

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

Report No.: AB6960

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Project Name	Himachal Pradesh Development Policy Loan to Support a Shift towards Green Growth
Region	South Asia
Sector	Environment, Water Resource and Climate Change
Project ID	P 124041
Borrower(s)	Republic of India
Implementing Agency	Dr. Nagin Nanda Secretary-cum-Director Department of Environment, Science and Technology Government of Himachal Pradesh (GoHP) Shimla, Himachal Pradesh, INDIA Tel: +91 177 262 4538 E-mail: nagin_nanda@yahoo.com
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined) None
Date PID Prepared	Initially May 30, 2011; updated February 16, 2012
Estimated Date of Appraisal Authorization	December 22, 2011

I. Key Development Issues and Rationale for Bank Involvement

The proposed Himachal Pradesh Development Policy Loan to Support a Shift towards Green Growth (HP GG DPL) supports the GOHP in its long term commitment to a paradigmatic shift to greener growth and ultimate carbon neutrality. The Government is seeking policy-based budgetary support for initiatives that would be catalytic and that would unleash the potential of the state to play to its comparative advantage of an abundance of natural resources. The state has identified three sustainable engines of growth to be supported by this initiative namely environmentally and socially sound hydropower development, sustainable rural development, and sustainable industrial development. To underline this shift, it endeavors to become the *first carbon-neutral state in India*.

This operation is part of the Bank's long standing engagement with Himachal Pradesh (HP). For over a decade the Bank has evolved a multi-sectoral engagement in HP. There has been budget support for fiscal reforms as well as a host of projects in infrastructure such as the Nathpa-Jhakri, Rampur and Hydro Power Projects, Integrated watershed Development Project, Mid Himalayan Watershed Project, National Highways, as well as State and Rural Roads projects. This initiative is part of an evolving relationship that has graduated from specific sectoral interventions to broader strategic support for a major shift in the development paradigm. Such policy issues are most appropriately addressed through DPLs.

Recognizing the special 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 knowledge 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); and promoting regional and global public goods (Turkey, Mexico); building adaptation capacity (Indonesia, Vietnam) and resilience to climate-change induced hazards through efforts in every continent.

The Country Strategy (CAS) 2009-12 recognizes that while India needs to grow to reduce poverty and create employment, it has an opportunity to do so in a way that is sustainable and preserves the country's natural heritage. The CAS also acknowledges that most environmental indicators in India suggest that growth is extracting an increasing toll on the country's natural resources - water, land, forests, soils and biodiversity - and leaving a larger pollution footprint. India is highly vulnerable to climate change; cyclones, floods and droughts are happening with increasing frequency. It is anticipated that climate change will impact India first and foremost through its water resources. Rising temperatures also has the potential to negatively impact agricultural yields, the quality of the forests, as well as marine and coastal biodiversity. India will need to better manage these resources (particularly water) and reduce the burden that environmental degradation is imposing on the population, particularly on the most vulnerable groups. The proposed HP ES DPL in some ways breaks new ground and that could have significant demonstration effects in promoting the green growth agenda.

II. Proposed Objective(s)

The broad objective of this programmatic DPL series is to support HP in a paradigm shift towards an environmentally sustainable model of economic growth by promoting improved management of its natural resources and an ultimate shift to carbon neutrality. The focus will be on providing the key foundations that would define the short run path to this longer term objective. 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. To underline this shift, it is useful to note that GoHP is the first state in India to announce its intention of becoming carbon neutral. The proposed operations will support specific policy measures within GoHP's overall environmental sustainability reform agenda that have been mutually agreed as critical to achieving a transformation.

The program will be supported by an ambitious effort towards climate smart development across the engines of economic growth, namely the energy, rural development and industrial sectors. This will enable Himachal Pradesh to make a paradigm shift towards a sustainable economic

growth model, which will unleash the potential of the state to play to the comparative advantage of its natural resources.

The higher level objectives and broader expected outcomes of this DPL are the following: (a) that the state would ultimately attain carbon neutrality (b) to reduce the environmental and social risks associated with hydropower development in one hydropower-rich state in India (c) to empower local communities to implement locally appropriate solutions to promote sustainable watershed management (d) to adopt cleaner production and environmental management systems consistent with internationally recognized standards.

