October 16, 2013

Comments from Germany on Approval by mail: India: Development Policy Loan (DPL) to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh

Dear Patricia,

I am writing to you regarding today's deadline for the approval of the India DPL.

Germany, UK and France yesterday discussed the responses received by the CTF India team to our respective lists of outstanding issues on the project.

We would like to ensure you that we are all very supportive of the project as a whole and we are also interested in moving forward on the project before the Washington meetings. Nevertheless, we still have some outstanding issues, which currently prevent us from giving a go ahead for the project.

We have also come to the conclusion that some of the issues (like calculation of leverage, GHG emissions etc.) might have a longer term perspective on development policy loans as a financial instrument supported under the CTF and, in particular, beyond. Those issues can surely be deepened subsequent to the approval of the project. However, we feel that some other issues would need to be resolved before giving our final approval.

In order to go ahead with the project, we would request

a) a conference call with CIF Admin Unit and the CTF India team to discuss those issues. We have attached a list of the key issues we would like to discuss in the conference call (some more detailed questions some just listing the issues). If at all possible, we would appreciate to have the call tomorrow (16th Oct.) at 15.00h CEST (9.00am your time). Very sorry for the short notice.

b) another extension of deadline until after the conference call, which will hopefully help in finding an acceptable solution for all parties concerned.

Kind regards
Annette Windmeisser

India: Development Policy Loan (DPL) to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh (HP)

Summary of outstanding issues for further discussion in a conference call with IBRD/CIF Admin Unit

1. Calculation of GHG emission reductions in combination with the calculation of cost effectiveness
    - We appreciate the significant effort that has gone into calculating and explaining the CO2e savings of this project. As this project would increase CTF expected CO2e savings by more than 50%, we want to seek further clarification.
    - The answers to the UK suggest that the DPL not only brings forward the installed capacity as planned by the GovHD (i.e.10GW by 2020) but also leads to the installation of 10.83 GW of projects beyond that. I.e. total capacity by 2032 will be 20.83GW, 6.8GW of which would have been installed under business as usual.
        i. In para 32 in the proposal it is outlined that the state is likely to add 10.83GW until 2032. How does this paragraph relate to your answers and how can you reassure us that these 10.83 GW still additional?
        ii. The original proposal focuses on bringing forward installed capacity rather than installing additional capacity, can you explain a bit more the theory of change beyond this additional capacity?
    - Thank you for your explanations of the BAU scenario. Unless the previous questions gives a clarification on how the 10.83GW are entirely additional, we'd propose a BAU scenario that follows the original government planning, i.e. 10 GW by 2020 and another 10.8 GW by 2032, rather than assume as a baseline the progress in hydro as before the targets were set. This is based on the assumption that the government set itself targets that it considered to be achievable without CTF intervention. As a consequence, the benefit of the DPL is to help the government meet these targets, the BAU should thus be based on an estimate of how much the installed capacity would lie below these targets in the absence of the DPL. We think it is a good idea to calculate the change in the NPV by bringing forward installed capacity/emissions savings to quantify the benefits; this would also follow the counterfactual as outlined above.
2. Calculation of leverage (co-financing) in terms of including all downstream investment in new hydro
    - We'd propose that the leverage follows the same definition of BAU and additionality as explained above.
    - We understand your answers to UK questions that out of the $4157m leveraged, actually 56% are public rather than private as indicated in your summary table on the

cover page. Is that right and can that be corrected? Can the public finance leveraged be split by donor/MDB and host government finance, e.g. separating out IBRD finance from DPL I?

3. Calculation of transformational potential

4. Wider replication benefits to be secured and lessons learnt to be shared

5. Accompanying measures (including technical assistance) to bring forward the issue and make progress at the state level

6. Rationale for high level of concessionality (and therefore CTF intervention)

7. Breakdown of the $100 million budget.

8. Definition of effective performance indicators.