

PMR Project Implementation Status Report (ISR)

The PMR Project Implementation Status Report should be prepared by the Implementing Country or Technical Partner, with the support of the Delivery Partner and/or the PMR Secretariat. For any questions related to the preparation of the PMR Project Implementation Status Report (PISR), please contact the PMR Secretariat at: pmrsecretariat@worldbank.org.

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Cote d'Ivoire
Reporting Period:	October 2018 – Mars 2019
Report Date:	April 10, 2019
Implementing Agency:	Ministry of Environment
Contact Person:	Rachel BOTI-DOUAYOUA CDM Coordinator Ministère de l'Environnement et du Développement Durable Tel: +225 22 41 17 04 Cell: +225 49 38 16 91 +225 40 39 84 24 E-mail: rbdouayoua@gmail.com
Grant Executed By:	World Bank - Climate Change Group (CCG) and Macroeconomics, Trade and Innovation (MTI)
Grant Effectiveness and Closing Dates:	06/30/2020
Grant Amount (USD):	US\$500,000
Funding Mobilized (USD):	N/A
Funding Committed (USD)	N/A

2. OVERVIEW

Cote d'Ivoire became a Technical Partner of the PMR in October 2017 and funds were approved to support the exploration of carbon pricing mechanisms in the country by the PMR Partnership Assembly in April 2018.

The funding allocated was USD 500,000 and an additional USD 100,000 was allocated from the Carbon Pricing Leadership Coalition (CPLC). This funding covers a series of strategic technical studies and workshops to explore the potential for the introduction of a carbon tax in the country that would respond to both the development and climate objectives.

A key development in the past months was the alignment of the PMR project with the next upcoming WBG Development Policy Operation (DPO) series for Cote d'Ivoire. The PMR program for all three sectors (electricity, transport, land use) have now informed a "climate change pillar" within this DPO. Leveraging the DPO provides several key advantages to the PMR program.

Firstly, the DPO is the WBG's main instrument for supporting the implementation of policy reforms. By using synergies with the DPO, the chance of implementing the reform proposals developed by the PMR will be significantly improved.

Secondly, the DPO mobilizes substantive financial resources. Attracting more international financing is an important objective of the Cote d'Ivoire PMR program, and the DPO is likely to contribute to this objective. The financing mobilized by this DPO is expected to exceed USD200 million and an additional 30 million could be leveraged from the Transformative Carbon Asset Facility (TCAF), another climate finance initiative under World Bank's Climate Change Group. This is also a unique and replicable example of how the PMR can have a major leveraging effect and multiply its impact.

Thirdly, the DPO helps the Environment Ministry by leveraging the convening power of a large WBG loan to win the support of other ministries. Such convening power is important because the responsibility for carbon tax reforms will be shared across ministries; and the PMR program has therefore sought from the beginning to well integrate the respective sector ministries (Energy, Transport, Forestry, Agriculture) and the ministries responsible for tax policy (Budget, Finance). The DPO helps in all these efforts as it allows for detailed consultations with each of these ministries.

As of March 2019, the first component of the PMR program has been completed and the first tasks of the second component are well underway. The project's activities were further refined in the past months, following the consultations organized in CDI in October 2018 with stakeholders and additional consultations conducted as part of the preparation of the DPO. The implementation progress for the activities completed so far is detailed below.

Activity 1: Paving the way for carbon taxation analysis – Fully completed April 2018 – March 2019

Task 1.1: Stakeholder consultations to define the policy objectives of a carbon tax

To ensure that the policy objectives of the carbon tax are clearly defined upfront, an inter-ministerial dialogue was organized with representatives from the key ministries (Economy and Finances, Budget, Environment and Sustainable Development, Energy, Transport etc.) as well as selected key stakeholders from the private sector and civil society. The event also formally launched the PMR program. It was attended by around 100 participants and speakers, including WBG Country Office Director, Minister of Environment and Sustainable Development, Minister of Budget and the Deputy Director of Cabinet of the Minister of Finance and Economy. Video messages were sent by the World Bank's Chief Economist for Sustainable Development and the International Monetary Fund's Principal Environmental Fiscal Policy Expert.

The event met all of the objectives of this task, namely:

- Build awareness of the potential, challenges and opportunities of carbon taxation: there was a strong political support from all Ministries in favor of carbon taxation.
- Discuss priority sectors and possible design choices, based on the government's existing pre-feasibility study, international experiences from other countries and the

policy theory literature. Much of the discussions centered on development co-benefits, i.e. how a carbon tax reform can create domestic economic, health and social gains. There was also interest in how the reform could help the country attract more external financing. This confirms the need to continue discussions on synergies with other team efforts and opportunities for additional climate finance (TCAF, FCPF, Article 6).

