INTERNATIONAL INFRASTRUCTURE PROJECTS

China's Investments Significantly Outpace the U.S., and Experts Suggest Potential Improvements to the U.S. Approach

Report to Congressional Committees

September 2024
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GAO Highlights

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Highlights of GAO-24-106866, a report to congressional committees
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Why GAO Did This Study

The BRI is the PRC's signature foreign policy initiative that aims to strengthen the PRC's global standing and influence. This initiative seeks to expand the foreign presence of Chinese state firms, create new markets for PRC goods, and secure access to strategic commodities for the PRC's' economic development. The BRI is considered by some observers to pose a significant challenge to U.S. economic, political, and security interests around the world.

The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 includes a provision for GAO to assess the effects of BRI projects on host countries and U.S. interests. This report examines, among other objectives, the nature and scope of the BRI and of U.S. foreign assistance for international infrastructure projects, and the reported effects of BRI investments on host countries. This report also discusses policy options that were identified by experts as having the potential to improve U.S. assistance for international infrastructure projects.

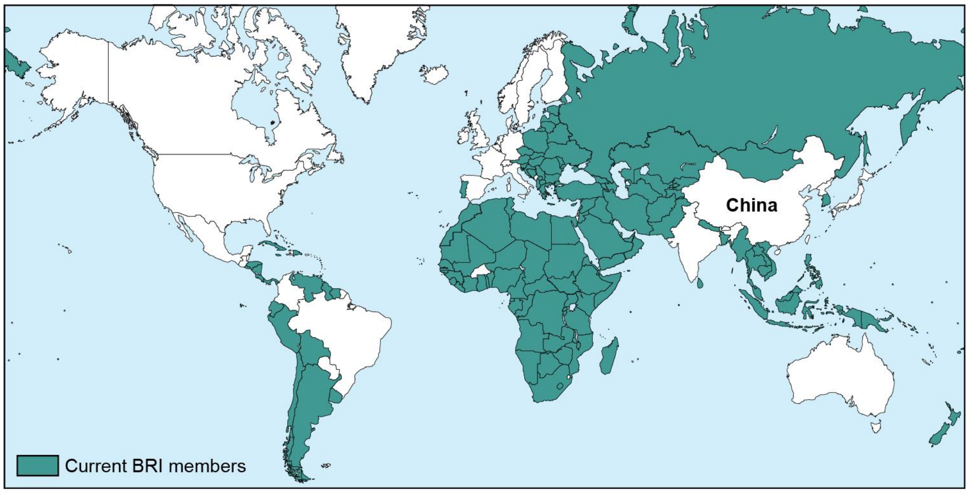
To address these objectives, GAO:

- conducted a literature review;
- analyzed data;
- conducted site visits to and spoke with officials in Angola, Indonesia, and Kenya—all major BRI recipients and selected because of the range of PRC loans received and level of U.S. investment;
- interviewed U.S. government officials; and
- organized an expert workshop with 28 experts from academia, think tanks, and U.S. government agencies.

What GAO Found

From 2013 to 2021, the People's Republic of China (PRC) provided $679 billion for infrastructure projects through the Belt and Road Initiative (BRI) in five key infrastructure sectors, while the U.S. provided $76 billion in the same sectors. Projects financed through the BRI include power plants, railways, highways, ports, and telecommunications infrastructure. Russia was the largest recipient of BRI assistance from 2013 to 2021. The PRC has provided BRI financing through government-to-government loans. U.S. assistance has included a mix of loans, insurance, grants, and loan guarantees, generally for private entities. Mozambique was the largest recipient of U.S. assistance.

Countries That Have Signed BRI Agreements with China



Sources: Fudan University (data); Map Resources (map). | GAO-24-106866

According to various reports, many BRI projects have been associated with some economic benefits for host countries but have frequently contributed to unsustainable debt and other issues. BRI host countries have seen benefits such as economic development from expanded infrastructure and energy generation. However, according to reports, some PRC-financed projects were considered unsustainable, and some had weak environmental, social, or governance standards.

Experts who participated in a GAO-organized workshop identified various policy options to help the U.S. address challenges that hinder U.S. foreign assistance for international infrastructure projects. For example, they identified challenges such as the lack of a public national strategy to guide and prioritize U.S. efforts and the fragmentation of foreign assistance efforts across several federal agencies. Policy options to potentially improve U.S. assistance for international infrastructure projects include increased risk tolerance to attract private sector investment and enhanced capacity building in host countries. Experts also proposed specific modifications to implement these options, including modifications to streamline agency processes that affect timeliness and coordination.

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Abbreviations

BRI	Belt and Road Initiative
BUILD Act	Better Utilization of Investments Leading to Development Act of 2018
CRS	Creditor Reporting System
DFC	U.S. International Development Finance Corporation
EXIM	Export-Import Bank of the United States
MCC	Millennium Challenge Corporation
MDB	multilateral development banks
MRT	Mass Rail Transit Jakarta
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnerships
PRC	People's Republic of China
SOE	state-owned enterprise
USAID	U.S. Agency for International Development
USTDA	U.S. Trade and Development Agency

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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September 12, 2024

Report to Congressional Committees

The People's Republic of China's (PRC) Belt and Road Initiative (BRI) is the world's largest international infrastructure financing and development program. It has served as a tool for the PRC to expand its influence with other countries. Through the BRI, banks and companies supported by the PRC have financed and built power plants, railways, highways, ports, and telecommunications infrastructure around the world. The BRI is considered by some observers to pose significant challenges to U.S. economic, political, and security interests. According to the U.S. National Security Strategy, the PRC is the only U.S. competitor with both the intent to reshape the international order and the economic, diplomatic, military, and technological power to do it. In addition, the U.S. National Security Strategy considers the PRC the most consequential geopolitical challenge that the U.S. faces.

The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 includes a provision for us to assess the effect of BRI investments on host countries and U.S. interests, among other things.[1] This report (1) provides information on the nature and scope of the BRI and of U.S. foreign assistance for international infrastructure projects, (2) examines the effects of BRI investments on host countries, (3) examines the effects of BRI investments on U.S. interests, and (4) discusses policy options that were identified by experts as having the potential to improve U.S. assistance for international infrastructure projects.

To address these objectives, we selected five key infrastructure sectors to analyze—transportation; energy; industry, mining, and construction; communications; and water supply and sanitation.[2] We selected these five sectors because they make up the majority of funds from 2013 to 2021 and include major infrastructure projects such as roads, railroads, ports, and power plants.

We analyzed information from AidData (a database operated by the College of William and Mary's Global Research Institute) on the countries receiving financing for BRI projects by sector, country income level, and type of financing.[3] We analyzed information from the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting System (CRS), the Export-Import Bank of the United States (EXIM), and U.S. International Development Finance Corporation (DFC) datasets on U.S. initiatives, programs, and expenditures to support and finance overseas infrastructure projects. For these data sources, we analyzed data from 2013 to 2021, the most recent complete annual data at the time of our analysis. We assessed the reliability of these data and found they were sufficiently reliable for the purpose of this review.

We reviewed reports and traveled to three selected countries—Angola, Kenya, and Indonesia—to interview U.S. and host government officials and others to better understand positive and negative effects on host

[1]Pub. L. No. 117-263, 136 Stat. 2395, 3919-20 (Dec. 23, 2022).

[2]The infrastructure sectors are categorized by the Organisation for Economic Co-operation and Development's (OECD) Creditor Reporting System (CRS). We used the same categories for consistency in our analysis. See appendix II for more information on our objectives, scope, and methodology.

[3]Operated by the College of William and Mary's Global Research Institute, AidData captures the PRC's foreign assistance loans and grants for nearly 21,000 projects across 165 low-income, lower middle-income and upper middle-income countries.

countries. We selected these countries because they are among the top recipients of BRI financing, receive U.S. assistance, and have a high debt burden, among other criteria. We conducted a literature review on the effects of the BRI on host countries. We reviewed reports, interviewed U.S. officials, and civil society representatives on the effects of BRI financing of international infrastructure projects on U.S. interests.

For our last objective, we convened a 2-day virtual workshop with 28 experts from academia, government, and the private sector to identify challenges and opportunities the U.S. is facing in financing infrastructure projects and to suggest potential policy options to address them.[4] For a full list of participants, their titles, and affiliations, see appendix I. We identified experts in part by conducting a literature review, holding preliminary interviews with agency officials, and reviewing data on private sector implementing partners or recipients of U.S. funding. Because the BRI does not have clear parameters or a definition of what constitutes a BRI project, in this report we include PRC-financed infrastructure projects in countries that have joined the BRI regardless of whether specific projects are labeled as BRI projects. For a more complete description of our scope and methodology, see appendix II.

We conducted this performance audit from June 2023 to September 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Global Infrastructure Gap

Infrastructure is an important enabler of economic growth and social mobility. Roads, ports, and bridges facilitate the movement of people and goods, while power cables and internet connections supply homes, factories, and businesses with essential energy and connectivity. Around the world, low- and middle-income countries have a priority need for more infrastructure and seek international partners to help fill that need. By 2040, global infrastructure needs will exceed global spending by almost $15 trillion, a shortfall that experts have labelled the “global infrastructure gap.” To fill this gap, these countries will need to invest a combined $3.7 trillion per year to ensure businesses and citizens have the infrastructure they need, according to the World Bank.[5] However, many of these countries also face challenges such as political instability, regulatory uncertainty, and a lack of institutional capacity that have hindered the mobilization of public and private financing of infrastructure projects.

China’s Belt and Road Initiative

The BRI is President Xi Jinping’s signature foreign policy initiative and is championed by the PRC as a way to spur development in participating countries. According to PRC officials, the BRI was launched in 2013 with a

[4]U.S. international infrastructure policy exists within a broader foreign policy context. The U.S. has multiple tools to provide financial support to low- and middle-income countries or promote international economic engagement. We did not assess, and our experts did not consider, which tools might best meet U.S. goals within that broader foreign policy context.

[5]Oxford Economics, *Global Infrastructure Outlook* (Oxford, England: Global Infrastructure Hub, July 2017).

founding mission to enhance connectivity and build a new platform for international economic cooperation. The “Belt” and “Road” are two distinct approaches that respectively cover land- and sea-based economic corridors and refer to the ancient Silk Road trade routes that connected Imperial China with Europe and other parts of the world, according to PRC officials.[6] According to various reports, the BRI also provides the PRC with a means to offload excess industrial capacity, employ PRC workers on projects abroad, expand PRC state-owned enterprises (SOE) into foreign markets, improve market access for PRC exports, and gain additional access to strategic commodities.[7]

For several years, the BRI focused on financing large, multibillion dollar infrastructure projects, including in low- and middle-income countries with limited borrowing capacity. Some of these projects have posed economic and political risk for the PRC. For example, some BRI projects encountered corruption scandals and the displacement of local workers by PRC workers, which led to protests in some host countries. In addition, according to an AidData report, the PRC must now navigate its role as the world’s largest official debt collector.[8] Lastly, early BRI projects lacked strong risk management practices and had significant environmental, social, and governance risk exposure, according to AidData.

In response to some troubled projects and backlash in host countries, the PRC, since 2021, has promoted a new phase of the BRI focusing on projects that are smaller and have higher standards, according to AidData. President Xi has stated that “small and beautiful” livelihood projects are now advancing alongside signature flagship projects. According to AidData, in this new phase, the PRC has launched efforts to de-risk the BRI by refocusing on addressing distressed borrowers, troubled projects, and sources of public backlash in low- and lower middle-income countries. For example, the PRC is taking steps to implement stronger environmental, social, and governance standards in its projects and stronger vetting requirements for borrowers, according to AidData.

The PRC can derive strategic benefits from BRI investments, among them new international trade routes focused on the PRC, technology standards based on Chinese technology, and potentially expanded military access to BRI infrastructure. BRI projects can establish PRC control over different stages along the supply chain. For example, financing and building power generators, industrial parks, and railways enables the PRC to operate each stage of the production process itself and not rely on external suppliers. According to a Council on Foreign Relations report, the involvement of PRC companies, such as Huawei, in BRI projects can help the PRC establish telecommunications systems based on PRC technical standards that are incompatible with U.S. products.[9] Lastly, the BRI may have future military applications as the PRC could make BRI projects, such as ports, available to the People’s Liberation Army to project military power and acquire intelligence capabilities.

[6]“Belt” refers to overland routes extending from China to Central and South Asia, the Middle East, and Europe; “road” is short for the 21st Century Maritime Silk Road, which connects China to Southeast Asia, the Middle East, Africa, and Europe via major sea lanes.

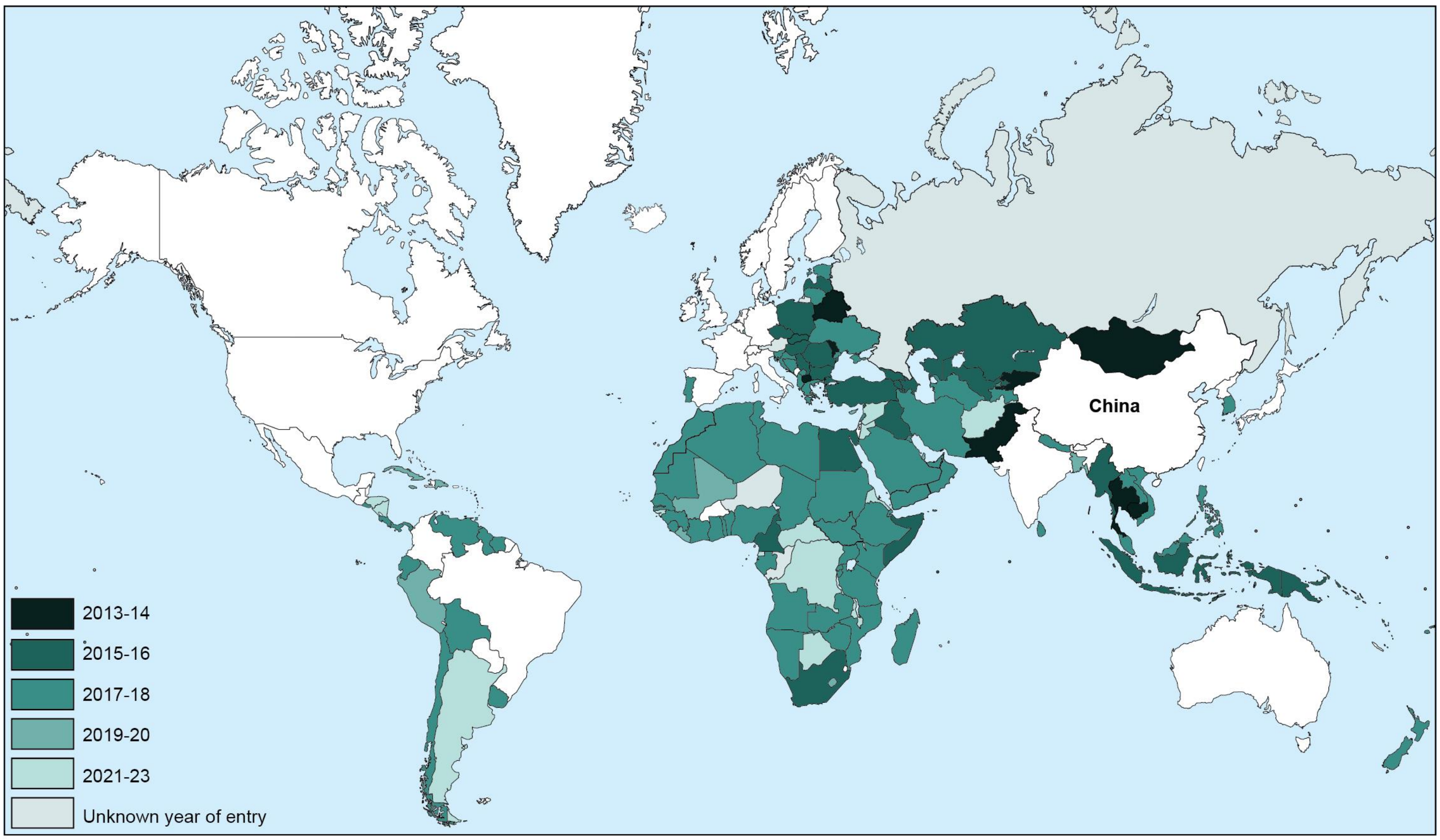
[7]Congressional Research Service, *China’s “One Belt, One Road” Initiative: Economic Issues* (Washington, D.C.: December 2022) and Jennifer Hillman, David Sacks, and Anya Schmemann, *China’s Belt and Road: Implications for the United States* (New York, NY: Council on Foreign Relations, 2021).

[8]B.C. Parks, A.A. Malik, B. Escobar, S. Zhang, R. Fedorochko, K. Solomon, F. Wang, L. Vlasto, K. Walsh, and S. Goodman, *Belt and Road Reboot: Beijing’s Bid to De-Risk Its Global Infrastructure Initiative* (Williamsburg, VA: AidData at College of William and Mary Global Research Institute, November 2023).

[9]Hillman, David, and Schmemann, *China’s Belt and Road: Implications for the United States*.

There are many different estimates of the size of the BRI that include different elements such as trade, making a precise and comprehensive estimate difficult to identify. However, according to a November 2023 AidData report, the BRI is the world's largest development finance initiative.[10] Our analysis of PRC funding for BRI projects based on AidData estimated $679 billion in infrastructure-related projects from 2013 to 2021.[11] According to a 2024 report, the PRC has signed memorandums of understanding, which we refer to as BRI agreements, with approximately 149 countries, as of December of 2023.[12] That report also notes that the number of BRI member countries has steadily increased since the initiative began, with 63 countries entering into a BRI agreement in 2018 alone. See figure 1 for a map of current BRI member countries shaded by their year of entry.

Figure 1: Map of BRI Member Countries by Year of Entry



Sources: Fudan University (data); Map Resources (map). | GAO-24-106866

[10]B.C. Parks, et al, *Belt and Road Reboot*.

[11]Our analysis is based on five key selected infrastructure sectors— industry, mining, and construction; transportation; energy; communications; and water supply and sanitation—using OECD Creditor Reporting System (CRS) codes for official development assistance and other official flows to low-income, lower middle-income and upper middle-income countries. Other organizations such as the American Enterprise Institute, Griffith Asia Institute and Green Finance & Development Center, and Boston University have developed databases that track PRC funding for international infrastructure projects and have generated varied estimates depending on variables included in their analysis. For more information on our scope, methodology, and analysis, see appendix II.

[12]Nedopil, Christoph, *China Belt and Road Initiative (BRI) Investment Report 2023* (Brisbane: Griffith Asia Institute, Griffith University, 2024 and Shanghai: Green Finance & Development Center, FISF Fudan University, 2024).

