



Via e-mail

February 7, 2018

Mr. Rayyan Hassan
NGO Forum on ADB
85A, Masikap Extension
Central District, Quezon City
1101, Philippines

Re: AIIB Investments in Financial Intermediaries

Dear Mr. Hassan,

Thank you for the letter which you sent to Asian Infrastructure Investment Bank (AIIB or the Bank) President Jin Liqun on Jan. 19, 2018, on behalf of yourself, your colleagues and your respective organizations. We appreciate the interest you have shown in AIIB. President Jin has asked me to respond on his behalf.

We note the recommendations made in the letter to put “in place robust policies and systems around financial intermediary investments to ensure transparency, accountability and efficient channels of communication with all stakeholders.”

The Bank believes that all the operations it supports—including those involving financial intermediaries (FI)—should have appropriate procedures in place to address environmental and social aspects. That is why AIIB’s Environmental and Social Policy (ESP) contains provisions relevant to FI operations. To ensure that the FI’s environmental and social risk management procedures are consistent with the ESP, the Bank undertakes environmental and social due diligence, engages with the management team of the FI and structures its financing accordingly.

Building on the experience of other multilateral development banks (MDBs) with FIs, the ESP provisions related to FIs include: development and implementation by the FI of an environmental and social management system (ESMS) acceptable to the Bank and its application to all activities—including subprojects—the Bank finances. As part of its ESMS, the FI is required, in a manner consistent with the ESP, to screen, categorize (as Category A, B or C), review, conduct due diligence on and monitor the environmental and social aspects of these subprojects. All Bank-financed subprojects are subject to the Environmental and Social Exclusion List and applicable host country national laws. In addition, those that are classified as Category A subprojects (and selected ones classified as Category B) are subject to the ESP’s applicable Environmental and Social Standards.

The FI is also required to manage external communications on environmental and social aspects of these financings in a systematic manner. At the subproject level, this includes, in a manner proportionate to the associated environmental and social risks and impacts: disclosure of relevant environmental and

social documentation, public consultation and use of grievance redress mechanisms. In addition, during implementation, the FI is required to monitor the environmental and social risks and impacts associated with these activities, report to the Bank on a regular basis and disclose the results of this monitoring. For its part, the Bank undertakes to monitor the implementation of the FI's ESMS and the environmental and social aspects of the subprojects it finances, and to disclose relevant environmental and social documentation on these subprojects.

The ESP also allows the Bank, in certain circumstances, to apply the environmental and social policies of another MDB or bilateral development organization to FI operations the Bank is co-financing or co-investing in, and to rely on that partner's determination as to whether compliance with its policies and procedures has been achieved. This is the approach that has been used, for example, in the public sector Regional Infrastructure Development Fund in Indonesia, in which the World Bank is lead co-financier, and in the private sector Emerging Asia Fund, in which the International Finance Corporation (IFC) is a co-investor. Under the first operation, the World Bank applies its Environmental and Social Safeguard Policies; under the second, the IFC applies its Environmental and Social Performance Standards. While these development partners have the lead role in these co-financed operations, the Bank has undertaken due diligence on these FIs and their existing and potential subprojects and investments, and participates in their supervision, including of environmental and social aspects.

As you are aware through your active involvement earlier in the process, the drafts of both the Policy on Public Information (PPI) and Project-Affected People's Mechanism (PPM) are currently under development and will be the subject of a continued public consultation process over the next few months. The final drafts of the PPI and PPM to be submitted to the Bank's Board of Directors are anticipated to cover some of the points you have raised in your recommendations.

The Bank is committed to the application of its policies to FI operations. Your letter raises a series of concerns about the approach used by other MDBs in their management of environmental and social aspects of FI operations. The Bank has reviewed reports from its peers; they provide useful information on a range of issues related to FI operations, including improvements made to manage such risks. The Bank is also in regular contact with its partner MDBs so that lessons can be learned from them in addressing challenges related to FI financing. The Bank will be carefully reviewing its financings involving FIs as they begin to be implemented, in order to reflect the latest good practices in managing the environmental and social risks of FI financing.

We appreciate your continued interest and engagement with AIIB.

Sincerely,



Joachim von Amsberg
Vice President
Policy and Strategy