III. Preliminary Description

Himachal Pradesh is richly endowed with natural resources and this program is designed to unleash its comparative advantage of generating growth through improved stewardship of its natural assets. By the standards of South Asia, Himachal Pradesh is sparsely populated. With 6.6 million people spread across 55,673 sq. kms, the state's population density—at around 110 per sq. km.—is significantly lower than the national average of 320 per sq. km. The state has some of the best indicators for development in India and is on track to meet the majority of its Millennium Development Goals. From its inception in 1971, it had a higher per capita income and better social indicators than much of the country. But challenges do remain – notably that of promoting inclusive development for disadvantaged groups in remote areas. Himachal Pradesh 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 it serves as a watershed that is critical to the livelihoods of more than 200 million people in Haryana, Punjab, Uttar Pradesh, and Rajasthan. It is among the main sources of clean energy – hydropower - for the country. The watersheds of Himachal Pradesh also act as an important carbon sink for greenhouse gases. Natural habitats in the state are marked by a high degree of endemism – that is species only found in these ecosystems. However, the past pattern of development in Himachal Pradesh, raises concerns about the efficiency of natural resource use, and the sustainability of development. Following the development template used in the rest of the country, the hill states have attempted to attract industries that are often highly polluting and resource intensive (such as cement, chemicals, and pharmaceuticals), through a variety of tax concessions and subsidies. The proposed Himachal Pradesh Environmental Sustainability Development Policy Loan (HP GG DPL) supports GOHP in its long term commitment to a paradigmatic shift to climate smart greener growth and ultimate carbon neutrality. The Government is seeking policy-based budgetary support for initiatives that would be catalytic and unleash the potential of the state to play to its comparative advantage. The state has identified three sustainable engines of growth to be supported by this initiative namely environmentally and socially sound hydropower development, sustainable rural development, and sustainable industrial development. To underline this shift, it endeavors to become the *first carbon-neutral state in India*.

IV. Safeguard Policies that might apply : None

Safeguard Policies Triggered by the Project	Yes	No	TBD
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Environmental Assessment (OP/BP 4.01)	[]	[]
Natural Habitats (OP/BP 4.04)	[]	[]
Pest Management (OP 4.09)	[]	[]
Physical Cultural Resources (OP/BP 4.11)	[]	[]
Involuntary Resettlement (OP/BP 4.12)	[]	[]
Indigenous Peoples (OP/BP 4.10)	[]	[]
Forests (OP/BP 4.36)	[]	[]
Safety of Dams (OP/BP 4.37)	[]	[]
Projects in Disputed Areas (OP/BP 7.60)*	[]	[]
Projects on International Waterways (OP/BP 7.50)	[]	[]
Piloting the Use of Borrower Systems to Address Environmental and Social Issues in Bank-Supported Projects (OP/BP 4.00)	[]	[]

The provisions of OP8.60 on Development Policy Lending apply to this operation. The operation is expected to have significant positive impacts on the environment and natural resources. It plays an important role in helping to mainstream environmental considerations in key sectors (e.g., hydropower and industrial development) in Himachal Pradesh and in the state's overall approach to development. In particular, the project supports the Government of Himachal Pradesh's efforts to achieve carbon neutrality. The operation supports the use of a portfolio of environmental policies to mainstream environmental sustainability in hydropower and industrial development. The use of a portfolio of instruments for environmental policies, including economic instruments, will yield clear environmental benefits. Altogether, these policies could demonstrate best practice in India and are a first in the country and in the South Asia Region.

Since the *raison d'être* of the operation itself is to support the Himachal Pradesh Government in mainstreaming environmental considerations into a number of key sectors, the operation's design is proactive with respect to internalizing environmental concerns.

This operation supports enhancement of the positive environmental impacts of watershed management practices that enhance positive environmental benefits in the form of soil conservation, habitats for biodiversity, improved forest cover, and reduced sedimentation.

Although the GoHP's plans for development of the hydropower sector contemplate considerable development of infrastructure to boost the sector's growth, the proposed operation will not support investments in infrastructure. The potential adverse environmental impacts of infrastructure developments are recognized. It is anticipated that such impacts will be identified through analytical work including **cumulative effects assessments supported by the operation.** The analytical work supported also includes proposals for policy options to address potential adverse environmental impacts of infrastructure developments and reduce risks of such investments.

Strategic Environmental Assessments (SEAs) will be key to enhance positive environmental impacts and in anticipating such effects and outlining measures upstream to address them. At the sectoral level, SEAs will support the integration of environmental concerns in the context of sectoral policy development and will promote inter-institutional agreements and commitments

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

among various stakeholders to address their respective environmental concerns. Other positive impacts on the environment are expected to derive from improved environmental management at the national and local levels, in which the program places particular emphasis in assuring improved transparency and accountability with respect to governmental oversight and decision making.

On Monitoring and Evaluation of this operation, an inter-sectoral committee chaired by Chief Secretary, and consisting of high level officials from the Department of Finance and each participating sector has been constituted through a Government Order in order to monitor progress on the implementation of the HP GG DPL and take any corrective actions. A technical inter-sectoral subcommittee led by a Project Director will support the high-level committee by coordinating the monitoring of actions and results. The Department of Energy and Environment is also being strengthened simultaneously.

The main risks include implementation, reputational, institutional and political and their mitigation has been included in the Program Document of DPL.

V. Tentative financing

Source:

IBRD	100(\$m.)
CTF	100(\$m)
Total	\$200(\$m)

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