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AIIB's Investment in the National Infrastructure Investment Fund: Why is it a Risky Venture?

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According to the Economic Survey 2017 – 2018, India needs US$ 4.5 trillion worth of investments till 2040 to develop infrastructure to improve economic growth and community well-being. Photo: Mint

The National Investment and Infrastructure Fund (NIIF), was established in 2015 by the Government of India to address the infrastructure-financing gap in the country, particularly on the equity front. It was set up as an alternative investment fund (AIF) with a planned corpus of Rs 40,000 crore (USD 6 billion).[1]

[1] http://pib.nic.in/newsite/mbErel.aspx?relid=133324

Centre for Financial Accountability: R-21, Ground Floor, South Ex-II, New Delhi, India https://www.cenfa.org/
BIC Europe: Sarphatistraat 30, 1018 GL Amsterdam, Netherlands https://www.bic-europe.org/

The Government of India will commit up to 49 per cent of NIIF's target capitalisation with the balance 51 per cent of commitments expected to be raised from institutional investors, including sovereign wealth funds, quasi-sovereign wealth funds, and international and domestic investors.

NIIF is envisaged as a platform that can attract national and international investors keen on investing in commercially viable Indian infrastructure projects. NIIF has three investment platforms, namely the Master Fund, Fund of Funds (FoF) and Strategic Investments Fund.

Investment Platforms of NIIF

Master Fund will primarily invest in operating assets in core infrastructure sectors such as roads, ports, airports, power etc. The Master Fund is likely to follow a strategy of establishing sector-specific operating companies, in partnership with market leading and like-minded financial and strategic partners with complementary capabilities, and aggregate assets to build a strong diversified portfolio.

Fund of Funds seeks to invest with experienced fund managers with an expectation to enable them to attract institutional investors to invest in their funds. This fund is open to form joint ventures with fund managers selectively. The FoF invests across infrastructure services and allied sectors, product strategies, and investment styles.

Strategic Fund is aimed at growth and development stage investments in projects/companies in a broad range of sectors that are of economic and commercial importance and are likely to benefit from India's growth trajectory over the medium to long-term.

AIIB's Investment in NIIF

Inaugural Meeting of the Board of Governors of the AIIB. Photo: Government of China

The Asian Infrastructure Investment Bank (AIIB), which began operations in January 2016, describes itself as "a multilateral development bank conceived for the 21st century," and states that its core purpose is to fund infrastructure development projects in the Asia-Pacific region.

AIIB's core principles are openness, transparency, independence and accountability, and the mode of operation is "Clean, Lean, and Green."

With its investment National Investment and Infrastructure Fund Phase I, AIIB has participated as an investor in the FoF. The AIIB's project summary information document claims this provides a unique and strong position to provide a fillip to the funds dedicated to infrastructure and related sectors in India. The FoF will deploy investments into Portfolio (or

Sub)- Funds dedicated to Indian infrastructure and related sectors, which will enable the committed capital to be diversified into various sectors.

The initial closing of FoF is planned at USD 600 million, which is being shared by AIIB (USD 100 million in Phase I) and Government of India (USD 500 million). This fund is marked as Financial Intermediary project. Furthermore, AIIB is also considering an investment of USD 100 million in the FoF Final Closing (Phase II), which may be presented for Board approval at a later date.[2]

As per the AIIB's project document[3], the FoF will undertake its investments pursuant to an investment strategy and guidelines to be agreed with its key investors. The AIIB has delegated to the FoF the decision-making on the use of Bank funds, including the selection, appraisal, approval, and monitoring of Sub-Funds and the oversight of their respective investments in Portfolio Companies. The AIIB will continuously review the selection of further investments by the FoF against the defined Investment Guidelines that are being prepared and shall be agreed between the Bank and NIIF. The Investment Guidelines will reflect the AIIB's ESP, Environmental and Social Exclusion List, where relevant the Environmental and Social Standards (ESS) and the Bank's Energy Sector Strategy: Sustainable Energy for Asia.

Project Concerns:

Lack of Information: There is no information on any of the sub-projects being funded through the investment. This is despite a long history of controversy around financial intermediary investments, including in India – for example the GMR Kamalanga case4, where the IFC funded a coal based thermal power project through FI investment. The first phase of the investment was approved in June 2018 and yet, even after more than a year, there is no information on any of the subprojects. There is a complete lack of transparency or information as far as this investment is concerned.

