The Reality of Aid ASIA PACIFIC

Beyond Asia-Pacific, the AIIB and NDB in Latin America

New actors for sustainable development?

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DEEP DIVE SERIES

Introduction

China has been expanding its relations beyond Asia-Pacific, increasing investments and disbursing development finance to Latin America and the Caribbean as well as Africa. While partnerships have only been recently formed with these regions, China has been making strides in deepening ties and expanding influence in other parts of the world. For Latin America, cooperation with China expanded in the 2000s, as it ushered in Chinese investment in their industries, eventually becoming its largest trading partner. Through the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), the newly-formed international finance institutions of China and the rest of the BRICS (Brazil, Russia, India and South Africa), development finance has continued to flow into these regions.

The AIIB and the NDB are two international finance institutions (IFIs) that have emerged in the 21st century, with a commitment towards sustainable development as they finance important projects in different regions of the world. Likewise, countries from Latin America and the Caribbean have increasingly joined these banks as members, injecting public finances into the bank to be supposedly used for development outcomes.

This Deep Dive examines how these new players in development financing entered the region of Latin America and the Caribbean, the interests involved, and their impacts on development in the region. First, the paper focuses on the expansion of the AIIB and the NDB beyond Asia-Pacific, highlighting their role in Latin America and the Caribbean, and zooming into country membership and priorities. Second, the research examines the development projects of the AIIB and NDB in the region, the main trends, and project impacts on affected communities and sectors in Ecuador and Brazil. The brief then presents policy recommendations that will enable these IFIs to genuinely contribute to sustainable development in the LAC region and beyond.

The new players

Both the AIIB and NDB were created less than a decade ago, in 2015, and have evolved to be important financiers of development. These banks are new players in the financing in the region that was previously dominated by the traditional IFIs such as the International Monetary Fund-World Bank (IMF-WB) and the Asian Development Bank (ADB). Southern-led banks arose based on the context of developing countries' growing discontent with existing IFIs as these continue to promote corporate and donor interests over upholding people's development and rights, as well as the evolving geo-political context with China as an emerging superpower.[1]

The AIIB claims to "foster sustainable economic development, create wealth and improve infrastructure connectivity" in developing Asia, by mobilizing investments for infrastructure and support to other productive sectors. Despite its focus on Asia, it has members from all over the world. The AIIB is open to all members of the International Bank for Reconstruction and Development (IBRD, a member of the World Bank Group) or the Asian Development Bank (ADB). The bank now has one of the largest memberships, with a total of 105 countries. Even with a diverse composition, only members with a voting power share of 25% and above have veto power, which nowadays is only achieved by China, with a 26.75% share. In this sense, the government of China still retains influence over the bank's policy, processes, and priorities.

The New Development Bank was formally created during the 6th BRICS Summit in 2014, although negotiations started in 2010 when BRICS countries (Brazil, India, China, and South Africa) signed a Memorandum of Understanding of mutual cooperation. According to the bank's Articles of Agreement, "[t]he Bank shall mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development."[2]

The NDB has an open policy in terms of membership, allowing United Nations member states to apply. Total voting power is only awarded to founding countries (or the BRICS) who have a cumulative 55% share, to non-borrowing members with a 20% share, and to non-founding members that have a 7% share.[3] As the founding members share the same initial subscribed capital, which determines their share of voting power, all member countries have one vote and no member has veto power over the bank's decisions. However, the BRICS retain its dominance as it collectively has more than half of the bank's share. Since the NDB's foundation, founding members have received the most assistance, with India and China receiving the most projects. Beyond its more egalitarian character in decision-making, the BRICS countries still benefit the most from the NDB.[4,5]

