

The donor fragmentation index is constructed by subtracting the Herfindahl Index of donor concentration from 1. The Herfindahl Index is calculated by summing the squared shares of disbursement by each donor over total disbursement by all donors to Cambodia each year. Thus, the donor fragmentation index is calculated by the following equation: $DFI = 1 - \sum_i (S_i)^2$ (S_i is the share of each donor over total disbursement each year). The index ranges from 0 to 1, with higher values representing greater donor fragmentation. See Knack and Rahman (2004, 18) for more details. Note that for reasons of data availability, UN agencies are treated as a single UN organization.

1-2 Framework and Literature

Our approach to foreign aid is institutional. The broadest definition of institution is “a humanly devised constraint that structures human interaction” (North 1990, 3). In this paper, we define institution as a humanly devised constraint that structures interactions among aid actors, including governments, with a primary objective of reducing transaction costs. By paying attention to how institutions evolve over time in response to changes in domestic and international circumstances (Kondoh *et al.* 2010), both emerging and traditional donors can be

placed on a timeline⁹. If we furthermore take institutions to be the accumulation of self-constraining activities by established groups to minimize risks, we can view emerging donors as challengers to the dominance of institutions created by those established groups (i.e., DAC communities) that may disturb the aid norms set by them. For example, the massive use of tied loans by emerging donors may invite the relaxation of current regulations on tied aid on the side of traditional donors who are pressured by domestic economic interests. On the other hand, this challenge provides us an opportunity to re-consider the present practices of traditional donors, offering a critical perspective that is difficult to obtain by adhering to DAC principles alone.

To clarify the contrast, let us highlight the institutional characteristics of traditional donors. Because foreign aid is a kind of investment in the realization of some future vision, institutions must incorporate donors' visions of a desirable future and acknowledge the risks inherent in materializing those visions. In this regard, traditional donors have groomed their institutions (e.g., DAC principles) to pursue development impact through less uncertainty and cost than might come from fragmented aid. While donors' visions may vary greatly (ranging from those based on national interests to more altruistic commitments to eradicate poverty), perceptions of risk vary even more significantly, depending on the changing conditions of each recipient as well as on the varying emphases of other donors operating in the same target country.

Traditional donors, who are DAC members, have institutionalized beliefs and value commitments which are shared among DAC member countries. First of all, they share a moral commitment to eradicate poverty and promote global development without becoming entangled in the national interests of individual member countries. To support this commitment, donors have agreed upon a definition of "official development assistance" (ODA) that

⁹ The assumption that becoming a donor is a linear process provokes further debate. Although we are not ready to propose a specific hypothesis on this topic, we believe that the pressure to follow the principles of accountability eventually make it difficult for newcomers, particularly smaller countries, to completely ignore such principles.

excludes military and commercially driven aid. More specifically, DAC members have agreed that a grant element of at least 25% is required in order to qualify as “aid,” with an additional mutual disapproval of “tied aid¹⁰” for LDCs.

Second, traditional donors share the belief that “development assistance” requires collective and coordinated effort in which individual donors restrain their own activities in order to contribute to the whole. Various agreements and forum statements for defining sector priority¹¹ and harmonization¹² of aid activities have been issued through mediation by multilateral agencies such as the UN and the World Bank.

Third, in order to pursue these values, traditional donors emphasize the importance of transparency of aid activities so that the critique and monitoring of mutual activities can further improve development performance. The Creditor Reporting System (CRS)¹³, which has been in operation since 1973, is one of the institutional devices that support aid transparency. In addition, periodic peer reviews by DAC members serves to enhance transparency and joint assessments of development goals. A recent example reflecting these emphases is the collective endorsement of the MDGs and the Paris Declaration for Aid Effectiveness of 2005. These efforts aim to reduce the cost of uncoordinated aid.

The tendency among donors to form a coalition can be traced back to the Cold War era, when development assistance was used by the West as an international tool to combat the spread of communism in the Third World (Rist 1997). However, since the end of the Cold War, aid institutions have struggled to find a new mandate that justifies the continuation of a coalition in the absence of an identifiable “common enemy” to coalesce against. Global issues such as poverty and environmental degradation take on new significance in this light, as intrinsic yet dispersed targets of the development efforts of Western countries. Aid institutions,

¹⁰ [http://webdomino1.oecd.org/horizontal/oecdacts.nsf/linkto/DCD-DAC\(2001\)12](http://webdomino1.oecd.org/horizontal/oecdacts.nsf/linkto/DCD-DAC(2001)12)

¹¹ <http://www.mofa.go.jp/mofaj/gaiko/oda/doukou/mdgs.html>

¹² <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

¹³ <http://www.oecd.org/dac/htm/crs.htm/>

in response to the changing environment, offer an appropriate analytic arena that allows us to observe how donors perceive the world.

Two levels of institutions must be distinguished here. The first includes international institutions established among donors or between donors and recipients. The second comprises domestic institutions that facilitate the provision of aid to and reception of aid from foreign countries. International institutions tend to use formalized written agreements or resolutions, while domestic institutions have more latitude for informal arrangements.

Generally speaking, emerging donors have not yet established aid institutions among themselves; rather, each of them has evolved its own ways of channeling aid to its recipients. The lack of a DAC-like institution among emerging donors might tempt us to treat them as idiosyncratic and unpredictable; however, as we shall see, most emerging donors have institutionalized to some degree their relationships *with their recipients*, and some are even in the process of institutionalizing aid schemes with DAC donors. Some countries, such as South Korea and Thailand, seemingly are willing to align their institutions with the international standards set by DAC. It is, therefore, important that we conduct our analysis by taking account of the temporal dimension. The way China currently formulates projects in Cambodia, for example, is very similar to the manner in which Japan formulated its aid projects in the 1970s and 80s. As DAC donors have necessarily changed over time, emerging donors, too, are in the process of changing over time. The time factor not only helps clarify our view of diversities and commonalities among donors, but it also widens our options in engaging with these new aid actors.

Although the primary interest of the institutional school in foreign aid has been to examine the impact of aid on recipient countries' governance reform (e.g., Shirley 2008), we focus instead on institutional arrangements for the provision and receipt of aid with reference to the specific countries in question. This is because we aim to look beyond the aggregate links between aid and development at the macro level, which are often based on input-output models,

and delve deeper into the micro processes of project identification between donors and recipient countries.

An important concept that comes out of the institutional school for analyzing emerging donors is that of “transaction cost” (Coase 1937; Coase 1960; North 1990). In the trade context, Coase and North define transaction cost as the cost of searching for a trade partner, finding the right information, measuring quantities and qualities of traded goods and services, and negotiating a contract; as well as monitoring, evaluating and enforcing the contract¹⁴. In the aid context, “trade” is simply replaced with “aid”. Unlike trade, however, where traders deal directly among themselves, aid is mediated by donor agencies with double constraints from both international and domestic institutions.

Analysis of social settings based on transaction cost is particularly valuable in the context of foreign aid. This is because from an institutional perspective foreign aid operates under the condition of a “broken feedback loop” (Martens 2005) where taxpayers in donor countries have no direct channel through which to hear the voices of beneficiaries in developing countries. This in turn creates a tendency for privileged foreign aid agencies to play decisive roles in mediating the otherwise tenuous link between taxpayers in donor countries and beneficiaries in recipient countries. The continued existence of aid agencies despite repeated criticism can be explained by the mediation functions that these agencies perform in obtaining information from recipient countries, especially from governments, and transmitting it to taxpayers in donor countries.

