

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

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| Implementing Country/Technical Partner: | Republic of Kazakhstan |
| Reporting Period: | October 2019 – September 2020 |
| Report Date: | 2 October 2020 |
| Implementing Agency: | Ministry of Ecology, Geology and Natural Resources |
| Contact Person: | <p>Mr. Olzhas Agabekov, Director Climate Change Policy and Green Technologies Department Ministry of Ecology, Geology and Natural Resources o.agabekov@ecogeo.gov.kz; oagabekov@gmail.com, Ms. Zulfiya Suleimenova, Deputy Director Climate Change Policy and Green Technologies Department Ministry of Ecology, Geology and Natural Resources z.suleimenova@ecogeo.gov.kz</p> |
| Grant Executed By: | World Bank, Environment, Natural Resources and Blue Economy (ENB) Global Practice |
| Grant Effectiveness and Closing Dates: | June 2014 - January, 2021 |
| Grant Amount (USD): | US\$1,500,000 |
| Funding Mobilized (USD): | US\$ 1,031,570.61 (As of September 30, 2020) |
| Funding Committed (USD) | US\$ 467,924 |

2. OVERVIEW

The Republic of Kazakhstan joined the PMR in March 2014 as a Technical Partner with the Ministry of Energy (ME) as implementing agency and was allocated US\$1.0 million to build capacity and address key challenges facing the National Emissions Trading System (hereafter KZ ETS) as well as the country's climate change mitigation strategy.

The funding allocated was divided into two Phases (1st tranche and 2nd tranche of US\$500,000 each) with six activities identified based on the needs of the Ministry of Energy (MoE) and consultation with stakeholders. To note, the Climate Change Policy and Green Technologies Department is now under the Ministry of Ecology, Geology and Natural Resources (MEGNR).

As three project activities implemented under the 1st tranche were completed (benchmarks for industry; barriers to ETS; upstream analysis) with deliverables detailed in [Project Implementation Status Report \(ISR\) October 2018](#). This Project Implementation Status Report (ISR) focuses on the period covering October 2019 – September 2020.

Under the 2nd tranche and as of today, two project activities (benchmarks consultation and electronic reporting) were completed, and the third activity on the Legal, Technical and Institutional Diagnostic of the ETS Registry was launched in July 2020. Similarly, Kazakhstan received an additional finance of \$500K. The remaining activities to be completed by January 2021 are the following:

- Legal, Technical and Institutional Diagnostic of Kazakhstan's Emissions Trading System (ETS) Carbon Registry and Capacity Building of Local Stakeholders on ETS
- Update Kazakhstan's NDC and Provide a Roadmap for NDC Implementation for post-2020
- Kazakhstan's fourth National Allocation Plan (NAP) for its national Emissions Trading Scheme (ETS) for a post-2020 Paris Agreement Era

3. IMPLEMENTATION REPORT BY COMPONENT

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

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| <p>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?</p> | <p>Activities under the Additional Finance component has been changed. Instead of a low-carbon development study, a study to develop a roadmap for post-2020 NDC implementation has been taken up instead to avoid duplicity as GIZ is conducting a larger low-carbon development study.</p> <p>With the remaining resources under the overall PMR grant, a study on 'Green Growth and Green Recovery through Circular Economy in Kazakhstan' has been co-financed to assess how</p> |
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| | circular economy principles may be used in sectors covered by the ETS. |
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| Legal, Technical and Institutional Diagnostic of Kazakhstan’s Emissions Trading System (ETS) Carbon Registry and Capacity Building of Local Stakeholders on ETS (Launched in July 2020) | |
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| Status: | <p>Ongoing (June 2020 – January 2021)</p> <p>After a delay of over a year, this activity was restarted in July 2020 with the following three key objectives:</p> <ul style="list-style-type: none"> • Conduct a legal, technical and institutional diagnostic/review of the state carbon registry for the ETS of Kazakhstan and provide recommendations on strengthening it. • Provide options for future opportunities for Kazakhstan under a post-2020 carbon market regime. • Conduct capacity building activities for local stakeholders involved in emissions trading scheme <p>For this activity, Carbon Limits has been contracted to carry out the assessment and the team is currently evaluating the inception report of the activity.</p> |
| Comments: | The inception report is currently under review. |
| Kazakhstan’s fourth National Allocation Plan (NAP) for its national Emissions Trading Scheme (ETS) for a post-2020 Paris Agreement Era | |
| Status: | <p>Ongoing (April 2020 – January 2021)</p> <p>There are four broad tasks under this assignment, each with its set of deliverables.</p> <p>Task 1.1: Conducting working meetings and sessions to discuss and agree on duration of the next period of the ETS and the National Allocation Plan (NAP).</p> <p>Given that the current allocation phase for Kazakhstan ends in 2020, the overall goal of this task is to identify and recommend Kazakhstan’s national Emissions Cap and the duration for its fourth National Allocation Plan (NAP) for post-2020. Given that this requires data on GHG forecast, this information will be obtained through coordination with the activity on updating Kazakhstan’s NDC that includes an economy-wide modeling exercise on GHG mitigation potential of all sectors. Consultations and working meetings (virtual meetings during COVID-19) are being conducted with the Ministry of Ecology, Geology and Natural Resources, the World Bank and the team of the Consultant selected for NDC Update Assignment. Consultations are also being organized with industries and industry associations.</p> <p>Task 1.2: Consultations with installations’ operators on a proposal to introduce primary sales of quotas (designing auctions) for the next NAP, including determining a carbon price. Kazakhstan’s ETS currently operates under free allocation. However, for</p> |

