

INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

Report No.: ISDSC1174

Date ISDS Prepared/Updated: 10-Mar-2016

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I. BASIC INFORMATION

A. Basic Project Data

Country:	Sri Lanka	Project ID:	P151800
Project Name:	SL- Climate finance for renewables (P151800)		
Task Team Leader(s):	Keisuke Iyadomi,Zhuo Cheng		
Estimated Board Date:	31-Oct-2016		
Managing Unit:	GSU18		
Sector(s):	Other Renewable Energy (100%)		
Theme(s):	Climate change (100%)		
Financing (In USD Million)			
Total Project Cost:	12.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
Carbon Fund		12.00	
Total		12.00	
Environmental Category:	B - Partial Assessment		
Is this a Repeater project?	No		

B. Project Objectives

- i) To support institutional development and capacity building to access international climate finance;
- ii) To reduce Greenhouse Gas (GHG) emissions by increasing renewable energy generation.

C. Project Description

The proposed project will support GoSL's efforts for the development of renewable energy to increase the share of NCRE in the energy mix to 20 percent by 2020. Given that Sri Lanka heavily

relies on imported fossil fuels to meet the growing energy demand, diversifying energy generation away from imported fossil fuels is critical to accommodate fluctuations in international oil and coal markets to improve the country's fiscal resilience. Renewable energy provides an opportunity for Sri Lanka to limit import dependence and vulnerability to fossil fuel price shocks, and move toward energy self-sufficiency.

Climate finance is key for increasing renewable energy generation and mitigating barriers to renewable energy development in Sri Lanka. In addition, the country needs to build capacity and prepare a robust institutional framework to access international climate finance. With the recent operationalization of the GCF, climate finance is expected to grow rapidly and reach the level of US \$100 billion per annum as agreed in the Copenhagen Accord (2009). Based on lessons learned from Clean Development Mechanism (CDM), result-based climate finance at the sectoral level would be ideal for supporting the national NCRE target by reducing high transaction costs which Sri Lanka had faced for CDM development, and further accessing a bulk of funds available from GCF or other sources to support the country's NCRE target.

The proposed project will enhance Sri Lanka's capacity to access international climate finance and improve fiscal resilience through the achievement of national NCRE targets. It will also assist GoSL in identifying and developing a long-term strategy to achieve green and climate resilient growth by facilitating low-carbon interventions across various different sectors. The proposed components, based on the consultations with the government and relevant stakeholders, are the following:

Component 1: Supporting institutional development and capacity building to access international climate finance

The proposed project will enable Sri Lanka to receive direct access to climate finance, including GCF, develop business models, including public-private partnerships, and enhance the effectiveness of financial instruments, with the objective of catalyzing and supporting private sector investment in renewable energy. This component will be supported by a combination of multi-trust funds, including the Public-Private Infrastructure Advisory Facility (PPIAF).

Component 1-1: Strengthening the capacity of Sri Lanka Climate Fund to play a catalytic role for GHG reduction by accessing climate finance and promoting public private partnerships

Sri Lanka Climate Fund (Private) Limited (SLCF) was established under the purview of Ministry of Environment and registered under the Companies Act No.7 of 2007. SLCF's objective is to promote clean technologies and channelize climate finance from different sources toward climate change mitigation and adaptation projects in order to reduce GHG emissions at the country level. SLCF also aims at demonstrating commercially viable, public-private business models as a way to address climate change and environmental problems more effectively. The SLCF's corporate structure is allowed to unlock sources of private finance to address investment needs specific to climate-relevant sectors, and act as a conduit for receiving international climate finance.

SLCF still needs to grow to use a combination of public and private sector participation to achieve its objectives, as opposed to the wholly government-owned model that it adopted initially. Hence, there is significant scope for capacity building within SLCF to leverage investments and the expertise of its investors effectively to promote private participation for scaling up climate mitigation activities in the country. Accordingly, GoSL has requested the Bank to assist Sri Lanka in strengthening the capacity of SLCF in order to facilitate dialogue with the private sector, accelerate mobilization of

private sector investment and expertise, and increase access to international climate finance.

Activities: In order to strengthen the capacity of SLCF, the proposed project plans to:

- a. Improve their knowledge on basic PPP concepts and fundamentals and various climate financing options as well as developing financing instruments, where possible;
- b. Strengthen SLCF's capacity to develop climate transactions through PPP-based GHG mitigation activities and access to climate finance including accreditation of GCF application;
- c. Update SLCF's business strategy to scale up the business model; and
- d. Identify potential GHG mitigation activities to begin piloting under the Carbon Partnership Facility.