This raises an interesting question regarding emerging donors: what are the functions of these new donor agencies compared with those of traditional donors? How different are their roles in comparison with those of traditional donor agencies? We found that most emerging

¹⁴ The root cause of this cost is *uncertainty* (Martens 2005). The particular uncertainty pertaining to foreign aid consists of 1) *ex ante* uncertainty in the appropriate target population, their needs, and the means to transfer resources to them; and 2) *ex post* uncertainty about the actual use of transferred resources based on the preference alignment between donor and recipient (Martens 2005). According to Martens, aid organizations exist in order to reduce this uncertainty.

donor agencies do not yet play the mediation role that Martens assigns to traditional donor agencies; on the contrary, they lessen the need for recipient government accountability by funding controversial projects that traditional donors are reluctant to support and that would require more complete explanation to their public. Because there is no “mediator” between the emerging donors’ beneficiaries in recipient countries and their taxpayers at home, the information that flows from the former to the latter is extremely limited.

This difference in “mediating function” can be explained by four factors. First is the extent of penetration of donor organizations within recipient countries. Few emerging donors have specialized aid organizations, such as United States Agency for International Development (USAID) or Japan International Cooperation Agency (JICA), to support development projects on site, and even those that do, such as Thailand, with the Thailand International Cooperation Agency (TICA), do not have liaison offices in the countries where they implement projects. The second factor is the influence of democracy and governance within donor countries on their foreign aid policies. This includes the roles of the parliament, the media and academics who attempt to push the governments of donor countries to justify their aid expenditures. Third is the volume of aid in relation to the size of the donor’s economy. In general, the smaller the proportion of aid relative to total public expenditures of a donor country, the less likely the government will need to justify the aid, which reduces the need for aid agencies to mediate aid beneficiaries and taxpayers. Finally, the severity of development problems within the donor country itself may influence how donors justify aid and retain their accountability to their public. India, for example, is an emerging donor facing its own serious domestic poverty. In the context of India’s stable and mature democracy, this peculiar background requires the Indian government to defend and justify all external aid flowing out of the country¹⁵.

¹⁵ These factors suggest that pressure towards accountability is different even *within* emerging donors. They also suggest that in countries such as China, where there is little pressure for accountability, there is more freedom to pursue national interests in foreign aid operations.

The priority given to domestic factors in donor countries might explain why “aid proliferation” that lacks coordination is so prominent in the poorer parts of Asia, where competition among donors is fierce. In Cambodia, the establishment of approximately 121 parallel project implementation units (PIUs)¹⁶ and 358 donor missions, reviews and studies per year have been reported (OECD 2009, 84 and 88, Chanboreth and Hach 2008, 2). “Aid proliferation” has been viewed as a major concern that necessitates efforts towards “aid coordination.” This concern is directed at emerging donors who, because they have not yet become involved in coordination efforts, pile further “transaction costs” on recipient countries. The “aid proliferation” criticism by the DAC community is quite understandable given the long history of that community’s mandate to coordinate their various development agendas (Rowlands 2008, 4). However, the issue is argued mostly from the traditional donors’ perspective, not from that of the recipients. For this reason, we examine aid from the perspective of recipients and the environment surrounding them.

2. Operations of Emerging Donors in Cambodia

2-1 Welcoming Fragmentation?

This section searches for a more precise understanding of emerging donors by analyzing the strategy and actual performance of four Asian emerging donors — China, India, Korea and Thailand — in the specific context of Cambodia, as well as the strategy of the Cambodian government with respect to these emerging donors. We chose these four countries, not only because they provide full packages of aid, including both loans and grants, but also because they are being increasingly recognized by Cambodia as reliable development partners in terms of both the quantity and the quality of the aid that they provide. In addition to their impact on

¹⁶ PIU is a special unit established at the request of donors outside the government of the recipient country for the implementation of donor-aided projects. Donor practices such as paying salary supplements to talented local PIU staff distort their incentives by turning their attention toward the donor’s projects and away from other responsibilities (Knack and Rahman 2008).

Cambodia, these donors are also significantly advancing their profiles in other of the poorer parts of Asia, such as Laos and Myanmar.

Upon initial observation of the highly fragmented Cambodian “aid market”, an observer might intuitively conclude that the entry of emerging donors exacerbates the fragmentation and further undermines Cambodia’s development efforts. This judgment would accord with the conventional wisdom that donor fragmentation does harm to the recipient country by burdening it with tremendous transaction costs for donor-recipient coordination. However, the puzzling reality is that the Cambodian government, an apparent “victim” of fragmentation, seems to allow and even welcome the new donors¹⁷.

We argue that the Cambodian government accepts aid from emerging donors as a carefully considered strategy which welcomes these donors as providers of *alternatives* for Cambodia’s balanced development rather than out of a passive willingness to “accept whatever aid is offered.” Three factors lie behind this argument:

First, we find that the Cambodian government, hoping for support focusing primarily on economic growth, is largely dissatisfied with the traditional donors’ supply-driven concentration on social sectors, such as health, that often exceeds Cambodian demand in terms of volume (CDC 2007, 11). Second, emerging donors fit nicely into existing gaps in Cambodia’s infrastructural needs. Third, the additional fragmentation caused by the entry of emerging donors is overshadowed by the benefits these countries offer, not only in terms of direct investments but also by providing alternatives that give the Cambodian government more room to maneuver. We elaborate on each of these points below.

The unease felt by the Cambodian government with respect to traditional donors is well summarized in an official statement from a high-ranking Cambodian official: “For development partners there needs to be a change in mindset, behaving less like aid bureaucrats,

¹⁷ Here we refer not only to donors such as China, but also newly emerging actors like Kuwait and Vietnam.

serving your own agendas, and more like development professionals, understanding the context of Cambodia” (CDC 2008, 3). Traditional donors fail to satisfy Cambodia’s development needs in both aggregate volume and sectoral allocation. The total amount of aid falls short of the aggregate requirements stipulated in the Cambodian government’s National Strategic Development Plan (NSDP) and even worse, the aid is largely unpredictable from the recipient’s perspective¹⁸. Furthermore, the allocation of aid is often unaligned with the intentions of the Cambodian government; for example, the infrastructure sector is currently experiencing a serious financing shortage while sectors such as health and government/administration are receiving an excess of funds from numerous donors and non-governmental organizations (NGOs) (CDC 2008, 15-16).

The second source of Cambodia’s dissatisfaction is technical cooperation (TC), a major aid modality used by traditional donors. The Cambodian government, particularly the Cambodian Development Council (CDC), has voiced doubts about the effectiveness of TC by the traditional donors, arguing that supply-driven and uncoordinated assistances by them often results in mutually-contradictory advice and intervention from various aid agencies and is unresponsive to Cambodia’s unique situation (CDC 2007, 30; CDC 2008, 4, 14 and 28; Chanboreth and Hach 2008, 23)¹⁹. The government also is dissatisfied that TC from traditional donors, especially the dispatch of long-term advisors, does not always involve a transfer of skills that contribute to the capacity development of local personnel but provides instead for “capacity substitution,” which is only the temporary cover for a lack of capable local personnel (CDC 2007, 30 and 47; Chanboreth and Hach 2008, 13)²⁰. The validity of this criticism must

¹⁸ According to the Cambodian Government, significant progress has been made over the past 2 years in improving the predictability of aid (CDC 2008:17).

