

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Sri Lanka
Reporting Period:	January 15, 2018 – March 15, 2020
Report Date:	March 15 2020
Implementing Agency:	Ministry of Environment and Wildlife Resources (MEWR), Sri Lanka
Contact Person:	WB: Mr. Keisuke Iyadomi Mr. Harikumar Gadde MEWR: Dr. Sunimal Jayathunga – Director (Climate Change) Mr. Gayan Mallawathissa –Project Director (CMASP)

Grant Executed By:	World Bank and the Government of Sri Lanka
Grant Effectiveness and Closing Dates:	The Bank-Executed Trust Fund: BETF (US\$ 1.2 million): October 1, 2018 – June 30, 2020 The Recipient-Executed Trust Fund: RETF (US\$ 1.8 million): April 11, 2019 – February 28, 2021
Grant Amount (USD):	US\$ 3 million
Funding Mobilized (USD):	US\$25,000
Funding Committed (USD) (as of March 15, 2020)	US\$680,050 (BETF); US\$23,428 (RETF)

2. OVERVIEW

Objective

The objectives of the project are strengthening the Government of Sri Lanka's capacities and systems to: (a) implement national climate change policies, strategies and actions; and (b) design or strengthen market/non-market mitigation instruments.

While balancing the Sri Lanka's development challenges, such as volatile economic growth, food security, and maintaining trade and industrial development, the project aims to identify mitigation actions and policies that can simultaneously address climate change.

The PMR project of Sri Lanka has been structured into the following components based on the Building Blocks of the Market Readiness Proposal (MRP):

Component 1: Mitigation Policy Objectives, Landscape and Options Analysis

1.1 Assessing mitigation potential in different sectors and identification of suitable CPI(s) for potential sectors

1.2 Designing and implementing an optimal policy package:

- Assessment of the potential role of a new carbon pricing instrument;
- Develop an optimal policy package that could further support integrated national MRV system, national registry, and enhanced Sri Lanka Carbon Crediting Scheme (SLCCS) to support NDC implementation.

Component 2: Technical and Institutional/Regulatory Readiness Components to Support Implementation of MRV

2.1 Reviewing the existing systems, mechanisms and institutions in Sri Lanka to determine the needs for resources and capacity building, to fully assess the basis for new MRV and registry systems

Identify the legal mandate, roles and responsibilities of institutions to perform their function with respect to MRV and the registry to avoid duplication of activities.

2.2 Designing a national Monitoring, Reporting, and Verification (MRV) and registry system. Define the functional and technical specification of the national MRV framework and registry system based on the needs assessment done by the World Bank.

2.3 Piloting a national MRV systems through customization of existing systems available for PMR countries, with an initial focus on project-/facility-level emissions and emission reductions: Pilot the main components of the MRV framework for a specific sector(s) and/or technology area(s) that complement other ongoing initiatives and strengthen the national MRV system.

Component 3: Framework for Enhancing and Scaling Up the Sri Lanka Carbon Crediting Scheme (SLCCS)

3.1 Study and understand the requirements for different demand and supply options, and their role in supporting SLCCS goals.

3.2 Designing the institutional, legal and technical framework to support the enhanced (SLCCS).

3.3 Piloting the enhanced SLCCS.

3.4 Developing a roadmap for a new CPI. Develop a new CPI that could complement the SLCCS and contribute to Sri Lanka's NDC goals based on the optimal policy package recommended under Component 1 through, inter alia:

Component 4: Organization, Communication, Consultation and Capacity Building

4.1 Establishing a Project Management Unit (PMU) to assist in the management of the PMR grant

4.2 Developing comprehensive strategies and workplans for general outreach, stakeholder consultation and capacity building

4.3 Ensuring that all stakeholders, including the PSC and AC(s), are informed about the decision process, and ensure buy-in on all activities under the MRP