- Identify the main policy objectives to be pursued by carbon taxation, potential concerns to be addressed and a limited set of options for carbon taxation, which will then be analyzed further. From the various discussions, there was a clear indication on the direction the country is interested to explore in terms of the feasibility of a carbon tax. The focus of the taxation would be on the following 3 sectors: electricity, transportation and forestry.

Task 1.2: Integration of Côte d'Ivoire in peer-exchange networks

The project team helped the Ivorian government in actively engaging in peer-exchange opportunities with other governments who are also implementing carbon pricing instruments. The Ivorian government participated in several events of PMR and the Carbon Pricing Leadership Coalition (CPLC). Through facilitation of the project team, Cote d'Ivoire equally joined the new "Coalition of Finance Ministers for Climate Action"¹. The Ivorian Finance Ministry participated in drafting a set of common principles for the role of Finance Ministries in climate action (the "Helsinki Principles"). Principle 3 explicitly states that Finance Ministries joining the coalition will 'work towards measures that result in effective carbon pricing'. The Principles were officially endorsed by the Cote d'Ivoire Finance Minister in April 2019. The strong support from Finance Ministers will also be key to ensure the success of carbon pricing in the long term.

Activity 2: Analyzing the performance and impacts of carbon taxation options

Task 2.1: Analysis of the existing environmental-fiscal framework – *On-going February – June 2019*

Preliminary analysis of the current environmental fiscal framework in Cote d'Ivoire shows that there are inconsistencies and a general need for reform. According to an internal assessment by the Ministry of Environment, there are currently about twenty tax measures related to the environment (including, for example, taxes on the consumption of resources, fuel dispensing pumps, water pollution, and VAT exemptions for solar energy material). But these taxes usually have low coverage, generally low rates and often lack alignment with the wider fiscal system. For example, there is one tax on vehicle circulation which rises in vehicle age and another vehicle tax which falls in vehicle age. In collaboration with all relevant Ministries, the project will map existing policies and identify which ones might be suitable to serve as a basis for future carbon taxation, as well as identify potential synergies and/or adjustments.

¹ http://www.worldbank.org/en/news/press-release/2019/04/13/coalition-of-finance-ministers-for-climate-action?cid=CCG_TT_climatechange_EN_EXT

A consultant was competitively selected and has started this analysis.

Task 2.2: Analysis of the performance and impacts of carbon taxation options in three key sectors– *On-going March – September 2019*

As part of task 2.2, a limited number of potential carbon taxation options are being analyzed in key sectors: electricity generation, transportation and land-use/forestry. For each sector, the proposals for studies have been refined and the analyses on the performance, design options and revenues estimates will be done in the next months.

Electricity

In the electricity sector, as part of the DPO efforts to better align the country's renewable energy objectives with its wider energy sector planning, the Energy Ministry will, for the first time, undertake a least-cost economic dispatch analysis to develop an updated master plan for the country's production. The plan would set out how the government can achieve its 2030 NDC targets for the production of renewable energies (42% in total, of which 16% from non-hydro renewable energy sources) in a least-cost manner and consistent with its demand-side and grid load management constraints. It will also study the impacts of carbon pricing in affecting the least-cost dispatch decision. This is a key step to ensure alignment between the government's renewable targets and its wider energy strategy, which is crucial for meeting the country's mitigation objectives.

This task has started with the required data collection. It should be completed by September 2019.

Besides the integration of carbon pricing into the dispatch analysis, there will be a separate study on upstream carbon taxation of generation fuels. This element will be included in Component 3 (see below).

Transport

In the context of the transport sector, the Government of Côte d'Ivoire wants to better understand the environmental, social and economic development benefits of a reform of the existing vehicle import taxation system as well as the possibility of introducing a carbon tax on motor fuels.

In a first step, the potential for a reform of the current vehicle import tax is analyzed. Today, this tax is purely based on the customs value of the imported car. The idea is to introduce a revenue-neutral vehicle import feebate (tax-subsidy combination) on top of the existing value-based tax. Such a vehicle import feebate would lead to a situation where vehicles with greater pollution intensity (in terms of CO₂ emissions) would pay an additional tax (as a function of their CO₂ emissions factor and fuel type), while less pollution-intensive vehicles would receive a subsidy. This reform would increase the import price for pollution-intensive vehicles and decrease the import price for less pollution-intensive vehicles. Overall, such a feebate scheme

would be revenue-neutral. To better understand the optimal design and implications of such a vehicle import feebate, a policy reform blueprint is currently being developed for the government of Côte d'Ivoire.

