

# UNDERSTANDING THE CHINA DEVELOPMENT BANK

Financing, Governance  
and Socio-Environmental Challenges  
for Latin America and the Caribbean



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**About Latinoamérica Sustentable (LAS)**

Latinoamérica Sustentable (LAS) supports the protection of the environment and of local communities within the context of Chinese investments in Latin America and the Caribbean. LAS conducts research, shares information, development advocacy tools, promotes exchanges and collaborations organizes spaces for capacity building, develops advocacy tools and promotes collaboration between social organizations among social organizations and decision makers.

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## ACRONYMS

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<b>ABC</b>	Agricultural Bank of China
<b>ADBC</b>	Agricultural Development Bank of China
<b>AIIB</b>	Asia Infrastructure Investment Bank
<b>ASCJ</b>	Argentinian Supreme Court of Justice (Corte Suprema de Justicia de la Nación Argentina)
<b>BOC</b>	Bank of China
<b>BNDES</b>	Brazilian Development Bank (Banco Nacional do Desenvolvimento)
<b>BRI</b>	Belt and Road Initiative
<b>CAF</b>	Development Bank of Latin America (Banco de Desarrollo de América Latina)
<b>CBIRC</b>	China Banking and Insurance Regulatory Commission
<b>CCB</b>	China Construction Bank
<b>CDB</b>	China Development Bank
<b>CDB CAPITAL</b>	China Development Bank Capital
<b>CELEC EP</b>	Electric Corporation of Ecuador (Corporación Eléctrica del Ecuador)
<b>CHEXIM BANK</b>	China Export-Import Bank
<b>CIDCA</b>	China International Development Cooperation Agency
<b>CLAI</b>	China-Latin America Industrial Cooperation Investment Fund
<b>CLIF</b>	China-Latin America Infrastructure Special Fund
<b>CODELCO</b>	Corporación Nacional del Cobre de Chile
<b>CONELC</b>	National Electricity Council of Ecuador (Consejo Nacional de Electricidad de Ecuador)
<b>CPC</b>	Communist Party of China
<b>CSR</b>	Corporate Social Responsibility
<b>CSO</b>	Civil Society Organization
<b>CVJF</b>	China-Venezuela Joint Fund
<b>DAC</b>	Development Assistance Committee
<b>DFC</b>	United States International Development Finance Corporation
<b>DOIEC</b>	Department of Outward Investment and Economic Cooperation
<b>DSF</b>	Debt Sustainability Framework
<b>DSSI</b>	Debt Service Suspension Initiative
<b>EIS</b>	Environmental Impact Study
<b>EMP</b>	Environmental Management Plan
<b>FoE-US</b>	Friends of the Earth-United States
<b>FPIC</b>	Free prior informed consent
<b>GCD</b>	Green Credit Directives
<b>GDP</b>	Gross Domestic Product
<b>GDPC-BU</b>	Global Development Policy Center (Boston University)
<b>IAD</b>	Inter-American Dialogue

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<b>ICBC</b>	Industrial and Commercial Bank of China
<b>IDB</b>	Inter-American Development Bank
<b>IFC</b>	International Finance Corporation
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>KPI</b>	Key Performance Indicators
<b>LAC</b>	Latin America and Caribbean
<b>LIBOR</b>	London Interbank Offered Rate
<b>LVLFF</b>	Large Volume and Long-term Financing Facility
<b>MAE</b>	Material Adverse Effect
<b>MDB</b>	Multilateral Development Bank
<b>MFA</b>	Ministry of Foreign Affairs
<b>MOF</b>	Ministry of Finance
<b>MOFCOM</b>	Ministry of Commerce
<b>NDB</b>	National Development Bank
<b>NDRC</b>	National Development and Reform Commission
<b>NGO</b>	Non-governmental organization
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>ODA</b>	Official Development Assistance
<b>ODI</b>	Outbound Direct Investment
<b>OFF</b>	Other Official Finance
<b>PBOC</b>	People's Bank of China
<b>PDVSA</b>	Petróleos de Venezuela S.A.
<b>PETROBRAS</b>	Petróleo Brasileiro S.A.
<b>PETROECUADOR</b>	Empresa Pública de Hidrocarburos del Ecuador
<b>RMB</b>	Renminbi, the official currency of the People's Republic of China
<b>SAFE</b>	State Administration of Foreign Exchange
<b>SINOSURE</b>	China Export & Credit Insurance Corporation
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environmental Programme
<b>UNGC</b>	United Nations Global Compact
<b>USD</b>	United States Dollar
<b>WB</b>	World Bank
<b>WWF</b>	World Wild Fund for Nature







# Executive Summary

**T**he 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 concerning 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



Tropical forest. Imagen: pixabay.com

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.

## Main Observations:

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 USD 32.9 billion in 2010, to USD 2.36 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 Recommendations:

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 Civil Society Organizations (CSO) 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.



# Introduction

LAC countries host approximately 60% of known global terrestrial life,<sup>1</sup> and important freshwater and marine species. Only the Amazon region alone is home to 10% of the world's known biodiversity.<sup>2</sup> It is estimated that over a million species remain undiscovered in just one small part of the Amazon known as Ecuador's Yasuni region.<sup>3</sup> Other areas in LAC like the Mesoamerica and Caribbean region, the tropical Andes, the Patagonian mountains, and the Atlantic Forest are equally of tremendous ecological value. Though much remains to be discovered, these unique ecosystems have suffered with every new infrastructure or construction project, and with every new plan to extract minerals or hydrocarbons from the ground. These activities lead to forest loss, unsustainable levels of carbon emissions, threaten the lives of indigenous peoples who have long resided in these environments and are their best custodians and defenders.<sup>4</sup>

It is in this context that we have prepared a report on the China Development Bank (CDB), an important player in global development finance and one of the most frequent funders of extractive and infrastructure projects in LAC. Many CDB-funded projects are located within or close to ecologically vulnerable areas and indigenous lands.

Additionally, many of the CDB's loans in Venezuela, Ecuador, and Brazil, which combined received 85% of CDB's loans to LAC,<sup>5</sup> are repaid with oil revenues. Though there is no information about the origin of the oil used



Amazon river. Image: pxhere.com

to repay the CDB loans, a large part of the oil industry in those countries is based on indigenous and environmentally sensitive territories.

Despite the scale and extent of its activities in LAC, few know of or understand the CDB. This is partly because the CDB shares little information concerning current and prospective loans and official channels of communication with the bank are scant and unresponsive. Intentions and efforts of civil society, within and outside China, to engage with the CDB have proved futile. Furthermore, there is little available research on the bank concerning its financing goals, procedures, and impacts of its projects. The purpose of this report is to address some fundamental questions regarding the bank's *modus operandi* and environmental and social governance, for example:

- Is the CDB a financial tool of broader Chinese foreign policy on international cooperation?
- What type of finance is provided by the CDB around the world and to LAC?
- How important is the CDB to LAC countries?
- To what extent is the CDB equipped to assess and manage environmental and social impacts in its operations abroad?
- How might the CDB support debt-relief initiatives in LAC?

The information presented in this report is grouped into six sections that address: China's international development finance system, its structure and major players; CDB's mission, evolution, its role in China's financial system, its financing instruments, and environmental frameworks; CDB's impact in LAC and an assessment of its environmental and social regulatory approaches in its loan's contracts; and China's debt-relief initiatives in the context of the pandemic, and opportunities for the CDB to support LAC countries by providing debt-for-nature or debt-for-climate swaps.

The report draws from desk research, interviews with experts from civil society organizations, and academics from LAC and China. It has been enriched thanks to revisions by leading academics and non-governmental organizations (NGOs) experts who specialize in research on Chinese financing.

Notwithstanding all the help received, challenges in preparing this report remained. These include information gaps due to documentation that could not be located, data inconsistency, language barriers, and a lack of access to CDB's staff and to host countries' government agencies. In a spirit of good faith and courtesy, the CDB was provided with an opportunity to review, correct errors, and to provide feedback on the themes explored in the report. Out of five review invitations sent to CDB headquarters in Beijing and branch offices in Shandong, Hubei, and Anhui in China, and Rio de

Janeiro in Brazil, none has received official response. One CDB employee agreed to review the draft but did not follow through on that agreement.

The CDB will continue to be an important financier for LAC governments seeking to build infrastructure and exploit natural resources. Therefore, it is important for civil society in LAC to improve their collective understanding of this important actor, and to work together to ensure that the CDB promotes truly sustainable financing. This is especially important for LAC at a time when it must react to the ravages of the COVID-19 pandemic on health systems and the economy, while also considering the immediate and longer-term environmental and climate-change crises.

The authors hope this report proves useful on two fronts: Firstly, by helping Latin American civil society to engage with and hold the CDB accountable; and secondly, in clarifying for the CDB just how important it is that its methods of operation in the region include robust discussion, consultation, and consent from traditional communities, while maintaining adherence to high standards of environmental and social protection.



Latin American and the Caribbean countries host approximately 60% of known global terrestrial life , and important freshwater and marine species. Only the Amazon region alone is home to 10% of the world's known biodiversity.







# Development Finance with “Chinese Characteristics”

## Chapter 1

**D**espite the many concerns and criticisms expressed by policymakers and civil society both within and outside of China, the domain of Chinese development finance is still under-researched. This lack of deep analysis, combined with the lack of official data from China, have led to a number of misconceptions and misunderstandings, which continue to surround Chinese development finance practices today.

### 1 The Importance of China’s International Development Finance

China’s official lending has played a key role in extending China’s influence across the world, especially in developing countries. According to official Chinese sources, between 2013 and 2018, China provided USD 42 billion (RMB 270.2 billion) in official foreign aid, which includes grants, interest-free loans and concessional loans.<sup>6</sup> In 2017, China pledged substantial financing to developing countries, as for example: the CDB set up a special fund of USD 36.7 billion (RMB 250 billion) for Belt and Road Initiative (BRI) countries; the Export-import Bank of China (Chexim Bank) set up a similar BRI fund of USD 14.6 billion (RMB 100 billion) and an USD 4.4 billion (RMB 30 billion) Infrastructure Development Fund.<sup>7</sup>

These various instruments of China’s official lending are oftentimes referred to as “development finance,” emphasizing the developmental objective of these loans. However, this term can be misleading, as

Chinese official finance does not follow the criteria set by traditional donor countries in the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), which traditionally excludes loans with less concessional (not discounted from the market rate) from “official development assistance” (ODA). In contrast, China places far more emphasis on these less concessional loans, such as preferential buyer’s credits and preferential exporter’s credits by Chexim Bank, and middle and long-term project loans by the CDB (more detailed explanation in the following section).<sup>8</sup>

Chinese development finance is significant not only because of its volume, but also because of the sectors it targets and the impacts that these activities have on the environment. As a major financier in the global energy sector, between 2000 and 2020, China provided USD 245.8 billion loans to this sector through the CDB and Chexim Bank.<sup>9</sup> Between 2000 and 2019, 40% and 36% of the two banks’ overseas lending for “power generation” was allocated to coal-fired and hydropower plants, respectively. Since 2017, Chinese

official lending to fossil fuels has declined sharply, from USD 50 billion between 2013 and 2016, to USD 16 billion during 2017 and 2020.<sup>10</sup>

It is important to note that the above documented decline is only reflected in the loans extended through the CDB and Chexim Bank. There are signs of China cutting back overseas coal investments in Outbound Direct Investment (ODI) and commercial loans. A recent study found that the amount of capacity shelved or cancelled by Chinese financiers since 2017 was 4.5 times higher than the amount that went into construction over the period.<sup>11</sup> As China has made strong commitments to reduce its use of fossil fuels and reach carbon neutrality by 2060, one could reasonably expect that Chinese development financing will play a significant role in combating the climate crisis and other environmental challenges.

## 2 Types of Chinese International Development Finance

Like many other emerging economies, (e.g., India and Brazil), China does not follow the long-established OECD-DAC framework for development financing, which differentiates between ODA, “other official finance” (OFF), and private resource flows for development purposes (although what constitutes “development purposes” is debatable). Instead, 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.<sup>12</sup> In this regard, it is worth mentioning that in different ways, the Western traditional donors have also transitioned toward this blended approach of “aid.”<sup>13</sup>

In the Chinese context, development financing includes, roughly speaking, both ODA-like concessional loans, and OFF-like sub-concessional or non-concessional loans.

### China’s main types of development finance include:

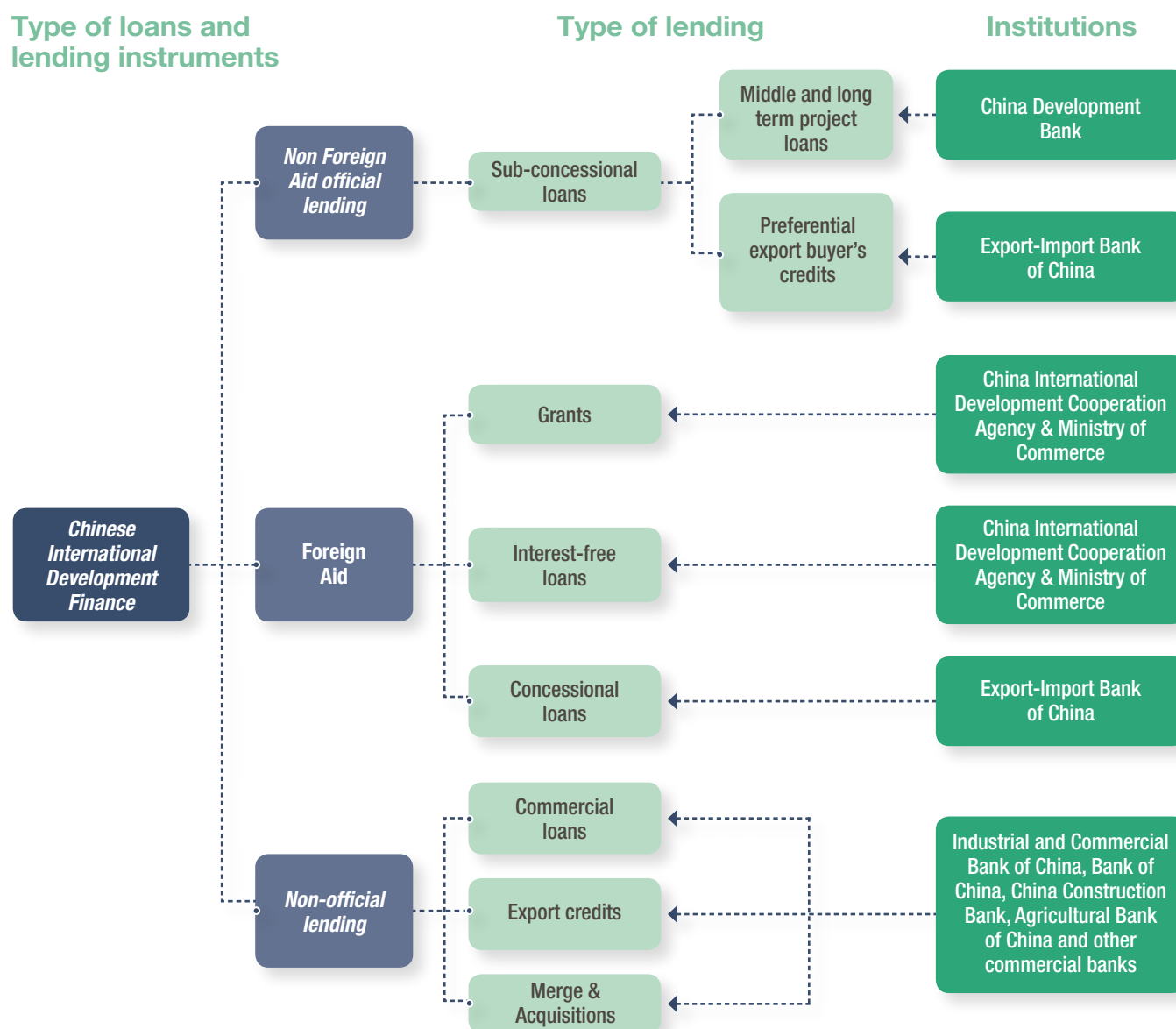
**Grants:** a form of non-refundable assistance that go toward a specific purpose or program. Grants provided by China are mainly used to help recipient countries build small and medium-sized social welfare projects such as hospitals, schools, and housing. They are also used to provide goods, materials, emergency humanitarian disaster relief aid, and to train personnel.

**Interest-free loans:** loans with zero interest rate. These loans are mainly allocated to build public facilities and to launch projects that are considered to “improve local people’s lives.”<sup>14</sup> These are usually provided when recipient countries want to build a “complete-project” (also called “turn-key” project). This is the most common type of loan forgiven and/or relieved by China.

**Concessional loans:** loans that are extended on terms substantially more generous than commercial loans. These loans do carry interest, but usually fixed and lower than the market rate (often around 2% in LAC), with the interest rate differential subsidized

China has made strong commitments to reduce its use of fossil fuels and reach carbon neutrality by 2060. Chinese overseas development financing ought to reflect these commitments to global environmental protection.

Graphic 1: Types of Loans and Lending Instruments in China



Source: Authors' elaboration.