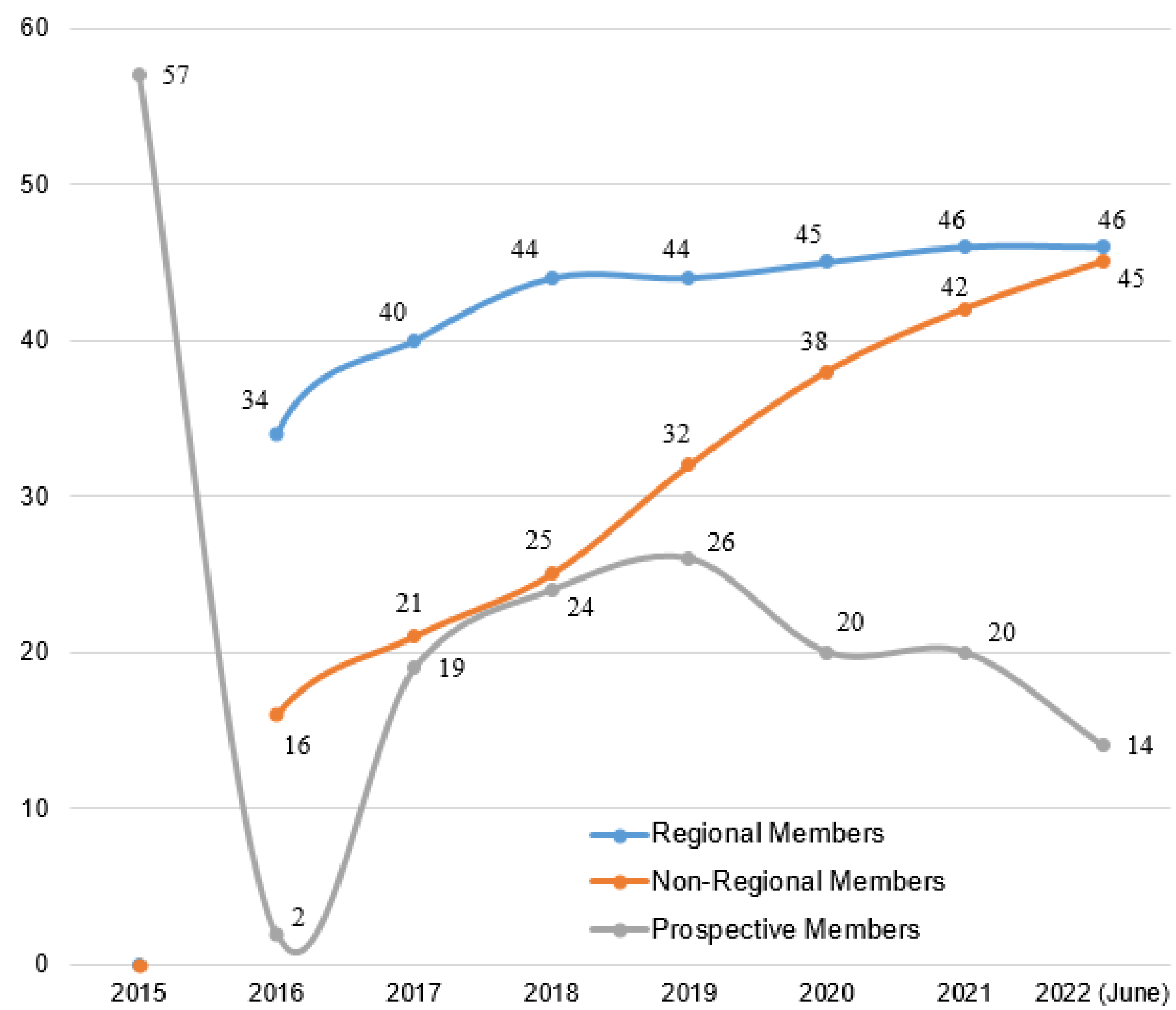


Figure 1. AIIB's expansion between 2015 and June 2022.

Source: Author's own elaboration. AIIB, Members and Prospective Members of the Bank, 2022. https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html.

Entry into Latin America and the Caribbean

Since their founding, the AIIB and the NDB have expanded their membership across the region and beyond. In 2021, the NDB commenced the admission of its first new member countries, Bangladesh and the United Arab Emirates. In addition, Uruguay and Egypt have been admitted by the NDB's Board of Governors and will officially become members once they have finished complying with the necessary processes. According to Marcos Prado Troyjo, NDB's President, the bank will "continue to expand the Bank's membership in a gradual and balanced manner."[6]

The AIIB experienced a more remarkable expansion, becoming the second largest development bank in the world, in terms of membership and projects approved. The most recent regional members are the Cook Islands and Tonga, while the newest non-regional members are Morocco, Peru, and Tunisia, who were welcomed in 2022.[7]

The AIIB has expressed a clear interest in Latin America and the Caribbean, accepting six countries as full members. With Ecuador as its first member, Uruguay, Brazil, Argentina, Chile, and Peru followed suit. Most of the Latin American countries, like Brazil in 2015 and Uruguay in 2019, became AIIB prospective members through letters of intention to Beijing. However, the other Latin American countries took years to become full members due to the delay in paying the required capital subscription and submitting legal documents.

For the longest time, the NDB only had Brazil as its member from LAC; as a founding member country, it has garnered a total of 16 projects from the bank. By September 2021, Uruguay was admitted as an NDB member. The government of Uruguay sees its membership in the bank as an opportunity to increase cooperation and partnership with other countries for trade and investment.[8]

Brazil also nominated Argentina to become an NDB member in April 2022, which is welcomed by the national government in order to acquire necessary resources to finance infrastructure projects amid a foreign currency shortage in the country.[9] During the last trip of Argentinian president, Mr. Alberto Fernández, to Russia and China, he described the NDB as "the institutionalization of a new world order focused on development, far from the financial speculation that has caused so much damage to our countries."[10]

LAC's interest in the AIIB and the NDB

The willingness of countries from Latin America and Caribbean to join these IFIs is mainly due to the "infrastructure gap" that is blamed for the lack and delay of development. The region is considered as the second most unequal in the world, engulfed in a "high-inequality, low-growth trap" with increasing poverty and low productivity rates. Development actors, especially IFIs, pose the lack of infrastructure and connectivity as a primary reason for the lack of growth in the region. However, this "infrastructure gap" narrative has long been forwarded by IFIs to facilitate entry of private sector interests and investments, while failing to provide sufficient financing for people-centered development projects and processes.

