

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No.: AC3202

Date ISDS Prepared/Updated: 05/20/2008

I. BASIC INFORMATION

A. Basic Project Data

Country: Tunisia	Project ID: P104266
Project Name: TN-SCALING UP ENERGY EFFICIENCY AND RENEWABLE INVESTMENT	
Task Team Leader: Silvia Pariente-David	
Estimated Appraisal Date: January 7, 2009	Estimated Board Date: April 16, 2009
Managing Unit: MNSSD	Lending Instrument: Specific Investment Loan
Sector: District heating and energy efficiency services (80%);Renewable energy (20%)	
Theme: Other financial and private sector development (P);Climate change (S)	
IBRD Amount (US\$m.):	100.00
IDA Amount (US\$m.):	0.00
GEF Amount (US\$m.):	0.00
PCF Amount (US\$m.):	0.00
Other financing amounts by source:	
<u>Borrower</u>	0.00
	0.00

B. Project Objectives [from section 2 of PCN]

The development objective of the proposed project is a reduction of the energy intensity of the Tunisian economy and an increase of the share of renewables in the primary fuel mix. This will be achieved through investment in energy efficiency and in renewable energy technologies.

The key performance indicators will be:

- energy intensity reduction
- share of renewables in primary energy
- investment in energy efficiency and renewable energy projects

A secondary indicator is the resulting reductions in emissions of greenhouse gases.

C. Project Description [from section 3 of PCN]

Discussions on the proposed project were initiated in July 2006. The conceptual design of the project was developed through several consultations with ANME and all stakeholders, using results and findings reported in several studies and market assessments funded by grants from multilateral and bilateral institutions.

Following the publication of the 4ECP, and its presentation during the NCEM, the ANME has sent a formal request to the Ministry of Industry and Energy (MIEPME) for support from the World Bank to finance the following investment:

1. cogeneration
2. wind generation by industry (self-generation)
3. EPCs with industry (“contrat-programmes”)
4. thermal solar in industry and services
5. replacement of old appliances, focusing in a first phase on refrigerators

During project preparation, it will be identified which of those activities are priority, focusing as far as possible on providing short-term loans to projects with high rates of return, and should be included in the proposed project, depending on the loan amount. Preliminary discussions indicate that the project is likely to include activities 1, 2 and 3, with the possible addition of activity 5, and this will have to be confirmed during project preparation.

The proposed project intends to provide a Bank loan of an amount of \$70-100 million to support the 4ECP for: either a credit line to selected domestic commercial banks or an Energy Efficiency Fund (EEF) managed by a specialized and professionally staffed unit, or a mixture of the two. The purpose is to promote the deployment of specific financing schemes, as lack of financial resources or resistance to EE/RE investment because of implicit high discount rates are some of the major barriers to scaling-up EE/RE.

The choice of instrument and delivery system will be made during project preparation and will depend on the local institutional capabilities and the market segments included in the project. Indeed, previous experience with EE/RE projects at the Bank indicates three basic options for project delivery: loan financing and partial loan guarantees, ESCOs, DSM or a combination of the three. Experience as regards project design is that:

- (i) careful diagnostic work is needed up front to customize the project to local institutional environment
- (ii) project design must develop in parallel financial mechanism and project development and preparation capabilities.

Those principles will be applied to choose the most appropriate instruments depending on what the GoT defines as priority activities. However, the team will attempt to unify the choice of instrument to avoid making the project unnecessarily complex.

Technical assistance, funded by third party grants, would in all cases provide support to the financial intermediaries to develop an EE/RE portfolio and to prepare and evaluate the sub-projects proposed for financing. Indeed all previous

experience(1)points to the need for on-going technical support to address emerging barriers, provide ongoing skill enhancement and counteract behavioral barriers. The rapid deployment of the EE/RE market requires not only products and information, but also the availability of technical, commercial and financial services.

Technical assistance might also be needed for developing “standard products”, for outreach campaigns and for setting up the appropriate regulatory and incentive framework particularly for RE (especially wind).

Component I: EE/RE support through financial intermediation

I.a: EE/RE Fund

The Bank loan in this case would provide financial resources to an existing or to-be-created fund (for instance FNME) to provide loans for eligible EE/RE subprojects. The fund could also provide partial loan guarantees. The fund would be managed by a professional financial agency. The most appropriate set-up for the Fund will be decided during project preparation. If the Fund is to be managed by a commercial bank, the bank will be selected competitively.

