

IFC Investment in Power Grid Corporation of India

U.S. Position

Thursday, May 3, 2012

The United States appreciates IFC staff's frank discussion of risks found in the due diligence process, including the company's relationship with a company temporarily debarred by the Bank, and the decision to categorize this project as a Category A. The United States recognizes the strong alignment of this proposed investment with portions of the Bank's Country Assistance Strategy for India such as addressing the country's power infrastructure needs. The United States acknowledges that the proposed investment is consistent with IFC's strategy for South Asia.

Nonetheless, the United States has questions about the proposed investment and would welcome staff comment on several issues:

First, at what point should the Bank Group conclude its relationship with Power Grid? We appreciate that the IFC's engagement represents a new phase in Power Grid's relationship with the Bank Group. After a nineteen-year engagement with the World Bank, however, the United States would generally expect at least a discussion about considerations for eventual disengagement.

Second, should the IFC be supporting the entry of a state-owned enterprise into other emerging markets? The investment document assumes that this is an appropriate medium-term objective for the IFC's proposed programmatic engagement. The United States is less convinced that the IFC should be playing an active role in assisting state-owned enterprises with no plans for privatization to gain market access in third countries.

Third, this operation underscores broad questions about whether there is a need for a more consistent approach across Bank Group institutions on issues such as procurement policy and environmental and social safeguards in cases where the IFC and IBRD/IDA both make investments in the same institution (such as under the Bank Group's subnational program). While in the case of Power Grid, the Bank's prior engagement with the company and strengthening of its procurement procedures as well as environmental and social policies have facilitated IFC's investment and mitigated risks, in other cases the United States wonders if differences and gaps between the two institutions' policies and procedures could lead to confusion or manipulation.

Finally, given the date of the publication of the Environment and Social Review Summary (less than 120 days prior to the Board discussion), the United States wishes to be recorded as abstaining on this proposed investment for legislatively mandated reasons.