



PARTNERSHIP FOR MARKET READINESS (PMR)

PROPOSAL FOR TARGETED TECHNICAL SUPPORT TO KAZAKHSTAN

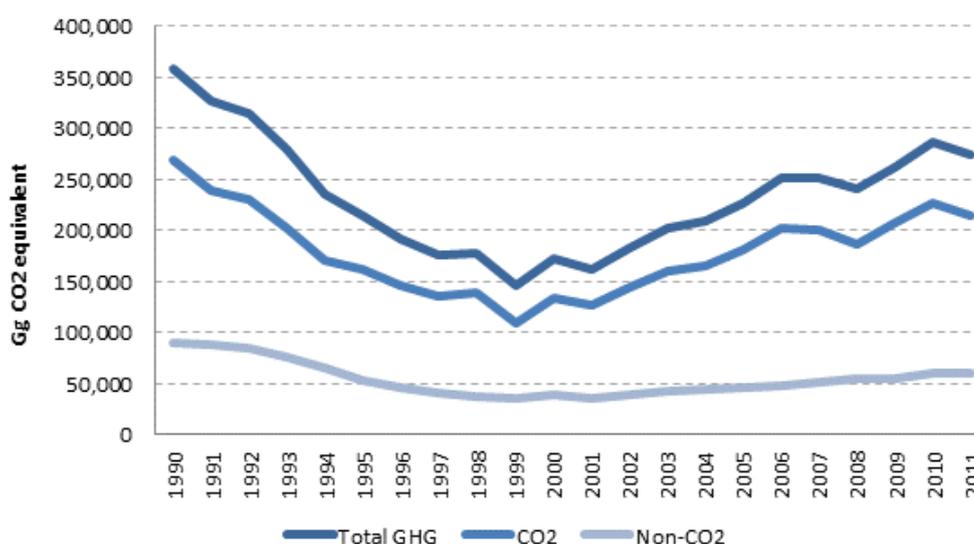
INTRODUCTION

1. At the sixth meeting of the Partnership Assembly (PA6) in May 2013, Kazakhstan shared information on the status and development of its domestic emissions trading scheme (ETS) and presented the challenges it faces in implementing the scheme.¹ Kazakhstan requested the PMR to provide technical assistance to support its ETS development and expressed willingness to update the PA on its work and share lessons learned with PMR Participants.
2. In response, the PMR Secretariat – with support from World Bank colleagues – met with relevant authorities and stakeholders in Kazakhstan in September 2013. This note provides a summary of the information gathered during those meetings as well as a proposed modality for including Kazakhstan in the PMR. This document is divided into four sections: Section I outlines the background information and Kazakhstan’s climate change related policies; Section II presents the status and challenges of Kazakhstan’s ETS; Section III proposes a modality for potential targeted assistance to Kazakhstan from the PMR; and Section IV suggests actions that may be taken by the PA.

I. BACKGROUND INFORMATION ON KAZAKHSTAN’S CLIMATE CHANGE RELATED POLICIES

3. Kazakhstan is the largest emitter of greenhouse gases (GHG) in Central Asia with annual emissions of 274 MtCO₂e in 2011,² and is twice as energy intensive as the average OECD economy. The rapid economic growth that followed the recession of the 1990s has led GHG emissions to climb 60% over the last ten years (Figure 1).

Figure 1 - Total GHG Emissions (without LULUCF)



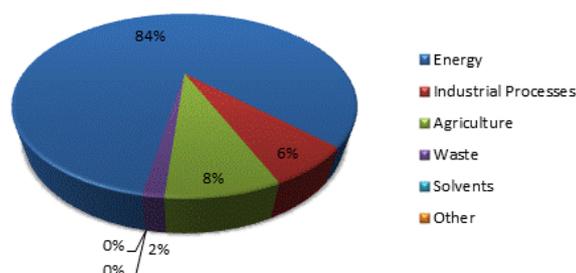
Source: UNFCCC

¹ Government of Kazakhstan, PMR PA6 Meeting (2013). [“Kazakhstan’s National Emission Trading Scheme.”](#)

² Source: UNFCCC.

- GHG emissions from the energy sector – which include emissions from fuel combustion in transportation and the processing industries – account for roughly 85% of total GHG emissions. Industrial processes are responsible for about 6% of the country’s total. This includes emissions from metal and steel production, the mineral and chemical industry, and the construction material production sector.