The Fund manager will be responsible for (i) setting-up and managing the Fund and (ii) evaluating and carrying due diligence activities according to rules and procedures to be developed during project preparation and agreed at appraisal. A technical unit, possibly funded through a third party financed grant, would assist the fund manager in carrying out the required due diligence prior to loan approval. ESCOs can be used to market and develop projects for the Fund; in particular small projects with high transaction costs can be packaged by ESCOs. As ESCOs are successfully developing in Tunisia, although slowly, they can play a key role in developing and designing EE/RE projects, as well as in monitoring and verification.

Lessons from previous energy efficiency projects at the Bank indicate that considerable time and effort is required to establish a Fund and that, as much as possible, selection of a Fund manager should take place prior to Board presentation.

I.b EE/RE line of credit

The IBRD loan would be on-lent by the Government of Tunisia to selected commercial banks, which would lend to companies for eligible EE/RE subprojects following their lending policies and procedures. Eligibility of the projects would be assessed by the banks according to an operational manual(2) to be developed during project preparation and agreed at appraisal. The domestic commercial banks would be responsible for loan repayment to GoT and assume all financial risk.

During project preparation, it will be determined whether a credit line should be preferred over a fund, or even if a mix of the two instruments would be appropriate in case different types of projects are better financed through different FI mechanisms (for instance small projects to the services sector might be better handled by commercial banks, whereas the Fund might be more appropriate for industrial RE projects). A line of credit was set up in Tunisia in December 2007 together with a grant for technical assistance, by Agence Française de Développement (AFD). Results obtained with this credit line will be monitored during project preparation to assess its success. Moreover the AFD loan is only 40 million Euros for both EE/RE and

environmental projects. Therefore a credit line financed by the World Bank could be a good complement, as the amount of the AFD credit-line is clearly too low compared to the financing needs of 1.3 billion TD (1.12 billion US\$) of the 4ECP.

Component II: Direct lending to specific EE/RE projects (optional)

Experience with lines of credit and special purpose funds in most countries, including Tunisia, indicates that disbursement may be slow in the early stage. Therefore, the concept under discussion with Tunisian counterparts includes the possibility of identifying a number of sizeable projects (ANME “gros contrat-programmes”, cogeneration, self-generation with renewables) that would benefit from direct lending, if they are eligible for World Bank financing. The projects would be appraised according to Bank rules and procedures during project preparation. Preparation will confirm the use of this component, in complement to either component Ia or component Ib.

Component III: Technical Assistance

Technical assistance funded through a third party grant(3) would be used to support the start-up/scale up of the EE/RE business lines of the commercial banks , including for capacity building and training. Training would be provided to assess the EE/RE market and to develop the necessary skills to market, develop, evaluate and monitor implementation of EE projects. TA to commercial banks could also include the development of “standard products”(i.e. waste heat recovery, chiller replacement, etc.), outreach campaigns and support for the development of new projects; the needs will be identified during project preparation.

Depending on the availability of funds, assistance could also be provided to non-participating banks and sub-project owners.

Technical assistance would also be provided to ANME (i) to develop the appropriate incentive system and regulatory framework for RE, in particular wind and (ii) to improve the existing subsidy system, to transform it into a targeted and performance based system.

The team will explore opportunities for cooperation with other donors to identify funding for TA grants

Component IV: Carbon Finance (to be blended with all other components)

The proposed project will contribute to GHG emission reductions through improved energy efficiency or the use of zero-carbon energy. The project is a good candidate for the new carbon finance facility being set up by the World Bank, the Carbon Partnership Facility (CPF). In particular, the project could generate emissions reduction through several programs of activities (PoA, as defined by the EB32) attached to Components I and II. Such PoAs could represent good candidates for CPF support, which would enter into purchase agreements for a minimum of 10 years following 2012.

The carbon revenues would then be used to improve the financial viability of the project. For example, the World Bank loan could be serviced with income derived from selling a share of the emission reductions to CPF and other buyers. This approach can be tailored to the needs of the Government of Tunisia.

