

INDIA
NTPC: POWER GENERATION PROJECT
(Loan 3632-IN)

**Management Report and Recommendations on
Inspection Panel Report**

1. On September 11, 1997, the Board considered the Report and Recommendations of the Inspection Panel to investigate the NTPC project, dated July 24, 1997. Management submitted a Response, dated June 3, 1997, that recognized that the Bank had not fully complied with three operational policies: O.D. 4.30 - Involuntary Resettlement, O.D. 13.05 - Project Supervision; and O.D. 4.01 - Environmental Assessments.
2. Management also concluded that valuable lessons were learned as a result of the intensive reflection undertaken in responding to the Request for Inspection. Foremost among these are: (a) the recognition that, for projects posing difficult social and environmental challenges to succeed, there must be early and meaningful participation of project-affected communities and their leaders in the design of projects; (b) project preparation and implementation plans are a means to an end, and not the end itself; (c) results on the ground are what counts; and (d) the loss in terms of social dislocation and environmental degradation of rapid and uncontrollable growth in the Singrauli area must be addressed as a priority of both the Government of India and the Bank.
3. Management also submitted an Action Program designed to remedy in a timely manner the problems that had emerged in the implementation of the social and environmental aspects of this operation. That Action Program is now under implementation. An Update on the Status of the Action Program was circulated to the Board on January 12, 1998 (INSP/SecM98-1). As agreed at the September 11, 1997 meeting of the Board, Management is committed to provide regular Updates on implementation of these actions.
4. Management has studied carefully the Report submitted by the Inspection Panel dated December 24, 1997 with the purpose, first, to learn, based on an independent review of this case, how the Bank may respond more effectively to the problems raised by the Requester. Management seeks, second, to understand how to address better in the future, in project design and implementation, difficult social and environmental issues such as those that are associated with a major investment like the NTPC operation, and, third, to assure that Bank management deploys the necessary resources and skills to satisfy our obligations in these cases.

5. While seeking to advance our understanding of factors contributing to the problems identified with this project, Management's careful review of the Inspection Panel's report has also brought to light that some of the important statements in the Report are not supported by facts as documented in the Project files. In particular, this includes the statements regarding: (i) pressure from Senior Regional Management to accelerate the process of loan approval; (ii) not including in the Agenda of the Regional Loan Committee the issue of Resettlement and Rehabilitation (R&R); and (iii) preparation of the Resettlement Action Plans after negotiations. Our understanding of the key differences is set out in the Attachment. We are also disappointed to note that the Panel did not interview the Senior Regional Managers to obtain their perspective. We believe this is an integral component of due process.

6. To conclude, we want to stress two points. First, the response of Management to the Inspection Panel Report is to implement the Action Program now in place. To that end, actions agreed with the Borrower will be supervised closely by the Bank and in such a way that timely adjustments are made if necessary to resolve fully the problems that led to the complaint. At the same time, Management is committed to implement those actions for which it is responsible under the Action Program. In particular, we are building further capacity in social assessments, particularly in the field, so that staff possessing essential competencies in language and culture are better able to evaluate social issues in all phases of operational work. Second, the Bank has been taking a series of steps to address inadequacies in Bank performance. It has focused on client responsiveness, quality at entry, portfolio management, and building staff capacity and skills. In the South Asia Region, the renewal process has four dimensions that are relevant to the present case: (a) a shared set of core values; (b) a shared vision of the Bank's objectives; (c) co-location of work between Washington and field offices; and (d) a flat management structure. This renewal program will over time reduce the likelihood of mistakes being repeated in the future.

1. The Inspection Panel Report notes:

"A major new finding of this desk investigation is that the violations of policies and procedures can be attributed to pressure from Senior Regional Management to accelerate the process of loan approval and to not granting the same relevance to Resettlement and Rehabilitation and Environmental Action matters as to other project components." (paragraph 16)

And in particular, the Report notes that

"The records show clearly that Senior Regional Management pressured staff to process the loan just before the end of FY93." (paragraph 16)

Our review of the Files does not lead us to the same conclusion as the Panel on the subject of pressure by Senior Regional Management, and we were unable to find a record that supports the above finding of the Panel. What is clear from the written record is that the Senior Regional Management together with the Legal Department and the Environment and Social Development staff of the Asia Technical Department concurred in the judgment that the O.D.s were complied with, and thereby to seek Board approval of the Project. As we recognized in Management's response of June 3, 1997, and with the benefit of hindsight based on implementation experience, that judgment was premature and has not promoted the social development outcomes on the ground as intended under the Project. That said, in 1992-93, the so-called "approval culture" of the Bank may have led to greater focus on getting projects approved by the Board than on development outcomes; at the same time, the Bank was then at an early stage of internalizing the significance of O.D.s on the environment and resettlement and rehabilitation in operational implementation.

2. The Inspection Panel has stated that:

"The issue of Resettlement and Rehabilitation was not even put on the Agenda as an issue for the Regional Loan Committee Meeting in March 1993, despite specific requests from environmental/social specialists and the Legal Department." (paragraph 16)

The Agenda dated March 31, 1993 for the Regional Loan Committee (RLC) Meeting of April 1, chaired by the Regional Vice President, specifically included the following: "On the social aspects, a question has been raised regarding the overall resettlement policy of NTPC. Does the R&R policy conform to O.D. 4.30? What assurances/actions should be obtained at appraisal?" These issues were discussed extensively at the RLC meeting, and at two subsequent meetings held at the instruction of the Regional Vice President.

3. The Inspection Panel has also stated that:

“The policy requires Resettlement Action Plans to be prepared as a condition of appraisal. The Resettlement action plans were then prepared during a two week visit by one specialist staff member in May 1993, and signed off by Management just in time for the project to be presented to the Bank’s Board of Executive Directors before the end of the 1993 Fiscal Year (June 30, 1993).”
(paragraph 16)

The record, however, shows a different sequence of events from the one discussed by the Panel. First, NTPC started the preparation of RAPs for the Vindhyachal II and Rihand II power stations after the Bank’s pre-appraisal mission in March 1992. The socio-economic surveys of project-affected people for the two sites were carried out in August 1992 and January 1993. These draft RAPs were then further revised by NTPC to reflect its new corporate R&R policy, which was approved by its Board in late May 1993 and then given final clearance by the Asia Technical Department, Environment and Social Development staff, on June 7, 1993. (The visit by two, not one, Resettlement and Rehabilitation specialists in May 1993 was not to prepare the RAPs but to reach agreement on the outstanding issues.). Second, O.D. 4.30 requires Resettlement Action Plans to be submitted to the Bank before appraisal, to be evaluated during appraisal and agreed between the Borrower and the Bank during negotiations. Draft RAPs were submitted to the Bank in February 1993, before appraisal, and commented on by Bank staff before, during, and after negotiations. Notwithstanding this, we agree fully with the substance of the Panel’s concerns about the adequacy of the Resettlement Action Plans (RAPs). As discussed in our Response of June 3, 1997, we acknowledged that the results on the ground should have been better and were a reflection of the quality of preparation especially the lack of meaningful consultations with the affected people.

February 4, 1998

11:45 am.