Figure 2 - GHG Emissions by Sector



Source: UNFCCC

- There are abundant, low cost coal resources in Kazakhstan, and coal is widely used in power and heat generation; however, the power generation and industrial equipment is often outdated and inefficient. As a result, Kazakhstan’s CO₂ emissions per capita range amongst the highest in Europe and Central Asia with 15.2 tCO₂/capita in 2013.
- The Government of Kazakhstan has introduced several “Strategic Plans” that set out priorities and quantified objectives for the country’s development up to 2050. Anticipating that national GDP will increase three- and fivefold by 2030 and 2050 respectively, the government seeks to spur the modernization of its power generation and industrial infrastructure through a number of quantitative targets, including (ANNEX 1):
 - GDP energy intensity to decrease 50% by 2050 from 2008 levels;
 - Current CO₂ emissions in electricity production to decrease 40% by 2050;
 - The share of non-conventional energy sources in national electricity mix to reach 50% by 2050.
- In addition, an overarching “Concept for Kazakhstan’s Transition to Green Economy” was approved by President Nazarbayev in May 2013 to set the nation on a sustainable and green growth pathway. This policy complements the existing Strategic Plans, and sets out guiding principles that are expected to be incorporated into every aspect of policy decision-making. In particular, it mandates for the development of new policies that foster additional investment in more responsible and cost-effective use of natural resources, such as water, land and energy.

³ Source: World Bank’s Climate Change Portal, available at <http://data.worldbank.org/country/kazakhstan>.

II. KAZAKHSTAN'S EMISSIONS TRADING SCHEME: STATUS AND CHALLENGES

8. Kazakhstan incorporated ETS into its Ecological Code in December 2011, thereby including a legal foundation for establishing ETS in Kazakhstan. Secondary legislation has since been adopted to regulate the governance and operational framework of ETS, as well as to establish a domestic offset program (ANNEX 2).
9. Over the past two years, the Ministry of Environment Protection (MEP) and its operating arm, "Zhasyl Damu," have carried out intensive preparations for ETS operation, including developing technical infrastructure for monitoring, reporting and verification (MRV) of GHG emissions and GHG data gathering and registry. To date, 40 sectoral guidelines for GHG calculation and reporting have been issued and seven auditing companies have been accredited to perform third-party verification.
10. In 2013 Kazakhstan has launched a one-year piloting phase (Phase I) of the ETS. Phase I covers 178 companies from power, oil and gas, mining, and chemical industry, representing about 55% of the country's GHG emissions. These entities are required to stabilize their 2013 CO₂ emissions to 2010 levels, but will incur no penalty for non-compliance. The "covered" entities have received free allocation of emission allowances and are permitted to use domestic offsets on an unlimited basis for compliance purposes (ANNEX 3).
11. Phase I has provided additional time for the government to consolidate the data gathered from the participating entities and, through learning-by-doing, to further develop the scheme. For example, the relevant authorities have collected third-party verified data for 2012 emissions in covered entities, allowing for the preparation of baselines, targets, and allocation plans for full ETS implementation. Market "infrastructure" has also been enhanced with several upgrades to the registry software, the selection of the trading platform, and development of related market oversight. The government is now consulting on proposals for overall targets, allocation plans, and other elements of ETS for Phase II (2014-2015). It is expected that Phase III will start between 2016 and 2020.
12. Companies that will be covered under the ETS have raised concerns, such as: achievability of the target and sufficiency of allowances allocated to the companies, in view of the growth projection of 5% to 6% over the next few years; consistency and coordination between the ETS and other government policies on energy efficiency and industrial development; and lack of adequate time for preparation from industry.

13. Negotiations between Kazakhstan's authorities and stakeholders are on-going. The national allocation plan is expected to be approved by governmental decree in December 2013.
14. While Kazakhstan has made impressive progress in advancing its ETS, it also faces tremendous challenges. Support and further assistance are needed, including:
 - i) Mapping the relevant climate and energy/industrial policies to assess their interplay and implications on target setting and allowance allocation;
 - ii) MRV infrastructure, including work on benchmarking and strengthening the number of verifiers;
 - iii) GHG data management and registry infrastructure;
 - iv) Domestic offset program to strengthen governance and technical frameworks; and
 - v) Industry preparation, such as training on MRV operations, emissions unit procurement (contracts), and accounting treatment.
15. Several bilateral and multilateral development partners have supported ETS preparation in Kazakhstan, including EBRD, USAID, Norway, and Germany (ANNEX 4). Their support covers assistance on a wide spectrum of institutional and technical ETS components.

