ENSURING SUSTAINABILITY IN THE ASIAN INFRASTRUCTURE INVESTMENT BANK AND THE NEW DEVELOPMENT BANK

A SAIS International Development Practicum Report

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ENSURING SUSTAINABILITY IN THE ASIAN INFRASTRUCTURE INVESTMENT BANK AND THE NEW DEVELOPMENT BANK

I. INTRODUCTION

Amidst the recent increase in economic prominence of emerging markets in the 21st Century, the most influential of these countries are creating two new multilateral development banks (MDBs). Brazil, Russia, India, China, and South Africa, collectively referred to as the BRICS countries, have established the New Development Bank (NDB). Additionally, China, with support from a growing number of developing and developed countries, has created the Asian Infrastructure Investment Bank (AIIB), which, along with the NDB, has gained momentum as an alternative within the existing MDB landscape, a landscape traditionally dominated by Western powerhouses. Bretton Woods institutions, like the World Bank (WB) and International Monetary Fund (IMF), and regional development banks, such as the Asian Development Bank (ADB), have historically tilted favor towards developed economies like the United States and Japan. However, amidst a growing wave of emerging markets, and a shift towards their greater inclusion in the global economy, an analysis, and potential reworking, of development finance is ripe. Moving forward, it is imperative to consider how these new institutions, the NDB and AIIB, will fit into the current development finance sphere or, potentially, reshape it. A thoughtful analysis of the current system through a widened lens that includes these new actors will be especially important as it pertains to concerns for surrounding communities and the environment; that is, how these new institutions plan to address (or not to address) social and environment safeguard policies.

Current international financial institutions (IFIs), like the WB and ADB, have decades of experience in the development finance realm, allowing them to develop and shape their safeguard standards over the course of their respective histories. As such, new entrants, like the NDB and AIIB, have the advantage of building upon this experience and time-tested knowledge, which presents them with a unique opportunity to develop their own safeguard policies with relative ease. Although, these new institutions need not necessarily adopt the existing safeguard policies as their own. The opportunity to do so, however – or to at least work them into their own policies as they deem appropriate – presents a great advantage for these new institutions that is worth consideration.

The addition of these new financing institutions offers many benefits to the development finance realm on the whole. For example, their inclusion would signal a significant

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1 While World Resources Institute offered guidance for this practicum report, it is not a final product of WRI.
2 “The BRICS: Challengers to the Global Status Quo,” The Nation, 2014
3 See the section on safeguards below, as well as the appendix, for additional background on safeguard policies at the World Bank and Asian Development Bank.
addition towards the great financing gap for much-needed infrastructure throughout the developing world. On the other hand, however, there exists skepticism that these new institutions may not meet the same rigor in protecting against negative societal and environmental impacts. For example, the US National Security Council spokesman Patrick Ventrell recently said, in response to the development of the United Kingdom joining the AIIB, “we have concerns about whether the AIIB will meet [existing high MDB standards], particularly related to governance, and environmental and social safeguards.”

While the final state of these new institutions is not yet clear, this report delves deeper into these issues to better understand the direction that these banks might take, particularly in regards to safeguard policies. To do so, we interviewed professionals across multilateral development banks and civil society organizations (CSOs) about their beliefs regarding the current state of social and environmental safeguard policies and about the potential addition of new entrants like the NDB and AIIB. Using our interviews and survey responses we have drawn results, which are presented across the two groups (MDBs and CSOs) to more succinctly reflect and compare the views of each. These results, paired with our own research, helped us to draw our conclusions regarding the current state of safeguard policies, as well as our recommendations for the NDB and AIIB as they move forward.

It is important to note that our research and interviews focused particularly on two, large MDBs, those being the World Bank and the Asian Development Bank. While we recognize the challenge that this limitation presents to the representativeness of MDBs as a whole, we focused on these two institutions given: 1) their rich history in the development finance realm on the whole, 2) their well-established safeguard policies that have undergone much analysis and revision, from which we may learn, 3) their important (i.e. influential) standing in the development finance landscape currently, and 4) our greater access to their personnel, relative to other institutions, for interviews.

It is also worth noting that news regarding these new institutions is fluid and evolving on a daily basis. For example, during the writing of this report a cascade of European countries (the UK, France, Italy, and Germany) recently joined the AIIB, signaling the great potential for further developments that may be on the horizon. As such, our report serves as an important baseline for the situation on hand as it stands now, which will be seminal for future research on these new institutions and how they might develop. It is important then to keep in mind the context in which our interviewees’ thoughts were expressed, as their opinions – much like the global, political winds – may very well shift in response to the rapid, ongoing development of these new institutions.

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II. METHODOLOGY

Our team developed a seven-month project to address the many questions and concerns surrounding the development of the NDB and AIIB. In order to explore what these new developments mean for the development finance arena and safeguard policies our team of four graduate student researchers interviewed various experts and professionals in Washington DC, Beijing, and Manila to gather their insights, perspectives, and recommendations.

Literature Review and Desktop Research

To adequately grasp the big-picture questions on hand regarding the development of the NDB and AIIB, our team first conducted a literature review and desktop research of social and environmental safeguard policies. It was necessary to understand the evolution of safeguards so that we could adequately paint a picture of the landscape that these new institutions are walking into. Much of this research used open sources available by the WB and ADB, focused on for reasons mentioned above. The bulk of this research is reflected in the safeguard section below, which is further complemented by a more in-depth history of safeguards in Appendix F. This research helped us to develop our stakeholder analysis and to prepare the most appropriate survey for our interviews.

Further, beyond our broader research on safeguard policies, we spent a significant amount of time researching the proposed institutions. Since the NDB and AIIB are not yet finalized, information has been limited. Little was known about these institutions when we began our research in October 2014, and there is still a dearth of information known with certainty. As such, our research relied heavily upon media news sources around the world and the breaking news that they provided regarding recent developments.

Stakeholder Analysis

Before conducting interviews, our team completed a stakeholder analysis to better understand the context of the development finance space (Appendix C). By evaluating what actors are potentially affected by the development of the NDB and AIIB, our team was able to better focus our interview efforts. With regards to the NDB and AIIB becoming active, Appendix C shows the interest level and power of stakeholders, who may influence NDB and AIIB development.
Interviews

Over the course of our research our team conducted interviews with 19 individuals. Appendix D shows the full list of those whom our team interviewed, which include professionals from civil society organizations (e.g. World Wildlife Fund) and MDBs (e.g. the Asian Development Bank). As the AIIB and NDB are still in the early planning stages, our interviews did not involve talks with any known AIIB or NDB staff.

Survey

Our team also developed a survey questionnaire in an effort to standardize responses for more efficient analysis of findings from interviews (Appendix E). To standardize responses each interview included a survey of ten statements, five addressing social and environmental safeguards (e.g. “Current safeguards have been adequate in ensuring protection of local social and environmental standards”) and five addressing the development of NDB and AIIB (e.g. “The creation of the NDB and AIIB could result in the harmonization of safeguard policies”). Respondents were asked to agree or disagree with each statement by giving a score of 1 (strong disagreement) to 6 (strong agreement). By limiting respondents to a single, scored answer, our team was able to more concretely analyze responses from the many interviews.

After receiving scored responses to the survey, we conducted in-depth interviews to explore the statements further and to allow interviewees to elaborate upon the nuances in their responses and to explain their opinions more fully. These comments were noted, analyzed, and taken into consideration as we developed our main findings.

Analysis, Findings, Results

After conducting interviews, our team developed our main findings, conclusions, and recommendations. Towards this effort we analyzed: 1) existing literature, 2) the survey results, and 3) the detailed comments made by interviewees.

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5 While we met with a range of stakeholders, it is important to note our research was limited by time and scheduling of requested interviewees. As previously noted, our group met with many World Bank and ADB staff, but was unable to secure meetings with stakeholders like the Chinese Ministry of Finance or Mr. Jin Liqun. Additional research would benefit greatly from casting a wider net of interviewees.

6 Discrepancies between total interviewees and survey respondents are due to having developed our survey after having already completed our first two interviews.
III. ORGANIZATION AND GOVERNANCE

Talk of creating the New Development Bank and the Asian Infrastructure Investment Bank has been mounting for years; however, recent advancements in planning and membership have finally begun to launch this talk and speculation into action. For example, BRICS leaders agreed upon the creation of the NDB at the V BRICS Summit in March of 2013, over two years ago. And while the details of organization and implementation for the NDB are yet to be finalized, operation may begin by 2016, signaling the intense ramping up that may be the remainder of 2015. The AIIB similarly has been developing quickly, if not more so, since its proposed inception in October of 2013. One need not look further than the string of countries joining as AIIB founding members in March 2015, which included a handful of European powers, as evidence of the recent momentum working strongly in favor of the AIIB.