Component 1-2: Supporting participation of the Green Climate Fund readiness activities

The Climate Change Secretariat (CCS) under the Ministry of Mahaweli Development and Environment is the national designated authority (NDA) for Sri Lanka to GCF. The CCS submitted Sri Lanka's request for GCF readiness support on March 31, 2015 and requested that the World Bank become a technical partner to implement the readiness program.

Activities: As a part of the Bank's readiness support to Sri Lanka, the proposed project will support CCS in preparing, implementing and managing GCF readiness activities funded by the GCF Secretariat and provide the requisite technical expertise in order to help increase Sri Lanka's capacity to access the Green Climate Fund through local institutions.

Component 1-3: Supporting a South-South exchange to formulate a nation-wide carbon neutral strategy

The Costa Rican government has an ambitious plan in place to begin offsetting all of the country's CO2 emissions by using budgeting, laws, and incentives, including measures to promote biofuels, hybrid vehicles, and clean energy. Since Costa Rica has made significant progress in its transition toward low carbon growth. Sri Lanka's economy will likely be required to undergo a similar transformation in order to implement its ambitious energy development plan and become a carbon neutral nation.

Activities: Sri Lanka will benefit by learning from Costa Rica's experiences by contextualizing various initiatives in the energy sector, foreseeing potential challenges and formulating a nation-wide strategy that reflects development priorities. The proposed project will provide an opportunity for capacity building exchanging knowledge and lessons learned from Costa Rica. This will inform and guide Sri Lanka's national strategy to achieve carbon neutrality.

Component 2: Developing a result-based climate financing with sectoral methodology and MRV systems

The World Bank supports GoSL's objective of promoting NCRE generation by demonstrating new applications of result-based financing through the Carbon Partnership Facility (CPF). CPF is one of the carbon trust funds managed by the World Bank to promote scaled-up carbon crediting activities via a sector-wide program or an economy-wide policy associated with GHG emission reduction impacts.

The World Bank as a Trustee of CPF will purchase emission reductions under the agreed CPF

methodology and MRV systems to be developed by the project and as a return generate financial flows to promote further NCRE generation in the country. GoSL has appointed SLCF and Ceylon Electricity Board as implementing entities to manage the CPF program and agree on emission reductions purchase agreement with the World Bank on behalf of GoSL.

There would be no direct financing by the Bank to development of any individual renewable energy projects. Subject to further discussion with GoSL, carbon revenues generated by the CPF program will be either injected to the existing Sri Lanka Sustainable Energy Fund or utilized by individual project developers for their own NCRE development.

The following key methodological elements will be discussed to set up a robust carbon-crediting scheme for the whole NCRE development in the country:

- Setting a baseline at the sector level to reflect the share of NCRE in the total generation mix without the support of carbon finance;
- Establishing ex-ante aspirational targets for NCRE power generation in the next 10 years;
- Establishing an approach for determining the “own effort” of Sri Lanka which can be differentiated from the creditable amount of GHG emission reductions;
- Establishing an approach for determining creditable greenhouse gas emission reductions based on the performance achieved beyond the baseline, after deducting the “own effort”;
- Developing monitoring, reporting and verification (MRV) systems; and
- Monitoring the implementation progress towards meeting these aspirational targets.

With carbon revenue and appropriate methodologies and MRV systems on emission reductions at the sectoral level, this component will facilitate the removal of barriers and create a favorable business environment, thereby catalyzing greater private sector investment in renewable energy generation, and help increase the share of renewable energy in Sri Lanka’s electricity generation mix. Furthermore, the establishment of a robust MRV system will also help the country fulfil its reporting requirements under UNFCCC and other relevant international organizations.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Specific sites and exact locations of sub-projects have not been identified at this stage. The proposed project aims at building technical and institutional capacities to access international climate finance for non-conventional renewable energy (NCRE) projects, which typically include wind, mini hydro (hydro less than 10 MW), biomass/dendro and solar projects. Typical size varies depending on the type of NCRE, subject to further identification and determination of sub-projects at the preparation stage. The eligibility of sub-projects will be clarified during the preparation stage.

E. Borrowers Institutional Capacity for Safeguard Policies

A comprehensive policy and regulatory framework for the conservation of natural resources and environmental management is in existence Sri Lanka. The Central Environmental Authority (CEA) is the key regulatory body that is mandated by the National Environmental Act (NEA) to implement all regulatory provisions outlined in its statutes. All development projects, that fall in to a set of prescribed categories are required to conduct a comprehensive environmental screening and mitigation planning process (EIA or IEE). These processes are largely consistent with the Bank’s safeguard policy on Environmental Assessment. With over three decades of experience the CEA demonstrates the technical expertise in evaluating environmental impacts of development projects. However even with an enabling legal environment and an able CEA, field level enforcement of legal

instruments and subsequent monitoring of environmental and social management activities has been very low. There is a capacity building component planned under the project that will also support strengthening their capacity to implement the project on the ground.