Other banks in the region like the Inter-American Development Bank (IADB) and the CAF-Development Bank of Latin America[11], have followed suit in declaring a financing gap for infrastructure in the region. Currently, less than 3% of the region's GDP is channeled into vital transport and logistics projects, half of the recommended 6%. To bridge the gap, a total of USD 180 billion per year is needed, a gap too large to be solved by the banks in the LAC region. For them, a viable way to fill this deficit is to partner with IFIs from outside the region, with the IADB establishing a strategic partnership with the AIIB in 2017. In 2019, China's Ministry of Finance and a number of IFIs, including CAF, the ADB, and the AIIB established a Multilateral Cooperation Center for Development Finance (MCDF) as a platform to foster high-quality infrastructure and connectivity investments for developing countries.[12] The China-led bank's expansion into the region seemed to fill the infrastructure gap apparent in these countries.

China's interests in Latin America

This expansion must be seen in light of the historical geopolitical and socio-economic context in the region. China's emergence can be considered as a counter influence to the United States' presence in the region, which is seen as highly unequal and colonial in nature. The Monroe Doctrine of American foreign policy kept the region's independence, sovereignty and politics subject to US authority. This also enabled the US to seize and bring more territories under its realm, even enabling US-allied dictatorships to inflict conflict and violate people's rights. Furthermore, the entry of the IMF-WB in the region promoted the adoption of neoliberal policies that have led to rising debt, and the worsening of poverty and inequality.[13] As China presents itself as a rising power and an

alternative to the United States with ready financing and investments to support countries in the region, it also uses this influence to forward its own interests.

- **Trade**. Latin America and the Caribbean is rich in natural resources, as it houses 25% of the earth's forest and arable land, and 30% of total water resources.[14] With this, China also aims to tap into the rich reserves of the region. It already imports various raw materials and products from the LAC region, such as oil, iron, copper, and soybeans.

These products comprise 70% of China's total imports, and it remains to be heavily dependent on these to support the government's initiatives in urbanization and heavy industrialization.[15]

Likewise, the LAC region is a market for goods manufactured and produced in China. Brazil, Chile, Mexico, Panama, and Argentina are the main destinations for Chinese goods. While LAC countries export commodities and low-tech products, goods from China are produced from high and

	AIIB prospective member acceptance date	AIIB full membership date	BRI endorsement
Argentina	June 16, 2017	March 30, 2021	February 6, 2022
Bolivia	May 12, 2017	N/A	June 20, 2018
Brazil	March 28, 2015	November 2, 2020	N/A
Chile	May 12, 2017	July 2, 2021	November 2, 2018
Ecuador	December 19, 2017	November 1, 2019	February 6, 2022
Perú	March 21, 2017	January 14, 2022	April 26, 2019
Uruguay	April 22, 2019	April 28, 2020	August 20, 2018
Venezuela	March 21, 2017	N/A	September 14, 2018

Table 1. Latin America countries' membership in the AIIB and endorsement in the BRI.

Source: Author's own elaboration. Mendez and Turzi (2020).

medium-tech sectors. This leads to an unbalanced trade between the two, as dependence on China for high-tech manufactured goods can lead to the deindustrialization of LAC countries, or the decline in industrial activity, as they prioritized primary goods to be exported to its trading partners.[16]

In order to gain access to these resources, infrastructure and connectivity is crucial. The construction of transport and energy infrastructure by governments and state-owned companies in the region is supported by China's policy banks, such as the China Development Bank and the China Export-Import Bank, which are proactive in providing loans for development projects in the region. Furthermore, co-financing schemes of the AIIB and other

IFIs allow for the entry of Chinese companies and commercial banks as private sector partners into the LAC region.[17]

- **Geopolitical**. At the same time, the government of China can forward its own interests in pursuing the membership of LAC countries in its financial institutions. In terms of geopolitics, Chinese economic statecraft has utilized its banks and the Belt and Road Initiative (BRI) to engage with a region that since the beginning of the 20th century has been called 'America's backyard'.[18] Presence in the region contributes to the efforts of the Chinese government to challenge the influence of the United States in matters of economy, security and politics.[19] The other institutions where China belongs to and wields significant power over include the BRICS and the Shanghai Cooperation Organization (SCO), which are also utilized by the government to widen its sphere of influence.

- **'Coronavirus diplomacy'**. China is also taking advantage of the need for additional development finance to address the COVID-19 pandemic and its accompanying impacts on long-standing development challenges. Critics have noted China's efforts in assisting countries during the pandemic as 'coronavirus diplomacy'. The government of China mobilized an additional USD 2 billion for a new assistance fund, contributed financial assistance to international organizations, strengthened public health infrastructure, sent medical teams, as well as provided personal protective equipment and vaccines.[20]

Most LAC countries currently part of the AIIB had their membership approved during the pandemic (see Table 1). The NDB also initiated its membership expansion in late 2020, when the Board of Governors authorized the Bank to conduct formal negotiations with prospective members. After a round of successful negotiations, NDB approved the admission of Uruguay as its first Latin American member country.[21] The acceptance of new members into these banks reflect the wider initiative of IFIs in utilizing the pandemic in urging countries to adopt policy conditionalities through fast-tracked loans and projects, and in facilitating the entry of the private sector.[22]

During the pandemic, the AIIB launched the COVID-19 Crisis Recovery Facility (CRF) to support its members in addressing the impacts of the pandemic on their economies and public health infrastructure. Initially, it was only active for 18 months and cost USD 5 billion, but due to demand, it was extended until the end of 2023 and cost USD 20 billion. The facility has a total of 46 approved projects, which are channeled to the public health sector, vaccines, finance and liquidity, economic resilience, and policy-based financing.[23]