The New Development Bank (NDB)

During the VI BRICS Summit in July 2014, the BRICS countries agreed upon the creation of the New Development Bank (NDB), solidifying themselves as the bank’s founding members. According to the establishing agreement, the NDB will have a dual mandate focused on investing in infrastructure and sustainable development projects. This dual mandate aims to complement the existing efforts of multilateral and regional financial institutions for global growth and development. Further, the initial authorized capital for the NDB will be US$ 100 billion and the initial subscribed capital of US$ 50 billion, divided equally between the founding members. Recent media reports signal that the NDB has plans to begin functioning by the end of 2015.

Membership within the NDB will be open to other members of the United Nations, though special precautions have been taken to ensure continued dominance of the bank by the BRICS countries and a minimized role of “non-borrowing” members. Precautions include mechanisms that ensure BRICS countries’ vote shares do not drop below 55% of total shares and that the aggregate vote share of “non-borrowing” member countries does not exceed 20%. Finally, to preserve the influence of the BRICS countries over other potential shareholders, any individual non-founding member country will not be allowed to accrue greater than 7% of the total voting power.

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9 “Agreement on the New Development Bank,” VI BRICS Summit Ministry of External Relations, 2014
10 Ibid
11 Ibid
12 Authorized capital, distinct from subscribed capital, is the maximum amount of share capital that the bank is authorized to issue to shareholders. Subscribed capital is the portion of capital that has been allotted by all investors.
12 “BRICS Leadership Passes to Russia, $100bn Development Bank ‘Main Priority,” Russia Today, 2015
Ensuring Sustainability in the Asian Infrastructure Investment Bank and the New Development Bank

Exhibit 1: Voting share at the NDB (Source: Agreement on the New Development Bank\textsuperscript{13})

The headquarters of the NDB is to be located in Shanghai and the organization of the bank appears to be modeled after the existing MDBs. A Board of Governors will act as the senior decision-making body, which will delegate authority to the Board of Directors. The Board of Governors will also have the power to elect the President, who will come from the BRICS countries on a rotating basis. The first president of the NDB will be from India, the first chair of the Board of Governors will be from Russia, and the first chair of the Board of Directors will be from Brazil.\textsuperscript{14} Additionally, each BRICS country will have at least one vice president. Collectively, these mechanisms are intended to give the founding BRICS members sufficient representation.

The Asian Infrastructure Investment Bank (AIIB)

Compared to the NDB, the organization of the Asian Infrastructure Investment Bank is much less certain, as its articles of agreement have not yet been signed. However, there is the perception, as expressed in interviews by many MDB officials keen on this subject that the development of the AIIB is progressing more quickly than that of the NDB. The Chinese Ministry of Finance has announced that they expect to complete negotiations on the AIIB’s charter and regulations before June 2015.\textsuperscript{15} Of what is known, the AIIB’s headquarters will be based in Beijing\textsuperscript{16} and the AIIB was established October 24, 2014 with the signing of the Memorandum of Understanding (MOU) by 21 Asian countries.\textsuperscript{17} Since then, 57 countries have signed on as prospective founding members for the establishment of the AIIB (Exhibit 2). Notably absent are two major economies:

\begin{itemize}
  \item \textsuperscript{13}“Agreement on the New Development Bank,” VI BRICS Summit Ministry of External Relations, 2014
  \item \textsuperscript{14}“What the New Bank of BRICS is all About,” The Washington Post, 2014
  \item \textsuperscript{15}“Asian Infrastructure Bank to be Operational by Year End,” The Economic Times, 2015
  \item \textsuperscript{16}“21 Asian Countries sign MOU to set up AIIB,” China.org.cn, 2014
  \item \textsuperscript{17}“Memorandum of Understanding to Establish the AIIB, AIIBank.org, 2015
\end{itemize}
Japan and the United States, choosing not to participate because of geo-political concerns.\textsuperscript{18}

\textit{Voting Shares and Organization}

The voting power of the AIIB participating members is not yet defined and information remains unclear; however, it is believed that China will have a more substantial voting share than any other member, likely no less than 49% of the total shares.\textsuperscript{19} In fact, of the expected capitalization of US$ 100 billion, the Chinese government is expected to furnish US$ 50 billion and other institutions and private lenders are expected to contribute the remaining US$ 50 billion.\textsuperscript{20}

Regarding the structural organization, little is known on the AIIB, however, it has been reported that Jin Liqun, a Chinese former Vice-president of the Asian Development Bank (ADB), has been appointed to head the AIIB.\textsuperscript{21}

\textit{Last-Minute Additions to the AIIB Founding Members}

It is interesting to note the flurry of activity as the deadline for those seeking to be prospective founding members at the AIIB neared. Applications were to be received by March 31, 2015 and until March 2015 the list of prospective founding members did not span far beyond the 21 original, MOU signatories. However, on March 12, 2015, the United Kingdom announced that it would join the AIIB, which was instrumental in opening the door for other developed economies to follow suit. Officials from the UK stated that by joining the bank as a founding member, the UK would be able to shape the new institution from the inside. British Chancellor George Osborne also stated that Britain would help ensure that the AIIB uphold high standards of governance, joining discussions with other founding members to outline the institution’s governance and accountability structures.\textsuperscript{22}

Following the addition of the UK as a founding member, European economic powers France, Germany, and Italy joined the AIIB in mid-March 2015. With the move of four influential European nations joining the AIIB, others quickly followed suit in support of the bank, which included South Korea, Switzerland, Luxembourg, and, key US ally, Australia. On April 15, 2015, the AIIB released its final, approved list of founding members, which includes over one-quarter of the world’s countries (57, to be exact), and 16 of the 20 largest economies (the US, Japan, Canada, and Mexico being the four holdouts).\textsuperscript{23}

\textsuperscript{19} “Australia Shifts Stance on China-led Development Bank,” Financial Times, 2015
\textsuperscript{20} “China, 20 Other Countries Initiate new Asian Bank,” Daily Mail, 2014
\textsuperscript{21} “Jin Liqun: China’s Helmsman to Establish AIIB,” Devex, 2014
\textsuperscript{22} “European Giants Side with UK in Chinese World Bank Row With US,” The Telegraph, 2015
\textsuperscript{23} “China’s AIIB: The Final Tally,” The Diplomat, 2015
Exhibit 2: Countries that have signed the Memorandum of Understanding on Establishing the Asian Infrastructure Investment Bank (Source: World Resources Institute\textsuperscript{24}, AIIB\textsuperscript{25})

\textsuperscript{24} World Resources Institute internal report, 2015
\textsuperscript{25} Prospective Founding Members list from the AIIB official website, 2015
With this final tally in mind, it is interesting to note a few key points:

1) Japan, a regional power, is nearly alone in not joining as a founding member. Others in the region that did not join are those rife with conflict (e.g. Syria, Iraq, Afghanistan), small in terms of GDP (e.g. Papua New Guinea, Bhutan), or avoid international entanglements (e.g. Turkmenistan, North Korea).26

2) There is strong support from Western Europe, as signaled by founding members that signed on. Eastern Europe, on the other hand, has fewer members, perhaps as a signal of its relatively poorer access to capital to invest in an extra-regional bank.27

3) Although Western Europe has a strong representation, Jin Liqun has iterated that non-Asian country members will be limited to ownership of 25% of AIIB shares. This ostensibly benefits the AIIB by upping its prestige, by way of Western European support, without having to sacrifice much control to those outside of Asia. As such, strong regional members, like South Korea and Australia, may shoulder much of the responsibility in vocalizing concerns and holding the AIIB to high international standards.28
IV. SAFEGUARDS

Within the larger context of these new developments in the global development finance space, this report specifically seeks to better understand the potential impact that the NDB and AIIB may have on existing safeguard policies. It is important to consider whether they will adopt internationally-recognized safeguard standards or whether they might create their own policies. In doing so, it is necessary to consider the evolution of safeguard policies and the state in which we find them today. As such, this portion of the report details a brief history of safeguards policies, with an eye toward their future.

History and evolution

Safeguard policies guide MDBs in the minimization and mitigation of harmful social and environmental externalities consequent of MDB-financed operations. MDB safeguards set out the requirements for borrowers in the identification and management of social and environmental risks associated with projects; agreement on these strategies is generally required prior to the initiation of a project. Safeguard policies are intended to ensure that MDB operations fulfill the goal of sustainable development.

