

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

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Operation Name	Second Development Policy Loan to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh (P143032)
Region	SOUTH ASIA
Country	India
Sector	Environment
Operation ID	P143032
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF INDIA
Implementing Agency	Government of Himachal Pradesh Room No. E-201B, Armsdale HP Secretariat Shimla Himachal Pradesh India Tel: (91-177) 262-1022, 288-0714 Fax: (91-177) 262-1813 cs-hp@nic.in, envsecy-hp@nic.in,
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Corporate Review Decision	
Other Decision <i>[Optional]</i>	

I. Country and Sector Background :

1. India's remarkable growth record has been clouded by a degrading environment and growing scarcity of natural resources. Mirroring the size and diversity of its economy, environmental risks are wide ranging and are driven by both poverty and prosperity. Much of the burden of growth and development is falling upon the country's natural assets and its people. Environmental sustainability could become the next major challenge as India surges along its growth trajectory. Climate change poses an additional risk to India's long term development prospects. By mid-century, the mean annual temperature in India is projected to increase 1.1° to 2.3° C under the moderate climate change scenarios. All the Global Circulation Models project that precipitation intensity and heavy precipitation events will increase, suggesting greater variability in rainfall. The overall implication is that agro-climatic conditions would generally deteriorate across the country. Further, striking impacts are likely to come from the melting Himalayan glaciers which sustain agriculture, livelihoods and industry through the Gangetic plains.

2. Himachal Pradesh (HP) is richly endowed with natural resources that provide economically valuable environmental services for much of the country. The state is home to three major river basins, and serves as a watershed that is critical to the livelihoods of more than 200 million people in Haryana, Punjab, Uttar Pradesh, and Rajasthan. It has one of the main sources of clean energy – hydropower - for the country that can help address both the energy and peak shortages of the Northern Region. The watersheds of HP also act as an important carbon sink for greenhouse gases. Altitudinal variation has generated habitats that host immense numbers of species, which demonstrate a high degree of endemism – that is species only found in these ecosystems. Parts of the region are classified as global biodiversity hotspots –signaling scientific concern for the unrelenting pressures on the Himalayan ecosystem. There is also considerable potential for attracting higher value added tourists in the state, with a unique combination of attractions that includes natural assets, historic architecture (Shimla) and cultural and religious attractions.

3. Rapid industrialization in HP has generated a number of industrial clusters where environmental quality (air and water pollution) is rapidly deteriorating causing hazardous conditions for neighboring communities and ecosystems. While the State Pollution Control Board (SPCB) is mandated with regulation of environmental laws, the Industries Department which promotes industrial development is now trying to identify interventions for areas which have become —pollution hot spots especially given the ecological fragility of the state.

4. Being one of HP’s main drivers of the state’s economic growth, Tourism is a very important activity that contributes to both the gross domestic product and the employment in the state. Recent estimates using TSA methodologies indicate that the contribution of inbound tourists (foreign and domestic) to the state GDP may be as high as 26 percent; with the specific contribution of foreign tourists in the state estimated to be significantly the largest and over 20 percent. The tourism sector’s potential growth is also intricately linked with environmental quality. GoHP’s target is to increase the contribution of tourism to GSDP to 15 percent by 2020. GoHP wants to ensure that tourism development does not happen at the cost of the fragile ecosystem of the state

5. GoI sought a program of series of two DPLs of US\$100 million each from IBRD resources to finance the first in a series of two DPLs, and an additional US\$ 100 million of CTF resources for the second DPL in the series. This is consistent with the practice to leverage CTF resources with funds from multilateral agencies. This two-part programmatic DPL series is designed to support a subset of GOHP’s plans by enabling policies, institutional actions and piloting of innovative practices that are deemed catalytic for long-term change in sectors that are the key drivers of economic growth. These actions include:

- Adoption of environmentally sustainable and socially responsible hydropower development in the ongoing hydro development program
- Integration of climate change adaptation and mitigation actions in policies and programs
- Empowering local communities to promote watershed management
- Promotion of an environmentally sustainable industrial development;

- Implement an environmentally sustainable tourism program;
- Instituting mechanisms for integration of spatial GIS based information in informed decision making.