Accessible Data for Figure 1: Map of BRI Member Countries by Year of Entry

Country	Year
Belarus	2013
Cambodia	2013
China, P.R.	2013
Kyrgyz Republic	2013
Moldova	2013
Mongolia	2013
North Macedonia	2013
Pakistan	2013
Thailand	2014
Armenia	2015
Azerbaijan	2015
Bulgaria	2015
Cameroon	2015
Comoros	2015
Czech Republic	2015
Hungary	2015
Indonesia	2015
Iraq	2015
Kazakhstan	2015
Poland	2015
Romania	2015
Serbia	2015
Slovak Republic	2015
Somalia	2015
South Africa	2015
Turkey	2015
Uzbekistan	2015
Egypt, Arab Rep.	2016
Georgia	2016
Latvia	2016
Myanmar	2016
Papua New Guinea	2016
Albania	2017
Bosnia and Herzegovina	2017
Cote d'Ivoire	2017
Croatia	2017
Estonia	2017
Kenya	2017
Lebanon	2017

Country	Year
Lithuania	2017
Madagascar	2017
Malaysia	2017
Maldives	2017
Montenegro	2017
Morocco	2017
Nepal	2017
New Zealand	2017
Panama	2017
Philippines	2017
Slovenia	2017
Sri Lanka	2017
Timor-Leste	2017
Turkmenistan	2017
Ukraine	2017
Vietnam	2017
Yemen, Rep.	2017
Algeria	2018
Angola	2018
Antigua and Barbuda	2018
Bahrain	2018
Benin	2018
Bolivia	2018
Brunei Darussalam	2018
Burundi	2018
Cabo Verde	2018
Chad	2018
Chile	2018
Cook Islands	2018
Costa Rica	2018
Djibouti	2018
Dominica	2018
Ecuador	2018
El Salvador	2018
Ethiopia	2018
Fiji	2018
Gabon	2018
Gambia, The	2018
Ghana	2018
Greece	2018
Grenada	2018

Country	Year
Guinea	2018
Guyana	2018
Iran, Islamic Rep.	2018
Korea, Rep.	2018
Kuwait	2018
Lao PDR	2018
Libya	2018
Malta	2018
Mauritania	2018
Micronesia, Fed. Sts.	2018
Mozambique	2018
Namibia	2018
Nigeria	2018
Niue	2018
Oman	2018
Portugal	2018
Rwanda	2018
Samoa	2018
Saudi Arabia	2018
Senegal	2018
Seychelles	2018
Sierra Leone	2018
Singapore	2018
South Sudan	2018
Sudan	2018
Suriname	2018
Tajikistan	2018
Tanzania	2018
Togo	2018
Tonga	2018
Trinidad and Tobago	2018
Tunisia	2018
Uganda	2018
United Arab Emirates	2018
Uruguay	2018
Vanuatu	2018
Venezuela, RB	2018
Zambia	2018
Zimbabwe	2018
Bangladesh	2019
Barbados	2019

Country	Year
Cuba	2019
Cyprus	2019
Dominican Republic	2019
Equatorial Guinea	2019
Italy	2019
Jamaica	2019
Lesotho	2019
Liberia	2019
Luxembourg	2019
Mali	2019
Peru	2019
Qatar	2019
Solomon Islands	2019
Kiribati	2020
Botswana	2021
Central African Republic	2021
Congo, Dem. Rep.	2021
Eritrea	2021
Guinea-Bissau	2021
Argentina	2022
Malawi	2022
Nicaragua	2022
Syrian Arab Republic	2022
Afghanistan	2023
Honduras	2023
Jordan	2023
Austria	unknown
Congo, Rep.	unknown
Niger	unknown
Russian Federation	unknown

Sources: Fudan University (data); Map Resources (map). I GAO-24-106866

Note: Belt and Road Initiative (BRI) member countries are those that have signed memorandums of understanding with the PRC to become an official country of the BRI, according to a report by the Griffith Asia Institute and Green Finance & Development Center at Fudan University. See Nedopil, Christoph, China Belt and Road Initiative (BRI) Investment Report 2023, (Brisbane: Griffith Asia Institute, Griffith University, 2024 and Shanghai: Green Finance & Development Center, FISF Fudan University, 2024).

U.S. Agencies’ International Infrastructure Assistance

The U.S. supports various programs that provide assistance to low- and middle-income countries to help address the global infrastructure gap and promote economic development. Six agencies are primarily involved in administering U.S. international infrastructure assistance, each with a distinct role:

- **U.S. Agency for International Development (USAID)** supports the design, rehabilitation, and construction of digital, energy, water, sanitation, and transportation infrastructure, as well as schools and health facilities. USAID works with host governments and the private sector to build capacity and effectively plan for and implement infrastructure priorities. USAID oversees the Power Africa initiative, a partnership between the private sector, international organizations, and governments in sub-Saharan Africa to increase access to power in the region. USAID implements the Transaction Advisory Fund with State, which provides legal and consultant services to host governments in support of the development of sustainable infrastructure. USAID also offers transaction advisory services, financing tools to de-risk investments, and support for developing trade partnerships.[13]
- **Department of Commerce** promotes U.S. trade and investment and ensures fair trade and compliance with trade laws and agreements through its International Trade Administration. Commerce also oversees the Commercial Law Development Program, which assists host governments in making commercial legal reforms to improve their legal and business environments.
- **Export-Import Bank of the United States (EXIM)** offers loans, loan guarantees, and insurance to support U.S. exports in sectors such as energy, agriculture, education, health, and infrastructure. In 2019, Congress directed EXIM to establish the China and Transformational Exports Program, which the agency uses to support the extension of loans, guarantees, and insurance, to the extent practicable, that are fully competitive with the conditions for those services established by the PRC or by other covered countries.[14]
- **U.S. International Development Finance Corporation (DFC)** works with the private sector to finance projects related to energy, healthcare, critical infrastructure, and technology. DFC provides the following products: debt financing, equity investments, political risk insurance, technical assistance, feasibility studies, and investments of debt and equity into emerging market private equity funds.[15]
- **Millennium Challenge Corporation (MCC)** assists eligible low- and middle-income countries to develop projects in infrastructure, energy and power, education, and heath, among others. MCC provides compacts, which are 5-year grants to partner countries to fund poverty reduction through economic growth. MCC models compacts on the principle of country-led programs, in which recipient countries take responsibility for designing and implementing programs. MCC also has a threshold program that assists

[13]Transaction advisory services use transaction advisors to support the process of identifying and finalizing a transaction. USAID also has several programs to attract new debt and equity investments to emerging markets in an effort to diversify funding opportunities for critical infrastructure. USAID also co-coordinates, along with State, the Countering PRC Influence Fund, funded by Congress to counter the influence of the PRC, the Chinese Communist Party and entities acting on their behalf globally. The fund programming provides technical support and capacity building to help diversify supply chains or PRC monopolized markets.

[14]Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, div. I, title IV, § 402, 133 Stat. 2534, 3021 (Dec. 20, 2019). The China and Transformational Exports Program's function is to support the extension of loans, guarantees, and insurance, at rates and on terms and other conditions, to the extent practicable, that are fully competitive with rates, terms, and other conditions established by the PRC or by other covered countries (as designated by the Secretary of the Treasury) 12 U.S.C. § 635(l). The law charges EXIM with a goal of reserving not less than 20 percent of the agency's total financing authority (i.e., $27 billion out of a total of $135 billion) for support made pursuant to the program. The China and Transformational Exports Program aims to directly neutralize export subsidies for competing goods and services financed by official export credit, tied aid, or blended financing provided by the PRC or by a covered country; to advance the comparative leadership of the U.S. with respect to the PRC; or support U.S. innovation, employment, and technological standards through direct exports in specified areas.

[15]DFC was authorized by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act) with the purpose of mobilizing and facilitating the participation of private sector capital and skills in the economic development of less developed countries and countries in transition from nonmarket to market economies, in order to complement the development assistance objectives and advance the foreign policy interests of the U.S. Pub. L. No. 115-254, § 1412, 132 Stat. 3186, 3486 (Oct. 5, 2018). DFC launched in December 2019 and assumed the functions of the Overseas Private Investment Corporation and USAID's Development Credit Authority.

candidate countries to become eligible for compacts through programs focused on economic growth and increasing the transparency and accountability of local institutions.

- **State**
  - according to agency officials, contributes to infrastructure development overseas through various offices, including the Office of Investment Affairs, Office of Development Finance, and Office of Macroeconomic Affairs within the Bureau of Economic and Business Affairs;
  - coordinates with other U.S. agencies through the Infrastructure Transaction Assistance Network and oversees (with USAID) the Transaction Advisory Fund. State also represents the U.S. as the Chair of the Steering Committee of the Blue Dot Network, which aims to mobilize private investment for quality infrastructure by providing a globally recognized certification for projects that meet international standards, including on climate, social and governance issues, debt sustainability, anti-corruption, and human rights;[16] and
  - coordinates the Partnership for Global Infrastructure and Investment, a presidential initiative that aims to coordinate assistance provided by various U.S. agencies and that works in partnership with G7 partners to support international infrastructure development.[17]
- **U.S. Trade and Development Agency (USTDA)** supports the creation of U.S. jobs by linking U.S. businesses to export opportunities and funding project preparation and partnership building activities that develop sustainable infrastructure and foster economic growth in partner countries. USTDA funds feasibility studies, technical assistance and pilot projects that integrate U.S. private sector innovation into infrastructure projects at the design stage when design choices and technology options are determined. USTDA also connects overseas project sponsors with U.S. partners through its reverse trade missions, industry conferences and expert workshops.

The U.S. also engages with multilateral development banks (MDB) such as the World Bank and the African Development Bank to provide international infrastructure assistance. The U.S. is the largest shareholder in the World Bank. According to the World Bank, it provided $12.8 billion in fiscal year 2023 to low-income and lower middle-income countries to support their infrastructure spending. As we recently reported, from fiscal years 2013 through 2022, World Bank borrower countries awarded to the PRC the most World Bank-financed contracts by contract dollars.[18] Similarly, World Bank borrower countries awarded to PRC companies the most civil works contracts by contract dollars, including for international infrastructure projects. Many countries

[16] The Transaction Advisory Fund is a U.S. program that provides legal and consultative services to country governments in support of the development of quality, sustainable infrastructure. The fund’s services include feasibility studies, environmental and social impact studies, legal and technical review of contracts, and other project preparatory services. Projects are approved by a U.S. government interagency steering committee. The fund support is limited to public sector (i.e., government) agencies, including subnational governments and state-owned enterprises, in foreign assistance–eligible countries in the Indo-Pacific region, Western Hemisphere, and sub-Saharan Africa.

[17] The policy and approach of the Partnership for Global Infrastructure and Investment were laid out in a presidential memorandum in 2022. According to the memorandum, the Initiative should, among other things: partner with low- and middle-income countries to finance infrastructure across key sectors that advances the four key priorities critical to sustainable, inclusive growth: climate and energy security, digital connectivity, health and health security, and gender equality and equity. Presidential Memorandum, Partnership for Global Infrastructure and Investment, 87 Fed. Reg. 39323 (June 26, 2022).

[18] GAO, *World Bank: Borrower Countries’ Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern*, GAO-23-105543 (Washington, D.C.: May 10, 2023).

whose businesses were awarded World Bank borrower contracts are also World Bank borrowers, including the PRC, which is the third largest borrower in total project commitments for that period.

The PRC Provided Countries Significantly More Funding for International Infrastructure Projects than the U.S.

According to our analysis, the PRC provided an estimated $679 billion from 2013 to 2021 for BRI infrastructure projects in five key selected infrastructure sectors, while the U.S. provided about $76 billion in financing and grants to support the development of infrastructure projects in the same five sectors during the same period. The PRC provided about $346 billion to low-income and lower middle-income countries and about $332 billion to upper middle-income and other countries. Russia was the largest recipient of BRI assistance, receiving approximately $104 billion from 2013 to 2021, or about 15 percent of the estimated BRI total. According to host government and U.S. officials, the PRC has provided BRI financing through government-to-government loans. According to AidData, the PRC has increased emergency lending to BRI countries in recent years.[19] The U.S. provided about $33 billion in international infrastructure assistance to low-income and lower middle-income countries and about $42 billion to upper middle-income countries. Mozambique was the largest recipient of this U.S. assistance during this period, receiving approximately $7 billion, primarily from EXIM and DFC. U.S. assistance has included a mix of loans to private entities, insurance, grants, and other financing mechanisms, according to agency data.

The BRI Provided Countries about $679 Billion from 2013 to 2021 to Fund Major International Infrastructure Projects in Five Selected Sectors

According to our analysis of data from AidData, the PRC provided about $679 billion to BRI countries from 2013 to 2021 for five key infrastructure sectors—transportation; energy; industry, mining, and construction; communications; and water supply and sanitation.[20] These five sectors have made up the majority of PRC foreign assistance to BRI countries during this period.[21] In these five infrastructure sectors, PRC banks and companies have financed and built major projects such as power plants, railways, highways, and ports in multiple countries, with the majority of funds for this period provided for the energy; industry, mining, and construction; and transportation sectors (see fig. 2). For example, the PRC provided approximately $9.8 billion for the Kenya Standard Gauge Railway Project, which connects the port of Mombasa with Nairobi. The PRC

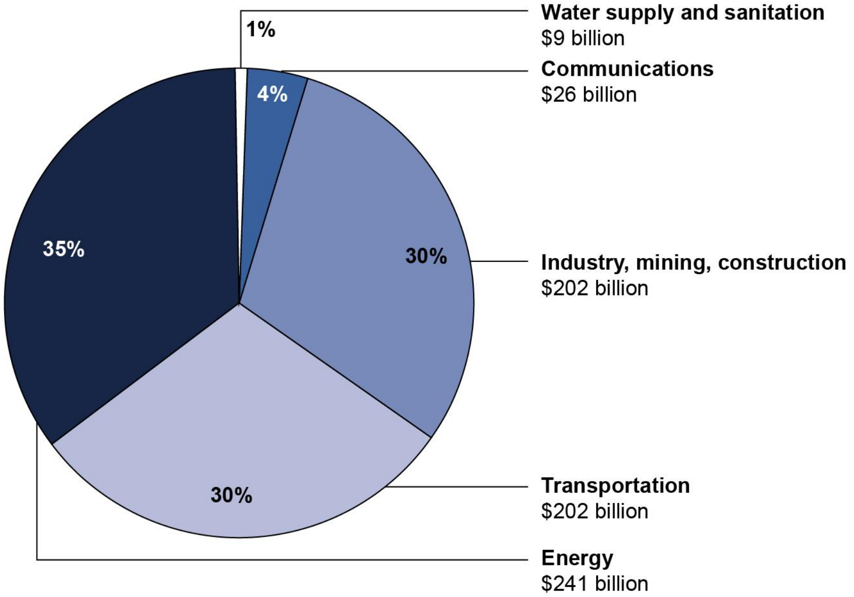
[19]Emergency lending refers to loans provided by the PRC to sovereign borrowers in financial distress that are at risk of defaulting on BRI loans.

[20]Our analysis is based on a sample of five key selected infrastructure sectors using OECD Creditor Reporting System (CRS) 3-digit codes, which AidData uses. The PRC does not provide its foreign assistance data to CRS; the U.S. does. Using CRS codes allows for general comparisons on the amount and type of foreign assistance provided by donors such as the PRC and the U.S. Our analysis used the 3-digit codes for the five selected infrastructure sectors: transportation (i.e., transport and storage) (210); energy (231, 232, 233, 234, 235, 236); industry, mining, and construction (320, 321, 322, 323); communications (220); and water supply and sanitation (140).

[21]The five infrastructure sectors we selected make up the majority of total PRC foreign assistance to BRI countries from 2013-2021 according to our analysis of data from AidData. These sectors are for illustrative purposes, as other sectors such as health, education, and agriculture also have infrastructure-related projects. Amounts include all types of aid for the five sectors, including aid for specific projects as well as budget support, technical assistance, and other assistance provided in the sector. For more details on how we did our analysis, see appendix II.

also provided over $8.1 billion for the Angola Caculo Caba?a Hydroelectric Power and Transmission Line Project, which will allow Angola to export energy to neighboring countries.

Figure 2: PRC Belt and Road Initiative Funding for International Infrastructure Projects for Five Selected Infrastructure Sectors, 2013-2021



Source: GAO analysis of AidData information. | GAO-24-106866

Accessible Data for Figure 2: PRC Belt and Road Initiative Funding for International Infrastructure Projects for Five Selected Infrastructure Sectors, 2013-2021

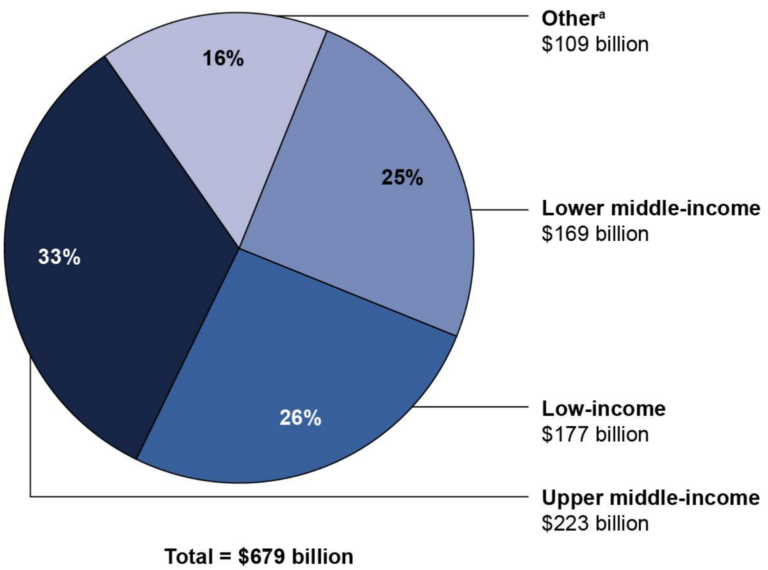
Sector	Amount	Percentages
Energy	$241	35%
Industry, Mining and Construction	$202	30%
Transportation	$202	30%
Communications	$26	4%
Water Supply and Sanitation	$9	1%
Total	$678	100%

Source: GAO analysis of AidData information. I GAO-24-106866

Note: GAO analysis of People's Republic of China (PRC) funding is based on data from AidData, which uses the Organisation for Economic Co-operation and Development's Creditor Reporting System codes for official development assistance and other official flows to low-income, lower middle-income and upper middle-income countries. Amounts are reported in 2021 constant U.S. dollars and are rounded to the nearest billion and percentage.

The PRC has provided funding to countries ranging from the low-income to the upper middle-income classification levels for the five sectors during this period. Of the $679 billion, upper middle-income countries received about $223 billion or 33 percent, followed by low-income countries, which received about $177 billion or 26 percent (see fig. 3).