Exhibit 3: Historical development of safeguards

For reasons previously stated, our research focused primarily on the World Bank and Asian Development Bank. These organizations do not comprise all safeguard policies or reflect the full history of safeguards. However, we feel they are representative and adequate given the focus of our research and the goals of our report.

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Safeguard policies emerged as a response to substantial political pressure applied to MDBs in the face of environmental and social damage caused by their operations. A growing environmental movement, gaining traction during the 1960s and 1970s, pushed for political action, culminating in progress on international policies by the 1980s and 1990s.

As can be seen in Exhibit 3 above, the WB and ADB have often been important role players in the evolution of safeguard policies, which have often been revised for improvement. Given our interviews, and, thus, our report, focused on these two organizations, the importance of their individual histories and evolutions of safeguard policies cannot be overstated. However, as the full history is beyond the breadth and scope of our report, additional background on WB and ADB safeguard policies can be found in Appendix F.

**Existing Safeguard Approaches**

The evolution of developing stronger safeguard policies over time has not lost traction to date. Safeguard policies continue to be of great importance for international financial institutions; as such, it will be important for the NDB and AIIB to consider as they plan and develop for their own safeguard policies, if any at all. By exploring the current state of safeguard policies across MDBs and the private sector, an array of options are laid upon the table for new entrants to learn from and build upon as they consider the direction of their own policies.

Our analysis below focuses primarily on the World Bank and its current approaches to safeguard policies while it also touches upon other important actors and policies, like those of the International Finance Corporation (IFC) and the Equator Principles (EPs). While the following analysis is not comprehensive of all safeguards in existence, it represents a fair summary of important, guiding policies in the field today.

**Safeguard Approaches Among Existing MDBs**

The World Bank has recently utilized two different approaches for different types of finance for specific project loans: 1) traditional safeguards and 2) the use of country systems (UCS) safeguards approaches. Additionally, the WB has utilized other financing mechanisms for lending: the Program for Results approach for results-based loans and Development Policy Operations for loans for policy changes, which are beyond the scope of our research focus, though worth noting.30

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Exhibit 4: Different approaches to safeguards (Source: WRI “Striking the Balance” Report)

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td><strong>Traditional safeguards</strong></td>
<td>• Potentially ineffective incentive structure</td>
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<tr>
<td></td>
<td>• limited focus and resources for monitoring &amp; evaluation</td>
</tr>
<tr>
<td></td>
<td>• Relatively high investor engagement</td>
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<tr>
<td></td>
<td>• provides example for country systems</td>
</tr>
<tr>
<td><strong>Use of country systems</strong></td>
<td>• Higher costs, flexibility still limited</td>
</tr>
<tr>
<td></td>
<td>• unclear standards</td>
</tr>
<tr>
<td></td>
<td>• Focus on how to strengthen country systems</td>
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<tr>
<td></td>
<td>• balance between flexibility and accountability</td>
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As illustrated in Exhibit 4 above, there are strengths and weaknesses for each safeguard approach, traditional safeguards and use of country systems. Traditional safeguards were designed to ensure that World Bank-funded projects meet international standards of social and environmental protection, however, day-to-day implementation of the safeguards is mostly the borrower’s responsibility. Strengths include high MDB engagement in ensuring accountability and international standards that provide an example for national institutions to follow. However, weaknesses include a potential for additional workload upon government staff that must simultaneously implement national policies, which often results in a lack of ownership and ineffective implementation. Also, inadequate monitoring and evaluation by MDBs hinders effective safeguard implementation, as traditional safeguard policies are implemented in the early stages of a project and bank engagement is often reduced once funds are disbursed to the borrower at project initiation.

Given these challenges to the traditional safeguards approach, the World Bank sought improvement via the use of country systems approach. The UCS approach aims to promote country ownership, reduce transaction costs, and sustain long-term development. By evaluating the “equivalence” of the borrower’s safeguards to their own, or the extent to which they are designed to achieve the same objectives and adhere to the same principles, the World Bank decides if local policies are “acceptable.” If the borrower-country systems are insufficient, the World Bank’s policies will often take precedence and be used over the course of the project. As with the traditional safeguards approach, the UCS approach places responsibility of daily implementation in the hands of the government. Multilateral development banks beyond the WB have adopted a similar UCS approach, but under their own guidelines. For example, the ADB assesses “equivalence” and “acceptability” at the national, subnational, sector, or agency levels when working with borrowers.

In recent years, there has been a greater push towards using the laws and institutions available at the local (i.e. borrower) level to reduce environmental and social harm. This illustrates the shift that appears to be happening towards the UCS approach and giving
borrowers more control and responsibility over their projects given they build strong institutions capable of designing and implementing adequate safeguard policies. The 2005 Paris Declaration on Aid Effectiveness, where over 100 developed and developing agreed to improve coordination and focus on the establishing effective country systems, also illustrates this trend. For example, two of its five principles for improving development outcomes are “ownership” and “alignment” which respectively stress the goal for developing countries to “improve their institutions and tackle corruption,” as well as the goal for donor countries to “support...these strategies and use local systems.”

However, it is worth noting that while reviews of the UCS approach have found that environmental protection laws are typically strong in borrower countries, standards for social safeguards (e.g. involuntary resettlement) often remain weak. More generally, countries’ track records for implementation and monitoring are also often inadequate. Further, some borrower governments have voiced concern that the UCS approach is too rigid and, essentially, undifferentiated from the traditional safeguards approach. All evidence that the evolution of safeguard policies is ongoing.

The International Finance Corporation’s Environmental and Social Performance Standards

The International Finance Corporation (IFC) developed its Sustainability Framework in 2006, which articulates its strategic commitment to sustainable development. The IFC's Environmental and Social Performance Standards, part of the overall Sustainability Framework, have been adopted by many as an international benchmark for identifying and managing environmental and social risks within the private sector. The IFC's Performance Standards, most recently updated in 2012, define IFC clients' responsibilities for managing their environmental and social risks as a way of doing business in a sustainable manner.

Eight Performance Standards, which clients must meet, cover the following:

1) Assessment and Management of Environmental and Social Risks and impacts
2) Labor and Working Conditions
3) Resource Efficiency and Pollution Prevention
4) Community Health, Safety, and Security
5) Land Acquisition and Involuntary Resettlement
6) Biodiversity Conservation and Sustainable Management of Living Natural Resources
7) Indigenous Peoples
8) Cultural Heritage

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31 “The Paris Declaration for Aid Effectiveness: Five Principles for Smart Aid,” OECD.org
32 “Striking the Balance: Ownership and Accountability in Social and Environmental Safeguards,” World Resources Institute, 2014
33 “IFC Performance Standards,” First for Sustainability
From the list we can see these standards cover the importance of integrated assessment and the broad management of environmental and social risks, as well as the more specific risks that require particular attention. Additionally, the IFC Performance Standards ensure that grievances from affected communities and external communications from other stakeholders are responded to and managed appropriately through the Environmental and Social Management System (ESMS).

The IFC’s Performance Standards have become influential in the realm of safeguard standards, acting as a “de facto ‘standard-setter’ for private sector environmental and social risk management.” More than 118 financial institutions worldwide have adopted the Performance Standards into their own risk management systems, helping shape strong safeguard policies and spawning other mechanisms, such as the Equator Principles.

**Equator Principles**

As illustrated above with the IFC Social Performance Standards, safeguard standards have been extended to other financial institutions involved in infrastructure financing that similarly aim to protect against negative social and environmental impacts. In 2002, nine international banks and the IFC development of the Equator Principles (EPs), a risk management framework designed to guide private financial institutions. These principles help in determining, assessing, and managing environmental and social risks across projects with the goal of providing a minimum level of standards. It is sector agnostic, global in reach, and is applicable to four financial products:

1) Project Finance Advisory Services  
2) Project Finance  
3) Project-Related Corporate Loans  
4) Bridge Loans

As of today, 79 Equator Principles Financial Institutions (EPFIs) in 34 countries have officially adopted the EPs, covering over 70% of international Project Finance debt in emerging markets. Adoption of the EPs is open to any financial institution that meets the relevant requirements and is voluntary; however, once adoption has been made, the adopting entity must take all appropriate steps to implement and comply with the Equator Principles.

