DEMYSTIFYING DEVELOPMENT FINANCE
How public development banks impact peoples and the planet
This report was collectively written by members and partners of the Coalition for Human Rights in Development.

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ACRONYMS

ADB  Asian Development Bank
AfDB  African Development Bank
AIIB  Asian Infrastructure Investment Bank
ASEAN  Association of Southeast Asian Nations
BRICS  Brazil, Russia, India, China, and South Africa
CABEI  Central American Bank for Economic Integration
CDB  China Development Bank
CPF  Country Partnership Framework
EBRD  European Bank for Reconstruction and Development
ECA  Export Credit Agency
EIB  European Investment Bank
ESG  Environmental, Social, and Governance
FI  Financial Intermediary
FMO  Dutch Entrepreneurial Development Bank
FPIC  Free, Prior and Informed Consent
GCF  Green Climate Fund
IDB  Inter-American Development Bank
IFC  International Finance Corporation
IMF  International Monetary Fund
MDB  Multilateral Development Bank
NDB  New Development Bank
OECD  Organization for Economic Cooperation and Development
PDB  Public Development Bank
PPP  Public-Private Partnership
SDGs  Sustainable Development Goals
SRI  Socially Responsible Investing
UN  United Nations
UNFCCC  United Nations Framework Convention on Climate Change
EXECUTIVE SUMMARY

Public Development Banks (PDBs) are one of the most powerful actors in the global economy. The funds they mobilize and their policy priorities can influence — directly or indirectly — all our lives and the wellbeing of our planet. PDBs fund projects, provide general budgetary support and loans to governments and corporations, promote policy reforms, set global standards, and serve as geopolitical tools for the governments that own them. Their significant influence enables them to act as shadow governments within the global financial architecture, and within countries and regions in the Global South.

Since the creation of the World Bank in 1944, the number of these institutions and the role they play have grown exponentially. In recent years, especially after the Covid-19 pandemic hit, PDBs have been advocating for an even bigger role and more funds to respond to the climate crisis and to prevent future pandemics.

But does their narrative correspond to reality on the ground? Are PDBs really addressing the root causes of the current polycrisis, advancing sustainable development, and tackling poverty, inequality, and climate change?

This collective analysis identifies some of the key challenges of the current development approach pushed forward by PDBs in their projects, policies and practices. Through case studies and an overview of the main trends in public development finance, it shows how — way too often — PDBs end up exacerbating the polycrisis instead of addressing its root causes. Some effects of PDBs investments, such as the social and environmental impacts of their mega-projects, are more visible. Others, such as the privatization of social services or the growing debt of Global South countries, can remain more hidden. Either way, analyses of these impacts show how PDBs undermine the development pathways and priorities of peoples, communities and countries in the Global South, reinforcing power imbalances and a top-down approach to development.

As explained in the methodology section, this document was produced in collaboration and in consultation with organizations and activists working across the world on various themes, from human rights to debt and climate change. It is not an in-depth analysis; rather, it aims to serve as a general overview of PDBs, key trends in their investments and priorities, and some of the most critical impacts they cause or contribute to.
ABOUT THIS REPORT

Despite the key role they play and the significance of their impacts, few people know what development banks are. This collectively-developed analysis is meant to create a shared evidence base and understanding for communities, movements, human rights defenders, civil society organizations (CSOs) and other allies on what Public Development Banks (PDBs) are and how they impact the world. In the process of building a civil society narrative about PDBs’ impacts and actions, the document also challenges PDBs’ narrative about what they claim to be.

The report starts with a short overview of what PDBs are, their history, why they matter, their underlying motives and trends in their investments. It then discusses their environmental and social safeguards and accountability framework, including both strengths and limitations. Finally, it delves into the visible and hidden impacts of PDB-supported activities.

Most examples in this report are from the larger multilateral PDBs, like the World Bank, and regional multilateral banks, like the Asian Development Bank (ADB). We also pay attention to national PDBs – notably from China and Europe – who lend internationally, including national export credit agencies.

However, we provide very little attention to the impacts of national PDBs who lend domestically in their own countries, as this report’s contributors have more expertise on international investments. We also do not go into the differentiated impacts of PDBs in different regions and countries.

Any generalizations in the report should be read with the caveat that PDBs are incredibly diverse in terms of their structures and activities. As this is set to be a living document, we welcome our readers’ guidance and critiques to develop future analyses on these differentiated impacts and trends, including at the national and regional levels.

WHAT ARE PUBLIC DEVELOPMENT BANKS?

The landscape of Public Development Banks (PDBs) is complex and varied. There is no universally agreed definition of what PDBs are, and which institutions the term includes, but in general they share a few key characteristics:

• PDBs are owned and governed (at least in part) by one or more governments;
• they work to channel public resources to the public sector, businesses, or sometimes to individuals or non-governmental organizations;
• they use different financing vehicles, including grants, loans, credit, guarantees, equity, and indirect investments through other financial institutions;
• they act in support of a public policy mission. Contrary to commercial banks, which operate to maximize profits, the stated purpose of PDBs is to serve the public good by supporting infrastructure, economic sectors, or activities that the private sector is unwilling or unable to support on its own.

Fisherwomen affected by the Sendou coal plant in Senegal. Credit: Lumière Synergie pour Développement (LSD).
PDBs CAN HAVE DIFFERENT...

**Mandates**

- **Agriculture**
  - e.g. Thailand’s Bank for Agriculture and Agricultural Cooperatives (BAAC)
- **Climate**
  - e.g. Green Climate Fund
- **Export-import support**
  - e.g. Export-import Bank of China
- **Private sector**
  - e.g. International Finance Corporation
- **Infrastructure**
  - e.g. Asian Infrastructure Investment Bank
- **Housing**
  - e.g. Japan Housing Finance Agency
- **Poverty Reduction**
  - e.g. International Development Association

**Geographies**

- **Global**
  - e.g. World Bank, New Development Bank
- **Regional**
  - e.g. African Development Bank, Inter-American Development Bank, Asian Development Bank
- **National**
  - e.g. Brazilian National Development Bank
- **Sub-national**
  - e.g. Bank of the State of Pará (Brazil)

**Ownership Structures**

- **Multilateral**
  - e.g. European Bank for Reconstruction and Development
- **Bilateral**
  - e.g. French Development Agency AFD

**Ways of Financing**

- **Loans** (debt must be paid back)
- **Grant/aid** (no repayment required)
- **Insurances and guarantees** (protection against losses)
- **Technical assistance** (guidance / knowledge training)
- **Equity investments** (ownership shares)
While not PDBs, the public development finance universe also includes:

- the International Monetary Fund;
- aid agencies (such as United States Agency for International Development - USAID and China International Development Cooperation Agency - CIDCA);
- intergovernmental development agencies or programs (such as the United Nations Development Programme).

**Mandates.** PDBs’ mandates are anchored around social and economic transformation, and they can be narrow (for example, to support housing or agricultural development) or more general (such as post-war reconstruction, poverty alleviation, mobilizing private sector resources or regional integration). Today, many PDBs have mandates that include the fulfillment of the **Sustainable Development Goals (SDGs)** and, increasingly, the **Paris Climate Agreement.**

The mandates may also be reflected in their names. The Asian Infrastructure Investment Bank (AIIB) focuses on infrastructure, while the Green Climate Fund focuses on climate. Similarly, PDBs focused on supporting businesses in their countries to trade and invest internationally may be called export credit agencies, or export-import banks.

PDBs’ mandate may also be limited by their geographic focus, which could be sub-national, national, regional, international level, or a combination of different levels. For example, the Inter-American Development Bank (IDB) invests only in Latin America and the Caribbean.

Some PDBs focus on the public sector, some on the private sector, and some on both. Relatedly, some people reserve the term “development bank” only for lenders to governments, and refer to institutions that invest in the private sector as “development finance institutions” (DFIs); however, others use the terms interchangeably.