Figure 3: PRC Belt and Road Initiative Funding for International Infrastructure Projects to Recipient Countries, by Income Classification Level, 2013-2021



Source: GAO analysis of AidData. | GAO-24-106866

Accessible Data for Figure 3: PRC Belt and Road Initiative Funding for International Infrastructure Projects to Recipient Countries, by Income Classification Level, 2013-2021

Income Classification Level	Amount	Percentages
Low Income	$177	26%
Low Middle-Income	$169	25%
Upper Middle-Income	$223	33%
Other	$109	16%
Total	$679	100%

Source: GAO analysis of AidData. I GAO-24-106866

Note: GAO analysis of People's Republic of China (PRC) funding is based on data from AidData, which uses OECD Creditor Reporting System codes for official development assistance and other official flows to low-income, lower middle-income, and upper middle-income countries. Amounts are reported in 2021 constant U.S. dollars and are rounded to the nearest billion and percentage.

[a]"Other" includes countries that were not assigned to an income category in the AidData database.

Of the $679 billion in BRI funding, most funds were provided to Asia ($212 billion or 31 percent) and Africa ($206 billion or 30 percent), followed by Europe, the Americas, and the Middle East (see tab. 1).

Table 1: PRC Belt and Road Initiative Funding for International Infrastructure Projects for Five Selected Infrastructure Sectors, by Region, 2013-2021

Region	Amount (in billions)	Percentage
Asia	$212	31%
Africa	$206	30%
Europe	$133	20%
The Americas	$90	13%
Middle East	$34	5%

Region	Amount (in billions)	Percentage
Oceania	$2	0%
Total	**$679**	**100%**

Source: GAO analysis based on data from AidData. | GAO-24-106866

Note: GAO analysis of People's Republic of China (PRC) funding is based on data from AidData, which uses OECD Creditor Reporting System codes for official development assistance and other official flows to low-income, lower middle-income and upper middle-income countries. Amounts are reported in 2021 constant U.S. dollars and are rounded to the nearest billion and percentage. Columns do not sum to totals because of rounding.

The top individual country recipient of PRC funding from 2013 to 2021 for the five infrastructure sectors was Russia, receiving $104 billion or 15 percent of total PRC funding. Additional leading recipients of PRC funding during this period included Malaysia ($36 billion), Pakistan ($34 billion), Nigeria ($29 billion), Angola ($29 billion), and Indonesia ($28 billion). In addition, according to our analysis of data from AidData, the top individual project receiving funds for this period was a $37 billion oil supply contract between the China National Petroleum Corporation and Rosneft, a Russian state-owned oil company. Other leading projects in the five sectors during this period included a project in Malaysia ($11 billion) for rail construction, a project in Ecuador ($10 billion) for an oil refinery, and a project in Tanzania ($9 billion) for a railway network.

The PRC Has Primarily Used Loans to Finance BRI Projects and Has Increased Emergency Lending to BRI Recipient Countries in Recent Years

Since the establishment of the BRI in 2013, the PRC has provided funding through government-to-government loans for BRI infrastructure projects, according to U.S. and host government officials in the countries we visited. Loans can also be from a PRC state-owned enterprise (SOE) to a host country's SOE, according to these officials. These officials also stated that PRC SOEs provide comprehensive project proposals that address country development plans or other identified needs and can include design, construction, and financing through a centralized entity. Officials stated that BRI projects provide quick design and construction of projects, often delivered by SOEs, and can be more flexible concerning environmental, social, and governance standards.

According to an official from AidData, the PRC has provided more loans—some of which have been emergency lending—in recent years to borrower countries to assist them in paying back loans to the PRC for previous BRI projects. A November 2023 AidData report states that in 2014, emergency lending represented only 13 percent of the PRC's loan portfolio in low- and lower middle-income countries, but emergency lending had grown to 58 percent of this portfolio by 2021.[22] In addition, the PRC is providing fewer U.S. dollar–denominated loans for large infrastructure projects and using more co-financing arrangements with its commercial banks, international banks, and MDBs to share and mitigate financial risks on new BRI projects.[23] According to a Congressional Research Service report, the PRC established the Asian Infrastructure Investment Bank in 2016 as a regional financing mechanism to provide financing for BRI projects.[24] According

[22]B.C. Parks, et al, *Belt and Road Reboot*.

[23]B.C. Parks, et al, *Belt and Road Reboot*. For example, the Industrial and Commercial Bank of China and China Eximbank completed a co-financing arrangement for $659 million to Sierra Leone for a port upgrade and expansion project in 2017.

[24]Congressional Research Service, *Asian Infrastructure Investment Bank,* IF10154 (May 4, 2023).

to officials from the Embassy of the PRC in the U.S., that bank has since provided significant financing for BRI projects.[25]

The BRI also has recently announced a transition toward new and greener technologies, while continuing to emphasize road and railway projects and trade. For example, according to a February 2024 report,[26] recent BRI projects include manufacturing new technologies—such as batteries for electrical vehicles and renewable energy generation—as well as continued investments in roads, railways, mining, and oil and gas extraction. Officials from the Embassy of the PRC in the U.S. also stated that future BRI projects will support more green energy projects and fund small scale projects.

The U. S. Provided About $76 Billion from 2013 to 2021 to Support the Development of Infrastructure Projects in Five Selected Sectors

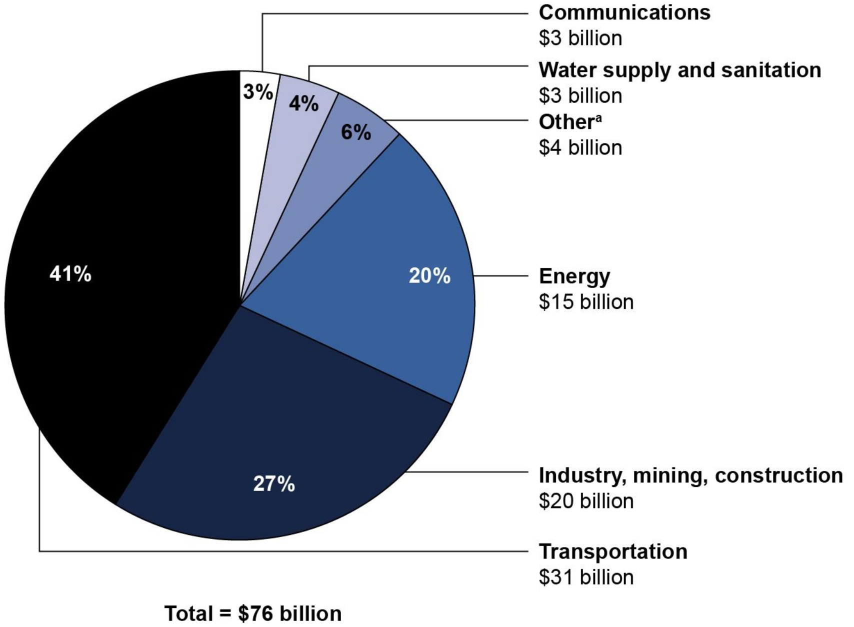
According to our analysis of OECD CRS, DFC, and EXIM data, the U.S. provided about $76 billion for the five infrastructure sectors, significantly less than amounts provided by the PRC.[27] The U.S. provided approximately $31 billion, or 41 percent of the assistance, for the transportation sector, followed by the industry, mining, and construction sector ($20 billion or 27 percent) and the energy sector ($15 billion or 20 percent), as shown in figure 4. In contrast to BRI projects, U.S. assistance in these sectors has not generally supported the construction of large projects such as roads and ports but has provided a range of assistance supporting infrastructure development, including loan guarantees, risk insurance, and grants for capacity building and feasibility studies. For example, in Indonesia, USTDA provided a grant to Mass Rail Transit (MRT) Jakarta for a feasibility study, as part of an expansion project, to expand use of renewable energy to power the system, according to a press release by USTDA. The study supported MRT Jakarta in assessing the viability of implementing a renewable energy initiative to transition the MRT system’s power supply to renewable energy sources. The expansion of the MRT was financed by the World Bank, Asian Development Bank, and the Japan International Cooperation Agency.

[25]The Asian Infrastructure Investment Bank is a multilateral development bank that, according to its mission, provides financing for infrastructure in Asia that is “green, technology-enabled and promotes regional connectivity.” According to its website, the bank currently has 109 members.

[26]Nedopil, *China Belt and Road Initiative (BRI) Investment Report 2023*.

[27]OECD CRS reports by calendar years whereas DFC and EXIM report by fiscal years. Our analysis of CRS data is therefore by calendar years and for DFC and EXIM by fiscal years.

Figure 4: U.S. Funding for International Infrastructure Projects to Countries for Five Selected Infrastructure Sectors, 2013-2021



Legend: CRS = Creditor Reporting System; DFC = U.S. International Development Finance Corporation; EXIM = Export-Import Bank of the United States; OECD = Organisation for Economic Co-operation and Development

Source: GAO analysis of OECD's CRS database, and DFC and EXIM data. | GAO-24-106866

Accessible Data for Figure 4: U.S. Funding for International Infrastructure Projects to Countries for Five Selected Infrastructure Sectors, 2013-2021

Sector	Amount	Percentages
Transportation	$31	41%
Industry, Mining and Construction	$20	27%
Energy	$15	20%
Water Supply and Sanitation	$4	6%
Communications	$3	4%
Other[a]	$3	3%
Total	$76	100%

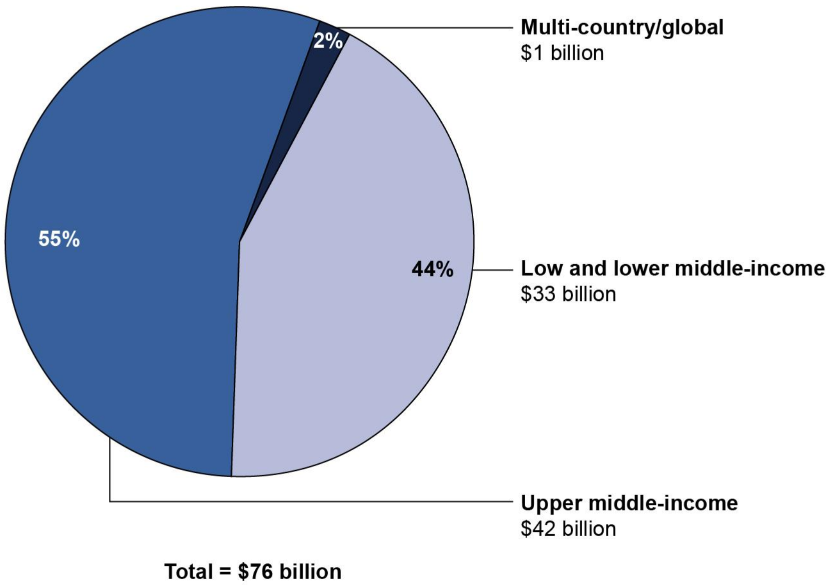
Source: GAO analysis of OECD's CRS database, and DFC and EXIM data. I GAO-24-106866

Note: DFC and EXIM do not report their financial credit assistance, such as loans and loan guarantees, to CRS, but both agencies gave us fiscal year data based on our selected five sector CRS codes. Amounts are reported in 2021 constant dollars and are rounded to the nearest billion and percentage.

[a]"Other" includes infrastructure projects in the finance and insurance and public administration sectors.

From 2013-2021, the U.S. provided approximately $42 billion to upper middle-income countries and $33 billion for low- and lower middle-income countries (see fig. 5). The remainder of this assistance, approximately $1 billion, was designated for multi-country or regional projects and global projects.

Figure 5: U.S. Funding for International Infrastructure Projects to Countries, by Income Classification Level, for Five Selected Infrastructure Sectors, 2013-2021



Legend: CRS = Creditor Reporting System; DFC = U.S. International Development Finance Corporation; EXIM = Export-Import Bank of the United States; OECD = Organisation for Economic Co-operation and Development

Source: GAO analysis of OECD's CRS database, and DFC and EXIM data. | GAO-24-106866

Accessible Data for Figure 5: U.S. Funding for International Infrastructure Projects to Countries, by Income Classification Level, for Five Selected Infrastructure Sectors, 2013-2021

Income Classification Level	Amount	Percentages
Low and Low Middle-Income	$33	44%
Upper Middle-Income	$42	55%
Multi-Country/Global	$1	2%
Total	$76	100%

Source: GAO analysis of OECD's CRS database, and DFC and EXIM data. I GAO-24-106866

Note: Amounts are reported in 2021 constant dollars and are rounded to the nearest billion and percentage. Percentages do not sum to 100 because of rounding.

Of the $76 billion in U.S. assistance, approximately $22 billion, or 29 percent of the total, was provided for projects in Africa (see tab. 2). Asia received approximately $20 billion in U.S. assistance, followed by the Americas ($16 billion) and Europe ($12 billion).

Table 2: U.S. Funding for International Infrastructure Projects for Five Selected Infrastructure Sectors by Region, 2013-2021

Region	Amount (in billions)	Percentages
Africa	$22	29%
Asia	$20	26%
The Americas	$16	21%
Europe	$12	16%
Middle East	$4	6%

Region	Amount (in billions)	Percentages
Australia	$1	2%
Global	$0.5	1%
Oceania	$0.02	0%
Total	**$76**	**100%**

Source: GAO analysis based on Organisation for Economic Co-operation and Development's Creditor Reporting System database, U.S. International Development Finance Corporation, and Export-Import Bank of the United States data. | GAO-24-106866

Note: Amounts are reported in 2021 constant dollars and are rounded to the nearest billion and percentage. Columns do not sum to totals because of rounding.

The top country recipient of U.S. funding from 2013 to 2021 for the five infrastructure sectors was Mozambique ($6.9 billion or 9 percent of total U.S. funds), followed by Mexico ($6.1 billion or 8 percent), and the PRC ($4.3 billion or 6 percent). The majority of the assistance to these three countries was through EXIM, which provides loans, loan guarantees, and insurance to private entities that implement international infrastructure-related projects.[28] The majority of assistance to the PRC was for the aviation sector from 2013 through 2015—when the BRI was initiating—and nearly all the assistance was in loan guarantees. U.S. assistance to Mozambique included $5 billion in EXIM financing for a loan to a private entity to develop and construct a liquified natural gas project in that country. Mozambique also received $1.5 billion in DFC financing for political risk insurance to cover the development of a liquified natural gas project.[29]

EXIM and DFC Are the Leading U.S. Agencies Providing Financing for International Infrastructure Projects

Of the $76 billion in U.S. assistance, EXIM provided $42 billion (56 percent), and DFC provided $23 billion (30 percent). See table 3.

Table 3: U.S. Funding for International Infrastructure Projects to Countries for Five Selected Infrastructure Sectors by Agency, 2013-2021

Agency	Amount (in billions)	Percentage
Export-Import Bank of the United States (EXIM)	$42	56%
U.S. Development Finance Corporation (DFC)	$23	30%
U.S. Agency for International Development	$7	9%
Millennium Challenge Corporation	$4	6%
U.S. Trade and Development Agency.	$0.15	0%
Department of State	$0.01	0%
Department of Commerce	$0.003	0%
Total	**$76**	**100%**

Source: GAO analysis based on the Organisation for Economic Co-operation and Development's Creditor Reporting System database, DFC, and EXIM data. | GAO-24-106866

[28]DFC provides political risk insurance to cover against losses due to currency inconvertibility, government interference, and political violence including terrorism. EXIM provides export credit insurance to buyers of U.S. equipment, goods, and services used in infrastructure projects.

[29]Afghanistan was the largest recipient of USAID funds from 2013 to 2021, receiving $2.1 billion of which $1.8 billion was for energy sector policy assistance. The largest recipient of MCC funds during that period—at $700 million—was Ghana of which $619 million was for electric power and transmission and distribution.

Note: Amounts are reported in 2021 constant dollars and are rounded to the nearest billion and percentage. Columns do not sum to totals because of rounding.

Various forms of funding are represented in the table because each agency has provided different types of assistance including loan guarantees and grants.

U.S. government officials stated that the U.S. provides a variety of financing such as loans, loan guarantees, and political risk insurance to private entities that implement international infrastructure projects, as well as export credit insurance to buyers of U.S. equipment, goods, and services used in infrastructure projects.[30] The majority of U.S. funds were provided as loans and loan guarantees. Of the $76 billion, about $65 billion or 85 percent was provided as loans and loan guarantees to private entities that implement international infrastructure projects. The U.S. also provides grants to governments, nongovernmental organizations, and private entities for capacity building, technical assistance, and feasibility studies that can lead to the development of infrastructure projects. According to U.S. and host government officials, U.S. financing is more difficult to obtain than PRC financing because loans are not provided to the government, the assistance is limited and comes from various agencies, and there is no centralized entity with which to coordinate. These officials also said that U.S.-supported projects have strict environmental, social, and governance standards.

BRI Financing Is Associated with Some Economic Benefits for Host Countries but Has Exacerbated Debt Burdens and Posed Other Challenges

According to academic studies and discussions with officials in three BRI countries, we found that BRI infrastructure projects have generally been associated with economic benefits for host countries but have burdened some with unsustainable debt and other challenges. Studies we reviewed explain that benefits from BRI projects to host countries have included support for economic growth and expanded infrastructure, financing options, and access to energy. However, BRI projects have also contributed to unsustainable debt burdens and other financial, labor, and environmental concerns. According to the East Asia Forum, in 2021 the PRC laid out key principles for the next stage of the BRI by setting limits on the external lending of PRC banks. Although infrastructure projects will continue to be the focus of the BRI, the size of future projects is expected to decline, according to the East Asia Forum. The effects of financing smaller BRI projects may be different from those of larger projects.

BRI Infrastructure Projects Have Generally Been Associated with Economic Benefits for Host Countries

Economic Growth

Based on our review of academic literature, PRC financing is generally associated with positive economic outcomes in host countries. Our literature review shows that new roads, railways, and telecommunications have generated economic growth and increased trade by reducing market barriers.[31] PRC investments are

[30]Export credit insurance protects an exporter of products and services against the risk of nonpayment by a foreign buyer.

[31]The growth effects detected may be the result of resource flows into the country rather than the growth effects of the infrastructure investment itself.

positively linked with an increase in trade between BRI host countries and the PRC and an increase in PRC-backed foreign investment in BRI host countries, according to one study.[32]

A World Bank report focusing on transport corridors stated that economic benefits from BRI-related infrastructure development will likely be larger in upper middle- and low-income BRI economic corridor countries.[33] According to the report, the economic benefits in upper middle-income countries are likely driven by the PRC's improved access to foreign markets. The economic benefits for low-income counties are likely driven by the economic corridor that could substantially improve the connectivity of countries where ports have been constructed with other economies along the corridor and the rest of the world.