III. MODALITIES FOR POTENTIAL TARGETED TECHNICAL ASSISTANCE TO KAZAKHSTAN

16. One of the main objectives of the PMR is to support countries pursuing emissions trading and other market-based instruments for mitigation. Kazakhstan is developing as an early mover in piloting and implementing ETS among emerging economies. The information and lessons learned from Kazakhstan's experience will be invaluable to other PMR countries.
17. The PA has set a limit to the number of the Implementing Country Participants that participate in the PMR and benefit from PMR grant support. Kazakhstan is not a PMR Implementing Country Participant but has expressed strong interest to be part of the PMR family and receive targeted expert support for its ETS development.
18. The question that the PMR Secretariat wishes to put forward for consideration by the PA is whether the PA would endorse a more flexible modality of support to countries, such as Kazakhstan, that: (i) are pursuing a carbon pricing instrument, e.g. emissions trading scheme; (ii) have demonstrated progress on the ground; and (iii) have expressed interest in joining the PMR. The PMR Secretariat proposes that such support would be targeted to specific areas through, for example, expert advice and analytical studies. In the Note on Strategic Orientation of the Future of the PMR (Note PA72013-2), the PMR Secretariat proposes using Kazakhstan as a piloting case in the expansion of PMR support to non-Implementing Countries. It also includes consideration of creating a new category for such countries under the PMR Governance Framework, such as "Technical Partner Country Participant".
19. In principle, the overall funding envelope for such targeted support should be capped below US\$1 million over three years; however the allocation of funding to specific activities would be subject to the following process and procedures:

- Kazakhstan, working with the PMR Secretariat and the World Bank's operation unit and in collaboration with other development partners, identifies and proposes specific activities for PMR support. In this context, it is important to coordinate with other ongoing initiatives that support ETS implementation in Kazakhstan, in order to avoid duplication of efforts.
- Kazakhstan, at a PA meeting, presents its proposed activities that require PMR funding support, in order to seek feedback and endorsement by the PA. To increase flexibility and provide timely support, depending on the size of the funding and the scope of activities, the proposal may be made to the PA through electronic means during the inter-sessional period.
- Kazakhstan, as it is the case for Implementing Countries, will periodically report to the PA on the progress of the activities supported by the PMR and share the information on its ETS development.

IV. Actions by the PA:

20. The PMR Secretariat invites Participants to consider the modality of targeted support to Kazakhstan as outlined in Section III, which essentially include two parts:

- Providing targeted technical support to Kazakhstan and the associated process for PA endorsement on funding activities; and
- Creating a new category of countries under the PMR Governance Framework to institutionalize the status of countries such as Kazakhstan under the PMR.

21. These two issues are closely related to each other but not necessarily sequential. As the issue of creating a new category of countries may require more time and discussion at PA — including amending the Governance Framework — the PMR Secretariat suggests the following steps for PA consideration:

- Should the PA broadly endorse the approach to the Targeted Support to Kazakhstan outlined in paragraph 19, the PMR Secretariat will work with Kazakhstan to propose a budget for the near term support to be presented to PA 8 in March 2014. Between PA7 and PA8, the PMR Secretariat may provide expert advice to Kazakhstan. The cost of such expert advice should not be more than US\$50,000. For this purpose, the PA is invited to adopt a resolution at PA7. However, if further clarification is needed, the PMR Secretariat will carry out consultations during the inter-sessional period with the aim to circulate a resolution for adoption through electronic means during the inter-sessional period between PA7 and PA8.
- The PMR Secretariat will develop a note on creating a new category of countries for consideration at PA8.

