

## PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

### 1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	South Africa.
Reporting Period:	From 14/03/2017 to 09/10/2017
Report Date:	9 October 2017
Implementing Agency:	National Treasury, Ministry of Finance
Contact Person:	Sharlin Hemraj

Grant Executed By:	Recipient: National Treasury, South Africa
Grant Effectiveness and Closing Dates:	14/03/2017 – 31/12/2020
Grant Amount (USD):	USD 5,000,000
Funding Mobilized (USD):	Pending
Funding Committed (USD)	None

### 2. OVERVIEW

In March 2015, the governing body of the PMR, the Partnership Assembly, approved a US\$5 million grant to South Africa based on its Market Readiness Proposal to support the refinement of the design and implementation of the carbon tax. The main components of South Africa's PMR work 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

The SA PMR grant became effective on 14 March 2017 after conclusion of the negotiations on the Grant Agreement, Disbursement Letter and the Project Appraisal Document including the results framework and summary procurement plan on 6<sup>th</sup> July 2016 between the Recipient and the World Bank. The grant agreement was signed by the Minister of Finance on 3 March 2017.

To date, progress made towards South Africa's PMR project activities over the period 14 March to 9<sup>th</sup> October 2017 has mainly focused on the administration and institutional arrangements to support the implementation of the project activities including procurement and financial management.

The progress made on procurement for the different activities under the main components of SAs PMR has entailed completion of the general procurement notice, completion of the procurement plan for the first tranche of activities and approval by the WB, and finalization of the terms of references (TORs), expressions of interests and supporting documents which has been submitted for approval by the Bank. The progress made on the first tranche of activities i.e. 4 sub activities under the different components are summarized below:

- Component 2: Strengthening the capacity of government to enhance the data reporting management and the MRV system. The TOR for the modification of the National Atmospheric Emissions Inventory System to enable the reporting of greenhouse gas emissions has been completed and approved by the Bank.
- Component 3: Supporting the design of the carbon offset scheme under the carbon tax. The TOR and EoI for the technical assessment of the developed carbon offset administration system and the options for hosting the carbon offsets registry has been completed and approved by the Bank. A draft request for proposals has been completed and will be submitted to the Bank for approval shortly.
- Component 4: Communication, stakeholder Engagement and Project Administration Support. The TORs for a Specialist Project Manager to assist the National Treasury with project management and provide technical support has been completed and approved by the Bank.
- Component 4: Communication, stakeholder Engagement and Project Administration Support. To ensure effective communication and stakeholder engagement on the carbon tax policy, the TOR for the appointment of a communications specialist to assist with the development and implementation of a communication, media and stakeholder engagement plan has been completed and approved by the Bank.

In preparation for the finalization of the legislative process of the carbon tax policy in South Africa, efforts to expedite the procurement process and appointment of service providers for the above-mentioned priority activities would be crucial. These activities which focus on the carbon tax MRV system, carbon offset administration system; communications and project management support are critical for both the implementation of the carbon tax and the PMR activities. Assistance and appropriate guidance from the World Bank in expediting the procurement process to support implementation of these activities is critical and would be extremely beneficial for South Africa and help to meet our climate change policy and mitigation goals.

To ensure effective financial management of the project, a signed letter was submitted to the WB PMR in 24 August 2017 nominating and appointing suitable authorisation signatories within the National Treasury namely, the Deputy Director General of the Tax and Financial Sector Policy division, Chief Director of the Economic Tax Analysis Unit, and the Chief Financial Officer. The required documentation to ensure access to the Client Connection system and registration of the signatories was completed and submitted to the WB, together with the official banking account details for the Reconstruction and Development Program for the depositing of funds by the World Bank.