Meanwhile, the NDB mobilized a total of USD 10 billion for its Emergency Assistance Facility for health and social protection measures, as well as economic recovery. These loans were channeled to different member countries, with Brazil receiving a total of USD 2 billion under this facility.[24]

While IFIs, especially the World Bank, but in a few cases also the AIIB, were able to mobilize funds urgently needed during the pandemic, there is a lack of transparency and disclosure where these finances end up in recipient governments. As these loans were accepted by governments with no meaningful consultation and are often accompanied with policy conditionalities, there is also a lack of participation of civil society in decision-making processes surrounding the acceptance of these loans. Some of these COVID-19 programs pursued by IFIs also required the passing of neoliberal policies that further weakened the capacity of the state to regulate the private sector and to provide the necessary services to its people. While these were disbursed to strengthen public health systems and social safety nets, most of the loans did not reach its target beneficiaries and further added to the debt burden shouldered by the people.[25]

Furthermore, critics note that this approach was utilized to further China's strategic and economic interests in its partner countries who desperately needed assistance during the pandemic. This enabled the entry of China to other regions outside of Asia-Pacific, fostering relationships and allies in return for additional development finance. The government of China also used this time to promote the BRI in the name of infrastructure connectivity.

- **Vehicle of BRI**. The incorporation of LAC into the BRI started in 2017, when Panama signed a Memorandum of Understanding (MOU) with the Chinese government, five years after it was initiated. This was followed by 15 more countries the succeeding year, and another three countries in 2019. The MOU includes the initiative's objectives and the five areas of cooperation between the countries, focusing on policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bond. Compared to the AIIB and NDB membership, partnership under the BRI is considered less rigorous and serious, and non-committal.[26]

From the experience of the Asia-Pacific region with the BRI, joining the initiative comes with the following risks and threats: debt distress, securitization of aid, and massive environmental degradation. Other BRI partner countries also provide a cautionary tale about onerous debts that promote Chinese government and private sector interests in development. The BRI is also utilized to pursue strategic security interests, which have contributed to the militarization of communities and human rights violations. Largely infrastructure-led, the BRI also has significant environmental impact, despite the worsening climate crisis.[27]

The first AIIB project in Latin America: The case of Ecuador

Ecuador's recent history with China

On December 19, 2017, Ecuador became a prospective member of the AIIB, as it committed to complete the process of paying its capital contribution after a year. The country pledged a total of USD 5 million, comprising 50 shares at USD 100,000 each. However, Ecuador failed to complete its membership by the original deadline. The AIIB accommodated with a new Resolution to extend the deadline by a year, and Ecuador eventually became the first fully-fledged member from LAC by November 2019.[28]

This took place less than 30 days after the October 2019 protests, when former President Lenín Moreno announced austerity measures that removed petrol subsidies and implemented labor and tax reforms under the influence of the IMF. This resulted in an increase in gas prices, lowering of wages, and decrease in vacation days, among others. With this, transportation unions, civil society organizations, and people's organizations marched to the streets to demand the government to reverse these austerity measures and to uphold labor rights.[29] As the government declared a state of siege and deployed military forces to these protests, the violence led to at least 11 deaths, 1,507 injuries and more than 1,300 arrests.[30] The protests ended when the government declared the nullification of the austerity reforms it initially proposed.

As the AIIB emerged in this context and due to the existing relations between both countries that facilitate the entry of Chinese capital and exploitative mining operations, civil society became concerned about the role and impact of the bank's projects on the people. Even before becoming a part of the bank, the country already considered China as its major source of financing. However, Chinese aid was largely given in the form of loans and relied on the exclusive hiring of contractors, engineers, and staff from China.[31]

There were also fears about a "race to the bottom" due to the lack of proper social and environmental standards in project planning and execution. Indigenous communities in the country have criticized how Chinese-funded dams and mining projects have led to the displacement and harassment of communities, as well as environmental degradation. An example of this is the El Mirador mine pursued by Chinese state-owned enterprises, gaining access to the copper reserves in the River Quimi Valley where indigenous Shuar and Cañari

Kichwa communities live. Without free, prior, and informed consent (FPIC), the mines have caused displacement, loss of livelihood, loss of biodiversity and pollution of the Amazon rivers. Affected indigenous communities have resisted the construction of these open pit mines by protesting and filing legal cases against these companies for violating their rights and harming the environment. [32]

Chinese credit during COVID-19 pandemic

In 2020, Ecuador became the first Latin American country to receive a project from the AIIB, receiving USD 50 million for Corporación Financiera Nacional COVID-19 Credit Line.[33] Due to the history of the country with Chinese-funded projects, the people called for the bank to not replicate the negative impacts it has caused in its previous initiatives, through abandoning conditionalities, promoting greater transparency, and adhering to environmental and social standards.[34] This new partnership also presented a possibility to strengthen South-South cooperation, especially during a time where Southern countries are reeling from the impacts of the pandemic.