EPFIs commit to implementing the EPs in their internal environmental and social policies, procedures, and standards for financing projects. Further, they will not provide

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Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to, comply with the EPs. As such, the EPs have helped to increase the focus on social standards and responsibility, which includes robust standards for protecting indigenous peoples and consultation with locally affected communities. The EPs have also resulted in a streamlining of common environmental and social standards. Multilateral development banks, including the European Bank for Reconstruction & Development, and export credit agencies have utilized the same standards as the EPs in increasing numbers.

**Difficulties in the Implementation of Safeguards**

Given the outline above, which briefly highlights some of current safeguard policies in use today, it is helpful to explore the challenges faced during implementation, as well as the views that proponents have regarding safeguard policies and their effectiveness. While borrowers and lenders generally agree that environmental and social protections are beneficial and necessary, safeguard policies face challenges in implementation due to the disparate expectations, resources, and abilities between borrowers and lenders. Borrowers, many of which lag behind their lenders in technical skills and resources, are primarily tasked with the many duties of implementation, which occasionally exceed the local capacity for meeting high, international standards. Additionally, as the timing of safeguard compliance is often expected before funds are dispersed, borrowers find difficulty in financing necessary compliance protocol, exacerbating project design and implementation woes.\(^{35}\)

**Environmental and Social Safeguards Policies: Too Weak or Too Strict?**

Depending on the group asked, and their disposition towards environmental and social safeguards, entities may contend that safeguard policies are too weak or too strict. These views, explored below, comprise the opposing ends of the spectrum, which is a helpful tool for new institutions, like the NDB and AIIB, to use while seeking the appropriate balance while designing their own safeguard policies.

*Safeguards Policies Are Too Weak*

Generally, civil society actors have argued that safeguards are weaker than they should be and that, in many cases, they are on track to be weakened even further. Some civil society actors claim that as safeguard policies evolve, there is a push by management to reduce the stringency of requirements. For example, such proponents have stated that, “there are early indications that the [World] Bank may seek to weaken the safeguards through the upcoming review and update, potentially replacing them with

vague principles and non-mandatory ‘flexible’ implementation standards” and that there is “a risk of weakening standards” as the World Bank looks to “quicken the safeguard screening process.”

**Safeguards Policies Are Too Strict**

Some borrowers and bank staff, however, view safeguard policies as stricter than necessary, potentially adding delays and costs to projects. Such proponents would prefer to weaken safeguard policies as a means to increase the ease of lending and decrease associated costs. Proponents of this approach tend to believe that the costs of compliance with safeguards outweigh the benefits gained from better environmental and social policies. According to a World Bank study from 2001, safeguard policies, of one kind or another, increase project preparation costs between $200 and $300 million annually. Further, a 2011 Independent Evaluation Group report found that social and environmental costs significantly outweigh the benefits of safeguard implementation when risks are underestimated or when communities are excluded from project benefits.

Further, some policies may affect the tendency of bank staff to take on certain projects, which can be viewed as a limitation of strict safeguards, since they are substantially less likely to take on projects that have high probabilities of delays and difficulties in implementation. In fact, some claim that the presence of strict safeguard policies pushes borrowers away from MDBs, instead leaving would-be borrowers to proceed with little to no safeguards. As such, borrowers may often come to cause more environmental and social damage than they otherwise would with MDB collaboration, assuming modest safeguards. As such, there is a delicate balance that new institutions interested in designing safeguard policies need take note of: weak safeguard policies threaten to leave environmental and social risks unchecked, yet corrective safeguard policies that become too strict may actually become self-defeating by making projects cost prohibitive and might push borrowers towards less stringent options. Similarly, countries that have the option to borrow from capital markets, rather than from MDBs, are choosing to do so more often, resulting in processes that have even less scrutiny than when sanctioned by MDBs, such as the World Bank or Asian Development Bank.

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37 “NGOs: Fighting Poverty, Hurting the Poor,” Foreign Policy, 2009
38 “Evaluative Directions for the World Bank Group’s Safeguards and Sustainability Policies,” Independent Evaluation Group, 2011, pg. 11
40 “NGOs: Fighting Poverty, Hurting the Poor,” Foreign Policy, 2009
V. THE IMPLICATIONS OF THE NEW DEVELOPMENT BANK AND THE ASIAN INFRASTRUCTURE INVESTMENT BANK JOINING DEVELOPMENT FINANCE

With these proposed institutions projected to become operational in the near future, a multitude of important questions and challenges of how to balance the different factors that push, pull, shape, and influence safeguard policies become increasingly relevant. China has already taken steps to launch itself atop the list of largest donors. For example, reports estimate that China invested US $37 billion in Latin America in 2010 alone – that is more than the World Bank, Inter-American Development Bank, and the United States Export-Import Bank combined for that year. Such trends show that change in the development landscape is not just on the horizon, but is already occurring.

Given the recent developments of the NDB and AIIB, there are a number of questions that help address and frame concerns regarding what these developments mean for development finance, safeguard policies, and all the actors involved. Key questions include:

- Will the addition of the NDB and AIIB, driven by China, further bolster China’s growing importance in the development landscape?
- Will more financing by these Chinese-led institutions necessarily signal a move towards less stringent safeguard policies? Or might the safeguard standards be at the same level, or even more robust, than current MDB standards?
- If this does signal a move towards less stringent safeguard policies, does this pose a greater risk for a “race to the bottom” among competing institutions, forced to weaken safeguards, in an effort to maintain relevance?
- Or might the NDB and AIIB fit more harmoniously into the existing space, providing more opportunities for all MDBs to co-finance and work together towards alleviating the immense need for development projects and financing?

The Benefits of Creating these New Institutions

To further evaluate the potential entrance of the NDB and AIIB to the development finance landscape, it is worthwhile to take stock of what benefits, as well as potential challenges, lay ahead. By entering the market, the NDB and AIIB may bring much-needed relief to some challenges that currently affect the system. We begin with three important areas in which these new institutions bring benefits, followed by a principle concern that may bring negative effects.

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**Benefit: Help Relieve Insufficient Infrastructure Funding to Meet Development Needs**

Currently, traditional financing mechanisms are unable to meet the need for spending in the developing world, particularly in the area of infrastructure. In Asia alone, despite having access to international capital markets, the overall need for national infrastructure investment is estimated to be about US$ 8.22 trillion for the period between 2010-2020. Total expenditures on infrastructure throughout Asia come from a number of actors in the sphere, mostly domestic development banks, private investment, and MDBs, and the ability to tally this total expenditure towards this US$ 8.22 trillion need over the next decade is quite difficult. However, based on trends of what large actors have contributed recently, meeting this large need is likely to be very difficult. For example, the current ADB and World Bank capital bases alone, two of the largest MDBs operating in Asia, are far from adequate in meeting this great need. For the 2014 fiscal year, the World Bank’s overall global spending on infrastructure was US$ 24.2 billion, while the ADB’s total assistance spending across all sectors in 2013 was US$ 21 billion.

*Exhibit 5: Infrastructure Development Financing Gap for 2010-2020 in Asia Pacific*
(Source: McKinsey Global Institute Report – Infrastructure productivity: How to save $ 1 trillion a year; Standard & Poor’s Rating Services – Global Infrastructure: How to fill a $500 Billion Hole)

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43 Asian Development Bank Annual Report 2013
The ADB and World Bank do not represent total financing throughout Asia, as individual country domestic development banks and private investment provide to the overall financing equation. However, even with contributions from domestic development banks and private investment, covering the gap to meet the US$ 8.22 trillion need for infrastructure spending remains a large challenge. Private investment in infrastructure in the Asia Pacific region for 2013, for example, was just US$ 33 billion. This, even aggregated with global World Bank and ADB infrastructure spending, let alone regional spending, would still fall hundreds of billions of dollars short of the US$ 800 billion needed yearly in Asia. In fact, this financing challenge is compounded by the current, overall decline in private sector investment in infrastructure across the region, which dropped from US$ 58 billion in 2012 to US$ 36 billion in 2013.

Exhibit 6: Estimated private investment in Asia Pacific
(Source: Private Participation in Infrastructure Database, World Bank)

Such massive infrastructure investment needs far exceed that which is currently available, indicating that there is space for new financial institutions to have positive impacts. Illustrating willingness for collaboration, the World Bank Group President, Jim Yong Kim, has welcomed the arrival of these new institutions, saying, “Globally, we need additional funding for critical infrastructure projects and so we welcome efforts that will lead to more long-term financing.”

