

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:	South Africa.
Reporting Period:	From 1/10/2018 to 30/09/2019
Report Date:	9 October 2019
Implementing Agency:	National Treasury, Ministry of Finance
Contact Person:	Sharlin Hemraj

Grant Executed By:	Recipient
Grant Effectiveness and Closing Dates:	14/03/2017 – 30/06/2020
Grant Amount (USD):	USD 5,000,000
Funding Mobilized (USD):	N/A
Funding Committed (USD)	USD 1 523 480

2. OVERVIEW

South Africa's PMR grant of US\$ 5 million became effective in March 2017. The main components of South Africa's PMR project are:

- Component 1: Supporting the refinement of the design of the carbon tax through analytical work;
- Component 2: Strengthening the capacity of government to enhance the data management and reporting (GHGs) and measurement / monitoring, reporting and verification (MRV) system;
- Component 3: Supporting the design of the carbon offset scheme; and
- Component 4: Communication, stakeholder engagement and project administration support

Following the 19th meeting of the Partnership Assembly held in Brussels, the South African government and the PMR secretariat undertook a review of South Africa's PMR activities.

In May 2019, the President of South Africa signed into law the Carbon Tax Act 2019 which came into effect on 1 June 2019. To support the implementation of the carbon tax, the South African government comprising the National Treasury, the Departments of Environment, Forestry and Fisheries and Minerals and Energy, and the South African Revenue Service are finalizing the systems for the administration of the tax. This includes the online greenhouse gas emissions reporting system, carbon offset scheme and general tax administration systems.

The activities under the SA PMR is an important complementary initiative and is crucial for enhancing the monitoring and reporting systems, capacity building and ensuring effective communications and stakeholder engagement on the carbon tax. To date, the progress made towards the implementation of South Africa's PMR project activities over the period October 2018 to September 2019 has focused mainly on procurement, financial management and implementation as outlined below:

- Terms of References (ToRs) have been completed for almost all activities, and the procurement processes for the priority measurement, reporting and verification activities namely, the modification of the National Atmospheric Emissions Information Systems (NAEIS) and an assessment of the developed Carbon Offset Administration COAS, have been completed. Both activities are under implementation.
- Due to the implementation of the carbon tax MRV related activities, the number of disbursements and expenditure has increased dramatically. The first withdrawal application of US\$ 98 643 (R1.35m) was processed and approved by the Bank and was used mainly for payments to the Programme Coordinator. A second withdrawal application was submitted to the Bank and a disbursement, amounting US\$ 870 468 (R10.8m) was made. To support future withdrawals, budget estimates for the coming 6-month period will be submitted quarterly to the Task Team Lead and Financial Management Specialist of the Bank.

During the 19th PMR Partnership Assembly (PA) meeting held in Argentina in October 2018, the PMR Secretariat requested that implementing countries undertake a review of their PMR activities and submit revised project implementation plans to ensure that all project activities are concluded by 30 June 2020. At the last PA meeting in Brussels, approval was granted for an extension of country PMR activities to December 2020. The extension of the project closing date by 6 months will enable the implementation of capacity building activities to support the implementation of the carbon tax, which are yet to be procured. An updated implementation plan and its accompanying detailed procurement plan, has been agreed with relevant government ministries and the World Bank and is being reflected in the Bank's STEP system.

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?	<p>Yes</p> <p>The National Treasury had requested an extension of the timeframe for the completion of South Africa's PMR activities for a period of at least 6 months to December 2020 to allow sufficient time for the completion of the MRV system activities and to strengthen implementation capacity within the key implementing departments and entities. As a result, the PMR project is currently undergoing a restructuring process.</p>
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Implementation Progress by Component

