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.


Construction works in Bangkok, Thailand.
Credit: Etienne Girardet, Unsplash.

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.[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.[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.

CASE STUDY

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

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.[20]

ENERGY AND CLIMATE

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.[21] At the same time, PDBs continue to position themselves to play a bigger role in the global climate response.[22]

Several PDBs have been publicly divesting from fossil fuels and prioritizing renewables.[23] For example, in April 2023, the IFC announced it would no longer allow financial intermediary clients to support new coal projects.[24] Also, several PDBs are now promoting energy transition mechanisms.[25]

However, PDBs are mostly promoting "false solutions" to tackle the climate crisis,[26] 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.[27]

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.

Protest against the Eacop pipeline.
Credit: 350 africa.

DID YOU KNOW?

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).[28]

CASE STUDY

ADB's UNJUST ENERGY TRANSITION MECHANISM?

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.[29]

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.[30] And their efficacy is debatable, since the ETM does not require participating governments or companies to stop construction of new coal.[31]

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.[32]

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

Significantly, PDBs are also not taking the decisive action needed to rapidly phase out their support for fossil fuel-dependent infrastructure.[33] 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,[34] 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.[35]

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).[36] 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.[37]

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.[38]

Protest against lithium mining in Argentina.
Credit: Tomas Saraceno.

CASE STUDY

THE SAL DE VIDA LITHIUM MINE IN ARGENTINA

Sal de Vida (SDV) is a lithium mining project in Argentina, in the Salar del Hombre Muerto. The IFC supports the project through a direct loan of $100 million USD to the mining company Allkem and the mobilization from commercial banks of up to another $100 million USD.[39]

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,[40] 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.

DIGITALIZATION

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.[41]

CASE STUDY

THE ID4D INITIATIVE IN THE PHILIPPINES[42]

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.

Protest of Lumad Indigenous Peoples against the Kaliwa dam in the Philippines.
Credit: Maria Tan.

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.[43]

Wealthy countries have underfunded the World Health Organization (WHO) and other critical UN institutions in favor of donor-controlled PDBs.[44] 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.[45]

When the pandemic hit, PDBs rapidly mobilized funding but bypassed key safeguards.[46] 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.[47]

Social protection measures were designed as temporary stopgap measures undermining calls for universal health programs.[48] A lack of transparency led to corruption and malfeasance.[49] Moreover, this funding came primarily in the form of loans and, in many instances, accompanied by undemocratic policy conditionalities.[50]

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.[51] 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.[52]

Women walking in Sierra Leone.
Credit: Annie Sprat, Unsplash.

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.[53] 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.

CASE STUDIES

POLICY LENDING AND THE PRIVATE SECTOR

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]

Construction works for the Hidroituango dam in Colombia.
Credit: Movimiento Rios Vivos.

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."[58] 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.[59]

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.[60]

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).[61]

Magar community leader showing the land affected by sand mining activities in Nepal.
Credit: International Accountability Project.

PUBLIC-PRIVATE PARTNERSHIPS (PPPS)[62]

Many PDBs are also aggressively promoting **Public-Private Partnerships (PPPs)**.[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."[64]

CASE STUDY

PRIVATIZATION OF THE HEALTH SECTOR IN KENYA[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.[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.[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[68] – followed by the financialization of these investments through **securitization**.[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.[70] 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,[71] 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.[72] 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.[73]

CASE STUDY

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.[74] 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.[75]

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.[76] As a result, the protections that PDBs have in place for their direct investments do not flow down to the sub-projects.

DID YOU KNOW?