- 4.4 Raising general awareness about the benefits, objectives and requirements of the proposed CPI(s), MRV framework and registry system
- 4.5 Building stakeholders' capacity to operate and participate in the CPI(s), registry system and MRV framework.
- 4.6 Monitoring and track progress, and identify solutions for potential risks

3. IMPLEMENTATION REPORT BY COMPONENT
Differences between the Objectives/Activities in the Market Readiness Proposal and the Implementation Plan

<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>Following alternations have been proposed for implementation.</p> <ul style="list-style-type: none"> i. BB2.2.1 Scope was reduced to conduct Evaluation of overall policy coherence and designing and implementing policy package for MRV, Registry and SLCCS implementation. ii. Develop a National Climate Change Data Management System in Provincial and District level which support the national MRV was included as an additional component to BB2. <p>Instead of developing a MRV and Registry system from scratch, customization of existing systems such as Jordan MRV system is now agreed to prioritize and fast-tack piloting of these systems with sector-wise MRV training. The revised implementation plan for the program is included in Annex 1.</p>
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Implementation Progress by Component

A. Component 1: Mitigation Policy Objectives, Landscape and Options Analysis	
Status:	Under implementation
Comments:	<p>1.1 Assessing mitigation potential in different sectors and identification of suitable CPI(s) for potential sectors.</p> <p><i>The study has identified suitable Carbon Pricing Instruments in the power and transport sector through a macro-economic modeling as well as policy and legal analysis in six different scenarios. The final report has been submitted and presented.</i></p>

	<p>1.2 Designing and implementing an optimal policy package:</p> <p><i>The PMU and the Bank Team Reviewed the activity and amended the Scope of the consultancy during the last mission (29-30 January 2020). The new scope is given below.</i></p> <p><i>Evaluation of overall policy coherence and designing and implementing policy package for MRV, National Registry and SLCCS implementation</i></p> <ul style="list-style-type: none"> • <i>Ministry Approved Procurement committee has been appointed</i> • <i>EOI and TOR has been prepared</i> <p>1.2 Develop a National Climate Change Data sharing network to MRV</p> <p>The country has already identified the timely need of frequently updating national climate data sharing network to assess the rapid changes of climate in the country; to identify risk and vulnerability due to adverse impacts of climate change in various sectors; to assess national, provincial and local level adaptation measures; to estimate levels of greenhouse gas emissions and removals in the country; to monitor the progress of mitigation actions and NDC achievements and to fulfill the periodic international reporting requirements. Further, data sharing network will be useful to get international climate finance facilities and opportunities to implement national and regional level climate mitigations and adaptation actions.</p> <ul style="list-style-type: none"> • Ministry Approved Procurement committee has been appointed • TOR is under preparation for further consultation.
B. Component 2: Technical and Institutional/Regulatory Readiness Components to Support Implementation of MRV	
Status:	Under implementation
Comments:	<p>2.1 Review of the existing systems, mechanisms and institutions in Sri Lanka to determine the needs for resources and capacity building, to fully assess the basis for new MRV and registry systems (Need Assessment)</p> <ul style="list-style-type: none"> • <i>Need assessment completed</i> <p>2.2 Designing a national Monitoring, Reporting, and Verification (MRV) and registry system. Define the functional and technical specification of the national MRV framework and registry system based on the needs assessment done by the World Bank.</p> <ul style="list-style-type: none"> • Developed functional and technical specifications for developing National Registry and the MRV system. • <i>The PMU and the Bank team agreed to customize the Jordan MRV system during the last mission (29-30 January 2020) instead developing both systems from scratch due to time constraints.</i>

