

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, please contact the PMR Secretariat at: pmrsecretariat@worldbank.org.

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Republic of Kazakhstan
Reporting Period:	March 2014 – September 2015
Report Date:	14 October 2015
Implementing Agency:	Ministry of Energy
Contact Person:	Ms. Gulmira Sergazina Director Climate Change Department Ministry of Energy g.sergazina@energo.gov.kz ; gsergazina@mail.ru
Grant Executed By:	World Bank, Environment & Natural Resources Global Practice
Grant Effectiveness and Closing Dates:	June 2017
Grant Amount (USD):	US\$1,000,000

2. OVERVIEW

The Republic of Kazakhstan joined the PMR in March 2014 as a Technical Partner, and was allocated US\$1 million to build capacities and address key challenges facing the National Emissions Trading System (hereafter KZ ETS). Three technical assistance activities have started under a first tranche of funding (i.e. US\$500,000):

- 1. Study on Barriers to the Implementation of Kazakhstan’s ETS and Options to Overcome Them:** The objective is to identify potential barriers to trade in Kazakhstan’s ETS and to make actionable recommendations for the Government to address them. The study was completed in the summer of 2015. Its main findings, recommendations, and suggested action items were discussed with the Ministry of Energy and other governmental stakeholders and have fed into Kazakhstan’s “Action Plan of the Government of the Republic of Kazakhstan on GHG Emissions Reductions/Limitation by 2030” which is currently under consideration in the Government .
- 2. Adaptation of Emissions Benchmarks for Emissions Allowances Allocation to Industry:** The Objective of this activity is to develop product emissions benchmarks to support the allocation of emissions allowances to industrial sectors when the KZ ETS introduces benchmark-based allocation in the future. A number of reports were produced in 2014-2015 and discussed with local stakeholders – in particular the private sector – in dedicated workshops. The activity was finalized in September 2015.
- 3. Development of Policy Options for Mid- and Long-term Emissions Pathways and Role of Carbon Pricing:** The objective is to combine top-down and bottom-up economic models to understand the economy-wide impacts of the ETS and other complementary policies in Kazakhstan’s development plans – and also assist with Kazakhstan’s INDC process. This activity was launched in July 2015, and preliminary results on modeling of CO₂ emissions were shared at a workshop organized in September 2015 with the participation of line Ministries, industry and donors. A Working Group was officially established to ensure accurate data collection, robust discussions on the modeling’s assumptions, and review the project’s findings. The activity is expected to be completed in May 2016.

Figure 1 – Timeline for PMR Targeted Technical Support activities in Kazakhstan

1st Tranche	2014												2015												2016					
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
1. Barriers to Kazakhstan’s ETS																														
2. Industry Benchmarks																														
3. Upstream Policy																														
2nd Tranche (upcoming)																														

As indicated in Kazakhstan’s 2nd Proposal for Targeted Technical Support circulated to the PMR Partnership Assembly on October 14, 2015, the Ministry of Energy seeks further technical assistance under the second tranche of PMR funding (i.e. remaining US\$ 500,000 from the US\$1,000,000 allocated to Kazakhstan). Identified additional activities under PMR include support to i) Stakeholder Consultation Process on Developed Benchmarks; ii) Development of E-Reporting, and iii) Support to the Enhancement of the Kazakhstan’s Transaction Registry.