Notes: See Section 3 of this chapter for a brief introduction to the various Chinese institutions in this flowchart.

by state revenue. They usually have a grace period of two to seven years, and repayments can stretch over ten or even twenty years. These loans tend to be provided to big infrastructure projects that will generate economic benefit, or to the provision of large quantities of complete sets of equipment, mechanical and electronic products, and technical and technological services from China. They are provided directly by Chexim Bank.

**Sub-concessional loans:** non-concessional and sub-concessional loans are provided on close-to-market terms. They can finance development projects as well as oil and gas extraction and pipelines. A large portion of the middle and long-term project loans by the CDB and export buyer's credit by the Chexim Bank fall under this category.

China categorizes the first three types of assistance (i.e., grants, zero-interest loans, and concessional

loans) as foreign aid. Chinese foreign aid began in the 1950s in the form of material assistance (e.g., agricultural products) before giving way to monetary assistance. China's total foreign aid has increased considerably in recent years. Between 2013 and 2018, China's foreign aid amounted to approximately USD 41.69 billion (RMB 270.2 billion), almost comparable to the aggregated aid of USD 39.54 billion (RMB 256.3 billion) for six decades between 1950-2009.<sup>15</sup> Despite this substantial increase, it is still much smaller than that of Chinese ODI and sub-concessional loans.

Sub-concessional loans constitute the majority of Chinese official overseas financing, and this reflects China's national development experience and institutional views on development models.<sup>16</sup> Official data on sub-concessional loans is scarce. Chinese government agencies and financial institutions involved in the delivery of these loans do not regularly disclose detailed information, leaving researchers to speculate and piece together fragmented information from news releases. Among these efforts, the Global Development Policy Center at Boston University (GDPC-BU) and the Inter-American Dialogue (IAD) track China's development financing from the CDB and Chexim Bank to the world and to LAC respectively, and more recently also tracks financing from commercial banks including the Industrial and Commercial Bank of China (ICBC), the Bank of China (BOC), the China Construction Bank (CCB), and the Bank of Communications of China. AidData (a research lab at the William & Mary University in Virginia, United States) tracked China's global development finance between 2000-2014, both foreign aid and sub-concessional loans.

### ③ Major Actors in China's International Development Finance

Various actors are involved in the design, decision-making, delivery, and implementation processes of Chinese development finance. These include government agencies and state-owned financial institutions, as well as the Chinese state-owned and private enterprises. Two types of Chinese banks are involved in international finance: policy/development

banks and state-owned commercial banks. Although both types are owned by the state, loans extended by the latter are usually not considered China's official lending. Other Chinese banks such as provincial and city-level commercial banks, and private banks may participate in ODI (e.g., Industrial Bank), but rarely participate in international development finance. Some of the major actors involved in China's international development financing are:

## Government Agencies

### Ministry of Commerce

The Ministry of Commerce (MOFCOM) and its subordinate agencies play a leading role in China's official development finance. The Ministry's Agency for International Economic Cooperation, for example, manages and supervises "turn-key" projects financed by Chexim Bank's concessional loans, meanwhile, Department of Outward Investment and Economic Cooperation (DOIEC), is involved in the implementation of zero-interest loan projects in coordination with China International Development Cooperation Agency (CIDCA). The China International Centre for Economic and Technical Exchanges is responsible for implementing commodity aid and administering the South-South Cooperation Fund. Overseas, the Economic and Commercial Counsellor Offices within Chinese diplomatic missions often serve as focal points for loan and aid projects in recipient countries.

### Ministry of Finance

The Ministry of Finance (MOF) is responsible for budgeting China's foreign aid. It also oversees all of China's debt relief and restructuring initiatives. MOF has to approve all bilateral concessional loans. Although rare, in some cases MOF may intervene if it deems project costs to be too high. Though MOF is not involved in issuing sub-concessional loans, such as those provided by the CDB, it oversees all of Chinese debt cancellations and debt rescheduling, regardless of its concessionality.

### Ministry of Foreign Affairs

The Ministry of Foreign Affairs (MFA) ensures that foreign aid and loan projects do not contradict





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.

China's overall foreign policy. In recipient countries, Chinese embassies have power over discretionary funds (approximately up to USD 50,000) for small aid projects.<sup>17</sup> Commercial interests do not always align with political interests, putting the MFA against MOF for influence over foreign assistance projects. Most literature suggests that the MOF often has more leverage than the MFA in these situations.

### **China International Development Cooperation Agency**

The CIDCA was founded in 2018 as a vice-ministerial-level agency. It was designed with the primary goal of improving the coordination and supervision of Chinese foreign aid, which was previously managed by more than twenty executive organs and commissions. CIDCA duties include formulating foreign aid strategies, plans, and policies; coordinating various government agencies; providing suggestions on major issues related to foreign aid; determining foreign aid projects; and supervising and evaluating their implementation. Despite the many responsibilities assigned to CIDCA, this newly established agency is still in its infancy, meaning that much of China's foreign aid work is still undertaken by other agencies according to previous division of responsibilities.<sup>18</sup> As a vice-ministry level agency, CIDCA has limited political weight in China's foreign aid system where many other actors are

ministry-level. Moreover, CIDCA has no jurisdiction over sub-concessional loans (i.e., the CDB's middle and long-term project loans) or commercial loans for development purposes.

### **China Banking and Insurance Regulatory Commission**

The CBIRC was established in 2018 by merging the China Banking Regulatory Commission and the China Insurance Regulatory Commission. The agency is responsible for supervising the establishment and ongoing business activities of banking and insurance institutions, and taking enforcement actions against regulatory violations. All Chinese banks, including the CDB, Chexim Bank, and commercial banks are under the supervision of CBIRC. However, there is little indication that the Commission penalize environmental breaches.

## **Financial Institutions**

### **China Development Bank**

The CDB was established in 1994 as a policy bank. After several years of commercialization efforts, it was restructured as a development bank with a dual emphasis on societal development and profit-making. As China's only ministry-level financial institution, it is

the most significant player in the delivery of Chinese non-concessional loans overseas. It has played a major role in China's "Going Out" policy and, more recently, the BRI. Its middle and long-term project loans and special BRI loans are market rate loans, and thus not part of China's foreign aid (see Chart 1), despite being frequently mislabeled as such by external observers.

### **The Export-Import Bank of China**

The Chexim Bank, also established in 1994, is a vice-ministerial-level policy bank. Its main responsibilities are the promotion of Chinese exports, assisting Chinese companies in offshore contracting and outbound investment, and promoting international economic cooperation and trade. For this reason, Chexim Bank is China's main provider of export buyer's credits and overseas concessional loans. As part of China's foreign aid, Chexim Bank's concessional loans need approval from CIDCA, while its export buyer's credits need approval from MOFCOM. Unlike the CDB, Chexim Bank, as policy bank, is not under pressure to earn profits.

### **The "Big Four" Commercial Banks**

China's so-called "Big Four" commercial banks include the BOC, the ICBC, CCB, and Agricultural Bank of China (ABC). All four are active participants in China's development finance landscape. Together, they account for 36% of BRI financing.<sup>19</sup> Despite their state ownership, loans extended by the big four are commercial in nature and are not considered part of China's official lending.

### **China Export & Credit Insurance Corporation**

The China Export & Credit Insurance Corporation (SINOSURE) is a state-owned insurance company that provides "policy insurance" to support exports and overseas investments. It also provides insurance to Chinese banks extending loans for high-value projects. Insurance provided by SINOSURE can cover up to 95% of the loss of a loan or an equity investment, which makes it a very important factor in financial decision-making. Chinese banks often refuse to finance high-risk projects without insurance from SINOSURE.

**China Development Bank is the only ministry-level financial institution, it is the most significant player in the delivery of Chinese non-concessional loans overseas.**

**T**he CDB is the largest development bank in the world, in that its assets, loans, and lending power exceed those of any other development bank.<sup>20, 21</sup> The bank has funded numerous ventures in China including high-speed railways, roads, and electric grids, and even such high-profile projects as the Three Gorges Dam. In 2019, the CDB's total assets amounted to RMB 16,504,575 million (over USD 2.5 trillion).<sup>22</sup> Today, it continues to grow its international portfolio while remaining a key vehicle for the Chinese state to fulfill its economic development policies domestically and abroad.<sup>23</sup>

To many, the CDB remains a mystery. Even within China, where the CDB is familiar by name, few know how one of their country's key strategic institutions operates. Foreign publics know even less about this financial institution. In LAC, the CDB has funded well-known projects such as the Santa Cruz River Hydroelectric Complex project in Argentina, El Dorado International Airport in Colombia, the Shougang Iron Mine in Peru, Mirador Copper Mine in Ecuador, and Las Cristinas Gold Mine in Venezuela.

### 1 Evolution

The CDB was founded in 1994 as a ministerial-level institution. The CDB has evolved a lot since its creation, and each transformation has closely reflected Chinese government policy and priorities. As such, the CDB's transformation from a policy bank to one promoting development through commercial activities is a significant one, and one that reflects the ongoing changes experienced by China's foreign policy writ large.

Initially, projects were allocated to the CDB by China's State Planning Commission, the predecessor of China's National Development and Reform Commission (NDRC), which is responsible for China's

macroeconomic planning. During these early years, the CDB's delinquency rate, or the percentage reflecting how often borrowers missed payments or failed to repay loans, was very high. It reached 42.65% in 1997.<sup>24</sup>

The CDB became more commercially oriented and profitable under the leadership of Chen Yuan, who served as the bank's Chairman and Party Secretary from 1998 to 2013. Under his guidance, the CDB's delinquency rate fell to less than 5% in just four years,<sup>25</sup> eventually falling below 1%.<sup>26</sup> Chen also started to explore partnerships in LAC, often using personal channels such as meeting Hugo Chavez through Fidel Castro.<sup>27</sup>

Under Chen's leadership, the CDB also introduced international financial standards and best practices. In that respect, one of the most notable events was the CDB joining the UNGC,<sup>28</sup> "a voluntary initiative based on CEO commitments to implement universal sustainability principles and take steps to support United Nations (UN) goals."<sup>29</sup> As part of the UNGC,<sup>30</sup> the CDB should submit annual reports detailing its efforts to adopt and implement sustainable and socially responsible policies.

In 2007, the CDB transitioned toward becoming a commercial entity,<sup>31</sup> in contrast to Chexim Bank and the Agricultural Development Bank of China (ADBC), which continued as policy banks. One year later, in 2008, the CDB ceased to be under the direct jurisdiction of the State Council and became regulated by the CBIRC and China's Central Bank, the People's Bank of China (PBOC).<sup>32</sup>

Since its reorganization from a policy bank to a market-oriented bank, the CDB has operated as a commercial entity, albeit with a continued focus on development. This dual role is even present in the CDB's structure, which houses two business units, one with a commercial focus and one oriented toward development. The CDB's support from the government has allowed it to be an early actor in overseas investments and opened the door for Chinese commercial banks to follow suit.

From 2013 to 2018, the CDB was led by Hu Huaibang, who saw the bank through another series of administrative changes. These included a change of ownership structure to better reflect its transition from a joint-stock company to a limited liability company.<sup>33</sup> Since that reorganization, CDB shareholders have been China's MOF (36.5%); Central Huijin Investment Ltd. (35%); Buttonwood Investment Holding Co. Ltd.,

a wholly-owned subsidiary of the China's State Administration of Foreign Exchange (SAFE) (27%); and the National Council for Social Security Fund (1.6%).<sup>34</sup>

Chairman Hu's legacy, however, is not as positive as that of his predecessor. Shortly after retiring as chairman of the CDB, Hu was placed under investigation for "violations of Chinese Communist Party discipline and law,"<sup>35</sup> and in 2020 he was expelled from the Communist Party of China (CPC).<sup>36</sup> In 2021, he was given a life sentence for accepting bribes over the course of his career,<sup>37</sup> which also tarnished the CDB's image.

Since 2018, the CDB has been led by Zhao Huan, who previously served as president of the Agricultural Bank of China (ABC).<sup>38</sup> Today, the CDB continues to be responsible for preserving state capital, avoiding non-performing loans, supporting China's economic development in key industries and promoting Chinese export models and ideas abroad.<sup>39</sup> It is also currently focused on reducing economic disparity between provinces by prioritizing investments in poorer provinces in China's west and northwest,<sup>40</sup> which are top priorities for the Chinese government.

The Chinese state has full ownership of the CDB and implicitly guarantees its debt.<sup>41</sup> The CDB's rating is tied to the sovereign rating which makes its financing costs relatively low.<sup>42</sup> It also finances itself with long-term bonds instead of short-term bank deposits, meaning that CDB costs are lower than the market and, thus, help it undercut competitors.<sup>43</sup> For this reason, the CDB provides lower interest rates and longer-term loans than other Chinese banks.<sup>44</sup> The CDB is China's second largest bond issuer after the MOF.<sup>45</sup> Moody's, Standard & Poor's, Fitch, and other credit rating agencies place CDB ratings on the same level as China's sovereign ratings.<sup>46</sup>

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.



Chart 1: A timeline of the China Development Bank's Milestones

1994		The China Development Bank is founded as a policy bank with ministerial status and regulated by the State Council.
1998-2013		Leadership of Chen Yuan. During this time, the China Development Bank becomes more profitable, delinquency rate is radically reduced, the bank introduces some international financial standards and best practices and joins the UN Global Compact. Chen starts to explore partnerships in Latin America and the Caribbean, mostly through personal channels.
2005		First China Development Bank loan to Latin American and the Caribbean is a loan to Corporación Nacional del Cobre de Chile (Codelco) in Chile. <sup>47</sup>
2007		The China Development Bank transitions towards becoming a commercial entity.
2008		The China Development Bank becomes regulated by China Banking and Insurance Regulatory Commission and People's Bank of China.
2013-2018		Leadership of Hu Huaibang (administrative changes and transition from joint-stock company to a limited liability company).
2013		Launch of China's Belt and Road Initiative. Currently, the CDB is the main financier of the Initiative.
2018		After retiring as Chairman of the China Development Bank, Hu is investigated for violations of Communist Party of China discipline and law. He is expelled from the Communist Party of China in 2020 and receives a life sentence in 2021 for accepting bribes over the course of his career, including while at the China Development Bank.
2018-Current		Leadership of Zhao Huan.

Source: Authors' elaboration.

## 2 Structure

The CDB's top leaders are appointed by the CPC and have long track records of working at state-owned commercial banks or Chinese ministerial government organs.<sup>48</sup> The Chairman of the CDB oversees a senior management team. The Chairman simultaneously serves as the secretary of the CDB's Party Committee, which serves as a conduit for the CPC. Senior management is accountable to a board of directors, which in turn is accountable to a board of supervisors.

Senior Management oversees 29 departments, including the Risk Management Department; Legal and Compliance Department; Education and Training Department; two Project Appraisal Departments; Program to Finance Poverty Relief and the CDB Global Finance Department.<sup>49</sup> The CDB has 42 branches in China and 10 international representative offices, including in Brazil (Rio) and Venezuela (Caracas) in LAC.<sup>50</sup>

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. The division of responsibilities between provincial offices is idiosyncratic, unclear, and opaque. For instance, the CDB's overseas ventures are managed by the bank's Chinese provincial offices. Interviews indicate that there are three provincial branches working on investments in LAC. The Anhui Branch oversees loans in Argentina, Chile, Uruguay, and Paraguay, the Hebei branch oversees loans in Peru, and the Shandong Branch oversees loans in Colombia, Ecuador, and Venezuela.<sup>51</sup> Though these

three provincial branches are specifically tasked with overseeing loans in LAC, branches from other provinces and the Headquarters in Beijing may also run operations in the region if enterprises from their home province have received loans from the CDB.<sup>52</sup> In addition, it seems likely that in the near future, responsibility for financing in LAC countries will centralize and come under the management of the headquarters in Beijing.<sup>53</sup>

CDB Capital is an important wholly-owned subsidiary of the CDB. It was founded in 2009 in order to “build the CDB into a comprehensive financial institution that can best serve the country's social and economic development”<sup>54</sup> and is principally engaged in investment and asset management. In 2019, CDB Capital had cumulative investments worth USD 45.8 billion (RMB 300 billion) in more than 700 projects.<sup>55</sup> CDB Capital also facilitates cross-border merger and acquisitions as part of China's ODI.

## 3 Global Profile

The CDB, in addition to being significant domestically, has rapidly grown its global business since the mid-2000s.<sup>56</sup> The CDB is considered one of the most internationalized banks in China, in fact 60% of its credits were allocated to overseas markets between 2008 and 2015.<sup>57</sup>

The CDB supports the Chinese government's signature foreign trade policies, including the BRI.<sup>58</sup> Governor of the CDB Zheng Zhijie shared that the CDB has provided “over USD 190 billion in financing toward more than 600 BRI projects.”<sup>59</sup> The CDB received a

One of the most important functions of China Development Bank is to support Chinese government's policies and commitments. In this manner, the bank has provided financing toward more than 600 Belt and Road Initiative projects. Up to date, nineteen Latin American countries have joined this initiative.