A. Component 1: Supporting the refinement of the design of the carbon tax through analytical work.	
Status:	<p>Review of the industry benchmarks (Under implementation)</p> <p>Under the carbon tax, taxpayers can claim a deduction of up to 5 per cent of the total GHG emissions of an entity referred to as the performance allowance i.e., if the firms perform better than an agreed emissions intensity benchmark. Several industrial sectors have developed emissions intensity benchmarks and the benchmark proposals were reviewed by the NT. A draft regulation outlining specific sector benchmarks will be published shortly by the National Treasury for public comment.</p> <p>In parallel, a TOR is being finalized in consultation with the Department of Environment Forestry and Fisheries (DEFF) for a further independent review of the benchmarks and consideration of their applicability to other climate policies in South Africa. This will include an assessment of the robustness of the proposed methodology and the suitability of the benchmark values. The National Treasury aims to complete the TOR and expression of interest by the end of October 2019.</p>
Comments:	<p>Taking into account the budget for this activity is below US\$300 000, the procurement process will be a post review and therefore will assist to fast-track efforts to complete the procurement process and expedite the implementation of this activity.</p>
B. Component 2: Strengthening the capacity of the government to enhance data management and MRV systems	

<p>Status:</p>	<p>Under implementation</p> <p>These activities will support the strengthening of the technical capacity of the Department of Environment Forestry and Fisheries (DEFF) and Department of Mineral Resources and Energy (DMRE) related to GHG and energy data management and MRV systems. These activities seek to build a technical foundation for the implementation of the carbon tax and includes the following sub-components:</p> <p>Modification of DEFF's National Atmospheric Emissions Inventory System (NAEIS) to enable reporting of GHG emissions by industry.</p> <p>UNDER IMPLEMENTATION</p> <p>To ensure effective implementation of the carbon tax, the NAEIS is being modified to build in a GHG emissions module. This will allow for GHG emissions reporting by entities. The service provider, EnfoTech and Consulting Inc. has been contracted to conduct the NAEIS Modification. EnfoTech commenced with project implementation on May 1 2019 and is progressing steadily. The following tasks have been completed:</p> <ul style="list-style-type: none"> • An inception workshop was held in South Africa in May 2019 followed by a study visit to the Enfotech Offices in the US in July 2019 to further develop the design of the module and practical aspects of the system. • A registration Module for industry to confirm their data and information as well as for new companies to register • Reporting Module is under development and will be ready by November 2019. • A pilot testing of the new module will be held in November 2019 after registration • A final module will be ready to go live in December 2019 to enable emissions reporting by emitters from January to March 2020 for the period January 2019 to December 2019. <p>Strengthening of the DMRE central energy database (CED).</p> <p>This activity will enhance the design and architectural capabilities of the existing Central Energy Database, and facilitate testing and implementation of a web-based energy efficiency monitoring system.</p> <p>An updated TOR and EOI was submitted to the World Bank and approved. An evaluation of the bids was concluded on 30 September 2019 and a draft RFP has been forwarded to the Bank for comments and consideration.</p> <p>NAEIS-CED institutional set-up and business case</p> <p>This institutional setup analysis involves an assessment of the roles, interdependencies and resource needs of the Departments to manage the MRV system for the carbon tax. A workshop was held in September</p>
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	<p>between NT, DEFF, DMRE and the South African Revenue Service (SARS) to ensure a clear understanding of the key design features of the carbon tax administration system being developed by the DEFF and to consider, among others, the business and system requirements of the SARS. The DEFF updated the TOR to include reference to infrastructure and human resource requirements for emissions verification across the different entities and circulated to Departments for review and comments. The TOR taking into account comments from the DMRE and the SARS was finalised and uploaded onto the STEP for Bank approval. The EOI was issued in February 2019 and an evaluation and shortlisting meeting held early March. An RFP has been drafted and will be finalized following an update of the TOR for this activity.</p> <p>Capacity building on Carbon Tax MRV</p> <p>The carbon tax MRV capacity building activity will involve the DEFF, DMRE and SARS. The need to hire consultants to support the capacity building of staff on specific MRV functions related to the National Atmospheric Emissions Information System for GHG Emissions reporting; the Central Energy Database energy use reporting and monitoring of energy efficiency improvements; and the carbon offset administration system was highlighted during a World Bank Mission. The DEFF and DMRE agreed to develop separate TORs for the carbon tax MRV and carbon offsets capacity building activities. This was discussed and agreed to with the World Bank Procurement Specialist and added to the procurement plan as part of the MRV capacity building activity.</p> <p>A draft TOR for the hiring of MRV specialists has been developed by the DEFF and will be submitted for Bank consideration and approval by the end of September. An amount of US\$165 000 has been allocated for this activity.</p>
Comments:	<p>The procurement processes for the capacity building initiatives will be expedited to support the implementation of the carbon tax and allow a reasonable timeframe for the execution of this activity.</p>
C. Component 3: Supporting the design of the carbon offsets scheme	
Status:	<p>Under South Africa's carbon tax policy, companies are allowed to use carbon offsets to reduce their carbon tax liability. This allowance is capped at 10 per cent of the total greenhouse gas emissions of a firm and aims to provide flexibility to firms whilst encouraging real reduction in emissions. For the first phase of the carbon tax, offsets generated from projects located in South Africa under international standards such as the Clean Development Mechanism, Gold Standard and Verified Carbon Standard will be eligible for use under the carbon tax.</p> <p>The design aspects of the carbon offset scheme have been outlined in the publicly available 2014 Carbon Offsets Policy Paper. In June 2016, the</p>

