COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)
APPRAISAL STAGE

Report No.: PIDISDSA18340

Date Prepared/Updated: 23-Jun-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	South Africa	**Project ID:**	P155885
		Parent Project ID (if any):	
Project Name:	South Africa Partnership for Market Readiness (P155885)		
Region:	AFRICA		
Estimated Appraisal Date:	25-May-2016	**Estimated Board Date:**	30-Jun-2016
Practice Area (Lead):	Environment & Natural Resources	**Lending Instrument:**	Investment Project Financing
Sector(s):	Central government administration (100%)		
Theme(s):	Climate change (100%)		
Borrower(s):	Republic of South Africa		
Implementing Agency:	National Treasury		
Financing (in USD Million)			
Financing Source			**Amount**
Borrower			2.00
Partnership for Market Readiness			5.00
Total Project Cost			7.00
Environmental Category:	C - Not Required		
Appraisal Review Decision (from Decision Note):	The review did authorize the team to appraise and negotiate		
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

South Africa is an upper middle-income country, with its Gross Domestic Product (GDP) ranked as the second largest in Africa. A sustained record of macroeconomic prudence and a supportive global environment enabled South Africa➢(s GDP to grow at a steady pace for the decade up to the beginning of the global financial crisis in 2008-2009.

However, South Africa➢(s real GDP growth has been slowing. Growth gradually decelerated from a post-financial crisis peak of 3.5 percent in 2011 to 1.3 percent in 2015, and is estimated at 0.6 percent for 2016. GDP growth in 2015 fell below population growth resulting in GDP per capita falling to US$ 5,709 from US$ 6,483 on 2014. The decrease in GDP per capita marginally increased the poverty rate by 20 percentage point to 16.4 percent. The weak growth performance has also exacerbated already high unemployment to 26.7 percent in the first quarter of 2016. Little progress on reducing poverty and unemployment also means that inequality remains high, with a Gini coefficient estimated at 0.63

Slow growth reflects a combination of domestic constrains and external headwinds. External headwinds arise from a dramatic fall in commodity prices and the rebalancing of the Chinese economy from investment to consumption. El Nino-related drought in 2015/16 has further reduced agricultural output and prompted food price inflation➢(driven by the need for higher food imports coupled with a depreciation of the Rand. This has resulted in tighter monetary policy as rising import costs have been pushing up consumer prices beyond the South African Reserve Bank➢(s inflation targets. Domestically, policy uncertainty has been adversely affecting investor sentiment while tighter fiscal policy has been providing less support to growth. Chronic electricity shortages have been a binding constraint to growth since 2007, and also been constraining investment. However, South Africa has not experienced ➢(load shedding➢(since August 2015. This is a result of lower electricity demand (mainly from mining firms who have decreased production) but also of new power plants that have been coming online and add electricity to the grid. An improving electricity situation is the main reason for a projected uptick in growth, from 1.1 percent in 2017 to 2 percent in 2018.

Weak economic performance has made the fiscal outlook more challenging. As part of the Budget Law 2016/17, the government announced an adjustment package of expenditure savings, for one-third, and tax measures, for two-third, to reduce the budget deficit from 3.8 percent of GDP in 2015/16 to a targeted 3.3 percent of GDP in 2017/18. Fiscal consolidation is intended to stabilize the net debt burden at 46.2 percent of GDP by 2017/18, helping minimize pressures on debt dynamics. In June 2016, Moody➢(s, Fitch, and Standard and Poor➢(s had reaffirmed South Africa➢(s sovereign credit rating (although the latter continue to rate South African foreign currency-denominated debt one notch above speculative status).

Despite the current economic challenges, the Government of South Africa is determined to accelerate economic growth through changing the current economic trajectory towards a labor-intensive growth path, ensuring that a greater share of the benefits flows to the poor. Released in 2012, the Government➢(s National Development Plan (NDP), presents a broad strategic framework to guide policies aimed at eliminating poverty, reducing inequality and improving job creation, and adding 11 million jobs by 2030. The NDP recognizes the potential impact of climate change on South Africa, and the economic and developmental benefits of reducing greenhouse gas (GHG) emissions. It includes a number of targets and actions towards supporting the transition to a low carbon economy.