China Development Bank, Beijing. Image: news.cgtn.com

The Chinese state has full ownership of China Development Bank and implicitly guarantees its debt. The bank's rating is tied to the sovereign rating which makes its financing costs relatively low.

capital injection of USD 38 billion from SAFE to support its active involvement in the construction of the BRI.<sup>60</sup> By 2016, the balance of CDB overseas loans reached USD 328.5 billion, accounting for more than 30% of the balance of overseas loans of all Chinese financial institutions.<sup>61</sup> By the end of 2020, the CDB's balance of loans in sixty-five BRI countries accounted for 63.7% of the total balance of overseas loans.<sup>62</sup>

Together with government agencies, the CDB has established investment funds to support overseas projects in different regions. Which includes the China-Africa Development Fund,<sup>63</sup> and the Silk Road Fund which promotes intercontinental connectivity, and industrial capacity in BRI countries.<sup>64</sup>

The CDB offers credit lines to help Chinese enterprises expand their markets abroad. In 2006, the CDB tested a model where it lent to Chinese enterprises who would then play the role of lender for their foreign customers, who in turn would buy products from them.<sup>65</sup> In one instance, in 2011, the CDB provided a USD 30 billion credit line to Huawei so that it could incentivize buyers with terms and rates that were better than other competitors. Brazilian and Mexican telecommunication operators

were among those who subsequently purchased equipment from Huawei.<sup>66</sup>

Globally, most of the loans provided by the CDB are medium- to long-term non-concessional and commercial loans which can be extended to 15 years maturity periods for large-scale infrastructure projects.<sup>67</sup> That said, in most of LAC, the CDB's loan period is much shorter. In Bolivia loans are extended for 10 years with a five-year grace period;<sup>68</sup> in Brazil, they are extended for 10 years,<sup>69</sup> and in Ecuador most CDB loans are extended for eight-year with a two-year grace period.<sup>70</sup> CDB's interest rates are guided mainly by market and commercial principles.

The CDB provides sovereign loans in the name of development finance, which are supposed to be concessional in the case of traditional donor countries, but in fact are benchmarked with the London Interbank Offered Rate (LIBOR). After considering the borrowing country's sovereign credit rating (if available) and its political, economic, and financial situation, extra percentage points of interest are added on top of LIBOR to reflect the risk. In this way the banks are lending in accordance with the commercial rate."<sup>71</sup>







# The China Development Bank's Environmental and Social Framework

## Chapter 3

**S**ince the early years of the “Going Out” policy, the Chinese government has made efforts to guide Chinese banks and investors to support national development goals. At the same time, Chinese banks and investors have been encouraged to expand their domestic portfolio of green projects and to improve methods for assessing environmental and social impacts in the approval and supervision of loans in China and abroad.

The CDB's foreign lending has grown consistently, but this has not been without problems. Over the years, a significant number of projects have been challenged, delayed, and even suspended and managing, precisely because of the lack of meaningful and enforceable principles, policies, and methods for assessing and managing environmental and social risks.

### 1 Credit Assessment and Environmental and Social Risk Requirements

It is tricky to compare the CDB's environmental and social requirements against those of other financial institutions. The CDB does not fit in neither the category of national development banks (NDB) or multilateral development banks (MDB). By nature, it is a national development bank such as the National Development Bank of Brazil (BNDES) or the US International Development Finance Corporation (DFC). But in terms of its mandate and impact, the CDB shares more similarity with MDBs such as the World Bank (WB) or the Inter-American Development Bank (IDB).

However in any case, both NDBs and MDBs are more advanced than the CDB in terms of their assessment

of environmental and social risks, transparency and participation principles and policies. For example, the BNDES has an environmental and social policy. The DFC has adopted the Performance Standards of the International Finance Corporation (IFC). The WB, IDB, and Asia Infrastructure Investment Bank (AIIB) have mandatory sector and thematic policies, as well as staff and a budget dedicated to the implementation of such safeguards. The aforementioned NDBs and MDBs also have grievance mechanisms and policies on access to information, which require disclosure of information on the loans they granted.

In contrast, there is little publicly available information concerning the CDB's practices to evaluate environmental and social risks. While the CDB website published a ‘Sustainability Report’ for 2018 and 2019,<sup>72</sup> the bank doesn't have a public document that explains its environmental and social policies, their

implementation procedures, or even the department within the bank responsible for environmental and social risk assessment. Literature from 2004 states that the CDB issued a “The CDB Lending Assessment Handbook” containing guidelines on credit and environmental assessments and due diligence, and criteria for different industries. But this is an internal document (which was leaked) and is available only in Chinese. This Handbook states that it is “the CDB’s business secret and is regulated by Business Secret Policy.”<sup>73</sup> It is uncertain whether it still applies or has been updated.

Research by Friends of the Earth-United States (FoE-US) indicates that the CDB has policies for certain activities and sectors such as: environmental

protection; energy saving and emission reduction; biomass power generation; and solar and wind power.<sup>74</sup>

FoE-US also provides information regarding the CDB’s environmental and social assessment procedures for a loan cycle for domestic borrowers (see Chart 2) and pointed out that it is unknown whether such procedures apply to overseas loans.<sup>75</sup> The information compiled by FoE-US on these loan cycles is not comprehensive and was pieced together using various sources “including documents produced by NGOs and CDB annual reports.”<sup>76</sup> During the course of this research, it was not possible to find evidence of the implementation of the CDB’s environmental and social principles and procedures in LAC loans.

**Chart 2: Summary of the China Development Bank’s Environmental and Social Procedures for Domestic Borrowers’ Loan Cycle**

Loan Preparation	<b>Guidelines</b>
	<ul style="list-style-type: none"> <li>– Projects need to have an Environmental Impact Study.</li> <li>– Borrowers need to have proper control over implementation and prove their repayment capacity.</li> </ul>
Loan Application	<b>Information Required at Time of Application</b>
	<ul style="list-style-type: none"> <li>– Project description, status, feasibility studies, etc.</li> <li>– Status of approval of administrative, environmental, planning permits.</li> <li>– Project financing details and terms of the loans, repayment of the loan and interests, expected profit and guarantees.</li> <li>– Information about whether the project is recommended by the government or is supported by any preferential policies.</li> <li>– The Client Division is responsible for taking the loan application, collecting project information, and preliminary screening of proposed projects.</li> </ul>
Loan Examination and Review	<b>General Guidelines</b>
	<ul style="list-style-type: none"> <li>– The Credit Assessment Division is responsible for verifying the project’s capacities for investment and repayment, in addition to means of collateral. This Division carries out credit investigation and review.</li> </ul>
	<b>Environmental Review</b>
	<ul style="list-style-type: none"> <li>– Clients must be in compliance with all environmental laws of the People’s Republic of China.</li> </ul>

(Continues on the next page)

Loan Examination and Review	<ul style="list-style-type: none"> <li>– All loan applications require an Environmental Impact Study. For highly polluting and energy-intensive industries such as coal mining, oil and gas exploration and development, power generation and transmission, hydropower, etc., Environmental Impact Study must be approved by relevant environmental authorities. Environmental Impact Study must be completed by an independent evaluator.</li> <li>– Environmental standards and costs can be written into loan covenants in order to commit borrowers to environmental promises.</li> <li>– The bank can exercise the “one-ballot veto” procedure that allows loans to be rejected by the credit committee solely for environmental reasons.</li> <li>– The bank assigns two personnel to do due diligence for each loan application: one to evaluate the loan and the other to evaluate the client.</li> <li>– The bank has an appraisal department to assess environmental and social risks and also manages environmental and social issues across business units.</li> </ul>
	<p style="text-align: center;"><b>Basic Environmental and Social Risk Assessment Criteria</b></p> <ul style="list-style-type: none"> <li>– Project should be in accord with China’s latest Catalogue for Industrial Restructuring and relevant environmental regulations.</li> <li>– An initial assessment of the project’s possible impact on beneficiary groups, as well as job creation and environmental improvement potential, should be made.</li> <li>– Environmental and safety accident risks should be considered key factors in determining credit access. A borrower’s previous environmental and safety accidents will be included in the major risk assessment criteria.</li> <li>– After a loan is issued, if the borrower or projects are in violation of environmental regulations or affected by severe safety accidents, the China Development Bank may downgrade the asset quality or cancel the loans.</li> </ul>
Post-Loan	<p style="text-align: center;"><b>Guidelines</b></p> <ul style="list-style-type: none"> <li>– In order for loan requirements to be considered fulfilled, clients must provide proof from a relevant environmental department that the project meets environmental protection requirements.</li> </ul>

Source: Authors’ summary from *China Development Bank’s Overseas Investments: An Assessment of Environmental and Social Policies and Practices* by Friends of the Earth-United States & Bank Track, 2016, pp. 18.

The CDB claims to be committed to ensuring a sound evaluation of the environmental and social risks associated with projects for which it provides financing, and that it carries out continuous supervision throughout the project cycle.<sup>77</sup> According to CDB employees, the bank performs robust due diligence during all stages of the project which is considered stricter than that performed by Chinese commercial banks.<sup>78</sup> The CDB hires independent technicians to supervise projects, as employees rarely make field visits.<sup>79</sup> The CDB has yet to establish a dedicated department or team to handle environmental and social standards; instead, the staff is divided across various departments, an arrangement that negatively impacts

communication and coordination. The bank relies on external contractors and employees have minimal understanding and little training on international standards for environmental and social practices.<sup>80</sup>

In 2010, the bank established a social responsibility department, and since then, has published corporate social responsibility (CSR) reports annually which are verified by third party auditors.<sup>81</sup> In 2018 and 2019, the CDB also published a Sustainability Report. However, neither the CSR reports nor the Sustainability Report present any specific information on how the bank evaluates and manages environmental and social risks during the loan assessment and the project cycle.

## Other Commitments

### a. Human Rights

The CDB states a commitment to helping developing countries eradicate poverty and achieve sustainable development by improving infrastructure and industrial development,<sup>82</sup> but it lacks critical human rights safeguards and its commitments to social protections are meager.

Annual reports by the CDB reference universal human rights frameworks, indicating that the bank remains in compliance with international treaties and conventions acceded to, or endorsed by, the Chinese government, such as the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights.<sup>83</sup> However, in describing its efforts to comply with international human rights frameworks, the CDB reveals only a rudimentary understanding of these instruments. When describing how it protects human rights, for example, the CDB cites giving proper contracts and remuneration to its staff and its awards for poverty reduction.<sup>84</sup> These constitute basic good practice and do not demonstrate ambition in implementing human rights frameworks.

### b. Recent Developments Regarding Information Disclosure and Accountability

The CBIRC regulates and supervises China's banking and insurance sectors,<sup>85</sup> including the CDB. Within them, the CDB has a tremendous political weight

because of its size and role in achieving national development priorities.

The CBIRC have issued several laws, measures, and announcements to regulate the financial sector and to improve its supervision capacity.<sup>86</sup> These actions are intended to reduce financial and reputational losses through the strengthening of good governance practices and the establishment of risk assessment and management practices. Of utmost importance, the CBIRC is currently developing a Grievance Mechanism that will be used by Chinese financial institutions – the CDB included – to deal with complaints from organizations and individuals around the world. The Grievance Mechanism is expected to be launched in the second half of 2021, but there is no official information yet about its scope and mandate, or its authority over Chinese banks.<sup>87</sup>

In its effort to fight internal corruption, the CDB issued an announcement in December 2020, indicating that the bank should accept reports from all sectors of society. The announcement stated, “any person... can issue a report to the bank at any time, in the form of letters, visits, telephone calls, or e-mails,” and that these reports could be made openly or anonymously.<sup>88</sup> It added that these reports were welcome in order to “ensure the stability of state-owned assets, maintain asset safety and effectively prevent and control financial risks.”<sup>89</sup> The initiative seems to be targeted towards the public in China as it is only available in Chinese. There are no specific steps for complaints that concern environmental and social violations. The announcement also puts the onus on potential whistleblowers, as they “will bear legal responsibility” if the claims are determined to be false.<sup>90</sup>

The China Banking and Insurance Regulatory Commission is currently developing a Grievance Mechanism to process complaints from local communities around the world regarding environmental and social problems associated with China financed projects, which will apply to the loans provided by China Development Bank.





Protests against Las Bambas mining company. Image: gestion.pe

There is no department within the the China Development Bank in charge of receiving and investigating complaints nor is there a channel for social organizations to communicate with the bank.

In terms of information disclosure, the CDB's website lists neither the projects that it intends to finance nor the ones that have been approved. There is no department within the CDB in charge of receiving and investigating complaints nor is there a channel for CSOs to communicate with the bank officials in their countries or in China. In addition, different provincial branches oversee CDB operations in different countries. But all this information is unknown to the international community, making it virtually impossible for communities around the world to reach out to the CDB. Frequently, the CDB's projects are discretely negotiated with elites, bureaucrats, and diplomats that lie beyond public scrutiny. In addition, the CDB branches abroad have a very strict code of conduct that prohibits employees from accepting any type of interview or even leaving the city where they work without permission from higher authorities.<sup>91</sup>

The CDB's current social media strategy relies primarily on WeChat and Weibo and is not conducive to greater accountability. The CDB mostly uses these platforms to promote small loans, publicize promotional content, urge citizens to apply the CPC's party line in their daily lives, and inform them about recruitment campaigns.<sup>92</sup> At least in its overseas operations, there is little effort to conduct outreach to local communities through locally preferred social media.

## 2 Chinese Guidelines for the Financial Sector

Since the early 2000s, Chinese government agencies, business associations, companies, and banks have issued numerous guidelines with important precepts to protect the environment and local communities, as well as to improve information sharing, public supervision, and engagement. These voluntary guidelines are primarily aimed at avoiding and minimizing financial and reputational risks, and to improve Chinese development finance overall. A partial list of these guidelines is included in Chart 3.

One notable shortcoming of these guidelines is that, except for the Green Credit Directive (GCD), they lack supervision and reporting mechanisms, which makes it difficult to evaluate to what extent the banks have internalized them into their structures and systems. The GCD requires the banks to report their progress annually using over 100 key performance indicators (KPI) for each of the GCD's 26 articles. The GCD calls "for Chinese banking institutions to promote green credit from a strategic height; increase the support to green, low-carbon, and recycling economy; fend off environmental and social risk; and improve their own environmental and social performance."<sup>93</sup> The GCD also requires banks to ensure that due diligence is "complete, thorough and detailed."

Chart 3: **Most Relevant Guidelines Pertaining to Environmental and Social Impacts for Chinese Financial Institutions**

GUIDELINES	ISSUED BY
Guidelines on Environmental Information Disclosure for Financial Institutions (2021)	People's Bank of China
Environmental Risk Management Initiative for China's Overseas Investment (2017)	Green Finance Committee of China Society for Finance and Banking, Investment Association of China, China Banking Association, Asset Management Association of China, Insurance Asset Management Association of China, China Trustee Association, and the Foreign Economic Cooperation Office of the Ministry of Environment Protection.
Standardization of Banking Services Enterprises to "Go Out" and Strengthen the Guidance of Control and Risk Prevention (2017)	Central Committee of the Communist Party and the State Council.
Guidance on Promoting Green Belt and Road and Cooperation Plan for Ecological Environmental Protection along the Belt and Road" (2017)	Ministry of Environment and Ecology, Ministry of Foreign Affairs, National Development and Reform Commission and Ministry of Commerce.
Guidelines for Establishing the Green Financial System (2016)	People's Bank of China, Ministry of Finance, National Development and Reform Commission, Ministry of Environment Protection, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission.
Opinions on Green Credit Implementation (2014)	General Office of the China Banking Regulatory Commission.
Green Credit Directives (2012)	China Banking Regulatory Commission, Peoples' Bank of China, Ministry of Environmental Protection.
Notice of the China Banking Regulatory Commission on Issuing the Guidance on Commercial Banks' Management of Reputational Risks (2009)	China Banking Regulatory Commission.
China Banking Association's Corporate Social Responsibility Guidelines (2009)	China Banking Association.

Source: Authors' elaboration.

The Green Credit Directive issued by China Banking and Insurance Regulatory Commission requires Chinese banks to ensure that their due diligence is "complete, thorough and detailed."





Solar panels farm. Image: green-br.org

China Development Bank has not adopted the Principles for Responsible Banking (despite being a member of the UNEP Finance Initiative), which ensures that signatory banks' strategy and practice align with the Sustainable Development Goals and the Paris Climate Agreement.

Several of the most recent guidelines have been developed in accordance with Chinese trade laws and are aimed at investments along the BRI. Given LAC's gradual incorporation into the BRI, these guidelines have gained relevance, as they can help decipher how Chinese finance and investment is implemented. For example, the new regulations provide information about priorities and limitations regarding investment sectors; identify some of the regulatory entities and their respective roles; and require instruments for planning, evaluation, and supervision. Three common aspects of these guidelines are: their emphasis on improving risk assessment systems (including environmental and social ones) and the positioning of risk assessment as a tool for project approval; a call to comprehensively evaluate investments not only ex-ante but also during the implementation cycle and ex-post; and their reinforcement of Chinese companies' obligation to understand and comply with the laws (including environmental laws) of the countries where they operate.

