Public Development Banks need to change to really contribute to inclusive and sustainable development

Interparliamentary statement on the "Finance in common summit" in Paris, November 11th-12th

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Public Development Banks can potentially play an important role in fostering sustainable and inclusive development in the Global South, by working on the energy transition and creating decent jobs. To achieve that goal, however, the various Development Finance Institutions (DFIs) need to rapidly change the way they operate. As Members of Parliament of various countries that have public ownership stakes in such institutions, we want to express our concern about the way these institutions have been transforming development policy around the globe. The financing of private investment has become a goal in itself, whereby the interests of private capital have been put left, right and centre, while the interests of the people on the ground, of the communities affected, have taken a backseat. Private sector development has its role to play in achieving the SDGs, but only when it is an instrument for eradicating poverty, overcoming inequality and supporting sustainable and inclusive transformation processes.

We are seven Members of parliament form three different countries and seven different parties. Over the last years, we have critically engaged with our respective DFIs – BIO (Belgium), KfW/DEG (Germany), FMO (The Netherlands). DFIs work independently. Nevertheless, they share a common vision, have a similar institutional setting and follow similar investment strategies. In many cases, they even invest in a specific company or project together.

We have identified at least four common challenges connected to individual investments as well as underlying investment policies of DFIs. These are:

1. Lack of public accountability: DFIs are like a black box. Only very basic information makes its way to the public eye. For example, if DFIs invest in financial intermediaries such as funds or banks, they normally do not display the companies or sub-projects that receive money from those funds. If they invest in single projects, they do not publish the results of their environmental and social risk assessments and the steps to address those risks. Moreover, analysis of the human rights context and risks to human rights defenders are often lacking, or not shared. Supervision of clients on their sharing of information also needs strengthening. A lack of disclosure of information makes it very difficult for impacted communities to understand activities that will affect them. This makes it very difficult to judge if the investments really serve a common good. As parliamentarians, we are deeply concerned about this lack of accountability- especially as DFIs have become an important pillar of national and international development policies.

In this regard, we want to draw attention to a specific investment strategy of many DFIs that we consider particularly problematic: investments through offshore financial centres (OFCs) and other financial intermediaries. These investments make the work of DFIs even less transparent and at the same time strengthen a system which is based on secrecy and favours tax evasion and tax fraud. Parliaments and governments must stop these investments of DFIs, as is already the case with BIO in Belgium.

2. Lack of a clear vision on the kind of development that DFIs seek to promote. The mandate of DFIs is often very broadly defined, which leaves ample space for financing investments that actually undermine inclusive sustainable development. DFI investments typically benefit large, well-established, and conventional actors, rather than projects designed in close collaboration with people and communities that have their own needs and visions on development. Research from activists, NGOs and parliamentarians from different countries reveals the negative impact that financed projects have had on local communities through displacement, land grabbing, human rights violations and loss of employment opportunities. This has to change. DFIs should have a clear vision on how they include the communities they aim to serve in their development processes, what kind of projects are beneficial for those communities, expand the list of exclusion to projects which promote the privatisation of public services (like private hospitals or universities) and implement the Voluntary Guidelines on the Responsible Governance of Tenure (VGGT).
3. Lack of participation of affected people and communities: Development must be people-centred. Unfortunately, that is not the case for many investments of DFIs where transparent consultation processes with the local population are not taking place. Some DFIs have at least set up complaint mechanisms to deal with conflicts. But apart from the many deficiencies of these mechanisms – for example regarding legitimacy, transparency, equal access for all stakeholders, binding outcomes – there is also a further fundamental problem: namely that it is extremely difficult to reverse damage already caused by projects (environmental damage, land loss, etc).
4. Climate is changing fast, biodiversity is disappearing at an alarming rate, and therefore we need urgent action and leadership from public financial institutions. DFIs need to exclude fossil fuels & coal from their investment portfolios. Additionally, DFIs need to include their investments in the infrastructure and agribusiness sector in their climate change policy framework. DFIs must have a clear policy to exclude any investments that contribute, directly or indirectly, to deforestation or other types of crucial biodiversity loss. We welcome a declaration by DFIs themselves this week on environmental and climate issues. However, they need to ensure that words are also transformed into decisive action as soon as possible

A case in point for many of these problems is the Feronia-investment. Feronia is a palm oil producer in the Democratic Republic of Congo that has received money from CDC, FMO, BIO and DEG. Feronia has a very difficult colonial legacy that includes unresolved land conflicts and a very authoritarian behaviour of the management towards the local population. DFIs promised that their engagement would lead to more jobs, better wages and a flourishing company. None of these goals have been achieved. To the contrary: Although DFIs have invested more than 200 million Euros, Feronia declared bankruptcy a few months ago. Working conditions remain very poor. Many people still work on a daily basis and do not even receive the minimum wage. Conflicts between the company and the local population have escalated several times within the last years, up to the point of violent encounters leaving three people dead and many more arrested.

DFI must stop these harmful investments. Instead of gathering in Paris to discuss how they can help to overcome the Covid-19 crisis, we think it would be more appropriate for DFIs to reflect critically on their current work. Instead of just convening with like-minded partners, they should establish a dialogue with development agencies, members of civil society and especially the people affected by their investments.

At the same time, parliaments and governments have to formulate clear rules that guide the work of DFIs. We call for a strong public accountability, a strong developmental mandate, more rights for affected people and communities and a clear commitment to environmental and climate issues.

Only in doing so is there a chance that these development financial institutions will finally become reliable partners for a development agenda that puts transparency, participation of local communities and sustainability centre stage.

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