	<p>National Treasury published draft Regulations on the Carbon offsets for public comments and stakeholder consultation. The regulations contained, among others, the eligibility criteria for the project, the administration procedure to be followed by companies for claiming the allowance and institutional arrangements for the implementation of the scheme. The Designated National Authority (DNA) in the Department of Energy will be the implementing agency of the carbon offset allowance. Revised carbon offset regulations taking into account stakeholder comments have been completed and the final regulation will be gazetted shortly.</p> <p>Under the PMR activities, one of the priority tasks is a review and technical assessment of the recently developed Carbon Offset Administration System (COAS), and establishing the registry within the COAS system.</p> <p>A service provider was appointed and commenced with implementation of the project in July 2019 and an inception workshop was held on 24-26 July 2019. Discussions were held with the NT, DMRE, and DEFF on the carbon offset policy framework, procedure for claiming the offset allowance, the COAS and related emissions reporting system. An inception report was finalized and approved by the project management committee for the activity.</p> <p>(UNDER IMPLEMENTATION)</p> <p>Framework for local standard and manual for offset scheme. This activity will develop a technical Guideline which will serve as a guide to all role players including project developers on how the offset program will be implemented and operated. Under a study completed by the Department of Mineral Resources and Energy (DMRE), a Standard Operating Procedure (SOP) manual has been developed which provides details on the administration system and the approval process to be followed by the DMRE. The proposed work under the PMR aims to review the SOP, to identify gaps in the proposed approval process and required documentation and to recommend improvements to the SOP and the process.</p> <p>The procurement process commenced in February 2019. Three companies were shortlisted following an EOI and issued with an RFP in May. The technical evaluation was held in June 2019 following which the shortlisted companies were invited to attend the opening of the Financial bids. A consultant has been selected and the draft contract is currently being negotiated.</p> <p>(UNDER IMPLEMENTATION)</p> <p>Capacity building and training of technical and administrative staff and the secondment of technical expertise.</p>
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	<p>It is proposed that three experts are hired to assist the DMRE with the implementation of Carbon Offsets Administration programme in the areas of IT system development and maintenance and technical support carbon markets and capacity building.</p> <p>The estimated budget for this activity is at US\$ 270 000.</p>
Comments:	<p>The procurement processes for the capacity building initiatives will be expedited to support the implementation of the carbon tax and allow a reasonable timeframe for the execution of this activity.</p>
D. Component 4: Communication, stakeholder engagement and project administration support	
Status:	<p>Responding to the need to situate the carbon tax clearly as a key policy instrument within a package of measures to address climate change challenges whilst promoting South Africa' competitiveness in the long term, this component will help the National Treasury communicate with the relevant stakeholders on the objectives, design and implementation of the carbon tax. In addition, it will improve effectiveness of the project implementation for which the NT will be the implementing agency.</p> <p>The specific activities under this component and progress updates are provided below.</p> <p>Communications and stakeholder engagement: This activity would have entailed a review of the stakeholder engagement process undertaken by the Economic Tax Analysis Unit and establish a Communication, Media and Stakeholder Engagement Plan (CMSEP) to support the finalization of the carbon tax policy. Following a series of stakeholder engagement activities undertaken by National Treasury, and the subsequent promulgation of the Carbon Tax into Law on 1 June 2019, it was agreed through the PMR Project Steering Committee meeting held on 11 June 2019, that there was no longer a need for additional support for the finalization of the carbon Tax policy and therefore not necessary to continue with the procurement of a Communication and Stakeholder Engagement Consultant for this purpose.</p> <p>An activity for procurement of goods and services was also considered for inclusion in the procurement plan at the initial amount of US\$100,000. This amount has been adjusted to US\$170,000. An operational plan for the use of the funds, mainly to cater for the hosting of a number of Stakeholder engagement workshops on the Carbon tax act, offsets and emissions calculation, was submitted to the Bank for consideration in April 2019 and this was approved.</p> <p>(UNDER IMPLEMENTATION).</p>

