

October 9, 2013

Response of IBRD to Germany on Approval by mail: India: Development Policy Loan (DPL) to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh (HP)

Zhihong,

Attached are our responses to the comments.

Regards,

Gevorg Sargsyan

| Germany comments | Bank response |
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| <p>Germany welcomes the efforts made in answering our specific questions and adding more flesh to the original project proposal.</p> <p>We are also convinced that an improved policy environment is conducive for further investments in HP development in the region of Himachal Pradesh.</p> | <p>Agree</p> |
| <p>We appreciate the additional information provided on a list of program items under paragraph 15 and 27 of the proposal. In addition, we would still like to see a more detailed allocation of the total amount of USD 100 Mio to the various initiatives proposed under the program.</p> | <p>Please see Annex I for list of policy reforms supported by HP IGG DPL. USD 100 Mil is in the form of budget support used to leverage critical policy reforms. Specific expenditures are not identified in a DPL operation but the results indicators monitored for each supported policy action.</p> <p>You can however find attached info on specific projects on the GoHP website http://admis.hp.nic.in/doe/DOEAuth/welcome.aspx [Look under the "Reports" tab] http://admis.hp.nic.in/doe/Citizen/ProjectDetailReport.aspx http://admis.hp.nic.in/doe/Citizen/AllotmentDetailReport.aspx</p> |
| <p>Please do also provide an overview/comparison on activities planned or implemented under DPL I and DPL II and explain how DPL II</p> | <p>Please see Annex II.</p> |

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| will complement DPL I. | |
| <p>We still consider it problematic to directly associate the projected GHG emissions of the overall HP development with the amount of CTF funding and to use those emissions savings as the sole indicator to measure the success of the program. We would therefore strongly suggest having a list of specific project activities (as already requested by France) and have performance indicators assigned to those activities.</p> | <p>The policy measures supported by the operation will remove barriers and accelerate hydro development in the state in addition to ensuring that it happens in an environmentally sustainable and socially responsible manner. It should be seen in the context of: a) transformational policy shift in the sector, (b) socially acceptability (benefit sharing) and environmental sustainability (up front cumulative impacts assessments) and (c) demonstration effect on other states of India and neighboring hill countries like Nepal/ Bhutan. While specific project activities will be monitored using results indicators, in a DPL operation as a matter of policy does not allow one to assign funds to each activity.</p> |
| <p>To present information on points 1-3 above, it would be helpful to have an overview table summarizing the areas of proposed activities, funds allocated to the respective items as well as suggested performance indicators.</p> | <p>Please see Annex I for a summary of all proposed activities As mentioned above one cannot earmark funds allocated to specific activities in a DPL operation.</p> |
| <p>To our understanding the benefit sharing mechanism will be funded through the contributions of the developers. Pls clarify the role of CTF Funding, if any in this project component.</p> | <p>Indeed, the benefit sharing mechanism will be funded through sale of part of power that would be generated from the project operations. As already elaborated earlier, this is a budget support operation and the CTF funds will not be earmarked for specific activities. DPL as an instrument and CTF as a funding source for the same is being used to support transformational policy changes (including the one on benefit sharing) that the State of Himachal Pradesh has embarked upon in its endeavor to promote sustainable development of hydropower.</p> |
| <p>We still consider the suggested transformational ratio and leverage as quite ambitious. It will be extremely difficult to impossible in the future to prove any direct relationship between the CTF loan and the suggested GHG emissions/transformational ratio and leverage. We would therefore strongly</p> | <p>The leverage is calculated for the entire cost of program which would happen anyway though with potentially some delay. While this is one approach, the alternative would be to calculate divergence of NPVs of BAU and alternative scenario. We will revisit performance indicators before the World Bank Board approval.</p> |

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| suggest having more specific performance indicators, which can be directly attributed to the DPL for Himachal Pradesh. | |
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Annex I: Policy Measures Supported by HP IGG DPL

- ✓ Strengthening of the capacities in the Departments of Environment and Energy for effective coordination, monitoring and evaluation of hydro projects
- ✓ Policy change mandating Cumulative Environmental Impact Assessment (CEIA) studies for all the five key river basins in the State (the findings will ensure the allocation of future hydro projects conforms to basin level carrying capacity)¹
- ✓ Basin wide digital GIS based hydropower potential maps for the state to ensure that adequate riparian distance is maintained between projects and ecological sensitivities of project area are taken into account upfront during approval
- ✓ Policy change mandating Integrated Catchment Area Treatment Plans for all the five river basins in the state (this will ensure potential cumulative impact on natural forests and other protected areas is addressed upfront for all the projects in a basin)
- ✓ Policy change mandating real-time monitoring real time monitoring of environmental flows of all hydro projects in the state
- ✓ Policy change mandating benefit sharing policy to provide annuities to affected communities during the lifetime of hydropower projects within the state (this innovative benefit sharing scheme is first of its kind in the region)
- ✓ Design, adoption and implementation by State Department of Energy of a policy of web based real-time monitoring of project milestones, including those relating to environment and social parameters and environmental flows
- ✓ An independent review by Panel of Experts of State's compliance with environmental and social / economic development policies and Environmental Protection Act of Government of India

¹ Note: It is now widely recognized that the conventional, project-based approach to environmental assessment, which focuses only on site-specific issues, has its limitations when it comes to assessing regional and long-term impacts of development. Project-by-project environmental impact assessments (EIA) fail to assess the potential cumulative effects on environmental resources. For instance, the impact of a particular project on an environmental resource may be insignificant when assessed in isolation, but may be significant when evaluated in the context of the combined effect of all past, present, and reasonably foreseeable future activities that may have or have had an impact on the resources in question. Cumulative effects generally refer to impacts that are additive or interactive (synergistic) in nature and result from multiple activities over time.

Annex II: Policy Matrix for HP IGG DPL I and DPL II supporting Sustainable Hydropower Development

| Objectives and Goals | DPL I Prior actions | DPL 2 Prior Actions |
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| 2.1 Promote environmentally sound hydropower development | GOHP has awarded the contract to start preparation of basin wide digital GIS based hydropower potential maps for the state. | Design, adoption and implementation by State Department of Energy of a policy of web based real-time monitoring of project milestones, including those relating to environment and social parameters and environmental flows |
| | | An independent review by Panel of Experts of State's compliance with environmental and social / economic development policies and E.P. Act of GoI |
| | GoHP Cabinet approval and a public notification issued by the Department of Power regarding the requirement to undertake Cumulative Environmental Impact Assessment (CEIA) studies for the five key river basins in the State (Sutlej, Beas, Ravi, Yamuna and Chenab), which includes review of environmental flows and initiation of CEIA for Sutlej Basin, | Review of Satluj CEIA study leading to the development of concurrent action plan. |
| | The GOHP has approved an integrated Catchment Area Treatment (CAT) plan for the Sutlej river basin and started its | Review of implementation progress of Integrated CAT Plan in Sutlej |

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| | implementation, and initiated preparations of integrated CAT plan for the Chenab Basin Preparation of basin wide digital GIS based hydropower potential maps for the state | |
| 2.2 Promote socially sound hydropower development | | Finalization and disclosure of list of eligible families for cash transfers under new LADF guidelines and commencement of annuity cash transfers for least one project |
| | | Local area development works for 75 percent of funds deposited to the LADF approved by Local Area Development Committees |