PM Narendra Modi inaugurating the Mouda Super Thermal Power Project Stage-1 (1000 MW) on August 21, 2014. Photo: PMO India

A significant risk associated with the NIIF is its mandate to restart 'stalled' projects.[5] This is in line with Prime Minister Narendra Modi's vow to revive long-stalled infrastructure projects,

[2] https://www.aiib.org/en/projects/approved/2018/_download/india-infrastructure-fund/project-summary-information-NIIF.pdf

[3] https://www.aiib.org/en/projects/approved/2018/_download/india-infrastructure-fund/project-summary-information-NIIF.pdf

[4] http://www.cao-ombudsman.org/cases/case_detail.aspx?id=165

[5] https://economictimes.indiatimes.com/news/economy/infrastructure/niif-may-move-to-acquire-stressed-infrastructure-projects/articleshow/64925223.cms

especially in the coal, power, petroleum, railways and road sectors. Raising finance to restart stalled projects brings with it high social and environmental risks. The reason many projects are stalled often relate to land, and environmental and social restrictions in place. In other words, local resistance has stalled projects - such as coal mines and power plants - because of their potential impacts: threatening to displace and impoverish communities, destroy forests or pollute rivers.
A report titled Land Disputes and Stalled Investments in India done by Bharti Institute of Public Policy, Indian School of Business and The Rights and Resources Initiative in 2016[6] stresses the role that disputes over land and resources have played in delaying projects. Restarting such projects brings with it a host of risks, not least the reputational risk to any financier involved.

The Bharti report also indicated that many of the land disputes related to the stalled projects are linked to perceived environmental impacts of these projects and almost 80 per cent of land conflicts arise out of development and industrialisation processes, with infrastructure being the single largest cause. A detailed investigation of 21 projects involved in disputes related to the possession and acquiring of land revealed the major reasons to be land disputes and resistance by local communities to the projects. The major causes for these conflicts were loss of commons, dissatisfaction with the compensation offered for the land, and concern over the environmental impacts of the project. These are serious concerns and it is essential that the FI, its clients, as well as AIIB publicly disclose its investments so that the affected communities and other stakeholders are aware about the projects and of their impacts. This will help affected communities to approach the FI or AIIB's accountability mechanism or its Board to ensure that the subprojects comply with its environmental and social standards.

Investments in the Energy Sector: The issue of energy investment deserves particular attention in the era of the climate change crisis. Today, India is at energy crossroads with a burgeoning solar industry and massive untapped renewable potential; however, at the same time, India is historically dependent on coal. In September 2018, Singaporean institutional investor Temasek invested USD 400 million in India's National Investment Infrastructure Fund (NIIF), which will finance both greenfield and brownfield projects.[7] Though this investment is for the master fund, this raises concerns over NIIF's commitment to clean energy investments. This investment also raises concerns regarding AIIB wanting to fund institutions supporting brownfield projects.

In October 2018, four months after the AIIB's investment into NIIF, NIIF acquired a controlling stake in IDFC Infrastructure Finance Limited (IDFC-IFL). NIIF's Strategic Fund has acquired 59 per cent equity stake in IDFC-IFL,[8] which is engaged in the business of refinancing operating infrastructure projects that have completed at least one year of

[6] http://rightsandresources.org/wp-content/uploads/2016/11/Land-Disputes-and-Stalled-Investments-in-India_November-2016.pdf
[7] https://www.aiib.org/en/news-events/asian-infrastructure-finance/common/base/download/AIIB-Asian-Infrastructure-Finance-2019-Report.pdf
[8] https://niifindia.in/niif-to-acquire-idfc-infrastructure-finance-limited-from-idfc/

satisfactory commercial operations. Its loan portfolio continues to be well diversified across 49 assets with exposures across Public Private Partnership (PPP) projects including roads, power transmission as well as non-PPP projects including renewable power, hospitals, education, captive power, airport cargo terminal and IT SEZs.[9] The IDFC has a controversial history in India (see Box given below), due to its involvement in the GMR Kamalanga coal power project. The question that arises then is what is AIIB's exposure to IDFC's portfolio of projects through support to NIIF?

GMR Kamalanga: A Disastrous FI-Funded Project

In 2008, the International Finance Cororation (IFC) – the private sector lending arm of the World Bank Group, made an equity investment in the India Infrastructure Fund ("the Fund"), a private equity fund established and managed by the Infrastructure Development Finance Company (IDFC) of India.[1] The Fund was established to make investments in large infrastructure projects of a nature and scale that IFC recognized as having potential significant E&S impacts on local communities.[1] In 2009 the Fund invested in GMR Kamalanga Energy Ltd, a company set up to develop and operate a large coal-fired power plant near Kamalanga village in Odisha state, India ("the Kamalanga project.")