Comments:	The assistance of the World Bank in expediting the procurement of all the service providers has helped significantly with implementation of SAs PMR activities.
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4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important policy or regulatory developments related to the Grant's objectives and activities:
Developments: The carbon tax bill was enacted on 1 June 2019. Challenges: Due to delays in the legislative process for finalizing the carbon tax the design and implementation of the systems required to administer the tax has to be expedited to ensure effective implementation of the tax.
Important changes in the technical design or approach related to the Grant's activities:
Developments: The review of SAs PMR activities resulted in the revisions in the budgets for several activities, under component 2, 3 and 4. The funds from the capacity building for MRV has been reduced from US\$700 000 to US\$315 000. The support for offset registry (the assessment of COAS), had been allocated US\$1 000 000, the recommended bid amounted to under US\$200 000 and the budget has been adjusted accordingly. The Offset Programme Capacity Building activity has also been adjusted from US\$800 000 to US\$270 000. The Communications Specialist activity has been removed and had been previously allocated US\$200 000. The institutional analysis and business case for the NAEIS – CED has been expedited and the activity for the NAEIS CED exchange protocols will be integrated into this activity. Challenges: Consideration to be given to budget adjustments for the inclusion of local indirect taxes for international service providers / companies.
Key capacity issues (implementation, technical, financial management, procurement) related to the Grant's activities:
Developments: The National Treasury had requested an extension of the timeframe for the completion of South Africa's PMR activities for a period of at least 6 months to December 2020 to allow sufficient time for the completion of the MRV system activities and to strengthen implementation capacity within the key implementing departments and entities. The PMR Project is in the process of undergoing a restructuring process to take into consideration the 6-month extension. Challenges: To date, there have been delays experienced in effectively executing activities under the project due to challenges with efficient use of the Bank automated systems, alignment of the country and World Bank procurement procedures, and staff turnover. Despite the challenges experienced, the activities under the PMR project are crucial to support the implementation of the carbon tax and efforts have been made both by the South African government and the World Bank to expedite the implementation of activities. The hiring of the program coordinator has helped to improve and strengthen the capacity of the NT team and address bottlenecks in the system. For future projects, it would be important to establish a Project Management Unit either in-country or at the Bank to manage funded projects comprising a procurement specialist and a legal expert to assist with detailed and thorough understanding of

Procurement and legal aspects related to the project and specifically contracting of service providers. It is recommended that the World Bank incorporates a module on the RFP and contracting of service providers in the Finance and Disbursement training held for recipients of grant funding.

Stakeholder engagement related to the Grant's activities:

Developments: Continued engagements are being held with affected stakeholders on the implementation and administration of the Carbon Tax Act, and associated regulation including on the carbon offsets and trade exposure allowance.

Challenges: These developments will impact the grants activities positively as this forms part of the implementation process of the carbon tax.