### 3 International Commitments

To varying degrees, Chinese banks participate and support some voluntary standards enacted by multi-stakeholder groups involving governments, international financial institutions, businesses,

and civil society. Although the adoption of the standards is voluntary, several have criteria for their implementation, monitoring, and reporting, which are not always met by Chinese entities. For example, despite being a member of the United Nations Environmental Programme (UNEP) Finance Initiative, the CDB has not adopted the Principles for Responsible Banking, which ensures that signatory banks' strategy and practice align with the Sustainable Development Goals and the Paris Climate Agreement.<sup>94</sup>

As a participant of the United Nations Global Compact, the CDB should also follow the United Nations Development Programme's (UNDP) Ten Principles on human rights, labor, environment and anti-corruption, which are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.<sup>95</sup> The CDB is not a member of the Equator Principles,<sup>96</sup> which is "...a risk management framework, adopted by financial institutions, for determining, assessing, and managing environmental and social risk in projects."<sup>97</sup>

The CDB is one of 26 members of the International Development Finance Club, a network which strives to implement the Sustainable Development Goals and Paris Climate Agreement into their agendas.<sup>98</sup>





Amazonas river. Image:Sebastien Goldberg, unsplash.com



# China Development Bank in Latin America and the Caribbean

## Chapter 4

In the past 15 years, LAC has been an important region for the CDB's global lending landscape. Since entering LAC in 2005, it has financed more than 200 projects in 18 LAC countries.<sup>99</sup> In the last decade, the CDB has established two representative offices and eight country working groups in LAC.<sup>100</sup>

The majority of CDB loans to LAC countries are extended to sovereign governments or entities with sovereign guarantees, such as the national oil companies *Petróleo Brasileiro S.A. (Petrobras)* in Brazil, *Empresa Pública de Hidrocarburos del Ecuador (Petroecuador)* in Ecuador and *Petróleos de Venezuela S.A. (PDVSA)* in Venezuela. The CDB also provides commercial loans directly to companies, as well as funds for mergers and acquisitions, export credit, bank credit and loan transfer credit.<sup>101</sup>

### 1 Special funds

Together with Chinese government agencies, the bank has also set up special lending programs for the LAC region, such as China-Latin America Industrial Cooperation Investment Fund (CLAI) and the China-Latin America Infrastructure Special Fund (CLIF). In partnership with the WB, the CDB has also set up a USD 1.2 billion IFC's China-Mexico Fund.

In 2019, the CDB promoted the China-Latin America Development Financial Institutions Association<sup>102</sup> with the objective "to deepen multilateral cooperation and promote common development."<sup>103</sup> National banks from Argentina, Ecuador, Mexico, Peru, Panama, and Colombia participate in this mechanism. The CDB invested USD 10 billion in the first phase of this project.<sup>104</sup> The platform allows regional development banks to partner with the CDB to attract more funds.<sup>105</sup>

### 2 China Development Bank Lending

The CDB's lending in LAC traces back to 2005 and peaked in 2010 reaching USD 33 billion.<sup>106</sup> It maintained a fairly steady flow between 2011-2016. Since 2017, CDB's lending to LAC has slowed down. In some years CDB lending was higher than it was from international financial institutions such as the WB and IDB, but in the past three years, this is no longer the case (see Graphic 2). In 2019, CDB lending to the region fell more than 50%, from USD 5.9 billion in 2018 to USD 2.4 billion in 2019. In 2020, there is no record of CDB lending confirmed by credible sources.

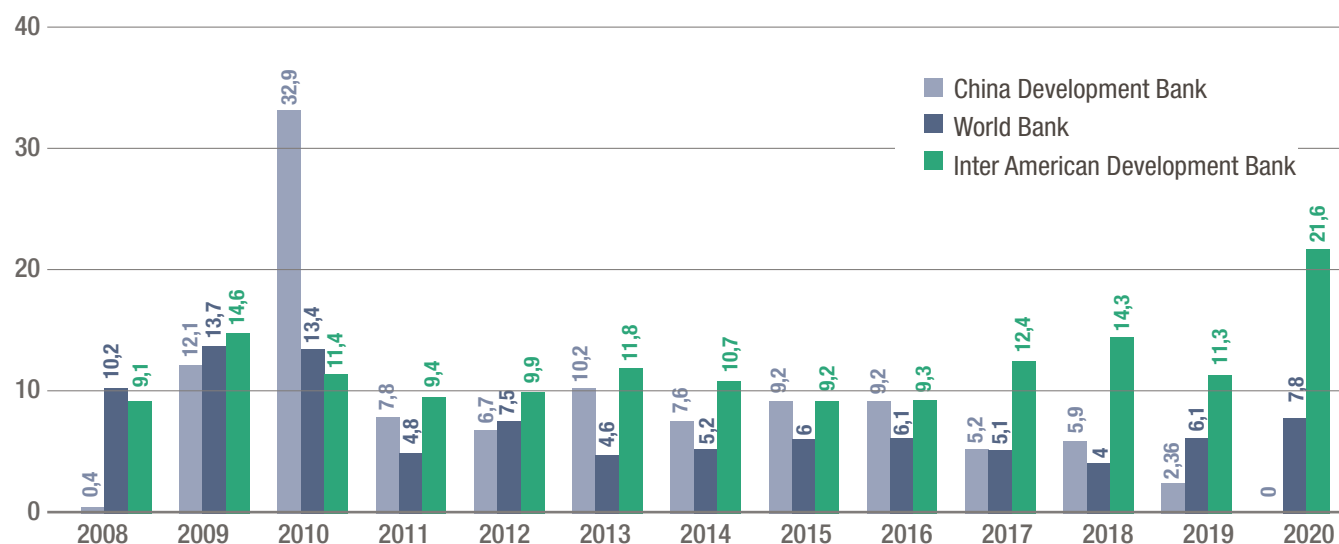
Given the lack of publicly available information, it is difficult to know the volume of the CDB lending to non-government borrowers.

Chart 4: **The China Development Bank's Special Financing Programs to Latin America and the Caribbean**

PROGRAM	YEAR INITIATED	AMOUNT USD	FOCUSED AREAS	PARTICIPANT INSTITUTIONS
China-Latin America Infrastructure Special Fund (CLIF)	2014	20 billion	Infrastructure projects (transportation, energy, mining, agriculture, etc.)	State Administration of Foreign Exchange provides capital; the China Development Bank is responsible for loan assessment and due diligence.
China-Latin America Productive Capacity Cooperation Fund (CLAI)	2015	30 billion (in the 1st stage 10 billion)	Manufacturing, high-tech, agriculture, mining, and energy	People's Bank of China, State Administration of Foreign Exchange, Buttonwood Investment Platform (85%) and China Development Bank Capital, and the merge with China-Africa Fund for Industrial Cooperation.
China-Brazil Productive Capacity Expansion Cooperation Fund	2017	20 billion (15 billion from China) <sup>107</sup>	Infrastructure, technology	USD 15 billion come from China-Latin America Productive Capacity Cooperation Fund; and USD 5 billion from Brazil.
International Financial Corporation's China-Mexico Fund	2014	1.2 billion	Infrastructure, oil, and gas	International Finance Corporation and China Development Bank Capital support the Fund.

Source: Authors' elaboration based on *Chinese Financing in Latin America and the Caribbean* by Song, X., 2019; and *Shifting Gears: Chinese Financing in Latin America* by Myers, M. & Ray, R., 2020.

Graphic 2: **China Development Bank lending to Latin America and the Caribbean compared to the World Bank and Interamerican Development Bank, 2008-2020 (USD billion)**



Source: Authors' calculation based on *Managing Risk in Development: Lessons for the Andean Amazon* by Ray, R., Gallagher, K., & Sanborn, C. in E. Dussel (Ed.), *China's Financing in Latin America and the Caribbean*, 2019, pp. 129-152.



Mirador mining project, Ecuador. Image: eluniverso.com

The CDB's lending in LAC traces back to 2005. By 2020, the CDB has issued USD 97.9 billion in credit to LAC governments and state-owned companies. It is unknown the number and total volume of commercial loans the CDB has provided to specific projects such as Mirador in Ecuador and Las Bambas in Peru.

Nevertheless, even with the recent lending decreases and excluding non-sovereign lending, the CDB remains one of the major creditors in the region, only behind the WB and IDB.<sup>108</sup> By 2020, the CDB has issued USD 97.9 billion in credit to LAC governments and state-owned companies, and has led four syndicated loans amounting to USD 13.47 billion, of which CDB contribution is unknown.<sup>109</sup>

Apart from the loans extended through the bank's own lending vehicles, the CDB has also provided financial assistance to LAC countries through several special funds in which the bank acts in a managing role, or holds significant investment shares. By June 2018, China had committed to a total amount of USD 14.2 billion in loans to 10 infrastructure projects in seven LAC countries through the CLIF special fund.<sup>110</sup> Mostly through equity investments, the CLAI fund has financed a number of large energy and mining projects in the region, including Ilha Solteira and Jupiá hydropower plants in Brazil, San Gaban III hydroelectric plants in Peru, Duke Energy's hydropower assets in Brazil, and Mirador Copper Mine project in Ecuador.<sup>111</sup>

In addition to CDB sovereign loans mentioned above, using other credit vehicles, the bank extended commercial credits directly to Chinese companies to conduct business in the region. Two noteworthy examples of these commercial credits are: the

USD 10 million loan in 2012 to Chongqing Grain Group - Molino Cañuelas to support soybean and soybean oil production in the province of Córdoba in Argentina, and milk production throughout the country;<sup>112</sup> and, USD 300 million loan in 2014 to YPF-Sinopec for petroleum exploration and production, also in Argentina.<sup>113</sup> Given the scarcity of publicly available information, the number and total volume of commercial loans the CDB has provided to entities operating in LAC is unknown.

Although external borrowing can increase a country's access to resources, it can also pose challenges to debt sustainability, especially to some LAC countries that have already had multiple debt repayment problems in the last several decades. When both the borrower and the creditor are sovereign entities or with official ties to a sovereign entity, debt distress often affects bilateral relationships and thus further undermines the borrower's ability to overcome financial difficulties.

In the case of debt to the CDB, Chart 5 shows the cumulative amounts of CDB loans in relation to external debt in Argentina, Brazil, Ecuador, and Venezuela. Combinedly, these four countries have received 94% of CDB lending to the LAC region. While CDB loans do represent a significant share in these four countries' total external debt stocks and sovereign external debt stocks, it is within a relatively

Chart 5: **China Development Bank Sovereign Loan Commitments in Relation to External Debt**

	VENEZUELA	BRASIL	ECUADOR	ARGENTINA
Total China Development Bank loan commitments*, 2005-2019 (USD billion)	57.3**	28.1	9.4	15.5*
Total external debt stocks (public and private), 2019 (USD billion)	168.1	569.4	51.7	279.3
Long-term external debt stocks (public) 2019 (USD billion)	66.10	193.73	38.40	116.66
China Development Bank loan commitments to total external debt, 2019	<b>34.09%</b>	<b>4.94%</b>	<b>18.18%</b>	<b>5.55%</b>
China Development Bank loan commitments to total public and publicly guaranteed external debt, 2019	<b>86.67%</b>	<b>14.50%</b>	<b>24.48%</b>	<b>13.29%</b>

Source: Authors' calculation based on *China Latin America Finance Database* by Gallagher, K. & Myers, M., 2021.

Notes: The numbers in this chart are not the total outstanding debt balances, but rather the ceiling of the total amount that each country could possibly owe the CDB.

\*Loan commitments refer to the amount of loans officially announced by the CDB or LAC governments, however the disbursement of such loans cannot be fully confirmed.

\*\*Number includes one or several syndicated loans in which the CDB participated.

Chart 6: **Sovereign External Debt by Creditor Type, 2019**

	ARGENTINA		BRASIL		ECUADOR	
Multilateral creditors	USD 23.87 billion	20%	USD 33.26 billion	17%	USD 10.79 billion	28%
Bilateral creditors	USD 5.23 billion	5%	USD 9.90 billion	5%	USD 7.04 billion	18%
Private creditors	USD 87.56 billion	75%	USD 150.57 billion	78%	USD 20.56 billion	54%
Total long-term external debt stocks, public and publicly guaranteed, 2019	USD 116.10 billion	100%	USD 193.73 billion	100%	USD 38.40 billion	100%

Source: Authors' calculation based on *China's Overseas Development Finance Database* by Ray, R., & Simmons, B., 2020



reasonable range in Brazil, Ecuador and Argentina, whose major creditors are private institutions and MDBs.

Given that a significant part of these loans has already been paid off, the actual percentage of CDB outstanding loans in relation to external debt stocks should be even lower.<sup>114</sup> The only exception is Venezuela, whose borrowing from the CDB constitutes 86.67% of its total sovereign external debt, an alarming percentage high enough to raise fear for financial dependency, as well as repayment risks both for Venezuela and for the bank. In fact, the 2014 drop in oil prices and internal fiscal mismanagement led Venezuela to request China for a debt restructuring in 2016. The restructuring resulted in nearly all CDB credit lines to the country changing the payment terms and conditions.<sup>115</sup> Recently, the CDB and Venezuela made new debt restructuring agreements, but there is no official information on the terms and results.

### ③ Debt Sustainability

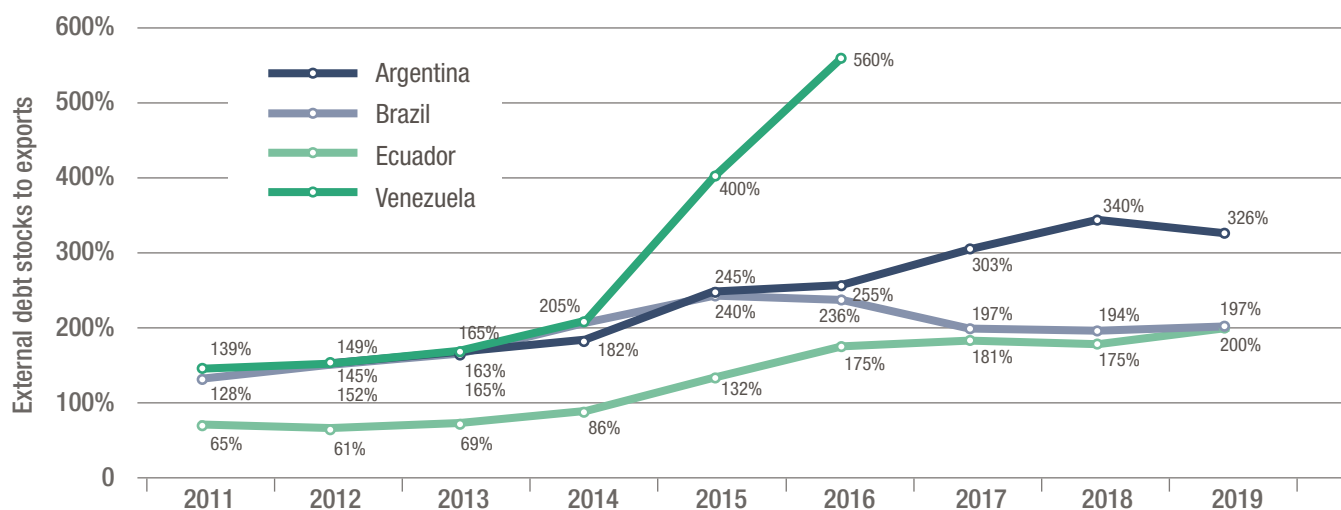
Debt composition is not the only criteria to assess a country's debt sustainability. A more critical problem here is unfavorable terms for loans. Chinese development finance in general, and CDB loans in particular, tend to offer loans with little concessionality.

For example, in Ecuador, approximately 70% of the Chinese loans have an interest rate between 6% and 7.25%, and 65% of these loans reach maturity in less than eight years.<sup>116</sup> In comparison, multilateral banks often offer an interest rate ranging from 2% to 4%, with maturity in 12 to 25 years.<sup>117</sup> Loans from sovereign development banks such as BNDES or Eximbank of Korea tend to have an interest rate around 4% and 2% respectively, and reach maturity in 10 to 25 years. The only similar case is the loans extended by the Eximbank of Russia to Ecuador, at an interest rate of 7.5%, comparable to that of the CDB's.<sup>118</sup>

Another concern is the CDB's lack of thorough due diligence on the borrower's ability to repay. In fact, countries such as Argentina, Ecuador, and Venezuela borrowed from China as they were cut off from traditional lenders and multilateral development banks for debt repayment or government legitimacy problems. In this regard, it is widely believed that external debt ratios to exports, is an important indicator closely related to the repayment capacity of a country, because it indicates whether the external debt is growing faster or slower than the countries' basic source of external income with which the country will pay back the debt in the future.<sup>119</sup>

Graphic 3 shows how the external debt stocks to exports ratio increased considerably in the four largest

Graphic 3: External Debt Stocks to Exports Ratio 2011-2019



Source: Authors' calculation based on data drawn from *World Bank International Debt Statistics*

Note: Venezuela's data after 2016 is not available.

CDB loan receiving countries in LAC. The ratio grew from a more or less internationally accepted level (100%) in 2011 to high levels in 2019 for Ecuador and Brazil, and excessively high levels for Argentina and Venezuela. This indicates these countries' rapid and significant decline in the ability to repay their debt.