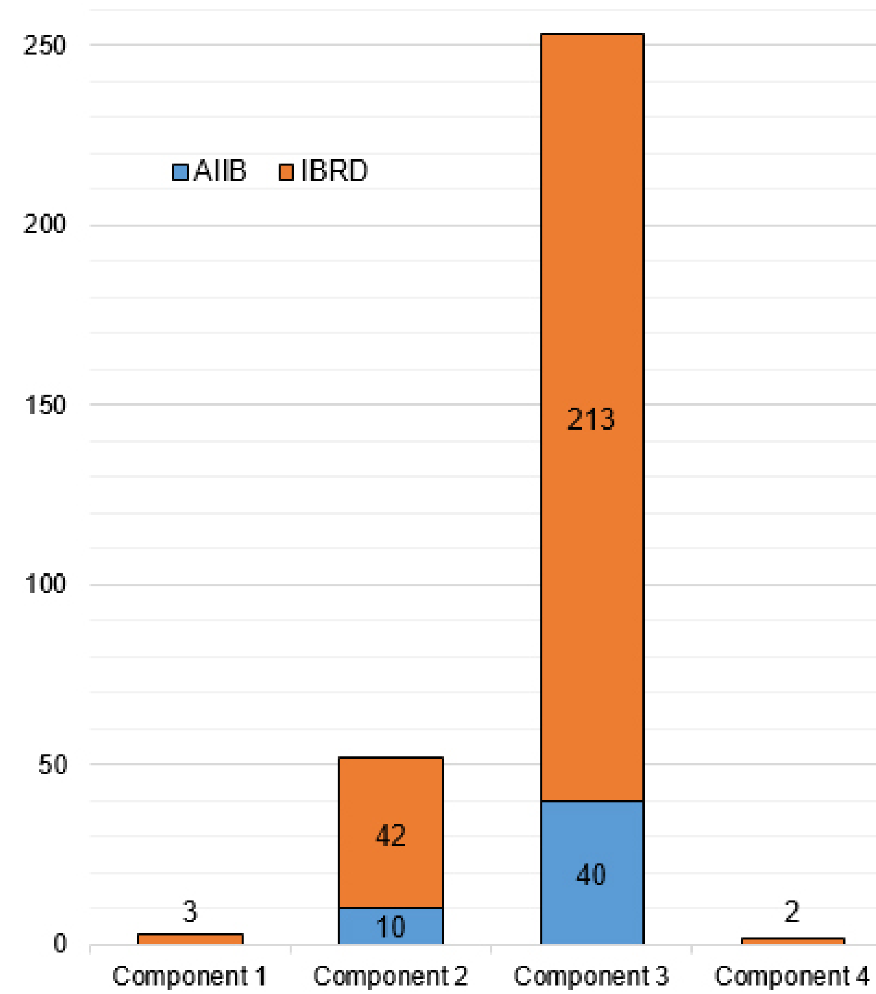
This credit line is a sovereign guaranteed loan to help promote access to financing and to address the financial constraints faced by micro, small, and medium enterprises (MSMEs) due to the COVID-19 crisis. The pandemic made it increasingly difficult for MSMEs to meet operational expenses such as payroll, supplies, rent, and utilities, or procure necessary goods and services to maintain their productive capacity. However, while the credit line was intended for MSMEs, most enterprises have faced difficulty in accessing the loans due to the requirements needed and the long approval time. With this, more established and larger corporations have benefitted from the initiative.[35]

This loan is used to promote the trade between Ecuador and its current second-largest trading partner, China. The impact of the pandemic on Ecuador's national economy is expected to reduce the volume of exports and imports, restrict the availability of intermediate inputs and final goods, and divert domestic resources to a less-efficient trading partner. With this, the credit line aims to provide liquidity to MSMEs to cover working capital needs, increasing the survival rate of firms, and their ability to maintain trade volumes with Asia. As a result, the AIIB's loan is expected to finance 350 smaller loans and 1,000 partial credit guarantees to eligible MSMEs associated with Asia-Ecuador trade.

This initiative is part of the Reactivate Ecuador government program, which consists of a USD 1.15 billion package of financial measures to be implemented through public and private entities to reactivate the economy from the impact of the pandemic.[36] The program prioritized MSMEs and cooperatives sector and is financed entirely by IFIs.[37]

Figure 2. Distribution of the project components' total cost between the AIIB and the IBRD (in USD millions).

Source: Author's own elaboration. AIIB. Corporación Financiera Nacional COVID-19 Credit Line - Project Summary Information. https://www.aiib.org/en/projects/details/2020/approved/_download/ecuador/AIIB-PSI-P000435-Ecuador-CONAFIPS-COVID-19-Credit-Line-Project-Aug.-16-2022.pdf.



The project will entail channeling funds to a financial intermediary (FI). This allows the FI to decide on how to use the loan, including the selection, assessment, approval, and monitoring of the bank's activities. The recipient of the loan was Corporación Financiera Nacional B.P. (CFN), the oldest and largest public bank of Ecuador, which became responsible for channeling resources to companies for investment and working capital.[38]

The loan was provided through the AIIB's COVID-19 Crisis Recovery Facility (CRF), which involves USD 13 billion in financing for public and private sector entities of any AIIB member facing severe adverse shocks as a result of COVID-19. The project is in partnership with the World Bank (WB) through the International Bank for Reconstruction and Development (IBRD), which is the Lead Co-financier.[39] With this, the project's environmental and social (ES) risks and impacts depend on the WB's Environmental and Social Framework (ESF).[40]

In facilitating its entry in the region, the AIIB chose to partner with other IFIs. In Ecuador, it partnered and awarded a larger role to the WB and the IBRD, financing only 16% of the project across the four components of the project (see Graphic 5). This project is utilized by the bank to benefit from WB and IBRD's existing processes, policies, and projects in LAC. In this sense, this lessens the risk for AIIB as it pursues its pilot project in the region.

