

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No.: AC2237

Date ISDS Prepared/Updated: 06/19/2006

I. BASIC INFORMATION

A. Basic Project Data

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|---|---|
| Country: China | Project ID: P084874 |
| Project Name: China Energy Efficiency Financing | |
| Task Team Leader: Leiping Wang | |
| GEF Focal Area: C-Climate change | Global Supplemental ID: P098916 |
| Estimated Appraisal Date: June 5, 2007 | Estimated Board Date: September 13, 2007 |
| Managing Unit: EASTE | Lending Instrument: Financial Intermediary Loan |
| Sector: District heating and energy efficiency services (90%);Banking (10%) | |
| Theme: Climate change (P) | |
| IBRD Amount (US\$m.): | 200.00 |
| IDA Amount (US\$m.): | 0.00 |
| GEF Amount (US\$m.): | 13.50 |
| PCF Amount (US\$m.): | 0.00 |
| Other financing amounts by source: | |
| BORROWER/RECIPIENT | 0.00 |
| <u>Local Sources of Borrowing Country</u> | <u>200.00</u> |
| | 200.00 |

B. Project Objectives [from section 2 of PCN]

The development objective of the proposed project is to improve energy efficiency in medium and large-scale Chinese industries by developing sustainable energy efficiency project lending programs in selected banks to support energy efficiency investments in these industries. The key performance indicators of the project will be energy savings achieved in medium and large scale industries; and associated emission reductions of greenhouse gas and other pollutants. EE project lending increases in participating banks will also be a key output indicator.

C. Project Description [from section 3 of PCN]

The preliminary design of the proposed project was initiated jointly by the GoC and the Bank in 2004. Since then, the concept of the proposed project has been developed gradually based on extensive consultations with major stakeholders and market assessments under the Three Country EE Financing Technical Assistance Project. Five commercial banks and two policy banks have shown strong interests in participating in the project as financial intermediaries and four of them (two commercial and two policy banks) have formally submitted project applications to the GoC.

It is proposed for the project to finance a line of credit to the selected domestic bank(s) with an IBRD loan of US\$ 200 million. Under the project, the selected banks will establish EE lending business with the support of the proposed technical assistance (up to US\$ 15 million including proposed GEF financing), and will utilize their own financial resources in addition to the Bank loan proceeds to increase the impact of the project. The proposed technical assistance may also support additional domestic commercial banks committing to EE financing but not participating in the IBRD on-lending support to further amplify the impact of the proposed project.

Component I ??? Line of Credit for EE financing

The proposed IBRD loan would be on-lent by the GOC to selected domestic bank(s) which would in turn re-lend these funds, at market rates, to enterprises (regardless of public or private ownership) for medium- and large-sized EE investment sub-projects, according to the lending policies of the bank(s) concerned as well as the operational manual that includes procedures and eligibility criteria to be agreed with the Bank. The domestic banks will be responsible for loan repayment to the GOC and assume all the financial risks.

As some of the EE subprojects may be potentially eligible for carbon credit trading under the Clean Development Mechanism (CDM) scheme of the Kyoto Protocol, opportunities of carbon financing will be explored to enhance EE subprojects??? creditworthiness and improve their risk profiles. Approaches for such credit enhancement will be developed during the project preparation stage. These may include: (a) carbon credit payment escrowed as a debt service reserve by the subborrowers; or (b) assignment of carbon credits to the bank(s) concerned as part of the collateral for the bank loans.

Component II ??? Technical Assistance

Tailored technical assistance (TA) will be provided to the domestic banks for (1) EE lending business start-up; (2) capacity building and training; (3) development of necessary internal mechanisms, procedures, and a knowledge base adequate to evaluate and extend loans to industrial enterprises for energy efficiency projects; (4) lending subproject pipeline development; and (5) loan evaluation and due diligence. TA will also be provided to Chinese energy intensive industries through participating banks to mitigate technical risks of large scaled energy efficiency projects, especially those involving new technologies and/or comprehensive system re-integration.

Finally, technical assistance is proposed for GOC to (a) develop a set of government policy and regulatory vehicles to promote investment into the industrial sector for large energy efficiency projects and (b) strengthen the government capabilities, in the areas of enforcement of related laws, government regulations and standards, and supervision and monitoring of energy efficiency related activities by energy intensive industries.

D. Project location (if known)

Nationwide

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

During project preparation the Task Team safeguard specialists will evaluate the institutional capacity of the Selected Domestic Banks for environmental assessment and environmental management supervision of sub-loans (implementation of safeguard framework procedures). If this capacity is deficient, technical assistance will be defined and incorporated into the project to strengthen this capacity accordingly.

F. Environmental and Social Safeguards Specialists

Mr Bernard Baratz (ECSIE)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies Triggered | Yes | No | TBD |
|--|------------|-----------|------------|
| Environmental Assessment (OP/BP 4.01) | X | | |
| <p>The project loan will be on-lent by GOC to selected domestic bank(s), that will in turn on-lend these funds, at market rates, to enterprises (regardless of public or private ownership) for Energy Efficiency (EE) investment sub-projects in medium- and large-sized industries. The on-lending would be based on the lending policies of the bank(s) concerned, and the eligibility criteria and EA procedures agreed with the Bank and contained in the agreed project Operational Manual. The domestic banks will be responsible for loan repayment to the GOC and assume all the financial risks.</p> <p>The loans for energy efficiency improvements will target energy intensive industries such as cement, iron and steel, and petro-chemical sectors. All the project works will be confined within the premises and facilities of the existing industries, and any new construction will be within the boundaries of these. Typical energy efficiency improvements would consist of the use of waste energy (primarily to be utilized within the plant) and energy efficiency improvements through system optimization and re-integration.</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: 01/15/2007

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.

The framework document for each of the participating banks will be prepared before appraisal. The framework documents will be included in the operational manual of each bank for the proposed project.

IV. APPROVALS

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|---|---------------------------|-------------------|
| <i>Signed and submitted by:</i> | | |
| Task Team Leader: | Mr Leiping Wang | 06/19/2006 |
| <i>Approved by:</i> | | |
| Regional Safeguards Coordinator: | Mr Glenn S. Morgan | |
| Comments: | | |
| Sector Manager: | Ms Junhui Wu | |
| Comments: | | |

¹ 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.