3. IMPLEMENTATION REPORT BY COMPONENT

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

<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>No</p>
<p>N/A</p>	

Implementation Progress by Component

<p>A. Component 1: Study on Barriers to the Implementation of Kazakhstan's ETS and Options to Overcome Them:</p>	
<p>Status:</p>	<p>Completed (September 2015)</p> <p>The research supporting this study focused on delivering an effective assessment of the current status of the ETS in Kazakhstan and its perceived barriers, and proposing workable solutions to overcome these barriers. It was split into three main phases which included:</p> <ul style="list-style-type: none"> • <i>Desktop review of the KZ ETS and market conditions.</i> The Consultant team reviewed available materials to inform preliminary assessment of the Kazakh carbon market. This included a review of the legal and regulatory documents of relevance to the ETS with a view to identifying gaps and potential issues that are affecting its operation. This phase also served as a preparation for the stakeholder consultations, and involved, among others, the preparation of questionnaires and checklists to be addressed through interviews with the stakeholders. • <i>In-country consultation of the local stakeholders and experts.</i> The outcomes of the desk review were used to set a general agenda for each meeting and specify issues to be raised, and a checklist of issues was prepared to guide the discussions. The emphasis was placed on holding face-to-face meetings in order to provide higher quality results. These were held with representatives from a number of industries, verifiers, donors, oil and gas companies, industrial associations, brokers, Zhasyl Damu (i.e. ETS operating agency) and the Ministry of Energy.

	<ul style="list-style-type: none"> • <i>Follow-up and preparation of the report.</i> The desk-based follow-up phase was focused on formulating the barriers and verifying information and suggestions provided by stakeholders. This assessment aimed to explain why identified barriers exist from the perspective and concern of particular stakeholders, what the determinants of that particular barrier are, and how it benefits or costs each stakeholder. To the extent possible, the Consultant team attempted to pinpoint the origin and causes of these barriers, and to grade specific barriers according to their significance and priority. <p>The findings of the project and preliminary recommendations on their basis have been discussed with the MoE and local stakeholders. The study was completed in the summer of 2015 and delivered to the MoE in September 2015. Specific measures to be taken were integrated into an action plan with indicative order of priority and timeline – and cover the following broader items:</p> <ul style="list-style-type: none"> - Amendments to the Environmental Code, updates and clarification of the secondary legislation; - Strengthening of the institutional capacity within the Department of Climate Change and Zhasyl Damu; - Awareness and know-how within the Committee on Environmental Regulations; and Control; - Development of a long-term NAP to ensure a predictable market environment - Improvement of the MRV system; - Improvement of the information availability and private sector readiness; - Issues of trading restrictions; - Improvement of the offset system.
<p>Comments:</p>	<p>The study was a timely and helped to reveal the gaps in the existing legislation and environment in which the KZ ETS has to function. The outcomes of the study and specific recommendations made has been considered during the preparation and development of the amendments to the Environmental Code, one of the main legislative document to oversee the KZ ETS. The Draft Law on the amendments is being reviewed by the Parliament. In addition, the study provided ETS specific action items input to Kazakhstan’s proposed “Action Plan of the Government of the Republic of Kazakhstan on GHG Emissions Reductions/Limitation by 2030” which is expected to be adopted by the Government tentatively at the end of 2015. The Plan will set the strategy and measures of the country to achieve its mid- to long-term mitigation as set out in the Intended Nationally Determined Contributions (INDC) communicated to the UNFCCC in September 2015.</p>

B. Component 2: <i>Adaptation of Emissions Benchmarks for Emissions Allowances Allocation to Industry</i>	
Status:	<p>Completed (September 2015)</p> <p>This activity was completed in September 2015 and included the following tasks:</p> <ol style="list-style-type: none"> 1. Review product types in Kazakhstan to provide an understanding of the industrial sector in Kazakhstan, and specifically the product types manufactured by the companies which are covered under the KZ ETS. Under the current NAP which covers the period 2014 – 2015, a total of 40 companies are classified as belonging to the “Industry” sector. These include companies working in iron and steel production, cement, ferro-alloy and non-ferrous metal production, construction materials and fertilizer production. 2. Development of product benchmarks for Kazakhstan, and – where relevant – adaptation of existing EU ETS product benchmarks were adapted to take into account the level of economic burden and industrial development in Kazakhstan compared to the EU. To do this, several correction factor(s) were developed to adjust the benchmark values. 3. Simulation of allocation based on product benchmarks to test the suitability of the product benchmarks development through simulation of allocation to individual companies covered under the KZ ETS. A comparison was made of the allocation based on existing grandfathering with allocation based on the benchmarking approach using the product benchmarks determined. 4. The methodology for allocation used under the EU ETS was reviewed to determine to what extent the same or similar approach is applicable in Kazakhstan. An evaluation of the risk of carbon leakage to Kazakh industry included consideration of the level of international trade of the products covered by the KZ ETS. 5. Preparation of guidance notes to provide guidance on the application of the benchmarks developed, and the calculation of the final free allocations
Comments:	<p>Extensive stakeholder consultation was carried out to collect data and on product types in Kazakhstan, production volumes from companies, and validate assumptions and present/discuss results. However, the proposed benchmarks and the methodologies used to develop them need further discussion with relevant stakeholders, including other government ministries, companies and trade associations, in order to ensure these are fully understood by all stakeholders, that the methodology used to determine the benchmarks is acceptable and that the benchmark values are realistic and useable. The proposed amendments to the Ecological Code, which are currently reviewed by the Parliament, include the introduction of the distribution coefficients. If the amendments are approved and adopted by the Parliament, there is a strong possibility that the benchmarking method can be introduced in 2016 through a revision to the National Allocation Plan for 2016-2020 (whose adoption is expected in the coming months). As such, the outcomes of this</p>

