

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	South Africa.
Reporting Period:	From 1/10/2017 to 30/09/2018
Report Date:	4 October 2018
Implementing Agency:	National Treasury, Ministry of Finance
Contact Person:	Sharlin Hemraj

Grant Executed By:	Recipient
Grant Effectiveness and Closing Dates:	14/03/2017 – 31/12/2020
Grant Amount (USD):	USD 5,000,000
Funding Mobilized (USD):	N/A
Funding Committed (USD)	USD 175 000

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 18th meeting of the Partnership Assembly held in Kiev, Ukraine and taking into account the ending of the PMR Program on 30 June 2020, the South African government and the PMR secretariat undertook a review of South Africa's PMR activities. The review aimed to reprioritize activities under the different components and expedite the implementation of all activities to ensure completion of priority activities within the required timeframe.

To date, the progress made towards the implementation of South Africa's PMR project activities over the period October 2017 to 4th October 2018 has focused mainly on procurement and financial management as outlined below:

- Terms of References (ToRs) have been completed for almost all activities, and the procurement processes for the priority activities have started.
- An updated implementation plan has been developed to expedite the procurement process to ensure that all major activities can be completed by 30 June 2020 to align with the ending of the PMR program. This 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.
- A Programme Coordinator joined the NT in September 2018 on a full time basis and will help to drive the procurement process and support project and financial management, and perform administration duties.
- There has been one financial disbursement to date. The first withdrawal application was processed and an initial disbursement of US\$ 98 643 or R1.35m was made by the Bank. The funds were transferred on 6 June 2018. 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. The budget estimate for the project has been revised to USD 4.6 million.

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
---	----

Implementation Progress by Component

A. Component 1: Supporting the refinement of the design of the carbon tax through analytical work.	
Status:	Review of the industry benchmarks (Under implementation)

	<p>An emissions allowance of 5 per cent of the total GHG emissions of an entity is provided under the carbon tax for entities that perform better than a benchmark. Several industrial sectors have developed industry emissions intensity benchmarks and an independent review of the industry proposed benchmarks will be conducted under the PMR. This will include an assessment of the robustness of the proposed methodology and the suitability of the benchmark value. The National Treasury aims to complete the TOR and expression of interest by the end of October 2018.</p>
<p>Comments:</p>	<p>Efforts to expedite the implementation of this activity will be conducted by the National Treasury.</p>
<p>B. Component 2: Strengthening the capacity of the government to enhance data management and MRV systems</p>	
<p>Status:</p>	<p>Under implementation</p> <p>These activities will support the strengthening of the technical capacity of the Department of Environmental Affairs (DEA) and Department of Energy (DoE) 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 DEA’s National Atmospheric Emissions Inventory System (NAEIS-DEA) to enable reporting of GHG emissions by industry. UNDER IMPLEMENTATION</p> <p>To ensure effective implementation of the carbon tax, the National Atmospheric Emissions Information system will be modified to build in a GHG emissions module. This will allow for GHG emissions reporting by entities. The service provider submitted a technical and financial proposal in July 2018 which was evaluated by the Bid Evaluation Committee comprising representatives from the NT and DEA on 4 September 2018. The financial proposal and the evaluation report from the committee meeting were submitted to the World Bank for consideration on 27 September 2018.</p> <p>The DEA agreed to do an assessment by November 2018 on whether to go ahead with the project activity to support the Vessels Under Pressure Registry. The DEA has confirmed with the NT that this activity will no longer be conducted and that the funds should be reallocated to the NAEIS modification activity.</p> <p>Strengthening of the DoE central energy database (CED). 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 was submitted to the National Treasury in 27 September 2018 and is expected to be finalised by the DOE by the end of October 2018 taking into account comments from the National Treasury.</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 between NT, DEA, DOE 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 DEA and to consider, among others, the business and system requirements of the SARS. The DEA 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 DoE and the SARS was finalised in early October and has been uploaded onto the STEP for Bank approval.</p> <p>Development of NAEIS-DEA and DoE-CED data exchange protocols to explore ways of integration of the NAEIS and DoE CED.</p> <p>In discussion with the DEA it has been determined that the analysis of the data exchange protocols for the DEA's NAEIS and the DoE's Central Energy Database (CED) would be integrated into the institutional set up analysis activity rather than being a separate activity. It was also determined that the existing budget (US\$280,000) would be sufficient to cover both activities.</p> <p>Capacity building on Carbon Tax MRV</p> <p>The carbon tax MRV capacity building activity will involve the DEA, DoE 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 the project review. The DEA and DOE 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 DEA and will be submitted for Bank consideration and approval by the end of October. The procurement process for the recruitment of offsets experts will commence in January 2019.</p>
Comments:	N/A
C. Component 3: Supporting the design of the carbon offsets scheme	
Status:	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