Sixty percent of the IFC's portfolio is financial intermediaries, while one-third of EBRD and EIB commitments are channeled through FIs.[77]

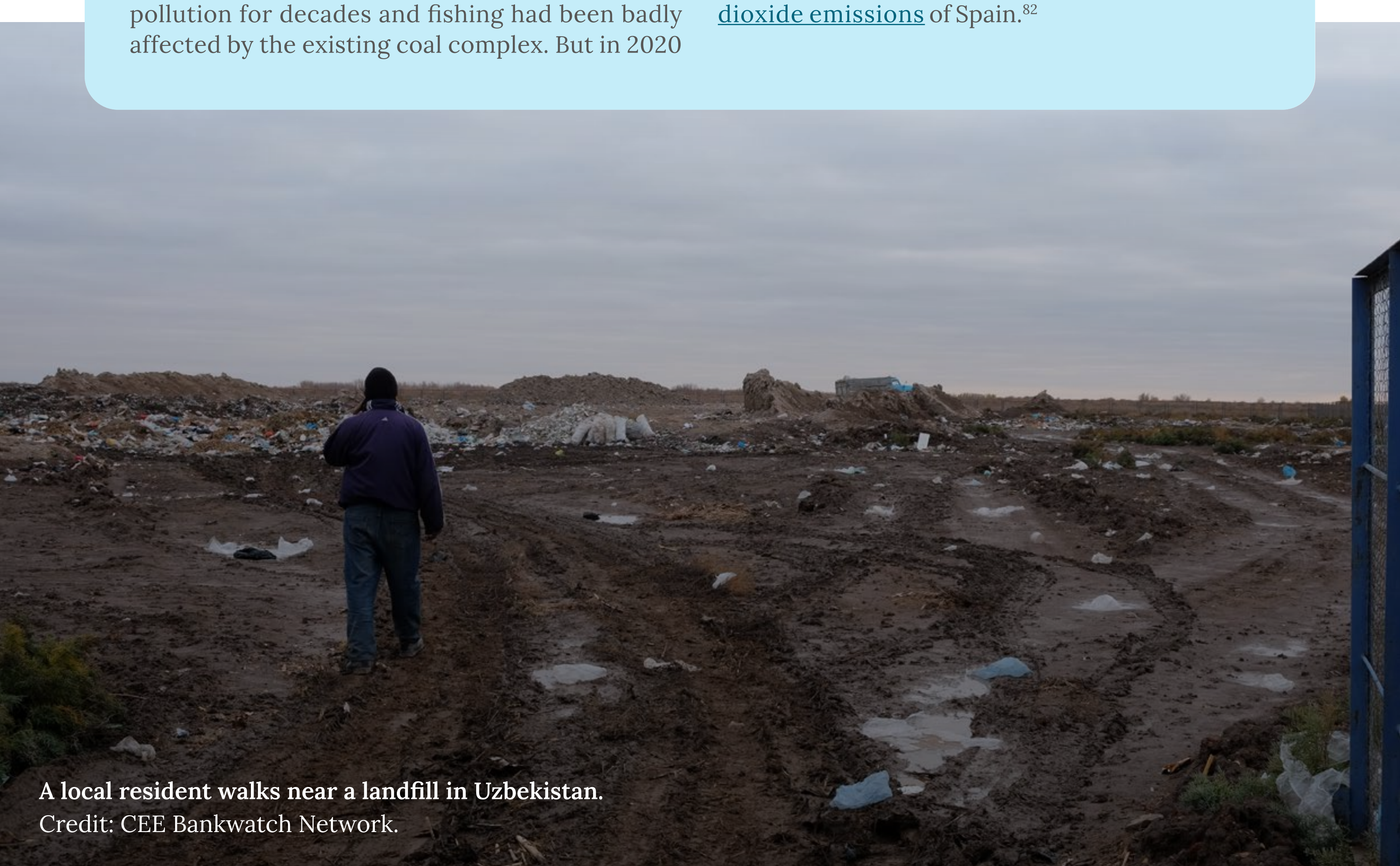
FI lending is risky for people and the planet due to a lack of disclosure on what sub-projects and sub-clients FIs have invested in. Disclosure and monitoring get worse as the investment chain gets longer. The lack of transparency makes it harder to hold PDBs and FI clients accountable, ensure they are following PDBs socio-environmental standards, and are not putting public funds towards problematic projects or activities.[78]

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.[79]

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.[80] 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,[81] and match the annual carbon dioxide emissions of Spain.[82]



A local resident walks near a landfill in Uzbekistan.
Credit: CEE Bankwatch Network.