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China Development Bank

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Understanding the China Development Bank in Latin America

Latinoamérica Sustentable

In terms of lending power, the China Development Bank (CDB) is the largest development bank in the world, one of the most important financiers of infrastructure and extractive projects globally, and a key instrument to support Chinese international economic policies such as the Going Out strategy of the late 1990s and the more recent Belt and Road Initiative (BRI). In Latin America and the Caribbean (LAC), the CDB has provided finance to governments and companies for more than 200 projects in 18 countries (Song 2019), among which are numerous large-scale projects such as the Las Bambas mine in Peru, Mirador in Ecuador, and the Santa Cruz River Hydroelectric Complex in Argentina (on the Mirador and Santa Cruz River Hydroelectric projects, see LAS 2020 and LAS 2022, respectively). Some of these projects are in or near ecologically vulnerable areas and indigenous territories—a situation that has generated much debate and many concerns about the socio-environmental impacts of the CDB's activities in the region.

Despite the importance of its activities in LAC, the CDB is relatively little known in the region, partly due to the lack of information available in Spanish, as well as the very limited disclosure of information concerning its loans and standards. In December 2021, our organisation—Latinoamérica Sustentable (LAS) (for background, see Mark Bo's conversation with the organisation's founder, Paulina Garzón, in the current issue of the journal)—launched a report titled Understanding the China Development Bank: Financing, Governance, and the Socio-Environmental Challenges for Latin America and the Caribbean. In it, the authors provide information on the critical role of the CDB in China's international development finance system, its influence in LAC recipient countries, and its environmental and social governance mechanisms and standards, which we now summarise.

CDB's Role in Latin America

In the past two decades, China and LAC have developed a vibrant and interdependent relationship, in large part due to the voluminous financing deployed by the CDB in the extractive and infrastructure sectors. Since the CDB became a lender to Latin American governments in 2005, it has financed more than 200 projects in 18 countries and has established two representative offices, in Río de Janeiro and Caracas, as well as eight working groups for the region (Song 2019).

Much of the CDB's loans to LAC countries has been state-backed finance issued to governments or state-owned enterprises (SOEs) such as national oil companies (Petrobras in Brazil; Petroecuador in Ecuador; PDVSA in Venezuela). The CDB also provides corporate loans that are typically awarded to Chinese companies either to invest in extractive projects or to buy equity in companies that are participating in projects and sectors of interest to China. In LAC, the CDB has funded well-known projects such as the Santa Cruz River Hydroelectric Complex in Argentina, the El Dorado International Airport in Colombia, the Shougang Iron Mine and Las Bambas mining project in Peru, the Mirador Copper Mine and Villonaco wind power plant in Ecuador, and the Las Cristinas Gold Mine in Venezuela, among others.

Since the CDB does not publish details of its loans deal by deal, it is not possible to determine all the projects in which it participates, especially in the case of corporate loans. However, based on the China Latin America Finance Database (Gallagher and Myers 2021), which documents Chinese finance based on reports, official declarations of contracts, and other verified official and non-official documents, between 2005 and 2021, the CDB lent a total of US$111.3 billion (US$97.9 billion directly and US$13.4 billion jointly with other Chinese banks) to LAC countries. We found three patterns. First, 94 per cent of the loans were concentrated in four countries—Venezuela (US$57.3 billion), Brazil (US$28.1 billion), Argentina (US$15.5 billion), and Ecuador (US$9.4 billion)—with a minimal presence in countries like Mexico, Colombia, Peru, Chile, and the Caribbean. Second, the loans are highly concentrated in the energy sector, which received approximately US$41 billion, mainly for oil and gas projects. And third, in commodity-exporting countries like Brazil, Venezuela, and Ecuador, an important part of the CDB's lending has been conditioned on the sale of certain commodities to China, especially crude oil. These loan contracts often have collateral arrangements, in which the borrowing country holds an account with the CDB into which oil export revenues are deposited, and that account repays the loan through regular payments. If the borrower defaults on the loan, the deposits in the bank account can be seized (Gelpern et al. 2021).

