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APPRAISAL REPORT

CAO Appraisal for Audit of IFC

CAO Compliance

C-I-R1-Y09-F113/ C-M-R1-Y09-F114  
December 17, 2009

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**SN Power**  
**Philippines, Nepal, India, Chile**

**Case of**  
**IFC and MIGA involvement with SN Power with special focus on the Allain Duhangan**  
**Hydropower Project in India**

***Summary***

IFC and SN Power both hold shares in the Allain Duhangan project in India. In October 2008, statements made independently by SN Power indicated that the project struggled to implement effective health and safety actions. The acknowledgements by SN Power and its owner companies raised concerns of the effectiveness of both IFC's due diligence and supervision. The CAO Vice President requested the compliance arm of CAO, CAO Compliance, to appraise IFC's and MIGA's due diligence and supervision of health and safety issues on all projects where SN Power was involved. The objective of an appraisal is to determine whether or not a compliance audit of IFC or MIGA is merited. CAO does not find that this case fulfills the criteria for further investigation in the form of an audit of IFC/ MIGA's specific involvements with SN Power.

CAO does however find that this case highlights a systemic concern regarding IFC's approach as to how it engages and how it assures itself of implementation of its standards and requirements, when investing in, or as, a minority shareholder in a joint venture type project. CAO does not find that project specific audits of IFC/ MIGA's involvements with SN Power will necessarily be the most appropriate means to address this issue.

CAO will close this appraisal case with no further action, but during 2010 CAO will conduct a project site visit to the Allain Duhangan site to verify the accuracy of the reporting.

Office of the Compliance Advisor/Ombudsman (CAO)  
*for the*  
International Finance Corporation (IFC)  
Multilateral Investment Guarantee Agency (MIGA)  
Members of the World Bank Group



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## About the CAO

*The CAO's mission is to serve as a fair, trusted, and effective independent recourse mechanism and to improve the environmental and social accountability of IFC and MIGA.*

The CAO (Office of the Compliance Advisor/Ombudsman) is an independent post that reports directly to the president of the World Bank Group. The CAO reviews complaints from communities affected by development projects undertaken by the two private sector lending arms of the World Bank Group: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

For more information about the CAO, please visit [www.cao-ombudsman.org](http://www.cao-ombudsman.org)



## 1. Overview of the CAO Compliance Appraisal process

CAO Compliance oversees project-level audits of the social and environmental performance of IFC/MIGA. The purposes of CAO auditing are to ensure compliance with policies, standards, guidelines, procedures, and conditions for IFC/MIGA involvement and thereby improve social and environmental performance.

The focus of compliance auditing is on IFC and MIGA, and how IFC/MIGA assured itself/themselves of project performance. In many cases, however, it will be necessary to review the actions of the project sponsors and verify outcomes in the field, in assessing the performance of the project and implementation of measures to meet the relevant requirements.

The working definition of compliance auditing adopted by CAO Compliance is as follows:

A compliance audit is a systematic, documented verification process of objectively obtaining and evaluating evidence to determine whether environmental and social activities, conditions, management systems, or related information are in conformance with the audit criteria.

The audit criteria include IFC/MIGA policies, performance standards, guidelines, procedures and requirements whose violation might lead to adverse social or environmental consequences. Audit criteria may have their origin, or arise from, the environmental and social assessments or plans, host country legal and regulatory requirements (including international legal obligations), and the environmental, social, health, or safety provisions of the World Bank Group, IFC/MIGA, or other conditions for IFC/MIGA involvement.

A compliance audit may be initiated in response to any of the following circumstances:

- A request from senior management of IFC/MIGA or the President of the World Bank Group.
- A complaint transferred from the CAO Ombudsman.
- At the discretion of the CAO Vice President.

Before undertaking a compliance audit, CAO Compliance will initiate an appraisal to determine whether a compliance audit should take place.

The purpose of the appraisal process is to ensure that compliance audits are initiated only for those projects that raise substantial concerns regarding social or environmental outcomes. Appraisals are limited to the issues raised in the requests for a compliance audit, or for cases referred by the CAO Ombudsman, to issues related to the complaint.

To guide the appraisal process, the CAO applies several basic criteria. These are framed as a series of questions to test the value of undertaking a compliance audit, and whether IFC/MIGA readily can document compliance:

- Is there evidence of potentially significant adverse social and environmental outcome(s) now or in the future?



- Are there indications that a policy or other audit criteria may not have been adhered to or properly applied?
- Is there evidence that indicates that IFC/MIGA's provisions, whether or not complied with, have failed to provide an adequate level of protection?

In the context of compliance auditing within IFC/MIGA, at issue is whether:

- The actual social or environmental outcomes are consistent with or contrary to the desired effect of the policy provisions.
- The failure to address social or environmental issues as part of the review process resulted in outcomes that are contrary to the desired effect of the policy provisions.