**Governance.** PDBs may be governed by a single national or sub-national government, or multilaterally by several governments. Major decisions, such as the approval of strategies and policies, are made by government shareholders. Within governments, PDBs usually fall within the purview of finance, trade or external affairs ministries whose appointees act as directors or governors of PDBs. Generally, a PDB owned by two or more countries is called a multilateral development bank (MDB). PDBs owned by only one country are called “national” development banks if they invest solely in their own country, or “bilateral” development banks if they invest outside the country that owns them.

**Financial Support.** PDBs provide different types of financial support through grants, loans, credit, guarantees, investment insurance, equity, financial intermediaries, and other investment tools. Increasingly, development finance utilizes a diverse mix of sources, called **blended finance**, involving PDBs, private investors and institutional investors, among others. Apart from providing financial support, some PDBs also offer **technical assistance** to governments and shape policy reforms.

**Sectors.** There is limited data on PDBs’ investments, as there is a widespread lack of transparency, especially when projects are supported through other financial institutions (see the section on financial intermediaries below). The available official statistics, however, show that the greatest percentage of PDB financing currently is directed to financial services, public administration, trade, energy, transportation, and infrastructure. A significantly lower but important percentage goes to investment in social sectors such as health, education, housing, water and sanitation, and agriculture – all sectors that are critical to rights-based development.
COUNTRIES WITH PROJECTS
Data about financing by 15 key PDBs for 2018-2022, as of July 2023

NUMBER OF PROJECTS BY SECTOR 16,768

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Finance</td>
<td>25%</td>
</tr>
<tr>
<td>Technical Cooperation</td>
<td>18%</td>
</tr>
<tr>
<td>Law and Government</td>
<td>16%</td>
</tr>
<tr>
<td>Education and Health</td>
<td>15%</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>14%</td>
</tr>
<tr>
<td>Energy</td>
<td>13%</td>
</tr>
<tr>
<td>Agriculture and Forestry</td>
<td>10%</td>
</tr>
<tr>
<td>Transport</td>
<td>9%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>8%</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>7%</td>
</tr>
<tr>
<td>Climate and Environment</td>
<td>7%</td>
</tr>
<tr>
<td>Construction</td>
<td>5%</td>
</tr>
<tr>
<td>Communications</td>
<td>3%</td>
</tr>
<tr>
<td>Humanitarian Response</td>
<td>1%</td>
</tr>
<tr>
<td>Hydropower</td>
<td>1%</td>
</tr>
<tr>
<td>Mining</td>
<td>1%</td>
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WANT TO TRACK DATA ABOUT FINANCING BY 15 KEY PDBS FOR 5 YEARS (2018 TO 2022)?
Check out this interactive map and graphic interface.

Users can filter data by country and sector, and see a list of development projects funded by the 15 banks tracked. This tool is developed by the International Accountability Project and shares information from the Early Warning System (EWS), which is a civil society-led system sharing data about PDB-funded projects with communities and their allies.
**WHY DO PDBs MATTER?**

1. **AS PUBLIC INSTITUTIONS, THEY SHOULD BE ACCOUNTABLE.** Since PDBs are primarily owned and governed by governments, use public resources, and are ostensibly set up to meet a public policy priority, they should be accountable to their government shareholders and to the public. These lines of accountability can provide opportunities to influence PDBs that do not exist with commercial banks.

2. **SIGNIFICANT IMPACT.** PDBs, for good or bad, impact the lives of people in every country, especially those in the Global South. The most visible impacts of PDBs come through the activities they finance and in many cases they are adverse (such as social and environmental impacts, human rights violations, gender-specific impacts, or increased poverty and inequality). PDBs also affect people’s lives by heavily influencing global and national development agendas, setting standards, and promoting economic approaches such as privatization.

3. **MAJOR PRESENCE.** According to one count, there are 527 PDBs worldwide. They hold 18.7 trillion USD in assets and deliver approximately 10% of all global public and private investment annually.²

4. **GROWING PRESENCE.** The universe of PDBs is growing rapidly. Some have questioned whether the traditional MDBs would wane in relevance given the proliferation of other financiers. However, post-pandemic, these institutions are experiencing unprecedented growth.³ PDBs are positioning themselves to play a key role in future emergency/crisis response, as well as in the achievement of SDGs and climate goals.⁴ Some donor countries are channeling more of their aid budgets through PDBs rather than through bilateral aid agencies.⁵

5. **UBIQUITOUS REACH.** As a group, PDBs are involved in every sector of the global economy and impact many of the most critical social and economic issues – from transportation to judicial reform, agricultural standards or post-war reconstruction.

6. **CRITICAL RESOURCES.** PDBs also provide critical resources in certain countries and sectors which may not have other options for financing, including for health, education, or long-term projects that are perceived as too risky for the private sector. The World Bank, for example, is the largest source of external financing for health and education for low-income countries,⁶ while the China Development Bank (CDB) provides financing to countries that may be unable to access financing from other creditors.⁷

7. **SIGNALING APPROVAL.** PDBs also serve as gatekeepers, signaling to other investors. A stamp of approval from a PDB (either in the form of investment, guarantees or through rankings and assessments) can be a determinant factor in whether a government, company or project is able to attract necessary financing from other sources. PDBs send especially strong signals to investors interested in environmental, social, and governance (ESG) issues and socially responsible investing (SRI), who often rely on PDBs’ choices as a green stamp of higher environmental and social rules.

**IN SUMMARY, PDBs ARE POWERFUL.** As a group, they exert an inordinate amount of power and influence in the world. In addition to funding projects and programs, they influence development policy through the technical assistance or ‘knowledge products’ they provide, and the conditionalities they attach to their assistance. As some of the world’s largest creditors, PDBs also engage in capacity building, utilize diplomacy, and exercise pressure to advance their agendas. Their influence can be positive or negative. However, it undeniably impacts the relationship between governments, companies and citizens.
In Mozambique, current World Bank investments are equivalent to the country’s annual budget. Since 1987, when the country embarked on its first “Structural Adjustment Programme” to access IMF loans, Mozambique has been heavily relying on funding from international financial institutions.

This support has come at a high cost, as these loans are tied to harsh conditionalities. The government has been forced to introduce reforms to liberalize the economy, privatize public services, and deregulate many sectors. This has led to increased poverty and inequality, the collapse of many essential public services, and it has undermined the national development processes, as the World Bank and the IMF are largely setting the socio-economic agenda.

The African Development Bank is another key player and it is funding the expansion of the Liquefied Natural Gas (LNG) sector in the country, despite concerns about the irreparable impacts of this industry. Although only 27% of Mozambicans have access to electricity, most of the gas will be sent to Asia and Europe. Furthermore, gas projects have led to forced evictions, loss of livelihoods, environmental devastation, increased militarization and social conflicts. For example, there have been increasing insurgent attacks, fueled in part by outrage over the uneven distribution of gas revenue.
HISTORY OF PDBs AND THEIR MOTIVES

The history of PDBs is linked to the emergence of States and public debt. The first known national development bank was the French Caisse des Dépôts, established in 1816. After the Second World War, the allied nations formed the World Bank as the first global multilateral public development bank to foster cooperation in economic development, especially through lending to build infrastructure. This was followed by a wave of regional MDBs being formed in the late-1950s and 1960s, including the Inter-American Development Bank (IDB), African Development Bank (AfDB), Asian Development Bank (ADB), and European Investment Bank (EIB). All these institutions were structured as banks dominated by major Western shareholders, and to promote market-based economic growth rather than universal social protection.

The rise of China, in particular, and other large emerging economies also led to shifts in development finance. Large-scale Chinese development finance gave new international options to many States. Additionally, in 2014 the BRICS (Brazil, Russia, India, China, and South Africa) grouping created the New Development Bank (NDB). Two years later, China promoted the launch of the Asian Infrastructure Investment Bank (AIIB), which since then has grown from 57 to 106 members, and invests across the world. While these banks were created in response to Western domination of existing MDBs, they largely replicate the existing structure of global capitalist development, albeit with different shareholdings.
PDBs AS GEOPOLITICAL ACTORS AND SPACES

PDBs are owned and controlled by governments, who often use them as political and geopolitical proxies. As a result, PDBs are also political and geopolitical actors.