project would be very useful to establish free allocation based on the benchmarking method – in replacement of the current grandfathering approach. This is why further PMR support is sought under the second tranche of PMR funding to carry out further stakeholder consultation on the developed benchmarks.

C. Component 3: Development of Policy Options for Mid- and Long-term Emissions Pathways and Role of Carbon Pricing:

The core objectives of this upstream analytical activity include for Kazakhstan are to:

- Provide technical information and macroeconomic analysis on emissions scenarios and enabling policy instruments, including ETS;
- Enhance the understanding of opportunities and challenges behind different types of economy-wide mitigation objectives in the Kazakh context; and
- Strengthen the modeling capacity in Kazakhstan for analyzing mitigation pathways, enabling policy options and macro-economic impacts.

In order to achieve these objectives, the consultant team – led by Nazarbayev University Research and Innovation System (Kazakhstan) and supported by DIW Econ (Germany) – will carry out the following tasks:

- *Mapping and gap analysis of existing work and capacity in Kazakhstan related to the development of policy options for mid- to long-term mitigation objectives:* to take stock of all past and on-going work on the matter in Kazakhstan, identify gaps and needs in terms of data, modeling tools and capacity, develop a short- to long-term action plan with the MoE on a consolidated approach to modeling tools and methodologies for constructing emission scenarios both at the sector and macro levels.
- *Development of baseline and alternative emissions scenarios and assess macro-economic impacts through the development and combination of top-down and bottom-up economic models, including:*
 1. Top-down modeling (international consultant): building on an existing computable general equilibrium (CGE) model for the economy of Kazakhstan developed in close cooperation with the Ministry of Economy and Budget Planning and the Ministry of Energy (with support from Germany), the model will contribute to the understanding of the economy-wide consequences of different mitigation and green economy policies as well as the monitoring green growth policies.
 2. Bottom-up modeling (local consultant): an optimization model (TIMES-Kazakhstan) will be built to estimate the effects of mitigation actions in meeting a desired GHG emissions trajectory. In doing this, the model will take into account the economic implications of mitigation costs – in particular in the energy sector in Kazakhstan.
 3. Model coupling (local and international consultants): to allow for the exchange of information between the top-down and bottom-up models. For example, the implication on factor prices (labor and capital) of a combination of mitigations options could be provided by the top-down CGE model

<p>to the bottom-up model. In the other direction, detailed investments costs and the resulting energy efficiency gains can be provided from the bottom-up model to the CGE model. Furthermore, changes in productions structures (i.e. higher capital intensity or changes in the use of energy inputs) might be better identified by the bottom-up model and these information can be passed on to the CGE model.</p>	
<p>Status:</p>	<p>On-going</p> <p>The project was launched in July 2015 with a kick-off workshop convening a range of governmental agencies, research organizations and private sector representatives. Preliminary results on modeling of CO₂ emissions were shared at a workshop organized in September 2015 with the participation of line Ministries, industry and donors. These suggest that lower levels of GDP growth due to the oil price drop and contraction in Russia result in significant reductions of energy demand and thus, GHG emissions. However, according to the draft estimations of engaged consultants, the prepared INDC targets may not be achieved under the measures of the GEC. Further reductions (of at least 52 million tonnes CO₂ eq.) are still required, emphasizing the importance of KZ ETS which would be key to achieving the INDC goals. The project is expected to deliver its main results in April and May 2016.</p>
<p>Comments:</p>	<p>A Working Group consisting of relevant stakeholders was formed to ensure accurate data collection, support discussions on assumptions, review and validate findings. The results of the project are expected to provide inputs to the preparation of Kazakhstan's policy programs. It will also allow forecasting and planning of the national economy in a more rational way, in particular with regards to the investments needed and sub-sector development.</p>

