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AIIB urged to reject new $200m investment in India

Risky venture threatens to open up host of controversial infrastructure projects

The Asian Infrastructure Investment Bank (AIIB) Board will be asked to approve a new $200 million investment in India under a controversial and highly risky lending model at its third AGM in Mumbai on June 25-26. Indian civil society groups are urging the AIIB not to invest.

AIIB's proposed deal with India's $2.1 billion National Investment and Infrastructure Fund (NIIF) would also threaten to revive a host of stalled projects in the country potentially including coal, power, petroleum, railways and roads – many of which are currently shelved because of high social and environmental risks and opposition by local communities.

The AIIB does not have strong enough safeguarding policies necessary to track the projects or sub-investors into which the NIIF will then invest, or to ensure they will cause no harm to local people, according to a new report today "Risky Venture" by Bank Information Center Europe and Centre for Financial Accountability-India.

"The World Bank's International Finance Corporation (IFC) has been forced drastically to reduce this kind of risky "hands-off" lending via third party financial intermediaries because of human rights and environmental scandals." said report co-author Kate Geary. "But the AIIB seems very enthusiastic for it. This investment into NIIF will be its fourth financial intermediary deal, but the bank does not yet have the proper systems to ensure transparency, accountability and supervision down this kind of lending chain. It is vital that the AIIB takes on the lessons learnt from IFC's hard experience, and avoid its mistakes."

"India believes the AIIB's Triple-A credit rating will attract investors into NIIF and unlock its claimed $1.5 trillion infrastructure gap," said co-author Anuradha Munshi. "We fear that the land grabs, forest clearances, livelihood losses and environmental damage that have stalled so many of India's infrastructure projects could all be back on the table if the AIIB invests in NIIF – particularly given the total lack of information about future downstream deals."

The report also reveals that US bank Morgan Stanley is managing the AIIB's third venture into a financial intermediary that was approved at last year's AGM – $150 million into the North Haven Infrastructure Investment Fund. North Haven will also focus on big projects in India. Despite assurances by the AIIB, no information has been released about North Haven's investments to date "so it is impossible for local people and civil society to assess whether the AIIB is ensuring that its own social and environmental protections are being applied," Munshi said.

"It's heading toward crunch time for the AIIB to get its house in order," Geary said. "It should compel these financial intermediaries to disclose publicly which projects they're investing in. The AIIB needs to prove that its clients have robust social, environmental and disclosure policies and practices, and put in place proper systems of redress for local communities."

"Until AIIB puts such controls in place, it should not lend to NIIF" added Munshi. "Full disclosure of what they're up to, alongside thorough consultation with affected communities, might still save the AIIB from the kind of criticism that has stung the IFC into caution – and save local people's lands and livelihoods, too," she said.

NOTES

Link to report, Risky venture: http://bic-europe.org/wp-content/uploads/2018/06/Risky-Venture_FINAL.pdf

BIC Europe website: http://bic-europe.org

CFA India website: http://www.cenfa.org

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