While it presents itself as an alternative, it willingly partners and allows for further presence of these Western IFIs in its member countries. This presents a threat to the growth of small-scale, local economic actors, especially with the IMF-WB's historical role in pursuing neoliberal market-based and import-oriented policies. These policies have also led to the deregulation of the banking sector and the rise of private lending. Structural adjustment loans from the bank have also diminished resources for public services as financing is redirected to service debt repayments.[41]

The NDB in Latin America: The case of Brazil

Brazil's membership in the NDB

As a member of the BRICS and a founding member of the NDB, the bank has approved a total of 16 projects to Brazil that vary from USD 30 million to up to USD 1.2 billion operations. The target sectors include COVID-19 assistance, urban development, transport, social infrastructure, clean energy, environmental protection, among others.

The NDB has increasingly brokered deals with sub-national governments. Approximately 37% of the NDB projects in Brazil have the following sub-national governments as the main recipients: the state of Pará, the state of São Paulo, the municipality of Teresina, the municipality of Curitiba, and the municipality of Sorocaba. In addition, Brazilian national and sub-national development banks received five projects: Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Banco Regional de Desenvolvimento do Extremo Sul (BRDE), and the FONPLATA Development Bank. The NDB also partnered with the Brazilian federal government and other enterprises, such as Petrobras S.A., Patria Infrastructure General Partner, and Vale S.A.

Partnering with the private sector

In November 2019, the NDB Board approved the North Region Transportation Infrastructure Improvement Project, with an amount of USD 300 million to Vale S.A., a Brazilian multinational corporation engaged in metals and mining and one of the largest logistics operators in Brazil. This was the first NDB project that financed a private partner in Brazil, with Vale's counterpart corresponding to USD 61 million.

The project sought to improve rail and port infrastructure for the outflow of Vale's iron ore production. According to the project, the money will be applied to Vale's northern system and covers the Carajás Railroad and the Ponta da Madeira Port Terminal. The goal is to increase the freight throughput by 10 million tonnes per year after 2023, towards increased commercial and logistical capacity, improved job security, and economic development. The NDB noted that the project has associated negative social and environmental impacts, including on the Mãe Maria indigenous land. Some risks in the project's assessment included damages to biodiversity with the removal of native vegetation, and use of natural resources, along with noise pollution and emission of dust and waste water.[42]

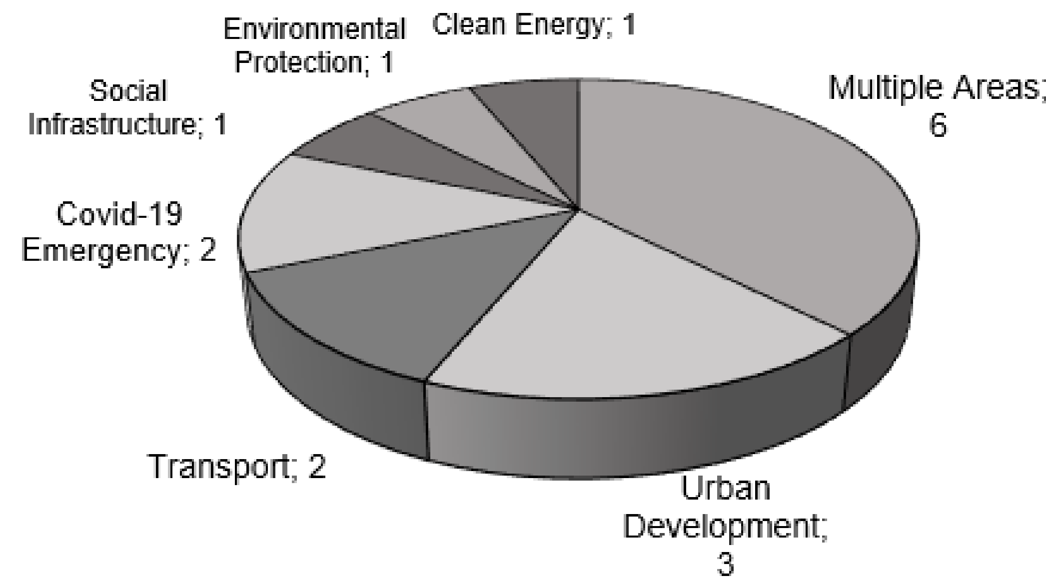


Figure 3. Target sector distribution of the NDB approved projects to Brazil

Source: Author's own elaboration. NDB. List of all projects. https://www.ndb.int/projects/list-of-all-projects/.

