# UNDERSTANDING THE CHINA DEVELOPMENT BANK

## Financing, governance and socio-environmental challenges for Latin America and the Caribbean

# Executive Summary

The China Development Bank (CDB) is an important player in global development finance. In Latin America and the Caribbean (LAC), the CDB is one of the most frequent financiers of extractive and large infrastructure projects, many of which are located within or close to ecologically vulnerable areas and indigenous lands. In Venezuela, Ecuador, and Brazil, countries that combined received 85% of CDB loans to the LAC region, a significant portion of these loans is repaid with oil revenues. This has raised serious social and environmental concerns given that a substantial proportion of the oil reserves in these countries is located on indigenous land and within environmentally sensitive areas. Despite the extensive scale and scope of its activities in LAC, the CDB is relatively unknown in the region due partly to very limited disclosure of information concern-

LAS
LATINOAMÉRICA SUSTENTABLE

**About Latinoamérica Sustentable (LAS)**

LAS supports the protection of the environment and of local communities within the context of Chinese investments in Latin America and the Caribbean.

**Contacts for the press:**

Paulina Garzón, LAS executive director and co-author of the report.
paulinag@latsustentable.org

Siran Huang, LAS consultant and co-author of the report.
siranh@latsustentable.org

ing its loans and standards. The means for directly contacting CDB regional offices in Rio de Janeiro and Caracas, or its headquarters in China, continue to be opaque at best.

The purpose of this report is to address some fundamental questions regarding the CDB's modus operandi, and its environmental and social governance. The report explains the critical role of the CDB in China's international development finance system, and in countries borrowing from the CDB in the LAC region. The authors examined CDB's loans in the region, their geographic distribution, sectoral concentration, loan conditionality, and debt implications of these loans in recipient countries. The authors also looked at seven loan contracts signed between the CDB and LAC governments. They found that in contract clauses there is an emphasis on compliance with national and international laws, a lack of environmental and social provisions, and unusual confidentiality requirements. By cross-checking loan contracts and projects financed by these loans, the report also points to the bank's failure to meet lender's obligations to intervene when legal breaches occurred. Many of the observations in this report are confirmed by secondary research.

## Observaciones principales:

1. The CDB has no public document that explains its environmental and social policies, their implementation procedures, or even the structure within the bank responsible for their administration. However, there is a "CDB Lending Assessment Handbook," which is a leaked internal document available only in Chinese. This Handbook states that these are "CDB's business secrets and they are regulated by Business Secrecy Policy." It is uncertain whether the directives in this handbook still apply; or if it includes environmental and social risk assessment; or if it has been updated.
2. The CDB lacks a dedicated department or team to handle environmental and social assessment and associated complaints. Instead, the staff that work on risk assessment is divided across various departments, and on occasion, the bank outsources technical support.
3. The China Banking and Insurance Regulatory Commission (CBIRC) is currently developing a grievance mechanism to be used by Chinese financial institutions –the CDB included– to deal with complaints from organizations and individuals around the world.
4. The CDB's bureaucratic structure does not promote effective coordination within the bank and makes it confusing for civil society to communicate with the bank's representatives.

5. Based on seven loans contracts examined in our research, we found the following: three contracts required the establishment of "joint offices" with reporting functions; no contract mentioned CDB's obligation to monitor the use of the loans; only two contracts mentioned environmental law; all contracts have strong confidentiality clauses; one contract has a clause on corruption prevention; none of the contracts included information regarding the CDB's environmental and social criteria, requirements, or guidelines applicable to its loans.

6. In both the Santa Cruz River Hydroelectric project (Argentina) and the Villonaco I Wind Power project (Ecuador), the CDB continued to disburse funds despite a number of breaches of national laws, which could have represented a possible breach of the loans' contracts. Such contracts contain clauses that determine the lender's rights to execute the disbursements when there are no breaches of laws or pending legal decisions.

7. All of the CDB credit-lines are approved before the projects they finance become known. These credit-lines typically support projects with high environmental and social impacts in the infrastructure, mining, transportation, energy, and telecommunications sectors.

8. Categorized in China as a commercial bank, the CDB is not obligated to participate in the Debt Service Suspension Initiative (DSSI). This affects LAC countries because most of their outstanding debt to China belongs to the CDB.

9. Chinese development finance in general, and CDB loans in particular, tend to attach conditions to the recognition of the "One-China policy" and require the use of a percentage of Chinese goods, services, technology and labor.

10. In the past five years, CDB's sovereign lending to LAC countries has fallen rapidly from a peak volume of USD32.9 billion in 2010, to USD2.36 billion in 2019, and to zero in 2020. This does not mean that the CDB is retreating from the region as its large volume of outstanding loan payments and the high volume of its corporate loans clearly indicate.

11. While CDB's loans do represent a significant share in the total external debt stocks of many LAC countries, their major creditors are private creditors and multinational banks.

12. The CDB is the largest development bank in the world in terms of assets, loans, and lending power, and a key instrument for the Chinese government to fulfill economic development policies domestically and abroad.

13. China's lending model often integrates aid with trade and investment, providing blended finance packages that may mix market-rate loans with concessional loans and grants. Most sovereign loans provided by the CDB are sub-concessional, a type of loan with little discount in terms of interest rates, repayment terms, and grace periods that constitutes the majority of Chinese official overseas financing.

## Main recomendations:

1. Redirect priorities and portfolio away from fossil fuel and projects located in ecologically and socially vulnerable areas, and towards clean energy projects that have a green supply chain.
2. Establish high quality and mandatory environmental and social safeguards policies; appropriate risk assessment and approval mechanisms; an information disclosure policy; a complaint mechanism; and categorize projects according to their potential environmental and social impacts.
3. Improve the quantity and quality of information offered to the public through the CDB website, including but not limited to: loans that are in the pipeline and those approved to both, governments and companies, or through financial intermediaries; a summary of the details of each financed project, the project Environmental and Impact Study (EIS), and the Environment Management Plan (EMP), and, for projects located on indigenous land, evidence of having obtained free, prior and informed consent (FPIC). In addition, ensure that key documents and information published on the CDB website is available in Spanish.
4. Improve environmental and social due diligence, both during the evaluation of loan applications and throughout the project cycle; and strengthen on-site supervision.
5. Establish a communication channel with foreign CSOs in recipient countries; promote a culture of rapprochement, dialogue, and accountability. Have easily identifiable relevant staff-contact information on the website.
6. Include environmental, social, transparency and anti-corruption provisions in contracts. The loan contracts should include an Environmental Annex that contains but is not limited to relevant: laws and regulations of the host country; international conventions and treaties; Chinese environmental and social guidelines; and international best practices.
7. Engage in debt-relief programs. In particular, consider debt-for-nature and debt-for-climate initiatives in Argentina, Brazil, Ecuador and Venezuela (major recipients of CDB loans) to protect areas where critical ecosystems are located.