A USAID report noted that BRI financing is associated with increased economic growth. For example, a 2021 study estimated that in developing countries an additional PRC funded project increases growth by between 0.4 and 1.5 percentage points 2 years after commitment, on average.[34] According to our literature review, BRI projects have more positive economic effects in countries that can integrate the projects into their national development plans and use a transparent management framework.

Expanded Infrastructure

BRI projects have allowed host countries to address some immediate and crucial major infrastructure needs, and partially fill the global infrastructure gap. According to our literature review, the BRI has generally expanded host country infrastructure, especially in the power generation, road, railroad, and telecommunication sectors that are crucial for economic development. Part of the appeal of the BRI to host governments is the expediency and flexibility of PRC companies and financing institutions to build major infrastructure projects. The average PRC-financed infrastructure project has taken approximately 3 years to complete, while similar projects financed by the World Bank and other regional development banks have taken 5 to 10 years to complete, according to an AidData report.[35]

According to our discussions with local officials in Angola, Kenya, and Indonesia, the PRC's ability to deliver infrastructure quickly has helped to address these countries' infrastructure needs. For example, officials in Angola told us that BRI projects have been key to helping it rebuild its national road network and housing projects after Angola's 27-year civil war ended in 2002. This assistance has also expanded access to electricity through the construction of a series of hydroelectric dams, according to local officials.

[32]Sjöholm, Fredrik, *The Belt and Road Initiative: Economic causes and effects* (Stockholm: Research Institute of Industrial Economics, 2022).

[33]Michele Ruta, Matias Herrera Dappe, Somik Lall, Chunlin Zhang, Cristina Constantinescu, Mathilde Lebrand, Alen Mulabdic, and Erik Churchill, *Belt and Road Economics: Opportunities and Risks of Transportation Corridors* (Washington, D.C.: World Bank, June 19, 2019).

[34]Axel Dreher, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney, "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," *American Economic Journal: Economic Policy*, vol. 13, no. 2 (2021): 135-74.

[35]B.C. Parks, et al, *Belt and Road Reboot*.

Officials in Kenya noted that BRI projects have included the Nairobi-Mombasa Standard-Gauge Railway, the largest infrastructure project since Kenyan independence.[36] Another BRI project, the Nairobi Expressway, was completed in 2023, ahead of its projected completion date according to local officials.

According to an Indonesian government official, the BRI has supported the recently opened Jakarta-Bandung high-speed train along with several port projects. The BRI also supported and industrial projects including the Morowali Industrial Park, a nickel production facility.

Expanded Financing Options

According to our literature review, BRI investments have in some cases expanded financing options for host countries that may not have qualified for, or had access to, Western development assistance. According to a report by the RAND Corporation, most developing countries often have significant physical infrastructure needs, and cannot access financing with reasonable lending terms to address them.[37] Furthermore, many donor countries have decreased funding for infrastructure projects, and multilateral development banks (MDB) are devoting a growing share of their funding to social services, despite the need for physical infrastructure projects in developing countries. The BRI has provided more opportunities for these low- and lower middle-income countries to finance infrastructure projects needed to promote economic development.

For example, officials in Angola explained that Angola sought assistance and financing from Western countries in 2002, after the end of its civil war, but received no support. These officials stated that the PRC was the only country willing to finance major infrastructure projects in Angola. Angola is the largest recipient of PRC financing in Africa and received a reported $28 billion in loans for the development of 77 projects in the areas of energy, transportation, mining, and construction, from 2013 to 2022.

According to our literature review, PRC financial assistance has also encouraged or may encourage other countries to provide more assistance to some BRI host countries. For example, in response to the increase in PRC financial support to Asian countries, leaders of India and Japan have prioritized regional investment in Asia through India’s Neighborhood First Policy and Japan’s Partnership for Quality Infrastructure,[38] according to reports we reviewed.[39] In addition, an Indonesian official told us that the country has used financing from Japan for several major infrastructure projects including the expansion of the Jakarta metro system. Countries that receive this funding have access to an alternative source of financing, allowing them to potentially negotiate better lending terms.

Expanded Access to Energy

BRI projects have increased some host countries’ energy production capabilities by investing in fossil fuels and renewable energy. The PRC financed 226 power plants commissioned in 64 countries from 2013 to 2022,

[36]According to a report by the RAND Corporation, the Nairobi-Mombasa Standard Gauge Railway cost $3.2 billion to complete. It is Kenya’s most expensive infrastructure project since independence in 1963 and the first railway built in Kenya in the past 100 years.

[37]Rafiq Dossani, Jennifer Bouey, and Keren Zhu, *Demystifying the Belt and Road Initiative: A Clarification of its key Features, Objectives and Impacts* (Santa Monica, CA: RAND Corporation, May 2020).

[38]Manjari Chatterjee Miller, *China and the Belt and Road Initiative in South Asia* (New York, NY: Council on Foreign Relations, 2022).

[39]Jonathan E. Hillman, “Chapter Six: The Weak Are Powerful: Southeast Asia” in *The Emperor’s New Road: China and the Project of the Century* (New Haven, CN: Yale University Press, 2020).

according to the Boston University's China's Global Power Database. These have included hydro, coal, solar, and wind plants, with the majority constructed in Asia.[40] As a result, some host countries have been able to expand their electricity production capacity. For example, according to an Angola government official, BRI projects have increased energy production in Angola; and the country is projected to have an energy surplus in the coming years and may even export energy in southern Africa.

While other international donors have decreased support for certain energy sources—such as large-scale hydropower projects—due to environmental or social concerns, PRC financing has helped address the demand for energy production in host countries. According to a report by the National Bureau of Asian Research, the PRC has become the world's largest developer of hydropower projects, accounting for 70 percent of the hydropower construction market.[41] In contrast the World Bank, the previous largest financier of large hydropower dams, withdrew funding from the sector after the cancellation of several projects in the 1990s over negative environmental and social impacts.

Similarly, the U.S., Japan, Korea, and multilateral organizations such as the World Bank and the Asian Development Bank have either restricted or stopped financing of coal-fired power plants, while PRC banks are now the world's largest source of financing for coal-fired power plants, according to the Council on Foreign Relations.[42] Developing countries such as Ghana, Ethiopia, and Sudan have turned to the PRC to fund large-scale dams after multilateral banks, such as the World Bank, and other international donors declined to support the projects, according to a report by the National Bureau of Asian Research.

Some BRI Projects Have Contributed to Negative Financial, Social, Labor, and Environmental Effects on Host Countries

Increased Debt Burdens and Other Financial Health Concerns

According to academic literature and host country officials, BRI financing has exacerbated debt burdens in host countries with significant associated effects. According to an AidData report, host country debt burden may also have negative implications for the PRC in terms of repayment risk, project performance risk, and reputation risk.[43] According to the same report, the PRC is now the world's largest debt collector, and total outstanding debt from low-income borrowers to the PRC is between $1.1 trillion to $1.5 trillion.[44]

Furthermore, according to reports we reviewed and discussion with civil society officials in host countries, PRC-backed loans for BRI projects have higher interest rates than traditional concessional development

[40]According to the Boston University China's Global Power database, the 226 power plants commissioned under the BRI include 72 hydropower plants, 56 coal power plants, 40 solar power plants, 34 wind power plants, 12 gas powered power plants, seven oil power plants, and three geothermal power plants.

[41]According to a National Bureau of Asian Research report, PRC firms now account for 70 percent of the global hydropower construction market and have developed 320 projects in more than 140 countries. See Nad?ge Rolland, "(In)roads and outputs: Critical Infrastructure in China's Africa Strategy" in *National Bureau of Asian Research Special Report no. 98* (Washington, D.C.: National Bureau of Asian Research, May 2022).

[42]Hillman, David, and Schmemann, *China's Belt and Road: Implications for the United States*.

[43]B.C. Parks, et al, *Belt and Road Reboot*.

[44]Total outstanding debt from borrowers in developed and developing countries to the PRC exceeds $2.6 trillion, according to AidData.

assistance loans and contain legal clauses that often restrict recipient countries from publicly reporting the loan amount or interest rates. The lack of public reporting, in turn, limits the oversight from local civil society and stakeholders to assess the financial situation of the government, according to the report by AidData. For example, local civil society leaders and some government officials in Angola, Kenya, and Indonesia told us that they were unclear about the total amount of money their country owed to the PRC, impeding them from assessing the effect that debt may have on their countries.[45]

The way that the PRC is advancing BRI raises concerns that it may be contributing to a potential global debt crisis. More than half of PRC-held debt is concentrated in low- and lower middle-income countries, many of which are struggling to repay their loans because of the ongoing global debt crisis. According to the same AidData report, in 2000, 34 percent of the PRC's overseas lending portfolio supported borrowers in financial distress; by 2021, this figure had increased to 79 percent. At the end of 2023, 31 of the 36 countries at high risk of debt distress or in debt distress were BRI member countries, according to information from the International Monetary Fund. The World Bank estimates that medium-term debt sustainability could decrease for about 12 out of 43 low- and middle-income countries they studied, even if BRI investments would lead to economic growth.

Growing debt burdens limit BRI host countries' abilities to fund subsequent large-scale infrastructure projects and social programs. Central governments in developing countries such as Angola and Kenya, are finding it difficult to finance future infrastructure projects according to host government officials. In the case of Kenya, the central government has faced challenges to funding health, education, and security services due to the proportion of their budget needed to repay public debt, according to a civil society organization.[46]

According to an AidData report, recognizing that the first phase of the BRI did not have sufficiently robust risk management guardrails in place, the PRC started altering the composition of its overseas lending portfolio.[47] For example, the PRC is increasing emergency rescue lending to financially distressed borrowers to ensure that the largest borrowers have enough cash on hand to service their outstanding infrastructure project debt. It is also managing risk by reducing its use of bilateral lending instruments and providing more credit through collaborative lending arrangements with Western commercial banks and multilateral institutions and increasing collateralized loans. However, the repayment risk mitigation measures that the PRC is putting in place present new challenges for borrowers in the developing world. For example, countries who seek to refinance their maturing debts to the PRC by accepting emergency rescue loans with high interest rates and short repayment periods will have to deal with expensive debt. Countries who contract new debt from the PRC could face the danger of compounding arrears due to penalty interest, according to the same AidData report.

Social and Governance Risks

The BRI has contributed to social and governance risks, including the possibility of fostering corruption by focusing on appealing to host countries' need for quickly built infrastructure projects with limited oversight, and fast and flexible project preparation procedures. Rather than adhering to rigorous international standards, the

[45]Civil society representatives we interviewed for this review included members of nongovernmental organizations, academics, and journalists.

[46]According to the Council on Foreign Relations, interest payment to PRC entities represented 87 percent of cash used to service Kenya's debt in 2019.

[47]B.C. Parks, et al, *Belt and Road Reboot*.

PRC has required that BRI projects adhere to host countries' national environmental, social, and governance standards, according to an AidData report.[48]

Furthermore, many BRI loans are government-to-government loans, which have been approved without parliamentary oversight, according to Kenyan and Angolan government officials. According to the Council on Foreign Relations, the lack of oversight from the PRC central government has allowed corruption and rent-seeking behavior to flourish in a number of BRI countries, providing opportunities for local political elites to distort infrastructure needs for their own gain. In some cases, journalists and civil society organizations have uncovered evidence of PRC companies and host government officials colluding by artificially inflating contract prices for construction projects and sharing the illegal profits, according to the same AidData report.

In one example, a high-ranking host country official told us that he had been offered a bribe by a Chinese national in exchange for dropping his support for a legal case against a large a BRI construction project. According to this official, he was told that if he refused the bribe, it would be offered to other officials in the county to assure the case was dropped and the project approved. The official refused the bribe, and noted to us that the legal case was subsequently dropped, and the project was approved.

Unsustainable or Nonviable Projects

PRC banks have backed projects that were not economically sustainable or viable, as PRC companies and banks looked to earn political favors by funding projects that could qualify as part of the BRI. According to the Council on Foreign Relations, because PRC companies involved in BRI projects usually have access to cheap credit, they can take on projects that other companies might consider too risky or too costly.[49] Furthermore, many projects are pursued without conducting financial viability assessments, since PRC companies focus on beginning projects quickly to reduce transaction costs. According to a RAND report, BRI projects that have low operating returns, high-cost finance, or poor-quality implementation may not be viable and are at risk of going into bankruptcy.[50]

For example, civil society leaders in Kenya told us that the PRC feasibility study for the Standard Gauge Railway overestimated the project's viability. They said the profits from ticket sales have not been sufficient to cover the cost of operating the railway. According to the Council on Foreign Relations, the rail line loses nearly $10 million per month, raising concerns the project will not generate funds needed to cover the $3.8 billion loan from the PRC, which will continue to burden the Kenyan government.

According to an AidData report, the PRC is taking steps to vet the risk of proposed transactions under the new phase of the BRI.[51] Rather than relying on its own banks to vet borrowing institutions and proposed transactions, the PRC is increasingly outsourcing risk management to lending institutions it views as having stronger due diligence standers and safeguard policies—such as the International Finance Corporation, the European Bank for Reconstruction and Development, Standard Chartered Bank, and BNP Paribas.

[48]B.C. Parks, et al, *Belt and Road Reboot*.

[49]Hillman, David, and Schmemann, *China's Belt and Road: Implications for the United States*.

[50]Dossani, et al, *Demystifying the Belt and Road Initiative*.

[51]B.C. Parks, et al, *Belt and Road Reboot*.

Labor Practices

PRC firms often use PRC labor for BRI projects in host countries, limiting employment and training opportunities for local workers and spillover effects for local industry. According to civil society leaders in Angola, PRC workers take on most of the construction and operation of newly built BRI infrastructure projects with limited hiring of local workers, which has restricted the knowledge acquisition and training benefits for local workers. This also made some host countries reliant on imported PRC labor for the construction of some BRI projects, which led to stalling or cancelling some BRI projects during the COVID-19 pandemic because it slowed the flow of PRC labor to BRI host countries. For example, in Indonesia, the construction of the Jakarta-Bandung train was halted during the COVID-19 pandemic because PRC workers returned to China, according to an expert we met Indonesia.

In addition, PRC workers can take jobs in other sectors outside the ongoing BRI project, which may affect economic growth and national employment rates. A report by ODI finds that locals in Cambodia complained about PRC workers taking jobs in the informal sector such as taxi drivers, street vendors, and hairdressers.[52] According to local civil society representatives we met with in Kenya, there have been recent civil society protests over Chinese nationals reportedly overstaying their work visas to work in the street vendor sector and disrupting local vendors.

Environmental Concerns

BRI projects have contributed to local topographical and hydrological damage, air pollution, and biodiversity risks, and infringed on indigenous land rights in some BRI host countries, according to our review of academic literature and officials we met with in three countries. According to the World Bank, while large transportation projects generally pose risks to countries and local communities, many BRI routes pass through areas vulnerable to degradation, flooding, and landslides and through ecologically important landscapes.[53] According to information from Boston University, about two-thirds (64 percent) of the 736 projects funded by the China Development Bank and the Export-Import Bank of China from 2008 to 2021 overlap with at least one environmentally sensitive territory (i.e., indigenous people's lands, critical habitats, and national protected areas).[54]

For example, a civil society representative in Kenya told us that several environmental groups protested the construction of the Standard Gauge Railway through the Nairobi National Park because of its environmental impacts, including introducing invasive species to the park. However, after the national government conducted environmental impact assessments and mitigation plans they considered to be insufficient, the railroad was constructed through the National Park, according to civil society representatives.

Environmental standards and enforcement capacity vary by BRI host country, which, in conjunction with weak environmental safeguards on BRI projects, can contribute to the environmental costs of BRI projects. According to Boston University, the PRC takes a "country systems" approach that recognizes and defers to

[52] Linda Calabrese, Olena Borodyna and Rebecca Nadin, *Risks Along the Belt and Road: Chinese investment and infrastructure development in Cambodia* (London: ODI, April 2022).

[53] Ruta, et al, *Belt and Road Economics*.

[54] Rebeca Ray, *Small is Beautiful: A New Era in China's Overseas Development Finance?* (Boston, MA: Boston University, January 2023).

host country governments' authority to set and enforce environmental standards rather than having a universal set of regulations. However, the country system approach, if not properly managed, may create incentives for host countries to circumvent or relax their own regulations to increase or expedite investment. While letting host countries set environmental standards is a common practice for other development finance institutions, Boston University found that projects funded by the China Development Bank and Export-Import Bank of China pose significantly higher risks to environmentally sensitive territory and to indigenous people's lands than projects financed through the World Bank.[55]

Under the new phase of the BRI, the PRC has taken steps to address some of these environmental concerns. For example, the PRC introduced steps to address environmental concerns in 2019 with the shift to the "open, green, and clean" BRI. According to the Council on Foreign Relations, the PRC pivoted to the open, green, and clean BRI in response to international pressure. While the Council on Foreign Relations reported that the initiative has had limited success, it noted that the PRC has shown strong commitment to green finance. According to an AidData report, by 2021, 57 percent of the PRC's grant- and loan-financed infrastructure project portfolio in low- and middle-income countries had improved environmental, social, and governance safeguards in place.[56]

BRI Infrastructure Investments May Impact U.S. Economic, Political, and Security Interests around the World

The BRI Could Create Unfavorable Environments for U.S. Companies in BRI Host Countries

The BRI may create unfair competition in host countries by subsidizing PRC companies and providing loans with more flexible lending criteria, making it more difficult for U.S. companies to enter these markets or compete. Experts that participated in our BRI workshop most often selected unfair competition related to the BRI as one of the most significant issues that affect U.S. economic interests in host countries.[57]

Subsidies linked to financing. BRI projects are predominantly financed by debt, with most projects backed by two PRC state-owned banks, the China Development Bank and the Export-Import Bank of China. According to U.S. government officials, many of these government-to-government loans subsidize and guarantee the participation of PRC companies, which may disadvantage U.S. companies in some host countries.

Less-demanding, less risk-averse lending. PRC state-owned banks have had less-demanding lending criteria than multinational banks and are more likely to finance infrastructure projects that multinational banks may consider too risky or not viable, according to experts that participated in the GAO BRI workshop. According to one expert, risky BRI projects are often financed with the purpose of asserting PRC presence or

[55]Ray, *Small is Beautiful*.

[56]B.C. Parks, et al, *Belt and Road Reboot*.

[57]The BRI may also have a positive effect on the U.S. economy. For example, new infrastructure from BRI investments can significantly reduce trade costs and shipment time potentially benefiting all countries along the trading routes, which may benefit global marketplace and in turn benefit the U.S., according to a study. See Fran?ois De Soyres , Alen Mulabdic, Siobhan Murray, Nadia Rocha, and Michele Ruta, "How much will the Belt and Road Initiative reduce trade costs?," *International Economics*, vol. 159, issue C (2019): 151-164.

influence in a host country. As a result of these subsidies and lending practices, U.S. companies often cannot bid for major infrastructure projects or compete on price with PRC companies in BRI host countries, according to a U.S. official. As previously discussed, under the new phase of the BRI the PRC is revising how it vets borrowing institutions by outsourcing risk management from its state-owned banks to international finance institutions, such as the European Bank for Reconstruction and Development.