Once an appraisal is concluded, the Executive Vice President of IFC/MIGA, the President and the Board of the World Bank Group will be advised in writing, as will the relevant departmental directors or managers associated with the project. If an appraisal results from a complaint to the CAO Ombudsman, the complainant will also be advised in writing, and a summary of the results will be made public.

In the event that CAO Compliance determines that the issues do not meet the appraisal criteria, the CAO will close the case.

In the cases where the CAO Vice President initiates an audit, a memorandum explaining the rationale for the proposal to audit will be submitted to the Executive Vice President of IFC/MIGA. The final decision to conduct an audit will be taken in consultation with the Executive Vice President(s), but at the discretion of the CAO Vice President.

If the CAO decides to initiate a compliance audit, as a result of the compliance appraisal, the CAO will draw up a terms of reference for the audit in accordance with CAO's operational guidelines.



## 2. Background and concerns that led to the Appraisal

1. IFC and MIGA have a number of involvements with SN Power, which is considered a repeat client. SN Power is a Norwegian company owned by Statkraft, a Norwegian state owned power company, and Norfund, a Norwegian development agency.
2. SN Power holds a share in the Allain Duhangan project in India, so does IFC. CAO received complaints from locally impacted communities regarding the Allain Duhangan project in 2004. The CAO Ombudsman facilitated dialog between the project and local communities.
3. The CAO Ombudsman concluded its involvement in the Allain Duhangan project in March 2008, and closed the case stating that the sponsor had now implemented some practical solutions, which had resulted in material improvements for the local complainants. During the Ombudsman assessment, issues related to workers' safety were raised. These issues were not part of the original complaint. CAO Ombudsman concluded in March 2008 that issues related to safety and labor conditions were addressed and verified through enhanced supervision by IFC.
4. In October 2008, statements made independently by SN Power indicated that the project struggled to implement effective health and safety actions.
5. The acknowledgements by SN Power and its owner companies raised concerns of the effectiveness of both IFC's due diligence and supervision. The CAO Vice President requested the compliance arm of CAO, CAO Compliance, to appraise IFC's and MIGA's due diligence and supervision of health and safety issues on all projects where SN Power were involved. The objective of an appraisal is to determine whether or not a compliance audit of IFC or MIGA is merited.

Actions by CAO	
2004	
September 20	CAO receives the first complaint from community members located in the vicinity of the Allain Duhangan project site.
2005	
March 23	CAO Ombudsman discloses Assessment report.
2008	
March	CAO Ombudsman concludes the case and discloses Complaint Conclusion Report.
December 11	The CAO Vice President requested a Compliance appraisal
2009	
December 17	CAO Compliance discloses Compliance Appraisal Report

6. In March 2009 CAO decided to place the appraisal on temporary hold to await outcomes from the recently launched action plans and mitigation efforts initiated by SN Power and the IFC.

### 3. Scope of the Appraisal for an Audit of IFC

7. The scope included:  
MIGA's involvement in the Khimti hydropower project in Nepal, IFC's involvement in the Magat hydroelectric power plant and Ambuklao/ Binga hydroelectric power plants in the Philippines, La Higuera and La Confluencia hydroelectric power plants in Chile, the Totoral wind farm also in Chile, and the Allain Duhangan hydroelectric power plant in India.
8. The objectives of the appraisal were defined to address the concerns raised in the CAO VP request for an appraisal:
  - a. The extent to which IFC/MIGA's supervision and monitoring had identified and addressed the issues raised;
  - b. To identify whether potential systemic concerns and opportunities to enhance health and safety performance could be identified, and whether an audit would be an appropriate response;
  - c. To provide assurance to the President, and the public, that the concerns identified had been appropriately investigated.
9. The overall objective of an appraisal is defined as providing answers to the following questions:
  - a) Is there evidence of potentially significant adverse social and environmental outcome(s) now or in the future?
  - b) Are there indications that a policy or other audit criteria may not have been adhered to or properly applied?
  - c) Is there evidence that indicates that IFC/MIGA's provisions, whether or not complied with, have failed to provide an adequate level of protection?

#### 4. CAO Findings

11. In regard to the extent to which IFC/MIGA's supervision and monitoring had identified and addressed the health and safety issues of concern, the appraisal team finds the following:

a) *Khimti Hydropower Plant (# 3848)*

The relevant monitoring began with a site visit and subsequent report in 1998, identifying concerns of potentially under aged family members conducting work within the work site, and project site safety concerns. This was followed up in 1999 and 2000, with the 2000 report concluding that the issue of underage workers had been eliminated, and that there was a strong commitment to improve the health and safety performance. The implementation of an action plan was closely monitored. The monitoring included independent third party inspections. The 2001 review of the annual monitoring report concluded in compliance, or progress towards compliance, with applicable guidelines. A follow up in 2002, which included a site visit by both IFC and the independent third party, confirmed the improvement in performance. IFC followed up and reviewed the 2002 – 2003, 2003 – 2004, 2005 – 2006, annual monitoring reports. Continuous improvement was noted.