¹⁹ An illustrative example is the “cohabitation” of two national development strategies—namely, the Second Socio-Economic Development Plan (SEDP-II) led by ADB and the National Poverty Reduction Strategy (NPRS) led by WB.

²⁰ The WB evaluation department also has been very critical of TC in general. For example, one of their reports on Africa states that “the Bank’s traditional tools—technical cooperation and training—have often proved ineffective in helping to build sustained public sector capacity.” (World Bank Evaluation Department, Capacity Building in Africa (2005)). See Konishi (2007:17).

be evaluated based on the evidence, which is beyond the scope of this paper. However, the fact that the Cambodian government has openly expressed dissatisfaction with aid in an official report (such critical statements were absent in previous reports) must be taken seriously²¹. This shift in tone might be a result of having secured an “emerging donor option” that has given the Cambodian government confidence to criticize traditional donors.

2-2 Aid Strategies and Underlying Values of Emerging Donors

Since many emerging donors do not officially disclose complete information on foreign aid, our discussion here is uneven at best²². With this limitation in mind, let us now describe the strategies and value orientations of the emerging donors.²³

The four emerging donors examined here have adopted a similar strategy of actively financing infrastructure using tied loans; this reflects a similarity in their objectives of securing lucrative markets for their own construction industries²⁴. However, we should not overlook the point that whatever their intentions, their emphasis on infrastructure fills a financing gap created by the traditional donors’ overemphasis on the social sector.

China in particular provides massive amounts of aid to Cambodia for infrastructure projects, including roads, bridges, and transmission lines. In the transportation sector, where the gap between NSDP and aid from traditional donors is especially large, the rising prominence of China is evident (see Figure 5). China’s share in the total disbursement (gross) of all official donors to Cambodia’s transportation sector for the period FY2005-FY2008 was 50.6%²⁵. Korea is also a bilateral source of aid for the infrastructure sector. The Korean

²¹ Previous CDC reports have expressed concern about ownership and disbursements; but no specific criticisms, such as those that appear in the latest report, were made in those earlier ones.

²² Some countries, such as Thailand, do make aid strategies available to the public. Thailand has recently published its first ODA report.

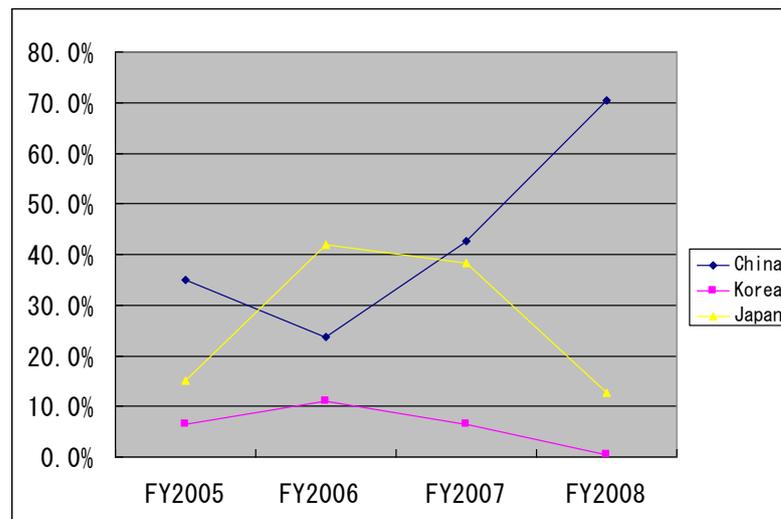
²³ For a detailed list of aid projects by the four emerging donors in Cambodia, refer to Appendix 2.

²⁴ It is important to remember that the emerging donors are active in areas other than infrastructure. Significant contributions were made in the field of humanitarian aid after the 2004 tsunami by China, India and South Korea, among others (Cotterell and Harmer 2005).

²⁵ Calculated from tables in CDC (2007:63-64) and CDC (2008:33-34).

International Cooperation Agency (KOICA) selected infrastructure as one of Korea’s four priority sectors in Cambodia, and the Economic Development Cooperation Fund (EDCF) also focuses on road construction projects, such as National Road No. 3 (interview with KOICA’s Phnom Penh Office, 18 February 2009). Thailand provides assistance on road projects connecting Cambodia and Thailand, such as National Roads Nos. 48, 67 and 68. The volume of Thai loans to the road sector amounts to 2.29 billion baht (USD \$6 million). India provided loans for other infrastructure projects, including irrigation (USD \$10 million) and power transmission lines (USD \$35.2 million)²⁶ in 2002 and 2007, respectively.

Figure 5: Share of Major Donors in Total Disbursement (gross) to Cambodia’s Transportation Sector

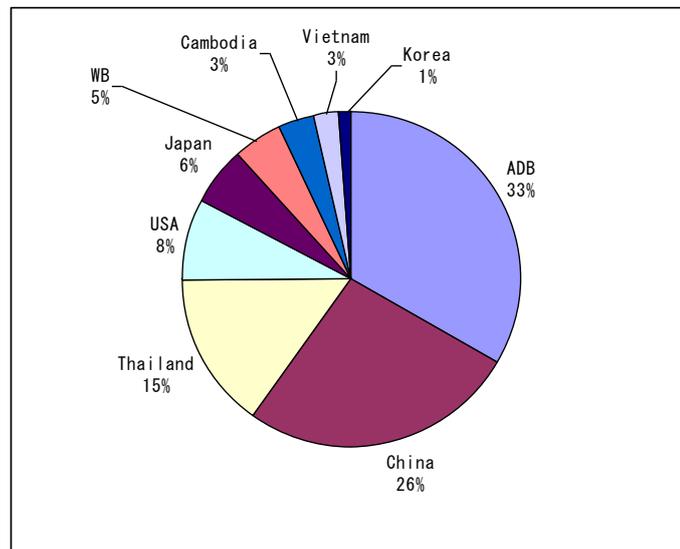


Source: CDC (2007), pp.63-64, and CDC (2008), pp. 33-34

The fact that from 1993 to 2007 45.2% of the total length of rehabilitated national road in Cambodia was funded by emerging donors confirms the growing eminence of these donors in the infrastructure sector (see Figure 6).

²⁶ India News, May 21, 2007.

Figure 6: Share of Donors in Rehabilitated Road Length (1993-2007)



Source: Calculated by Author based on data in IRITWG 2008:5.

Concessional tied loans are the main modality employed by all four emerging donors in their support of infrastructure development²⁷. Here, we notice an important strategy common to all of them: pursuit of their own economic interests over and above development impact. China and India, both self-proclaimed leaders in South-South Cooperation, rationalize the fusion of development aid projects and the pursuit of their own economic interests under the banner of “equality and *mutual* benefit” (Kobayashi 2008,34). Similarly, in an attempt to strengthen economic ties with ASEAN countries under the “Look East Policy” following its 1991 comprehensive economic liberalization, India has strategically supported the entry of Indian companies into the Cambodian market.