PRC market entry. BRI projects advance the PRC's commercial interests and undercut the economic role of the U.S. by facilitating market entry for PRC companies and lowering the cost of working with them, providing advantages over U.S. companies. According to the Council on Foreign Relations report, this, in turn, allows PRC firms to be better positioned than U.S. firms to meet BRI host countries' technological needs.[58]

The PRC provides assistance to telecommunication companies that has facilitated Chinese companies taking on high-risk projects to enter a market in BRI countries. Developing countries have significant needs for telecommunications infrastructure, and the BRI allows the PRC to meet these needs at lower costs than the U.S. is generally able to do. For instance, the PRC provides companies like Huawei with subsidies to overcome the high cost of entering new markets, including in low-income countries, according to the Council on Foreign Relations report. Preferential government treatment through policy support and major lines of credit through the China Development Bank, the Export-Import Bank of China, and state-owned commercial banks allow Huawei to provide products and services at a 30 or 40 percent lower cost in some BRI host countries. As a result, the BRI increases the likelihood that the PRC will set technical standards governing industrial processes and telecommunications that may close out markets to U.S. companies in many developing countries.

For example, according to a representative of a telecommunications company in Kenya that is supported by U.S. assistance, Huawei has deployed an extensive telecommunication network in Kenya—including 5G towers and fiberoptics cables—to provide mobile and internet services. Conversely, U.S. telecommunication companies have a limited presence in Kenya. This individual said that even with the support of U.S. agencies, it is very difficult to compete with PRC telecommunication firms. This company has opted to provide internet access to low-income users, in part because companies like Huawei dominate more lucrative sectors of the market.

The BRI May Impact U.S. Political Efforts by Establishing Strong Ties between the PRC and Host Countries

Some civil society representatives we interviewed in Angola and Kenya told us that the success of the BRI in developing major infrastructure projects provides the PRC greater political and diplomatic influence in their country. According to some of these civil society representatives, the growing influence of the PRC through the BRI is in part due to the comparatively limited infrastructure assistance the U.S. and other Western countries have provided.

According to government officials and civil society representatives we interviewed in Angola and Kenya, although there are some negative aspects of the BRI, such as opaque lending practices and the use of Chinese labor and materials over local workers and suppliers, the BRI has served to meet significant

[58]Hillman, David, and Schmemann, *China's Belt and Road: Implications for the United States*.

infrastructure needs in their countries. In contrast, the U.S. and other Western countries have either been unable or unwilling to finance or support infrastructure projects.

A former government official in Kenya responsible for negotiating BRI loans stated that the Government of Kenya would have preferred to obtain financing from the U.S. because he considers it fairer and more transparent. However, he said financing or assistance from the U.S. was limited, difficult to access, and slow to be provided. The official said that despite some flaws with the BRI, loans were readily available, and projects were efficiently and rapidly designed and implemented. He added that the lack of U.S. infrastructure assistance and the success of the BRI in developing infrastructure has led to closer political relations with the PRC.

BRI investments could further enhance the PRC's diplomatic and strategic leverage over host countries, as well as its soft power and global reputation. The experts who participated in our BRI workshop most frequently cited PRC influence over host countries as one of the most significant issues that affects U.S. political interests in BRI host countries Since it was established, the BRI has expanded to Africa, Oceania and Latin America, significantly broadening the PRC's economic and political influence, according to the Council on Foreign Relations. For example, according to an AidData report, across all UN General Assembly votes cast between 2000 and 2021, the governments of low- and middle-income countries aligned their foreign policy positions with the PRC 75 percent of the time—compared to 23 percent with the U.S.[59] Further, according to that report, foreign governments that have chosen to increase alignment of their UN General Assembly voting with the PRC by 10 percent or more have seen an average 276 percent increase in aid and credit from the PRC.

The BRI Has Increased Host Countries' Dependence on PRC Digital Infrastructure and Technical Standards, Which May Affect Their Ability to Engage with the U.S.

The BRI enables PRC technology companies to penetrate and dominate markets in host countries, which may affect their ability to engage with the U.S., according to a Council on Foreign Relations report. In 2015, the PRC added the Digital Silk Road to the BRI through which its major technology companies—such as Huawei and Alibaba—are encouraged to build out digital infrastructure in host countries. As part of the Digital Silk Road, the PRC backs companies, which allows them to receive preferential terms when they negotiate deals with host country governments, according to the Council on Foreign Relations. Once a major company like Huawei has its digital infrastructure in place, it is relatively cheaper for additional PRC companies to follow it into that market. Once PRC companies have embedded their digital infrastructure, switching to non-PRC providers becomes far less likely and more costly for local operators, especially because telecommunications companies generally cannot mix and match components, according to the Council on Foreign Relations report.

Through the BRI, the PRC uses the initial sales of digital infrastructure to set accompanying technical standards for these networks. The penetration of technology companies like Huawei in BRI host countries is concerning for the United States, which assesses that the company is effectively an extension of the PRC. The success of PRC technology companies setting PRC technical standards in many BRI host countries is making it difficult for Western companies to sell similar technologies in these regions. This could in turn limit host countries' abilities to seek out cheaper or higher-quality competitive bids from outside the PRC in the

[59]B.C. Parks, et al, *Belt and Road Reboot*.

future. According to a report from the OECD, the sheer scale of PRC activity in telecommunications abroad puts it in a very strong position to establish its technical standards as “global defaults” in a number of fields.[60]

According to a Council on Foreign Relations report, the PRC’s Action Plan for Standards Connectivity for the Joint Construction of the Belt and Road calls for uniform technical standards across BRI host countries. The PRC has signed agreements on mutual standard recognition with 49 BRI host countries, according to this report. By incorporating technical standards into BRI-related memorandums of understanding, the PRC could win support for its preferred standards through project negotiations. There is also concern that the PRC’s growing financial technology companies, which use the BRI to gain privileged access to millions of consumers, could potentially give the PRC major surveillance opportunities, according to the same Council on Foreign Relations report.

BRI Projects Could Challenge U.S. Security by Allowing the PRC Access to Strategic Resources and Locations

The BRI provides opportunities for the PRC’s military to expand its global reach by gaining access to foreign strategic resources and locations—such as ports, bases, and energy supplies—and to project its military power. The experts that participated in our BRI workshop most often selected projecting PRC military power through access to strategic resources as the most significant effect of the BRI on U.S. security interest, closely followed by projecting PRC military power through access to strategic locations.

According to a report from the RAND Corporation, the PRC’s expanding overseas interests provide compelling incentives to expand its military operational presence abroad.[61] The anticipated evolution of the global economy may depend more prominently on developing countries, which provides an incentive for the PRC to focus its overseas military activities in those regions. The PRC may be especially interested in protecting key economic links with BRI countries in Eurasia, the Middle East, Africa, and Latin America. Overseas military access and basing is a critical component of the PRC’s global military ambitions. According to the same report by the RAND Corporation, with the opening in 2017 of its first overseas military facility in Djibouti, a BRI member, the PRC appeared to take a major step toward projecting global military power.

According to a report from the Council on Foreign Relations, the PRC could leverage BRI projects to pressure nations to deny U.S. forces transit, or operational and logistical support, thereby making it more challenging for the U.S. to preserve international order and norms.[62] According to the RAND Corporation, this could also intensify competition with the U.S. and rival Asian powers, which could motivate the PRC to consider a broader range of operations abroad than its military conducts today, including some form of combat operations. According to the Council on Foreign Relations, the PRC could use its increased investment in and influence over ports in BRI countries to project power into new regions and possibly to collect intelligence on the U.S. military, if the U.S. also uses these same ports and other facilities. According to the Council on Foreign Relations, in addition, the PRC could turn off a country’s power grid or telecommunications network to force the

[60]OECD, “The Belt and Road Initiative in the global trade, investment and finance landscape,” in *OECD Business and Finance Outlook 2018* (Paris: OECD Publishing, 2018).

[61]Cristina L. Garafola, Stephen Watts, Kristin J. Leuschner, *China’s Global Basing Ambitions: Defense Implications for the United States* (Santa Monica, CA: RAND Corporation, Dec. 8, 2022).

[62]Hillman, David, and Schmemann, *China’s Belt and Road: Implications for the United States*.

recipient country to take actions preferred by the PRC in places where PRC firms have built critical infrastructure, such as telecommunications networks and power plants, and in which PRC firms retain operational control of this infrastructure. BRI investments could also create security risks and tensions for the U.S. in regions where there are territorial disputes, such as the Indian Ocean, according to a report we reviewed.[63]

Experts Suggested Potential Improvements to Address Challenges in Financing and Implementing U.S. Infrastructure Projects Abroad

Experts that participated in the GAO BRI workshop identified various policy options that could help address key challenges that hinder U.S. foreign assistance for infrastructure projects. Experts identified key U.S. government challenges such as the lack of a public national strategy to guide and prioritize U.S. efforts and the fragmented nature of U.S. assistance efforts across multiple agencies. Experts highlighted increased risk tolerance to make investments more attractive to the private sector and enhanced capacity building in host countries to create a better enabling environment as the most important policy options for the U.S. government to consider. Experts also proposed specific modifications to U.S. agency roles and processes to better support private sector investment in international infrastructure projects. For example, experts considered increasing DFC's flexibility to make equity investments and enhancing EXIM's ability to take on more risk by creating a default rate cap carveout for certain deals among the most important modifications.[64]

Experts Identified Key Challenges to U.S. Investment in International Infrastructure Projects, Including the Lack of a Public National Strategy to Guide and Prioritize U.S. Efforts and Fragmentation Among U.S. Agency Efforts

Experts identified several key challenges for the U.S. government and U.S. companies in financing and implementing international infrastructure projects (see tab. 4). Experts identified challenges in the areas of financial risk and standards, resources, and strategic coordination. For further information on key challenges see appendix III.

Table 4: Key Challenges Identified by Experts for the U.S. Government and U.S. Companies in Financing and Implementing International Infrastructure Projects

Multiple Standards and Financial Risk Challenges
Multiple standards and lengthy approval timeframes
High investment risks for international infrastructure projects

[63]Anu Anwar, "South Asia and China's Belt and Road Initiative: Security Implications and Ways Forward," in *Hindsight, Insight, and Foresight: Thinking About Security in the Indo-Pacific*, ed. Alexander L. Vuving (Honolulu, HI: Daniel K. Inouye Asia-Pacific Center for Security Studies, September 2020).

[64]EXIM's default rate cap is the rate at which the entities to which the bank has provided financing are in default on a payment obligation under the financing, calculated by dividing the total amount of the required payments that are overdue by the total amount of the financing involved.12 U.S.C. § 635g(g)(1). EXIM has a default rate cap of 2 percent. 12 U.S.C. § 635e(a)(3).

Resource Challenges
Limited host country capacity for bankable projects
Limited on-the-ground U.S. presence

Strategic and Coordination Challenges
Lack of a public national strategy to guide and prioritize U.S. efforts
Fragmentation of U.S. efforts
Limited interagency coordination

Source: GAO analysis. | GAO-24-106866

Multiple Standards and Financial Risk Challenges

Multiple standards and lengthy approval timeframes. Some experts noted that U.S. companies and Western donors need to meet certain standards when competing for infrastructure projects, and host countries may not see U.S. offers as attractive because of their inability, or even unwillingness, to match the varied standards.[65] Experts stated that the standards include procurement, and environmental, social, and governance standards.

- **Procurement Standards.** Some experts noted that U.S. companies use life-cycle cost analysis of their project bids while many host governments generally make procurement decisions based on lowest-cost bids.[66] According to some experts, U.S. companies are not always competitive with PRC companies if only lowest-cost bids are considered.
- **Environmental, Social, and Governance Standards.** As part of the due diligence process for project approval, U.S. companies are required to meet certain environmental, social, and governance standards to receive U.S. government assistance for a project, according to some experts.[67] In addition, according to an expert, each agency has different requirements for its review of these standards.

According to some experts, in addition to U.S. companies, host governments are also required to comply with Western standards before they can receive U.S. assistance, which can be challenging. For example, an expert noted that host government officials may think it is too expensive to meet Western standards due to the cost to address and meet those requirements.

High investment risks for international infrastructure projects. Some experts noted that international infrastructure projects are high-risk investments that usually take a long time to complete and to generate revenue to recover costs. In addition, according to some experts, there is a higher risk when the infrastructure

[65]For example, an expert noted Western companies and government agencies emphasize implementing environmental standards as a criterion for financing a project, whereas the PRC has less rigorous standards and can more easily compete in industries such as mining.

[66]According to the U.S. Trade and Development Agency's (USTDA) Global Procurement Initiative, life-cycle cost analysis is a methodological tool used to assess value and calculate the total cost of ownership of a project across factors such as equipment quality, operations, and maintenance. Lowest-cost bid procurements consider initial purchase price as the determining factor for award and fail to consider other non-cost related factors, according to the Global Procurement Initiative.

[67]For example, according to DFC's Environmental and Social Policy and Procedures, among other things, a U.S. company must have an environmental and social management system, meaningful consultation with communities in the project area, and, for some types of projects, an environmental and social impact assessment completed before receiving DFC assistance for a project.

investment is made in developing markets, due to currency, corruption, and political risks. For example, an expert noted most infrastructure projects are done in local currency and that there are few tools to manage the risk of devaluation of the local currency over the long time-frames typical of international infrastructure projects.[68] Private companies must then rely on the host country to manage its currency through unforeseen circumstances, such as the COVID-19 pandemic. As a result, the higher risk of the investment relative to the potential returns can discourage private companies from investing in international infrastructure.

Resource Challenges

Limited host country capacity for bankable projects. Low- and lower middle-income countries have a pressing need for quality infrastructure, but often lack the capacity to develop bankable projects according to experts.[69] Some experts and agency officials noted that some local institutions can suffer from corruption and a lack of expertise, which make it difficult for them to structure infrastructure projects in accordance with leading U.S. standards. As previously mentioned, host countries may have difficulty efficiently navigating and applying the varied international standards to their projects, making the projects challenging for private companies to invest in.

Limited on-the-ground U.S. presence. Experts noted that, in comparison with the PRC and other donors, the U.S. government has a limited presence on the ground in host countries. A robust presence in these countries facilitates the ability to identify and compete for international infrastructure project opportunities. In addition, experts noted an on-the-ground presence may be the best way to make interpersonal connections with local governments and identify their priorities. However, increasing agencies' on-the-ground presence would potentially require additional budgetary resources to support it.

Strategic and Coordination Challenges

Lack of a public national strategy to guide and prioritize U.S. efforts. According to U.S. agency officials and some experts, the U.S. government has not developed a public national strategy to guide and prioritize U.S. efforts to finance international infrastructure projects and counter the BRI. Instead, individual U.S. government agencies pursue a variety of goals, including financing and implementing large international infrastructure investments; improving host countries' democracy, governance, and business environment; and strengthening climate resilience. Some experts noted that it is not clear whether the U.S. strategic priority is to compete directly with the PRC in financing and implementing major infrastructure projects in low- and lower middle-income countries or to support other goals. Some experts noted that the Partnership for Global Infrastructure and Investment, a 2022 presidential initiative, is an attempt to provide strategic leadership within the U.S. government, but they also noted that the initiative does not have budget authority, lacks an overall public strategy, and is not institutionalized. Nineteen of 28 experts participating in our workshop chose enhancing the U.S. government's ability to finance and implement large international infrastructure investments

[68]According to Commerce's International Trade Administration, currency risk is the risk associated with uncertain future exchange rates. The relative values of two currencies could change between the time a deal is concluded and the time payment is received. A devaluation or depreciation of the foreign currency could cause a private company to lose money on the deal.

[69]According to the World Bank, bankable projects clearly outline how financial risks will be shared between potential investors and the host government.

as the most important strategic goal for the U.S. government to pursue and recommended developing a national strategy around that goal.[70]

Fragmentation of U.S. efforts. Experts noted that U.S. government efforts are fragmented in providing support for developing and financing international infrastructure projects. According to some experts, multiple U.S. agencies provide various types of support to host countries; however, each agency has its own tools, restrictions, and role in the infrastructure project life cycle. Navigating these differences may be challenging for the implementing partners and host countries. Some experts noted that a common issue raised by host country governments is the large number of agencies and tools that a country needs to work with in the U.S. system to have a successful project.

Limited interagency coordination. Agency officials stated that interagency coordination occurs at the working level, notably through Embassy Deal Teams.[71] However, several experts noted that there are opportunities for agencies to improve coordination along the project life cycle. For example, limited coordination among agencies has resulted in projects receiving U.S. project preparation assistance without identifying a U.S. agency or company that could take over and finance that project. In addition, some experts stated that the U.S. cannot offer “package deals” that the PRC and Western donors can provide, because each agency has its own requirements for the types of projects it can support.[72]

Experts Identified Policy Options and Specific Agency Modifications to Potentially Improve U.S. Investment in International Infrastructure Projects

Experts proposed several policy options to potentially improve U.S. investment in international infrastructure projects. Among them, they identified increased risk tolerance and enhanced capacity building as the most important policy options to consider. The prioritization and implementation of the policy options would depend on the main goals and strategies the U.S. government chooses to pursue. According to agency officials, some of the policy options experts discussed would require the U.S. government to enact statutory changes and others may require an increase in budgetary resources. Each suggested policy option is intended to help address the identified challenges stated in the previous section and are the views of the experts. Some policy options are relevant to more than one challenge and others specifically address a particular challenge.