ANNEX 1
Goals and Target Indicators of the Green Economy in Kazakhstan

SECTOR	TARGET	2020	2030	2050
Water resources	Eliminate water gap at national level	Provide full population with access to water	Provide agriculture with water (by 2040)	Eliminate all Solve water resources problems
	Eliminate of water gap at basin level	Fastest closure of water gap basins all together (by 2025)	Elimination of water gap in each basin	
Agriculture	Labor efficiency	3-fold increase		
	Wheat yields (ton/ha)	1.4	2.0	
	Water spent on irrigation (m/ton)	450	330	
Energy efficiency	Reduction of energy intensity of GDP from levels of 2008	25% (10% by 2015)	30%	50%
Power sector	Share of alternative sources in energy ⁴	Solar and wind: not less than 3% by 2020	30%	50%
	Share of gas power plants in electricity production	20% ⁵	25% ⁶	30%
	Gasification of regions	Akmola and Karaganda regions	Northern and Eastern regions	
	Reduction of current CO ₂ emissions in electricity production	Levels of 2012	-15%	-40%
Air pollution	SOX, NOX emissions into environment		European levels of emissions	
Waste recycling	Municipal solid waste (MSW) coverage		100%	
	Sanitary utilization of waste		95%	
	Share of recycled waste		40%	50%

Source: adapted from Republic of Kazakhstan (2013). [“Concept for Transition of the Republic of Kazakhstan to Green Economy”](#).

⁴ Solar, wind, hydro, nuclear.

⁵ Including switching from coal to gas of power plants in large cities provided that gas supply is secured at a reasonable price level.

ANNEX 2

List of Secondary Legislative Documents for ETS in Kazakhstan (as of August 2012)

№	TITLE OF THE DOCUMENT
Government Decrees	
G1	On approval of the National GHG emissions allocation plan
G2	On approval of the Rules for monitoring/control of the GHG inventory
G3	On approval of the Rules for implementing offset mechanisms
G4	On approval of the list of GHG that should be under government supervision
G5	On approval of the Rules for circulation of the parts of allowances, ERUs, CERs, GHG units and other derivatives implied by the international agreements signed by the Republic of Kazakhstan
G6	On approval of the Rules for consideration, approval and implementation of offset projects
G7	On approval of the Rules for reserves of allowances and total cap of GHG emissions under a National allocation plan
G8	On approval of the Rules of allocation of GHG emission allowances
G9	On approval of the Rules for the ecologic (green) investments
G10	On approval of the Rules of changing the GHG emission allowances and re-registering the GHG emissions certificate
G11	On approval of the Rules for GHG emissions allowance allocation
G12	On approval of the list of priority sectors of a GHG emission reserve
G13	On approval of the Rules for participating in offset projects
G14	On approval of the rules to control completeness, transparency and reliability of state inventory on GHG emissions
G15	On approval of the Rules for maintaining the state registry of GHG emissions sources
G16	On approval of the Rules for accreditation of independent organisations providing verification and validation
G17	About declaring invalid the Government decree № 128 dated 11 February 2008 “ On approval of the Rules for restricting, appending and reducing GHG emissions into the atmosphere”
G18	About amendments to the Government decree N124 dated 8 February 2008 “On approval of the Rules for State accounting of GHG emissions sources and consumption of the ozone depleting substances”
Ministerial orders	
M1	On approval of the Rules for converting the offsets into the carbon credits
M2	On approval of the Rules for developing Domestic offset projects and the List of economic sectors where these projects can be implemented
M3	On approval of the Rules for joint recognition of carbon credits and other units under the International agreements of the RK
M4	On approval of the Rules for trading in GHG emissions and carbon units
M5	On approval of the Rules for monitoring, accounting and reporting of carbon credits
M6	On approval of a passport form (per installation)
M7	On approval of the reporting form on GHG emissions inventory
M8	On approval of Rules for standardizing a measuring and accounting of GHG emissions
M9	On approval of the methodology for calculation of emissions, reduction of GHG emissions and its absorption
M10	On approval of the Rules for the State registry of carbon credits
M11	On approval of the Rules and criteria for acknowledgement of international and Kazakh standards for implementation of offset mechanisms, inventory, verification and validation
M12	On approval of the rules for consideration and approval, accounting, reporting and monitoring of the Domestic offset projects
M13	On approval of the methods for creating a monitoring plan for allocation of GHG emissions allowances
M14	On approval of a method and criteria for reporting on a GHG inventory

Source: Communication from Kazakhstan’s Ministry of Environment Protection (September 2013)