Sectoral and institutional Context

South Africa is the 14th largest emitter of CO2 in the world, accounting for about 1.5% of global emissions. In 2012, South Africa➢(s total emissions were estimated to be 473.2 million tons of CO2-equivalent (MtCO2e) (excluding the land sub-sector), which is a 22.8% increase compared to 2000 levels (368.6 MtCO2e).

South Africa➢(s most prominent economic sectors include mining, transport, energy, manufacturing, tourism, and agriculture. Since the South African economy is highly dependent on its abundant natural resources, the country is particularly vulnerable to the effects of climate change. Consequently, the South African government has recognized the need to take mitigation actions in order to ensure the continued growth and development of the economy, and further South Africa➢(s international leadership on this issue.

The majority of South Africa➢(s GHG emissions comes from the energy sector, which contributed 85% to the total GHG inventory in 2010 , of which electricity production alone takes up about 60% of the 85%. The total GHG emissions from the energy sector increased by almost 30% from 2000 to 2010. The largest proportion of this increase can be attributed to emissions from fossil fuel combustion (main coal) for electricity generation.

A vast majority of South Africa➢(s energy industry emissions comes from two companies: Eskom, the state owned power utility providing coal-based electricity, and Sasol, with its coal-to-liquids facility, which emitted 231.9 MtCO2e and 61.4 MtCO2e in the 12 months ending in March 2012, respectively. The Government therefore recognizes that large mitigation contributions will have to be achieved by reducing the emissions associated with energy generation and use.

In 2011, the Cabinet approved the National Climate Change Response Policy (NCCRP), which outlines the government➢(s vision for an effective climate change response and the long-term transition to a climate-resilient and lower-carbon economy and society. The NCCRP provides a GHG trajectory, with emissions peaking in 2020-2025, stabilizing in 2025-2035 and declining in absolute terms from around 2035.

The NCCRP also highlights climate change as a significant threat to sustainable development, and recognizes that it has the potential to undermine the progress made towards South Africa➢(s own development goals and the Millennium Development Goals. The NCCRP, therefore, puts forward a suite of policy interventions and considers carbon pricing as one of the major instruments to shift South Africa➢(s GHG emissions towards low-carbon trajectory.

In the NCCRP, the government recognizes the need for flexibility in pursuing South Africa➢(s mitigation objectives and the important role of market-based instruments that allow companies and sectors to achieve emissions reduction in the most cost-efficient manner. The NCCRP thus sees the carbon pricing instrument as part of a suite of policy interventions to set South Africa on a path to a lower-carbon economy, but does not prescribe the form such carbon pricing instrument should take.

In the National Treasury➢(s (NT) Carbon Tax Policy Paper (2013), the carbon tax has been chosen for several reasons. First, South Africa has an oligopolistic market structure in the energy sector and there may not be enough players in an emissions trading system (ETS) to ensure sufficient trading activity and market liquidity to deliver an appropriate carbon price signal. Furthermore, South Africa is still undergoing significant economic development and tackling poverty. As such, a carbon tax is a way to gradually introduce a carbon price in a way that can avoid disrupting competitiveness. In addition, careful and targeted recycling of the carbon tax revenues is expected to contribute to other important objectives, including poverty reduction.

NT has initiated the preparations for developing a carbon tax scheme that would apply to all major emitters. The NT published a Carbon Tax Discussion Paper in 2010 and a subsequent Carbon Tax Policy Paper in 2013, which lay out the rationale and design of the proposed carbon tax.

The design of the carbon tax also envisions the carbon offset component of the instrument. The objectives of the scheme are to provide flexibility for taxpayers, by lowering their tax liability, and to incentivize mitigation and promote the development of sustainable activities not directly covered by the tax and/or benefiting from other government incentives. The offset scheme will focus on technologies from activities that are not included in the carbon tax liability, which could include the transport, waste and agriculture, forestry and other land use (AFOLU) sector activities.