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<p>Important policy or regulatory developments related to the Grant's objectives and activities:</p> <p>In September 2015, the Republic of Kazakhstan communicated its Intended Nationally Determined Contributions (INDC) to the UNFCCC Secretariat, whereby it intends to achieve an economy-wide target of 15%-25% reduction in greenhouse gas emissions by 2030 compared to 1990. Although it is regarded by the government as one of the key instruments (in addition to those supporting the development of the renewables and reduction of the energy intensity) to achieving such objectives, the KZ ETS continues facing strong resistance from the industry. Such resistance threatens efforts to further enhance and enforce ETS in Kazakhstan.</p>
<p>Important changes in the technical design or approach related to the Grant's activities:</p> <p>N/A</p>
<p>Key capacity issues (implementation, technical, financial management, procurement) related to the Grant's activities:</p> <p>Because the PMR supported activities are executed by the World Bank, the Ministry of Energy is not involved in the financial management and procurement aspects of the PMR grant. On the one hand,</p>

this lowers the work load for the Climate Change Department 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 of Energy to implement PMR activities on the ground and build internal capacity.

Coordination with other carbon pricing initiatives, including those funded by other donors:

In January 2014, the World Bank (Kazakhstan Country Office) hosted the first donor coordination meeting on technical assistance to ETS in Kazakhstan in collaboration with the Ministry of Environment and Water Resources (now Ministry of Energy). The different Technical Assistance programs supporting Kazakhstan’s ETS (i.e. ADB, EBRD, European Union, Germany, Norway, USAID, World Bank) were represented shared past experience and plans going forward. The meeting helped the Ministry identify synergies, overlaps, and gaps between the different technical assistance programs and define PMR activities under the first tranche of PMR funding. Since then, donor coordination calls and meetings have been taking place on a regular basis. When needed, the Ministry of Energy shares documents and consults the donor group through emails and workshops. To illustrate, PMR activities related to the development of benchmarks in the industry (data collection, workshops, stakeholder consultations etc.) have been carried out in close coordination with that of Norway’s program supporting benchmark development in the electricity and oil & gas sectors (Norway).

Stakeholder engagement related to the Grant’s activities:

As explained in Section 3, all three PMR-funded activities benefited from extensive stakeholder engagement – including with the private sector – to collect data, validate assumptions, present and endorse findings. With regards to the activity on “Development of Policy Options for Mid- and Long-term Emissions Pathways and Role of Carbon Pricing”, a Working Group was set-up requesting the main relevant stakeholders to nominate representatives to support the project. As for the activity on “Adaptation of Emissions Benchmarks for Emissions Allowances Allocation to Industry” the concerns expressed by the industry on the applicability of the developed benchmarks led the Ministry to requesting further PMR support to continue consultations and potentially enhance benchmarks to ensure their relevance and acceptability.

Other issues related to the Grant’s activities

N/A

5. ADDITIONAL INFORMATION

A number of Kazakh experts have also benefited from exchanging with PMR participants and other experts, in particular during the PMR technical workshops. For example, two experts from the KZ ETS operator Zhasyl Damu participated in the Technical Workshop 12: Building Registries to Support the Next Generation of Carbon Markets in September 2015 (California) and met with a number of registry experts which helped Kazakhstan and the PMR Secretariat define the scope for potential PMR technical assistance on the Kazakh transaction registry under the second tranche of PMR funding.