ANNEX 3
Kazakh ETS Design Features (as of October 2013)

Competent authorities	<ul style="list-style-type: none"> ◦ Ministry of Environment Protection (MEP), Low Carbon Development Department: ETS coordination ◦ Zhasyl Damu JSC: ETS operations
Trading periods	<ul style="list-style-type: none"> ◦ Phase I (pilot): 2013 ◦ Phase II: 2014-2015 ◦ Phase III: 2016-2020
Sectors	<ul style="list-style-type: none"> ◦ Power, oil and gas, mining, chemical industry
Gases	<ul style="list-style-type: none"> ◦ CO₂
Threshold	<ul style="list-style-type: none"> ◦ 20,000 tCO₂ per year
Emitters	<ul style="list-style-type: none"> ◦ Phase I: 178 companies (55 power, 54 industry, 69 oil and gas) ◦ Phase II: TBD (between 169-202: verifications and reporting on-going)
Emissions	<ul style="list-style-type: none"> ◦ 147 MtCO₂ (+20 MtCO₂ new entrant reserve) in phase I ◦ A reserve or other mechanisms to reward early investments are under discussion
Reporting and allocation	<p>Free allocation:</p> <ul style="list-style-type: none"> ◦ Phase I: 0% reduction in emissions in 2013 from 2010 levels (unverified) ◦ Phase II: -1.5% by 2015 from average 2011-2012 levels (verified) ◦ Phase III: still to be determined
Offsetting	<p>Domestic offset program:</p> <ul style="list-style-type: none"> ◦ Unlimited utilization ◦ Priority list of sectors⁶ (but open to others) ◦ Crediting period: until 12/31/2020 for projects approved by 12/31/2015
Flexibility mechanism(s)	<ul style="list-style-type: none"> ◦ Banking (intra-phase)
Transactions	<ul style="list-style-type: none"> ◦ Registry not yet operational ◦ Trading to only occur through designated commodity exchange
Enforcement	<ul style="list-style-type: none"> ◦ Phase I: penalties will be lifted ◦ Phase II, III: US\$100 per missing allowance, non liberatory

Source: World Bank, communications from MEP (October 2013)

⁶ Priority list for eligible domestic projects: mining and metallurgy, agriculture, housing and municipal building, forestry, prevention of land degradation, renewable, processing of municipal and industrial waste, transport, energy-efficient construction.

ANNEX 4
List of Technical Assistance Programs Supporting Kazakhstan’s ETS

SPONSOR	PROGRAM	PERIOD	ACTIVITIES
EBRD	“Preparedness for Emissions Trading in the EBRD Region” (PETER)	2012-2015	<ul style="list-style-type: none"> ◦ PETER phase I (2012): readiness assessment⁷, political outreach, private sector preparation (general) ◦ PETER phase II (2013-2015): registry, benchmarking, offset program, linking preparation ◦ Budget: US\$200,000 in phase I (completed), US\$ 400,000 in phase II (flexible)
US (USAID)	Preliminary Technical Assistance	2012-2013	<ul style="list-style-type: none"> ◦ Initial ETS readiness assessment ◦ Capability mapping (i.e. Project management for ETS implementation)
	“Enhancing Capacity for Low Emission Development Strategies” (EC-LEDS)	2014-2016	<ul style="list-style-type: none"> ◦ Technical and institutional capacity strengthening (governmental agencies, universities, auditors/verifiers) ◦ MRV (facility-level monitoring plans) ◦ GHG reduction options at corporate level ◦ Budget: US\$2.5 million (flexible)
Norway (MFA)	“Climate change mitigation in the oil and gas sector in Kazakhstan”	2012	<ul style="list-style-type: none"> ◦ MRV (monitoring plans and guidelines)
Germany (BMU)	Punctual assistance	2008-2012	<ul style="list-style-type: none"> ◦ Initial legislation framework (Ecological Code) ◦ MRV framework ◦ National Allocation Plans (phases I and II)
Netherlands (NL Agency)	‘Private sector ETS trainings’	2011	<ul style="list-style-type: none"> ◦ Private sector preparation (general)

Source: World Bank, communications from EBRD, USAID, and Carbon Limits

⁷ Carbon Limits & Point Carbon for EBRD (2013). “*The Domestic Emissions Trading Scheme in Kazakhstan.*”