Nevertheless, this observation cannot, and should not directly translate into a causal correlation between CDB lending and the decline of these countries' debt repayment ability. Nor can it be used as evidence to support the "debt trap diplomacy" narrative that argues China intentionally has sought to trap developing countries with unsustainable debt in order to seize assets. In fact, as some scholars have argued, seizing assets overseas may not be in the interest of Chinese banks. Empirical cases such as Venezuela and Ecuador have shown that China has instead chosen to renegotiate grace periods in reaction to loan repayment difficulties.<sup>120, 121</sup>

Last but not of least concern, is the industrial concentration of CDB loans and repayments. It is believed that when debt is concentrated in a particular industry, it increases the risk of a disruption in debt repayment.<sup>122</sup> A good example is Ecuador and Venezuela's debt ballooning since 2015 almost resulting in a debt default after global oil prices collapsed in late 2014.

As this chapter will detail later, CDB lending to LAC in general is highly concentrated in the energy sector; and in countries like Venezuela and Brazil, a large portion of its lending went to oil and gas. To make this more concerning, in the case of Ecuador and Venezuela, most of the debts are paid back with oil

revenue, which put some LAC countries at higher solvency risks.

It is important to note some factors from an alternative view that may reflect LAC governments and a number of Chinese institutions' perspectives concerning debt sustainability, as for example: debt sustainability tends to improve if the loans are used for projects which will generate future income; investment in infrastructure is crucial for future economic growth, hence it tends to enhance debt repayment capacity of some countries; and, interest rates could be important, however, loan access would be more important than the rate if a borrowing country can generate income to repay the loans.<sup>123</sup>

## 4 Patterns and Trends

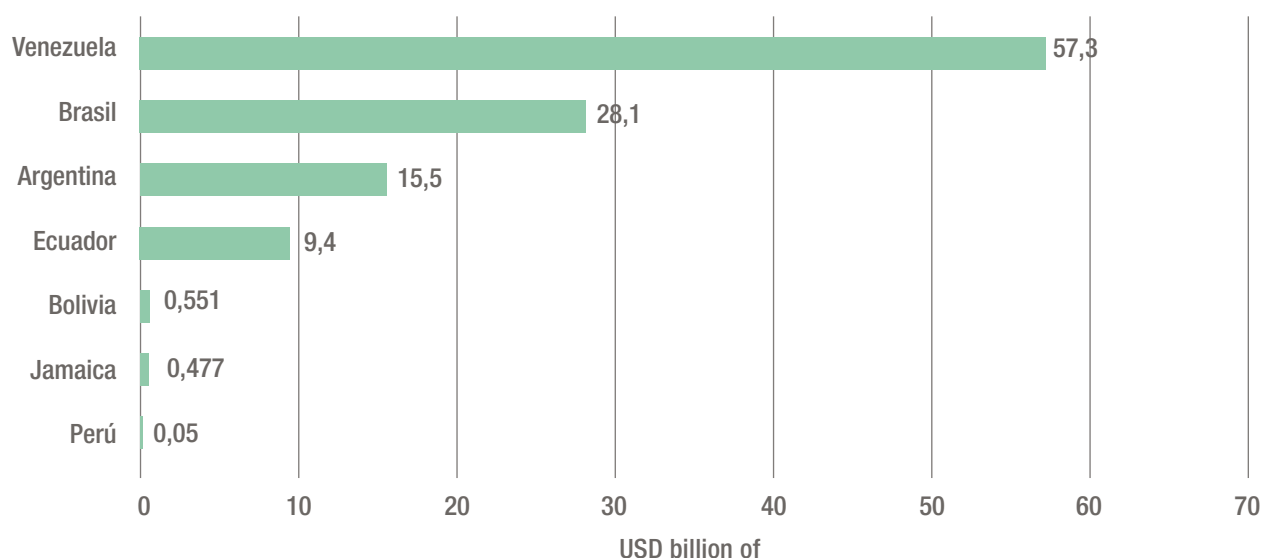
Several patterns and trends can be observed in CDB lending to LAC. While some are common patterns shared with other regions of the world, others are characteristic to the LAC region.

### Geographic Concentration

Four countries received 94% of the loans granted by the CDB to LAC: Venezuela (51.5%), Brazil (25.2%), Argentina (13.9%), and Ecuador (8.4%).<sup>124</sup> Unlike Chexim Bank (which only represents about 18.3% of sovereign loans to LAC) with a relatively even distribution of loans across countries, the CDB has extensively financed a handful of countries in South America, with little presence in Mexico, Colombia, Perú, Chile and the Caribbean.

China Development Bank's lending to Latin America in general is highly concentrated in the energy sector; especially in countries like Venezuela and Brazil where a large portion of its lending went to oil and gas projects. Furthermore, in the case of Venezuela, Brazil, and Ecuador, most of the debts are paid back with natural resources, primarily revenue from crude oil.

Graphic 4: **China Development Bank lending to Latin America and the Caribbean, country distribution, 2005-2020**



Source: Authors' calculation based on from *China-Latin American Finance Database* by Gallagher, K. & Myers, M., 2021.

Note: the total amount for Venezuela and Argentina includes one or several syndicated loans in which the CDB participated.

The CDB loans granted the governments of Argentina, Ecuador, and Venezuela quick access to international credit after they were turned away from the WB and the International Monetary Fund (IMF) in the late 2000s; and, in the case of Argentina and Ecuador, after they defaulted on obligations contracted through the sale of sovereign bonds in the international financial market. For China, on the other hand, the CDB became a fundamental agent for the consolidation of alliances and bilateral cooperation with Argentina, Brazil, and Venezuela. For example, China established multi-year joint development plans with Argentina, Brazil, and Venezuela. Among other aspects, these joint plans include commitments by the Chinese side to promote several of the projects that the CDB later financed.

As the number one destination for CDB loans in LAC, Venezuela received more than half of the bank's total sovereign lending to the region, amounting to USD 57.3 billion. Approximately USD 26 billion was realized through the China-Venezuela Joint Fund (CVJF), and USD 20.3 billion through the Large Volume and Long-term Financing Facility (LVLFF), two joint financing mechanisms created in 2007 and 2010

respectively with the objective to support infrastructure projects and social programs.<sup>125</sup> Credits were also granted to Venezuela's national oil company PDVSA to maintain and/or increase oil production in the Orinoco Petroleum Belt.<sup>126</sup>

Nevertheless, CDB loans have propelled million-dollar projects marred by inefficiency, corruption (issues that even incited concern and complaints by the NDRC in 2011),<sup>127</sup> and socio-environmental impacts, such as the Santa Cruz Hydro Complex in Argentina.<sup>128</sup> Some projects have not even been completed, such as the USD 2,700 million Tinaco-Anaco railway and USD 200 million PDVSA Agriculture in Delta Amacuro rice plant. However, Chinese banks continued to grant loans to Venezuela.

Brazil is the second biggest recipient country in the region, taking a quarter of the CDB's total sovereign loans. From 2007 to 2017, CDB loans to Brazil reached USD 28.1 billion, representing an important source of financing for the country and state-owned companies, especially Petrobras. Seven of the nine CDB loans (accounting 94% of the total amount) have been entirely or partially related to the expansion of oil activities, including the construction of the

Cacimbas-Catu Pipeline, the largest gas pipeline of the Southeast-Northeast Integration Gas Pipeline. Initially, these loans supported overseas pre-salt explorations. However, they later became essential to Petrobras' economic survival in the face of the Operation Lava Jato corruption scandal, which closed the doors of other international funders.

For Argentina, the third-largest recipient of CDB funding in LAC, the CDB is its most important bilateral lender for infrastructure projects. Currently, there are 167 projects underway in the country, amounting to a cost of USD 27,141 million.<sup>129</sup> About 68% (USD 18,998 million) of this amount comes from multilateral institutions, mainly the IDB, the International Bank for Reconstruction and Development, and the Development Bank of Latin America (CAF); and 31% (USD 8,142 million) from its bilateral portfolio, of which the CDB accounts for 87%. Unlike Ecuador, Brazil, and Venezuela, Argentina has not incurred contracts that must be paid with natural resources such as oil.

As for Venezuela and Argentina, the CDB is also Ecuador's most important bilateral lender. The CDB granted Ecuador four credit lines to support

infrastructure, health, transportation, education, telecommunications, and energy sector projects. Although Ecuador used several of these loans to improve the country's road network, there is no official information on the specific projects financed with the four lines of credit. A 2017 report by the State Comptroller General's highlighted the lack of information on the use of three CDB credit lines.<sup>130</sup> In the report, the Comptroller's recommended a series of measures to identify every project financed by each credit line, which is essential for controlling progress, disbursements, and project contracting processes.

## Sectoral distribution

The CDB's sovereign lending to LAC weighs heavily in the energy sector. As Chart 7 shows, the energy sector (extraction/pipeline plus power categories) has received 23 out of the total 44 sovereign loans the CDB has extended to the region, and more than 40% of the total amount. A large proportion of these energy-oriented loans was granted to state-owned oil and gas companies in Argentina, Venezuela, Ecuador

Chart 7: **Sectorial distribution of the China Development Bank's sovereign loans to Latin America and the Caribbean**

SECTOR	NUMBER OF LOANS	AMOUNT, USD BILLION
Extraction, pipelines	12	34.5
Power	11	6.557
Multi-sector/discretionary	9	39.53
Transport	5	12.909
Government	3	3.05
Agriculture, food	1	1.2
Other construction	1	0.5
Manufacturing	1	1.1
Telecom	1	0.251
<b>TOTAL</b>	<b>44</b>	<b>99.597</b>

Source: Authors' calculation based on *China's Overseas Development Finance Database* by Ray, R., & Simmons, B., 2020.





Ecuador's State Comptroller General. Image: mikiimedia.com

Ecuador's State Comptroller General in its 2017 report highlighted the lack of information on the use of three CDB credit lines; and recommended a series of measures to identify every project financed by each credit line, which is essential for controlling progress, disbursements, and project contracting processes.

and Brazil, allowing them to invest in oil extraction, pipeline construction, and to improve their overall technical and institutional capacity. A small portion of this finance was to support renewable energy projects, such as the Villonaco I Wind Farm in Ecuador.

The sector receiving the second most loans is infrastructure (transportation plus multi-sector categories see Chart 7). Argentina received USD 12.6 billion in transportation for a number of projects aiming at revamping the train system, 97.6% of the total transportation-related loans in the region.<sup>131</sup> Nearly USD 40 billion was granted to support a variety of projects regarded as multi-sector. These loans are often signed in the name of Facility Credits or Credit Lines, through which the borrower can finance several projects. These lines of credit tend to finance projects across different sectors, but most notably in infrastructure. For example, the CDB granted Ecuador USD 7 billion in four credit lines between 2010-2016 to support projects from the Annual Infrastructure Plan and the Investment Program for Economic Infrastructure (this included security facilities and technology such as the ECU911), which constitutes 86% of the CDB's total loan commitments to Ecuador.<sup>132</sup> Another example is the USD 14.3 billion credits to Venezuela in 2010 (the largest single deal in this dataset) which was spent on transportation, energy, heavy industry, and public housing.<sup>133</sup>

Even when considering the CDB's commercial loans, the sectoral concentration pattern remains. Cross-checked with data from United States-China Economic and Security Review Commission and Latinoamérica Sustentable's own database, the research team analyzed 43 major projects financed by the CDB in LAC (Appendix 1) — either through sovereign lending or through commercial loans — and found that nearly half of them (19 projects) are projects related to energy production or transmission, nine are transportation projects and four are mining projects. Many of these projects are large-scale endeavors and are located in socially and environmentally sensitive locations, for example Mirador mining project in Ecuador and Las Cristinas mining project in Venezuela.<sup>134</sup>

## Conditionality

One important aspect in which Chinese development finance differs from multilateral banks and traditional donor countries is the conditionality of the loans. While the latter often require some level of political or fiscal reform or intervention, Chinese institutions tend to attach conditions to the recognition of the 'One-China policy' and around the use of a certain percentage of Chinese goods, services, technology, and labor.<sup>135</sup>

In this regard, it is important to take two facts into account: first, it is a fairly common practice among official bilateral financiers, for example, American and Japanese bilateral lending would be expected to have conditions on the use of labor, companies and goods from the financing country; and second, like all clauses in Chinese (and non-Chinese) loan contracts, the conditions are subordinate to the national law of the borrowing country, which means the host country has the power to determine whether these conditions have any effect. <sup>136</sup>

That said, it is also important to note that, with China's large flux of capital and its negotiating power especially over smaller economies in urgent need for financing, a significant share of infrastructure projects in LAC are tied to these conditions.

In countries like Brazil, Venezuela and Ecuador, an important part of CDB lending has been conditioned on the sale of certain commodities to China, especially crude oil. For example: four credit lines to Ecuador between 2010-2016 with a total amount of USD 7 billion; <sup>137</sup> three loans to Brazil in 2009, 2016, and 2017 for total amount of USD 17 billion; <sup>138</sup> all credits extended to Venezuela through CVJF and LVLFF amounting to USD 50.3 billion, of which the CDB has contributed USD 46.3 billion. <sup>139</sup>

In fact, AidData's study found that 75% of the CDB's loan contracts are secured by future income, a percentage much higher than OECD bilateral lenders (7%) and multilateral lenders (1%). These loan contracts often have formal or informal collateral arrangements, in which the borrowing country holds a bank account in the CDB that oil export revenues go into, and that bank account repays the loan through regular payments. When oil payments exceed the loan repayment requirements, borrowers can take the money out of that account as revenue. But if the borrower defaults on the loan, the bank account is the collateral that can be seized. <sup>140</sup>

These commodity-related conditions have generated heated debates and concerns over natural resource dependency and debt sustainability, especially in Venezuela and Ecuador where oil revenue constitutes an overwhelming proportion of their exports. It is also widely speculated that the commodities sent to repay China are sold at a discounted price, which ultimately makes the loan deal much more beneficial to China than to LAC countries. <sup>141</sup> That said, it should be conceded that there are exceptions. A recent study found that Venezuela exported crude oil to China at market prices, and that the remnants were returned to PDVSA. <sup>142</sup>

Chinese institutions tend to attach conditions to the recognition of the 'One-China policy' and around the use of a certain percentage of Chinese goods, services, technology, and labor.

# A Look at China Development Bank Contracts in Latin America and the Caribbean

## Chapter 5

**F**rom 2005 through 2019, the CDB provided 40 sovereign loans to seven countries and four syndicated loans to two countries in LAC.<sup>143</sup> Despite the tremendous importance of the Chinese banks as lenders, their loans' contracts are practically out of reach of public scrutiny in the receiving countries. The lack of access to the documents makes it difficult to know if the CDB and the borrowing countries give due importance to the regulation related to the environmental and social risks that the project could potentially cause.

In March 2021, AidData managed to access and publish around 100 loan contracts granted by Chinese banks to 24 countries in Africa, Asia, Eastern Europe, Latin America, and Oceania.<sup>144</sup> Only eight out of the 100 contracts involve loans with CDB participation, all of which were executed in LAC: three in Argentina; one in Costa Rica; three in Ecuador; and three in Venezuela. The three loans to Venezuela (not analyzed in this report) address various oil trading activities but they are not related to the use of the funds for project contracting.

### 1 General Observations

The CDB's lines of credit are approved before the projects to be financed have been selected and approved. The bulk of the CDB sovereign loans to LAC come from credit lines (also known as credit facilities) that typically finance projects in the infrastructure, mining, telecommunications, transportation, energy, and other related sectors. These credit lines commonly have two tranches: the first - usually the largest - consists of unrestricted funds that allow the borrower to choose the projects. The other - generally the smallest - allows the CDB to choose the projects from a list of "eligible projects" submitted by borrowing governments.

Usually, the projects selected in both tranches are executed by Chinese companies chosen from a list of "approved contractors." The contracts do not include

the criteria used to choose the projects or to approve the contractors, and the CDB does not stipulate any environmental and social requirements for the prioritization and implementation of the projects it finances.

Although the Chinese government and the CDB have developed various standards, guidelines, and mechanisms for evaluating environmental and social risk throughout the loan cycle, these are not included in the contracts. Consequently, the CDB does not assume any technical role or responsibility in assisting its clients improve their performance and ensuring that negative impacts at the project level are avoided or minimized. Full responsibility rests with the borrowers, the quality of their environmental and social regulatory frameworks, and their ability to enforce them.

Chart 8: **Examined China Development Bank loan contracts**

YEAR	PURPOSE	COUNTRY	USD MILLION	RMB	CHINESE CONTRACTOR
2012	Restoration of the Belgrano-Cargas Railway	Argentina	2.099.665	-	China National Machinery Corporation
2014	Hydroelectric projects on the Santa Cruz River*	Argentina	4.714.350	-	China Gezhouba Group Company Limited
2019	General Roca Railway	Argentina	236.000	-	CRRC Qingdao Sifang Co. Ltd
2008	Social and infrastructure development projects	Costa Rica	40.000	-	Approved Chinese contractors
2010	Infrastructure, mining, telecommunications, transportation, energy, and other projects. It has two tranches: Tranche A and Tranche B.	Ecuador	1.000.000	-	Approved Chinese contractors
2011	Infrastructure, mining, telecommunications, transportation, energy, and other projects. It has two tranches: Tranche A and Tranche B.	Ecuador	1.400.000	4.000.000	Approved Chinese contractors
2016	Infrastructure, mining, telecommunications, transportation, energy, and other projects. It has two tranches: Tranche A and Tranche B.	Ecuador	1.500.000	3.255.000	Approved Chinese contractors

Source: Authors' elaboration based on *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments* by Gelpern, A., Horn, S., & Trebesch, C., 2021.