### 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>
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#### ***Implementation Progress by Component***

<p><b>A. Component 1: Supporting the refinement of the design of the carbon tax through analytical work.</b></p>	
<p>Status:</p>	<p>Under this component, additional technical studies were proposed to assist with the refinement of the design of the carbon tax policy package, taking into account research and analytical work already undertaken by the Economic Tax Analysis Unit of the National Treasury. Three activities were proposed as outlined below:</p> <ul style="list-style-type: none"> <li>(i) Assessment of existing international competitiveness measures – This activity will review the trade exposure allowance under the carbon tax policy to assess the effectiveness and appropriateness of the allowance. The activity will also analyze alternative options to address competitiveness concerns.</li> <li>(ii) Analysis of private sector and international climate finance resources sources and how they could complement domestic sources of climate finance (i.e. carbon tax revenue).</li> <li>(iii) Finalization of the Carbon tax modeling impact study.</li> </ul> <p>A progress update on each of these proposed activities is provided below.</p> <p><b>Assessment of existing international competitiveness measures. COMPLETED</b></p> <p>Following publication of the initial draft Carbon Tax bill for public comments in November 2015 and analysis of the comments received from affected stakeholders, one of the main comments received was on the design of the trade exposure allowance. Specific recommendations were made to shift from a company to a sector based trade exposure</p>

	<p>allowance to address potential competitiveness concerns. During 2016, the Economic Tax Analysis Unit of the National Treasury undertook a review of the approach and methodology for determining the level of the allowance, and developed options for shifting to a sector based allowance. This took into account technical research reports completed under the PMR on Carbon leakage and Competitiveness, international practice and the design of carbon pricing measures and consultations with the private sector. <b>The technical work to review the trade exposure allowance has therefore been completed by the National Treasury and additional technical studies are not required under this component of South Africa's PMR.</b></p> <p><b>Analysis of private sector and international climate finance resources sources and how they could complement domestic sources of climate finance (i.e. carbon tax revenue). PENDING</b></p> <p>As part of the design features of South Africa's carbon tax, various revenue recycling measures are proposed comprising tax shifting (reducing other taxes), tax incentives and budgetary support to enable the structural transition to a low carbon, climate resilient economy. To complement the carbon tax as a revenue source, an investigation into the role for climate finance has been identified as a possible research topic. In July 2016, the National Treasury in collaboration with the Carbon Pricing Leadership Coalition (CPLC) held an intergovernmental Innovation Fund Workshop focusing on the role for public finance to leverage private sector climate finance in key sectors such as energy and transport. Currently, a technical study on climate finance is being undertaken by the National Treasury Public Finance Division with support from the CPLC. <b>The proposed technical work on climate finance will therefore not be undertaken under the PMR activities.</b></p> <p><b>Finalization of the Carbon tax modeling impact study. (COMPLETED)</b></p> <p>The South African Carbon Tax modeling study report was finalized for publication in November 2016 by the PMR in collaboration with the National Treasury. This report was presented at a multi stakeholder workshop hosted by the National Treasury in November last year. The PMR provided technical support to the National Treasury for this workshop, including the contracting of the international and local technical experts. The report has been published on the National Treasury and PMR websites. The report also formed the basis for the approval of the Socioeconomic Impact Assessment for the Carbon Tax Policy by the national Department of Performance, Monitoring and Evaluation, which is required for all new domestic legislation.</p>
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<p>Comments:</p>	<p>The proposed activity for component 1 on international competitiveness has been completed internally by the National Treasury prior to the implementation of South Africa’s PMR as this formed part of the carbon tax policy development process.</p> <p>As described above, the climate finance activity is being taken forward by the National Treasury with support from the CPLC.</p> <p>The carbon tax modeling study was delayed to accommodate revisions to scenarios to take into account the current design of the tax and the redrafting of the initial report to simplify the report and ensure that it was accessible to a non-technical audience.</p>
<p align="center"><b>B. Component 2: Strengthening the capacity of the government to enhance data management and MRV systems</b></p>	
<p>Status:</p>	<p><b>Under implementation</b></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><b>Modification of DEA’s National Atmospheric Emissions Inventory System (NAEIS-DEA) to enable reporting of GHG emissions by industry. UNDER IMPLEMENTATION</b></p> <p>The Department of Environmental Affairs has approved regulations for the Mandatory reporting of GHG Emissions in April 2017 and published technical guidelines consisting of information on the reporting methodologies and emissions factors in line with the 2006 IPCC Guidelines. To support electronic reporting of emissions by companies and relevant entities, the NAEIS system will need to be modified to include a GHG Emissions Reporting Module. Reporting is currently underway and being processed manually by the Department. The terms of reference for this study, which is critical for the implementation of the carbon tax, has been completed and approved by the World Bank.</p> <p><b>The terms of reference and expressions of interest for the following activities have been completed, subject to initial review and approval by the World Bank and will be submitted to the World Bank for final approval.</b></p> <ul style="list-style-type: none"> <li>• 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</li> </ul>