In addition to identifying U.S. government–wide policy options, experts suggested the consideration of specific modifications to the roles and processes of U.S. agencies involved in supporting private investment in international infrastructure projects. The proposed changes include modifications to increase risk tolerance of credit agencies, to streamline or improve agencies’ processes that affect timeliness and coordination, and

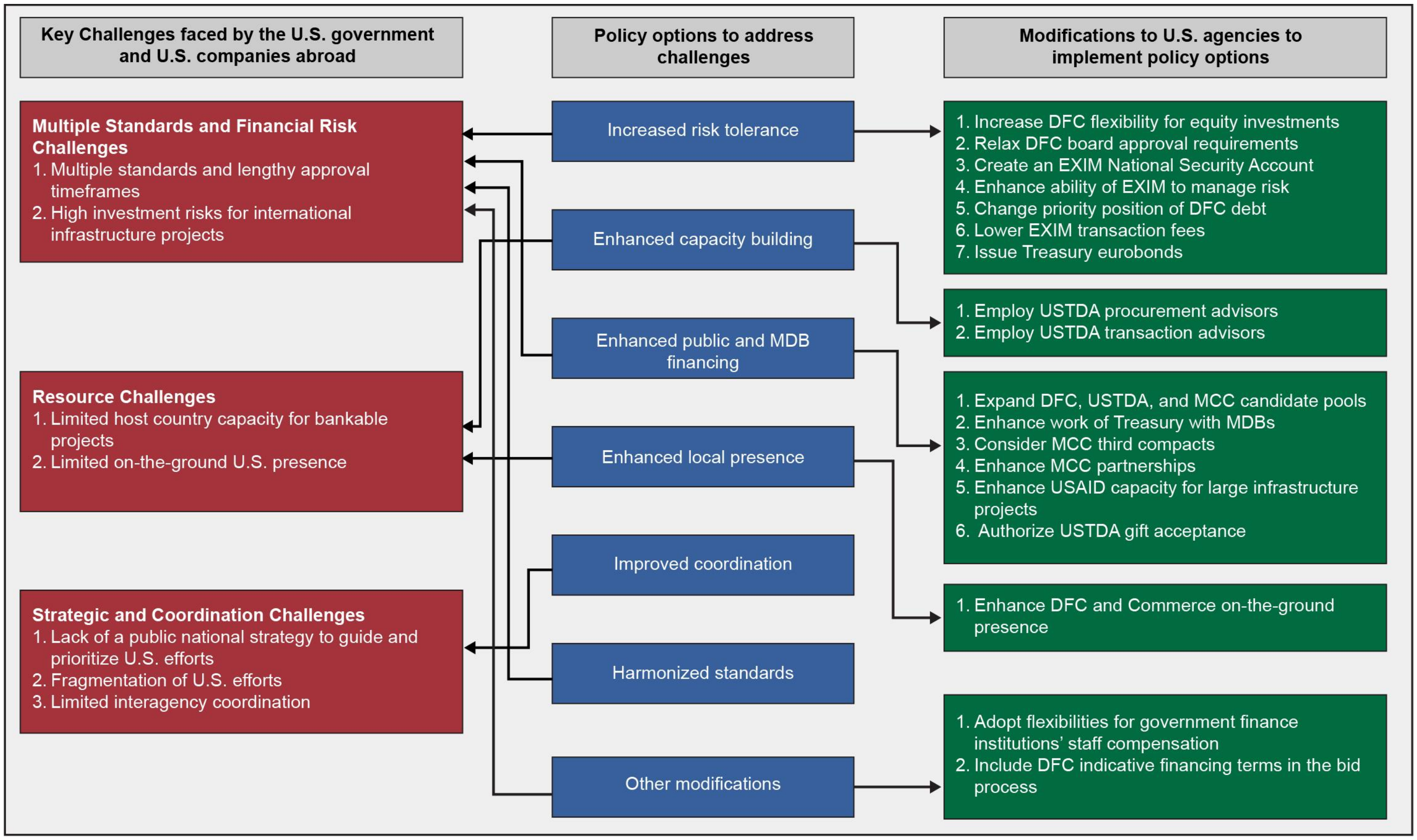
[70]In a post-workshop survey, experts were asked to vote on the most important strategic goal in relation to improving U.S. assistance for international infrastructure projects for the U.S. government. The other options experts voted on were: (1) Promote overall developmental goals based on U.S. comparative advantage, including investment in social infrastructure; (2) Achieve host countries’ environmental, social, and governance goals; (3) Increase support for women and minority-owned U.S. private sector companies involved in foreign infrastructure investment; and (4) Improve climate resilience. For more information about our methodology, please see appendix II.

[71]Embassy Deal Teams are working groups of interagency staff at overseas posts that help U.S. companies to identify and execute business opportunities and typically include representatives from agencies with economic or development roles that are located at that post (e.g., State, Commerce, USTDA, DFC, and USAID).

[72]A “package deal” refers to assistance that covers the entire project life cycle and that a donor can offer a host country at the beginning of a project.

modifications that could result in a geographic expansion of provided assistance. See figure 6 for the linkages between the key challenges, policy options to address key challenges, and agency modifications that can help implement the policy options.

Figure 6: Expert-Identified Potential Policy Options That Could Help Address Challenges in International Infrastructure Investment and Agency Modifications to Implement Policy Options



Legend: Commerce = Department of Commerce, DFC = U.S. International Development Finance Corporation, EXIM = Export-Import Bank of the United States, MDB = multinational development bank, MCC = Millennium Challenge Corporation, Treasury = U.S. Department of the Treasury, USAID = United States Agency for International Development, USTDA = U.S. Trade and Development Agency.

Source: GAO analysis of information identified by experts. | GAO-24-106866

Note: Experts identified the potential policy options "Harmonized standards" and "Improved coordination" as policy options that may require an inter-agency response to implement rather than individual agency modifications.

The summary of proposed policy options and agency modifications represent the views of the experts and do not represent the views of GAO. It is important to note that the modifications suggested have not been subjected to rigorous cost-benefit analysis, legal, or other analysis to determine whether the proposals are meritorious.[73]

Increased Risk Tolerance

Twenty-two of 28 experts identified increased financial risk tolerance for U.S. agencies and multilateral development banks (MDB) as a high importance policy option. An expert suggested that EXIM and DFC may need higher risk thresholds than commercial banks to successfully attract private investment for international infrastructure projects. The U.S. agencies would need to carefully balance the private sector's ability to invest in high-risk sectors such as international infrastructure projects with the necessary internal controls in place to protect against potential losses. To manage financial risk, an expert suggested the possibility of loan portfolio diversification and subsequent securitization, because even if one or two projects fail, the overall portfolio may still provide a reasonable return for private investors.[74]

Experts also identified specific agency modifications to increase risk tolerance:

Increase DFC flexibility for equity investments. Twenty-six experts ranked increasing the flexibility of DFC's financing tools, such as relaxing certain constraints on equity investment, as highly or moderately important. An expert noted that DFC equity investments are an important source of long-term capital for businesses in the absence of private sector investment. An expert suggested increasing the flexibility of DFC's financing tools, namely changing the budgetary treatment of equity investments, to provide more financing for U.S. companies involved in international infrastructure projects. A change in the budgetary treatment of equity investments would require statutory action, according to agency officials.[75]

Relax DFC Board approval requirements. Twenty-four experts ranked raising the monetary threshold required for approval by DFC's Board of Directors as highly or moderately important. According to agency documentation, the Board of Directors—in addition to DFC's Credit Committee and Investment Committee—must approve any transaction where DFC's exposure is over $50 million, which can be a more time-consuming and involved process.[76] An expert suggested raising the threshold required for such approvals to $150 million, to better reflect DFC's current scale and reduce the number of transactions that are subject to board review

[73]Public policies to support international infrastructure projects should be based on sound analysis of the underlying issues and designed to limit unintended consequences. This involves a careful consideration of the rationale for the policies and their costs and benefits to society. More generally, all policy options that increase U.S. financing assistance for international infrastructure projects have budgetary implications for the U.S., inherent risks to U.S. taxpayers, and potential effects on other government programs through their effects on the federal budget. In addition, the recommendations suggested by experts are not geared towards a specific strategic response or particular development goals, but rather take it as given that increased infrastructure financing is beneficial.

[74]Loan securitization is the financial practice of combining multiple investment assets into a portfolio of investments. For example, combining 30 infrastructure projects into a portfolio instead of investing in each project individually would provide risk diversification and lower the expected risks of the portfolio as a whole.

[75]DFC officials noted that new sections would need to be added to the BUILD Act of 2018 to implement this modification. According to agency officials, equity investments are currently scored on a dollar-for-dollar basis, requiring 1 dollar of appropriated funds for every dollar committed, in line with other forms of federal spending on investments. Future returns on equity investments are not recognized until the fiscal year in which the returns take place.

[76]Agency documentation states that transactions where DFC's exposure is between $20 million and $50 million must be approved by DFC's Credit Committee and Investment Committee, but not its Board of Directors. Transactions below the $20 million approval threshold are subject to review by senior credit and management personnel, but do not involve the Credit Committee, Investment Committee or Board of Directors.

and approval. Changing the threshold for approvals does not require legislative action and can be changed by the board itself, according to agency officials.[77]

Create an EXIM National Security Account. Twenty-one experts ranked creating a national security account for EXIM as highly or moderately important. EXIM's loans are generally required by statute to offer a reasonable assurance of repayment, but many infrastructure projects with a national security interest may not be commercially attractive or viable.[78] For EXIM to support these kinds of projects, an expert suggested the creation of a special national security account, similar to the National Interest Account used by Export Finance Australia.[79] The creation of a national security account would require statutory changes, according to agency officials.[80]

Enhance ability of EXIM to manage risk. Twenty-one experts ranked enhancing EXIM's ability to manage risk as highly or moderately important. According to agency documentation and some experts, EXIM's 2 percent default rate cap limits the amount of risk EXIM can take. Exceeding the 2 percent default rate cap prevents EXIM from making new loans until enough borrowers repay existing loans to bring the default rate back under 2 percent, according to agency documentation and some experts. An expert noted that to compete with the PRC, EXIM may need to take more risks to support transactions in strategic sectors or challenging markets. They suggested creating a default rate cap carveout for China and Transformational Exports Program–related deals and providing funds to offset risks for these projects.[81] Higher risk would necessitate having sufficient internal controls in place to adequately manage the increased risk of default on EXIM's services. Creating a default rate cap carveout would require statutory changes, according to agency officials.[82]

Change priority position of DFC debt. Eighteen experts ranked issuing more subordinated debt as highly or moderately important. According to agency officials, DFC debt generally occupies a senior position, or is *pari passu* (i.e., on equal footing) with other senior debts held by the borrower in the case of repayment. DFC is authorized to issue subordinated debt if there is a substantive policy rationale to do so.[83] Some experts

[77]The threshold for DFC Board approval is a matter of delegation by the board, according to agency officials.

[78]EXIM's loans, so far as possible consistent with the carrying out of the purposes of the bank, shall generally be for specific purposes, and, in the judgment of the Board of Directors, offer reasonable assurance of repayment.12 U.S.C. § 635(b)(1)(B). Agency officials also noted that there are overarching limitations that apply to all of EXIM's work that could prevent EXIM from considering a specific transaction with national security interests. For example, if a transaction does not involve U.S. exports or U.S. jobs, then EXIM cannot become involved with the transaction, according to agency officials.

[79]Export Finance Australia is the Australian government's export credit agency.

[80]Agency officials noted commercial viability is not the only limitation that prevents EXIM from considering a certain transaction, and other limitations include a strong connection to direct exports or U.S. jobs. Agency officials noted that if a national security account is pursued, it must be clear as to its intent and what statutory carve outs the account provides the agency.

[81]Part of the provision regarding EXIM's China and Transformational Exports Program directs EXIM to support the extension of loans, guarantees, and insurance, at rates and on terms and other conditions, to the extent practicable, that are fully competitive with the rates terms, and other conditions established by the PRC. 12 U.S.C. § 635(l)(1).

[82]According to agency officials, changing the default rate cap would require amending sections 6(a)(3) and 8(g) of the Export-Import Bank Act of 1945, codified as amended at 12 U.S.C. §§ 635e(a)(3) and 635g(g). Agency officials also noted that EXIM would benefit from considering a carve-out for nuclear related deals, either by congressionally mandating nuclear as a Transformational Export Area or designating nuclear in the default rate cap carve out. Agency officials said nuclear projects face many of the same challenges that China and Transformational Exports Program transactions face.

[83]According to the Wilson Center, a senior position in repayment means a debtor is required to pay back DFC's debt before other debts in the case of default or liquidation. Subordinated debt is any debt that is junior to other debt, according to the Wilson Center.

suggested that DFC could activate more private financing by issuing more subordinated debt. Sufficient internal controls and risk mitigation measures are important for the government to take on the additional risk associated with subordinated debt. In addition, agency officials noted subordinated debt could have an impact on DFC's repayment prospects. DFC's authorizing statue would need to be amended to allow the issuance of more subordinated debt, according to agency officials.[84]

Lower EXIM transaction fees. Fifteen experts ranked improving the accessibility of EXIM's tools to U.S. companies by reducing charged fees as highly or moderately important. According to agency officials, federal budgetary laws, such as the Federal Credit Reform Act, require EXIM to set aside risk-rated loan-loss reserves for its financing. The costs of these loan-loss reserves are covered by collecting fees from its transactions unless the agency has appropriated funds, known as program budget funds, to offset the difference between fees collected and reserve requirements.[85] An expert noted that EXIM charges high fees for transactions with high risk, which can disincentivize private sector interest for EXIM's lending. An expert suggested that limiting charged fees to only the amount EXIM must statutorily collect could help improve the accessibility of more of EXIM's tools to U.S. companies by reducing the cost charged to access them.[86]

Issue Treasury eurobonds. Twelve experts ranked providing the Department of the Treasury with the authorization to provide eurobonds as highly or moderately important. According to an expert, the U.S. can issue a eurobond guarantee to a host country government, which can use the bond to fund its operations.[87] According to the expert, eurobonds can be a tool to help shape a host country's enabling environment, by providing financial incentives for the host country to implement policy reforms to secure the release of further payments.[88] According to an expert, permitting Treasury to issue eurobond guarantees would require statutory changes.[89]

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[84]U.S. law states "the following requirements apply to support provided by the Corporation under this subchapter… (12) Any loan or loan guaranty made by the Corporation should be provided on a senior basis or pari passu with other senior debt unless there is a substantive policy rationale to provide such support otherwise." 22 U.S.C § 9622(12).

[85]According to agency officials, these statutory requirements are found in sections 2(b)(1)(B) and 2(c)(1) of the Export-Import Bank Act of 1945, Pub. L. No. 79-173, 59 Stat. 526 (July 31, 1945), which are codified as amended at 12 U.S.C. §§ 635(b)(1)(B) and (c)(1), and the Federal Credit Reform Act of 1990, Pub. L. No. 101-508, title XIII, § 13201(a), 104 Stat. 1388 (Nov. 5, 1990), which is codified as amended at 2 U.S.C. § 661, et seq. EXIM's program budget authority is provided in annual appropriations acts, according to EXIM. See, for example, Pub. L. No. 117-328, div. K, title VI, 136 Stat. 4459, 4998, "Program Budget Appropriations" (Dec. 29, 2022).

[86]Agency officials noted that a consequence of EXIM lowering its fees to meet its statutorily required loan-loss reserve rates is that in many instances transactions would be out of compliance with the OECD Arrangement for medium-and long-term export finance transactions. The arrangement allows for export credit agencies to match nonparticipant financing on a case-by-case basis. However, according to agency officials, a strategic policy decision to offer fees lower than the OECD minimums on a portfolio basis could have wide ramifications on agencies' broader compliance with the arrangement rules. In the instances where EXIM's loan loss reserve requirement is higher than the OECD minimum rates, EXIM would benefit from program budget funds, so the increased cost is not passed onto the borrower, agency officials indicated. Broader agency noncompliance could be detrimental to EXIM because other export credit agencies have fewer restrictions, according to officials.

[87]A eurobond is a long-term bond that is issued by a government and denominated in a currency other than the dollar. See, HSBC, "Eurobond" (London, United Kingdom: n.d.), accessed June 5, 2024.

[88]An expert remarked that, in the past, Treasury has received authorization to provide eurobond guarantees to countries and suggested that Treasury regain the authority to issue eurobonds as financial incentives for host countries to improve their enabling environment.

[89]This modification was proposed by an expert during our virtual workshop and not reviewed by Treasury officials. We have not confirmed the specific statutes that would need to be changed with Treasury officials and solely report on the expert's proposed modification and discussion.

Enhanced Capacity Building

Twenty of 28 experts identified enhancing existing foreign assistance programs as a high importance policy option to address low capacity in host countries and improve the development of bankable projects. Such enhancement could potentially take the form of increasing the budgetary resources devoted to them. Some experts identified some programs that have been particularly impactful. Specifically, the U.S. Trade and Development Agency's (USTDA) Global Procurement Initiative helps train host country procurement officials on updated procurement practices, including shifting countries away from accepting lowest-cost bids to incorporating life-cycle cost procurements. In addition, Commerce's Commercial Law Development Program provides government-to-government technical assistance for commercial legal reforms and can help host governments develop the legal infrastructure to help U.S. businesses compete.

Experts also identified specific agency modifications to enhance U.S. capacity building efforts:

Employ USTDA procurement advisors. Twenty-two experts ranked embedding USTDA procurement advisors in foreign ministries as highly or moderately important. One expert remarked that it would be helpful for USTDA to have procurement advisors embedded in host country ministries to provide real time support for real time procurement decisions that the host government is making. USTDA has the authority to hire procurement advisors but does not have the resources to support the presence of advisors overseas, according to agency officials.

Employ USTDA transaction advisors. Twenty experts ranked hiring USTDA transaction advisors as highly or moderately important. Some experts suggested that USTDA hire transaction advisors to facilitate the handoff from USTDA-assisted project preparation to U.S. companies or agencies that can provide financing further along the project life cycle. According to agency officials, USTDA has the authority to hire transaction advisors but does not have the resources to support the presence of advisors overseas.

Enhanced Public and MDB Financing

Nineteen of 28 experts identified the greater use of public financing options by the U.S. government and MDBs as a high importance policy option to offset the limited investment of private capital in international infrastructure projects. For example, public financing could be provided through concessional loans and equity investments in U.S. companies.[90] Some experts suggested higher use of concessional loans, for example noting that European development finance institutions have provided private companies with concessional loans and suggested that MDBs can provide more loans for infrastructure projects to help attract more private capital. Lastly, some experts discussed an increase in the use of equity investments by the U.S. government through DFC, which is authorized to make equity investments in companies under certain conditions.[91]

Experts also identified specific agency modifications to enhance public and MDB financing:

[90]Concessional loans are loans that provide financing terms at below market rates and typically have longer grace periods than commercial loans.

[91]Generally, equity investments occur when an investor purchases stock of a company in exchange for a share of ownership in the company.

Expand DFC candidate pool. Twenty-six experts ranked expanding the countries where DFC operates as highly or moderately important. One purpose of DFC is to mobilize and facilitate the participation of private sector capital and skills in the economic development of less developed countries, as defined by the World Bank.[92] According to some experts, this may restrict DFC from operating in countries with economies above the World Bank income thresholds.[93] Further, agency officials explained that countries can move annually from one income group to another, and this movement may prevent DFC from completing an ongoing project financing opportunity. They suggested changing the country eligibility categories to be in line with the World Bank's lending categories, which consider a broader set of criteria than per-capita income alone. Changing the country eligibility categories could help DFC finance projects in countries without having to solely rely on annual income updates and expand the candidate pool to more countries. This expansion of eligibility would require statutory changes, according to agency officials.[94]

Expand USTDA candidate pool. Twenty-four experts ranked expanding the countries where USTDA operates as highly or moderately important. By statute, the purpose of USTDA is to promote U.S. private sector participation in development projects in developing and middle-income countries, with special emphasis on economic sectors with significant U.S. export potential, such as energy, transportation, telecommunications, and the environment.[95] According to an expert, this focus on developing and middle-income countries prevents USTDA from operating in countries that move between income thresholds or high-income countries with strategic importance. According to agency officials, this modification to USTDA's statute could allow the agency to deploy its project preparation assistance in geopolitically strategic or vulnerable markets that may not fall in the category of "developing and middle-income countries." This expansion would require statutory changes, according to agency officials.