Note: \*The 2012 and 2014 loans to Argentina are syndicated loans arranged by the China Development Bank, the Industrial and Commercial Bank of China, and the Bank of China.

## 2 Observations on Argentina, Costa Rica, and Ecuador's Contracts

The observations focus on the contract clauses that, despite not being directly related to the evaluation and management of the projects' environmental and social risks, could help improve these processes. The selected clauses deal with: supervision and reporting mechanisms agreed on between the parties; environmental requirements at the project level; the importance of compliance with the national law in order to access the funds; and, aspects related to corruption and confidentiality.

## Oversight and Reporting

The contracts are mainly focused on aspects related to the disbursement and repayment of funds. However, several provisions make room for monitoring and reporting environmental and social incidents in the projects, as these could create a material adverse effect (MAE).<sup>145</sup> All contracts have provisions scattered across various articles that require borrowers to immediately notify the CDB of situations that could generate a MAE. However, Ecuador's 2010, 2011, 2016 loan contracts stipulate that only MAEs representing damage greater than USD 200,000 and that do not involve an interference with client-attorney privileges must be urgently reported.<sup>146</sup>



Chart 9: **Comparative analysis on China Development Bank contracts**

Key themes	Restoration of the Belgrano-Cargas Railway (Argentina, 2012)	Hydroelectric projects on the Santa Cruz River (Argentina, 2014)	Ferrocarril General Roca (Argentina, 2019)	Social and infrastructure development projects (Costa Rica, 2008)	Infrastructure, mining, telecommunications, transportation, energy, and other projects (Ecuador, 2010)	Infrastructure, mining, telecommunications, transportation, energy, and other projects (Ecuador, 2011)	Infrastructure, mining, telecommunications, transportation, energy, and other projects (Ecuador, 2016)
Joint offices with oversight and reporting functions	X	X	X	X	✓	✓	✓
Provisions that allow but do not require the China Development Bank to monitor the use of funds	X	X	X	✓	✓	✓	✓
Borrower must send photos and videos about the economic and social impact of the project	X	X	X	X	✓	✓	✓
Environmental articles	X	✓	X	X	X	X	X
Mention of environmental laws	X	✓	X	X	✓	X	X
Compliance with national laws	✓	✓	✓	✓	✓	✓	✓
Mention of international agreements	✓	X	X	X	✓	✓	✓
Compliance with World Bank norms	X	X	✓	X	X	X	X
High confidentiality	✓	✓	✓	✓	✓	✓	✓
Corruption articles	X	X	✓	X	X	X	X

Source: Authors' elaboration based on loan contracts reviewed.

All the contracts, except those related to the Argentina's loans and Tranche A of Ecuador's 2010 loan, note that the CDB has the power, yet not the obligation, to monitor the use of the funds. In the case of Tranche B of the 2010 loan and tranches A and B of the 2011 and 2016 loans to Ecuador, the borrower must send news reports (including photographs and videos) to the CDB on the social and economic impacts of the projects. The contracts for these loans also propose establishing a Joint Office of the CDB and the Ecuadorian government. Among its functions, the Office would oversee on-site inspections and send quarterly and semi-annual reports on relevant events related to the execution of the loans and projects. Costa Rica 2008 loan contract is the only one that expressly states that the CDB would not be involved in monitoring the use of loan funds.

The 2014 Santa Cruz River Hydroelectric loan and the 2008 loan to Costa Rica include articles on the power of the CDB to "know their client," which would enable the CDB to learn more, within reason, about information that it deems appropriate.

## Environmental Provisions

CDB contracts do not include any information regarding the bank's criteria, requirements, or guidelines that apply to the use of their loans.

In fact, specific environmental and social aspects, and compliance with environmental law only appear in two of the contracts analyzed. The first and most substantial provision is in the 2014 Santa Cruz River Hydroelectric Complex (Argentina) contract under Article 20 of "General Commitments," the contract states that the borrower must ensure compliance with environmental laws in all aspects, and that

the possibility or concretion of an "environmental demand" that could cause a MAE, should be reported to all parties to the contract through the appropriate channels. In addition, Annex 2 of the contract on "Conditions Preceding Initial Use" indicates that the project requires a copy certified by the Ministry of Federal Planning, Public Investment and Services of Argentina (currently it no longer exists and its functions have been distributed among various ministries) authorizing the use of water, the Environmental Management Plan, and land easements.

The second one is the loan to Ecuador (2010). Under Article 15 on "Binding Obligations," the contract states that there should be no breaches of laws, including the Environmental Law, and that there should be no litigation or administrative procedures (that should include any arising from or relating to the Environmental Law) that could cause a MAE.

## Compliance with National Laws and International Agreements

Compliance with national laws, and the past, present, and future absence of conflicts with national regulations, international public law and international agreements are necessary conditions for the borrower to be able to make use of the funds allocated by the CDB. These provisions, although stated in a general way, are found in all the analyzed contracts under articles referring to "Declarations, Commitments, and Compliance Events," "Binding Obligations," "Conditions for Use," and "General Commitments." Specifically, compliance with the Environmental Law is only mentioned in the Santa Cruz River Hydroelectric Complex loan contract (Argentina, 2014), and in the second Ecuador loan contract (2011).

According to some of the China Development Bank loan contracts, the bank should not disburse funds when there are legal actions or the possibility of a legal actions in a national or international court, as they may trigger the Material Adverse Effect clauses.



National palace, Costa Rica. Image: nation.com

In the Costa Rica 2008 loan contract, the confidentiality clause is even more restrictive than in the other agreements since it indicates that the borrower will not make any press announcements about the loan without the authorization of the CDB.

Curiously, the General Roca Railway contract (Argentina, 2019) mentions that Argentina must respect the norms and standards of the WB, which, at least in theory, should include the bank's Environmental and Social Safeguard Policies, the Policy on Access to Information, and the Inspection Panel.

## Confidentiality

The contracts don't include no provisions allowing full or partial public disclosure, and mostly refer to confidentiality letters that do not appear in the contracts' annexes. In general, the confidentiality aspects are highly protected through various articles and, in all cases, at the lender's discretion. Overall, according to AidData research, sovereign debt contracts with Chinese lenders in general are more likely to have extreme confidentiality clauses compared to most other creditors.<sup>147</sup> Furthermore, contracts with Chinese banks impose confidentiality clauses on the borrowers, even though it is more usual for these clauses to restrict lenders.<sup>148</sup> In Costa Rica 2008 loan contract, the confidentiality clause is even more restrictive than in the other agreements since it indicates that the borrower will not make any press announcements about the loan without the authorization of the CDB.

## Corruption

The issue of corruption receives very little attention in the contracts. The only contract that includes a clause dedicated to this topic is the General Roca Railway (Argentina, 2019). The contract emphasizes the compliance with anti-corruption laws, and the creation of policies and procedures in order to achieve an adequate implementation of anti-corruption laws.

## ③ China Development Bank: Loan Contracts and Projects:

### Santa Cruz River Hydroelectric Complex

The Santa Cruz River Hydroelectric Complex (also known as Cóndor Cliff - La Barrancosa or Kirchner - Cepernic) is the most important public infrastructure project in Argentina, and the most expensive dams built and funded by China in LAC. The two dams are located on the Santa Cruz River in Argentine Patagonia.

The CDB, ICBC, and BOC granted Argentina a sovereign loan of USD 4,714,350 to build the project.<sup>149</sup> The executing companies are China Gezhouba Group Company Limited (majority shareholder of the

consortium), Hidrocuyo S.A., and Electroingeniería S.A. forming the joint venture Unión Transitoria de Empresas Represas Patagonia. This project aims to increase the country's hydroelectric generation capacity by 15%, supply electricity to more than 600,000 homes, and employ more than 5,000 workers during its construction.<sup>150</sup>

However, dams could severely impact large river and glacial ecosystems in Patagonia. According to the World Wild Fund for Nature (WWF), "...the [Perito Moreno] glacier's fate [located in the Los Glaciares National Park, a World Heritage Site] is linked to the Santa Cruz River, which runs from Lake Argentino to the Atlantic Ocean. A pair of mega dams [Cóndor Cliff – La Barrancosa or Kirchner – Cepernic] in construction on the river's banks could flood more than 135 square miles of the surrounding region — an area almost twice as big as Buenos Aires — and transform Argentina's last free-flowing glacial river into a series of brackish pools."<sup>151</sup>

The project began being discussed in the 1950s, and before the Chinese banks decided to support it in 2014, BNDES was also interested in financing it. Construction started in 2015 based on an EIS that did not consider the effects of the dam on the glacial ecosystem which includes the Santa Cruz river, the third-largest freshwater reserve in the world. It also failed to include the impacts of the high voltage power lines on approximately 173 km of Argentine territory. Moreover, it did not have the FPIC of the Mapuche and Tehuelche indigenous peoples, who live in the potentially affected areas which they consider sacred.

In response, the Argentine Asociación Argentina de Abogados Ambientalistas de la Patagonia and the Fundación Banco de Bosques filed a legal action

for environmental protection before the Argentinian Supreme Court of Justice (ASCJ), indicating that that there was no "...assessment of the environmental impact these undertakings could cause to the ecosystem. In particular to the Argentino Lake, the Perito Moreno, Spegazzini, and Upsala glaciers, and Los Glaciares National Park... the citizen consultations that, given the scale of the works, should have been conducted were not carried out."<sup>152</sup> The legal complaint further argued that the Hydraulic Works Law 23.879, which establishes specific public environmental information and citizen participation mechanisms, had not been taken into account.<sup>153</sup>

In December 2016, following the demand for environmental protection,<sup>154</sup> the ASCJ, issued a precautionary measure suspending the projects until a public hearing and a new EIS must be conducted. The Ministry of Energy and the Ministry of Environment and Sustainable Development approved the new EIS even though it did not address most of the environmental studies' shortcomings. The project's suspension was lifted in August 2017. The only significant change in the new EIS was the reduction of the number of turbines from eleven to eight, which will result in 4,234GWh of annual energy production compared to the 5,426GWh initially calculated.<sup>155</sup> In response, the Fundación Banco de Bosques presented an extraordinary appeal insisting on the suspension of the project "...until exhaustive studies on the risk of environmental impact are conducted." The National Court of Appeals granted the request in February 2018, and the case returned to the ASCJ.<sup>156</sup> New problems emerged soon after. In November 2019, a huge crack appeared on one of the containment slopes of the Santa Cruz river.<sup>157</sup> Later on, another crack became evident on the other bank of the river. Due to this, the location of the project is being reevaluated.<sup>158</sup>

China Development Bank and other Chinese lenders continued to disburse funds for the construction of the Santa Cruz Hydroelectric Complex, while there were pending decisions of the Argentine Supreme Court that could have had a material adverse effect on the project. This could mean that the Chinese banks have possibly breached certain clauses of the loan contract.





hydroelectric power station. Image: notimexica.com

“The glacier’s fate is tied to the Santa Cruz River, which runs from Lake Argentino all the way to the Atlantic Ocean. A pair of mega dams in construction on the river’s banks could flood more than 135 square miles of the surrounding region--an area almost twice as big as Buenos Aires--and transform Argentina’s last free-flowing glacial river into a series of brackish pools.”

World Wild Fund

In October 2020, the ASCJ ruled “...that in the procedural context described and due to the nature and relevance of the project in question, based on the General Environmental Law, inasmuch as it establishes that...the intervening judge may use all the necessary measures to order, conduct, or prove the harmful facts in the process, in order to effectively protect the general interest (Article 32, Law 25.675 [General Environmental Law]), prior to issuing a pronouncement regarding the admissibility of this extraordinary appeal, the measures provided below are ordered...”<sup>159</sup>

The measures requested by the ASCJ, include a study of induced seismicity, an evaluation of impacts on national parks and possible damage to biodiversity (particularly to the Macá Tobiano, an endangered bird species), and a study on the suitability of the measures developed in the EMP.<sup>160</sup> With six months delay, the National State (through the National Parks Administration and the National Institute for Seismic Prevention), presented its report to the ASCJ informing about the deficiencies of the seismology study approved in 2017, establishing the need to carry out new in-depth seismic studies and acknowledging that the execution of the EMP was suspended due to the pandemic, despite the fact that the works continued.<sup>161</sup>

The ASCJ has not yet ruled on the case, but the project is still forging ahead without using basic scientific information to evaluate and manage environmental

risks. The impact of the dams on the Santa Cruz River and the glaciers has implications, including for climate change, that go beyond Argentina’s borders.

#### **Possible Breaches of the Santa Cruz River Hydroelectric Complex Loan Contract Between the China Development Bank, the Industrial and Commercial Bank of China and the Bank of China with the Ministry of Economy and Finance on Behalf of the Republic of Argentina**

The legal actions filed by the Asociación Argentina de Abogados Ambientalistas de la Patagonia and the Fundación Banco de Bosques in 2016 and 2018, had the potential to trigger various clauses in the loan contract that should have supposedly allow the lender—CDB and other Chinese banks—to suspend loan disbursements.

The borrower likely breached several clauses of the loan contract due to incomplicance to national laws and regulations; on the other hand, by continueing fund disbursements, the Chinese lender also breached the contract. A very important breach was the approval of an incomplete EIS and without proper consultation directly violates the Hydraulic Works Law 23.879. This infringement led the ASCJ to suspend the project temporarily, and as the date of publication of this report, a new suspension is currently under consideration.

Chart 10: **Summary of Possible Breaches of Santa Cruz River Hydroelectric Complex Loan Contract**

Contract Articles	Events and Breaches of Laws that Could Result in Non-Compliance
<p><b>Section 7: Declarations, commitments, and cases of non-compliance.</b></p> <p><b>Paragraph 18.4: Non conflict with other obligations</b></p> <p>“The entry into and performance by each Obligor of, and the transactions contemplated by, the Transaction Documents does not and will not conflict with: a) ..laws or regulations applicable to it or Argentina...”</p>	<ul style="list-style-type: none"> <li>– Environmental Impact Study incomplete and without proper consultation.</li> <li>– Failure to observe the Hydraulic Works Law 23.879; the Glacier Law 26639; the General Environmental Law 25675; and Free and Informed Prior Consultation Law 24071.</li> <li>– Argentinian Supreme Court of Justice verdict suspending the project (December, 2016).</li> </ul>
<p><b>Section 7: Declarations, commitments, and cases of non-compliance</b></p> <p><b>Paragraph 18.13: No proceedings pending or threatened</b></p> <p>“No litigation, arbitration, or administrative proceedings on or before any court, arbitral body or agency which, if adversely determined, might reasonably be expected to have a Material Adverse Effect have (to the best of its knowledge and belief) been started or threatened against any Obligor or Argentina.”</p>	<ul style="list-style-type: none"> <li>– Filing of the environmental protection claim (2015).</li> <li>– Argentinian Supreme Court of Justice verdict suspending the project (December, 2016).</li> <li>– Filing of extraordinary appeal (2018); Argentinian Supreme Court of Justice decision pending.</li> </ul>
<p><b>Section 7. General Undertakings</b></p> <p><b>Paragraph 20.17: Environmental Compliance</b></p> <p>“The Borrower shall comply (and shall procure that each Obligor shall) comply with ) in all material respects with the Environmental Law and obtain and maintain all Environmental Permits, and take all reasonable steps in anticipation of known or expected changes or obligations under the same where failure to do might reasonably be expected to have a Material Adverse Effect.”</p>	<ul style="list-style-type: none"> <li>– Environmental Impact Study incomplete and without proper consultation.</li> <li>– Failure to observe the Hydraulic Works Law 23.879; the Glacier Law 26639; the General Environmental Law 25675; and Free and Informed Prior Consultation Law 24071.</li> </ul>
<p><b>Section 7. General Undertakings</b></p> <p><b>Paragraph 20.18: Environmental Demands</b></p> <p>“The Borrower shall inform the Facility Agent in writing as soon as possible as reasonably upon becoming aware of: a) an Environmental Claim has been commenced or (to the best of its knowledge and belief) is threatened against any Obligor; or b) any facts or circumstance which will reasonably likely to result in any Environmental Claim being commenced or threatened against any Obligor, where claim would be reasonably likely, if determined against that Obligor, to have a Material Adverse Effect.”</p>	<ul style="list-style-type: none"> <li>– Filing of the environmental protection claim (2015)</li> <li>– Argentinian Supreme Court of Justice verdict suspending the project (December, 2016).</li> <li>– Filing of extraordinary appeal (2018); Argentinian Supreme Court of Justice decision pending.</li> </ul>
<p><b>Section 7: Cases of non-compliance</b></p> <p><b>Paragraph 21.8: Material Adverse Effect</b></p> <p>“Any event or succession of events (including changes in any regulation or litigation, arbitration, administrative procedure or before any tribunal, arbitration body or other court, body or agency that begins or is imminent against the borrower or the Argentine Republic that occurs and, in the opinion of the majority lenders (acting reasonably), are reasonably likely to produce MAE.”</p>	<ul style="list-style-type: none"> <li>– Environmental Impact Study incomplete and without proper consultation.</li> <li>– Failure to observe the Hydraulic Works Law 23.879; the Glacier Law 26639; the General Environmental Law 25675; and Free and Informed Prior Consultation Law 24071.</li> <li>– Filing of the environmental protection claim (2015)</li> <li>– Argentinian Supreme Court of Justice verdict suspending the project (December, 2016).</li> <li>– Filing of extraordinary appeal (2018); Argentinian Supreme Court of Justice decision pending.</li> </ul>

(Continues on the next page)

## Contract Articles

### Schedule 2: Conditions Precedent to Initial Utilization

#### 8. Project:

(a) “A copy, certified by the Ministry of Federal Planning, Public Investment and Services of Argentina, of the following approvals, consent, permits, licenses, and/or Authorizations in respect of the construction and operation of the project: (i) Evidence that the necessary easements for the Commercial Contractor to access to the Project site have been obtained by the Commercial Contractor.”