	<p>implementation of a web-based energy efficiency monitoring system.</p> <ul style="list-style-type: none"> <li>• Development of NAEIS-DEA and DoE-CED data exchange protocols to explore ways of integration of the NAEIS and DoE CED.</li> <li>• Capacity building on Carbon Tax MRV.</li> </ul>
<p>Comments:</p>	<p>The implementation of the above activities has been delayed due to initial delays in the negotiation on the grant agreement, and subsequent delays in the signing of the grant agreement.</p>
<p><b>C. Component 3: Supporting the design of the carbon offsets scheme</b></p>	
<p>Status:</p>	<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 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>To support the design and implementation of the carbon offset scheme, the activities under this component of South Africa's PMR will include identification of gaps in the current regulatory and institutional frameworks for administering the carbon offset scheme; assessment of technical and legal modalities with existing international standards and proposed South Africa's scheme; <b>establishment of the carbon offsets registry system</b> and development of technical guidelines to support the implementation of carbon offsets.</p> <p>To date, the Department of Energy has completed a study with donor support on the design and establishment of the Carbon Offset Administration System (COAS) including the carbon offsets registry to support the implementation of the offset scheme. <b>Under the PMR</b></p>

	<p><b>activities, one of the priority tasks is a review and technical assessment of the recently developed COAS, and establishing the registry within the COAS system.</b> The TOR, expression of interest and the draft request for proposal has been completed and awaiting World Bank approval  <b>(IMPLEMENTATION)</b></p> <p>The additional activities under this component are either pending or under implementation and will commence, as needed, after completion of the procurement process for the first tranche of activities. A description of these activities and progress updates are provided below:</p> <ul style="list-style-type: none"> <li>(i) Enhancement of regulatory and institutional frameworks for the offset scheme – This activity will define technical and legal modalities with other international standards for agreements and memorandum of understanding (MoUs) with governing/regulatory bodies for eligible international standards and the South African scheme, as well as address the gaps identified with the current regulatory and institutional frameworks. To date, the National Treasury has consulted the California Air Resources Board on the administration and institutional arrangements of their offset scheme focusing on the administrative arrangements with the relevant international carbon standards. This formed the basis for further discussions between the National Treasury and the Department of Energy and the departments are in the process of finalizing an MoU with the VCS. Following this process, the Department of Energy and the National Treasury will engage the Gold Standard on the procedure for setting up a similar arrangement. <b>The main element of the proposed study under the PMR has therefore been completed.</b> Any outstanding issues, if required, may be addressed through further work under the PMR which will require an amendment of the scope of the activity  <b>(IMPLEMENTATION)</b></li> <li>(ii) Development of technical guidelines on the administration system and implementation of the 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 the 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.  <b>(IMPLEMENTATION)</b></li> </ul>
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	<p>(iii) Capacity building and training of technical and administrative staff and the secondment of technical expertise. The TOR and expression of interest for this study has been completed <b>(PENDING)</b>.</p>
<p>Comments:</p>	<p>The implementation of the above activities has been delayed due to initial delays in the negotiation on the grant agreement, and subsequent delays in the signing of the grant agreement.</p>
<p><b>D. Component 4: Communication, stakeholder engagement and project administration support</b></p>	
<p>Status:</p>	<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>(i) <b>Design and implementation of a communication, media and stakeholder engagement plan:</b> 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 will include a review (and possibly update) the current stakeholder analysis with a view to implement the CMSEP; identify appropriate communication content, engagement and delivery approaches or methods and the frequency of these engagements with various categories of stakeholder; and develop a communication model to promote stakeholder engagement for effective implementation of the CMSEP, and assist with the facilitation of the stakeholder engagement process on the carbon tax.</p> <p>The publication of the draft carbon tax bill, which has been revised to take into account stakeholder views and comments, requires the implementation of a comprehensive communication strategy to ensure a unified, coherent and progressive government approach to the carbon tax as part of the country's climate change response. The TOR for the appointment of a communications specialist to support the development of the CMSEP has been completed and approved by the World Bank <b>(IMPLEMENTATION)</b>.</p>