	<ul style="list-style-type: none"> Given this, the focus of this activity will now be a) adoption of Jordan MRV system; b) pilot the system in 1-2 sectors; c) develop and implement a capacity building and training program for all stakeholders involved. TOR was amended to reflect the above mentioned revision to the scope Ministry Approved Procurement committee has been appointed <p>2.3 Develop a National Climate Change Data Management System in Provincial and District level which support the national MRV :</p> <p>Activity is not yet started. The ToR for consulting services to carry out sector-wise training has been prepared.</p>
C. Component 3: Framework for Enhancing and Scaling Up the Sri Lanka Carbon Crediting Scheme (SLCCS)	
Status:	Under implementation
Comments:	<p>3.1 Study and understand the requirements for different demand and supply options, and their role in supporting SLCCS goals</p> <ul style="list-style-type: none"> Completed the National level supply and demand assessment for the implementation of SLCCS Assessment of provincial level supply assessment is on going. However, some workshops planned for the initial consultations with stakeholders in selected provinces has been postponed due to Covid -19 and currently under discussion to identify alternative approach to complete the study. <p>3.2 Designing the institutional, legal and technical framework to support the enhanced (SLCCS).</p> <ul style="list-style-type: none"> Kickoff meeting was held for assessing the institutional, legal and methodological requirements for an enhanced Sri Lanka Carbon Crediting Scheme (SLCCS) on March 3, 2020. Ministry Approved Procurement committee has been appointed for RETF component <p>3.3 Piloting the enhanced SLCCS.</p> <ul style="list-style-type: none"> Activity not yet started <p>3.4 Developing a roadmap for a new CPI. Develop a new CPI that could complement the SLCCS and contribute to Sri Lanka’s NDC goals based on the optimal policy package recommended under Component 1 through, inter alia:</p> <p>Scenario 2 and 3 have been identified as potential CPIs from the final report of the Exploring the role of carbon-pricing instruments (CPIs) in decarbonizing the power and transport sectors in Sri Lanka; therefore this component will be still continued as planned.</p>

	<ul style="list-style-type: none"> Ministry Approved Procurement committee has been appointed
D. Component 4: Organization, Communication, Consultation and Capacity Building	
Status:	Under Implementation
Comments:	<p>4.1 Establishing a Project Management Unit (PMU) to assist in the management of the PMR grant</p> <ul style="list-style-type: none"> <i>PMU has been established.</i> <i>PD and Finance and Administration officer are on board.</i> <i>Procurement consultant is hired through the BETF.</i> <i>Interviews and selection for project coordinator and two project officers have been completed.</i> <p>4.2 Developing comprehensive strategies and workplans for general outreach, stakeholder consultation and capacity building</p> <ul style="list-style-type: none"> <i>Activity not yet started</i> <p>4.3 Ensuring that all stakeholders, including the PSC and AC(s), are informed about the decision process, and ensure buy-in on all activities under the MRP</p> <ul style="list-style-type: none"> <i>PSC and AC (s) have been appointed and functional.</i> <p>4.4 Raising general awareness about the benefits, objectives and requirements of the proposed CPI(s), MRV framework and registry system</p> <ul style="list-style-type: none"> <i>Activity not yet started</i> <p>4.5 Building stakeholders' capacity to operate and participate in the CPI(s), registry system and MRV framework.</p> <ul style="list-style-type: none"> <i>Activity not yet started</i> <p>4.6 Monitoring and track progress, and identify solutions for potential risks</p> <ul style="list-style-type: none"> <i>Activity not yet started</i>

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important policy or regulatory developments related to the Grant's objectives and activities:

Sri Lanka proposed two key 2030 mitigation targets as part of its Nationally Determined Contribution (NDC) for the UNFCCC's Paris Agreement: (a) to reduce GHG emissions in the energy sector against a Business-As-Usual (BAU) scenario by 4% unconditionally and an additional 16% conditionally; and (b) to reduce GHG emissions against a BAU scenario in other sectors by 3% unconditionally and an additional 7% conditionally. The NDC further maps out a set of policies and actions to achieve these