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| | <p>the next National Allocation Plans, consideration will be given to auctioning a portion of the permits to improve allocative efficiency. The outcomes of this task would be:</p> <ul style="list-style-type: none"> - An analysis of options for auction design, - Proportion of cap to be auctioned - Recommendation on key auction design features (including auction format, number of auctions per year and participation). <p>Task 1.3: Analysis and developing recommendations on expanding coverage to other GHGs such as methane including impacts on the cap and allocation system.</p> <p>Kazakhstan’s ETS currently does not include fugitive emissions, such as methane. Methane makes up more than 15% of the total emission share in Kazakhstan. The objective of this task is to analyze how might methane be included in Kazakhstan’s ETS, the options for methane MRV methodology based on IPCC guidelines and the policy implications, included but not limited to the oil and gas sectors. This work will need to outline the benefits and challenges with including methane in the ETS, plus a plan for how and when to do so. The recommendations will cover the monitoring uncertainty as well as the suggestions of steps needed to allow allocation of quotas to other GHG.</p> <p>Task 1.4: A Final Workshop on the next National Allocation Plan. A final workshop will be organized that would present all the key findings of the above three main tasks. The workshop would include all key government stakeholders, international development organizations, the private sector including the industry associations and the general public.</p> |
| <p>Comments:</p> | <p>Zhasyl Damu has submitted the Interim Report of this project which is currently under review.</p> |
| <p>Update Kazakhstan’s NDC and Provide a Roadmap for NDC Implementation for post-2020</p> | |
| <p>Status:</p> | <p>Ongoing (September 2019 – January 2021)</p> <p>Task 1 is to conduct a top-down economy-wide assessment of the GHG mitigation potential of all sectors to inform Kazakhstan’s updated NDC. The goal of this component is to ensure that the updated NDC reflects Kazakhstan’s ambition in ramping up climate action. The ambition can be reflected through tighter 2030 targets, an expansion of the scope of NDC, introduction of new policies, more robust transparency systems and/or improved governance structures for implementation of climate action. This modeling exercise will also identify the benefit/risks associated with each NDC scenario.</p> <p>Analysis of indicators mentioned in the national strategy documents, state programs and strategic plans of key ministries that could contribute to achievement of the first NDC of the Republic of Kazakhstan under the Paris Agreement will be conducted. Analysis of the indicators in the strategies and state programs will provide conclusions on their contribution to the achievement of the NDC of Kazakhstan and provide recommendations on the need to update the current indicators and/or develop new ones in the state programs and strategic plans of the key ministries. This analysis will</p> |