For Korea, economic interest is also the main incentive for providing aid. Some Korean government ministries, such as the Ministry of Strategy and Finance, have traditionally believed that aid should be used for economically defined national interests, such as stable

²⁷ For example, the ratio of loan disbursement against total disbursement to the transportation sector between FY2005 and FY2008 was 94% for China and 75% for Korea. Calculated from the table in CDC (2007:63-64) and CDC (2008:33-34).

access to Cambodia's natural resources and the promotion of Korean exports and investments²⁸. To promote Korean private investments in Cambodia, Korean aid has been utilized to build infrastructure, particularly through EDCF loans (interview at Korean Embassy in Phnom Penh, 18 February 2009). In a way, as many DAC countries also have done, the government of Korea is using the aid channel to reduce uncertainties in the private sector that might otherwise inhibit them from investing in a poor country like Cambodia.

Another strategy common to the emerging donors is the pursuit of geopolitical interests through aid which tends toward expansion of cross-border trade and suppression of negative inflows such as illegal migration. Thailand, the only emerging donor among the four studied in this paper sharing a border with Cambodia, particularly stands to benefit in this regard. Since Thailand is surrounded by the poorest countries in Asia — Cambodia, Laos, and Myanmar — aid is one of the means it uses to minimize the cross-border risks that it faces. In this sense, Thai aid must be viewed within a regional historical context of conflict and political tension. Despite recent political tension at the Thai-Cambodian border near Preah Vihear Temple, for example, aid projects at the operational level seem less impacted by politics than might be expected. Aid from Thailand gives high priority to the neighboring countries, with more than 70% of Thai loans and grants going to Cambodia, Laos and Vietnam. Close examination of Thailand's aid objectives reveals that it has gradually entered into an institutionalized aid scheme patterned after those of the traditional donors. This was apparent in the publication of its first ODA report in 2009, with assistance from UNDP (TICA 2009).

China also is motivated by geopolitical considerations. The Chinese government states clearly that China places high priority on the Greater Mekong Sub-region (GMS)²⁹, which

²⁸ In 2007, South Korea exported USD \$280 million and imported USD \$9 million worth of products, while its recorded investment was USD \$148 million (cumulative total as of 2007) (MOFAT 2007). As for foreign direct investment, South Korea is second after China. Over 14 years since 1994, South Korea invested USD \$2.75 billion in Cambodia while China spent USD \$5.7 billion (*Yonhap News*, 31 December 2008).

²⁹ The GMS comprises Cambodia, China (Yunnan Province and the Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic, Myanmar, Thailand, and Vietnam.

includes Cambodia, as a land bridge connecting China with South and Southeast Asia. Based on a recognition that GMS countries are “all friendly neighbors of China” and “abundant with natural resources,” China seeks to “consolidate and develop China’s traditional relationships with the other GMS countries and jointly create a regional environment characterized by peace and stability, mutual trust, and win-win cooperation,” in which China can consequently pursue its diplomatic and economic objectives.

What can we conclude from these observations on the actual operations of the emerging donors? First, unlike DAC donors, the self-restraint capabilities of emerging donors have yet to be developed. The absence of constraints, as contrasted with the strict rules and regulations set by DAC, has given these countries a certain level of freedom to pursue their own national interests through their aid activities, sometimes without paying due attention to the ramifications (for the environment, among others) of their aid projects. With no liaison offices on site, emerging donors tend to rely entirely on information from central governments, a practice which may narrow learning opportunities helpful to them in redirecting their development efforts.

Second, although emerging donors are often classed as a single group, there is a significant degree of diversity among them that reflects their own unique experiences. Many of their features actually resemble current or former institutional features of the traditional donors, who also attempted to reduce risk and uncertainty in order to secure economic benefits through aid.

The diversity among emerging donors can be observed in three institutional dimensions: strategy, value orientation and sector allocation. First is diversity in strategy. The most focused aid strategy is that of Korea, which set a clear target of gaining DAC membership³⁰. Reasoning that increasing aid output, particularly to LDCs such as Cambodia, would appeal to

³⁰ Under the presidency of Lee Myung-bak, South Korea joined DAC in January 2010.

DAC, Korea identified Cambodia formally as a high-priority aid recipient in 2007³¹. Thailand in following South Korea's path, aiming to become an internationally recognized donor by adhering to the basic norms set by DAC (epitomized by the MDGs and the Paris Declaration). These two examples are in stark contrast with China, who has shown no interest in aligning with DAC.

Second is diversity in value orientation, i.e., the broader ideas underlying aid strategies. The salient feature of Chinese and Indian aid is their labeling of aid activities as "South-South Cooperation;" Korea and Thailand place less emphasis on that concept. Hoping to be categorically insulated from the ODA of traditional donors, India neither attends donor meetings (interview with Indian Embassy in Phnom Penh, 18 February 2009) nor discloses information regarding the aid amounts it provides. By contrast, Korea seems ready to act in accord with the norms established by traditional donors, as evidenced by its DAC aspiration. Korea is working to harmonize its aid institution and policies with DAC guidelines. It has submitted to DAC a memorandum for special peer review in which the Korean government emphasizes its efforts to meet internationally shared goals: the MDGs, the Paris Declaration on aid effectiveness, and increased aid volume (MOFAT 2008a, 1; 2008b, 1). Korea also is participating in sector policy coordination forums called Technical Working Groups (interview with KOICA's Phnom Penh Office, 18 February 2009).

Third is diversity in sectoral allocation. In contrast to Chinese aid, which is concentrated in infrastructure, aid from Korea and India both is characterized by allocation to a broad range of areas. For example, Korea's KOICA established the following as priority sectors for Cambodia: (1) rural development (water resources development), (2) education, (3) public health, and (4) infrastructure; while EDCF loans have been provided for projects related to vocational training, road construction/rehabilitation, water resources development, and

³¹ South Korea's Mid-term Country Assistance Strategy puts high priority on 18 recipient countries, including Cambodia. In 2005, Cambodia was the fourth biggest recipient of Korean aid (EDCF 2006: 37).

expansion of local administration networks (MOFAT 2009). As a result, among 21 official donors, Korea ranks 13th on the sector fragmentation index³². India provides loans for the construction of infrastructure and technical cooperation for Cambodian trainees invited to India for various courses, and it even provided assistance for Cambodia's General Election in 2003 and the Khmer Rouge Tribunal (USD \$1 million) in 2005 (MEA 2007).

2-3 Project identification

We now turn to an examination of the actual project identification process followed by the emerging donors. The process of project identification deserves special attention, since it is at this stage when attempts by donors and recipients to link various stakeholders in an institutional arrangement can be clearly observed. Our objective is to examine whether commonalities or divergent features among emerging donors are reflected in their actual activities. We also aim to determine whether there are any notable differences between the traditional and the emerging donors in the project identification process that might reflect institutional characteristics.

Before we elaborate on the emerging donors' project identification processes, we briefly outline the division of labor in the Cambodian administration with regard to foreign aid. Three ministries and organizations regulate individual line agencies such as the Ministry of Public Works and Transport (MPWT), which is responsible for sector-policy formulation regarding the construction of infrastructure such as roads and bridges. First is the Ministry of Foreign Affairs and International Cooperation (MoFAIC), which deals mostly with diplomatic formalities including necessary contacts and communication with the governments of donor countries. Second is the Ministry of Economy and Finance (MEF), which deals primarily with the formulation of national economic and fiscal policies and a budget that incorporates all

³² In contrast, China ranks 3rd in concentration of aid (CDC 2007:8). India and Thailand were not included in this calculation due to a lack of data.

foreign-aided projects, but also with the management of loans, including debt sustainability analysis and the signing of loan agreements. Third is the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia (CDC/CRDB), which is expected to function as a “one-stop shop” *vis-à-vis* the donor community by playing an overarching role in mobilizing and allocating external assistance to implement the priorities set out in NSDP and other sector development plans, as well as in harmonization among donors³³. In fact, CDC/CRDB functions as the Cambodian counterpart in policy dialogue with Japan, Australia, New Zealand and Thailand. However, CDC/CRDB’s role has been limited to hosting donor meetings, such as the Cambodian Development Consultative Forum or Technical Working Groups, and with collecting and analyzing information on aid in line with NSDP formulated by the Ministry of Planning (MoP). Its impact on actual aid policy is considered weak in comparison to other line ministries.