goals in five priority sectors: energy, transport, waste, industry, and forestry. While Sri Lanka does not explicitly mention the use of carbon pricing to achieve its NDC goals, the government is seeking the PMR's support to enhance the role of carbon pricing to reduce costs and mobilize the resources required to reduce emissions. Sri Lanka has already taken significant steps to ensure a successful NDC implementation. For example, Sri Lanka prepared a "Readiness Plan for NDC implementation" in 2016 to identify policy and institutional gaps, as well as the technical capacity and resources required to implement policies and actions under its NDC. The plan is intended to inform the work plan for relevant ministries during the "Readiness Phase" between 2017 to 2019, before the NDC implementation period from 2021 to 2030. The national climate agenda is guided by two overarching policies at the national level: (a) the National Climate Change Policy, which outlines key principles that should be considered when developing climate actions in the energy, transport, industry, waste and agricultural sectors; and (b) the "Sri Lanka NEXT - A Blue Green Era" Program, which identifies priority technologies and subsectors for a low carbon economy based on the country's sustainable development priorities.

Important changes in the technical design or approach related to the Grant's activities:

No change

Key capacity issues (implementation, technical, financial management, procurement) related to the Grant's activities:

Because of past presidential election and recent release of government circulars recruitment of rest of PMU staff and procurement process of grant activities has been delayed. The STC procurement Specialist has been recruited to expedite the procurement process. This might be further delayed due to upcoming general election as well as prevailing Corona outbreak. The procurement process is already significantly delayed and the Covid19 may further delay the procurement processes. It is not clear how the Ministry Approved Procurement Committee could function in the coming weeks. The Bank Task Team is assessing the capacity of Climate Change Secretariat and the Ministry to work remotely to continue and carry out the remaining activities. Alternately, in the worst case scenario, the PMR Secretariat is also assessing implementation of a certain recipient executed activities under the Bank executed activities using remaining resources under the Bank executed component.

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

- *In 2017 carbon tax was introduced through green budget in Sri Lanka. It is one of the carbon pricing initiative of Government of Sri Lanka. Policy-level discussion are ongoing*
- *The Government has taken a decision that they will not bring down the oil price for one year even though the price of oil has come down.*

Stakeholder engagement related to the Grant's activities:

The MEWR is responsible for oversight of the entire activities as well as coordination with the line Ministries, agencies, the consultants, and other stakeholders on regular basis. PMU is preparing a plan for the stakeholder consultation covering all provinces in the country and PMU will continuously engage with relevant stakeholders, including the private sector, think tanks, government departments, civil society organizations, etc. In addition, need-based engagement and regular dialogue through round table discussions, etc. will be carried out by the Ministry. Qualified technical experts of relevant entities are selected to the members of steering committee and the technical advisory committee to ensure the representation of stakeholders.

Other issues related to the Grant's activities

None

5. ADDITIONAL INFORMATION

In this Section, please provide any additional information that may be relevant for the achievement of the Grant's objectives and/or the implementation of the Grant's activities. Please also provide any relevant information related to carbon pricing and the use of market-based instruments for climate change mitigation.

- Given that COVID-19 have serious economic impacts, it might affect the progress of the planned activities and even further consider limiting the scope of activities in order to adjust and complete the activities by the closure of the project.

Annex I – Updated implementation Plan under the Recipient Executed mode (only consulting services listed)

	Activities to be performed	Original Budget Allocation (US\$)	New Budget Allocation (US\$)
BB2	Evaluation of overall policy coherence and designing and implementing policy package for MRV, Registry and SLCCS implementation (2.2.1)	50,000	85,000
	Develop a National Climate Change Data Management System in Provincial and District level which support to MRV	175,000	140,000
BB3	Deployment of IT infrastructure for MRV and Registry (Includes software, MRV and Registry system customization, hardware, Server facility, URL etc)	270,000	142,000
	Deliver sector wise training for MRV framework, National Registry and Transaction Registry	200,000	138,000
	Pilot the MRV and National Registry System	75,000	100,000
BB4	Implementing/Establishing the Institutional, Legal and Methodological Framework for SLCCS (4.2.1)	300,000	135,000
	Piloting the enhanced SLCCS (4.3)	155,000	140,000
BB4	Developing a Road Map for New CPI (4.4)	260,000	130,000
	Total	1,485,000	1,010,000