

# INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

**Report No.:** ISDSC8307

**Date ISDS Prepared/Updated:** 06-Aug-2014

**Date ISDS Approved/Disclosed:** 03-Sep-2014

## I. BASIC INFORMATION

### A. Basic Project Data

<b>Country:</b>	Mexico	<b>Project ID:</b>	P149872
<b>Project Name:</b>	Mexico Municipal Energy Efficiency Project (P149872)		
<b>Task Team Leader:</b>	Janina Andrea Franco Sala		
<b>Estimated Appraisal Date:</b>	09-Feb-2015	<b>Estimated Board Date:</b>	15-May-2015
<b>Managing Unit:</b>	GEEDR	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	Energy efficiency in Heat and Power (100%)		
<b>Theme(s):</b>	City-wide Infrastructure and Service Delivery (50%), Climate change (50%)		
<b>Financing (In USD Million)</b>			
<b>Total Project Cost:</b>	130.00	<b>Total Bank Financing:</b>	100.00
<b>Financing Gap:</b>	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			30.00
International Bank for Reconstruction and Development			100.00
Total			130.00
<b>Environmental Category:</b>	B - Partial Assessment		
<b>Is this a Repeater project?</b>	No		

### B. Project Objectives

16. The development objective of the proposed project is to support large-scale demonstration of energy efficiency investments in the municipal service sector and in public buildings, and improve national and local capacity in designing and implementing municipal energy efficiency programs.

### C. Project Description

SENER has requested Bank support to design and implement a national municipal energy efficiency program. The proposed operation would seek to reduce energy consumption in municipalities by

increasing their capacity to integrate energy considerations into planning functions, in order to identify priority sectors and support the implementation of energy efficiency investments. To this end, SENER would liaise with the National Institute for Federalism and Municipal Development (INAFED) to help select and establish the relationship with the local governments. The operation would focus on sectors typically under municipal control or in which the municipality can influence policy-making. The proposed US\$100 million investment operation would be implemented by SENER over a six-year period and would comprise two components:

**Component 1: Policy development and institutional strengthening (IBRD US\$ 10 million).** This component would help create an enabling environment for energy efficiency in the municipal sector by supporting the development of, inter alia, policies, norms, energy efficiency diagnostics, and capacity building. CONUEE has issued various energy efficiency norms at the national level that are not being complied with at the local level as they are not included in the local norms, such as the energy efficiency codes for buildings. Municipalities and SENER also lack of information on municipal energy use and on priority areas and interventions with high energy savings potential. Furthermore, there is limited capacity at the municipal level for energy planning, including the capacity to assess energy efficiency projects, and monitor and verify energy savings.

The component would therefore be articulated around activities such as: (i) energy efficiency diagnostics to assess energy use and identify energy saving priority areas, focusing on public lighting, water and sanitation, municipal buildings, transport, solid waste management, and power sub-sectors; (ii) capacity building, including an energy efficiency certification program for municipal and national level staff; (iii) support in developing an urban energy management system to facilitate monitoring and verification of EE interventions; (iv) policy development to support local adoption of the national building energy efficiency codes; (v) a communication strategy to raise awareness of the municipal EE program among relevant stakeholders and constituencies; and (vi) project management, including monitoring, reporting and financial audits. Project preparation includes the development of the EE diagnostics for the first 30 cities with funding from an active Bank operation (Efficient Lighting and Appliances Project, P106424). During implementation the Project would continue performing energy efficiency diagnostics for municipalities to support building local level capacity among municipalities.

As SENER's technical energy efficiency arm, CONUEE would play a key role in the development of the Component 1 given its technical expertise and experience working with municipalities on energy efficiency policy, capacity building and certification.

**Component 2: Municipal energy efficiency investments (IBRD US\$ 90 million).** This component would support energy efficiency investments in public lighting, water and wastewater pumping, and municipal buildings. The Component would also include the preparation of feasibility studies and tender documents for the identified priority investments with a bundled approach per technology. The objective of the Component is to demonstrate that municipal energy efficiency investments can be performed through the use of a bundled approach to reduce energy consumption at the municipal level and CO2 emissions while maintaining or enhancing quality of service. The EE investments are expected to have a demonstrational impact from an economic, financial and environmental standpoint, thereby creating a sustainable framework beyond the Project's lifespan.

