

## OFFICE MEMORANDUM

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DATE: May 5, 1992

TO: Mr. Lewis Preston, President

THROUGH: Mr. D. Joseph Wood, SASVP

FROM: Heinz Vergin, SA2DR

EXTENSION: 80332

SUBJECT: INDIA: Sardar Sarovar (Narmada) Projects - Morse Review

1. We have made an initial review of the draft Morse report and want to apprise you of the salient points as well as the process we are pursuing in preparing a detailed response for your consideration.
2. The draft is about 400 pages, without annexes or table of contents. It is generally well written, in a kind of journalistic style, particularly the section on resettlement. While it does not question the projects' legitimacy nor identify major impediments to continuing to support the project -- subject to certain studies and actions, some of which we agree are needed -- it is generally very negative in tone about the Bank's performance. However, it focuses rather narrowly on legalistic issues, virtually ignoring institutional and financial aspects. The main assertions are that (a) during preparation and appraisal of the projects in the early 1980s, the Bank failed to follow its own Operational Manual guidelines pertaining to resettlement and rehabilitation, tribal peoples and environment; (b) throughout the implementation period, Bank supervision staff and the India department failed to inform the senior management fully of resettlement and environment deficiencies; (c) serious problems still exist with the environment and resettlement aspects and are not being addressed properly.
3. While the draft does not contain any major surprises to staff and management familiar with the project, it does portray the Bank largely as an implementation, rather than a lending, agency, minimizes Government accountability for project execution, preferring instead to hold Bank staff primarily responsible. It also downplays the Bank's considerable effort to upgrade policy standards for resettlement through project supervision, which, in fact, has been our agreed strategy. Virtually all of the problems and deficiencies mentioned in the draft report have been highlighted in supervision reports and communications with Government over the course of project implementation and these have been reported systematically to Bank management. The draft acknowledges that the Bank itself was the richest source of information about the project's performance and pays tribute to the institution's evolving policy directives regarding resettlement, tribal peoples and environmental assessment.
4. Although the terms of reference for the Morse inquiry specifically asked for recommendations for improving implementation of resettlement and environment aspects of the projects, the draft report contains very few. It does state at the end that the Morse group would be

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prepared to make draft recommendations, but only after receiving the Bank's comments on the report. It further suggests that these recommendations would pertain mainly to institutional processes regarding appraisal, supervision and information flow; technical competence of staff; adequate resources and related matters.

5. Bank response. The negative tone of the draft will no doubt create a difficult climate externally and within the Board that will make our work with the project and in the Narmada Basin even more difficult. The Bank's response will thus have to be crafted with great care. A small team of staff from various departments is now reviewing the draft and preparing a response for your consideration. We are planning a factual, dispassionate, constructive response in considerable detail highlighting the positive action we have taken and can still take to address the key issues identified in the report. Our comments will try to redress (a) our stated and implied accountability to reflect accurately the constraints of a lending agency working with a sovereign federal and state government; (b) the selective presentation of facts to show clearly point by point that action commensurate with the Bank's powers and normal lending conduct was taken; (c) the draft's tendency to apply 1990/91 operational standards to Bank performance 10 years ago. We also plan to acknowledge mistakes, indicate where remedial action has been proposed to Government and identify further steps for management consideration.

6. Next Steps. The next steps are as follows:

- (a) Monday, May 18. A suggested Bank response along with a cover letter from you to Mr. Morse will be submitted for your review.
- (b) Tuesday, May 19; Wednesday, May 20. We have agreed to meet with Mr. Morse and his team here in Washington to discuss the Bank's response.
- (c) Monday, June 15. Mr. Morse will submit the final report to you and then release it publicly.
- (d) Tuesday, June 16. Final report should be circulated to the Board.

7. In submitting the package to you on May 18 we will make recommendations for dissemination and publicity.

cc. and cleared in substance with: Messrs. Baxter (LA2AG), Cernea (ENVDR), Salman (LEGS), Smith (ASTDR), Fauss (SA2AG), Rees (ASTEN), Ms. Davis (ASTEN).

cc. Messrs. Stern, Shihata, El-Ashry, Shakow/Prest

TB:njd