Many multilateral PDBs act as norm-setting institutions. Given their economic power, they often exert significant geopolitical influence pushing their standards and shaping law and policy, particularly in middle and low-income countries. However, for a variety of reasons discussed below, PDBs are not ideal spaces for setting global norms and standards.

Donor countries use PDBs to push their priorities, and create market opportunities for their own industries and investors. For example, China Development Bank (CDB) loans come with requirements to utilize Chinese labor, companies, services, and technology.

The International Finance Corporation (IFC) – which is the private sector side of the World Bank Group – also follows a skewed pattern: the more shares a country has, the more IFC loans tend to benefit its companies.

In addition, PDBs are used to serve foreign policy priorities. For example, the EIB has been documented to invest in specific countries to reward Europe’s strategic allies or to decrease immigration.

The larger PDBs – where shares and voting powers are disproportionately held by rich, powerful countries – also tend to further reinforce global and regional power dynamics, exacerbating structural inequalities. By advancing extractivist and export-oriented models of economic development, PDBs are also contributing to the Global North / Global South divide and power imbalance. Global South countries play the role of exporters of raw materials and end up being a zone of environmental and social sacrifice, to meet the needs and the growing level of consumption in the Global North.

This is sometimes exacerbated by governance structures in MDBs, where board constituencies are set up such that a single representative may have to speak to competing interests from different countries. For example, in the World Bank, the director for the Asia-Pacific represents both Australia, a wealthy country with major mining companies, and Mongolia, a lower-income country with significant natural resources that are being exploited by Australian companies.

Within PDBs, decision-making processes can be complex because of the different interests at stake. Generally, it can be helpful to think of three levels of decision-making within PDBs: the board or governance structure of the PDB that sets the strategy, management that is responsible to oversee the implementation of the strategy, and staff who are employees that report to management and are responsible for day-to-day work of the PDB. Some PDBs – especially those owned by a single country – are politically responsive to the demands of their State shareholders who own and govern them. In multilateral PDBs, however, management staff can exercise independence from board members, who oversee the bank’s direction but are not necessarily involved in all the operational decisions. For example, management might act in their own institutional self-interests, prioritizing what will allow their bank to achieve or maintain a high credit rating, sell more loans, or generate more business. In any case, as outlined in the sections below, many of these decision-making processes take place behind closed doors, with little space for civil society.

The combination of these different factors means that most PDBs exert geopolitical power in a way that is not accountable to ordinary people impacted by their activities.
INVESTMENT TRENDS

Investment trends in development finance are constantly evolving. This section provides an overview of some key investment trends, including the increased interest in infrastructure finance, the growth of climate finance, the focus on digitalization, and the aggressive push toward privatization and financialization. It also discusses the factors that are driving these trends and the significant challenges they present.

INFRASTRUCTURE

There has been a proliferation of mega-infrastructure project proposals, infrastructure-focused PDBs (such as the AIIB and the Global Infrastructure Facility), and regional infrastructure connectivity plans (including China’s Belt and Road Initiative, the Programme for Infrastructure Development in Africa, the Master Plan on ASEAN Connectivity 2025, the Asia-Africa Growth Corridor, ADB’s Central Asia Regional Economic Cooperation and the EU Global Gateway).

Large-scale infrastructure projects (like mega-dams, transnational highways, new cities and ports) are particularly attractive to PDBs and to borrowing governments because they allow for high-volume financing. Transnational infrastructure is also a key battleground for the competition between China and the West, as it creates the physical foundation for increased trade, extraction of natural resources, and political ties.\(^\text{18}\)

While there is a critical global need for infrastructure, these plans often focus on the mega-projects demanded by industry and elites, rather than the infrastructure necessary to eliminate poverty and fulfill human rights, like culturally appropriate schools and hospitals, or locally-led distributed energy generation.\(^\text{19}\)

Additionally, large infrastructure projects often lead to adverse and irreversible environmental and social impacts, especially because of the lack of safeguards or their poor implementation.
In Manipur, in northeastern India, the ADB is funding the construction of the Imphal Ring Road. According to the bank, the project will improve the quality of life by helping to decongest the city. However, local Indigenous communities have raised several concerns about the project. During Covid-19, at least 66 families were evicted. The project threatens to uproot an entire village and displace more than 300 people. The bank failed to ensure the free, prior and informed consent (FPIC) of the local communities, and to ensure meaningful consultations. Despite the threats and serious risks of reprisals, the villagers have been vocally protesting and speaking out against the impacts of the project, which threatens their sacred mountains, their historical sites, their water sources, their homes, and their livelihoods.

**Case Study**

**ADB’S ROAD IN MANIPUR LEADS TO EVICTIONS AND HUMAN RIGHTS VIOLATIONS**

Rich countries have consistently fallen short of their commitments to provide funds for climate change adaptation and mitigation, and in fact most of what they have delivered as ‘climate finance’ is repackaged development finance that was transferred from other sectors. At the same time, PDBs continue to position themselves to play a bigger role in the global climate response.

Several PDBs have been publicly divesting from fossil fuels and prioritizing renewables. For example, in April 2023, the IFC announced it would no longer allow financial intermediary clients to support new coal projects. Also, several PDBs are now promoting energy transition mechanisms.

However, PDBs are mostly promoting “false solutions” to tackle the climate crisis, focusing on technical and market-based projects and policies, which are carbon-intensive, resource-intensive, or lead to violations of peoples’ rights and ecological degradation. They typically bolster the position of the private sector, contribute to the commodification of ecosystems, and prioritize economic growth and profit generation over peoples and the planet.

Moreover, compared to dedicated climate finance institutions, traditional PDBs often offer loans with relatively high-interest rates. These loans fail to account for the fact that these countries did little to cause climate change, are more vulnerable to climate shocks, and already have significant debt burdens.
In 2021, the ADB launched an Energy Transition Mechanism (ETM) as a market-oriented solution to accelerate the process of retiring coal power off of national energy grids in various Asian countries and replacing it with other sources of power. As part of the ETM, the ADB is giving public money to historical polluters to shut their coal plants, or potentially repurpose them for other carbon or resource-intensive fuels like biomass. These payments are contrary to international legal principles like the “polluter pays”. Moreover, the retirement periods are unambitious, with the full phase-out expected to take 10 to 15 years. And their efficacy is debatable, since the ETM does not require participating governments or companies to stop construction of new coal.

The lack of participation of workers and communities in decision-making around the ETM is also very concerning. While the ADB is protecting the economic rights of the polluters, it is unclear how past and ongoing harms of the coal plants will be addressed, and whether the ETM will provide reparations for the affected communities.

Energy is one of the main sectors funded by public development banks. Credit: Fre Sonneveld, Unsplash.

The climate crisis is “a new opportunity” for PDBs to manage more money. The larger multilateral PDBs are implementers of the United Nations Framework Convention on Climate Change (UNFCCC) funds – such as the Global Environment Facility and Green Climate Fund – as well as administrators of national climate funds and their own Climate Investment Funds (a multilateral fund established at the request of the G8 and G20, with six MDBs as implementing agencies).

Did you know?

ADB’s unjust Energy Transition Mechanism?

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Significantly, PDBs are also not taking the decisive action needed to rapidly phase out their support for fossil fuel-dependent infrastructure. For example, the AIIB has announced it would fund liquified natural gas projects as an alternative to coal, presenting it as a step towards the energy transition even if gas is still a fossil fuel.

Additionally, when funding renewables, PDBs tend to focus on large-scale projects (such as big dams and wind or solar parks). Many of these projects are being built in the territories of Indigenous Peoples and rural/traditional communities, and they are often linked to conflict and reprisals.

In addition, PDBs are providing technical assistance and financing to increase the extraction of key minerals considered necessary for the transition to renewable energy (including lithium, nickel, copper and cobalt). They use buzzwords such as “climate-smart” and “sustainable”, but communities are reporting that the extraction of these materials leads to serious environmental and social impacts. The projects often fail to respect local environmental legislations or international environmental standards, and are linked to attacks against whistleblowers who raise concerns.