In 2011, CAO (IFC's accountability Mechanism) received its first-ever FI complaint about the environmental and social (E&S) impacts of the project.[1] The complaint came from project-affected communities with the support of two NGOs. The complainants raised concerns about the project's impacts, which they claimed posed a threat to their health, livelihoods and human rights.

In its investigation, the CAO found that the IFC had breached its standards and was in non-compliance on the following:

a) IFC's pre-investment Environment and Social due diligence
b) the structure that was developed for the management of E&S risk around the investment
c) IFC's supervision of the investment

Eight years after the complaint was filed, the case is still in the monitoring stage with the situation of the affected community is worse than before. This complaint focused on highly problematic issues with FI investments, which demonstrate the utter absence of fundamental standards to ensure transparency, community engagement, human rights protection and environmental sustainability. Owing to the opaque, almost invisible, and unregulated design and implementation of the FI-subproject, the projects' development effectiveness is highly questionable.

[9] IDFC 2017-18 Annual Report

Renewable Energy: Even with regard to renewable energy projects, it is crucial that sub-project information is disclosed. The vast majority of solar power in India comes not from decentralised rooftop panels but expansive parks. Indian authorities have enticed developers by acquiring large tracts of land, building transmission links and offering up buyers for the new power, usually state-owned companies with low default risk.[10]

A view of the Ultra Mega Solar Park at N.P. Kunta in Anantapur district. Photo: The Hindu

These mega-projects necessitate the acquisition of enormous land areas. There are already three recorded conflicts related to land acquisition for renewable energy projects. One such ultra-mega solar park with a capacity of 500 MW or more is in Anantapur district in western Andhra Pradesh, according to Land Conflict Watch, an online repository of land conflicts across India.[11] Even with renewable energy projects, there are concerns around the scale of environmental and social impacts as they resemble other mega projects in their impacts on local communities and require the same transparency and risk management.

This becomes more relevant with NIIF's and Eversource Capital (a joint venture between Everstone Capital and Lightsource BP) having decided to invest in Ayana, the renewable energy platform founded by UK's development finance institution CDC.[12] Ayana was launched to develop utility-scale solar and wind generation projects across states in India. It is currently constructing 500 MW of solar generation capacity with a strong future pipeline of renewable energy opportunities.

It is essential that at a time when investments in the renewable energy sector are rightly being called for, we do not fall in the same trap of fossil fuel-based projects, which required massive land acquisitions, displacement resulting in land conflicts, loss of the livelihoods and destruction of ecosystems.

Driving Forces for setting the direction of NIIF: There are major concerns regarding the driving forces behind NIIF's investment priorities. In 2017, NIIF signed an investment

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[10] https://enewspaper.latimes.com/infinity/article_share.aspx?guid=83b5c829-4b7b-4b3e-b3a0-6b7734a76a28

[11] https://www.landconflictwatch.org/research/ananthapuramu-ultra-mega-solar-park

[12] https://niifindia.in/eversource-capital-and-niif-announce-partnership-with-cdc-to-invest-in-its-renewable-energy-platform-ayanaall-three-partners-to-invest-usd-330-million-cumulatively/

agreement worth USD 1 billion with the Abu Dhabi Investment Authority (ADIA).[13] ADIA will become the first institutional investor in NIIF's Master Fund and a shareholder in National Investment and Infrastructure Limited, the NIIF's investment management company.

In March 2018, Hindustan Infralog Private Limited (HIPL), a joint venture between DP World (a global port operator formed in 2005 by the merger of Dubai Ports Authority and Dubai Ports International) and NIIF, announced the acquisition of a 90 per cent stake in Continental Warehousing Corporation (Nhava Seva) Ltd (CWCNSL), an integrated multimodal logistics player in India.[14] DP World is currently present at six locations in India with over 6 million TEU of gross capacity. It also operates container trains connecting ports to inland. The acquisition of CWCNSL will further DP World's presence in the entire logistics chain in India.