The NDB partnered with a corporation with a harmful track record. In January 2012, Vale S.A. was deemed the worst company in the world, in terms of human rights and the environment, by civil society organizations.[43] In recent years, the company's operations contributed to catastrophic incidents, from tailing dams, or dams used to store by-products from mining activities, in Mariana and Brumadinho, Brazil. In 2015, the Mariana dam flooding devastated the downstream villages of Bento Rodrigues and Paracatu de Baixo, killing 19 people and harming rivers, beaches, and even the Atlantic Ocean, due to the toxicity of the tailings. On January 25, 2019, the Brumadinho dam released a mudflow that crashed through the mine's offices, including a cafeteria during lunchtime, along with nearby houses, farms, inns, and roads downstream, killing 270 people. The fact that the NDB financed Vale S.A. even as the two disasters were still under investigation raises significant doubts about the institution's social and environmental commitment.

Road infrastructure in the Brazil state of Pará

In the state of Pará, projects funded by NDB and other financial institutions are ongoing. Pará is the second-largest Brazilian state and one of the most populous areas, but it is one of the poorest states in terms of GDP per capita. It is located near the Amazon River and rainforest. Some of the ongoing projects are the Pará Sustainable Municipalities Project and the Transport Infrastructure for Regional Development, both requested by the state of Pará and signed with a sovereign guarantee from the federal government.

The Pará Sustainable Municipalities Project was approved last March 2018 and is estimated to be implemented for over four years until 2023. The total project cost is USD 125 million, with the NDB contributing USD 50 million, USD 50 million from CAF, and USD 25 million contributed by the state of Pará. The project is supposedly aligned with the NDB's mandate of supporting sustainable infrastructure development. It aims to develop urban mobility, sanitation, and communication programs in various cities[44] found along the TransAmazonian highway. The project has three main components: road paving and drainage, sanitation, and telecommunications. The NDB is focused on road and drainage construction in regions with a low human development index, but whose activities are agriculture and mineral extraction.

In accordance with the NDB Environment and Social Framework (ESF), the project is under Category B, or having negative impacts that "are site specific, with few, if any, irreversible impacts" and where "in most cases mitigation measures can be designed and implemented easily."[45] The bank argues that its work would not lead to land acquisition or environmental degradation. However, the project is contributing to the consolidation of the TransAmazonian highway, which will continue to harm the Indigenous Peoples and other affected communities in these areas.[46]

Since the 1970s, the construction of the TransAmazonian Highway has historically contributed to the destruction and deforestation of large swaths of the rainforest. As the government and the bank continue to pursue the building of roads in the area, it will cause the loss of another 561,000 hectares. This will impact the Amazon's capacity to absorb carbon dioxide and offset the impacts of climate change.[47] Large-scale environmental degradation caused by these development projects will further worsen the climate emergency and will disproportionately impact the marginalized communities in the global South.

In addition, the Pará II - Transport Infrastructure for Regional Development, another project approved by the NDB in March 2021, was granted to the Secretary of Transport (SETRAN) of the state of Pará. The total amount of the project is USD 191 million, with the IFI contributing USD 153 million. In Pará where 66% of the roads are unpaved, the project aims to improve connectivity and to promote regional development by rehabilitating existing unpaved roads.

This project has been categorized as Category A, in line with NDB's ESF. Main environmental and social risks include impacts on biodiversity in the Amazon terrestrial and aquatic ecosystems, along with the displacement of around 440 households, the erosion of river banks, as well as negative impacts on Indigenous Peoples and quilombola[48] in buffer zones.[49]

Despite these glaring impacts on people’s lives, livelihoods, and the environment, Brazilian authorities continue to pursue the partnership with the NDB as it is able to attract investment for the construction of infrastructure. The NDB, as a Southern-led bank, has failed to adopt principles of South-South cooperation that promotes equality, democratic ownership, non-conditionality, and mutual benefit.

While road infrastructure can provide connectivity and accessibility to far-flung areas, these should not lead to forced displacement of communities and negative impacts on the environment, especially in the midst of a climate crisis. Furthermore, road infrastructure must be pursued to provide communities access to crucial social services, and not for government and private sector partners to gain access to and exploit natural resources.

Conclusion

As the government of China increases its presence in the region of Latin America and the Caribbean through IFIs like the AIIB and the NDB, there is a need to scrutinize existing policies, projects, and strategies of these banks to ensure that they contribute to genuine development of the region and its people. It can be seen that the entry of China into LAC is driven by its geopolitical, security, and economic interests, as it aims to expand its influence and counter the American presence in the region. LAC countries have increasingly joined these IFIs as members due to the perceived infrastructure financing gap that is viewed as a hindrance to economic development, which was further promoted due to the impact of the pandemic on LAC economies.

The case studies in Ecuador and Brazil showed that despite the short history of the AIIB and NDB in the region, these have contributed largely to negative impacts on the marginalized communities and the environment. As these banks continue to promote infrastructure-led and private sector-led development in the region, credit lines, and transport construction projects remain harmful to these developing countries. These banks have also been partnering with private sector entities that have a track record in violating human rights, such as other IFIs and corporations. By providing financing to these bodies and promoting hands-off lending, the banks rid themselves of accountability and responsibility over the impacts of their projects.

Recommendations

This report forwards the following recommendations for adoption by both the AIIB and the NDB to genuinely contribute to a people-centered, rights-based, and climate-resilient development in the LAC region and beyond:

1. **Promote the democratic ownership of development priorities.** It can be seen that the AIIB and NDB's processes are shaped by Chinese interests in the region, as one of the largest shareholders of these institutions. As development projects remain tied to China's geopolitical and economic interests, these are not freely determined by the concerned communities and sectors and even create harm. In undertaking road infrastructure projects and receiving loans, it is necessary to uphold and pursue free, prior, and informed consent from affected Indigenous Peoples and communities. The banks must espouse a people-centered and rights-based approach, and not a corporate and infrastructure-led model.