Rather than engage in conversations about the right to development, community-led development, and the need for de-growth in the Global North, PDBs focus on increasing mineral production to support the fallacy of eternal economic growth beyond planetary boundaries. They advance extractivist and export-oriented models of development, with the Global South and Indigenous territories reduced to sacrifice zones to serve over-consumption in the Global North.

The IFC approved the project with an Environmental Impact Assessment (EIA) that underestimated its area of influence and its environmental impacts. There were several methodological mistakes in the EIA and no cumulative impact analysis, even though there are eight projects in the area.

Moreover, Allkem has a history of human rights violations. The project is located in an area of social conflict and criminalization of local leaders, and the consultation process was weak. The local indigenous community, Atacameños del Altiplano, is peacefully rejecting this mining project. Yet, despite their lack of consent, IFC is supporting SDV to develop its production, deepening the negative environmental impacts of lithium mining in the Salar del Hombre Muerto and affecting local indigenous community rights.

By promoting false solutions, PDBs end up directing limited public financing and support away from evidence-based actions that would be needed to avert exacerbating the climate crisis and advance equitable, rights-based just transitions.
In recent years, donor countries, PDBs and the IMF have been increasingly advocating for ‘digital development,’ which includes digitalization of identification systems and government-to-person (G2P) payments. Social movements and affected communities are concerned the digitalization of aid can facilitate private technology companies’ control over public services; exacerbate existing inequalities due to the digital divide; hinder the provision of public goods and services; and lead to threats to peace and security due to data and privacy issues.

Digital transformation, in the way it is currently promoted, facilitates further corporate control over public infrastructure, services and processes, as well as the data stored in these systems. In pursuing partnerships with big tech corporations, there is a danger of vendor or technology lock-in, corporate influence on national policies and laws, and unrestricted control over the capture, storage, and sale of data by private sector entities.

The IMF and the World Bank also facilitated the setting up of digital ID systems. However, current identification and biometric systems emerged in the context of countering terrorism and protecting national security, and can be exploited by recipient governments to build a surveillance state without adequate privacy and human rights laws in place. As digital systems are built on existing systems that have been highly unequal and exploitative, the transition to the digital sphere can exacerbate existing issues of marginalization, inequality and exclusion.

Since 2017, the World Bank — under its Identification for Development (ID4D) initiative — has been providing technical assistance to the Philippine Statistics Authority to establish the digital identification system PhilSys. In 2021, it approved an additional 600 million USD loan which included additional assistance to PhilSys to cover G2P payments and improve the delivery of social services. Human rights defenders and civil society organizations have expressed serious concerns about the risk of surveillance. The Philippine government has a history of using illegal surveillance and violating data privacy. According to civil society groups, there is a real risk the government can use PhilSys to create a ‘comprehensive surveillance system’ and increase attacks and threats to activists and civil society in order to silence dissent.
PANDEMIC RESPONSE AND RECOVERY

PDBs’ response to the pandemic and resultant economic crisis can serve as an illustrative example of some of the main critiques of development banks. Wealthy countries have underfunded the World Health Organization (WHO) and other critical UN institutions in favor of donor-controlled PDBs. For decades, IMF and PDBs policy reforms have weakened public healthcare systems and social safety nets and eroded the capacity of governments to respond to public health emergencies.

When the pandemic hit, PDBs rapidly mobilized funding but bypassed key safeguards. Investment decisions were made without public input and often ended up excluding vulnerable populations, going to elite private sector healthcare, or requiring payments that excluded those living in poverty. Social protection measures were designed as temporary stopgap measures undermining calls for universal health programs. A lack of transparency led to corruption and malfeasance. Moreover, this funding came primarily in the form of loans and, in many instances, accompanied by undemocratic policy conditionalities.

PDBs are now positioning themselves to be the go-to solution not only for the prevention of future pandemics and crises, but also to lead on the economic reboot. With the pandemic response and recovery there has been more support and attention to social protection and the health sector, though it remains to be seen whether this will become a long-term trend. Some governments are working with PDBs to merely repackage old extractive industries and other dirty development proposals as recovery initiatives.

POLICY LENDING

Major PDBs are increasingly utilizing policy lending and policy reforms to advance their agenda and support their investment priorities. Rather than specific projects, policy loans are money that PDBs give to governments as general budgetary support. Yet, as a precondition to disbursement, the borrowing country must complete a specific policy reform or set of actions that have been agreed upon with the PDBs (from trade and fiscal policy changes to privatizations). Sometimes MDB reforms are also coordinated with IMF austerity measures. Unfortunately, these policy conditionalities are often detrimental to countries’ economic well-being and have negative impacts on human rights, poverty or gender and income inequality.
During the Covid-19 pandemic, multilateral PDBs used policy loans to advance the role of the private sector in development.

- In **Benin**, World Bank support enabled the government to compensate a privately-managed public utility company for its loss, following the suspension of a planned 5% increase in the energy tariff due to the pandemic.\(^{54}\)

- **ADB’s policy reform** conditions include “reforms to improve revenue collection and management of public resources, reforms to create a more business-friendly investment climate, or those that improve governance and performance of state-owned enterprises.”\(^{55}\)

- In some cases, PDB policy **conditionality** can also work to correct past mistakes.
  - In **Colombia**, the World Bank prescribed an update to legislation related to the **public-private partnerships** in the transportation infrastructure, that it had previously helped draft, because it was too detrimental to public finances. The old legislation was excessively biased in favor of the private sector. When the Covid-19 pandemic negatively impacted the expected revenues of the private sector partner, it unfairly drove up the costs for the government.\(^{56}\)

### Case Studies

#### Increasing Privatization and Financialization

**Private Sector First**

In recent years, the role of the private sector in international development finance has increased substantially. Many of the most powerful Western-led PDBs have adopted policy frameworks that explicitly privilege the private sector and work to decrease the role of the state in development. In lower-income countries, PDBs are often the first mover in a new sector, paving the way for other investors, especially private-sector investors. Moreover, those PDBs that exclusively finance the private sector now play a **bigger role**.\(^{57}\)
BILLIONS TO TRILLIONS: THE MAXIMIZING FINANCING FOR DEVELOPMENT APPROACH

In recent years, MDBs, the IMF and the G20 have all aligned to the idea that “private capital is vital for the attainment of the SDGs.” In 2015, the World Bank coined the expression “Billions to Trillions”, which evolved into the Maximizing Financing for Development approach. According to this paradigm, the public sector lacks the resources required to fulfill development goals; therefore, the private sector needs to be “crowded in” to drive development.

The role of the State is reduced from driver of development and guarantor of human rights, to that of a facilitator or service provider for business. The role of the PDBs, correspondingly, is to create markets, generate projects that bring in the private sector, and act as guarantors of profit for private sector investments.

The main development banks have long focused on eliminating obstacles to private investment. The Billions to Trillions approach, however, takes this goal even further. The bank developed ‘cascade principles’ which seek to mobilize commercial finance.

To push this approach forward, the World Bank and other major PDBs have promoted policy reforms that focus on creating conducive environments for private actors to do business. For example, they publish studies that identify reform priorities (such as the World Bank’s Private Sector Diagnostic), or they include in their loans mandatory pre-conditions that create an enabling environment for business (as described in the section on policy lending).
PUBLIC-PRIVATE PARTNERSHIPS (PPPs)\textsuperscript{62}

Many PDBs are also aggressively promoting Public-Private Partnerships (PPPs).\textsuperscript{63} PPPs are essentially collaborations between government agencies and private-sector companies to finance, build and operate projects. PPPs often involve tax benefits for participating companies, protection from loss or liability, and give for-profit entities ownership rights over essential public services.

Development banks argue that PPPs will increase investment and lower costs for the State. However, these partnerships — especially in key public sectors such as health and education — have been shown to be a failure in practice: PPPs often come at a high cost for the public purse and citizens, bring an excessive level of financial risk, and increase the level of public debt.