Subprojects would be prepared based on the results of the EE diagnostics and selected based on a number of criteria, which would include, among others: cost per unit of energy saved, O&M costs, useful life, payback period, and dedicated staff for energy efficiency. The specific selection method

will be defined during Project preparation, in coordination with other entities already involved in supporting energy efficiency initiatives, in order to ensure complementarity and avoid potential market distortions. Under the proposed approach, municipalities would only be able to participate in the program after energy efficiency diagnostic has been performed and feasibility studies prove the relevance of the proposed subprojects. The interventions would be bundled to provide synergies and economies of scale. Feasibility studies and bidding documentation would be prepared accordingly. In order to accelerate Project implementation, feasibility studies for initial investments already identified in the pilot EE diagnostics implemented in León and Puebla would be prepared during project implementation. Capital costs would be financed by IBRD resources with a minimum co-financing from municipalities which would also have to provide funding for operation and maintenance costs or through the use of performance based contracts to ensure the sustainability of the investments. To that end, the use of the federal fund portion of the municipal budget would be used to guarantee payment for the performance based contract.

This Component will be implemented by FIDE given its: (i) technical capabilities and experience in service provision in the three mentioned sub-sectors; (ii) regional presence throughout the country; (iii) opportunity to achieve economies of scale by launching integrated bidding processes; and (iv) experience in Bank-financed energy efficiency operations and their capacity to follow fiduciary guidelines.

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

The Project would be implemented in cities across the 31 States of Mexico and the Federal District.

#### **E. Borrowers Institutional Capacity for Safeguard Policies**

In Mexico, the Environmental and Natural Resources Secretariat (SEMARNAT for its acronym in Spanish), the National Water Commission (CONAGUA), the National Forest Commission (CONAFOR), the Natural Protected Areas Commission (CONANP) and the Federal Environmental Protection Attorney Office (PROFEPA), amongst others, are all federal level institutions that have the responsibility for guaranteeing the adequate application of Mexican law regarding environmental impact and pollution control.

Concerning environmental legislation, Mexico has accumulated a great number of laws, regulations and statutes that span every single aspect of environmental management. Amongst these, the General Ecological Balance and Environmental Protection Law is the one that will regulate the expected subprojects to be supported by this project.

Since 1986 the General Ecological Equilibrium and Environmental Protection Law has established a mandatory Environmental Impact Assessment for every project, whether privately or publicly financed. The procedure is detailed and explained in the Rulebook for such Law concerning Environmental Impact and its correlation with the wide existing regulations, and the guidelines for the development of environmental impact assessment carried out in Mexico, are consistent with World Bank operational directives for Environmental Assessment (Safeguard 4.01).

The monitoring of the prerequisites on environmental impacts resolutions are guaranteed by the Federal Environmental Protection Agency (PROFEPA) which depends directly upon the SEMARNAT and enforces the environmental legislation for which it has specialized offices in every state. PROFEPA is a 20-year-old organization with a noble and effective entrustment, but with very limited resources for operation. Therefore, there is a risk of non-compliance of local legislation and/

or Bank 4.01 safeguard, due to lack of knowledge or applicable legislation by the beneficiaries. This risk is expected to be mitigated with the use of the instruments to be developed for the project (an ESMF including a screening process of subprojects).

The existing SENER Project Implementation Unit (PIU) has some capacity to manage social and environmental safeguards issues, as it is currently implementing a large number of infrastructure-intensive Projects in the energy sector, such as solar farms for remote communities, as well as wind farms. In addition, FIDE (which will implement component 3) also has extensive experience with environmental safeguards policies, as it has been developing energy efficiency actions since its creation, including for the Bank-financed Efficient Lighting and Appliances Project, (P106424), which included exchange and proper environmental management of more than 2 million refrigerators and air conditioning equipment

Since the proposed Project would not finance new infrastructure projects, the Bank would provide training to key personnel at SENER, the PIU and FIDE, in the proper application of the safeguards instruments for the proposed Project. Additional environmental and/or social consultants - whose qualifications should be acceptable to the Bank - will be hired as needed for the Project.

Personnel would be required to fulfill the following tasks:

- screen potential subprojects for environmental and social risks and impacts;
- ensure that subprojects proponents (municipalities, utilities) carry out an environmental and social assessment for their respective subproject; and
- verify that subprojects comply with local laws and are consistent with Bank Safeguards Policies.

The safeguards instrument would be an Environmental and Social Management Framework (ESMF). The ESMF would be prepared by SENER, with support from World Bank environmental and social specialists. In practice, the ESMF would be a screening tool to help key personnel to identify which projects to exclude, and for approved projects with some perceived environmental and or social risks, and how to manage them.

