10 Reasons Why
Development Finance Matters for
Business and Human Rights

In the past, development finance was largely the purview of the public sector. Today, however, private sector business activities and public development finance are increasingly interconnected and intertwined. As development banks and States increasingly turn to the private sector to meet development objectives, the implications for the business and human rights agenda are significant. By understanding the unique structure and leverage points of Development Finance Institutions (DFIs), business and human rights advocates can better ensure that human rights are respected and protected, and that corporate abuses are remedied. Unfortunately, too often business and human rights advocacy is disconnected from advocacy around development finance. This factsheet aims to bridge this gap by identifying *10 reasons why development finance matters for business and human rights.*

#1: Follow the money and you'll likely find development finance

If you follow the money behind a corporate activity, in many cases you'll find it leads to some form of development finance – either official development assistance, a national or multilateral development bank, or another DFI. National and multilateral development finance institutions have long funded private sector activities in developing countries. This support takes the form of direct loans and credit lines to companies from development banks like the Inter-American Development Bank or the International Finance Corporation (IFC). Development banks may also serve as direct equity investors, purchasing shares in private companies.

Over the last decade, the scale of development finance support for private companies operating in developing countries has spiked dramatically. In 2010, external investments in the private sector by international financial institutions were around $40 billion.[1] According to some estimates, in 2015 that number could grow to over $100 billion – almost one third of total external public finance to developing countries.[2] The proliferation of new climate finance mechanisms and infrastructure facilities promises to deepen this trend even further.

#2: DFIs play a leading role in eroding corporate controls

Through technical assistance and policy lending, many DFIs promote what they call an enabling environment for private investment. These policy prescriptions for market liberalization, fiscal

[1] IFC, *International Finance Institutions and development through the private sector*, A Joint Report of 31 Multilateral and Bilateral Development Finance Institutions, Washington, DC, 2011.
[2] UN Task Team Working Group on Sustainable Development Financing, "Chapter 4: Public support to private investment for sustainable development: challenges and opportunities, with emphasis on the environmental pillar," October, 2013.

reform, deregulation, and privatization can have devastating impacts on the ability of States to fulfill human rights. As social and environmental protections are rolled-back through DFI interventions, the risk of corporate human rights abuses grows.

#3: DFI-financed projects pose serious human rights risks

The corporate activities financed through DFIs often raise major human rights concerns. These activities include large extractive industry development and cross-border mega-projects, agribusiness development, and land administration reforms. Often these projects take place in countries with a weak rule of law and a poor enabling environment for public participation and human rights enjoyment. Some DFIs actively seek out high-risk sectors and investment environments by design – to provide economic growth and poverty alleviation where other financing options may not exist. Inadequate human rights due diligence and lack of accountability within the institutions, however, then creates the potential for human rights abuses.[3] The IFC's corporate clients, for instance, have been linked to various human rights abuses in recent years, from forced evictions, to killings. [4]

#4: DFIs can be used to hold businesses to higher standards

The fact that a private company is receiving financing from a DFI may provide additional leverage points for influencing corporate conduct *vis á vis* human rights. Over decades, civil society has made significant strides in securing transparency requirements and social and environmental safeguards at DFIs, and in particular, at multilateral development banks. These operational policies can serve as a means of regulating corporate conduct and providing access to information regarding corporate activities. The International Finance Corporation, for instance, has policies requiring companies to consult with local communities, disclose project information and impact assessments, and meet minimum protections for workers' rights and indigenous peoples. Though these standards often suffer from poor implementation, they can establish critical accountability hooks for businesses, which wouldn't exist in the absence of development financing. There are ongoing efforts by civil society to strengthen DFI standards and bring them into line with international human rights norms, including the UN Guiding Principles on Business and Human Rights.

#5: DFIs can provide critical advocacy hooks for business and human rights

Where a harmful corporate activity is financed by a DFI, civil society groups may find that these institutions provide additional avenues for public pressure and campaigning. As public institutions, development banks should be bound by both a public interest mandate and a development mandate. Civil society groups may also be able to use budgetary processes or

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[3] Oxfam Issue Briefing, "The Suffering of Others: The human cost of the International Finance Corporation's lending through financial intermediaries," April, 2015.

[4] See IFC Compliance Advisor Ombudsman, Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras, December 20, 2013; Columbia Law School Human Rights Clinic, "CONGA NO VA: An Assessment of the Conga Mining Project in Light of World Bank Standards," September 2015; and Global Witness, "Rubber Barons: How Vietnamese Companies and International Financiers are Driving a Land Grabbing Crisis in Cambodia and Laos", 2013.

parliamentary oversight to influence DFIs and hold them accountable. Where a corporation is receiving international development funds or financing from a multilateral development bank, these international connections can be used to gain more traction for a given human rights campaign, increasing the chance of success.