PPPs also have a negative impact on democratic governance by bringing in private actors into the delivery of public services. They make access to services like health, education and water “dependent on citizens’ capacity to pay”. This transforms and reduces “rights-holders into consumers.”\textsuperscript{64}

CASE STUDY

DEMYSTIFYING DEVELOPMENT FINANCE
HOW PUBLIC DEVELOPMENT BANKS IMPACT PEOPLES AND THE PLANET

PRIVATIZATION OF THE HEALTH SECTOR IN KENYA\textsuperscript{65}

In Kenya, PDBs have pushed the government to increasingly privatize the health sector. The growing presence of private players has led to a race for profit that has impacted human rights, particularly access to healthcare. It has also slowed down the Kenyan government’s efforts to achieve universal health coverage.

Privatization of the healthcare sector has led to a divide between those who can afford expensive healthcare and those who cannot. Out-of-pocket healthcare spending in Kenya has risen by 53% per capita between 2013 and 2018. It has thus exacerbated existing inequalities and impacted groups such as women, people on low incomes or living in rural areas, and people with disabilities.

DID YOU KNOW?

PDBs working with the private sector often structure investments through offshore financial centers. When PDBs fail to address tax avoidance or illicit financial flows, they deprive host States of important tax revenues.\textsuperscript{66}

FINANCIALIZATION

Most PDBs – be it Western-led, Global South-led or Chinese-led – see financialization as a key driver of economic growth. Many of them have encouraged and often forced countries in the Global South to open their economies to international investment.\textsuperscript{67} They have restructured sectors and entire economies to privilege profit extraction by the private sector and foreign investors – including through public guarantees of profits to the private sector firms\textsuperscript{68} – followed by the financialization of these investments through securitization.\textsuperscript{69}

The opening up of economies and financialization has exposed vulnerable populations to the damaging effects of speculation in international markets, driven by opportunistic financial interests. At the same time, privatization has shrunk the States’ fiscal capacity to mitigate the effects of commodity speculation on their populations.
WHAT IS FINANCIALIZATION?

Financialization involves greatly expanding the financial sector — including stock markets, banks, investment companies, insurance companies, etc. — by deepening its reach and power (for example developing new income streams, reaching new customers, and creating new forms of assets). Over the last 50 years, the size of the global financial sector has expanded and increased its power and influence over the economy. As a result, large parts of the world economy have been transformed to suit financial interests, creating a myriad of new opportunities for investment and maximizing profits, rather than focussing on the needs and vulnerabilities of people and communities.

WHAT IS SECURITIZATION?

Securitization is the conversion of the promise of money in the future – such as expected interest payments and repayment of a loan – into a “financial product” (also called a “marketable security”) that can be sold to other investors.

Most large PDBs have all participated in financialization by supporting PPPs in key sectors, and then repackaging the income streams from those PPPs into “marketable securities” that can be bought, sold and traded by institutional investors such as sovereign wealth funds, pension and insurance funds. The use of securitization represents a shift from public development financing to financing by private capital markets, and it has the potential to greatly increase volatility and vulnerability.

HOW THE FINANCIALIZATION OF AGRICULTURE CONTRIBUTED TO THE FOOD PRICE SPIKE IN 2022

The huge inflation of food prices in the last couple of years was driven at least in part by speculation in financial markets. The World Bank and the IMF contributed to this crisis as they have worked to financialize the global agricultural sector through their support for privatization, market-led land reforms and financial deregulation, opening domestic agricultural sectors to international agribusiness to the detriment of local farmers, food sovereignty and the environment.

FINANCIAL INTERMEDIARIES (FI)

PDBs are channeling increasing amounts of investment – in the form of loans, ownership shares, and guarantees of payments – through “financial intermediaries” (FIs). These FIs then go on to invest the money in other entities or “sub-projects.” PDBs argue that FI lending allows them to direct funds at lower borrowing costs to support small and medium-sized enterprises.

However, in practice, FIs tend to be commercial banks (working with large corporations) or private equity funds (whose financial model is to buy companies, charge a fee to manage them, cut costs – including at the expense of labor rights – and then sell the companies at a profit). PDBs’ FIs are usually lower-rated financial institutions with weaker environmental and social risk management standards and practices, and PDBs themselves often fail to take additional steps to respond to these increased risks related to their FI clients. As a result, the protections that PDBs have in place for their direct investments do not flow down to the sub-projects.
FI lending is risky for people and the planet due to a lack of disclosure on what sub-projects and sub-clients FIs have invested in. Disclosure and monitoring get worse as the investment chain gets longer. The lack of transparency makes it harder to hold PDBs and FI clients accountable, ensure they are following PDBs socio-environmental standards, and are not putting public funds towards problematic projects or activities. Another critique of FIs is that they contribute to the increasing complexity of the financial system, and generally invest in a bigger financial sector globally. Applying them in the development context increases the financialization of development, with each intermediary entity extracting profits before reaching the end beneficiaries, and exposing development activities to short and medium-term financial risks.

**CASE STUDY**

**WORLD BANK GROUP INVESTMENT IN HANA BANK (INDONESIA)**

On paper, the World Bank Group says it has not financed new coal-fired power plants since 2010. But its financial intermediary client, Hana Bank, funded the development of the Java 9 and 10 mega coal plants in Banten Province, Indonesia. The local population had already suffered from air and water pollution for decades and fishing had been badly affected by the existing coal complex. But in 2020 – after a decade of investments from the World Bank’s private sector arm – Hana Bank invested in PT Indo Raya Tenag, the developer of the new coal plants. Over 30 years, Java 9 and 10’s pollutants are estimated to cause 2,400 to 7,300 additional premature deaths, and match the annual carbon dioxide emissions of Spain.

A local resident walks near a landfill in Uzbekistan. Credit: CEE Bankwatch Network.
PDB SAFEGUARDS AND ACCOUNTABILITY POLICIES: STRENGTHS AND LIMITATIONS

As a result of civil society pressure, the major PDBs have developed environmental and social rules that apply to their project investments. On paper, these rules or principles provide important protections for communities and the natural areas impacted by project finance. Additionally, many PDBs have policies around transparency, accountability and participation. These safeguards, their mandatory application in PDBs’ activities, the supervision and oversight of PDBs to ensure their application, and the availability of accountability and grievance mechanisms for communities when the safeguards are not followed are seen as something that distinguishes PDBs from private businesses. This section will describe the strengths and weaknesses of PDB safeguards.

STRENGTHS

ENVIRONMENTAL AND SOCIAL PROTECTIONS

When applied rigorously, PDBs safeguards and oversight from PDBs’ social and environmental specialists can make the difference on whether a critical habitat is destroyed, whether a dam is safe or unstable, whether a road is rerouted around local communities or they are displaced, whether patients’ rights are upheld, whether trade unions are respected or child labor is utilized, or whether a public benefits program includes or excludes women-headed households. In this way, safeguards can have the effect of raising environmental and social standards of projects PDBs fund, and can help prevent or mitigate some of the worst social and environmental impacts.
In principle, safeguards support greater transparency and participation. When followed, safeguards can open opportunities for communities and groups to access information, raise concerns, and otherwise engage or pressure development actors in order to defend their rights. All the major multilaterals, for instance, require some degree of disclosure and consultation around environmental and social impacts (for direct project investments). Safeguards can also serve as a powerful hook to demand access to information on government or corporate development activities. In some contexts where civil society space is restricted, PDBs have been useful in supporting civil society engagement and creating some space for civic participation. For example, the World Bank’s Country Partnership Framework process has been used by civil society groups in the MENA region to open space for citizens, to at least raise concerns about government development plans.

ACCOUNTABILITY

Many PDBs have accountability and grievance mechanisms to address complaints when safeguard policies are not met. These are particularly important, since most PDBs that are working internationally cannot be sued in court for the impacts of their projects. Accountability mechanisms can provide a useful process for mediation between communities and companies or governments. They can be utilized to draw national/international attention to grievances, harmful proposals, or unjust practices of a government, company or industry sector. They can also help put pressure on companies and governments to respond. In some cases, they can lead to concrete improvements in people’s lives, such as displaced communities being compensated, or a harmful project being canceled.