II. Operation Objectives :

6. The objective of this Programmatic DPL series is to support HP in making a paradigm shift towards an environmentally sustainable model of economic growth by promoting improved management of its natural resources and inclusive green growth. The focus is on providing the key foundations that define the short term measures necessary to achieve these longer term objectives. This is to be achieved by promoting the sustainable use of the State's natural resources – in particular it's abundant water supplies, forests and biodiversity.

7. The overall operation consists of two DPLs of US\$ 100 million each: the first was approved by IBRD in September 2012; the second is to be financed by the Clean Technology Fund (CTF). This program seeks to pilot the DPL as a lending instrument in the CTF, and to inform the debate on how such an instrument can be effectively applied in climate finance more broadly.

8. The IBRD and CTF funded operations support specific policy and institutional measures within GoHP's overall environmental sustainability reform agenda that have been mutually agreed as critical to achieving this transformation. The following sections describe the individual actions within the broad framework that forms the legal basis for the disbursement of the proposed Second HP IGG DPL. The Bank and the Government have identified the prior actions through a process of mutual consultations.

The prior actions for the second operation of HPIGG DPL are presented in the Table -1 below;

Table 1: Prior Actions for IGG DPL 2

	Prior Actions/Milestones
<i>Goal: A--- Increased adoption of environmental and social parameters in hydropower development</i>	<ul style="list-style-type: none"> • GoHP has designed, adopted and implemented a web-based real-time monitoring system for project milestones, including those relating to environment and social parameters and environmental flows. • GoHP has (i) carried out an interim review of the on-going cumulative environmental impact assessment study of the Satluj river basin; and (ii) developed a concurrent action plan. • GoHP has adopted and implemented a benefit sharing scheme to complement the Local Area Development Fund, by initiating the payment of Cash Transfers to Eligible Beneficiaries
<i>Goal :B---Increased integration of climate</i>	<ul style="list-style-type: none"> • GoHP has prepared and publicly disclosed Himachal Pradesh's comprehensive Action Plan on Climate

<i>change adaptation and mitigating measures in state development plans</i>	<p>Change.</p> <ul style="list-style-type: none"> GoHP has: (i) carried out a state-wide ecosystems evaluation analysis, and (ii) issued notification of a state policy on payments for ecosystem services
<i>Goal: C – Increased local communities participation in development of watershed management.</i>	<ul style="list-style-type: none"> GoHP has: (i) begun the implementation of the IWMP Guidelines, by preparing through a multi-disciplinary team, and adopting, integrated Micro-Watershed Development Plans (one per Block); which plans are publicly monitored and disclosed in AGiSAC’s website; and (ii) prepared and commenced the implementation of a capacity building plan for stakeholders departments. GoHP has amended the HP Water Policy-2005 through the notification of the new HP Water Policy-2013 for the sustainable management of HP water resources
<i>Goal: D – Increased adoption of Sound Environmental Management Practices in industrial development.</i>	<ul style="list-style-type: none"> GoHP has designed and issued notification on economic instruments for incentivizing the adoption of cleaner technologies, and has decided to disincentivize the industries identified in the Negative List (which largely consists of polluting industries).
<i>Goal :E – Increased adoption of sound environmental management practices practices in tourism development</i>	<ul style="list-style-type: none"> GoHP has amended the Tourism Policy-2005 through the adoption of the Sustainable Tourism Development Policy-2013 in order to ensure the environmental sustainability of the activities in the sector, including the use of economic instruments to internalize environmental externalities of tourism. GoHP has commenced the implementation of sustainable tourism practices in Himachal Pradesh.
<i>Goal: F- Improved Integration of GIS mapping and Decision making in the state.</i>	<ul style="list-style-type: none"> GoHP has issued an Order operationalizing AGiSAC’s protocols for monitoring and evaluation of activities in the infrastructure and natural resources management sectors, including the integration of geo-informatics technology