The actual operations of two of our emerging donors — China and Thailand — present contrasting cases (Figures 7 and 8). Since the process of providing aid differs significantly according to the modality used, we have chosen to analyze the process of identifying loan projects as an illustrative example. The project identification processes used by China and Thailand share several similarities with those of traditional donors since the aid activities of both emerging and traditional donors are executed on bilateral government-to-government bases. Loans are provided in response to formal requests from the Cambodian government conveyed through diplomatic channels. Loan agreements are duly signed and delivered between the Cambodian MEF and an aid agency of the donor country (for example, China EXIM Bank or NEDA).

Despite the apparent similarities of these processes, significant differences exist in the steps taken *before* the formal request is made by the Cambodian government. In the case of

³³ Article 13 of Sub-decree No. 147 ANK BK dated 29 December 2005, regarding the role and responsibilities of CRDB.

traditional donors, a series of formal or informal policy dialogues is conducted between the donor and the Cambodian government and candidate projects for financing are selected based on their compliance with NSDP, sector development policy and the Public Investment Program. By contrast, Chinese projects are formulated on what may seem, from a Western perspective, to be a rather *ad hoc* basis. Chinese companies, maintaining close contacts with Cambodian line ministries, promote Chinese loan financing schemes; they thus consult on candidate projects directly with line ministries. The list of candidate projects which are prepared by line ministries is requested from MEF by the Chinese government (MOFCOM) through the Economic and Commerce Counselor Office and the Chinese Embassy. After Chinese examination of the requested projects, inter-governmental framework agreements for concessional loans between MEF and the Chinese government are concluded. According to the framework agreements, MEF signs loan agreements with the Chinese EXIM Bank, which is in charge of policy-based financing authorized by the Chinese government.

The leading role played by private Chinese companies in providing aid, as well as the fact that the Chinese Ministry of Commerce and the EXIM Bank —whose main function is to promote Chinese commercial interests abroad — handle these loan schemes, suggests that the pursuit of Chinese economic interests constitutes the main pillar of China's aid strategy³⁴. Despite its *ad hoc* appearance from a Western perspective, this process actually reflects an institutional arrangement that China has developed with Cambodia³⁵.

An institutional arrangement to pursue its own economic interests does not mean that Chinese aid is implemented without due attention to Cambodian national or sector development policy. Although policy dialogue between the Chinese and Cambodian governments on a shared development strategy has not yet taken place, line ministries in

³⁴ This was a typical method taken by the Japanese government until the 1980s, when Japan was heavily criticized by the international community for its commercial orientation.

³⁵ Being the second largest economy in the world, Chinese aid is more diverse and the role of aid is only one element among various strategies employed to promote its national interests.

Cambodia request Chinese financing according to the priorities established by their national and sector development policies (interview with Ministry of Public Works, 17 February, 2009). With aid competition and pressure from traditional donors, we can expect that further formalization of Chinese aid at an international level between donor and recipients will occur in the near future.

Figure 7: Identification of Chinese Road-Building Projects in Cambodia

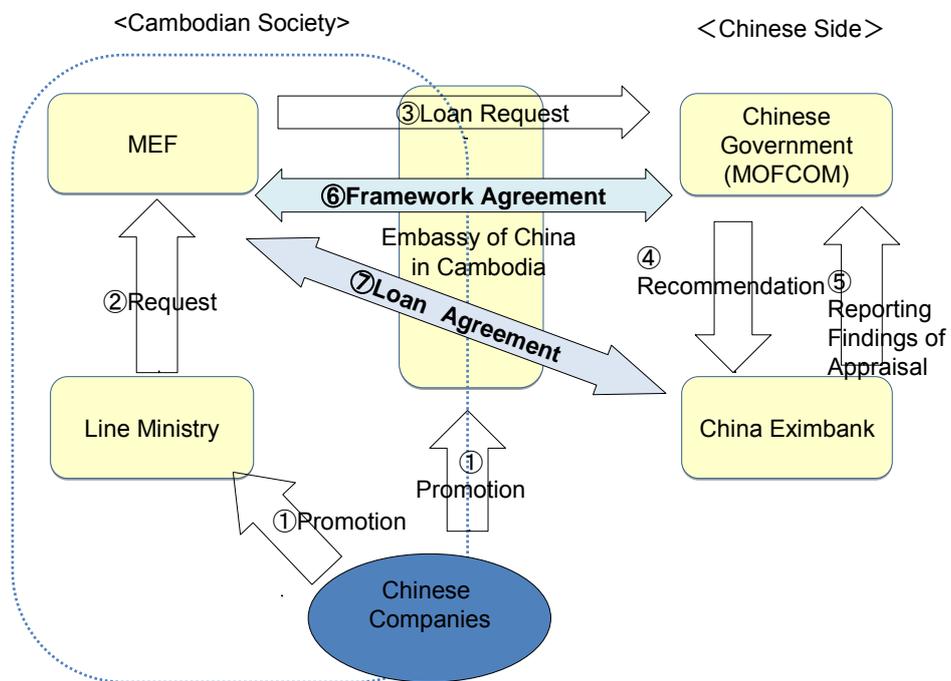
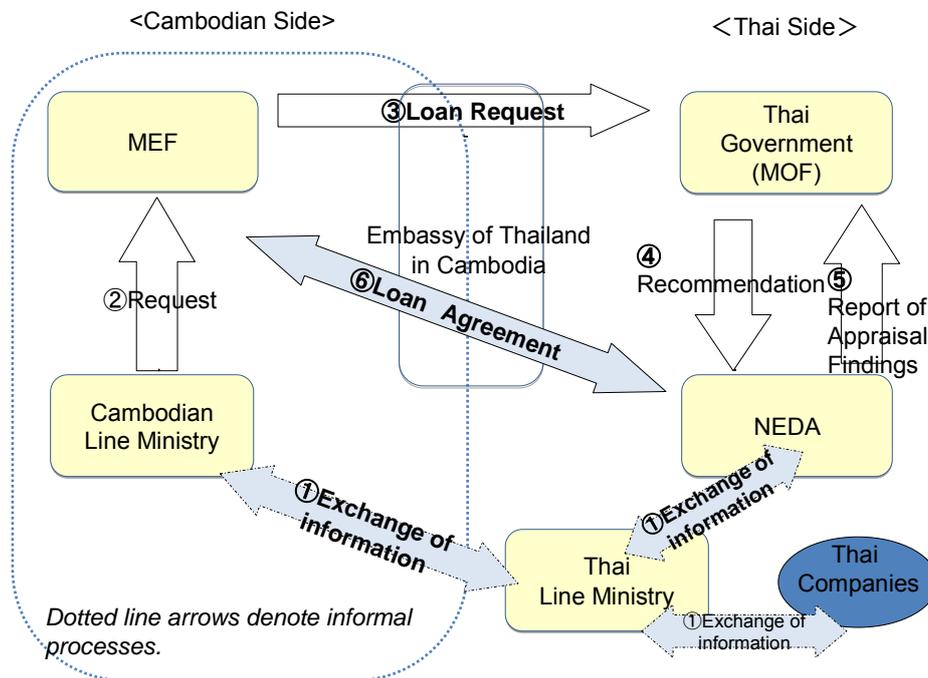