LIMITATIONS

Unfortunately, as described below, there continue to remain significant limitations in the scope and implementation of PDBs’ environmental and social safeguards, as well as gaps in other policies and practices related to transparency, accountability and participation.
LARGE PARTS OF PDBs’ WORK EXCLUDED FROM SAFEGUARDS

PDBs’ safeguards primarily cover only direct equity investments or lending of the banks. Safeguards are not applicable to a large portion of PDBs’ portfolio of work, including policy lending or technical assistance.86

WEAK IMPLEMENTATION OF SAFEGUARDS

Implementation and enforcement of PDB safeguards are weak and often sorely lacking.87 Despite strong policies in support of participation on paper, communities are often unable to influence the decision-making of PDBs. Consultations and participation become checkbox exercises, without the space to actually change projects. The right to FPIC of Indigenous Peoples is also frequently not followed.

On paper, the larger PDBs have policies stating zero tolerance for reprisals.88 But in many countries and contexts, people who speak out about development projects face attacks for doing so. PDBs fail to implement due diligence processes to assess and prevent reprisal risks when they support projects in such contexts, or address reprisals when they happen.

Poor implementation is particularly true for PDBs’ investments through financial intermediaries. In such cases, safeguards and other environmental and social policies do apply but are rarely implemented.

CASE STUDY

WORLD BANK GROUP’S PERFORMANCE STANDARDS FAIL TO PROTECT HOTEL WORKERS’ RIGHTS ACROSS PORTFOLIO

After a five-year engagement with the World Bank Group’s financing in the hotel industry, the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations (IUF), the global union federation for the hotel sector, and allied groups have documented due diligence failures and safeguard violations relating to 50 hotels in 12 countries receiving bank funding. Despite protections for workers’ rights in the performance standards of the IFC, there have been retaliatory termination of several union leaders, efforts to intimidate organizing workers, abrupt mass terminations of workers, and unsafe workplaces, among other violations of the safeguards and national law.89

REMEDY REMAINS RARE

When projects don’t follow the safeguards, communities rarely receive remedy for the harm the project caused. Sometimes, PDBs leave projects where their safeguards are not being followed, but this can also be harmful.90 PDBs can walk away from projects without any public process, effectively removing whatever protection safeguards they provided behind the scenes. They also do not account for how their investment moved forward a harmful project that may not have proceeded without their support.91

GAPS IN ACCOUNTABILITY

Similarly, PDBs accountability processes are limited in that they cannot compel action or require sufficient remedy and justice, and may come with restrictive admissibility requirements or be slow to deliver recommendations.92 It is worth noting that civil society is making some inroads in their push for remedy, including for grievance mechanisms to have a role to recommend remedies for harms caused as a result of the violation of their host banks’ policies,93 and for PDBs themselves to formalize their approach to remedy.94 However, progress by PDBs on this remains slow.
MANY PDBs CONTINUE TO BE QUITE OPAQUE

Despite transparency and disclosure policies, most PDBs fall considerably short of fulfilling communities’ right to information. Many Chinese PDBs contractually prevent borrowers from disclosing information. While most multilateral MDBs have access to information and disclosure policies, the exceptions are pervasive and implementation of disclosure policies can be very spotty. Citizens often can’t even see the contracts through which their governments become indebted to PDBs. Project disclosures are also rarely updated, often lack critical details, are overly technical, and are unavailable in local languages.

DILUTION OF SAFEGUARDS

Many PDB clients and other institutions are pushing for an even greater flexibilization of existing standards. As a result, in recent years, many safeguards policies have been further diluted, by focusing on principles (rather than precise requirements and consequences for non-compliance), allowing projects to be approved through environmental and social management plans without doing rigorous environmental and social assessments, and entrusting borrowing countries and businesses (and their own systems) with greater responsibility for determining and implementing safeguards.

SAFEGUARDS ARE NOT A REPLACEMENT FOR INTERNATIONAL HUMAN RIGHTS LAW

Since PDBs are owned by States, they should act as duty bearers within the international human rights system. Yet, many larger multilateral PDBs do not accept that the international human rights legal system applies to them. They justify this in part by saying they have their own environmental and social safeguards. In practice, however, these safeguards fall short of a human rights-based approach to development. They are an inadequate business or economic response, which is then legitimized because of the incredible standard-setting power the PDBs have. Moreover, when PDBs standards are used as a benchmark, other stronger standards may be undermined. For example, the OECD relied on IFC Performance Standards as its benchmark, rather than the more robust UN Guiding Principles on Business and Human Rights, which also include a responsibility to provide remedy, and are a better reflection of international human rights law.
STANDARD SETTING: PDBs SYSTEMIC IMPACT ON POLICIES AND PRACTICES

PDBs have a significant effect on the global economy, particularly on developing countries’ economies. In addition to the more obvious impacts of their direct investments, PDBs also have important hidden impacts. As described below, these include playing a leading role in setting global standards for development finance, and in shaping national policy and practices in developing countries. PDBs also affect the private sector as they signal expectations, set standards and build capacities.

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<th>GLOBAL STANDARDS</th>
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It is important to note that historically marginalized countries have a much smaller say in the IMF and PDBs. Intergovernmental spaces – like the UN General Assembly, African Union, or Organisation of American States – are more representative: each country has an equal vote, there are more participatory spaces for civil society, and there is an applicable human rights framework. So, when the IMF and the larger multilateral PDBs use their economic might to act as standard-setting bodies, they are in effect acting like shadow governments, bypassing more deliberative intergovernmental bodies who have a more legitimate norm-setting role.

GLOBAL STANDARD-SETTING

PDBs play a powerful role in shaping global standards on myriad issues. In addition to the wide adoption of their safeguards, PDBs frequently shape international financial discussions to advance a neoliberal economic model and liberal democratic ideas, such as environmental and social sustainability, transparency, and gender equity.

DID YOU KNOW?

IFC estimates that its environmental and social Performance Standards affect around USD 4.5 trillion in investments. They are the blueprint for 32 OECD export credit agencies, for many other PDBs, and for the Equator Principles followed by over 130 financial institutions, including most of the world’s largest commercial banks.

The Equator Principles are a set of voluntary guidelines adopted by financial institutions, to ensure that large infrastructure projects appropriately consider their potential impacts on the environment and affected communities.

For example, in G20 discussions, the World Bank and IMF have focussed on market-based debt approaches that largely benefit private lenders, rather than a global debt restructuring mechanism under the UN which protects people from severe cuts to essential services. The IMF and the major multilateral PDBs have
significant norm-setting power over debt issues. They are preferred creditors, meaning they get paid first over other creditors. This gives them a huge amount of power over whether a country goes into default, and a corresponding responsibility to lead on debt relief. Additionally, as the IMF and World Bank’s assessments of creditworthiness and debt sustainability are utilized by many financial institutions, they can make or break a country’s economic future.

The traditional MDBs also play a convening role, bringing together different global elites to share strategies, “knowledge products”, and shape theory, practice and policy. For example, since 2020, the Finance in Common Summit has been one of the major fora where PDBs meet to discuss shared priorities and advance debates on key development issues with governments and the private sector, but without meaningful representation from communities who are affected by the decisions they take.

**SHAPING NATIONAL POLICIES AND PRACTICES**

While there is greater evidence of large Western-led MDBs shaping national policies and practice in the Global South, even China’s PDBs and Global South-led multilaterals – that focus more on project lending – have a strong impact on practice in the areas they operate in, especially around infrastructure and trade. Whether the influence of these institutions is positive or negative varies. However, either way, it can short-circuit public debate and regular democratic processes, distorting normal lines of government accountability.