Expand MCC candidate pool. Twenty-three experts ranked expanding the countries where MCC operates as highly or moderately important. Statutory restrictions prevent MCC from operating in countries unless they meet specified income thresholds and other requirements.[96] According to an expert, expanding MCC's candidate pool to include upper middle-income countries with infrastructure needs would allow the agency to

[92] 22 U.S.C. §§ 9601(2) and 9612(b). DFC is also required to prioritize the provision of support in less-developed countries with a low-income economy or a lower middle-income economy. 22 U.S.C. § 9612(c).

[93] The World Bank updates the income thresholds annually and countries can move from one income group to another based on annual changes in the thresholds. The World Bank divides countries into four income groupings: low, lower middle, upper middle, and high, based on gross national income per capita (in U.S. dollars, converted from local currency using the Atlas method). According to the World Bank, the Atlas method addresses exchange rate fluctuations using a 3-year moving average, price-adjusted conversion factor. These thresholds are updated annually at the beginning of the World Bank's fiscal year (i.e., July 1), with an adjustment for inflation.

[94] According to agency officials, changing the country eligibility criteria would require amending sections 1402(2) & 1412(b) and (c) of the BUILD Act, which are codified at 22 U.S.C. §§ 9601(2), 9612(b) and (c).

[95] 22 U.S.C. § 2421(a).

[96] The candidate pool includes low-income and lower middle-income countries, as classified by the International Bank for Reconstruction and Development. 22 U.S.C. § 7705(a)-(b).

operate in more countries and expand the effect of MCC assistance. This expansion would require statutory changes, according to agency officials.[97]

Enhance work of Treasury with MDBs. Twenty-four experts ranked enhancing Treasury's work with MDBs as highly or moderately important. Experts stated that MDBs have the capacity, technical expertise, and relationships with host countries necessary to successfully oversee the financing of large infrastructure projects. Some experts encouraged increased U.S. engagement with MDBs to prioritize infrastructure investment and suggested Treasury expand its work with MDBs to finance more large infrastructure projects and coordinate multilateral processes to identify and implement project opportunities.[98] Enhancing Treasury's work with MDBs would require agency action to implement, according to experts.

Consider MCC third compacts. Twenty experts ranked allowing MCC to pursue third compacts with currently eligible countries as highly or moderately important. A compact is a 5-year grant provided by MCC to a host country to fund poverty reduction through economic growth. According to agency officials, Congress has traditionally viewed two successive compacts with the same country as sufficient to achieve development goals and is skeptical of the need for third compacts. An experts noted that a maximum of 10 years is generally not sufficient to achieve results in economic development and poverty reduction, and suggested MCC should be able to pursue more than two compacts with the same country to better achieve the intended results of its assistance. According to agency officials, MCC has the statutory authority to pursue third compacts, but congressional opposition to third compacts discourages the agency from pursuing them.

Enhance MCC partnerships. Nineteen experts ranked enhancing MCC partnerships as highly or moderately important. According to agency officials, MCC relies on existing authorities to be able to co-invest with other donors through partnerships that usually take the form of both MCC and the other donor investing in interconnected assistance programs.[99] According to agency officials, MCC also encourages private sector investment in its projects. An expert suggested that enhanced MCC partnerships may help private companies invest in international infrastructure projects alongside the agency. According to agency officials, MCC has not used this authority expansively and could study doing so and consider whether any related statutory adjustment would support such work.

Enhance USAID capacity for large infrastructure projects. Eighteen experts ranked USAID developing the capacity to implement large infrastructure projects as highly or moderately important. An expert noted that USAID has responded to infrastructure needs in the aftermath of natural disasters, such as the 2010

[97]According to agency officials, changing the candidate pool would require amending section 606 of the Millennium Challenge Act of 2003, Pub. L. No. 108-199, div. D, title VI (Jan. 23, 2004), codified as amended at 22 U.S.C. § 7705. According to an MCC report, in fiscal year 2024, 65 low and lower middle-income countries were candidates for compact assistance. An expert stated that MCC should transition from only considering countries classified as low or lower middle-income, to considering countries below the "IBRD graduation threshold" set by the World Bank, which would add 30 upper middle-income countries to the current list of candidate countries in fiscal year 2024.

[98]As part of its engagement with MDBs, Treasury has advocated for the revised World Bank procurement framework that includes value-for-money procurements that benefit U.S. businesses, according to Treasury officials. Treasury also advocated for increased training for borrowers and World Bank staff to enhance their technical capacity to do value-for-money procurements.

[99]According to agency officials, these existing authorities are sections 605(b), 609(b)(2), 609(g), 614(a), and 616(a) of the Millennium Challenge Act of 2003, Pub. L. 108-199, div. D, title VI, 118 Stat. 214 (Jan. 23, 2004), which are codified as amended at 22 U.S.C. §§ 7704(b), 7708(b)(2) and (g), 7713(a), and 7715(a), respectively.

earthquake in Haiti and the 2004 Indian Ocean tsunami. This change would require agency action, according to agency officials.[100]

Authorize USTDA gift acceptance. Seventeen experts ranked providing USTDA the authority for gift acceptance to co-invest with other donors as highly or moderately important. Gift acceptance authority would enable USTDA to partner with foundations and other external entities that have objectives and missions complementary to USTDA's for the purpose of executing joint programs and activities, according to agency officials.[101] This modification would require statutory changes, according to agency officials.[102]

Enhanced Local Presence

Eighteen of 28 experts identified increasing the U.S. government's on-the-ground presence as a high importance policy option to help U.S. agencies promote the positive perception of the U.S. abroad and seek out private sector investment opportunities in international infrastructure projects. In addition, some experts remarked that having more U.S. officials in country can help position U.S. businesses as desirable partners and offer viable alternatives to the BRI. According to some experts, making sure U.S. agencies are properly resourced to have an increased in-country presence would enhance their ability to react quickly to project opportunities and develop relationships with host country decision-makers.

Experts also identified specific agency modifications to enhance local presence:

Enhance DFC on-the-ground presence. According to some experts, DFC currently has a limited overseas presence, and 23 experts ranked expanding the presence of DFC officers on-the-ground as highly or moderately important.[103] According to agency officials, DFC has been expanding its on-the-ground presence, but more resources are needed to further support the presence of more staff overseas, according to agency officials.

Enhance Commerce on-the-ground presence. In addition to DFC, 21 experts ranked expanding the presence of Commerce's International Trade Administration's foreign commercial service officers on the ground as highly or moderately important. The expansion of the Global Markets unit's reach could be accomplished through additional resources to support foreign commercial service officers and support staff in the field and in headquarters within existing authorities, according to agency officials.

Improved Coordination

Eighteen of 28 experts identified the need to increase interagency, donor, and host country coordination in financing and implementing large infrastructure projects as a high importance policy option to address

[100]According to agency officials, USAID is currently taking steps to enhance its capacity to implement infrastructure projects by planning to hire more Foreign Service Engineering Officers to support its Infrastructure Division.

[101]An expert noted that gift acceptance authority would allow USTDA to accept funds from philanthropies and allied governments such as Australia and Japan and enable it to set up a fund among those countries.

[102]According to agency officials, providing for gift authority would require amending 22 U.S.C. § 2421.

[103]DFC is required to submit a congressional notification prior to using appropriated funding to expand the agency's presence overseas, among other things. This requirement is found in the annual consolidated appropriations acts. See, e.g., Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, § 7063, 136 Stat. 4459, 5085 (Dec. 29, 2022).

fragmentation challenges. The U.S. could potentially increase its strategic coordination by developing a national strategy that clearly defines strategic goals and outlines the roles and responsibilities for each agency to accomplish those goals. Such a national strategy could include information such as defined roles for each agency along the project life cycle and clearly defined strategic priorities that are the focus of U.S. efforts. Outlining strategic priorities can help maximize the effective use of resources across all U.S. agencies.

Harmonized Standards

Thirteen of 28 experts identified the harmonization of standards as a high importance policy option to shorten the project development and financing process. Harmonization requires the development of agreed-upon standards and requirements that are universally accepted among U.S. agencies, MDBs, and other donors. Some experts suggested that U.S. agencies need to develop a “gold standard” framework that is commonly recognized by all stakeholders, including U.S. agencies, MDBs, and other donors. An ongoing effort to harmonize standards is the Blue Dot Network, which incorporates leading international standards and requirements.[104] If widely accepted and incorporated into processes followed by the U.S., partner donor countries, and host countries, the Blue Dot Network could streamline the due diligence review process, as U.S. agencies and other donors would know that projects with a Blue Dot certification meet leading standards.[105]

Other Modifications to U.S. Agencies’ Roles and Processes

Experts also identified agency modifications that were not directly linked to the implementation of the identified policy options, but may help agencies better design, finance, and implement international infrastructure projects:

Adopt flexibilities for government finance institutions’ staff compensation. Nineteen experts ranked adopting flexibilities for government finance institutions staff compensation as highly or moderately important. The private sector generally offers higher salaries to finance and legal professionals that DFC and EXIM cannot match, making it difficult for the agencies to recruit and retain talented staff, according to experts and agency officials. An expert suggested that permitting government finance institutions flexibility, like the flexibility provided to the Securities and Exchange Commission, to increase pay caps for legal and finance professionals might improve the agencies’ ability to recruit and retain talented staff. This modification would require statutory changes, according to agency officials.[106]

Include DFC indicative financing terms in the bid process. Seventeen experts ranked including indicative DFC financing terms in the bid process as highly or moderately important. Agency officials explained that

[104]The Blue Dot Network was launched by the U.S., Japan, Australia, Switzerland, Spain, the United Kingdom, and the OECD on Apr. 9, 2024, at the OECD in Paris.

[105]Another existing program that experts identified as important to support harmonization efforts among Western donor countries and host countries is the SOURCE project development platform, a software founded by MDBs that contains international standards and processes. SOURCE digitalizes certain international standards, among them the International Finance Corporation’s performance standards and G20 Quality Infrastructure Investment Indicators and allows host governments to see how the standards apply to their project pipelines. According to experts, institutionalizing the use of SOURCE among host countries and donors (including the U.S.) can help harmonize the various standards and improve the project preparation process.

[106]According to agency officials, Section 1413(h)(2)(A) & (D) of the BUILD Act contains DFC’s compensation authorities and Section 117(a) of the Export Enhancement Act of 1992, Pub. L. No. 102-429, 106 Stat. 2186 (Oct. 21, 1992), lists EXIM’s compensation authorities.

indicative terms are preliminary loan proposals shared by DFC with a potential borrower that outline the proposed loan structure, interest rates and repayment terms of the loan, allowing the borrower to evaluate the option.[107] However, an expert suggested that DFC could engage more frequently with companies earlier during the bid process and share indicative terms and general letters of intent. Experts suggested that DFC could increase the frequency of its engagement efforts with companies early in the bid process, so they are aware of DFC's potential support earlier in the project life cycle.

The summary of proposed policy options and agency modifications represent the views of the experts and do not represent the views of GAO. The policy options and modifications suggested may impose costs for the government to enact, including increased financial risk, a need for increased resources, and elevated expropriation risk in host countries. Experts were not asked to evaluate such potential risks, the pros and cons of each suggested policy option and proposed modifications of agencies' roles and processes, or the context in which they might likely produce intended benefits.

Agency Comments

We provided a draft of this report to State, Commerce, USAID, EXIM, DFC, MCC, and USTDA, for review and comment. USAID, DFC, and MCC provided written comments which are included in this report (see appendixes VI, VII and VIII). State, EXIM, Commerce, and USTDA provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of State, the Secretary of Commerce, the USAID Administrator, the President of EXIM, the CEO of DFC, the CEO MCC, and the Director of USTDA. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7279 or ElHodiriN@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix IX.

Nagla'a El-Hodiri
Director, International Affairs and Trade

[107]For example, agency officials noted that if there is a bid for a large infrastructure project, DFC may coordinate with the U.S. embassy in country, which has been in contact with companies interested in bidding on the project and share indicative terms. As part of its detailed underwriting process, DFC provides specific financing terms to companies with a winning bid for a project based on its assessment of the project and the project sponsor.

List of Committees

The Honorable Benjamin Cardin
Chairman
The Honorable James E. Risch
Ranking Member
Committee on Foreign Relations
United States Senate

The Honorable Mark Warner
Chairman
The Honorable Marco Rubio
Vice Chairman
Select Committee on Intelligence
United States Senate

The Honorable Michael McCaul
Chairman
The Honorable Gregory Meeks
Ranking Member
Committee on Foreign Affairs
House of Representatives

The Honorable Michael Turner
Chairman
The Honorable Jim Himes
Ranking Member
Permanent Select Committee on Intelligence
House of Representatives

Appendix I: Experts That Participated in GAO Workshop on China's Belt and Road Initiative (BRI)

Chris Beatty, Head of Government Relations & Public Affairs, TechMet

Aaron Bielenberg, Managing Director and Partner, Boston Consulting Group

Sam Blumenthal, Strategic Infrastructure Officer; Bureau of East Asian and Pacific Affairs, U.S. Department of State

Michelle Czarniak, Senior Advisor COO, Overseas Investment, U.S. International Development Finance Corporation

Christophe Dossarps, CEO, Sustainable Infrastructure Foundation

June Teufel Dreyer, Professor of Political Science, University of Miami

Ovigwe Eguegu, Policy Analyst, Development Reimagined

Verinda Fike, Regional Director for the Indo-Pacific, U.S. Trade and Development Agency

Reinaldo Garcia, Foreign Service Officer with the U.S. & Foreign Commercial Service, International Trade Administration, U.S. Department of Commerce

Jake Grover, Senior Advisor, Office of the CEO, Millennium Challenge Corporation

David Gordon, Senior Adviser for Geo-economics and Strategy, International Institute for Strategic Studies

Mark Kennedy, Director, Wahba Institute for Strategic Competition, Wilson Center

Elizabeth Losos, Executive in Residence, Nicholas Institute for Energy, Environment & Sustainability, Duke University

Daphne McCurdy, Senior Advisor, Office of China Coordination, U.S. Department of State

Gyude Moore, Distinguished Non-Resident Fellow, Center for Global Development

Aileen Nandi, Senior Foreign Service Officer with the U.S. & Foreign Commercial Service, International Trade Administration, U.S. Department of Commerce

Geoffrey Okamoto, Managing Director, Office of Government Affairs, Goldman Sachs

K. Danae Pauli, Senior Advisor, Partnership for Global Infrastructure and Investment

Eric Postel, Advisor to the Administrator, U.S. Agency for International Development

Andrew Rollo, Vice President for the China and Transformational Exports Program, Export-Import Bank of the U.S.

Daniel Runde, Senior Vice President, Center for Strategic and International Studies

Natalie Shen, Maritime Security Coordinator and Bureau China Coordinator; Bureau of Economic and Business Affairs, Office of Transportation Policy, U.S. Department of State

Russell Singer, Infrastructure Development Unit Chief, Office of Development Finance, U.S. Department of State

Justin Valentine, President & CEO, Valent Consulting

Stephanie Von Friedeburg, Managing Director, Banking and Capital Markets Advisory, Citi

Jan Martin Witte, Senior Advisor, Tetra Tech ES, Inc.

Naoyuki Yoshino, Professor Emeritus, Keio University (Dept. of Economics) & Director of Financial Research Center, FSA (Financial Services Agency), Government of Japan

Vera Zdravkova, Senior Commercial Advisor; Bureau of Economic and Business Affairs; Office of Commercial and Business Affairs, U.S. Department of State

Appendix II: Objectives, Scope, and Methodology

This report (1) provides information on the nature and scope of the People's Republic of China's (PRC) Belt and Road Initiative (BRI) and of U.S. foreign assistance for international infrastructure projects, (2) examines the effects of BRI investments on host countries, (3) examines the effects of BRI investments on U.S. interests, and (4) discusses policy options that were identified by experts as having the potential to improve U.S. assistance for international infrastructure projects.

To examine the nature and scope of the BRI and of U.S. foreign assistance for international infrastructure projects, we selected five key infrastructure sectors to analyze based on their 3-digit codes in the Organisation for Economic Co-operation and Development's (OECD) Creditor Reporting System (CRS): transportation (i.e., transport and storage) (210); energy (231, 232, 233, 234, 235, 236); industry, mining, and construction (320, 321, 322, 323); communications (220); and water supply and sanitation (140). We selected these five sectors because they make up the majority of funds from 2013 to 2021 and include major infrastructure projects such as roads, railroads, ports, and power plants. While the U.S. provides foreign assistance data to the OECD CRS on an annual basis, China is not an OECD member country and does not provide official development assistance data to CRS.

We analyzed data from AidData on the countries receiving financing for BRI projects by sector, country income level, and type of financing.[1] As AidData is structurally consistent with the OECD CRS, we were able to make broad comparisons between the PRC and U.S. official development assistance for international infrastructure projects. We analyzed U.S. foreign assistance using the same CRS sector codes as we did with AidData. Using the same CRS sector codes, we analyzed U.S. assistance by sector, country income level, and type of financing. For both data sources, we analyzed data from 2013 to 2021, the most recent comparable years these data were available. In addition, we analyzed data provided by the U.S. International Development Finance Corporation (DFC) and the Export-Import Bank of the United States (EXIM) on their financing for international infrastructure projects. DFC and EXIM provided their data based on the same five CRS sector codes. We assessed the reliability of these data and found they were sufficiently reliable for the purpose of this review.

To understand the nature of the BRI we met with U.S. government officials and officials from the PRC Embassy in Washington, D.C. Because the BRI does not have clear parameters or a definition of what constitutes a BRI project, in this report we include PRC-financed infrastructure projects in countries that have a BRI agreement regardless of whether specific projects are labeled as BRI projects.

To examine the effects of BRI investments on host countries and on U.S. interests, we interviewed officials from cognizant U.S. government agencies, including the Departments of State and Commerce, U.S. Agency for International Development (USAID), EXIM, DFC, Millennium Challenge Corporation (MCC), and the U.S. Trade and Development Agency (USTDA).[2] We also traveled to three selected countries—Angola, Kenya, and Indonesia. We selected these countries because they are top recipients of BRI financing and U.S. assistance,

[1]Operated by the College of William and Mary's Global Research Institute, AidData captures the PRC's foreign assistance loans and grants for nearly 21,000 projects across 165 low and lower middle-income, and upper middle-income countries.