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Benefit: Address the Disproportionate Representation Within Current MDBs

The distribution of voting shares within the traditional international financial institutions has been slow to reflect the changing landscape of the international economy. For example, according to The World Bank’s 2013 and 2014 data on world GDP and population, the BRICS countries (Brazil, Russia, India, China, and South Africa) together comprise 20.5% of the world economy and 42.2% of the world’s population, while collectively 14.0% and 11.0% of vote shares in the IBRD and IMF respectively. Compare this with the US and Japan that collectively accounts for 29.0% of the world economy and just 6.2% of the world’s population, but have nearly 23.0% and 31.3% of the vote shares in the IMF and ADB respectively.

Exhibit 7: Share of the economy and population compared with the voting share at leading MDBs (Source: World Bank Group, IMF, ADB)

In this context the push for alternative development finance institutions becomes clearer, particularly as viewed through the political-economic lens of China. As the world’s second-largest economy, China imposes great influence and leadership in Asia, leaving some to question if the current role China plays in the existing landscape is sufficiently representative of its expanding economic role; for example, China’s voting share in the ADB is less than half that of Japan, despite having double the GDP of Japan. Unsurprisingly, a cadre of emerging economies, led by the BRICS countries and in particular China, has made inroads to changing the existing system by laying the foundation for the NDB and AIIB.
**Benefit: Address Borrower Countries’ Desire for More Flexible Safeguard Regimes**

Further, in addition to the hefty challenges of designing, implementing, and monitoring the appropriate level of safeguards, some borrowers feel that there are underlying challenges to national sovereignty when financiers impose standards upon them. Some borrowers argue that these institutions’ safeguard and inspection mechanisms often halt or delay projects unnecessarily. Borrowers with access to international capital markets, for example China and India, occasionally refuse to be subjected to what they consider onerous and intrusive external social and environmental safeguards for projects. Additionally, it has been stated that many governments regard loans with governance conditions attached as intrusive political meddling. By offering an alternative to the rigid safeguards promulgated by the World Bank and regional development banks, these new institutions will allow more choice for borrower countries in financing.

**Challenges Related to the Creation of these New Institutions**

As mentioned above, the NDB and AIIB have the potential to bring relief to some of the current concerns that ail the development finance landscape at present. However, it would be remiss to neglect consideration of how their participation might likewise bring new challenges or negative side effects, unintended as they may be. The below point is a principle concern, commonly cited by proponents of strong safeguards, that deserves due consideration by all actors in the development finance realm, particularly those looking to enter as new IFIs.

*International Finance Institutions with Weak Safeguards May Increase Environmental and Social Risks*

Proponents of strong safeguard policies argue that new institutions entering the development finance atmosphere might ignore negative environmental and societal impacts. These critics point to past development projects that have met backlash for their shortfalls in adequately preventing or addressing such issues, highlighting the opportunities for great improvement in safeguard design and implementation. For example, see Exhibit 8, which highlights four recent projects that exemplify the social backlash that has come at the hands of failing to adequately handle land confiscation, decimating local livelihoods, and destroying the surrounding environment.

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Exhibit 8: Examples of projects that have suffered from complaints of negative environmental and/or social effects (Sources: Footnoted)

<table>
<thead>
<tr>
<th>Project</th>
<th>Funder(s)</th>
<th>Claimed Negative Effect(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China-Burma oil and gas pipeline project</td>
<td>China Development Bank</td>
<td>Inadequate confiscation of farmers’ lands; undue harm to the environment; disproportional gains to China and not to host, Burma</td>
</tr>
<tr>
<td>Financing for Brazilian cattle farmers and meatpackers</td>
<td>IFC and the Brazilian Social and Economic Development Bank (BNDES)</td>
<td>Mass deforestation to clear room for cattle, increased greenhouse gas emissions</td>
</tr>
<tr>
<td>Tata Mundra thermal power plant (India)</td>
<td>IFC</td>
<td>Deterioration of water quality and, thus, fisherman livelihoods; poor health due to air emissions; destruction of mangroves</td>
</tr>
<tr>
<td>Patuca hydroelectric project (Honduras)</td>
<td>Export-Import Bank of China</td>
<td>Flooding of national parks and rainforests, loss of indigenous livelihoods</td>
</tr>
</tbody>
</table>

These critiques highlight the need for improvements in safeguard policy implementation by many institutions, and while some critics may point to tenuous track records by some Chinese institutions there shifts that signal an improvement. For example, civil society organizations (CSOs) have expressed a growing voice in China, allowing them to raise concerns over harmful impacts to the environment and society to a more approachable Chinese government; a point explored further in our key findings from interviews. Additionally, the flood of countries signing on as founding members of the AIIB is a potential signal of international support for Chinese-led institutions. This may illustrate that there is a shift on hand, supporting the idea that strong safeguard policies will prevail in one form or another and that previously problematic development projects may serve as examples to learn from for future safeguard design and implementation.

49 “With Oil and Gas Pipelines, China Takes a Shortcut Through Myanmar,” Forbes, 2015
50 “BNDES and it’s Environmental Policy: A Critique From the Perspective of Organized Civil Society,” NGO Reporter Brasil, 2011
51 Complaint filed by Compliance Advisor Ombudsman on behalf of the Association for the Struggle for the Fishworkers’ Rights, 2011
VI. KEY FINDINGS

This section of the report will focus on the key findings from the surveys and accompanying interviews, expressing the viewpoints held by professionals with substantial knowledge of safeguards and development finance. The results of the interviews shed light on the opinions held by people working within the multilateral development banks and civil society organizations, particularly in relation to the current state of safeguard standards and the potential impact of the AIIB and the NDB entering the development finance space.53

Responses to Statements Regarding the Current State of Social and Environment Safeguard Standards (Survey Statements 1-5)

Exhibit 9: Summary of the survey results on social and environmental safeguards
(Source: Authors)

- Social and environmental safeguards remain “net-beneficial” and essential for development finance.
- Current safeguards have been adequate in ensuring protection of local social and environmental standards.
- Geographic, political, social, and economic contexts determine how well safeguards are implemented.
- Social and environmental safeguards are usually successfully implemented.
- Strict enforcement of safeguards does not necessarily delay larger infrastructure development projects.

Social and Environmental Safeguards Remain “Net-Beneficial” and Essential for Development Finance (Statement 1)

Our survey results (Exhibit 9) clearly indicate the consonance of views of professionals from both the MDBs and CSOs on the necessity and the utility of safeguards for

53 The opinions expressed during the interviews are not necessarily representative of the multilateral development banks or the civil society organizations as a whole.
development finance. Opinions differ regarding the chosen methods and effectiveness of the implementation of safeguards. Staff from MDBs tended to have greater confidence in the implementation of safeguards and their universality, where individuals from CSOs had more significant concern about implementation and country contexts.

**Social and Environmental Safeguards are Usually Successfully Implemented (Statement 2)**

Those interviewed from MDBs generally shared the view that their respective safeguard standards are more than adequate as policy tools to protect against societal and environmental harm. MDB interviewees often referred to their safeguard policies as the “gold standard;” however, they are not immune to the many implementation challenges associated with the enforcement, evaluation, and monitoring processes, as noted by the CSO interviewees. This disparity is illustrated by our survey results, showing the relatively wide gap between the interviewee groups. The majority view across CSO interviewees was that MDB safeguards still have plenty of room for improvement in regards to design and implementation.

A key concern mentioned by some interviewees, across both CSOs and MDBs, is the importance of local contexts, such as the strength of governance, credibility, and capacity of in-country institutions, which affect the way safeguard standards are enforced and monitored. As traditional project funding places the responsibility of implementation in the hands of the borrower, the efficient implementation of safeguard policies clearly hinges upon these challenging local contexts.

**Strict Enforcement of Safeguards Does Not Necessarily Delay Larger Infrastructure Development Projects (Statement 3)**

As discussed above, there is a commonly held view that the strict enforcement of safeguards causes delays and additional costs to projects; however, most interviewees were of the opinion that safeguards are an integral component of project planning. This opinion was expressed across interviews with both CSO and MDB officials with whom we met. When done correctly, various interviewees noted, safeguards actually prevent unnecessary delays and costs during implementation by appropriately accounting for contingencies during the planning phase. Cost overruns, instead, are often associated with poor planning due to the rush to fast track the project implementation. Rather than being an additional cost to the planning of a project, interviewees – particularly those at MDBs – noted the integral role that planning for safeguards play from the onset of project design.