**INFLUENCING PEOPLE AND SHAPING GOVERNMENT CULTURE**

In the past, PDBs and the IMF were criticized for forcing a neoliberal model on the Global South. However, today the private sector first approach is so hegemonic that governments and PDBs are often mutually reinforcing it, even trading blame for socially unpopular actions. National-level technocrats are trained at the same schools and with the same political and economic approaches as PDB economists. In many countries, it is a given that a bureaucrat seeking to hold the position of finance minister will have served in a senior position within the World Bank. Institutions like the World Bank finance training and capacity building for public sector bureaucrats and workers, including parliamentarians, teachers, judges and police officers. Many PDBs have rules and processes to promote good governance and prevent corruption. At the same time, there are countless examples of PDBs investments being utilized to prop up autocratic regimes and projects fueling bureaucratic corruption.103
ADVISORY SERVICES AND TECHNICAL ASSISTANCE

For many of the large and Western-led PDBs, a substantial part of their influence comes through the advice and technical assistance they provide to clients. Some conduct technical assistance to strengthen the ability of national and local governments to do climate planning or to strengthen transparency. However, a large part of PDBs’ technical assistance is geared toward shaping national policy environments to favor the private sector. The World Bank, for instance, used technical assistance to redraft Haiti’s national mining code, including provisions that dramatically restricted access to information.104

POLICY REFORM

In addition to using policy loans, as mentioned in the section “Investment Trends”, the larger PDBs have used their assessment tools (such as the World Bank’s Doing Business report or Country Private Sector Diagnostics) to make recommendations for pro-business reforms, promoting deregulation, increasing private sector involvement in essential services such as health and education, and weakening State capacity for oversight and enforcement of its own laws.105

DID YOU KNOW?

The World Bank’s Doing Business Report106 resulted in more than 3,800 policy changes, including lowering corporate taxes, reducing workers’ pensions, and relaxing environmental protections.107

WEAKENING LABOR LAWS AND ENFORCEMENT IN MOLDOVA

In response to the World Bank’s efforts to weaken labor inspectorates in several Eastern European countries, Moldova decentralized its labor inspections. It farmed out occupational health and safety inspections to entities without expertise in workers’ protection, and limited unannounced inspections on the basis that a high number of inspections create excessive costs.108 This compromised oversight for occupational health and safety contravened International Labour Organization standards. National trade unions mobilized and succeeded in getting the State to “reform the reforms”, and put the national labor inspectorate back in charge of occupational safety and health.109

DID YOU KNOW?

PDBs affect national governments’ taxes and incomes. • Policy reforms pushed by PDBs – promoting corporate tax breaks, creating special economic zones, PPPs, and outsourcing of public goods and services – erode the national tax base. • PDBs also push governments to increase or introduce new taxes for ordinary citizens, while reducing taxes for the rich and corporations.110
DEMONSTRATION EFFECT

The application of PDBs’ policies can also have a wider demonstration effect on government and domestic policy. If a government agency changes systems or structures to comply with higher standards, that change can carry over to future activities beyond the project.

Many governments, for instance, have incorporated World Bank resettlement standards into national law.

The Country Partnership Framework (CPF) process of the World Bank and some regional MDBs has been shown to influence national development policy. Every CPF theoretically has to have a country climate plan, creating an additional avenue to influence national climate planning. However, CSOs have documented that many CPF processes are highly problematic, and they have often failed to consult civil society adequately.111

SHAPING PRIVATE SECTOR POLICIES AND PRACTICES

PDBs have a huge impact on how private companies behave, as they can influence them through their policies, standard setting, capacity building, and sending signals.

PDBs have played a major role in increasing the use and quality of environmental and social impact assessment globally. Many PDBs utilize standard contracts, bidding documents, and codes of conduct that can change corporate practice (for example on topics such as gender-based violence or ensuring accessibility). Their investments send strong signals also to the so-called socially responsible investors, who may rely on PDBs safeguards and their due diligence or monitoring processes.

The experience of successfully applying higher standards or practices can also have a demonstration effect. In countries where respect for labor rights is normally low, a project that complies with PDBs labor standards can encourage other companies to engage with unions and respect rights. PDBs do not easily divest from companies for failing to comply with policies or safeguards, but the risk can have a powerful deterrent effect.

TACKLING GENDER-BASED VIOLENCE

After civil society groups raised complaints about gender-based violence associated with a World Bank-financed road project in Uganda, the bank took several measures to address this issue. These steps are having a ripple effect on other PDBs as well as private industries globally.112 In 2020, the World Bank introduced a mechanism that can disqualify contractors for failing to comply with obligations related to the prevention of gender-based violence.113

TACKLING VIOLATIONS IN THE PALM OIL SECTOR

After civil society groups brought complaints to the IFC and World Bank over palm oil investments that were causing land grabs and rights abuses, the World Bank Group eventually adopted a policy to only invest in projects involving companies certified to meet the Roundtable on Sustainable Palm Oil’s Principles and Criteria.114 The efficacy of the standards can be debated, but the World Bank Group’s adherence to them greatly impacted their uptake across the palm sector.
HARMING COMMUNITIES, COUNTRIES AND THE PLANET

As a result of PDBs’ investments and standard-setting, and limitations of their safeguards, development banks end up harming people and the planet, and get in the way of communities, countries and Indigenous Peoples from pursuing their own development pathways and priorities.

Cotton field. Credit: Karl Wiggers, Unsplash.

FUELING REPRISALS AND RIGHTS ABUSES

PDBs are part of a top-down development model, which fails to account for the diversity of cosmovisions of many traditional communities, who have their own development pathways and priorities. Instead of democratizing and decentralizing development decision-making to those who bear the brunt of development impacts – and those who should be development finance’s beneficiaries – PDBs often make decisions in closed rooms with governing and business elites. They refuse to accept that the human rights system applies to them, or that people should be able to hold them accountable in national courts.

The lack of a participatory and community-led approach – coupled with failures to conduct meaningful due diligence – exacerbates existing power imbalances and fuels rights abuses, including land and resource grabs. Groups in vulnerable situations – such as womxn, LGBTQI+ people, Indigenous peoples, people with disabilities, and children among others – tend to be disproportionately affected.

PDBs AND GENDER

There is a gulf between development banks’ rhetoric and their action. PDB’s documents increasingly adopt a gender-sensitive approach and language that civil society recommends. However, too often PDB operations promote privatization and austerity paradigms that disproportionately harm the rights of womxn and LGBTQI+ people, for example by reducing their access to public services or promoting projects that put them at risk. Many development projects are also linked to high levels of militarization, which in turn leads to increased gender risks.
Many PDBs have a “climate debt”. They have been actively supporting projects with negative impacts on the climate for generations, financing some of the dirtiest industries and most climate-destructive activities. Although many PDBs are taking action to decrease direct investments in coal and other fossil fuels, they continue to lend untold support to climate-negative activities indirectly.
INCREASING DEBT BURDENS

Many larger PDBs, especially multilateral ones, hold a massive amount of countries’ debt. While some PDBs offer limited grant-based assistance, most of their financing is through loans. Chinese PDBs provide almost exclusively non-concessional financing, with shorter repayment periods. Some institutions, like the World Bank’s International Development Association (IDA) and many regional PDBs, offer concessional loans to the lowest-income countries, providing a source of financing that is relatively cheap and with longer payback terms. For countries not within the lowest income tier, most PDB financing comes with higher interest rates.

Moreover, most loans from PDBs are made in US dollars or other hard currencies, meaning that if a country’s currency devalues during the lifespan of a loan, it becomes much more expensive to pay it back. This is further complicated by the reality that significant amounts of public debt taken from PDBs can be considered dubious debt, as it was contracted by corrupt governments and with a lack of due diligence to human rights impacts on the part of the PDBs.

CONCLUSION

Even though they are rarely at the center of public debates, development banks strongly impact our lives, our countries and our planet. Despite a mainstream narrative of development finance as the go-to solution to fix the world’s problems, PDBs often have negative impacts. Indeed, as this analysis shows, the economic and development model promoted by most PDBs — and the projects, policies, companies and authorities they support — are often a major contributor to the vulnerability and underdevelopment of the Global South.

While most Western-led PDBs say their mission is to end poverty and promote economic inclusion, in practice they replicate a colonial model built on the extraction of resources and labor in the Global South. In order to feed elite and corporate demand, Western PDBs promote approaches such as privatization and financialization, that keep fueling inequality, vulnerability and social conflicts.

The missions of Chinese and Global South–led PDBs – like AIIB and NDB – are more focused on sustainable infrastructure. However, the underlying approach is similarly geared towards connecting with global markets and supply chains, rather than prioritizing locally-led development pathways.