III. Rationale for Bank Involvement

9. Recognizing the unique challenges of developing in a sustainable manner in the fragile and rugged Himalayan region, HP is seeking policy support for a pioneering effort to promote growth through environmental stewardship. The Bank can bring a wide spectrum of global best practice and experience from its environmental support in other countries. Examples include: state level climate change planning and activities (Mexico); ecotourism and sustainability (Mexico, Sri Lanka, Maldives); building institutional capacity (Peru, Ghana, Brazil); fostering inter and intra institutional coordination (Morocco); strengthening enforcement and compliance (Mexico, Morocco); enhancing reform durability (Ghana); facilitating civil society outreach and partnership (Brazil, Colombia, Mexico); supporting sustainable natural

resources (Cameroon, Laos, Columbia, Mexico); managing environmental risks (Peru, Morocco, Columbia); promoting regional and global public goods (Turkey, Mexico); building adaptation capacity (Indonesia, Vietnam) and promoting resilience to climate-change induced hazards through activities in every continent.

10. The loan aligns well with the Country Partnership Strategy (CPS) for India (Report No. 76176-IN) that will support the Government’s development goal of growth that is faster, more socially and regionally inclusive, and more sustainable as detailed in the 12th Five-Year Plan (FY2013–17). The CPS also clearly identifies that GoI now seeks World Bank support only for projects that have a systemic or transformational impact, those that help innovate and pilot new approaches, and finally those that introduce innovative financing instruments and leverage resources. This is what the HP IGG DPL program intends to achieve. In some ways the HP IGG DPL program breaks new ground, which could have significant demonstration effects in promoting the inclusive green growth agenda in other resource rich states in India and as well in the region.

IV. Tentative financing (Current DPL operation)

Source:		(\$m.)
Borrower		-0-
International Bank for Reconstruction and Development		-0-
Clean Technology Fund		100
Borrower/Recipient		-0-
IBRD		
Others (specify)		
	Total	100

V. Institutional and Implementation Arrangements

11. A high level committee headed by the Chief Secretary (highest ranking official of State administration) to monitor and implement agreed DPL policy actions, with DEST (expand acronym) responsible for the multi-sector coordination has been established in the state.

12. The GoHP has also established the Aryabhata Geoinformatics and Space Application Center (AGiSAC) to assist with generating information for monitoring using geo-spatial information. AGiSAC will cover all major sectors of remote sensing applications in decentralized planning, and is expected to play a significant role in monitoring of results across the DPL operation. The GoHP has also operationalized and integrated geo-informatics technology for infrastructure and natural resources, through the issuance of protocols for monitoring and evaluation by AGiSAC.

13. Having established AGiSAC to promote integrated GIS mapping and decision-making, GoHP aims to take the next steps to make operational monitoring and evaluation of infrastructure and natural resources management sector through integrating geo-informatics technology.

VI. Risks and Risk Mitigation

The Program Operation is anticipated to deliver overall green growth benefits but there are certain risks that emerge from the operation. The main risks under the different categories and the corresponding responses to mitigate risks are as follows:

- Political and governance (moderate risk): There is strong multi-party support among the major political parties and a growing consensus that a paradigm shift towards a sustainable economic growth model would be universally beneficial for the State. Political and governance risk is therefore low and requires no mitigation.
- Institutional (substantial risk): Traditionally, the State has had limited focus on environmental sustainability issues in its sector policies, and monitoring and evaluation on these issues is also weak. This risk has been largely mitigated through a high level committee headed by the Chief Secretary (Highest ranking official of State administration) to monitor and implement agreed DPL policy actions, with DEST responsible for the multi-sector coordination. This is also the first DPL operation to be funded from CTF and will therefore be subject to certain level of scrutiny. It is therefore anticipated that emission reductions to be achieved in the key sectors through these transformative policy reforms will be monitored and reported at requisite intervals. A Technical Assistance is being discussed and agreed with Trust Fund (DFID etc.) funding to support monitoring of results beyond DPL time lines.
- Operational design, implementation and sustainability (moderate risk): The program's objectives are ambitious and require continual effort over a significant period of time before the inclusive growth and sustainable development paradigm gets established. In order to help alleviate these constraints, the GoHP has built the capacities of the Department of Energy and Environment for effective coordination and implementation by increasing the staffing levels and bringing in technical experts in the areas of environmental management.
- Reputational (substantial risk): The DPL program aims to support GoHP in the improved management of its natural resources across key sectors that are the growth engines of its economy, viz. i.e. energy, industry and tourism. The thrust of the DPL program is on facilitating the adoption of policy and institutional reform actions that will make the state's development plans more environmentally sustainable and socially responsible. Possible risk to the Bank's reputation can accrue only in the event that these actions are not sustained. This risk is potentially mitigated by the fact that there has been consistent ownership in the state (including across the political spectrum as evidenced by the fact that two different political coalitions have supported the two phases of the DPL) for improved stewardship of its natural resources. Consultations with other stakeholders conducted by the government have also revealed a demand for these actions aimed at promoting the long-term sustainability of Himachal Pradesh's growth agenda. However, given the inherent complexities, especially vis a vis the fragile natural environment, the risk rating is retained as Substantial.