54 Section “Borrower Countries’ Desire for More Flexible Safeguard Regimes”
As a side note, regarding delays, one MDB interviewee commented on the improvements that technology could contribute to reducing delays in project implementation, such as improved communication via the Internet for public disclosure and community feedback. Concerns about slow project processes extend beyond hurdles presented by safeguards. For example, government policies, like the Pelosi Amendment in the United States, can put constraints on projects. Specifically, the Pelosi Amendment limits the ability of the United States to vote in favor of projects that pose significant environmental risks. Such projects also require an Environmental Impact Assessment (EIA), which must be publicly disclosed 120 days prior to any board vote, or the U.S. Executive director is barred from supporting the investment.

*Geographic, Political, Social, and Economic Contexts Determine how well Safeguards are Implemented (Statement 4)*

The general opinion of interviewees was that local contexts are important in the implementation of safeguards, and that local capacity is key to positive outcomes. While interviewees from CSOs and MDBs generally agreed with Statement 4, our results indicate a difference between them, with MDBs agreeing slightly less with the importance of local contexts. While interviewees from MDBs believe that local contexts are important, some interviewees stressed the institutional quality of MDBs, highlighting that strong safeguard standards should be able to overcome challenges to implementation presented by the local context. In the same vein, some MDB interviewees noted the importance of improving local capacity and safeguard standards in an effort to bridge the gap between safeguard standards seen at the MDB level and the local level. This view stresses a strong emphasis on technical assistance, support for improving borrowers’ institutions, and an overall move to the UCS approach.

Many MDBs interviewees praised the UCS approach for a number of its potential benefits. Primarily, enhancing country systems can be more efficacious in improving outcomes related to the environment and marginalized communities. Typically, MDB-financed projects make up only a small portion of a borrower’s total budget; as such, the vast majority of the domestic infrastructure projects are untouched by traditional MDB safeguard standards. Thus, it will be more effective to concentrate on improvements to domestic institutions for this large portion of projects rather than merely focusing on applying an international safeguard standard across MDB-funded projects. Additionally, the UCS approach may add efficiency by freeing the MDBs from the long-term management of the project and its safeguards.

55 “Five Ways in Which Pelosi Amendment Protections will be Undermined under the Updated Safeguard Policy Framework,” BICUSA, 2014
Current Safeguards Have Been Adequate in Ensuring Protection of Local Social and Environmental Standards (Statement 5)

Similar to results for Statement 2, which addresses safeguard implementation in, there is divide between CSOs and MDBs on their respective level of agreement regarding Statement 5. Whereas CSOs, overall, were in slight agreement with this sentiment, MDBs shared a stronger agreement that current safeguards have been adequate in protecting local social and environmental standards. In supporting this opinion, MDB interviewees pointed to the dearth of complaints that have been filed through the existing complaint mechanisms.

That being said, interviewees asserted that the ADB Accountability Mechanism and the World Bank Inspection Panels, which allow affected persons to raise complaints, are integral in ensuring safeguard policies are followed and met. Multiple interviewees suggested that incorporating similar independent complaints mechanisms will improve the effectiveness of their safeguard policies and enhance their legitimacy that For new institutions, like the AIIB and NDB, incorporating similar independent complaints mechanisms will improve the effectiveness of their safeguard policies and enhance their legitimacy.

Responses to Statements Regarding the Emergence of the AIIB and the NDB (Survey Statements 6-10)

Exhibit 10: Summary of the survey results on social and environmental safeguards
(Source: Authors)
Given the strengths and weaknesses of the current safeguard standards, we investigated stakeholder’s opinions on how the emergence of the AIIB and the NDB could influence the evolution of safeguard standards.

There is enough room for new development banks in the current development financing space. (Statement 6)

There was broad consensus throughout our interviews that there is enough room for new development banks. Most interviewees cited the large existing infrastructure investment gap globally, as previously mentioned in this report. The $800 billion annual infrastructure gap from 2010-2020, as assessed by the Asian Development Bank, was mentioned in most interviews to support this opinion. As such, most interviewees believed that there is plenty of space for new actors in this sphere.

The NDB & the AIIB can be complementary to existing development finance institutions. (Statement 7)

As many people note that there is space for these new institutions, the question remains how they will interact with existing institutions. Interviewees noted to a high degree the potential complementarity between existing MDBs and these new banks, indicating prospective co-financing opportunities. As many infrastructure projects are very expensive and can be risky, they can be difficult for any individual bank to finance. As such, there will be ample opportunity for co-financing between existing and new MDBs, highlighting potential complementarity in risk sharing and knowledge transfer.

The creation of the NDB and the AIIB could result in the harmonization of safeguard policies (Statement 8)

Despite the potential benefits from these new banks harmonizing safeguard policies with those of the existing MDBs, many agreed that it is unrealistic to expect that these new banks will adopt existing safeguard policies in their entirety. Instead, many believe that, while the spirit of these safeguards will mostly remain intact, the individual policies may be adjusted or omitted entirely. Amongst those interviewed, it is generally expected that the new banks’ standards, while unique, will be largely compatible with existing MDB policies to facilitate co-financing. Additionally, utilizing tried and true policies will add to the new banks’ legitimacy and credibility, solidifying their capability to function in international capital markets.

Interviewees from MDBs brought up the importance of leadership when discussing the harmonization of safeguard policies in the context of the addition of these new institutions. Citing the reports of Jin Liqun’s prospective role as head of the AIIB, MDB interviewees expressed faith and confidence in his ability to guide the AIIB toward a stringent safeguard regime. Given his time as Vice President of the ADB, Jin Liqun has ample experience and a strong track record with promoting strong safeguards, which
MDB interviewees pointed to as proof that these new institutions are likely to adopt strong safeguard policies; further, policies that are likely to reflect those of existing MDBs.

_There is a risk of a “race to the bottom” due to the new actors coming into the development finance space._ (Statement 9)

One popular concern, as expressed through media reports, is that the emergence of these banks could result in the dilution of the existing MDBs’ safeguard standards in a “race to the bottom.” CSO interviewees widely accepted this concern, whereas MDB interviewees vehemently disagreed with this perceived risk of a “race to bottom.”

On this topic, MDB interviewees expressed a strong commitment to their existing safeguard policies, regardless of any potential changes to the competitive landscape of development finance. That is, regardless of the addition of these new institutions, MDB shareholders would be unwilling to allow the dilution of existing safeguard policies. Similarly, these new institutions would also be pressured by shareholders to meet international safeguard standards, making a “race to the bottom” unlikely.

Further, in contrast to promoting a “race to the bottom,” the MDB interviewees felt that the new banks could bring with them beneficial competition among MDBs, which could result in greater innovation, more efficient practices, and knowledge spillovers.

_The NDB and the AIIB can positively influence the progress of development finance._ (Statement 10)

The question of whether the AIIB and the NDB could have a positive influence on development finance was intentionally left open ended so that respondents could freely address the statement using their own value judgments and their own definition of “positive.” Across all interviewees, agreement with this statement was cautiously optimistic, indicating slightly more agreement than disagreement with the statement. Regarding positive effects, interviewees cited how these new institutions will enlarge the market, give more choice to borrowers, and allow for a greater financing flow. However, in the face of such outcomes, some MDB interviewees pointed out that it is unlikely that these two new entities will immediately revolutionize the development finance landscape. While recognizing the potential for positive benefits, it is important to understand that many major changes or effects would need time to develop.

Regarding challenges to the ability of these new institutions to positively influence development finance is a concern with China’s leading role in the development of these new banks, as China’s track record in infrastructure development has left many wary. Interviewees, particularly across CSOs, reflected views commonly seen in popular

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media that Chinese global investments have been politically motivated involving quid pro quo arrangements,\textsuperscript{57} have insufficiently managed environmental and social risks,\textsuperscript{58} and often have poor transparency.\textsuperscript{59}

Although, despite these concerns and criticisms, a number of interviewees expressed faith in China’s domestic safeguard policies and a shifting trend of improvement for China. For example, MDB interviewees trumpeted the capabilities of Chinese capacity and a growing deference to international standards. This is particularly noteworthy in light of a spate of countries signing on as founding members of the AIIB, illustrating the growing support for and following of this Chinese-led institution.

Similarly, Chinese CSO interviewees expressed the rapid development of Chinese CSOs over the past decade, which has given a greater voice to environmental and social concerns. This voice was mostly absent before and CSO interviewees highlighted this positive shift towards more interaction with an increasingly more open and approachable Chinese government. This increased influence of CSOs symbolizes China’s progress in regards to civil society engagement and sheds a positive light on how future interactions may develop with a more responsive government at the helm.