A consultant has been competitively hired to complete a study and recommend an optimal vehicle feebate design for Côte d'Ivoire and a practical implementation plan.

In a second step, the idea of CO₂-related adjustments to the current taxation system for motor fuels will be assessed. Taking into account both implicit and explicit carbon pricing aspects, this relates to the current mechanism of taxing gas and diesel for delivery at the pump (e.g., consideration of world market prices for crude oil, VAT etc.) as well as to the idea of introducing a carbon tax on motor fuels. The rationale for such adjustments will be discussed and design options will be proposed. This element will be included in Component 3 (see below).

A consultant will be hired to complete a study.

In the forestry sector, extensive consultations have been undertaken with the with ministries of Environment (including the REDD+ Secretariat), Forestry and Water Resources, Agriculture, Budget, Finance, and the Cocoa and Coffee Council. Deforestation in Cote d'Ivoire is mainly driven by cocoa production,² and there is a clear window of opportunity for reform in that sector.³ The project team has collaborated with the Forest Investment Program and the Emissions Reduction Purchase Program in Cote d'Ivoire to find out how a potential carbon pricing system on deforestation activities from cocoa production could build on three systems that are currently being implemented in the country: an MRV system for carbon emissions from cocoa production which is already in place, a traceability system which is being created, and a system of production standards for forest-friendly cocoa production which is planned. The project team has developed a potential scheme for carbon pricing which would use a Feebate (tax-subsidy combination) based on the above-mentioned system and the country's existing cocoa export taxation. This would be a revenue-neutral reform which would increase the export tax on cocoa that has been produced by cutting new forest land and a decrease in the export tax for forest-friendly cocoa. The tax differentiation would grant a commercial advantage to low-carbon cocoa production, provide an incentive for agroforestry (a key climate adaptation strategy for cocoa) and help implement the country's new Forest Code. Having identified this potential scheme and synergies with current initiatives, the project team

² Cocoa is the main driver of deforestation across the country, but in particular in the South-West, where almost all remaining forests of Cote d'Ivoire are located and where it accounts for 80% of deforestation.

Source: FCPF (2017). "Eliminating Deforestation from the Cocoa Supply Chain", Washington DC: World Bank.; FCPF (2019). "Emissions Reduction Program Document for Tai National Park".

³ Following the Paris Agreement, the government has co-founded the Cocoa and Forest Initiative (CFI) to halt and then reverse deforestation through "forest-friendly cocoa production". The CFI is progressing fast; an MRV system has been implemented to track emissions from cocoa production, and national systems for the traceability of cocoa and production standards for forest-friendly cocoa are in development.

is currently preparing TORs for a competitive selection of a consultant to do a detailed impact analysis.

3. IMPLEMENTATION REPORT BY COMPONENT

Differences between the Objectives/Activities in the Market Readiness Proposal and the Grant Agreement

Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal and endorsed by the Partnership Assembly of the PMR and those agreed to in the Grant Agreement with the Delivery Partner and described in the Project's Results Framework?	No.
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Implementation Progress by Component

COMPONENT 1: PAVING THE WAY FOR CARBON TAXATION ANALYSIS	
Status:	Completed (March 2019) The objective was to consult stakeholders and key Ministries on policy objectives of a carbon tax and to expand CDI international leadership in promoting carbon pricing.
Comments:	Cote d'Ivoire remains a strong supporter of carbon pricing. The activities organized by the PMR helped to strengthen this leadership and to confirm a strong support from the key Ministries.
COMPONENT 2: ANALYZING THE PERFORMANCE AND IMPACTS OF THE CARBON TAX	
Status:	On-going (March-September 2019) Building on an internal assessment by the Ministry of Environment, the analysis of the existing environmental-fiscal framework is under way and will be critical to identify potential synergies and/or adjustments with the carbon pricing instruments. The identification of the taxation options by sector (electricity generation, transportation as well as land use/forestry) has been refined and specific studies for each sector have started in transport and electricity and are being prepared for forestry.

