INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE

Report No.: ISDSC1277

Date ISDS Prepared/Updated: 13-Sep-2012

I. BASIC INFORMATION

A. Basic Project Data

Country:	India	**Project ID:**	P128921
Project Name:	Partial Risk Sharing Facility in Energy Efficiency (P128921)		
Task Team Leader:	Ashish Khanna		
Estimated Appraisal Date:	15-Mar-2013	**Estimated Board Date:**	07-May-2013
Managing Unit:	SASDE	**Lending Instrument:**	Specific Investment Loan
Focal Area:	Climate change		
Sector:	Energy efficiency in Heat and Power (100%)		
Theme:	Climate change (80%), Other Financial Sector Development (20%)		

Financing (In USD Million)

Financing Source	Amount
BORROWER/RECIPIENT	20.00
Global Environment Facility (GEF)	19.80
Total	39.80

Environmental Category:	B - Partial Assessment
Is this a Repeater project?	No

B. Global Environmental Objective(s)

To achieve energy savings by mobilizing private sector in energy efficiency industry of India.

C. Project Description

The proposed project under the India Low Carbon Partial Risk Sharing Facility (PRSF) will follow on the current initiatives the government has pursued through its Partial Risk Guarantee Fund for Energy Efficiency (PRGFEE), part of the NMEEE described above, albeit with some crucial differences to improve performance. Other WBG projects have shown that project adoption is fastest when there are sophisticated lenders and borrowers in the field who are already undertaking some investments. This project will focus on lenders who have shown some initiative in lending to the clean energy sector and build upon their experience in creating a risk-sharing facility.

The project will incorporate a risk-sharing facility fund as well as technical assistance for partner commercial banks and other agencies to develop low carbon lending tools. The proposed components are as follows:

• Component 1: Funded Partial Risk Sharing Facility ($66 million): This funding will work in conjunction with commercial banks to increase the access to finance for ESCOs and/or industries that can invest in projects to reduce energy consumption of large industries, SMEs and commercial buildings. As with the government's own PRGF, we expect that this pool will assume 50% of the default of a bank's portfolio in the sector, with a 10% first loss. These numbers are based on similar operations in other countries and consultations with financial institutions. This first loss facility is crucial to help banks assume risks they would not normally be able to price.

Distinct from the NMEEE's PRGFEE, a competitively selected fund manager will manage the CTF-, GEF- and IBRD-supported fund. The Bank's other projects have shown that having the guarantee fund holder individually approve each transaction discourages uptake of projects, due to the high transaction costs such an apporach imposes on the ESCOs. Thus, this fund will sign agreements with participating commercial banks to develop guidelines on which loans will be made, whose cumulative exposure will be shared with the fund. This fund would extend the government's own efforts to involve private financing in low-carbon projects.

• Component 2: Technical Assistance for Monitoring and Verification and Capacity Building of Financial Institutions ($2 million): Another subcomponent of the project will provide technical assistance (TA) and capacity building to the several stakeholders in the project (commercial banks, project developers, etc.). This TA facility will be designed in consultation with the client BEE and industry stakeholders. Bank staff will closely monitor this facility in order to realize the benefits of the project. This subcomponent will also finance preparation of codes for the energy savings performance contracting market, including associated monitoring and verification (M&V) protocols. M&V of actual savings is often contested by the client and the implementing ESCO, leading to a loss of trust and poor contracting that does not delineate risks properly. In the absence of a system of quick judicial remedies, resolution of disputes can take years, discouraging investments in projects with inherent information asymmetry. The TA component will assist in preparation of improved M&V procedures and creating awareness for ISO 50001 for the different client types (municipalities, buildings and industries, etc.) to reduce contestability. The project will focus on capacity building of FIs engaged in the clean energy sector.