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\textsuperscript{57} “Why India Should Steer Clear of Cheap Loans from China,” Business Insider, 2012
\textsuperscript{58} “China’s Development Banks Need to Clean up Their Act,” The Guardian, 2013
\textsuperscript{59} From a 2011 report titled “Transparency of Chinese Aid,” published by the Centre for Chinese Studies at Stellenbosch University and Publish What You Fund, the global campaign for aid transparency
VII. CONCLUSION AND RECOMMENDATIONS

While it may be too early to judge the future direction of the NDB and AIIB, our research indicates that it is unlikely that they will largely circumvent safeguard policies as a means to expedite infrastructure investment and overall development. Interviewees, representing MDB and CSO perspectives, are mostly of the opinion that these new banks could adopt or, at least, draw inspiration from existing best practices at existing MDBs. That there will be a high degree of human capital and knowledge transfer from existing MDBs, external pressures are bound to encourage the NDB and AIIB to adhere to some form of safeguard policies.

Major challenges at the local level, particularly as they pertain to project implementation, are perhaps the most widely agreed upon hurdle for proper safeguard policy considerations – of which, new institutions entering this landscape must be keenly aware. “Principle-based” and use of country systems (UCS) approaches are championed among interviewees as efficient avenues for directing future safeguard policy development. Such approaches encourage shifting management responsibilities to the borrower and building stronger local institutions. New institutions should also adequately consider and prepare for strong safeguard policies that incorporate accountability mechanisms that help affected parties file grievances and ensure adequate safeguard implementation.

Additionally, most interviewees were optimistic about the potential benefits that stem from increased competition and the potentially complementary role that new institutions can play in the existing landscape. There appears to be little concern that two new actors in this landscape will drastically, let alone adversely, affect safeguard policies, leaving many optimistic about the potential benefit they could bring for knowledge sharing and increased funding for development needs.

Bolstering the sentiment that adverse effects are unlikely, it is noteworthy that a growing number of countries are signing on as founding members of the AIIB. As membership in this institution increases, the need for cooperation and transparency grows, illustrating a promising move towards a larger voice of shareholders with a vested interest and, ultimately, strong safeguards.

Further, recommendations for the NDB and the AIIB include:

- Adhere to substantial safeguard policies, inspired by existing MDB safeguards or the Equator Principles
- Ensure compatibility with existing MDB safeguard policies to facilitate easier co-financing
- Inclusion of an independent accountability mechanism, akin to the World Bank Inspection Panel or ADB Accountability Mechanism
- Engage in efforts to improve capacity within borrowing countries to implement their own safeguards, to prepare for the eventual use of country systems.
• Consider more flexible Principle-based and Use of Country System Approaches to safeguard policies
• Compete with the existing MDBs in the delivery of quality technical assistance and financing for projects, not on the ease of getting financing
• Ensure appropriate monitoring and reporting in which safeguard implementation is assessed on a regular basis
• Build a broad variety of shareholder governments, and give significant voice to all shareholder governments, regardless of voting share
VIII. FUTURE DIRECTION FOR THE REPORT

As a first step, this report is intended to serve as an introduction to the subject area. Considering the timing of this report, it is still quite conjectural. The new institutions have yet to be established and once there has been more progress in their organization, parts of this report will become dated. However, it is intended to be a starting point, from which future research and advocacy can be based.

Given the nascent nature of these organizations, as well as a dearth of available information and access to them, our research was limited in many aspects. As such, important areas for further research and exploration are presented, which would be beneficial for further elaboration on these points and beyond.

• The report was limited by the lack of access to key personal at either the NDB or the AIIB and, hence, most of the analysis is deductive. When the organizational structure of the new institutions is established, it will worthwhile to engage the immediate stakeholders at the banks.

• Political dimensions, which could affect the decision-making process at these new banks, will also need to be addressed. Hence, future research should include an assessment of the shareholders of these banks and their own views on safeguards and lending practices.

• Timing, budgetary, and access restraints limited the number of organizations we were able to interview with, limiting our survey and research. Hence, future research should expand to include additional stakeholders, such as those in the private sector banks, bilateral development banks, and project developers and construction companies that may be directly impacted by the emergence of these banks.
APPENDIX

APPENDIX A: Voting Shares at Leading MDBs

BOX 1 – Voting Shares at Leading MDBs
(US & Japan vs. BRICS)

<table>
<thead>
<tr>
<th>Country</th>
<th>IBRD (WB member), % of total</th>
<th>International Monetary Fund (IMF), % of total</th>
<th>Asian Development Bank (ADB), % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>15.93%</td>
<td>16.75%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>8.80%</td>
<td>6.23%</td>
<td>15.7%</td>
</tr>
<tr>
<td>China</td>
<td>5.72%</td>
<td>3.81%</td>
<td>6.5%</td>
</tr>
<tr>
<td>India</td>
<td>3.04%</td>
<td>2.34%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Russia</td>
<td>2.46%</td>
<td>2.39%</td>
<td>N/A</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.83%</td>
<td>1.72%</td>
<td>N/A</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.82%</td>
<td>0.77%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

APPENDIX B: GDP, Population, and Shares as % of the World Economy

BOX 2 – GDP, Population, and Shares as % of the World Economy
(US & Japan vs. BRICS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>16,768,100</td>
<td>22%</td>
<td>316,129,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>4,919,563</td>
<td>7%</td>
<td>127,339,000</td>
<td>1.8%</td>
</tr>
<tr>
<td>China</td>
<td>9,240,270</td>
<td>12%</td>
<td>1,357,380,000</td>
<td>19.1%</td>
</tr>
<tr>
<td>India</td>
<td>1,876,797</td>
<td>2%</td>
<td>1,252,140,000</td>
<td>17.6%</td>
</tr>
<tr>
<td>Russia</td>
<td>2,096,777</td>
<td>3%</td>
<td>143,500,000</td>
<td>2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,245,673</td>
<td>3%</td>
<td>200,362,000</td>
<td>2.8%</td>
</tr>
<tr>
<td>South Africa</td>
<td>350,630</td>
<td>0.5%</td>
<td>52,982,000</td>
<td>0.7%</td>
</tr>
</tbody>
</table>
APPENDIX C: Stakeholder Analysis

<table>
<thead>
<tr>
<th>Low Interest</th>
<th>High Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Power</strong></td>
<td><strong>Low Power</strong></td>
</tr>
<tr>
<td>• Lesser involved ministries of BRICS like Environment / Labour / Social Protection</td>
<td>• BRICS Government (e.g. Ministry of Finance)</td>
</tr>
<tr>
<td>• Relevant UN bodies (e.g. UNDP, UNEP e.t.c)</td>
<td>• Asian Development Bank (ADB)</td>
</tr>
<tr>
<td>• <strong>High Interest</strong></td>
<td>• World Bank Group</td>
</tr>
<tr>
<td></td>
<td>• Other MDBs – AfDB, IDB e.t.c</td>
</tr>
<tr>
<td>• Media (in relative terms)</td>
<td>• Ministry of Environment / Labour / Social Protection in recipient countries</td>
</tr>
<tr>
<td>• Commercial Banks (in relative terms)</td>
<td>• Civil Societies (visiting: Greenovation Hub, Global Environment Institute)</td>
</tr>
<tr>
<td>• Project Developers</td>
<td>• Populations in recipient countries</td>
</tr>
<tr>
<td>• Construction workers</td>
<td>• Local community organizations including faith based</td>
</tr>
<tr>
<td>• Local government (less accountable, less autonomous)</td>
<td>• Local government (more accountable, more autonomous)</td>
</tr>
</tbody>
</table>