b) *Magat hydroelectric power plant in the Philippines (# 26041)*

The due diligence audit report from 2005 mapped out the current status of the health and safety work. This was further followed up in 2007 and in 2008 with the annual monitoring report. In November 2008 there was a separate follow up confirming no major accidents.

c) *Ambuklao/ Binga hydroelectric power plant in the Philippines (# 26996)*

The 2008 due diligence did not identify any major health or safety issues. In November 2008 there was a separate follow up confirming no major accidents.

d) *La Higuera hydroelectric power plant in Chile (# 21315)*

The 2007 review noted the January 2006 environmental and safety violations by the EPC contractor, and the actions taken to mitigate future violations. The health and safety specific monitoring, and audits, done in 2006 and 2007 noted the same. IFC's site visit in 2008, and IFC's review of the 2007 annual monitoring reports, notes a concern regarding the contractors commitment to health and safety issues.

e) *La Confluencia hydroelectric power plant in Chile (# 25472)*

In October 2007, IFC notes the risk connected to tunneling in the context of the increase in awareness among the project team as a result of experiences from La Higuera. A specific social and environmental audit, and an IFC site visit in 2008 identified road safety as an issue. There was a separate follow up in November 2008 regarding a fatal accident involving a truck driver.

f) *Total (Norvind S.A.) wind farm in Chile (# 26207)*

In 2008, IFC's early review highlighted safety concerns related to work crews during construction. This was followed up by a review of the contractor's quality, safety and environmental management program, and with specific questions regarding the client's approach to transport and crane safety.

g) *Allain Duhangan hydroelectric power plant in India (# 26500)*

IFC staff visited the site several times during 2005, 2006 and 2007. In the review leading to a repeat investment in 2007, IFC specifically identified that the project's practice of engaging small local contractors, in order to inject value into the local economy, brought with it challenging health and safety conditions. IFC further noted that in 2007, the project deployed a large number of contractors to recover and push ahead work that was overdue, and that this further compromised work site safety.



## 5. The CAO Decision

12. The CAO concludes the following:

a) The extent to which IFC/MIGA's supervision and monitoring has identified and addressed the issues raised, CAO finds the following:

IFC/ MIGA monitored health and safety issues on the projects, and reported identified cases and concerns. Specifically, the monitoring of the Allain Duhangan and the La Higuera projects reported health and safety concerns. SN Power noted problems with implementation of health and safety measures on Allain Duhangan, a project where SN Power did not have voting majority at the board. SN Power did not identify the same problems on other projects. In June and November 2008, specific health and safety audits were launched by SN Power auditing the Allain Duhangan project. During the same time period, accidents on La Higuera and La Confluencia triggered separate investigations, all concluding that the focus on implementing health and safety measures had to be strengthened. The supervision reporting shows that the issues on La Higuera and La Confluencia were addressed, and the accident rates reduced. However, the Allain Duhangan audit identified road safety as an issue, amongst others. In the spring of 2009 the project experienced a fatal car accident, and shortly thereafter, a severe rock fall accident. Subsequently, the audit and accident investigations were followed up, several site visits occurred, both by the SN Power auditors and IFC, and enforcement of the health and safety regulations were strengthened. The accident rate during the summer and autumn of 2009 dropped, and by November 2009 the project reported accident rates comparable with international practice.

b) In regard to whether potential systemic concerns and opportunities to enhance health and safety performance could be identified, and whether an audit would be an appropriate response, CAO concludes the following;

SN Power initially struggled with implementing their standards on a specific project due to lack of formal leverage to enforce their requirements. This raises systemic questions as to how IFC assures itself about implementation of its standards, and how IFC engages and informs other partners about its standards.

CAO further concludes that;

c) There was evidence of potentially significant adverse social and environmental outcomes in the past, but not now or in the future.

d) There are indications that a policy and other audit criteria have not been adhered to due to implementation problems.

e) There is no evidence that indicates that IFC/MIGA's provisions, whether or not complied with, have failed to provide an adequate level of protection.

13. CAO does not find that this case fulfills the criteria for further investigation in the form of an audit of IFC/ MIGA's specific involvements with SN Power.

14. CAO does however find that this case highlights a systemic concern regarding IFC's approach as to how it engages and how it assures itself of implementation of its standards and requirements, when investing in, or, as a minority shareholder in a joint venture type project. CAO does not find that project specific audits of IFC/ MIGA's involvements with SN Power will necessarily be the most appropriate means to address this issue.

15. Based on the above conclusions, CAO will close this appraisal case with no further action, but during 2010 CAO will conduct a project site visit to the Allain Duhangan site to verify the accuracy of the reporting.