VII. Poverty and Social Impacts and Environment Aspects

14. Poverty and Social Impacts

- a) **At the macro level, the proposed reform program will contribute to the ongoing transformation of the state's economy toward secondary, tertiary and infrastructure sectors while providing a new impetus to growth**, which have the potential to alter the state's development trajectory in a context of high environmental consciousness and cohesive social organization. Two specific areas of interest at the micro level are: (i) the first-of-kind benefit-sharing program for local communities in hydropower projects, through mandatory provisions to a Local Area Development Fund and distribution of cash benefits to project-affected families; and (ii) promotion of community-based watershed management approach in agricultural and horticultural sectors and establishment of agribusiness centers, which will target poverty alleviation through improved rural incomes and better market access. A Poverty and Social Impact Analysis (PSIA) has therefore been undertaken, in keeping with the Program Document for DPL I, to keep track of the impacts of the unfolding reform.
- b) **In the first stage of the PSIA, the state's development outcomes over time were documented using the National Sample Survey (NSS)** and drawing upon other surveys such as the National Family Health Survey (NFHS). This was complemented with primary data from an ethnographic study, which captures qualitative accounts of the hopes and fears of the local population. Together, these sources provided an understanding of the state's social and economic development trajectory and serve as an early assessment of the pitfalls associated with the reforms. The analysis revealed that poverty headcount declined for all groups in Himachal Pradesh since the mid-2000s, including the period between 2009/10 and 2011/12 during which the reforms included in the DPL program were being rolled out. Similarly, the overall employment rate has been consistently high, especially in comparison to neighboring states, though there are important differences across social groups (most notably among scheduled castes, tribes and other backward castes). However, women's employment has been consistently high in Himachal and it increased considerably since 2009, despite remaining below male employment especially in urban areas. Employment in the construction sector also increased rapidly since the industrial reforms in the mid-2000s, but it flattened since 2009. The first stage was completed and analysis presented in November 2013.
- c) **Further, the second stage of the PSIA is designed to monitor the social and welfare impacts of benefit-sharing** and community-based watershed management at the community-level in order to facilitate better targeting, provide feedback for effective implementation, and to promote long-term sustainability of hydropower.

15. Environment Aspects

The policy reforms supported by HP IGG DPL II were examined for their effect on environment, forests and other natural resources as per OP 8.60. It is clear from the review that the GoHP's plan of inclusive green growth agenda confers overall global and local

environmental benefits and the sub set of reforms supported by this operation will only have positive effects. **The proposed HP IGG DPL supports the Government of India (GoI) and GoHP in a paradigm shift towards an environmentally sustainable model of economic growth** by promoting improved management of its natural resources, sustainability and inclusive green growth. The GoHP has expressed strong interest to adopt and continue reforms in key areas, in building its knowledge base and institutional capacity and in promoting sustainability in its growth agenda. This is supported by environmental assessment work undertaken for various projects in HP as well as from the analytical documentation that addresses environmental issues and have been summarized in the Program document of the operation.

VIII. Contact point

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