APPENDIX D: List of Interviewees

<table>
<thead>
<tr>
<th>Contact</th>
<th>Organization</th>
<th>Designation</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warren Evans</td>
<td>World Bank</td>
<td>Former Senior Advisor of the Sustainable Development Network</td>
<td>Washington DC.</td>
</tr>
<tr>
<td>Craig Steffensen</td>
<td>ADB</td>
<td>NARO Representative</td>
<td>Washington DC.</td>
</tr>
<tr>
<td>Deborah Bräutigam</td>
<td>Johns Hopkins University SAIS</td>
<td>Professor of International Development and Comparative Politics</td>
<td>Washington DC.</td>
</tr>
<tr>
<td>Athena Ballesteros</td>
<td>WRI</td>
<td>Director, Finance Centre</td>
<td>Washington DC.</td>
</tr>
<tr>
<td>Rachel Bayly</td>
<td>US Treasury</td>
<td>Working on Safeguards</td>
<td>Washington DC.</td>
</tr>
<tr>
<td>Shouqing Zhu</td>
<td>Greenovation Hub</td>
<td>Senior Associate, Sustainable Finance Policy Officer</td>
<td>Beijing</td>
</tr>
<tr>
<td>Jenny</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yunwen Bai</td>
<td>Greenovation Hub</td>
<td>Director, Research</td>
<td>Beijing</td>
</tr>
<tr>
<td>Hamid Sharif</td>
<td>ADB</td>
<td>Resident Representative</td>
<td>Beijing</td>
</tr>
<tr>
<td>Ren Peng</td>
<td>Global Environment Institute</td>
<td>Program Coordinator</td>
<td>Beijing</td>
</tr>
<tr>
<td>Yiting Sun</td>
<td>WWF</td>
<td>Director of Sustainable Finance</td>
<td>Beijing</td>
</tr>
<tr>
<td>Mara Warwick</td>
<td>World Bank</td>
<td>Specialists and Operations Manager</td>
<td>Beijing</td>
</tr>
<tr>
<td>Songling Yao</td>
<td>World Bank</td>
<td>Sr. Social Development Specialist</td>
<td>Beijing</td>
</tr>
<tr>
<td>Meixiang Zhou</td>
<td>World Bank</td>
<td>Social Development Specialist</td>
<td>Beijing</td>
</tr>
<tr>
<td>Ning Yang</td>
<td>World Bank</td>
<td>Environmental Specialist</td>
<td>Beijing</td>
</tr>
<tr>
<td>Halliday Hart</td>
<td>ADB</td>
<td>Director’s Advisor- Board of Directors</td>
<td>Manila</td>
</tr>
<tr>
<td>Juan Miranda</td>
<td>ADB</td>
<td>Managing Director General</td>
<td>Manila</td>
</tr>
<tr>
<td>Rokeya Sabur</td>
<td>ADB</td>
<td>Principal Safeguards Specialist</td>
<td>Manila</td>
</tr>
<tr>
<td>Mark Kunzer</td>
<td>ADB</td>
<td>Principal Environment Specialist</td>
<td>Manila</td>
</tr>
<tr>
<td>Jitendra Shah</td>
<td>ADB</td>
<td>Special Project Facilitator</td>
<td>Manila</td>
</tr>
<tr>
<td>Bindu N. Lohani</td>
<td>ADB</td>
<td>VP, Knowledge Management and Sustainable Development</td>
<td>Manila</td>
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</tbody>
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APPENDIX E: Survey Questions

<table>
<thead>
<tr>
<th>Social and Environmental Safeguards</th>
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<tbody>
<tr>
<td>1 Social and environmental safeguards remain 'net-beneficial' and essential for development finance.</td>
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<tr>
<td>2 Social and environmental safeguards are usually successfully implemented.</td>
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<td>3 Strict enforcement of safeguards does not necessarily delay larger infrastructure development projects.</td>
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<tr>
<td>4 Geographic, political, social, and economic contexts determine how well safeguards are implemented.</td>
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<td>5 Current safeguards have been adequate in ensuring protection of local social and environmental standards.</td>
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<tr>
<th>The New Development Bank and the Asian Infrastructure Investment Bank</th>
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<tr>
<td>6 There is enough room for new development banks in the current development financing space.</td>
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<td>7 The NDB &amp; the AIIB can be complementary to existing development finance institutions.</td>
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<tr>
<td>8 The creation of NDB and the AIIB could result in the harmonization of safeguard policies.</td>
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<tr>
<td>9 There is a risk of a &quot;race to the bottom&quot; due to the new actors coming into the development finance space.</td>
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<tr>
<td>10 The NDB and the AIIB can positively influence the progress of development finance.</td>
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APPENDIX F: Additional Safeguard History

World Bank Safeguard Policy History

The Brundtland Report (1987), which defined sustainable development, was a big turning point in setting the stage for sustainable development as an ultimate goal of international actors. The Pelosi Amendment (1989), among other stipulations, set rules for the U.S. Executive Directors of MDBs for voting on projects that may cause environmental damage. The United Nations Conference on the Environment and Development in Rio de Janeiro, the Earth Summit (1992), was a major international meeting based entirely on the idea of sustainable development. In the spirit of sustainable development, the World Bank adopted the Operational Policies and Bank Procedures (1992), which evolved from earlier iterations in the 1980s and became a precursor to the World Bank’s safeguard policies used today.

Concurrently with the progress of international agreements on sustainable development, the World Bank commissioned two influential reports in the early 1990s to investigate complaints about its operations. In 1991, the Morse Commission criticized the World Bank’s role in financing India’s controversial Sardar Sarovar Dam, which was estimated to displace more than 300,000 people. It highlighted the negative repercussions that could occur as a consequence of infrastructure projects implemented without adequate consideration to social and environmental sustainability.

Shortly after the release of the Morse Commission report, a Portfolio Management Task Force released the Wapenhans Report. This report found that the World Bank had not been enforcing 78% of financial conditions in loan agreements and that 37.5% of the Bank’s projects evaluated had not met basic economic goals and assessment criteria. Further, it identified a pervasive “culture of approval” within the World Bank, whereby rapid loan approval and lack of attention to project implementation had become common practice.60

In the face of such reports, as well as mounting international pressure, the World Bank made important adjustments in the 1990s. In 1993, the World Bank established an Independent Inspection Panel in 199361 and in 1997 the World Bank’s safeguard policies were created from the existing Operational Policies.62 Currently, the Bank has ten safeguard policy areas: Environmental Assessment, Natural Habitats, Pest Management, Forests, Physical Cultural Resources, Involuntary Resettlement, Indigenous Peoples, Safety of Dams, International Waterways, and Disputed Areas. In

60 World Bank. The New Inspection Panel
61 World Bank. The Inspection Panel “About Us” website
its continued efforts to adhere to best practices, the World Bank is currently reviewing and revising these safeguard policies. The new policy is likely to come into effect in 2016.

_Safeguard Reforms in the World Bank_

Although there have been some policy revisions over the past decade, they have not entailed a comprehensive restructuring of safeguards; rather, individual policies were updated on a case-by-case basis. In 2010 the Independent Evaluation Group’s (IEG) review of safeguard policies revealed substantial deficiencies of existing safeguards. Highlighted areas of improvement included the need for greater assessment of potential social risks, improvements in supervision, and more efficient and effective approaches to monitoring, evaluation, and completion reporting. According to the IEG, such safeguard policies have often served more as “paper compliance” than as an integral part of project design and implementation. In its continued efforts to embolden safeguard policies, the World Bank began a multi-phase process to review and update its social and environmental safeguards policies in 2012. To date this process is still ongoing. Additionally, the World Bank has released new plans to improve the implementation of resettlement policies, because of poor results in the protections of communities forcibly resettled.

_Asian Development Bank Safeguard Policy History_

Similarly, the Asian Development Bank has had safeguard policies in place since the mid-1990s, beginning with the Involuntary Resettlement Policy (1995), the Policy on Indigenous Peoples (1998), and the Environment Policy (2002). In December 2004, ADB Management began a process to revise and improve their existing policies due to newly emerging social and environmental challenges and changes in international safeguard practices. This revision centered on streamlining procedures, increasing attention for country systems, and introducing new lending modalities and financial instruments. After several drafts, utilizing input and collaboration with civil society organizations, the ADB Board of Directors approved a new Safeguard Policy Statement (SPS) in July 2009.

64 For more information see the Consultations section of the World Bank website, which outlines the review timetable, posts copies of draft reviews, and allows feedback ([https://consultations.worldbank.org/consultation/review-and-update-world-bank-safeguard-policies](https://consultations.worldbank.org/consultation/review-and-update-world-bank-safeguard-policies))
The SPS consolidated the existing three safeguard policies into one single policy that comprehensively addresses social and environmental impacts. New requirements related to community health and safety, biodiversity conservation, greenhouse gas emissions, and physical cultural resources were added to broaden the scope of safeguard considerations. Additionally, the SPS adopted more stringent due diligence requirements. For example, the ADB is required to confirm that the borrower understands the ADB’s safeguard policies and has the necessary commitment and capacity to manage social and environmental risks.
REFERENCES


"BRICS Leadership Passes to Russia, $100bn Development Bank 'Main Priority.'" *RT.com*. Russia Today, 1 Apr. 2015. Web. 5 May 2015.