

AIIB Summit: Will the Bank Be More Hands-On with Funding Environmental Projects?

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The Asian Infrastructure Investment Bank, which meets in Mumbai this week, needs to prove that its clients have robust social, environmental and disclosure policies and practices.

Along the route from Mumbai's international airport in Santa Cruz to the high-profile business district of Nariman Point, is a series of billboards featuring a significantly larger-than-life image of Prime Minister Narendra Modi welcoming investors to the third annual general meeting of the Asian Infrastructure Investment Bank (AIIB).

At the summit, Modi will hope to secure at least \$200 million in funding for infrastructure projects from the AIIB.

A significant portion of the funds could go towards reviving stalled projects – like the 2640-MW thermal power plant in Kakrapalli in Srikakulam district of Andhra Pradesh. The land that the project was supposed to be built on, a swamp that was once part of Gandhi's salt satyagraha movement, was labelled by the company's environmental impact assessment report as "barren, uninhabited, low-lying".

The government's Expert Appraisal Committee differed in their assessment, describing the land as "an ecological entity with incomparable value requiring conservation and protection."

But the project [was granted environmental clearance](#) anyway.

Local fisherfolk and farmers opposed the project, fearing its impact on their livelihoods. In February 2011, after a hunger strike that had lasted the better part of a year, the agitation against the project [turned fatal](#) when police opened fire on protestors outside the plant: two people lost their lives, one person was left permanently paralysed after a bullet hit his spine, and almost 100 homes were destroyed in a fire started by police smoke bombs.

It is unlikely that any representatives of the people of Kakrapalli, or thousands of other victims of misguided development efforts across India, will be present in the plush meeting halls of the Trident and the Taj Mahal hotels where the AIIB's board of governors, executives and representatives of member nations will meet to decide how best to develop India's infrastructure.

To oppose this model of development led by international financial institutions (IFI), over 1,000 delegates from 200 civil society organisations, activist groups and trade unions gathered in Mumbai last week at the People's Convention on Infrastructure Financing. The three-day event raised a number of concerns that characterise the international finance-led model of development including a lack of transparency and accountability, disregard for environmental and human rights violations, privatisation of natural resources and the prioritisation of profit over real developmental needs in the selection of projects.

"We have been interacting with a number of IFIs in India for a long time and our experiences have not been happy at all," said Debi Goenka of the Conservation Action Trust. "They come in with their own agendas and create huge funding opportunities for themselves where they can lend money to India for projects that the country may not really need. They're not really worried about the environmental impact or the displacement of people and at the end of the day it seems to be that they are really making money for themselves."

The AIIB, a multilateral development bank that is being seen as China's version of the World Bank, has already invested over \$1 billion in the infrastructure sector in India. Much of this investment is being channelled through financial intermediaries, which will receive funds from AIIB and then lend it on to companies that will actually execute the projects.

"This 'hands-off' lending carries high risks because social and environmental standards become diluted, and there is little to no transparency about where the money ends up," says a report on AIIB investments in India co-authored by the Bank Information Center Europe (BICE) and the Centre for Financial Accountability (CFA).

"The AIIB claims to be clean, green and lean, but it is important to remember that it is also a profit-making bank," said Sreedhar Ramamurthi of Environics Trust. "And the face that appears on the ground and the bank are very far apart, because the bank channels its money through many different funds and companies into infrastructure projects."

At its last annual meeting in June 2017, the AIIB approved \$150 million in funding for Morgan Stanley's India Infrastructure Fund (later renamed North Haven India Infrastructure Fund). A year on, the BICE-CFA report states that there is no information publicly available about any investments the IIF has made or is considering, making it impossible to track the impact of the projects the AIIB ends up funding. Other crucial pieces of information, such as the environmental and social impact policies of the fund, are also unavailable.

"It's heading toward crunch time for the AIIB to get its house in order," said Kate Geary, co-author of the BICE-CFA report. "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."

On the discussion table this year, is \$200 million worth of funding for the National Investment and Infrastructure Fund (NIIF). Since it is intended to act as a fund of funds, money invested in the NIIF will only reach companies through sub-funds that it in turn will lend to, adding another layer of complexity to an already opaque process.

"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. But the AIIB seems very enthusiastic for it," said Geary.

Of particular concern is the fact that the fund has a mandate to revive stalled projects in its focus areas of urban infrastructure, logistics, energy, and transport. According to a 2016 study by the Rights and Resources Initiative, 25% of all stalled projects in India had gotten stuck either due to issues related to land acquisition or environmental clearances.

"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,” said Geary.

Although the AIIB has explicitly committed to the Paris Climate Agreement and the UN Sustainable Development Goals, the investment strategy it has articulated so far [has not completely shut the door](#) on funding environmentally damaging projects, such as coal-fired power plants.

The Paris Climate Agreement meeting produced a flawed but landmark agreement to fight climate change. Credit: Stephane Mahe/Reuters

“The triple-A credit rated AIIB will allow the NIIF to hang a big “open for business” sign outside its front door,” said Anuradha Munshi, co-author of the BICE-CFA report. “One of our worst fears is that with the AIIB’s blessing, NIIF could unleash India’s rush toward coal ‘by the back door’, when in fact NIIF could and should be the catalyst for clean and sustainable energy options, in consultation with local communities.”

The wetlands of Kakarapalli survive for now. Construction at the half-completed power plant has been abandoned, with its owner facing bankruptcy proceedings.

However, if the AIIB’s investment goes through, Kakarapalli and communities like it across India could potentially find themselves under siege once more.

“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.”

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