What all these development banks have in common is that they are failing to address the root causes of the exact problems they claim to solve, and instead they are even exacerbating them. This analysis, based on the perspectives of dozens of Global South civil society experts, tries to demystify a narrative that is based on aspirational commitments spelled out in the banks’ policies but that does not match with reality on the ground. In doing so, we hope to open up a much-needed debate on the role that development banks are playing in the global financial architecture, and the importance of collectively holding these institutions accountable for their impacts on peoples and the planet.
NOTE ON METHODOLOGY

This report is not meant to reflect any person, organization, or network’s analysis or opinion. Rather, it is an attempt to capture the collective analysis and diverse perspectives of several members and allies of the Coalition.

This first draft was produced by Gretchen Gordon (advisor to the Coalition for Human Rights in Development secretariat and former coordinator) through a series of interviews with the following people:


To solicit feedback, the first draft was translated in Spanish and French, and shared widely with the people who were interviewed, and with the Coalition’s members and partners. Further feedback was gathered during four consultation workshops (one global consultation in English, one in Spanish for groups in Latin America, one in English and French for groups in Africa, and one in English for groups in Asia). During these consultations, the Coalition secretariat documented feedback on gaps and disagreements, as well as on how to shape the document to better meet the needs and goals of participating organizations. Several people also provided written comments, took on the drafting of sections and case studies, and helped edit the document.

The list of people who participated and/or contributed to the various workshops, and/or contributed through writing, includes:

TOOLKITS AND RESOURCES ON PDBs

THE EARLY WARNING SYSTEM (EWS)
The EWS – which is anchored by the International Accountability Project (IAP) – ensures local communities, and the organizations that support them, have verified information about projects being proposed at major development finance institutions, and clear strategies for advocacy – ideally before funding is decided. It includes the first civil society-led database that summarizes projects proposed and approved at the largest development banks, which has been updated daily since January 2016. Further information:
https://ews.rightsindevelopment.org/about

TOOLS FOR ACTIVISTS: AN INFORMATION AND ADVOCACY GUIDE TO THE WORLD BANK GROUP (2020)
Bank Information Center (BIC), available online at: https://bankinformationcenter.org/en-us/update/toolkit-for-activists/

UNDERSTANDING THE AFRICAN DEVELOPMENT BANK (2023)
Accountability Counsel, Arab Watch Coalition, Bank Information Center (BIC), Both ENDS, Center for International Environmental Law (CIEL), Coalition for Human Rights in Development, International Accountability Project (IAP), and Lumière Synergie pour le Développement (LSD), available online at: https://rightsindevelopment.org/afdb-guide-eng/

COMMUNITY GUIDE TO THE ASIAN INFRASTRUCTURE INVESTMENT BANK (2020)
Inclusive Development International (IDI), available online at: https://www.inclusivedevelopment.net/tools/community-guide-to-the-asian-infrastructure-investment-bank/

CITIZENS’ GUIDES TO INTERNATIONAL FINANCIAL INSTITUTIONS
CEE Bankwatch Network, available online at: https://bankwatch.org/get-involved/guides

COMMUNITY ACTION GUIDES ON THE ASIAN DEVELOPMENT BANK (2020)
International Accountability Project, available online at: https://accountabilityproject.org/work/community-organizing/community-action-guides/

SAFEGUARDING PEOPLES AND THE ENVIRONMENT IN CHINESE INVESTMENTS (2020)

RESOURCES AND GUIDES ON PDBs’ ACCOUNTABILITY MECHANISMS:
Accountability Counsel, available online at: https://www.accountabilitycounsel.org/accountability-resources/guides
Accountability is the obligation of individuals and organizations to answer for their actions. It is essential for good governance and ensuring that development resources are used effectively. Accountability can be promoted through a variety of mechanisms, such as transparency, participation, and independent oversight.

Bilateral aid agencies are run by a single donor country and provide financial assistance to developing countries. Donor countries fund their own aid agencies to promote economic development, poverty reduction, and social welfare in developing countries. They provide grants and technical assistance.

Blended finance is a type of financing combining public and private capital to invest in projects. The purpose of blended finance is to add private capital to projects that the private sector would not invest in on its own.

Climate debt is a debt owed by heavy polluters to those who bear the brunt of climate change, for the damage caused by their disproportionately large contributions to global warming and climate change through economic and other activities. It is often used in the context of the climate debt owed by industrialized countries to lower-income countries.

Climate finance generally refers to finance for activities aiming to mitigate or adapt to the impacts of climate change. Climate finance is related to the overlapping concepts of green finance, sustainable finance, and low-carbon finance.

Conditionality is when development banks attach conditions to their investments to influence the recipient countries’ policies and behavior. Conditionality is controversial because it undemocratically shapes national laws, policies and practices, and violates countries’ right to self-determination.

Credit rating is a measure of how likely a State or other economic actor is to pay back a loan. Credit rating agencies assign ratings based on several factors, including the entity’s financial strength, profitability, and track record of paying back loans historically. A higher credit rating indicates a lower risk of default, and a lower credit rating indicates a higher risk of default.

Demonstration effect is the idea that when a new technology or practice is successfully implemented in one place, it can inspire others to adopt it in other places.

Development finance institutions (DFIs) are national and international institutions that provide loans, grants, and other investments for projects and activities worldwide. The definition of DFIs largely overlaps with that of PDBs (see below).

Equity is a type of investment that gives investors a share of the ownership of a company. PDBs provide equity to companies in developing countries that commercial banks consider too risky to lend to. PDBs also invest in companies that aim to address social or environmental challenges.

Financial intermediaries (FI) are financial institutions (usually, commercial banks or private equity funds) that receive money from PDBs, and then pass that money onwards to other clients or projects, such that: the FIs’ clients become “sub-clients” of PDBs, and FI funded projects become “sub-projects” of PDBs.

Financialization is the process by which financial markets and institutions come to dominate the economy. It is characterized by the increasing use of debt, the growth of financial speculation, and the concentration of wealth in the hands of a few.

Financing vehicles are ways to raise and distribute money. Governments, businesses, and individuals can use them to finance various activities, such as investment, lending, and trade. Some common financing vehicles are banks, bonds, stocks, and venture capital.
Free, prior and informed consent (FPIC) is a requirement under international law to obtain the permission of Indigenous Peoples before undertaking any activity that may affect their lands or resources. FPIC is essential for ensuring Indigenous peoples can self-determine decisions affecting their lives.

Knowledge products are materials that are created to share information and knowledge. They can take many forms, such as reports, articles, videos, and websites. These products can help to raise awareness of important issues, share best practices, and build capacity.

Liability generally refers to the state of being responsible for something, and this term can refer to any money or service owed to another party.

Paris Climate Agreement: a legally binding international treaty within the United Nations Framework Convention on Climate Change (UNFCCC), entered into force in 2016. Its long-term goal is to reduce climate change's effects and it provides a framework to support countries in their climate action efforts, including the mobilization of climate finance.

Public development banks (PDBs) are financial institutions owned and governed entirely or in part by one or more governments. They work in support of a public policy mission to channel public resources to the public and private sectors, through different financing vehicles.

Public-private partnerships (PPPs) involve collaboration between government agencies and private-sector companies to finance, build and operate projects.

Safeguards are measures that are taken to protect people and the environment from the negative impacts of development projects. Safeguards can include requirements for environmental impact assessments, social impact assessments and resettlement plans.

Securitization is the conversion of the promise of money in the future – such as expected interest payments and repayment of a loan – into a 'financial product' (also called a 'marketable security') that can be sold to other investors. It often involves pooling several different receivables together and selling them as securities. While securitization is seen as a valuable tool for mobilizing capital for development, it is also a risky financial practice.

Sustainable development goals (SDGs) are 17 goals adopted by the UN in 2015. They offer a global framework for development that can help to guide governments, businesses, and individuals in their efforts to create a more sustainable future to end poverty, protect the planet, and ensure prosperity for all.

Technical assistance (in the development context) is a form of aid to provide countries with the expertise to promote development. It might involve sending experts and consultants to advise on specific issues, drafting reports and other knowledge products, or organizing capacity-building and training.