In April 2019, lenders to failed Jet Airways selected NIIF along with Etihad Airways, TPG Capital and Indigo Partners as qualified bidders for Jet Airways, which is on the verge of a total shutdown of operations. ADIA is a partner in NIIF and is crucial here as Etihad Airways (a UAE airline) is a 24 per cent equity partner in Jet Airways.[15] AIDA's funding through NIIF could bring for Etihad the crucial say in running the Indian airline since Etihad, a foreign entity, on its own cannot hold a major stake in Jet. Senior Journalist and columnist S. Murlidharan, in an article in Firstpost argues that Etihad wants to hedge its bets by roping in the NIIF as the new joint promoter. NIIF, obviously, would play second fiddle to Etihad even while putting in more money.[16]

Also, Infrastructure conglomerate, GVK Power & Infrastructure has signed an agreement to sell a 49 per cent stake in its airports business to the ADIA and NIIF.[17] The ADIA and the NIIF will invest in GVK Airport Holdings by acquiring new shares. NIIF and ADIA are likely to infuse the funds through a combination of equity and debt.

These investments clearly show UAE's interest in setting the direction of the fund. Also, investments in failing airlines and existing airports will hardly qualify as new infrastructure Investments, despite the fact that NIIF was specifically created to finance the infrastructure gap in the country.[18]

AIIB is a multilateral development bank with a mission to improve social and economic outcomes by investing in sustainable infrastructure and other productive sectors in Asia and beyond. Being a AAA credit-rated bank which has influence over other investors, it is also

[13] https://niifindia.in/niif-and-abu-dhabi-investment-authority-finalise-investment-agreement-worth-us1-billion/
[14] https://niifindia.in/wp-content/uploads/2018/06/2017_05_04_DP_World_India_MoU_Eng.pdf
[15] https://www.firstpost.com/business/jet-airways-revival-etihad-airways-bids-for-minority-stake-in-beleaguered-airline-sbi-led-lenders-consortium-niif-to-get-hit-6623171.html
[16] https://www.firstpost.com/business/jet-airways-revival-etihad-airways-bids-for-minority-stake-in-beleaguered-airline-sbi-led-lenders-consortium-niif-to-get-hit-6623171.html
[17] https://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/gvk-taps-niif-adia-for-rs-6500-crore-to-prevent-adanis-landing-at-mial/articleshow/68771071.cms
[18] https://www.business-standard.com/article/opinion/niif-gets-aggressive-119031000647_1.html

important for AIIB to be more responsible in prioritizing its associations with fund managers. NIIF at this juncture seems to have its priorities far from sustainable infrastructure development. It is important for the AIIB to be cautious of such projects and also to prioritise where it wants to use its influence through its investments.

NIIF's investment in large infrastructure

In 2018, the central government of India introduced the toll-operate-transfer model for national highways as part to monetise public infrastructure and build new assets under programmes such as Bharatmala (centrally-sponsored and funded road and highways project of the Government of India). The implementation of Bharatmala depends on the fast-tracking of land acquisitions, clearances from the Ministry of Environment, Forest and Climate Change and other clearances.[19] There have already been concerns from the agricultural communities, who have been worst hit by the aggressive push for infrastructure projects in India, on account of land acquisition and the manner in which it is being executed.[20]

In April 2018, Infrastructure investment company Roadis and NIIF announced the creation of a platform to invest in road projects in India.[21] The platform will invest up to USD 2 billion of equity to target toll-operate-transfer models, acquisition of existing road concessions and investment opportunities in the road sector with an aim of creating a large roads platform in the country.[22] Roadis is a wholly owned subsidiary of the Public Sector Pension Investment Board (PSP Investments), one of Canada's largest pension funds.

With large infrastructure projects at the core of its investment support strategy, it is essential for the AIIB to ensure that their funds are directed to sustainable investments. In a country like India, where land remains the main source of livelihood for the majority of the population, it is incumbent upon AIIB to ensure that its investments, and the project supported by its FI clients, meet its environmental and social framework stringently.

The AIIB may argue that its investment into the NIIF Fund of Funds does not expose it to the investments made by the NIIF Master Fund or Strategic Fund. However, it can be argued that the very fact that the AIIB – a AAA credit-rated bank – invested in the NIIF has helped to make the whole of NIIF a more attractive investment vehicle for others. This raises questions about how the AIIB can help to influence the wider portfolio of the NIIF towards more sustainable infrastructure, and how far the bank's ultimate responsibility and exposure to the rest of NIIF's activities extend.

[19] https://www.business-standard.com/article/pti-stories/land-acquisition-for-infra-projects-worries-farmers-in-navsari-valsad-119042201127_1.html
[20] https://www.downtoearth.org.in/news/governance/rewind-2018-the-land-debate-62621
[21] https://niifindia.in/niif-and-roadis-partner-to-create-platform-for-investment-in-road-sector/
[22] https://niifindia.in/niif-and-roadis-partner-to-create-platform-for-investment-in-road-sector/