May 23, 2013

Comments from Germany on the proposal for development policy loan to promote inclusive green growth and sustainable development in Himachal Pradesh project in India

Dear Patricia,

as discussed during the CTF meeting, pls find attached detailed comments to the early draft of the Indian proposal.

Kind regards
Annette

Division for Climate Policy and Climate Financing
senior political advisor
Federal Ministry for Economic Cooperation and Development

4. CTF/TFC.11/9 Proposal for Development Policy Loan to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh Project in India

Germany very much welcomes the Indian approach to gauge reactions in the TFC early on, before formally submitting a proposal. We believe that this might prove an excellent device to shorten approval processes.

As the German government bilaterally already supports the energy sector in India with newly committed funds of 330 million € (government negotiations in 2012) with a focus on RE i.a. on hydro energy in Himachal Pradesh, and additionally signed a "Joint Declaration of Intent" for the establishment of so called *Green Energy Corridors* (Smart Grids) with a total of 1 billion €, we expressly support further, coordinated efforts in this sector and region. Our comments below therefore should be read with the understanding that we are trying to contribute constructively to the elaboration of the CTF proposal.

Specific comments

- GER welcomes the proposal's focus on hydropower, and emphatically supports the assessment that hydropower, pump-storage and strong interregional transmission capacities will play a crucial role for system stabilization, in particular given that intermittent renewable energy resources are likely to be significantly expanded;
- Even though the proposal features a comprehensive description of sub-sectoral bottlenecks (e.g. lack of appropriate hydro policy framework), it provides only little information on how these issues shall be addressed, and how the proposed substantial volume of CTF funds shall be employed. Apart from the creation of department of environment, science and technology, there is hardly any elaboration on planned policy and institutional reforms;
- Many of the key goals and objectives of the DPL point towards important sustainable development goals, which although they are directed towards crucial development issues, appear unlikely to directly contribute to the **key objectives of the CTF**. This might significantly complicate measuring the future impacts of the proposed DPL against the results framework of the CTF, in particular: How shall the GHG benefits of green growth and increased hydro sustainability (achieved through improved impact assessments and the creation of benefit sharing mechanisms) be measured? In particular for large hydro projects, better environmental and social sustainability often means a significant reduction of generation capacity and hence fewer GHG reductions. In other words, with the CTF's main objective being swift and large scale GHG mitigation projects (while minimizing related adverse social and environmental effects and maximizing co-benefits), the proposed DPL seems to turn the CTF intervention logic on its head with GHG reductions merely being a co-benefit of a program mainly focused on much broader development and sustainability goals: we do appreciate the focus on development and environmental benefits, but find it also important to be able to show results within the framework of the CTF.
- Moreover, the DPL appears hard to square with other CTF Investment criteria such as transformational impact: According to the proposal, "due to conducive central and state policy support", "the pace of hydro development has been faster in HP than in any other

state”. Hence there appears to be little reason to believe that the mere speeding up/modification of (already conducive) permitting and commissioning procedures will trigger any major transformational impact;

- In addition, when discussing replication potential for other states, it would be extremely helpful to learn about social and environmental safeguard policies as well as projections for rain water fall/flow rates of rivers and tributaries.
- According to the proposal, a comprehensive system of royalties (up to 30% of power generated) and fees (1.5% of construction cost) has already been in place since 2006 and has provided state and central governments budgets with very substantial additional non-tax revenues. It is therefore unclear, how the limited amount of CTF funds and merely an additional 1% of power sales to a new benefit sharing mechanism can achieve any major additional development or transformational impact. In other words, we are not sure how limited CTF funds will achieve what the comprehensive scale system of royalties already in place has not been able to provide?
- On the other hand, we understand that unaccounted-for-power as well as cost-efficient tariffs in the light of ineffectual fee payment systems pose challenges.
- The intention of establishing a Local Area Development Fund as a community based benefit sharing program with direct cash transfers to beneficiaries seems sensible, and directly reflects the political will of the current government. We would welcome more information on this Fund and its functions in the proposal. It would also be helpful to read about strengthened capacity for the Dept of Environment, Science&Technology which will be in charge of this mechanism.
- Private investment incentives: We are wondering whether the benefit of streamlined permission procedures might not be cancelled out by the planned penalty system and additional levy of 1% of power sales for the capitalization of the benefit sharing mechanism?
- GHG co-benefits: In addition to providing broad state and national-level GHG estimates, the proposal should provide a more detailed picture on how the streamlining of permitting, commissioning and implementation procedures will be reducing time and cost overruns with regard to the roll-out of HP’s hydropower development pipeline (and beyond). Similarly, the proposal should provide a more detailed account regarding the assumptions and methodology for the calculation of the “transformational ratio” and ambitious leverage ratios.