	<p>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 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 will be published for further consultation.</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>The TOR and expression of interest and the draft request for proposal were completed by the DoE and approved by the Bank. The Expressions of Interest were published 6 July 2018 and proposals received on 10 August for the enhancement of the carbon offset administration system and assessing the options for hosting the offsets registry. DoE and NT evaluated the EOIs on 17 August 2018 and the Request for Proposals was submitted to the Bank for consideration in 27 September 2018. The World Bank reviewed the RFP during September. Comments received were incorporated and the revised RFP has been uploaded for Bank approval and will be sent to shortlisted candidates by mid-October.</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 Energy (DoE), 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 DoE. 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 ToR for the technical guidelines for the offset scheme was discussed between Ministries and was updated to include the development of a framework and pilot testing of a local standard. The revised TOR was uploaded onto the STEP for Bank consideration and has been amended to include Bank comments.</p> <p>(UNDER IMPLEMENTATION)</p>
--	---

	<p>Capacity building and training of technical and administrative staff and the secondment of technical expertise. An initial TOR and expression of interest for this study has been completed. The procurement process for the recruitment of offsets experts will commence in January 2019.</p>
Comments:	
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>Design and implementation of a communication, media and stakeholder engagement plan: This activity will entail 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. This activity involves the hiring of an Individual Consultant (communication specialist), and procurement of Goods and attendant Services for the conducting of stakeholder consultations. During the project review, the budget allocation of US\$350 000 was adjusted to US\$200 000 for the communications specialist. CVs have been sourced from the service provider database of the Government Technical Advisory Centre, and the DEA supplier database for the communication specialist. Interviews will be held in 19 October 2018.</p> <p>An activity for procurement of goods and services was also considered for inclusion in the procurement plan at the amount of US\$100,000 and will be submitted for approval.</p> <p>(UNDER IMPLEMENTATION).</p> <p>Programme coordinator: To support the National Treasury, the procurement process for hiring a dedicated programme coordinator was finalised in September 2018. The Programme Coordinator joined the NT on 10 September 2018 and will help drive the procurement process and support project and financial management, and perform general administration duties.</p>
Comments:	<p>The assistance of the World Bank in expediting the appointment of the Programme coordinator has helped significantly with implementation of SAs PMR activities.</p>

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<p>Important policy or regulatory developments related to the Grant’s objectives and activities:</p> <p>Developments: The revised draft carbon tax bill was published for public comment in December 2017 and is proposed for implementation from 1 January 2019. The Bill has been processed by Parliament and is expected to be tabled later this year.</p> <p>Challenges: Due to delays in the legislative process, the proposed date of implementation of the carbon tax may be slightly delayed.</p>
<p>Important changes in the technical design or approach related to the Grant’s activities:</p> <p>Developments: The review of SAs PMR activities resulted in the revisions in the budgets for several activities, especially for component 2. The funds from the vessels under pressure activity of US\$400 000 has been reallocated to the NAEIS modification activity, a key activity under the SA PMR activity. 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.</p> <p>Challenges: The inclusion of this activity under the PMR will have a positive impact on the implementation of the grants activities as it will assist directly with the implementation of the carbon tax policy and ensure access to international sector experts.</p>
<p>Key capacity issues (implementation, technical, financial management, procurement) related to the Grant’s activities:</p> <p>Developments: The undertaking of the project review has been extremely helpful in reprioritising activities, agreeing an implementation plan and ensuring timely approvals of documents on the STEP. The appointment of the programme coordinator will have positive impacts on the implementation of SA PMR activities.</p> <p>Challenges: To complete the procurement for all major activities by January 2019 to ensure activities can be finalized by the end of 2020. The hiring of the program coordinator has helped to improve and strengthen the capacity of the NT supply chain management team and address bottlenecks in the system.</p>
<p>Stakeholder engagement related to the Grant’s activities:</p> <p>Developments: Further stakeholder engagements are underway on the revised draft carbon tax bill through the Parliamentary process, the revised carbon offsets regulations, and regulations for the trade exposure allowance.</p> <p>Challenges: These developments will impact the grants activities positively as this forms part of the policy process for approval of the carbon tax policy</p>