Loans to LAC peaked in 2010 (reaching US$33 billion) and maintained a constant flow until 2017 when they began to decrease to the extent that no new credits were registered in 2020 and 2021. The CDB, and Chinese banks in general, have been more cautious in granting sovereign loans and more prone to disbursing corporate loans (Myers and Ray 2022). This is partly due to the difficulties faced by countries in paying their sovereign debt, and reflects the attempt by Chinese companies to shift towards public–private partnerships. Although CDB loans have declined, it does not mean the bank is retreating from the region. In fact, the CDB is diversifying its portfolio towards more sophisticated financial mechanisms in at least two ways. First, issuing finance directly to Chinese and LAC companies—for example, loans granted to the Chinese–Colombian consortium Autopistas Urabá or to the state-owned Chinese logistics firm COSCO for its BRI projects in LAC. Another mechanism is partially funding regional private equity funds such as the China–LAC Cooperation Fund, the China–LAC Industrial Cooperation Investment Fund, and the China–LAC Cooperation Fund.

We should bear in mind that the CDB is one of the most important financiers of the BRI—the Chinese Government's overarching strategy for global connectivity. At the time of writing in April 2022, 21 countries from LAC have signed agreements with China for cooperation under the BRI and even though the initiative has been challenged by the Covid-19 pandemic, it is anticipated its influence in the region will continue to grow. The visits of the presidents of Ecuador and Argentina to Beijing in February 2022 are a continuation of this trend, and renewed financing commitments within the context of the BRI were signed on those occasions. Even though so far very few projects in LAC have been officially labelled as part of the BRI, many of the more than 200 infrastructure and extractive projects financed by the CDB in LAC fit the priorities of the BRI—namely, enhancing connectivity.

Omissions and Commissions on Environmental and Social Governance

According to the United Nations Environment Programme (UNEP 2017), LAC hosts approximately 60 per cent of known terrestrial species, while it is estimated that the Amazon region is home to 10 per cent of Earth's biodiversity. Moreover, approximately 58 million people belonging to more than 800 indigenous communities live in the area, which represents almost 10 per cent of the regional population (ECLAC 2021). These unique ecosystems and territories have suffered serious impacts because of the large extractive and infrastructure projects financed by the CDB in LAC countries, most of which are within or close to ecologically vulnerable areas and indigenous lands.

As the CDB's foreign lending grew, the Chinese Government encouraged the bank to improve its methods for assessing environmental and social impacts in the approval and supervision of loans, just as it had been doing with green financing in China. However, a significant number of its projects in Latin America have been challenged by local communities, delayed, or even suspended because of the lack of meaningful and enforceable principles, policies, and methods for assessing and managing environmental and social risks. Examples include the mining projects Mirador and San Carlos Panantza in Ecuador, Las Bambas and Tomorocho in Peru, and Las Cristinas in Venezuela, as well as infrastructure projects such as the Santa Cruz River Hydroelectric Complex in Argentina (for more details on these cases, see the mid-term report for the Universal Periodic Review of China; CICDHA 2022).

The CDB has a dual nature, operating as both a national development bank (NDB) and a commercial bank. This makes it difficult to compare its environmental and social requirements with those of other financial institutions. Traditional NDBs such as the National Development Bank of Brazil (BNDES) or the US International Development Finance Corporation have for years been pressured by civil society groups and domestic legislatures to ensure their policies meet appropriate standards. Likewise, multilateral development banks such as the World Bank and the Inter-American Development Bank have faced civil society scrutiny for decades, and must meet the demands of shareholders, many of whom have utilised their influence to ensure that standards on project implementation and disclosure are developed and updated over time. These internal and external pressures have resulted in policies that are more sophisticated than those of the CDB in terms of environmental and social risk assessment, transparency, and participation principles and policies.

Moreover, regarding accountability and the disclosure of information about loans and standards, our report shows that the CDB has no public document that explains its environmental and social policies, their implementation procedures, or even the structures within the bank responsible for their administration and monitoring. Also, the CDB lacks a dedicated department or team to handle environmental and social assessment and associated complaints, and its bureaucratic structure does not promote effective coordination within the bank and makes it challenging for civil society to communicate with bank representatives. In fact, as we prepared our report throughout 2021, the working group at LAS attempted to contact the CDB offices in Beijing, Anhui, and Río de Janeiro several times with requests for interviews, comments, and feedback on drafts, but there was never any response.