Institutional Capacity of Sector Ministry and Implementing Ministry:

Sri Lanka Climate Fund (SLCF) and Ceylon Electricity Board will be in charge of program implementation. The program intends to provide capacity building activities in order to strengthen the capacities of SLCF and Ceylon Electricity Board in key areas relevant to the project.

F. Environmental and Social Safeguards Specialists on the Team

Mohamed Ghani Razaak (GSU06)

Samira El Khamlichi (GCCIA)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The project will mainly focus on capacity building activities and technical & institutional support.</p> <p>Considering the use of renewable energy technologies will yield net positive environmental impacts, with only minor reversible adverse impacts, in general the sub-projects should not contribute towards any negative or cumulative adverse impacts. However, Investments in renewable energy technologies would need screening and assessment of likely impacts.</p> <p>Taking this into account, the team proposes a Category B rating for this project.</p> <p>Based on the experience of the last renewable energy project (RERED) the risks associated with environmental flows would need to be looked at in the case of Mini-Hydro sub-projects.</p> <p>As specific sub-project sites are yet to be identified, sub-project specific environmental issues cannot be identified at this stage.</p> <p>In order to ensure that all project interventions are environmentally sound an Environmental Management Framework (EMF) will be prepared to screen, assess, and mitigate environmental impacts related to proposed sub-projects. The EMF also will outline the process to prepare the necessary environmental safeguards instruments such as</p>

		Environmental Management Plans (EMPs) for each investment activity in environmentally sensitive area and provide specific guidelines to avoid or minimize risks and manage potential environmental impacts.
Natural Habitats OP/BP 4.04	Yes	<p>OP/BP 4.04 is triggered as some of the potential projects, especially in the wind energy and in the mini-hydro sectors may have adverse impacts on natural habitats. A detailed screening procedure will be defined in ESMF at the preparation stage, which should contain the mechanisms to capture the potential ecological impacts of the sub-projects and to propose the proper mitigation measures commensurate with the scale of the impacts.</p> <p>The project will not finance any activity that could potentially cause significant conversion or degradation of natural habitats.</p>
Forests OP/BP 4.36	No	OP 4.36 is not triggered as the project is not expected to cause any adverse impacts to health and quality of forests or significant land use changes within forests in the project area
Pest Management OP 4.09	No	OP 4.09 is not triggered as the project is not expected to procure pesticides, equipment or lead to a substantial increase in the use of pesticides.
Physical Cultural Resources OP/BP 4.11	No	<p>Social and environmental screenings will be carried out for all the potential sub-projects. Sub-project sites close to the known cultural assets will be excluded through the screening process.</p> <p>Measures to safeguard chance finds will be included as part of the measures taken under Environmental Assessment OP/BP 4.01</p>
Indigenous Peoples OP/BP 4.10	No	The project will not finance any activity in locations where identifiable indigenous communities live.
Involuntary Resettlement OP/BP 4.12	Yes	<p>OP/BP 4.12 is triggered as some of the potential projects, especially in the wind energy and in the mini-hydro sectors may involve small scale land acquisitions. However, specific sites and exact locations of sub-projects have not been identified at this stage.</p> <p>A social assessment/ screenings will be carried out as part of SMF to assess potential impacts for each sub-projects to ensure safeguards due diligence and will prepare necessary instruments to address IR impacts, if necessary.</p>

Safety of Dams OP/BP 4.37	No	OP/BP 4.37 It is expected that the project will support run of the river small hydro power projects of more than 10 MW capacities, but not large enough to be classified as large hydro, thus it is not anticipated that Dam safety will be an issue.
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered as any sub-project activities that may affect International Waterways will not be eligible.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not triggered as there will be no subprojects in disputed areas.

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 01-Apr-2016

B. Time frame for launching and completing the safeguard-related studies that may be needed.

The specific studies and their timing¹ should be specified in the PAD-stage ISDS:

The ESMF is scheduled to be completed prior to appraisal.

IV. APPROVALS

Task Team Leader(s):	Name: Keisuke Iyadomi, Zhuo Cheng	
Approved By:		
Safeguards Advisor:	Name: Maged Mahmoud Hamed (SA)	Date: 24-Mar-2016
Practice Manager/ Manager:	Name: Bernice K. Van Bronkhorst (PMGR)	Date: 28-Mar-2016

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.