Figure 8: Identification of Thai Road-building Projects in Cambodia



Unlike Chinese aid projects, in which private companies play key roles, the initial step for Thai projects involves direct “line-to-line” communication with Cambodia. For example, the Thai Department of Highways (DoH) and the Cambodian Department of Public Works have a “hotline,” allowing them to communicate directly by mobile phones at the departmental level, and direct communication with aid agencies such as NEDA is frequent. While these arrangements formally fall under the ACMECS (Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy) scheme, personal connections between government officials in Thailand and Cambodia are often established through various training programs organized by TICA and other ministries providing aid (personal interview and MPWT, 2009). These informal channels form part of an institution that helps to increase the predictability of future candidate-projects funded by Thailand and thus reduce transaction costs for both the Thai and the Cambodian Governments. Similar arrangements have not yet been established between China and Cambodia.

Geographic proximity, and the various risks it creates, might be one explanation for the difference between Chinese and Thai aid in the context of Cambodia. The geographic immediacy of Thailand and Cambodia necessitates investment and close monitoring to contain security threats, not only military but also economic and political (e.g., flows of illegal migrants, drugs, and diseases) which makes the role of the public sector more prominent; whereas in the case of China, the greater distance allows private companies to play greater roles in formulating aid projects.

2-4 Cambodia's Strategy toward Emerging Donors

Faced with diverse development challenges and with crucial needs that have gone unanswered by traditional donors, the Cambodian government seems to have adopted a strategy of inviting emerging donors to fill financial gaps. In other words, the Cambodian government, for the purpose of achieving balanced development, aims to make the most of the emerging donors' distinctive strategies and value orientations.

This strategy, however, is not without complications: One is the negative effects of increased donor fragmentation caused by the entry of the emerging donors. Why does the Cambodian government — already facing extreme donor fragmentation — risk further fragmentation by inviting the participation of new donors? Our answer to this question is that the fragmentation caused by the emerging donors is much less harmful in the infrastructure sector than in other sectors, such as health; hence, as major financiers to the infrastructure sector, emerging donors are largely uninvolved in fragmentation problems.

In the transportation sector, for example, both donor fragmentation and project proliferation are relatively modest. Between 1992 and the present, a total of only eight donors³⁶ have financed no more than 50 projects (average project cost USD \$37.5 million) in the road

³⁶ These includes Japan, US, ADB and WB from the traditional donor group, and China, South Korea, Thailand and Vietnam from the emerging donor group.

sub-sector³⁷. In sharp contrast, in 2006 alone, there were 17 projects in the health sector, totaling USD \$1.97 million, concentrated on policy and planning at the sub-sector level and incurring unsustainable transaction costs for coordination to the point of crowding out important government activities such as policy identification (CDC 2007, 23).

Surprisingly, China seems to be a “good performer” in terms of overall harmonization efforts in Cambodia. Firstly, China tends to concentrate its aid in the transportation sector, where fragmentation and harmonization are much less problematic. Secondly, China’s policy of distributing aid to a limited number of sectors³⁸, recommended among traditional donors to reduce the transaction costs of fragmentation, has the perhaps unintended consequence of reinforcing the division of labor among donors. Thirdly, China is immune to Project Implementation Unit (PIU) problems, since no Chinese PIU has thus far been observed³⁹.

China also seems to demonstrate good performance in terms of alignment with recipient countries’ needs and predictability of aid. In response to criticism that its aid lacks transparency and due cooperation with respect to Cambodia’s endeavor to bolster strategic budgeting through the Multi-Year Indicative Financing Facility (MYIFF), China disclosed its projected aid disbursement for FY2007-FY2009 at the first CDCF meeting in 2007,⁴⁰ and actually disbursed more than projected: 101% in 2007 and 122% in 2008 (CDC 2008,18).

In light of this behavior, it is clear why Cambodia welcomes Chinese aid — China responds to Cambodia’s call for financing of its under-funded infrastructure sector by providing massive aid in a predictable manner and with relatively little additional donor fragmentation. We can add two more reasons why Cambodia is satisfied with Chinese aid: expeditious implementation and low cost.

³⁷ Bridge construction projects are included. See JICA, Transport Infrastructure Sectors in the Kingdom of Cambodia (Jan. 2007, IRITWG).

³⁸ In 2008, China financed only two sectors, with 93% of Chinese aid going to the transportation sector. See CDC (2008,34)

³⁹ In 2007, the number of PIUs established by ADB and FAO accounted for 75% of the total number of PIUs observed. See CDC (2007,38)

⁴⁰ In contrast, major traditional donors, such as Japan and the United States, declined to provide

When asked about the advantages of Chinese aid, Cambodian officials never fail to mention China's quick delivery and low cost. Speed in aid delivery consists of two factors: efficient decision making (i.e., a short time period between the Cambodian government's request and the signing of the loan agreement) and swift implementation. At the risk of over-simplification, we attempt to quantify the swiftness of construction of Chinese-funded road rehabilitation projects by simply dividing rehabilitated National Road length (in kms) by the construction period (in years) reported in IRITWG (2008, 5). The calculations show that under Chinese-financed projects, some 42 km per year were constructed, while ADB and Japanese projects completed some 28 km and 17 km, respectively. With regard to project cost, unit cost for one kilometer of Chinese-financed projects was 0.4 million USD, while for ADB and Japanese projects, it was 1.3 million USD and 0.8 million USD, respectively⁴¹. This seems to be clear evidence of the competitiveness of this emerging donor⁴².

Judging from the limited data available, we consider the main reason for cheap and swift construction by emerging donors to be the low specifications used in their projects. For example, almost all projects financed by emerging donors employ low-cost pavement (i.e., double bituminous surface treatment), in sharp contrast to Japanese projects, which often use more expensive materials (i.e., asphalt concrete). Since an insufficient amount of time has passed since the completion of these projects, it is too early to determine whether the emerging donors' projects are "cheap and dirty," or whether Cambodia received value for its money.

What about other emerging donors? We argue that for various reasons Cambodia is willing to accept activities of the other three emerging donors — Korea, India and Thailand — as favorable alternatives to traditional donors, and that other non-traditional donors are likely

longer-term commitments (Chanboreth and Hach 2008, 25).

⁴¹ Calculation of both speed and cost were made, based on the data in IRITWG 2008, p.5.

⁴² Cost and speed of construction are influenced by various factors, including the number of structures (e.g., small bridges or culvert boxes), the width of the road or type of pavement (e.g., asphalt concrete or double bituminous surface treatment). However, the lack of such detailed technical data necessitates a simplified comparison. We believe that the risk of over-simplification is alleviated to some degree by Cambodia's relatively flat topography and geology, which reduce the need to consider geographic

to be welcomed in the future.