	<p>(ii) <b>Project management – Appointment of a Specialist Project Manager.</b> To ensure the smooth implementation of the project and its activities as outlined above, project management and technical support will be needed. The services of a Specialist Project Manager will be required to provide project management and technical support to the Economic Tax Analysis Unit of the National Treasury as well as the DEA and DoE on the MRV System for the carbon tax and the offset system, respectively. The TOR for the appointment of a specialist project manager has been completed and approved by the World Bank.</p> <p><b>Recruitment of a project assistant:</b> this activity aimed to ensure effective project implementation for which the NT will be the lead implementing agency. The project assistant will provide general administration and secretarial support, logistics, project related budget management and completion of ad hoc tasks assigned by the NT. <b>To support the implementation of the project, the National Treasury will use its available internal administration and secretarial personnel resources (IMPLEMENTATION)</b></p>
<p>Comments:</p>	<p>The implementation of the above activities has been delayed due to initial delays in the negotiation on the grant agreement, and subsequent delays in the signing of the grant agreement.</p>

#### 4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<p><b>Important policy or regulatory developments related to the Grant’s objectives and activities:</b></p>
<p><b>Developments:</b> The initial draft carbon tax bill has been amended to reflect stakeholder comments. The revised draft carbon tax bill will be published for further consultation in the near future.</p>
<p><b>Challenges:</b> The administrative steps required for accessing funds and processes for uploading project activities and approvals is quite onerous. This results in delays in the implementation of the project. The timelines for approvals should be improved and a project implementation plan should be developed between the World Bank and the implementing country.</p>
<p><b>Important changes in the technical design or approach related to the Grant’s activities:</b></p>
<p><b>Developments:</b> Under the design of the carbon tax, companies are allowed to claim an emissions intensity based performance allowance up to a maximum of 5 per cent. To claim the allowance, the National Treasury requested that sectors submit proposals for appropriate benchmarks which would be the basis for the allowance ie. If a company performs better than a benchmark, it will qualify for the performance allowance based on the formula proposed in the carbon tax bill. To date, several proposals have been submitted to the National Treasury by industry associations for approval. To</p>

support the approval process of the Treasury, it is proposed that some of the funds from the component 1 activities, which have largely been completed, are redirected towards a study to review the industry benchmark proposals by sector experts.

**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.

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

**Developments:** Change in personnel has contributed to delayed project implementation because project activities approval which had been done with the previous Secretariat still requires approval by new personnel.

**Challenges:** Accessing the procurement online approval system (STEP) is a challenge and delays in approvals result in delays of the project implementation.

**Stakeholder engagement related to the Grant's activities:**

**Developments:** Further stakeholder engagements are envisaged on the revised draft carbon tax bill, revised carbon offsets regulations, and regulations for the trade exposure allowance and benchmarks.

**Challenges:** such developments will impact the grants activities positively as this forms part of the policy process for approval of the carbon tax policy