

United States Position  
Proposed IFC Investment in China South Asia Investment Limited (CSAIL)  
(Pakistan)  
May 1, 2014

The United States supports World Bank Group engagement in Pakistan's energy sector and welcomes the central focus that renewable energy plays in Pakistan's new Country Partnership Strategy. Energy is critical for Pakistan's ability to achieve robust economic growth and poverty reduction.

The potential development impacts of this investment are significant – ultimately China South Asia Investment Limited (CSAIL) plans 5,000-10,000 MW in renewable energy projects in Pakistan, which would increase energy supply by as much as 17 percent, reduce annual fuel costs by up to \$1 billion, bolster GDP, and create electricity access for up to 11.2 million more individuals.

Nonetheless, the United States questions whether the approach of selecting a large state-owned enterprise as a sponsor meets IFC's stated purpose in its Articles of Agreement to "further economic development by encouraging the growth of productive private enterprise." The United States looks forward to IFC's success in attracting other international investors to the sector.

In addition, the United States questions whether the IFC will be able to effectively manage the significant environmental and integrity risks associated with this project. The United States appreciates the disclosure of these risks by IFC staff and the provision of additional information to the Board through technical briefings, bilateral meetings, and responses to written questions. In particular, the United States believes it will be critical for IFC staff and management to focus on the following risks and provide regular updates to the Board during project implementation:

***Environmental:*** As a new entity, CSAIL does not have well-developed systems for managing the risks inherent in large energy sector projects, particularly in the hydro sector. This concern is magnified by the poor track record of CSAIL's parent – China Three Gorges Corporation (CTGC) – as well as by the potential significant impacts of a number of the investments in CSAIL's pipeline. The United States notes CSAIL's commitment to comply with its obligations under the IFC's Performance Standards by December 2014 and underscores the importance of IFC staff working closely with the client to achieve this milestone. The United States requests an update to the Board in the first quarter of Calendar Year 2015 on CSAIL's compliance. Updating and releasing the ESIA's for the Kohala and Karot hydro projects, the Wind Eagle Limited and Three Gorges First Wind Farm Pakistan wind projects, and any additional solar PV and/or wind hybrid projects will be key indicators of CSAIL's ability and willingness to comply with IFC's Performance Standards. In addition, the United States looks forward to the cumulative impact assessment for the Jhelum River Basin.

***Integrity:*** The allegations of wrongdoing on previous Bank-financed projects by a member of the CTGC group raise very serious concerns. The United States is reassured by IFC's commitment to institute measures that will prevent the entity from participating in sub-projects in CSAIL's portfolio, and requests that IFC and INT keep the Board apprised of further developments in this

area. Additionally, for future proposed Bank investments in CSAIL sub-projects, the United States expects thorough due diligence on the selection of the firms chosen by CSAIL to design and construct such projects. The United States urges IFC to provide strong oversight over this investment and to play a proactive role in strengthening corporate governance in line with international best practices. To this end, the United States expects that IFC will have a vital role in improving CSAIL's corporate governance practices and looks forward to receiving updates on CSAIL's compliance with the various requirements tied to this investment.

While the United States wishes to be recorded as abstaining on this investment due to concerns over the environmental, social, and integrity record of the parent company of the sponsor, the United States will continue to monitor this investment closely with the expectation of achieving sustainable outcomes in Pakistan's energy sector.