## Events and Breaches of Laws that Could Result in Non-Compliance

- Environmental Impact Study incomplete and without proper consultation.
- Failure to observe the International Labour Organization’s (ILO) Convention 169 ratified by the Argentine Republic because of failing to obtain the free, prior, and informed consent of the Mapuche and Tehuelche indigenous peoples.
- Failure to observe the Hydraulic Works Law 23.879; the Glacier Law 26639; the General Environmental Law 25675; and Free and Informed Prior Consultation Law 24071.

Source: Authors’ elaboration based on the loan contracts reviewed.

Although the borrower, the Republic of Argentina, caused the default of events, clauses in the loan contract indicate that the lenders can execute the disbursements when there are no breaches of laws and pending legal decisions. For example, among other paragraphs on this issue, paragraph 5.2 (a) mentions that: “Lenders will only be required to comply with clause 6.4 (Participation of Lenders [refers to the conditions and loan share amounts]) if on the date of the Application for Use [refers to the use of loan disbursements] and the Date of Proposed” (v) “there are no judicial, administrative, or arbitration processes, or any judicial process by or before any government agency, authority, or entity, pending or threatening, which if decided otherwise could reasonably be expected to adversely affect the authorizations necessary for the execution, delivery, and compliance with the Financing Documents or the Commercial Contract by the Borrower or the Owner of the Project...”<sup>162</sup>

Therefore, one could infer that the lenders could have also failed to meet the obligations established in the contract if they continued to disburse funds for the project during the two periods. The first period would be from the presentation of the first precautionary measure by the Asociación Argentina de Abogados Ambientalistas de la Patagonia and the Fundación Banco de Bosques (2015) until the ASCJ authorized the project to continue in 2017. The second period would encompass the date of presentation of the extraordinary appeal by the Fundación Banco de Bosques (2018) through the present, as the Supreme Court has yet to issue a final decision.

## Villonaco I Wind Power Plant

Villonaco I is the first wind farm in continental Ecuador and was the highest in the world at the time of construction. Part of the project is located within the Bosque Protector Hoya de Loja Occidental in the Province of Loja.<sup>163</sup> It is one of the protected forests where the most endemic species of vascular plants have been identified.<sup>164</sup> It also plays an essential role in the water regulation of the area and it is a potential source of water for the city of Loja.<sup>165</sup> The real conservation status of this protected area is regular, whilst its priority of conservation status by the Ministry of Environment in Ecuador is high.<sup>166</sup>

Villonaco I received financing from a credit line granted by the CDB to the Ecuadorian government as a sovereign loan in 2011. The wind turbine installation contract was awarded to Xinjiang Goldwind Science and Technology Co. Ltd. in December 2011. The construction of Villonaco I reached an approximate USD 45,687,890.<sup>167</sup> The project began operating in 2013.

Two primary goals of the project were to reduce dependence on thermal energy, which is based on the use of petroleum derivatives that supplies 25% of electricity demand in the province of Loja. According to the project’s EMP, Villonaco I would save approximately 35 million tons of CO<sub>2</sub> emissions per year.<sup>168</sup> It is ironic that the project implementers and sponsors failed to comply with fundamental environmental requirements, considering it is the only clean energy project supported by Chinese entities in Ecuador.

The project's construction started in 2011 with only a preliminary EIS carried out in 2003 and without an EMP. This was against the Environmental Regulation for Electric Activities (Executive Decree No.1761), which expressly states that the National Electricity Council (CONELEC) must approve EIS and EMPs prior to the signing of concession contracts for the construction of projects.

As expected, the 2003 preliminary EIS did not include current and detailed information on the magnitude, location, and types of direct and indirect environmental and social impacts that the construction of Villonaco I would cause. Indeed, the technology, the number and the power of the wind turbines installed in the Wind Farm in 2011 were still unknown in 2003. Consequently, many engineering decisions that could have environmental and social impacts, such as determining where to install the wind turbines, were done on an ad-hoc basis.

Surprisingly, the Ministry of the Environment granted the Electric Corporation of Ecuador (CELEC EP) an Environmental License (No.819) in 2011, probably because an Environmental License is required before signing a project contract. The Ministry of Environment

justified this decision stating that in the event of non-compliance with the ex-post EIS (definitive EIS) and the EMP, the Environmental License would be suspended or revoked. However, this was highly irregular because the Environmental License can only be granted, according to the User Manual to Obtain an Environmental License, after completing an updated EIS, an EMP with an execution schedule, and the social participation process, among other requirements. The project obtained a final EIS in 2014, after the construction was completed.

The lack of an updated EIS at the time of project construction also affected the coverage and quality of the consultation with local communities. For example, while the construction of the Power Plant was underway, the affected area was expanded. Thus “between 2011 and 2013... there were changes in the project, new areas of influence were included....”.<sup>169</sup> Furthermore, the public consultation - which was limited to only some of the neighborhoods within the affected area - focused on communicating the project's benefits, partially because the environmental and social impacts of the construction were still uncertain due to the lack of an updated EIS. Following

**Chart 11: Summary of Possible Breaches of the Credit Line Contract Partially Directed to the Villonaco I Wind Power Plant**

Contract Articles	Events and Breaches of Laws that Could Result in Non-compliance
<p><b>Section 7. Representations, Commitments and Events of Default</b></p> <p><b>Paragraph 15.3: Non-conflict with other obligations</b></p> <p>“The entry into a performance and execution by the Borrower of, and the transactions contemplated by, the Financial Documents to which it is a party do not and will not conflict with: (15.3.1) any treaty, law or regulation and any official or judicial order applicable to it; (15.3.2.) The Constitution of the Republic of Ecuador; and (15.3.3.) any agreement or binding instrument for the borrower... and as a representative on behalf of the Republic of Ecuador.”</p>	<ul style="list-style-type: none"> <li>– Outdated Environmental Impact Study, absence of Environmental Management Plan, flawed and incomplete social participation process.</li> <li>– Failure to comply with the Environmental Ordinance for Electric Activities, Executive Decree No. 1761 and the User Manual in order to obtain the Environmental License.</li> </ul>
<p><b>Section 7. Representations, Commitments and Events of Default</b></p> <p><b>Paragraph 17.4: Compliance with laws</b></p> <p>“The Borrower shall comply with all material respects with all laws and official requirements to which it is subject (including public international law)...which, in each case, has or could reasonably be expected to have a Material Adverse Effect”.</p>	<ul style="list-style-type: none"> <li>– Failure to observe the Environmental Regulations for Electric Activities, Executive Decree No. 1761 (outdated Environmental Impact Study, absence of Environmental Management Plan, and lack of evidence of having concluded the social participation process).</li> <li>– Failure to observe the User Manual to Obtain an Environmental License.</li> </ul>

Source: Authors' elaboration based on the reviewed loan contracts.





The construction of Villonaco I Wind Power Plant started in 2011 with only a preliminary Environmental Impact Study carried out in 2003. The final Environmental Impact Study was made public in 2014, after the construction was completed. This project was financed by Development Bank of China through a credit line to the Ecuadorian government.

the project's completion, the most significant impact on the surrounding communities was the noise. The residents of the Uriguanga neighborhood, one of the neighborhoods close to the wind turbines, have repeatedly complained that noise is a problem that affects them seriously and on a daily basis.<sup>170</sup>

### **Possible Breaches of the Credit Line Contract Between the China Development Bank and the Ministry of Economy and Finance on Behalf of the Republic of Ecuador in Relation to the Villonaco I Wind Power Plant**

The main causes of non-compliance of the contract by the Republic of Ecuador are related to lack of compliance of the Environmental Ordinance for Electric Activities (Executive Decree No.1761) upon initiating the construction of the project with an outdated EIA, without an EMP, and without having completed the social participation process; and, to the granting the Environmental License for the project without following the requirements established by the User Manual.

Although there is no information on whether the Villonaco I Wind Power Plant project belongs to Tranche A or B of the credit line, it is worth noting that there are clauses that indicate that the borrower should participate in the supervision of Tranche B projects. For example, Paragraph 17.8 of the loan

contract states that “The borrower must establish and maintain a Joint Office with the lender according to Schedule 7”. According to Schedule 7, this Office will carry out the following post-loan activities: “... it will conduct on-site inspections... of Tranche B projects no less than twice a year... a report of the inspection visit... must be submitted to the CDB and the Ministry... the Joint Office will be responsible for monitoring the use of the Facility [credit line] of Phase I [2010] and Phase (II) [2011] and the progress of eligible projects, etc. and it will produce a semi-annual report that must be submitted to the CDB and the Ministry in January and July of each year...”

On this basis, the CDB should have known the aspects and clauses of the contract that were being breached. However, there is a contradiction in the agreement regarding the control and monitoring functions of the CDB. On the one hand, the contract mentions that the CDB will participate in on-site inspection visits (Paragraph 17.8). Yet, Paragraph 2.3 indicates that “The lender may, but is not required to, monitor the borrower’s use of the Credit Facility [credit line] funds...” This lack of clarity appears to be intended to exempt the CDB from liability. Still, it is uncertain how this contradiction would fare in a judicial or arbitration process that requires establishing the CDB’s responsibilities for the possible negative impacts of the projects financed by this credit line.





Santa Cruz river, Argentina. Image: farn.org.ar



# Addressing the Economic Fallout of COVID-19

## Chapter 6

**L**AC was one of the hardest regions hit by the COVID-19 pandemic, where the economic impacts of the pandemic will be felt for years, if not decades. According to UN estimates, the effects of COVID-19 threaten half of the population of LAC with poverty and extreme-poverty.<sup>171</sup> In light of this, it has become evident that LAC countries should muster all the support available to avoid a worst-case scenario.

Since the outbreak, China has provided some forms of support (e.g., personal protective equipment and vaccines) to low- and middle-income countries to support their public health efforts. While these actions may allow China to build trust and gain support among certain groups, Chinese support for debt-related initiatives around the world – including debt-relief, debt-forgiveness, and debt for nature and climate swaps – could prove an even more impactful option. Indeed, as the world’s largest bilateral creditor, China is in a unique positions to help developing countries address their economic crises and to help the world to address the environmental crisis.

### 1 Chinese Policy Toward Debt-Relief in Latin America and the Caribbean Prior to COVID-19

Although not completely absent, debt-relief has figured only modestly as part of China’s foreign policy towards LAC. China’s 2008 Policy Paper on Latin America and the Caribbean, for example, urged developed countries to adopt substantial actions to reduce and forgive the debts of countries in the region. Specifically, Article 11 on Debt Reduction and Cancellation states: “the Chinese government will, based on its consistent policy on debt reduction and cancellation, discuss with relevant Latin American

and Caribbean countries ways to relieve their debts as China’s ability permits.”<sup>172</sup> It also stipulates that the Chinese government would “also continue to call upon the international community, developed countries in particular, to take more concrete steps to reduce and cancel debts owed by Latin American and Caribbean countries.”

More recently, in September 2019, China’s Ministry of Finance released a Debt Sustainability Framework (DSF) for the BRI,<sup>173</sup> which has incorporated over a dozen LAC countries. Although this has raised once more the subject of potential debt-relief for LAC countries, the region has yet to benefit from any debt-relief as a result of the DSF.

## ② Latin America and the Caribbean Countries' Economies During COVID-19

Despite being a destructive force in its own right, COVID-19 struck LAC at a time when the region's economies were already experiencing serious difficulties, and in so doing compounded the effects of economic stagnation in the region. These difficulties can be attributed, in part, to decelerating economic growth as the commodities boom of the early decade began to wane. Between 2014 and 2019, LAC's economic growth had been the lowest (0.4%) recorded since 1951. Diminished fiscal resources have also played a role in LAC's recent economic downturn. Over the same period, LAC countries' fiscal space contracted, and public debt increased, from about 30% of gross domestic product (GDP) between 2009 and 2011, to over 45% in 2019.<sup>174</sup>

With regards to China, LAC countries' borrowing patterns have varied from country to country. In terms of debt-to-GDP ratio, the most indebted countries in the region are Argentina (93.3%), Brazil (91.5%), El Salvador (68.3%), Uruguay (64%) and Bolivia (57%).<sup>175</sup> Argentina, Brazil, Ecuador and Venezuela hold 95% of the CDB and Chexim Bank lending to LAC. China is Ecuador's principal bilateral debtholder, responsible for roughly 72% of the country's bilateral debt.<sup>176</sup> Even so, the most serious case is that of Venezuela, which has borrowed upwards of USD 60 billion from China since 2000.<sup>177</sup> Although there is no official data on Venezuela's debt-to-GDP ratio, unofficial sources place it between 178% and 289%.<sup>178</sup>

## ③ Existing Debt-Related Initiatives to Address COVID-19

International players began exploring debt-relief options shortly after the outbreak of the pandemic. Perhaps the most well-known debt-relief initiative related to COVID-19 is the G-20's Debt Service Suspension Initiative (DSSI), which was launched in April 2020.<sup>179</sup> With this Initiative, the G-20 countries agreed to work on the suspension of debt payments for the rest of the year to approximately 73 of the world's poorest countries.

Nonetheless, the DSSI has had a minor effect on LAC's debt landscape for several reasons. The most salient of these is that, despite six dozen countries are in the initiative, in LAC region, the only eligible countries are Honduras and Nicaragua in Central America, and Dominica, Grenada, Haiti, St. Lucia, San Vicente, and the Grenadines in the Caribbean.<sup>180</sup> What's more, given that the CDB is categorized as commercial creditor (commercial banks are not included in the DSSI initiative) it is not bound to participate in the DSSI, meaning that even if the initiative included more LAC countries, many would unlikely be relieved from a substantial portion of their outstanding debt to China, because the majority of it belongs to the CDB.<sup>181</sup> Chinese officials stated that the CDB had signed agreements with DSSI beneficiaries "involving USD 748 million" on a "voluntary basis and based on market principles," once more reflecting the commercial nature of the CDB.<sup>182</sup>

Being categorized in China as a commercial creditor, China Development Bank is not bound to participate in the Debt Service Suspension Initiative, a framework launched in 2020 with the objective to help low- and middle-income countries to concentrate their resources on fighting the Covid-19 pandemic.





In April 2020, over 260 civil society groups from across the world, through a joint statement, called on the Ministry of Commerce of China and the China Development Bank to ensure that their COVID-19 financial relief not to be granted to 60 projects (14 of them are in Latina America). This is because these projects are associated with severe problems in the environmental, social, climatic, and financial aspects prior to the pandemic.

In comparison to LAC, Africa has received more targeted debt-relief policies from China. In June 2020, the State Council published a white paper titled *China in Action: The Fight against COVID-19*, announcing the suspension of debt installments and payments of 77 low-income countries, to fulfill the commitments made to the DSSI. Most of these efforts came from Chexim Bank and CIDCA and favored African countries.<sup>183, 184</sup>

In November 2020, the Chinese Minister of Finance ratified China's commitment to the DSSI and noted that China "will continue to encourage the CDB and other Chinese commercial creditors to participate in the DSSI."<sup>185</sup> Nevertheless, neither the G-20 nor China refer to debt "forgiveness," but rather of providing relief by postponing payments until 2024.

Despite LAC becoming an epicenter of the pandemic, China has yet to unveil a targeted debt-relief plan for the region. Ecuador is perhaps the only country to have received some modest support from Chinese banks during COVID-19 through restructuring its oil-for-loans deals. In September 2020, the CDB and ICBC agreed to defer USD 891 million payments until 2022.<sup>186</sup> Although there are reports on Venezuela negotiating for a grace period of a USD 19 billion loan, they have not been confirmed either by the Chinese Embassy in Venezuela, the CDB, or the Venezuelan government.<sup>187</sup>

## 4 The China Development Bank and COVID-19

Despite having the only economy in the world to grow during 2020, China also suffered significant economic losses as a result of the pandemic. Part of these losses were due to the problems that the borrowing countries faced in paying their debts, as well as the temporary paralysis of projects and commerce due to lockdowns and travel restrictions.