This project will be scheduled to coordinate with the expansion and deepening of India's PAT Scheme, which will require seven industrial sectors to reduce energy consumption, using a market mechanism to ensure compliance. Other WBG projects have shown that countries with a strong government mandate to support energy efficiency are able to quickly adopt such measures, as evidenced in the China Utility-based Energy Efficiency (ChUEE) project, whose success was due in part to a strong push from the Chinese government for energy efficiency in the industrial sector. This project will promote energy-efficient technologies and will focus on investments from larger companies, after which smaller industries can take advantage of lower costs. Extensive consultations with stakeholders like ESCOs, equipment manufacturers, lenders, etc. have shown that implementation of performance contracting requires incentives to be aligned for all the players in the value chain, which has been reflected in the project design.

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

E. Borrowers Institutional Capacity for Safeguard Policies

F. Environmental and Social Safeguards Specialists on the Team

Mridula Singh (SASDS)

Sita Ramakrishna Addepalli (SASDI)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/ BP 4.01	Yes	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/ BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 29-Oct-2012

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing[1] should be specified in the PAD-stage ISDS:

[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.

Environmental Safeguard Issues

The proposed PRSF will be intermediated through a fund manager [appointed by Bureau of Energy Efficiency (BEE)] to several commercial Banks participating in the program. The participating commercial banks lend directly to host institutions and/or to Energy Service Companies (ESCOs). The risk sharing facility will be used for energy efficiency (EE) achievement through technology upgradation in target sectors – large industries, SMEs and Commercial buildings. In specific, the PRSF will cover large industries under recently-notified under Perform Achieve Trade (PAT) Scheme of the BEE. Under the PAT, the government has provided energy consumption and energy savings benchmarks and targets to 478 designated consumers, including aluminium, cement, chlor alkali, fertilizer, iron and steel, pulp & paper, and textile industries. Thus, the project will support brown field industries leading to EE benefits, as well environmental co-benefits. However, the current status of target sectors vis-à-vis environmental performance would be of importance from the regulatory and reputational risks point of view. In addition, the environmental impacts of proposed technology upgradation in target sectors also cannot be ruled out. Thus, the fund manager as well as the commercial Banks extending the risk sharing facility under the project needs to integrate safeguards mechanism as part of appraisal of PRSF transactions.

Considering the target sectors under the project, the environmental issues/risks could be wide ranging, which are not be amenable for upfront identification for designing a particular environmental management plan. Also, there could be practical limitations (in some sectors) in retrofitting the environmental performance complying with the EHS guidelines of the World Bank Group, especially in case of industrial sector investments as: (a) the project facility supports marginal investments, in the context of overall size and turnover of industrial units and hence limited leverage; (b) the industrial units expected to be covered under the project are brown-field in nature and any environmental retrofits, in case if required, would be time consuming and may face practical difficulties.

Given the foregoing, the prudent means to address the environmental safeguard issues would be to use a risk based environmental approach, considering the country environmental standards and formulation of an environmental management framework, which includes environmental appraisal and risk management mechanisms. Following this approach, the project will administer the institutional arrangements to identify the environmental risks and mitigation measures as part of FI’s lending process. The process will follow the principles of IFC performance standards, duly concurred by World Bank Board for application in case of FI projects.

Social Safeguard Issues

The project does not trigger OP 4.12 and OP 4.10. The proposed investment is to promote market transformation for energy efficiency (EE). This implies that financial support will be provided to financial intermediaries, Energy Service Companies (ESCOs). These are third party private enterprises that implement technological, process-linked and managerial improvements to reduce energy consumption in industrial and commercial units. Hence the project does not intend to apply involuntary land acquisition nor will have any adverse impact on indigenous people.

The proposed project focuses on enhancing access to commercial credit to promote EE measures and technical assistance to focus on institutional and transactional issues that prevent scale up of

the ESCO industry. Perhaps it is important to take into account perceived risks associated with implementation of EE projects. Effective communication strategy will help systems to disseminate information on the concept; rules of engagement; associated risks; etc to promote confidence building measures. Although incorporation of communication plans in similar projects has begun, a pro-active approach may be considered early in the stage of project preparation.

IV. APPROVALS

Task Team Leader:	Name: Ashish Khanna	
Approved By:		
Regional Safeguards Coordinator:	Name: Sanjay Srivastava (RSA)	Date: 13-Sep-2012
Sector Manager:	Name: Jyoti Shukla (SM)	Date: 12-Oct-2012

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