2. **Genuinely contribute in achieving Agenda 2030 and addressing the climate crisis.** As the global South remains to be at the frontlines of the development and climate crisis, IFIs must align their projects in attaining Sustainable Development Goals (SDG) targets and the Paris Agreement. While the AIIB has promised to improve its operations by 2023 to suit the provisions of the Paris Agreement, the NDB has not declared its intent to do the same. Despite the lack of urgent actions, both banks' projects have also largely led to human rights violations and environmental degradation, a regression from the goals of Agenda 2030.

3. **Adopt and implement environmental and social safeguards, which uphold peoples' rights and environmental conservation, as well as grievance and redress mechanisms for affected communities.** Given the impacts posed by IFI-funded development projects in the region, strong, required safeguards are needed for IFIs, governments, and private sector partners to uphold. These policies should not be diluted to cater to private sector interests and should be applicable to all the bank's initiatives, including co-financed projects. Financial institutions must also have the necessary capacities to address issues specific to women and children, Indigenous Peoples, the urban poor, farmers, fisherfolk, workers, among other marginalized groups. Affected communities must be provided recourse through grievance and redress mechanisms that remain open, safe, and accessible. Complaints and criticisms raised through these channels must be adequately addressed by the banks.

4. **Adhere to the development effectiveness and South-South cooperation principles in all projects and processes.** As emerging development actors in the region, both the AIIB and the NDB should demonstrate its commitment to the development effectiveness principles of democratic country ownership, focus on results, inclusive partnerships, and mutual transparency and accountability. These institutions must also engage in South-South cooperation that respects national sovereignty, democratic country ownership, non-conditionality and non-interference. This would enable the growth of self-sustaining economies in the region that can attend to the peoples' immediate needs and long-term development priorities.

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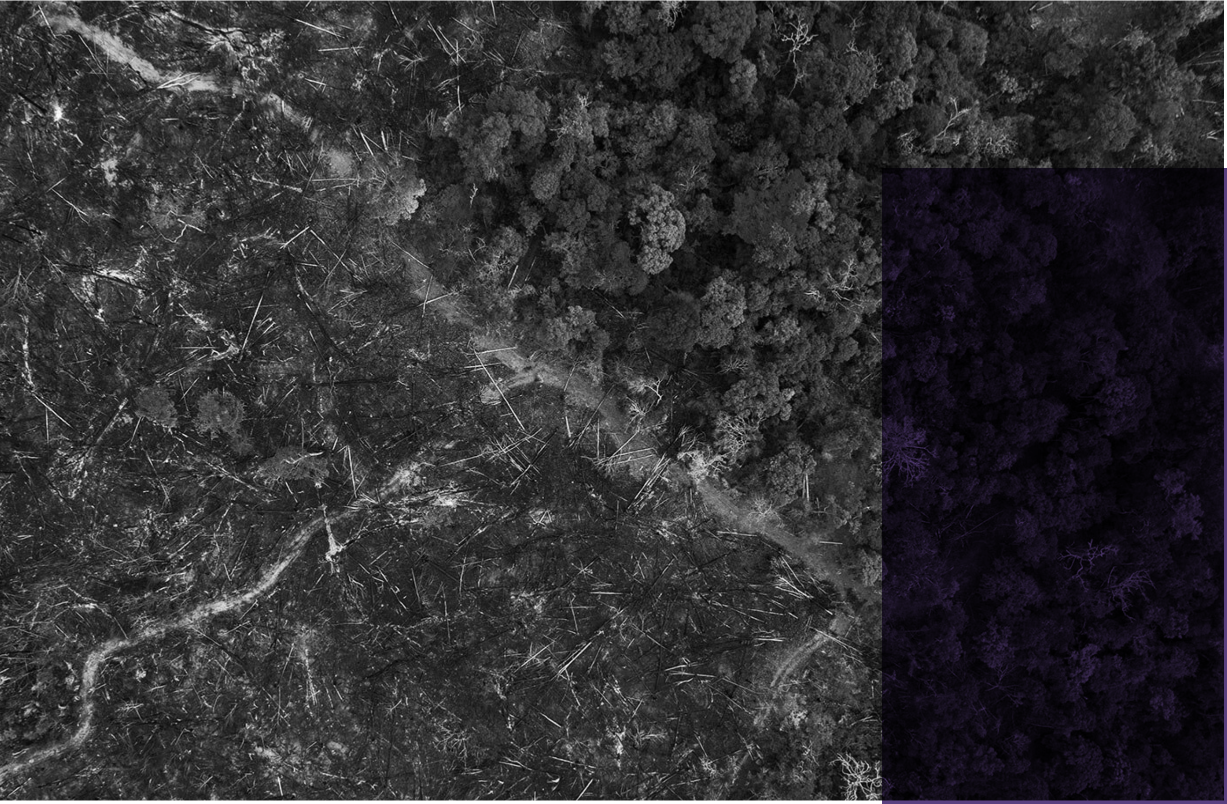

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