#6: DFI standards have a global influence on corporate conduct

The operational policies adopted by the large DFIs are often viewed as global standards, setting the bar for private businesses and national governments. The terms of the World Bank's resettlement policy, for instance, have been adopted by national governments and utilized by communities as a benchmark when demanding better treatment in the absence of national legislation. The International Finance Corporation's Performance Standards on Environmental and Social Sustainability have become globally recognized good practice and served as the basis for the Equator Principles, which have been adopted by nearly 80 banks and financial institutions. Thirty-two export credit agencies in OECD countries utilize the IFC's standards as their benchmark for private sector projects. The World Bank is presently in the process of revising its safeguard policies, while new institutions like the Asia Infrastructure Investment Bank and the BRICS New Development Bank are currently establishing their policy frameworks from scratch. The outcome of these processes will have a ripple effect on corporate conduct globally.

#7: DFIs can provide additional avenues for remedy in the case of abuses

Individuals and communities who suffer human rights abuses as a result of corporate investments may have few meaningful options for recourse, especially when using the courts or company-run grievance mechanisms is not an effective course of action. Civil society groups have fought for the establishment of non-judicial grievance mechanisms within DFIs, and today independent accountability mechanisms are standard within development banks, and increasingly, other DFIs. Numerous cases involving corporate human rights abuses have been lodged with these mechanisms in recent years. While the mechanisms are limited in their ability to deliver remedy and their effectiveness varies, they may offer an additional avenue for communities affected by harmful corporate investments to shine a spotlight on their concerns and demand accountability.

#8: Business and development finance are becoming inseparable

While DFIs which specialize in private sector lending are ramping up business, even DFIs which traditionally lend to the public sector, such as the World Bank, are channeling a rapidly growing amount of funding to private entities. Rather than direct lending, DFIs are increasingly lending through financial intermediaries, including commercial banks and private equity funds, which then "lend-on" the funds to their clients. While the institutions argue that the use of financial intermediaries allows them to reach smaller businesses or entities, the use of financial intermediaries has significant negative impacts on transparency and accountability. Development banks are increasingly transferring social and environmental due diligence responsibilities to these intermediaries, while failing even to keep accurate records of where funding is going.

#9: States are increasingly relying on private finance for development

The Financing for Development agenda, the recently adopted global Sustainable Development Goals, the proliferation of climate finance mechanisms, and the push for global infrastructure facilities all rest heavily on a strategy of utilizing public funds to “unlock” or leverage private investment. This is done through a variety of means, including concessional lending, grants, “de-risking” mechanisms (wherein public entities assume the investment risks for commercial investors), and through public-private-partnerships for the provision of public services or infrastructure.[5] These strategies, in effect, use public resources to subsidize private investors. Moreover, the insertion of corporate profit motives into development activities raises serious human rights concerns. In Nagpur, India, for instance, the IFC-financed public-private partnership with a subsidiary of French water giant Veolia has resulted in price hikes and service shutdowns for consumers.[6] An IFC-financed partnership between the government of Lesotho and a private healthcare consortium lead to skyrocketing operational costs for the public health budget in order to cover increased expenses and secure investor profits.[7]

#10: Business and human rights advocates have a critical role to play

As development finance becomes more intertwined with the private sector, the business and human rights community can play a critical role in helping to define and strengthen human rights due diligence standards and practice in the context of development finance. This work will involve campaigning and advocacy targeted at development finance institutions and at national governments. It will also require support for frontline communities engaged in defending their rights in the face of harmful development activities. Working together, business and human rights advocates and development finance advocates can reinforce our common human rights objectives and achieve greater success at holding corporations accountable and ensuring that human rights are respected and protected.

Learn more at: www.rightsindevelopment.org and www.icar.ngo

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[5] See UN Task Team Working Group on Sustainable Development Financing, “Chapter 4: Public support to private investment for sustainable development: challenges and opportunities, with emphasis on the environmental pillar,” October, 2013.

[6] Corporate Accountability International, “Behind the World Bank’s Spin: Private water’s failures in Manila and Nagpur,” November, 2014.

[7] See “A Dangerous Diversion: Will the IFC’s flagship health PPP bankrupt Lesotho’s Ministry of Health?”, Oxfam, April, 2014.