Cambodia welcomes Korean aid, since its aid volume and its emphasis on infrastructure make it a promising emerging donor. The expected rise in fragmentation-related transaction costs from Korea's wide-ranging participation in many sectors may be worrisome for Cambodia; but this could be offset by the donor's receptivity to harmonization in its efforts to become a DAC member.

India has potential to act as a counterweight to China's growing prominence in the Cambodian aid market because of its recent economic growth and its long history of rivalry with China for influence and leadership in the Third World. Due, however, to the relatively small amount of its aid⁴³ and to the slow implementation of its aid projects⁴⁴, India has thus far disappointed Cambodia's expectations (interview with Cambodian Government official in Phnom Penh, February 2008).

Thailand has always been an important trade partner for Cambodia⁴⁵, providing an economic reason for Cambodia to rely on Thailand for the development of infrastructure in the border region. Despite periodic political tension between the two countries, aid activities seem to be consistently on the rise. For example, TICA officials stress that, based on Thailand's negative experience as a receiver of foreign aid due to the supply-side imposition of donor interests, they wish to take a more demand-driven approach in providing aid. They also foresee that future aid from Thailand will align with DAC principles, making it easier to justify engagement in aid activities to Thai taxpayers (interview at TICA, March 18, 2009).

In summary, Cambodia's room for economic growth is expanded by the opportunities provided by emerging donors. As we have seen, the leverage of the Cambodian Government

variation.

⁴³ Thus far, India has concentrated its aid activities in neighboring countries and African countries.

⁴⁴ India's Foreign Minister has officially admitted that Indian-aided projects have experienced slow implementation. Questions and Answers in Lok Sabha (Lower House), 5 March 2007.

⁴⁵ From 1999 to 2003, the volume of trade between Thailand and Cambodia was about USD \$486.9 million per year and showed an average growth rate of 17.9% (Development Analysis Network 2005, 153).

exists not only in the gap between traditional and emerging donors, but also in the differences among emerging donors. While it cannot be denied that Cambodia's strategy for accepting foreign aid is at times purely political, it is also true that a greater number of donors with diverse institutional characteristics (in their values, strategies and modalities) encourages healthy donor competition and thus may contribute to the development plan of the Cambodian government.

Discussion and Conclusion

In the past, arguments against emerging donors depended largely on an over-simplified dichotomy of the emerging versus the traditional that assumed the former to be distinct or even idiosyncratic in aid strategy, value orientation and actual performance. We found from our research in Cambodia, however, that in certain aspects emerging donors share significant similarities with traditional donors, including an emphasis on infrastructure and tied aid. We also found that emerging donors are in the process of developing their own institutional arrangements with the recipient government.

But we also found significant diversity among the emerging donors. Some, like Thailand and Korea, are more willing to adopt DAC principles, while others, like China and India, prefer to go it alone. Sector allocation is also diverse; while China and Thailand put much emphasis on infrastructure, India and Korea have broader investment portfolios. Looking at the situation in Cambodia, the most striking area of diversity among the emerging donors is in their formation of institutional arrangement with the recipient government. Emerging donors establish aid institutions only individually, i.e., country by country; they have yet to establish aid institutions that bind them together.

However, we should not assume that the emerging donors now characterized by these features will remain static. By taking a time sensitive dynamic perspective we can begin a constructive dialogue between DAC donors and emerging donors. Emerging donors coming

late to a game where the rules have already been set by traditional donors are playing in a different court. Cambodia, for one, has found this to be a court where the new donors fit quite well. With regard to the different *history* from which they come, emerging donors have attempted to find their place within an aid landscape that has been arranged primarily by traditional donors. Some emerging donors, such as Thailand, try to utilize their own experiences as former and current ODA recipients when they enter this aid landscape (interview at TICA, February 2008).

Some commentators may argue that the massive use of tied loans by emerging donors in pursuit of their own economic benefits is harmful to their recipients, depriving them of the opportunity to procure the best goods and services through international competitive bidding. We suggest an alternative view: Many of the present DAC members, particularly Japan, have been criticized by other DAC members for their tied aid, but they gradually evolved their programs into the present forms following long struggle and debate, both domestically and internationally. The same opportunity to “evolve” their aid institutions should be accorded emerging donors. Cambodian official documents, in fact, clearly state that tied loans are “not of concern and need not occupy excessive amounts of time in the Cambodia aid effectiveness dialogue” (CDC 2007, 31). This position may be based on the objective fact that the rate of tied aid in Cambodia is comparatively low (14%, while the average among 55 developing countries was 25% in 2005) (CDC 2007, 37, OECD 2009). Alternatively, the statement could be interpreted as a cover by the Cambodian government to protect a source of valuable financing for large-scale infrastructure projects. Whichever the case, we expect that just as traditional donors have evolved aid institutions over time, so too will emerging donors.

Our most important finding is that emerging donors are beginning to serve as real alternatives to traditional donors. Emerging donors offer recipients a choice, something which becomes critical in negotiations with other donors. The Cambodian Government has been able to widen its policy options thanks to availability of choices made possible by competition

among emerging donors. For example, recent participation by Kuwait in agricultural activities near the Thai-Cambodia border has freed Cambodia from a reliance on aid from Thailand, which had traditionally dominated the market for Cambodia's agricultural goods through infrastructure funding to border regions⁴⁶. It is the upstream competition among the donors rather than the downstream competition among the contractors that has the potential to stimulate change beneficial to recipient governments.

Certain features of emerging donors, therefore, should be evaluated positively as enhancing the diversity of the aid market. By increasing the alternatives available to recipient countries, healthy competition and division of labor is facilitated among donors in countries previously dominated by DAC-oriented mindsets. China's focus on infrastructure, for example, allows other donors to concentrate their resources on areas in which they perceive the highest comparative advantage (Munro 2005). From the viewpoint of the Cambodian Government, Chinese aid is not "rogue," i.e., aid unacceptably deviant from the established normative standards of the traditional donor community. On the contrary, China seems to be a good performer in terms of harmonization, alignment with the needs of the Cambodian government and predictability. Based on our interviews, high-ranking Cambodian government officials seem satisfied with the amount, speed of delivery, cost, and responsiveness to Cambodian aspirations of aid from China.

In line with the traditional donors' emphasis on "ownership," we support the view that more weight should be given to how the recipient countries' governments actually value aid. This discussion does not, however, point to the complete abandonment of present efforts towards coordination under DAC principles; it simply questions the appropriate scope of aid coordination. Coordination efforts should extend beyond a concentration on coordination of donor interests and remain carefully tailored to meet the needs of recipients.

⁴⁶ Kuwait, an oil-rich country, has recently extended its interest in securing food resources, not only through trade, but by obtaining agricultural land in other countries.

Although our argument has tended to support the emerging donors, that support is not unconditional. By no means is it our intention to defend emerging donors *carte blanche*. Rather, our aim is to explore current realities regarding the activities of emerging donors from the perspective of the recipient country government.

In order for emerging donors to function as fully favorable alternatives for developing countries, more transparency is required in their long-term investment portfolio. Healthy competition among diverse donors in the aid market is possible only under conditions of information disclosure which would help reduce transaction cost for recipient countries. In this regard, we hope China and India will formulate and disclose their comprehensive aid strategies for Cambodia, as Thailand and Korea have already done. It is particularly the responsibility of China, as a top donor to Cambodia⁴⁷, to disclose its overall assistance strategy for that country.