#### **F. Environmental and Social Safeguards Specialists on the Team**

Alonso Zarzar Casis (GURDR)

Jose Luis Calderon Bartheneuf (GENDR)

## **II. SAFEGUARD POLICIES THAT MIGHT APPLY**

<b>Safeguard Policies</b>	<b>Triggered?</b>	<b>Explanation (Optional)</b>
Environmental Assessment OP/ BP 4.01	Yes	<p>This project has an environmental risk Category B as it is unlikely to result in significant negative impacts, and to the contrary, adverse impacts are identifiable, mostly temporary and easily mitigated with known management techniques.</p> <p>As the sites, types and scale of the subprojects to be financed is not known, an ESMF will be prepared, consulted and disclosed in country</p>

		<p>and on the Bank's website prior to appraisal.</p> <p>It is important to note that since there will be an exclusion list of subprojects and no category A subprojects will be supported, the potential subprojects will fall into either B or C categories. In addition, Component 1 is also expected to fall under these two categories. All sub projects would be subject to screening by SENER. This screening process will be supported by the ESMF, which will be developed by a consultant hired by SENER. The ESMF would be applied by proponents when they submit to SENER their subprojects for evaluation and possible funding. This consultant would also train FIDE's designated personnel (FIDE is responsible for component 3) in the use and follow up of this ESMF, with Bank support.</p> <p>This ESMF would determine, if any, the legal, environmental, social and cultural resources protection requirements that may apply to the subprojects (Component 2) and/or the activities in Components 1 (TA), and compliance actions, if any, which would be mandatory for project funding. The typical type of subprojects to be financed under Component 2 are: Public Lightning, Energy efficiency in water supply and sanitation processes and Energy efficiency measures in public buildings, like efficient lightning and thermal insulations.</p> <p>The ESMF will also provide guidance for preparing subproject-specific and simplified Environmental and Social Impact Assessments and Management Plans. The team's environmental and social specialists will supervise the proper application of this ESMF.</p>
Natural Habitats OP/BP 4.04	No	The project activities to be financed would not affect natural habitants as defined in Annex A of OP 4.04
Forests OP/BP 4.36	No	The project has not foreseen activities that would affect forests.
Pest Management OP 4.09	No	No activities would include pest use or procurement of pesticides.

Physical Cultural Resources OP/ BP 4.11	Yes	This policy is triggered because some of the public buildings where actions would be implemented might be in a “historic” or “artistic” protection status by federal or local authorities and specific authorizations might be necessary. The ESMF would consider this issue in its screening process.
Indigenous Peoples OP/BP 4.10	No	This policy is not triggered because subprojects would only be implemented in urban municipalities where there are no indigenous peoples that meet the requirements of OP 4.10, in particular a collective attachment to a distinct habitat or ancestral territory. Furthermore the project would focus in public infrastructure such as municipal buildings, public lighting and water infrastructure. For all the above reasons, OP 4.10 (Indigenous Peoples policy) is not triggered.
Involuntary Resettlement OP/BP 4.12	No	The Project would not finance any activities that would require the involuntary taking of land that result in physical displacement, loss of assets or access to assets or economic displacement. Subprojects to be supported under the Project would be in already existing infrastructure such as public lighting, existing water structures and existing municipal buildings. If for any circumstance there is need to use land this will only be done under a voluntary donation to the project. The project’s ESMF will include criteria to ensure that any necessary transaction is carried out voluntarily
Safety of Dams OP/BP 4.37	No	The project would not support the construction or rehabilitation of dams, nor would support other investments which rely on the services of existing dams.
Projects on International Waterways OP/BP 7.50	No	The project would not affect international waterways as defined under this policy.
Projects in Disputed Areas OP/BP 7.60	No	The project would not affect disputed areas as defined under the policy.

### III. SAFEGUARD PREPARATION PLAN

**A. Tentative target date for preparing the PAD Stage ISDS: 30-Jan-2015**

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

The ESMF should be completed at the end of January 2015.

<sup>1</sup> 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.

#### IV. APPROVALS

Task Team Leader:	Name: Janina Andrea Franco Sala	
<b><i>Approved By:</i></b>		
Regional Safeguards Coordinator:	Name: Francis V. Fragano (RSA)	Date: 06-Aug-2014
Practice Manager/ Manager:	Name: Malcolm Cosgrove-Davies (PMGR)	Date: 03-Sep-2014