[2]We did not interview officials from U.S. defense agencies or the intelligence community because the impact of the BRI on national security was covered to a limited extent in this report.

have high debt burdens, represent the regions with the highest number of countries with BRI agreements, and are sufficiently stable and accessible to visit. In these countries we interviewed U.S. and host government officials and civil society representatives to determine positive and negative effects of the BRI on host countries and the effects on U.S. interests.

We also conducted a literature review on the effects of the BRI on host countries. To complete the literature review we reviewed 39 peer-reviewed scholarly articles; working papers; and reports from agencies, think tanks and multilateral organizations on China's BRI during and after 2022. These studies were selected because we determined that they met the generally acceptable social science publication standards for presenting sufficient descriptions of research methods, data, and assumptions.

To identify policy options that could improve U.S. assistance for international infrastructure projects we convened a 2-day virtual workshop on January 9-10, 2024, of 28 selected experts from varied sectoral and professional affiliations. We initially identified potential participants from our literature review and preliminary interviews with experts and agency officials, as well as reviewing data on private sector implementing partners or recipients of U.S. funding. We reviewed and discussed each potential workshop participant against factors to ensure our selection represented a wide range of experience and backgrounds. Factors that we examined included participants' professional affiliation, demographic characteristics, and area of expertise, such as policy options related to creating a host country enabling environment for infrastructure projects, financing of international infrastructure projects, knowledge of policy options for infrastructure investment in certain countries, and certain industries, among others.

Prior to our workshop, we administered a questionnaire to 35 potential participants to identify their relevant expertise on various topics and their availability. Discussion topics in our preworkshop questionnaire included key U.S. and partner countries' interests that can be addressed by funding and implementing infrastructure projects, key challenges and opportunities faced by the U.S. government and U.S. companies, and potentially relevant policy options.[3] On the basis of their responses, we finalized our workshop agenda. Twenty-eight of the potential participants participated in the workshop.

Our selected experts came from a variety of backgrounds, including government agencies (i.e., State, USAID, Commerce, MCC, USTDA, DFC, EXIM); think tanks; academia; and representatives from the private sector. Experts represented a variety of perspectives based on their different areas of expertise. These areas included, for example, sectors such as energy and critical minerals, and experience in financing infrastructure projects, and specific geographic areas.

A GAO methodologist trained in conducting panel discussions facilitated the workshop. The workshop included eight hour and a half long session, with six to 11 experts in each session. Some experts were invited to join multiple sessions on the basis of their expertise and availability. The discussions were recorded and transcribed to ensure that we accurately captured experts' statements. We analyzed the workshop transcripts to identify common themes and key statements from participants.

After the workshop, we polled the workshop experts on how they would rank the importance of potential policy options and agency modifications discussed during the workshop. We discuss policy options and agency

[3]U.S. international infrastructure policy exists within a broader foreign policy context. The U.S. has multiple tools to provide financial support to low- and middle-income countries or promote international economic engagement with partners and allies. We did not assess, and our experts did not consider which tools might best meet U.S. goals within that broader foreign policy context.

modifications that received 10 or more moderate or highly important votes in the report body. We include all policy options and modifications in our appendices. Not all experts attended every session, but all experts had a chance to react to the potential policy options and agency modifications in the postworkshop survey and vote on their importance. Further, since experts were generating and discussing ideas as part of a free-flowing group discussion, the number of times a concept was (or was not) repeated does not necessarily indicate the level of consensus on that concept. Throughout the report

- the term “some experts” generally indicates that two or more experts made a statement supporting a general point, and the views by others in support of the point were relatively uniform.

We followed up with agency officials regarding policy options and modifications proposed by workshop participants to get the agencies’ views on the suggestion and determine whether any proposed modifications would require agency action or statutory changes, and if so, specifically to what provision(s).

Appendix III: Additional Information on Key Challenges

Experts identified further information on key challenges facing the U.S. government and U.S. companies in supporting international infrastructure projects:

Lack of a public national strategy with defined strategic goals and resources to achieve them

Some experts further remarked that the U.S. does not have a public strategy for project implementation and U.S. agencies often pursue competing priorities. Regarding project implementation, some experts noted that some projects are commercially viable but do not consider national security goals, while others have a national security focus but do not identify development goals that the project can support.

Fragmentation of U.S. efforts

Regarding the number of different agencies a host government must work with to complete a U.S.-supported project throughout the project life cycle, an expert provided the example of a U.S. Trade and Development Agency feasibility report being thrown out by the U.S. International Development Finance Corporation because it did not have the information needed to move forward with the project. Some experts also noted that U.S. agencies have various geographic and company-specific restrictions. For example, according to agency officials, the Millennium Challenge Corporation can only operate in countries that meet the agency’s eligibility requirements, and the Export-Import Bank of the United States requires the involvement of U.S. exports to finance a project. Lastly, an expert remarked that host countries can distinguish a source for infrastructure-related goods or services from other countries, but they find it hard to identify the relevant U.S. source of assistance.

Multiple standards and lengthy approval timeframes

Some experts also noted that U.S.-supported projects have labor requirements that may cause cultural or environmental issues in certain host countries. An expert noted that this can make it difficult to compete with offers from the People’s Republic of China (PRC) that do not abide by the same standards. Regarding timeframes, an expert noted that a challenge is the length of time it often takes U.S. projects to begin construction due in part to upholding high standards. In contrast, an expert noted that the PRC is improving its quality while also limiting standards’ effect on increasing project timeliness. For example, an expert noted that the PRC has started to gradually incorporate international standards, such as the International Finance Corporation’s principles, into Belt and Road Initiative projects.

Appendix IV: Post-Workshop Survey Results and Further Information on Policy Options to Address Challenges

After the GAO virtual workshop, we asked the 28 experts who participated in the workshop to vote on the importance of the potential policy options to address challenges identified during the workshop (see tab. 5). Experts also identified further information on potential policy options, including the creation of a new permanent U.S. government entity.

Table 5: Experts' Ranking of Key Policy Options They Identified to Address Challenges

	Not at all important	Low importance	Moderate importance	High importance
Increased risk tolerance	0	2	4	22
Enhanced capacity building	0	3	5	20
Enhanced financing	0	3	6	19
Improved coordination	0	5	5	18
Enhanced local presence	0	2	8	18
Harmonized standards	1	2	10	13
New permanent U.S. government entity	8	8	8	2

Source: GAO analysis of survey data. | GAO-24-106866

Note: Two participants checked that they were "unsure" about each of the following options: "New permanent U.S. government entity" and "Harmonized standards."

Enhanced Financing

Another financing model with promise, according to an expert, is public-private partnerships (PPP).[1] One expert proposed splitting the increased tax revenue generated by an infrastructure project between the government and the private company involved in a PPP, to generate returns on the private company's initial investment without raising user costs for the infrastructure.[2]

New permanent U.S. government entity

Two of 28 experts proposed the creation of a new permanent U.S. government entity focused on foreign infrastructure as a high importance policy option. An expert proposed that the new, designated entity could be

[1]According to the OECD, PPPs are long-term agreements between the government and a private partner whereby the private partner delivers and funds public services using a capital asset, sharing the associated risks. PPPs may deliver public services such as infrastructure assets (e.g., bridges, roads) and social assets (e.g., hospitals, utilities, prisons).

[2]An expert noted that some PPPs generate returns for private companies through user fees, and private companies may be incentivized to raise user fees to gain more profit. In contrast, users of the infrastructure prefer low user fees. This expert proposed that foreign infrastructure projects should use split tax revenue to generate private returns instead of using user fees.

authorized to potentially operate without some of the limitations for specific transactions that existing agencies have or could have a completely new mandate. However, eight experts rated this policy option as not at all important, with one expert noting that U.S. agencies already have the tools that are needed but are not funded and staffed to finance and implement those projects.

Appendix V: Postworkshop Survey Results and Further Information on Agency Modifications to Implement Policy Options

After the GAO virtual workshop, we asked the 28 experts who participated in the workshop to vote on the importance of the agency modifications to implement policy options identified during the workshop (see tabs. 6-11). Experts also identified further information on potential agency modifications, including designating State as the lead coordinator for assistance efforts.

Table 6: Experts' Ranking of Modifications They Identified to Increase Risk Tolerance

Modification	Not at all important	Low importance	Moderate importance	High importance	Unsure
DFC flexibility	0	1	6	20	1
EXIM national security	2	2	4	17	3
EXIM risk taking	0	2	4	17	5
DFC board approval	0	2	9	15	2
DFC debt	0	6	11	7	4
EXIM charged fees	1	6	11	4	6
Treasury eurobond guarantees	1	4	10	2	11

DFC = U.S. International Development Finance Corporation; EXIM = Export-Import Bank of the United States

Source: GAO analysis of survey data. | GAO-24-106866

Table 7: Experts' Ranking of Modifications They Identified to Enhance Capacity Building

Modification	Not at all important	Low importance	Moderate importance	High importance	Unsure
USTDA procurement advisors	1	2	10	12	3
USTDA transaction advisors	1	4	9	11	3

USTDA = U.S. Trade and Development Agency

Source: GAO analysis of survey data. | GAO-24-106866

Table 8: Experts' Ranking of Modifications They Identified to Enhance Public and MDB Financing

Modification	Not at all important	Low importance	Moderate importance	High importance	Unsure
Treasury work with MDBs	1	2	7	17	1
DFC candidate pool	0	1	10	16	1
USTDA candidate pool	2	1	9	15	1
MCC candidate pool	1	2	8	15	2
MCC third compacts	1	4	7	13	3
MCC partnerships	1	6	7	12	2
USTDA gift acceptance	1	4	5	12	6
USAID capacity	2	7	7	11	1

DFC = U.S. International Development Finance Corporation; EXIM = Export-Import Bank of the United States;

MCC = Millennium Challenge Corporation; USAID = U. S. Agency for International Development;

Treasury = U.S. Department of the Treasury; USTDA = U.S. Trade and Development Agency

Source: GAO analysis of survey data | GAO-24-106866

Table 9: Experts' Ranking of Modifications They Identified to Enhance Local Presence

Modification	Not at all important	Low importance	Moderate importance	High importance	Unsure
DFC on-the-ground presence	0	4	10	13	1
Commerce on-the-ground presence	1	2	10	11	4

Commerce = U.S. Department of Commerce; DFC = U.S. International Development Finance Corporation

Source: GAO analysis of survey data. | GAO-24-106866

Table 10: Experts' Ranking of Other Modifications They Identified to U.S. Agencies' Roles and Processes

Modification	Not at all important	Low importance	Moderate importance	High importance	Unsure
DFC staffing	2	5	8	11	2
DFC financing terms	0	7	8	9	4
Department of State lead	6	4	6	10	2

DFC = U.S. International Development Finance Corporation

Source: GAO analysis of survey data | GAO-24-106866

Designate Department of State lead coordinator. An expert suggested that it would be helpful to designate a lead agency, such as State, for interagency and donor coordination on international infrastructure projects. Some experts remarked that the Partnership for Global Infrastructure and Investment may be able to act as the lead and coordinate interagency efforts. However, 10 experts thought the modification to designate State lead coordinator was either not at all important or of low importance.

Appendix VI: Comments from the U.S. Agency for International Development

USAID
FROM THE AMERICAN PEOPLE

July 24, 2024

Nagla'a El-Hodiri
Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20226

Re: China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach (GAO-24-106866)

Dear Ms. El-Hodiri:

I am pleased to provide the formal response of the U.S. Agency for International Development (USAID) to the draft report produced by the U.S. Government Accountability Office (GAO) titled, China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach (GAO-24-106866). The report does not contain any recommendations for action on behalf of USAID.

USAID is committed to advancing a positive development agenda that supports inclusive and sustainable development, which offers a model that has comparative advantages relative to the Belt and Road Initiative. To that end, USAID is helping to close the infrastructure gap in partner countries through initiatives such as the Partnership for Global Infrastructure and Investment (PGI), that catalyzes investments in values-driven, high-impact and quality infrastructure and related investments. USAID, in cooperation with the Department of State, also funds the Transaction Advisory Fund that provides due diligence and other services to advance infrastructure deals on a flexible, "rapid response" basis in partner countries. USAID supports strong oversight and accountability and aids local civil society organizations, private sector institutions, and media to insist upon fair, open, and accountable processes for public procurements. USAID is also deepening collaboration with interagency partners to advance a whole-of-government effort to support a free and open rules-based international order, including in infrastructure investment and development.

I am transmitting this letter from USAID for inclusion in the GAO's final report. Thank you for the opportunity to respond to the draft report, and for the courtesies extended by your staff while conducting this engagement. We appreciate the opportunity to participate in the complete and thorough evaluation of USAID's positive response to development challenges posed by the PRC's Belt and Road Initiative.

Sincerely,

Colleen Allen

Colleen Allen
Assistant Administrator
Bureau for Management

Accessible Text for Appendix VI: Comments from the U.S. Agency for International Development

July 24, 2024

Nagla'a El-Hodiri
Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20226

Re: China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach (GAO-24-106866)

Dear Ms. El-Hodiri:

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Sincerely,

Colleen Allen
Assistant Administrator
Bureau for Management

Appendix VII: Comments from the U.S. International Development Finance Corporation

U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION
WASHINGTON, D.C. 20527 U.S.A.

July 15, 2024

Nagla'a El-Hodiri
Director, International Affairs and Trade
U.S. Government Accountability Office (GAO)

Dear Director El-Hodiri

Thank you for the opportunity to review and comment on GAO's draft report, *Global Infrastructure Projects: China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach* (GAO-24-106866). Although the report does not identify a recommendation for DFC, DFC welcomes the viewpoint of GAO and the subject matter experts who were consulted on the many challenges facing the United States' role in international development financing.

DFC is committed to partnering with the private sector to provide developing countries with a better alternative to the investment model offered by the People's Republic of China (PRC). Our projects adhere to high standards for labor and the environment, are responsive to local needs, and improve a market's overall competitiveness and resilience without increasing a nation's sovereign debt.

As DFC seeks to increase the development and strategic impact of its investments around the world, ensuring competitiveness with the PRC and other strategic competitors is vital. The subject matter experts consulted in this report identified several areas where DFC is either seeking to expand its operations or is actively working with Congressional stakeholders on solutions that will enhance the agency's competitiveness. While our commitment to high standards is unwavering, giving DFC additional tools and flexibilities to address the global gap for development financing is vital and will only help enhance DFC's role as a standard bearer of developmental investments across the globe.

I want to thank you and your staff for the professional manner in which this audit was conducted and for the opportunity to provide feedback on the draft report. DFC looks forward to continued engagement with GAO in the future.

Sincerely

Scott Nathan
Chief Executive Officer

1100 NEW YORK AVENUE, N.W. · WASHINGTON, D.C. 20527 · OFFICE (202) 336.8400

Accessible Text for Appendix VII: Comments from the U.S. International Development Finance Corporation

July 15, 2024

Nagla'a El-Hodiri
Director, International Affairs and Trade
U.S. Government Accountability Office (GAO)

Dear Director El-Hodiri

Thank you for the opportunity to review and comment on GAO's draft report, Global Infrastructure Projects: Chinas Investments Significantly Outpace the US. and Experts Suggest Potential Improvements to the US. Approach (GAO-24-106866). Although the report does not identify a recommendation for DFC, DFC welcomes the viewpoint of GAO and the subject matter experts who were consulted on the many challenges facing the United States' role in international development financing.

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I want to thank you and your staff for the professional manner in which this audit was conducted and for the opportunity to provide feedback on the draft report. DFC looks forward to continued engagement with GAO in the future.

Sincerely

Scott Nathan
Chief Executive Officer

Appendix VIII: Comments from the Millennium Challenge Corporation

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

July 24, 2024

TO: Nagla'a El-Hodiri
Director
International Affairs and Trade
U.S. Government Accountability Office

FROM: Alice P. Albright
Chief Executive Officer

SUBJECT: MCC Management Comments on *China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach* (GAO-24-106866)

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's draft report, *China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach.* MCC recognizes its distinct role in helping to address the global infrastructure gap and promote economic development. The report identified three specific areas where workshop participants proposed options for MCC to consider. I am pleased to offer brief comments on each area below:

- **Enhance MCC candidate pool** – The report suggests that increasing MCC's candidate pool to include upper-middle income countries with infrastructure needs tied to development needs would allow the agency to operate in more countries and expand the impact of MCC assistance. MCC currently has two bipartisan bills in the Senate and House of Representatives proposing to enhance MCC's candidate country pool in varying strategic regions of the world.

- **Consider MCC third "domestic" compacts** – Workshop experts noted a belief that MCC has not typically considered countries for more than two "domestic" compacts and argued that a maximum of ten years of combined program implementation is generally not sufficient to achieve development results that would graduate countries out of continued need for development assistance. MCC will continue to engage with congressional stakeholders on this topic and highlight the benefits of our grant model's impact on governance and accountability.

- **Enhance MCC partnerships** – Experts suggested that MCC can co-invest with donors in partnerships more often to help expand the impact of assistance. Currently, MCC mainly

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UNCLASSIFIED

invests with donors through interconnected assistance programs and private investments in projects. MCC will study increased partnerships and consider whether any statutory adjustment can support additional work.

I thank you and your staff for the professional and diligent manner in which this report was prepared. MCC looks forward to continued engagement with the Government Accountability Office in the future.

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Accessible Text for Appendix VIII: Comments from the Millennium Challenge Corporation

July 24, 2024

TO: Nagla'a El-Hodiri
Director
International Affairs and Trade
U.S. Government Accountability Office

FROM: Alice P. Albright
Chief Executive Officer

SUBJECT: MCC Management Comments on China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach (GAO-24-106866)

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's draft report, China's Investments Significantly Outpace the U.S. and Experts Suggest Potential Improvements to the U.S. Approach. MCC recognizes its distinct role in helping to address the global infrastructure gap and promote economic development. The report identified three specific areas where workshop participants proposed options for MCC to consider. I am pleased to offer brief comments on each area below:

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I thank you and your staff for the professional and diligent manner in which this report was prepared. MCC looks forward to continued engagement with the Government Accountability Office in the future.

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

Nagla'a El-Hodiri, 202-512-7279, ElHodiriN@gao.gov

Staff Acknowledgments

In addition to the contact named above, Jeremy Latimer (Assistant Director), Francisco M. Enriquez (Analyst-in-Charge), Xiang Bi, Gergana Danailova-Trainor, Elizabeth Gooch, Almir Hodzic, John Hussey, Christopher Keblitis, Maureen Luna-Long, Allyson Mabul, Nicholas Pigeon Rossy, Rebecca Rogers, and Alexander Welsh made key contributions to this report.

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