The Government of Tunisia is already active in carbon finance. In particular, the Government of Tunisia and the World Bank signed emissions reduction purchase agreements for the two CDM projects hosted by Tunisia and registered by the CDM Executive Board of the UNFCCC. This project would allow Tunisia to go beyond the project by project mode and to achieve larger emissions reductions, over a longer period of time.

Footnotes

1. See WEC report “Energy Efficiency Policies around the World” in addition to the book previously referenced.
2. Manuals will be prepared making use of existing manuals prepared for similar projects as much as possible.
3. The European Union indicated in principle its interest in cooperating with the Bank and explore options to use part of its €40 million budget support program “Appui à la Réforme du Secteur Énergétique” for the TA. Other options need to be explored to secure the required TA budget.

D. Project location (if known)

Tunisia

E. Borrower’s Institutional Capacity for Safeguard Policies [from PCN]

During project preparation the safeguard specialist will evaluate the institutional capacity of the selected commercial banks for environmental assessment of the projects and supervision of the subloans (implementation of safeguard framework procedures). If this capacity is deficient, technical assistance will be used to strengthen the capacity.

F. Environmental and Social Safeguards Specialists

Ms Laila Al-Hamad (MNSSD)

Mr Gael A. Gregoire (MNSSD)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies Triggered	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
<p>The project will support investment in energy efficiency and renewable energy through a line of credit or an ad-hoc fund (component 1); it would also provide direct lending to finance investment in co-generation or self-generation with renewables (component 2).</p> <p>While in general improved energy efficiency will reduce energy use per unit of output, one can not rule out a priori that there may be environmental impacts as well as safety implications linked to the construction and operation of the equipment required to improve the energy efficiency performance of the targeted industrial sub-sectors and to produce energy from renewable sources: (e.g. air or water emissions, noise, vibration, disposal of toxic material, etc).</p>			

Safeguard Policies Triggered	Yes	No	TBD
<p>A screening procedure would have to be established and for the sub-projects that would be found to require it, environmental and safety impacts would need to be assessed.</p> <p>The team proposes a double EA rating: "FI" for component 1 (both under the option 1.a and option 1.b); for component 2 the proposed rating is "B". This is not standard practice, and we perceive that such arrangement would complicate compliance with safeguards and more generally project implementation.</p> <p>As a more practical solution, the team may want to consider rating the project as "B". Under such approach, an Environmental Management Plan (EMP) would be developed by the borrower during preparation. The EMP would contain provisions for a screening system that will be used by the Financial Intermediaries for the environmental assessment of sub-projects being financed under component 1. Further, the EMP would identify, for activities financed under component 2, potential environmental impacts and related mitigating measures, as well as any necessary capacity building and institutional strengthening measures, and a monitoring plan for the supervision of EMP implementation. As usual, TORs for EMP preparation would be cleared by the Bank.</p> <p>An environmental specialist should be brought on-board during preparation to help the team design the right approach and outline the appropriate framework. This person can not coincide with the environmental reviewer of the project (Raffaello Cervigni) as currently indicated by the ISDS.</p> <p>Considering the questions remaining to be clarified, the Regional Safeguards group will continue to carry the oversight responsibility for this project, at least until QER.</p>			
Natural Habitats (OP/BP 4.04)		X	
Forests (OP/BP 4.36)		X	
Pest Management (OP 4.09)		X	
Physical Cultural Resources (OP/BP 4.11)		X	
Indigenous Peoples (OP/BP 4.10)		X	
Involuntary Resettlement (OP/BP 4.12)		X	
Safety of Dams (OP/BP 4.37)		X	
Projects on International Waterways (OP/BP 7.50)		X	
Projects in Disputed Areas (OP/BP 7.60)		X	

Environmental Category: B - Partial Assessment

III. SAFEGUARD PREPARATION PLAN

- A. Target date for the Quality Enhancement Review (QER), at which time the PAD-stage ISDS would be prepared: 10/31/2008
- B. For simple projects that will not require a QER, the target date for preparing the PAD-stage ISDS: N/A

C. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS.
Will be determined during preparation mission.

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

<i>Signed and submitted by:</i>		
Task Team Leader:	Ms Silvia Pariente-David	05/14/2008
<i>Approved by:</i>		
Regional Safeguards Coordinator:	Mr Hocine Chalal	05/15/2008
Comments:		
Sector Manager:	Mr Jonathan D. Walters	05/15/2008
Comments:		

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