For this reason, the CDB's efforts have been especially focused on supporting the recovery of Chinese companies. In February 2020, MOFCOM and the CDB announced that in "order to minimize the impact of the pandemic," the CDB would provide special loans to increase financing support for selected enterprises and "higher quality" projects affected by the pandemic on the condition that firms and projects are "legally compliant and their risks controllable..."<sup>188</sup>

The proposal was received abroad with much interest. In April 2020, over 260 civil society groups from across the world, through a joint statement, called on MOFCOM and the CDB to ensure that their COVID-19 financial relief not to be granted to 60 projects (14 of them are in Latina America). This is because these projects are associated with severe problems in the environmental, social, climatic, and financial aspects prior to the pandemic.<sup>189</sup>

Along with the statement, the organizations set out ten specific principles that could help ensure that projects are of “high quality.” These principles included ensuring credible, robust environmental impact studies; obtaining FPIC from indigenous communities; committing not to impact key biodiversity areas; and, ensuring alignment with international norms and best practices and China’s green finance policies.<sup>190</sup> Neither the MOFCOM nor the CDB have responded to the statement.

## 5 A New Proposal: Debt-for-Nature and Debt-for-Climate Swaps

While the DSSI has been an important sign of relief for various countries by extending debt payment terms, true debt relief requires much more ambitious initiatives. A study from the GDPC-BU has identified 41 countries with a high level of exposure to Chinese debt. According to the GDPC-BU, fifteen countries are potential candidates to negotiate their debt with China for the purpose of protecting biodiversity; twenty-five are potential candidates for protecting areas of relevance to climate stability; and 11 are potential candidates for both.<sup>191</sup>

Ecuador is one of the top candidates to aspire for a debt swap with China based on its high biodiversity

rates as well as its high risk of default on its sovereign debts. Ecuador’s outstanding debt to China as of September 2020 is valued at USD 5.29 billion, an amount that corresponds approximately to 13% of the overall public debt and 72% of Ecuador’s bilateral debt.<sup>192</sup> Overall, the CDB has lent Ecuador approximately USD 8,7 billion that have gone to finance infrastructure projects.<sup>193</sup>

To address environmental degradation, academics and Ecuadorian NGOs have proposed a ten-year reduction in the country’s deforestation rate in exchange for a debt reduction of USD 421 million, equivalent to 8% of the country’s outstanding debt to China. This would save 200,000 hectares of Ecuadorian Amazon Rainforest, while simultaneously avoiding the emission of 117 million tons of CO<sub>2</sub>. In addition, the proposal includes USD 19.2 million for the Universidad Regional Amazónica Ikiam to invest in the conservation of the Colonso Chalupas Biological Reserve.<sup>194</sup>

This is an opportunity that both Chinese and Ecuadorian governments should seriously consider. Ecuador has mortgaged its oil barrels to be extracted over the next few years, and an important part of them will be used to pay the CBD loans by allocating a modest percentage of debt payment to a debt-for-nature or debt-for-climate swap, China could make a big difference to the conservation of the Ecuadorian Amazon tropical forests.

Ecuador is one of the top candidates to aspire for a debt swap with China based on its high biodiversity rates as well as its high risk of default on its sovereign debts.

# Recommendations

In the span of two decades, China and LAC have developed a vibrant interdependent relationship. This interdependence is based, in part, on the deployment of CDB financing and the extraction of natural resources from LAC countries. Therefore, China and the CDB are critical actors in helping or hindering LAC from moving towards a development model that is both sustainable, and economically and socially just.

Lamentably, during the preparation of this report, the authors found that the CDB is rapidly growing its footprint in mining, oil, infrastructure, energy, and agribusiness sectors, while its social and environmental governance framework is completely inadequate (see Chapter 3). Of great concern is the fact that the CDB provides large loans to projects located in critical habitats based on inadequate, incomplete, and outdated EISs frequently lacking in proper assessment of social risks, and FPIC from indigenous communities (see Chapter 5).

While China has proved to be a quick learner on many fronts, modernizing its banking sector, and its environmental and social governance, is happening too slow. Undoubtedly, the CDB has the potential to make important contributions to a more environmentally and socially just world, but if this governance gap is not urgently addressed, its financing will cause serious harm to all stakeholders. A bank of its size and influence is obligated to adopt cutting-edge socio-environmental policies and tools, and to promote a culture of transparency and accountability.



To that end, and based on research conducted for this report, the authors give high priority to the following recommendations for the consideration of the CDB:

## **1 Redirect priorities and portfolios, especially:**

- Substantially increase financing for clean energy projects and ensure that their entire supply chain is truly “green.” Set ambitious goals to decrease loans for fossil fuel projects and commit to not financing coal power plants.
- Cease funding projects in ecologically vulnerable areas, including nationally protected world heritage and Ramsar sites, old growth, or primary forests, projects that block free-flowing rivers, biological corridors, or migratory routes of animals listed by conventions on migratory species, and those that contribute to the extinction of threatened, vulnerable, endangered, or critically endangered species.
- In cases where loans are paid with natural resources, the CDB must ensure, through independent studies, that the natural resources have been extracted in a manner consistent with restrictions outlined in “b” (above) and that indigenous peoples living in the area, from which these resources are extracted, have given their consent.
- Consider engaging in debt-relief programs, specifically, debt-for-nature and debt-for-climate initiatives in Argentina, Brazil, Ecuador, and Venezuela in order to protect areas where critical ecosystems are located.
- Appoint CDB leaders and high-level advisors with profiles and careers that demonstrate a clear commitment to respecting the protection of the environment and human rights.

## **2 At a minimum, employ tools similar to financial institutions who grant loans in comparable volumes and/or with similar impacts, especially:**

- Establish thematic, sectoral, detailed, and mandatory environmental and social safeguards policies. Ensure that these policies are managed by a technical team with authority, political support, and sufficient budget resources to guarantee their implementation.
- Categorize projects according to potential environmental and social impacts, so that the riskiest projects have appropriate mechanisms for their evaluation, approval, and management.
- Establish an Access to Information Policy aligned with the Regional Agreement on Access to Information, Public Participation and Justice in



Environmental Matters in Latin America and the Caribbean (also known as the Escazú Agreement), which is legally binding for the governments of 12 LAC countries.<sup>195</sup>

- Implement a Complaints Mechanism for people affected by CDB-financed projects. Even though the CBIRC is currently developing a Grievance Mechanism that will be used by Chinese financial institutions, it would be more effective for the CDB to have its own.

### **3 Improve the quality of information offered to the public through its website, especially:**

- Disclose information related to loans that are under consideration, approved loans, and loans made through financial intermediaries.
- Disclose information on approved loans, including but not limited to the following: a detailed project-summary document; the environmental and social categorization of the project; the EIS and the EMP; evidence of having obtained FPIC if located in indigenous territories; and, the name and contact information of the CDB officer overseeing the project.
- Publish the environmental and social standards that apply to the CDB's operations, including: CDB's own environmental and social policies; international agreements, such as the UNGC,<sup>196</sup> the ILO Declaration on Fundamental Principles and Rights at Work,<sup>197</sup> the Rio Declaration on Environment and Development,<sup>198</sup> the United Nations Convention Against Corruption,<sup>199</sup> and Chinese environmental and social guidelines such as the GCD,<sup>200</sup> the Environmental Risk Management Initiative for Chinese Overseas Investment,<sup>201</sup> the Guidelines for Establishing the Green Financial System,<sup>202</sup> and the Guidelines on Corporate Social Responsibility of Financial Institutions.<sup>203</sup>
- Ensure that all information published on the CDB website is available in Spanish.

### **4 Improve due diligence and oversight practices.**

- Carry out due diligence as stated in Article 15 of the GCD promulgated by CBIRC, which states that "...due diligence is complete, exhaustive and detailed" both during the evaluation of loan applications and throughout the execution cycle of the projects.<sup>204</sup>
- Strengthen on-site supervision and tighten the environmental and social evaluation requirements in the periodic reports required from loan recipients.

## **5 Promote a culture of engagement and dialogue with foreign civil society organizations.**

- Establish a clear channel for CSOs to communicate with CDB officials in their countries and in China. When necessary, ask for the assistance of Chinese embassies to facilitate this communication.
- Respond within an appropriate timeframe to concerns expressed in writing, or verbally, by CSOs and communities affected by CDB-financed projects.
- Disclose the CDB's organizational structure, and clearly identify the branches responsible for each CDB-financed project and loan recipient country. Also, disclose all relevant contact information.
- Visit and meet with CSOs and local communities that have concerns about CDB-financed projects.

## **6 Include environmental, social, transparency, and anti-corruption provisions in loan contracts.**

- Ensure that every funded project completes rigorous EISs by qualified third parties prior to commencing construction.
- Loan contracts must include an Environmental Annex that provides details of the environmental and social regulatory framework for the project. This Annex should consider relevant laws and regulations of the host country; relevant international conventions and treaties; Chinese environmental and social guidelines that apply to funders and the type of project; and international best practices relevant to the project.
- Loan contracts must include a section that provides details on the mechanisms and scope of supervision regarding environmental and social aspects that the CDB will use, and specific requirements for the mechanisms and scope of the reports that the borrower must prepare.
- Include insurance that covers damages caused by poor environmental and social practices.

# APPENDIX

## Non-exhaustive List of China Development Bank Financed Projects in Latin America and the Caribbean (totally or partially financed), 2005-2020

YEAR	PROJECT NAME	COUNTRY	COMPANY	ESTIMATED COST (MILLION USD)	STATUS	SECTOR
2005	Candiota III Thermal Power Plant	Brazil	China International Trust & Investment Corporation Group	427	Completed	Energy
2007	Power Plant Construction	Venezuela	Sinohydro Group	295	Unknown	Energy
2008	Geostationary Communications satellite Vene-sat-1	Venezuela	China Great Wall Industry Corporation	406	In operation since 2009, out of service since March 2020	Telecommunication
2008	Cacimbas-Catu Gas Pipeline	Brazil		750	Unknown	Energy
2009	National Railway Development Plan	Venezuela	China Railway Group	7.500	31% advance, on hold since 2013	Transportation
2009	Venezuelan Guayanas Corporation (mining)	Venezuela	Wuhan Internacional Corporation China Railway Engineering Corporation China Communications Construction Company	1.000	Unknown	Mining
2009	Magdalena River Dam	Colombia	Hydro China, Cormagdalena	Desconocido	Stalled	Energy
2010	Mirador Mining Project	Ecuador	CRCC-Tongguan, Tongling Nonferrous Metal Group Holdings Co., Ltd. y China Railway Construction Corporation	2.015	In operation	Mining

(Continues on the next page)



YEAR	PROJECT NAME	COUNTRY	COMPANY	ESTIMATED COST (MILLION USD)	STATUS	SECTOR
2010	Tupak Katari Communications Satellite	Bolivia	Great Wall Industry	302	Completed in 2013	Telecommunication
2010	Infrastructure and Agriculture Projects	Venezuela	China CAMC Engineering Co.	1677	Unknown	Other
2010	Purchase of 20 High-Speed Trains, 200 Passenger Cars, Service, and Spare Parts	Argentina	CNR Corporation y CITIC	273	Completed	Transportation
2010	Renovation of the Railway System of Argentina, Sarmiento and Miter Lines	Argentina	CSR SIFANG	990	First batch of train cars arrived in Argentina in May 2014	Transportation
2011	Orinoco Oil Production	Venezuela	China National Petroleum Company, China Petroleum and Chemical Company, Huanqiu Contracting and Engineering Corporation, China National United Oil Corporation	4000	Unknown	Energy
2011	Villonaco I Wind Farm	Ecuador	Xinjiang Goldwind Science and Technology	38	Completed	Energy
2011	Ebreu e Lima Refinery	PDVSA Venezuela Petrobras Brazil		4000	In construction, PDVSA withdrew from the agreement	Energy
2011	Helicopter Purchase	Bolivia	Harbin Aircraft Manufacturing Corporation	300	Completed	Other
2011	Esmeraldas Thermoelectric Plant	Ecuador	Harbin Electric International Co	101	Completed in 2014	Energy
2012	North-South Highway	Jamaica	China Harbour Engineering Company Limited	730	Completed	Transportation

(Continues on the next page)

YEAR	PROJECT NAME	COUNTRY	COMPANY	ESTIMATED COST (MILLION USD)	STATUS	SECTOR
2012	Gastre Wind Farm	Argentina	Beijing Construction Engineering Group Co., Ltd., XEMC Windpower Co. Ltd.	261	Stalled	Energy
2012	Barra Dos Coqueiros Wind Farm	Brazil	Desenvix (Statkraft Energias Renováveis since 2015)	56	Confirmed	Energy
2012	Production of Soybeans and Soybean Oil in the Province of Córdoba, and Milk Throughout the Country	Argentina	Chongqing Grain Group - Molino Cañuelas	10	Unknown	Agriculture
2012	Construction Equipment	Venezuela	XCMG Construction Machinery Co.	761	Unknown	Other
2012	El Dorado Airport Renovation	Colombia		390	Completed in 2014	Transportation
2013	Chone Multi-Purpose Project	Ecuador	Tiesijú-Manabí	165	Unilateral conclusion of the contract in 2013	Other
2013	Las Cristinas Gold Mine	Venezuela	CITIC	700	In operation	Mining
2013	Development of the Orinoco Oil Belt	Venezuela	China National Petroleum Corporation	4000	Unknown	Energy
2014	Joint Investment -Exploration and Exploitation of Fossil Fuels	Argentina	Sinopec - YPF	300	In operation	Energy
2014	Las Bambas Mining Project	Peru	Minerals and Metals Group MMG Limited, Guoxin International Investment Co. Ltd. Y CITIC Metal Co. Ltd.	10000	In operation since 2016	Mining
2014	Renovation of the Belgrano Cargas Railway	Argentina	China Machinery Engineering Corporation	2100	Unknown	Transportation
2015	Oil Export	Brazil		3500	Unknown	Energy

(Continues on the next page)

YEAR	PROJECT NAME	COUNTRY	COMPANY	ESTIMATED COST (MILLION USD)	STATUS	SECTOR
2015	Oil Exploration	Brazil		1500	Unknown	Energy
2015	Santa Cruz Hydroelectric Complex (also known as Cóndor Cliff, La Barrancosa, or Kirchner – Cepernic Hydroelectric Complex).	Argentina	China Gezhouba Group Corporation, Electroingeniería, Hydrocuyo	4000	In construction	Energy
2015	Industrial Unit for Corn Processing, and Citric Acid Production	Brazil	BBCA Group	1200	Confirmed	Agriculture
2016	San Gaban III	Peru	Hydro Global Peru S.A.C.	438	Under construction, expected completion in 2021	Energy
2016	Converter Station and Ultra-High-Voltage Transmission Line (500 Kv) of the Santa Cruz River Hydroelectric Complex	Argentina	Gezhouba Group Company Limited	200	Under construction, completion deadline for 2022	Energy
2016	Santa Elena Aqueduct	Ecuador	International Water & Electric CWE	113	Unknown	Other
2016	Supply Contract awarded to CNOOC, Zhenhua, and CNPC	Brazil	China National Petroleum Corporation	5000	Unknown	Energy
2017	Expansion of Electric Bus Manufacture in Brazil	Brazil	Build Your Dreams	294	Confirmed	Transportation
2017	Preferential Supply Contract awarded to Unipac Asia Company	Brazil	Unipac Asia Company	5000	In action	Energy

(Continues on the next page)

YEAR	PROJECT NAME	COUNTRY	COMPANY	ESTIMATED COST (MILLION USD)	STATUS	SECTOR
2018	Mar 2 Highway	Colombia	China Harbour Engineering Company	654	In construction	Transportation
2019	Rail Cars for Roca Commuter Line	Argentina	Qingdao Sifang	236	Unknown	Transportation
2019	Pedras Altas Ouro Negro Power Plant Units 1 and 2	Brazil	Shandong Electric Power Construction, Hebei Guochang Energy	984	Announced	Energy
2020	Financing for Equipment Purchase	Argentina	Telecom	100	In negotiation	Telecommunications
2020	Pedernales Hospital (Construction)	Ecuador	China CAMCE Engineering	18	In construction	Infrastructure

Source: Authors' elaboration based on *China's Engagement with Latin America and the Caribbean* by Koleski, K. & Blivias, A., 2018 <sup>205</sup>; *China's Overseas Development Finance Database* by Ray, R. & Simmons, B., 2020 <sup>206</sup>; *Base de datos de proyectos chinos en América Latina [Database on Chinese projects in Latin America]* by Latinoamérica Sustentable, 2021 <sup>207</sup>; *Geolocated Dataset of Chinese Overseas Development Finance* by Ray, R., Gallagher, K., Kring, W., Pitts, J., & Simmons, A., 2019 <sup>208</sup>; *China-Latin America Finance DataBase* by Gallagher, K., & Myers, M., 2021 <sup>209</sup>; other publications from different media.

**DISCLAIMER:** The table presents a sample of the most relevant projects financed by the CBD in LAC. It is likely that there are many more projects that could not be cross verified by the authors of this report. We have included projects that meet the following criteria: are roadway, port, extractive or other infrastructure construction projects; are projects concerning exploration, exploitation, and transportation of natural resources; are projects that assist specific activities (sections or stages), extractive activities, and transport and telecommunications services; are projects for the acquisition of equipment and machinery for the construction of infrastructure, transportation services, or activities for the exploitation of natural resources and telecommunications goods and services.



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# UNDERSTANDING THE CHINA DEVELOPMENT BANK

Financing, Governance  
and Socio-Environmental Challenges  
for Latin America and the Caribbean

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.



TABLA DE  
CONTENIDOS

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