What does this case study have to offer institutional theory? It confirms that the way institutions work depends on the specific context, and it attempts to identify this context in Cambodia. The nature of institutions varies according to the stage of development of a donor. With some limited exception, institutionalists have often underplayed the analysis of how donors make arrangements with individual recipients, focusing instead on the institutions among donors, such as DAC, or within recipient countries. We found in Cambodia that donors develop their own institutions according to their stage of development and to their individual relations with the recipient country. Perhaps what is needed further in Cambodia is not an arbitrary critique by outside experts, but an assessment by the people of Cambodia, themselves, of aid performances, whether funded by the emerging or the traditional donors.

⁴⁷ China is projected to be a top donor in 2009 in gross disbursement basis (CDC 2008, 35).

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Interview with the Embassy of India, on 18 February 2009.

Interview with KOICA's Phnom Penh Office, on 18 February 2009.

Appendix 1: Aid and ODA

In order to accommodate the activities of the emerging donors, in this paper we use the term “aid” in a broad sense, different from the well-established term “official development assistance” (ODA). In our usage, “aid” on a government-to-government basis refers to those resource transfers (grants, loans and technical cooperation) from donor countries to recipient countries that have some development impact, regardless of the level of concessionality.

Our inclusive definition of “aid” stems from the difficulty of applying to the activities of emerging donors the official OECD definition of ODA, which requires a grant element of at least 25% and a main objective of promoting economic development and welfare. This is difficult for the following two reasons:

- (1) There is a lack of the detailed information on the financial terms of individual loans by emerging donors which is indispensable for calculation of the grant element, and therefore for verification of the concessionality.
- (2) There is difficulty in confirming whether the main objective of each separate activity is the promotion of development and welfare.

Because loans by Chinese or Indian EXIM Banks are subsidized by their respective governments, making them more similar to ODA than to OOF (other official flows) with semi-commercial terms, and because government officials of the emerging donors repeatedly express commitment to developmental objectives (such as poverty reduction), we argue that the “aid” provided by emerging donors is not categorically different from ODA although we acknowledge that it does not qualify as ODA according to the formal definition of the term.

Appendix 2: Aid Activities of Emerging Donors in Cambodia

	China	South Korea	Thailand	India
Loans	Interest-free Loan (2000-2008, 960 mil. Yuan) Concessional Loan (2000-2008, 885 mil. Yuan) Preferential Buyer's Credit (2006-2008, 500 mil. Yuan)	160.2 Mil. USD 120 Mil. USD (2008-2011, pledged by EDCF)	Loans for construction of Road No.48,67,68 (2.29 bn.Bahts)	45.2 Mil.USD (2002-2008)
Grants	447.5 Mil. Yuan (2000-2008) 0.7 Mil. USD (2000-2008) 700 water pumps (provided by Guangxi Province) 50 electric cars (provided by Hubei Province)	39.5 Mil. USD (1991-2008) 20 ambulances to Ministry of Health 20 laptops, 20 printers and 20 fax machines for National Disaster Management Committee	Construction of Training Center in Phnom Penh Grant from H.R.H. Sirindhorn for Construction of Schools (0.2 Mil.B) Construction of 4 bridges on Road No. 48 Construction of Road No. 67 (18 km) Provision of 12 tons of medicine/medical equipment(2007) Construction of Health Center along Road	15 Mil.Rupee (1992) 6 Mil.USD (2004-2008) 8.5 Mil.USD (pledged in 2008) Establishment of English Language Center and Entrepreneurship Development Center
Human Resources Development	165 Cambodian Students (2004-8) 666 Cambodian Officials, Policemen, Army officers (2004-8)	1,384 Cambodian trainees (1994-2008) 181 Korean volunteers in Cambodia (1994-2008) 21 Korean experts in Cambodia (2001-2008)	Short-and long-term training for 1,340 participants (2000-2009) Youth volunteers under the program of "Friends from Thailand"	456 persons (2002-2008)

Source:Ministry of Foreign Affairs and International Cooperation of Cambodia, except for data regarding Thailand. TICA and NEDA for data regarding Thailand.

Appendix 3:

List of Interviewees

Council for the Development of Cambodia (CDC)

Vannden, Leaph	Deputy Secretary General
Courtnadge, Phillip	Senior Advisor, Multi Donor Support Program (MDSP)
Masaki, Mikio	Aid Coordination and Partnership Advisor

Ministry of Economy and Finance (MEF)

Chhon, Keat	Minister of Finance
Vissoth, Vongsey	Deputy Secretary General
Yutha, Por	Chief of Division, Bilateral Cooperation Division, Department of Investment and Cooperation

Ministry of Foreign Affairs and International Cooperation (MoFAIC)

Visalo, Long	Secretary of State
Chun, Thai	Director, Asia 2 Department
Sophearin, Chea	Deputy Director, Asia 1 Department
Vireak, Sim	Japan Desk Officer, Asia 2 Department

Ministry of Public Works and Transport (MPWT)

Borey, Kem	Director General, General Directorate of Public Works
Vaddhanak, Nou	Director, Road Infrastructure Department
Harada, Tatsuo	JICA Expert, Transport Policy Advisor
Kubota, Tsuyoshi	JICA Expert, Road Management Advisor

Ministry of Industry, Mines and Energy (MIME)

Washizawa, Takeshi	JICA Expert, Power Sector Planning
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Embassy of the People's Republic of China

Lei Pengqin	Attache, Economic and Commercial Counsellor's Office
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Embassy of the Republic of Korea

Kim Sang Hoon	Counsellor
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Korea International Cooperation Agency

Kim, Byung-Gwan	Representative, Cambodia Office
Son Sungil	Deputy Representative, Cambodia Office

Embassy of India

Ray, Saurav	First Secretary
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Asian Development Bank

Goswami, Arjun	Country Director, Cambodia Resident Mission
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The World Bank

Sann, Ratha	Infrastructure Operations Officer, Cambodia Country Office
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Embassy of Japan

Maruyama, Norio	Minister
Tamura, Misa	Aid Coordination Advisor

Japan International Cooperation Agency

Yoneda, Kazuhiro	Chief Representative, Cambodia Office
Hayashi, Eiichiro	Aid Coordination Advisor, Cambodia Office

Abstract (in Japanese)

要約

昨今、いわゆる「新興ドナー」に関する議論が活発化している。しかし、既存研究の多くは伝統ドナーとの相違点を強調するあまり、新興ドナーを一枚岩的に捉える傾向があった。こうした研究の偏りは、伝統ドナーと新興ドナーが共有する類似点、そして、一括りにされがちな新興ドナー間の多様性を看過させる。確かに、新興ドナーに関して公開されている情報の不足は、さまざまな憶測を呼び、客観的な記述や分析を困難にしてきた。そこでわれわれは、カンボジアという援助の受け手に焦点を絞り、中国、インド、韓国、タイが、それぞれどのような援助活動を展開しているのかを現地調査に基づいて解明し、既存研究の偏りを修正するよう試みた。本研究が提起する重要な論点の1つは、既存研究の多くが援助ドナーの増加による援助の断片化を問題視している中で、受け入れ国政府側からみれば新興ドナーの台頭という「断片化」の要因がむしろ交渉の材料となり、彼らにとって開発事業の選択肢を広げる効果をもっている可能性である。