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| | <p>also provide recommendations on the work for updating and introducing indicators that would not cause any burden on the state budget and minimizing risks to increase costs from the republican budget.</p> <p>Through stakeholder consultations with all relevant ministries and line agencies, all assumptions and modeling tools would need to be agreed with the MEGNR (previously MoE) to ensure enactment by the Government. The modeling exercise should present alternative NDC scenarios and the policy suite in addition to Kazakhstan’s ETS necessary to reach the desired NDC. Similarly, the benefit and risks of each scenario will also be analyzed.</p> <p>Task 2 is to develop a technical implementation roadmap to guide the implementation of the updated NDC for the period of 2020 – 2025.</p> <p>The objective of this component is to provide technical guidelines to the Cabinet and other relevant agencies on how Kazakhstan can achieve the targets on the updated NDC developed through component 1.</p> <p>This exercise will include a thorough study of existing policies in place and identify what is already aligned and what are the gaps to achieve the updated NDC. This will include factors that will impact Kazakhstan’s ability to achieve the updated NDC.</p> <p>The roadmap will include practical recommendations, timeline of actions and indicators to track progress in implementing the Roadmap. Prioritization of recommendations will seek to maximize environmental effectiveness, socio-economic impacts and co-benefits and feasibility of implementation.</p> <p>Conduct stakeholder engagement with all relevant ministries, line agencies and build internal capacity of the MEGNR (previously MoE) and key stakeholders concerned is the third component of the Assignment.</p> <p>To ensure buy-in from relevant ministries and line agencies for the updated NDC, regular and thorough stakeholder engagement will be a key cross-cutting activity throughout this assignment. Similarly, capacity building of key stakeholders concerned will be critical to ensure that the updated NDC will get implemented. Therefore, at least two capacity-building exercises will be organized during the length of this assignment to train staff on topics such as economic modeling/use of modeling tool, environmental policy analysis and effective stakeholder engagement.</p> |
| <p>Comments:</p> | <p>The team is currently modeling the different NDC scenarios using both CGE and TIMES model.</p> |

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

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| <p>Important policy or regulatory developments related to the Grant’s objectives and activities:</p> |
| <p>The government is currently in the process of finalizing the environmental code. This process is expected to complete by the end of December 2020. The Environmental Code includes language on the use of the Emissions Trading Scheme (ETS) and carbon markets to reduce Kazakhstan’s GHG emissions.</p> |
| <p>Important changes in the technical design or approach related to the Grant’s activities:</p> |

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| <p>PMR support will be valuable in initiating discussions in Kazakhstan among key stakeholders on vision how to develop the next National Allocation Plans, including discussions on the following aspects: period of NAPs (2 or 3 or more years), % of free allocation and auctions, schedule of primary quotas trading, strengthening MRV, etc.</p> |
| <p>Key capacity issues (implementation, technical, financial management, procurement) related to the Grant’s activities:</p> |
| <p>As reported in previous ISRs, the PMR supported activities are executed by the World Bank, thus the MEGNR is not involved in the financial management and procurement aspects of the PMR grant. On the one hand, this lowers the workload for the Ministry which would face a shortage in human resources to do so. On the other hand, Kazakhstan – unlike other PMR Participants – does not benefit from a Project Implementation Unit (PIU) which would provide additional staff for the Ministry to implement PMR activities on the ground and build internal capacity. While procurement challenges did delay the project, it is currently on track. On implementation, while there were some delays due to COVID-19, this did not have a major impact on the timeline of the project.</p> <p>Overall, while the shortage of human resources on the side of the MEGNR remains, the increased involvement of the World Bank’s Country Office in Kazakhstan in project implementation over the years has allowed PMR activities to run smoothly and deliver the expected outcomes.</p> |
| <p>Coordination with other carbon pricing initiatives, including those funded by other donors:</p> |
| <p>Regular donor coordination meetings are held among key donors in Kazakhstan on a quarterly basis to update each other on ongoing and planned activities (i.e. ADB, EBRD, European Union, Germany, Norway, USAID, OSCE, GIZ, JICA, World Bank and others). It should be noted, however, that most initiatives specifically targeting ETS support have now been completed. A broader “Kazakhstan Green Economy Donors” group is now used to coordinate technical assistance initiatives in supporting low carbon development, including through carbon pricing.</p> <p>In particular, consultations have been conducted with the UNDP Kazakhstan which is focused on adaptation for the updated NDC and as well with EBRD that has recently been awarded a GCF grant that includes a component on developing a domestic carbon offset market. Particularly with EBRD, TORs were exchanged to ensure there was no duplication of tasks. Similarly, consultations were also organized with GIZ that is in the process of completing a long-term low carbon development study for Kazakhstan.</p> |
| <p>Stakeholder engagement related to the Grant’s activities:</p> |
| <p>Due to COVID-19, stakeholder engagements are organized virtually.</p> |
| <p>Other issues related to the Grant’s activities</p> |
| <p>N/A</p> |

5. ADDITIONAL INFORMATION

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