<p>Comments:</p>	<p>The need to align sectoral reform efforts with policy reform plans included in the DPO delayed this task a bit and led to some adjustments of the policy options. Overall, however, this alignment will ensure the stability and impact of the reform in the long term.</p> <p>The presentation of all the studies will be done once completed, which will postpone the next workshop to the fall. In the meantime, the PMR team is trying to organize a carbon pricing training, which will help the key stakeholder to better understand the studies' results when they become available.</p> <p>Efforts to link the project to additional financing for Cote d'Ivoire from the Transformative Carbon Asset Facility (TCAF) made good progress and the TCAF team has started the process towards establishing a policy crediting program and will soon consult with donors.</p>
<p>COMPONENT 3: ASSESSING THE FISCAL POLICY CONSEQUENCES AND MACROECONOMIC STABILITY</p>	
<p>Status:</p>	<p>On-going (September 2019)</p> <p>Once the main elements of carbon taxation are defined based on the sectoral studies, a general equilibrium analysis of the macroeconomic impacts will be carried out. An essential part of this analysis will be to assess carefully the fiscal impacts of all measures proposed – both in the short- and long- term.</p> <p>The main elements of this study and the possible modeling teams have been identified, but further discussions and results based on the sectoral studies are needed before the modelling analysis can start. This is likely to take until the end of May.</p>
<p>Comments:</p>	<p>This will be a critical component for the project. The team is also working with another PMR/CPLC project aiming to apply a quantitative approach for assessing the additional potential development co-benefits that could be achieved by carbon pricing, which could be very useful for this project.</p>

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important policy or regulatory developments related to the Grant's objectives and activities:

Côte d'Ivoire has been demonstrating climate leadership in the past years. It adopted ambitious targets in its NDC (reducing GHG emissions by 28% below BAU [34.3 MtCO₂^{eq}] by 2030; increasing the share of renewables in the electricity generation mix to 42% and implementing a GHG emissions reduction strategy for deforestation and forest degradation). As part of the policies mentioned in the NDC to meet its climate objectives, the Ivorian government identified carbon pricing as an effective policy option. In 2016 and 2017, the government (up to the Prime Minister level) approached the WBG to ask for advice and support to explore carbon taxation in the country. Côte d'Ivoire officially joined the Carbon Pricing Leadership Coalition (CPLC) in April 2016 and became a technical partner to the

<p>Partnership for Market Readiness (PMR) in October 2017. The successful launch of this project and the active participation of the Ivorian government in several international events since then has strengthened its stance on carbon pricing. The latest example of this leadership and strong commitment is its endorsement of the “Helsinki Principles” of the newly formed Coalition of Finance Ministers for Climate Action that promote national climate action through fiscal and macroeconomic policy. In the context of the DPO discussions, the idea of the establishment of an inter-ministerial committee on environmental fiscal policy was discussed and the committee should be established in the coming months.</p>
<p>Important changes in the technical design or approach related to the Grant’s activities:</p>
<p>The alignment of this project and of the WBG DPO for Cote d’Ivoire led to some adjustments to the activities that have been reflected in the previous section.</p>
<p>Key capacity issues (implementation, technical, financial management, procurement) related to the Grant’s activities:</p>
<p>As reported in the PCN, Côte d’Ivoire is a country with limited capacity. The availability of data and of in-country technical expertise is limited, leading sometimes to delays in order to request additional data, undertake additional analyses or hire international consultants. But overall, with the support of the WBG country office and of key officials, the project has been able to move forward.</p>
<p>Coordination with other carbon pricing initiatives, including those funded by other donors:</p>
<p>Since the launch of the project, links with international institutions and donors have been extremely strong. The UNFCCC participated in the workshops organized in Côte d’Ivoire and the project team is regularly in touch with UNFCCC colleagues to exchange lessons learned and progress. Côte d’Ivoire is also actively participating in the regional coalition on Article 6 and market mechanisms. Support from Germany and from TCAF has been made possible thanks to the link with the DPO and is currently expected to leverage additional climate finance for Côte d’Ivoire.</p>
<p>Stakeholder engagement related to the Grant’s activities:</p>
<p>Since the start of the project, there has been a very strong effort to engage different stakeholders and key Ministries. In addition, the PMR work and deliverables will be regularly presented in technical workshops and, thanks to a collaboration with the PMR technical program, a training will be offered to further inform key policy makers and stakeholders about the mechanics of carbon pricing.</p>
<p>Other issues related to the Grant’s activities</p>
<p>N/A</p>

5. ADDITIONAL INFORMATION