To understand the bank's performance in the region, our report examined seven loan contracts signed with the CDB: three with Argentina, three with Ecuador, and one with Costa Rica. They confirmed that while contract clauses emphasise compliance with national and international laws, there is a lack of environmental and social provisions. For instance, no contract mentioned the CDB's obligation to monitor the use of the loans; only two contracts mentioned environmental law; all contracts had strong confidentiality clauses; just one contract had a clause on corruption prevention; and none of the contracts included information regarding the CDB's criteria for environmental and social protection, or guidelines for its loans in this regard. Moreover, the CDB's credit lines are often approved before the projects they finance become publicly known. These credit lines typically support projects with high environmental and social impacts in the infrastructure, mining, transportation, energy, and telecommunications sectors. These facts show that while China has proved it can learn very quickly on many fronts, improvement of environmental and social governance at the CDB is happening in slow motion.

Some examples of these problems can be observed in the Santa Cruz River Hydroelectric Complex in Argentina, the largest dam financed and built by Chinese entities in LAC, which is in Patagonia and affects the Perito Moreno Glacier, a World Heritage Site (for more details about this project, see LAS 2022). This project started despite having an incomplete and inadequate environmental impact study, which resulted in the Supreme Court of Argentina ordering that complementary studies be carried out before construction continued. Another instance is that of the Villonaco I Wind Power Plant in Ecuador, also financed by a CDB line of credit, which only carried out its definitive environmental and social study after construction of the plant was complete. In other cases, especially in Venezuela, projects financed by the CDB were suspended due to corruption issues—for instance, the Tinaco–Anaco Railway Line and the PDVSA Agriculture rice plant in Delta Amacuro. Despite this, the bank continued disbursing funds.

Challenges and Opportunities

In February 2020, the Ministry of Commerce (MOFCOM) of China and the CDB announced that to 'minimise the impact of the pandemic', the CDB would provide special loans to increase financing support for selected enterprises implementing 'higher-quality' projects affected by the pandemic (MOFCOM and CDB 2020). Two months later, more than 260 civil society groups from across the world published a joint statement calling on MOFCOM and the CDB to refrain from granting such relief to 60 projects (14 of them in LAC) with severe environmental, social, climatic, and financial problems (IDI 2020). The organisations recommended specific principles to ensure that projects are of 'high quality', including ensuring credible, robust environmental impact studies; obtaining free, prior, and informed consent from indigenous communities; committing to not impact key biodiversity areas; and ensuring alignment with international norms, best practices, and China's green finance policies.

This opened a window of opportunity for improving the environmental and social governance of China's state-backed banks. As the Chinese Government has committed to reach domestic carbon neutrality by 2060 (NDRC 2022), and with President Xi Jinping's 2021 commitment to cease building overseas coal plants and support developing nations to expand their renewable energy capacity (see Li, Li and Bo's essay in this issue of Global China

Pulse), the CDB is expected to play an increasingly important role in greening the BRI and supporting clean energy in developing countries towards the 2030 Agenda for Sustainable Development. In this matter, in October 2021, the CDB signed a memorandum of cooperation with the Green Climate Fund (GCF)—the world's largest climate fund and the operating entity of the UN Framework Convention on Climate Change and the Paris Agreement—the first Chinese financial institution to do so. The two parties agreed to 'carry out capacity building and knowledge sharing in such areas as climate project development, structured solutions for green infrastructure projects, climate investment standards, and project impact assessment' (CDB 2021). This could be a sign that the CDB is willing to learn from international experiences and best practices, implement green financial products, and help clean industries to grow.

There are also opportunities to explore new and innovative approaches to greening CDB finance. This includes debt-for-nature swaps—a financial mechanism in which a portion of debt is cancelled or reduced by a creditor in exchange for the debtor making financial commitments to conservation (Soutar and Koop 2021). In LAC, Ecuador is one of the top candidates for a debt swap with China based on its high biodiversity. In fact, there is already a very plausible proposal (Larrea and Ramos 2021) for a 10-year reduction in the country's deforestation rate in exchange for a debt reduction of US$421 million—equivalent to 8 per cent of the country's outstanding debt to China. According to the authors, this would save 200,000 hectares of Ecuadorian Amazon rainforest, while simultaneously avoiding the emission of 117 million tonnes of carbon dioxide.

We believe that to truly capitalise on these positive developments and opportunities, the CDB must begin by establishing rigorous and mandatory environmental and social safeguards, including environmental, social, transparency, and anticorruption provisions within loan contracts, and improving information disclosure and due diligence. These steps are essential if the CDB is to meet its responsibilities as one of the world's most important providers of development finance.

The full report, *Understanding the China Development Bank: Financing, Governance and Socio-Environmental Challenges for Latin America and the Caribbean*, can be read here in Spanish and English.