The draft carbon tax bill was released for public comments on November 2, 2015. Following the review of stakeholder comments and further consultation, the revised carbon tax bill will be submitted to the Parliament for adoption in 2016 and the implementation of the tax is expected to start on in 2017. The NT envisages a phased approach for implementation of the carbon tax: the first phase covers 2017 to 2022 with effective tax rate per ton of emissions between US$0.5 to US $4; and the second phase, to be initiated in 2023, with a progressively higher tax rate to US$12.

The NT leads the carbon tax policy design and implementation process in close collaboration with the Department of Environmental Affairs (DEA) and the Department of Energy (DoE). The DEA is responsible for GHG data monitoring, reporting and verification (MRV) for the companies, and the DoE is responsible for reporting and management on energy use data, as well as for administering the offsetting scheme within the carbon tax framework.

C. Proposed Development Objective(s)

Development Objective(s)

The Project Development Objective (PDO) is to strengthen the readiness of the Government of South Africa for the design, preparation and implementation of a carbon pricing instrument.

Key Results

The following results will be expected by the end of the PMR project:

(a) Impacts of carbon pricing approach have been analyzed and modelled in accordance with the terms of reference;
(b) The share of main stakeholders who declare themselves satisfied with the engagement on impacts and implementation of carbon pricing is equal or greater than 75%;
(c) The carbon offset scheme has been designed according to defined criteria and approved by NT;

(d) Share of targeted entities that report GHG emissions to the Government, in accordance with the relevant monitoring and reporting protocols, is equal or superior to 75%.
(e) The number of direct project beneficiaries is equal or superior to 250, of which 25% are female.

D. Project Description

The project has four components, as follows:

Component 1: Supporting the refinement of the design of the carbon tax through analytical work (US$750,000 out of which US$550,000 will be financed by the grant and US$200,000 by the Government) - Even though the design of carbon tax is well-advanced, additional technical studies are needed to facilitate the refinement of the design of the carbon tax policy package. This component will, therefore, include studies on a number of topics, including:

(i) Assessment of existing international competitiveness measures;
(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);
(iii) Finalization of the carbon tax modeling impact study.

The output of this component is expected to facilitate the stakeholder consultations that will be conducted on the design and implementation of the carbon tax under Component 4.

Component 2: Strengthening the capacity of the Government to develop and enhance data management and MRV systems (US$ 2,470,000 out of which US$2,200,000 will be financed by the grant and US$270,000 by the Government) - These activities will support the development and strengthening of the technical capacity of the DEA and DoE related to GHG and energy data management and MRV systems, as well as provide capacity building to some companies that are subject to GHG reporting. In addition, the activities will also enhance and extend the DoE➢(s Central Energy Database (DoE-CED) to include the energy consumption data and reporting needs of the South African Energy Efficiency Target Monitoring System (EETMS). As such, these activities will build a technical foundation for the future implementation of the carbon tax policy and they will include the following sub-components:

(i) Development of the DoE➢(s Central Energy Database (DoE-CED);
(ii) Development of the DEA➢(s National Atmospheric Emissions Inventory System (NAEIS-DEA) data exchange protocols;
(iii) Modification of the NAEIS-DEA;
(iv) Design of the NAEIS-DEA institutional set-up;
(v) Support to the development of Support to the Vessels under Pressure Registry; and
(vi) Capacity building on carbon tax MRV.

Component 3: Supporting the design of a carbon offset scheme (US$3,000,000 out of which US $1,800,000 will be financed by the grant and US$1,200,000 by the Government) ➢(The carbon offset scheme has been outlined in the 2014 Carbon Offsets Paper, and since then, the NT has carried out further work on the development of the design of the scheme. The activities under this component will include identification of gaps in the current regulatory and institutional

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frameworks for administering the carbon offset scheme, assessment of technical and legal modalities with existing international standards and South Africa➢(s proposed scheme, development of technical guidelines to support the implementation of carbon offsets, and establishment of the carbon offsets registry system. They are:

(i) Development of regulatory and institutional frameworks for the carbon offset scheme;
(ii) Development of technical guidelines to support the tools for the carbon offset scheme;
(iii) Technical assessment for (and possible establishment of) a carbon offset registry;
(iv) Capacity building and training for technical staff and secondment of technical expertise related to carbon offsetting.

Component 4: Communication, stakeholder engagement and project administration support (US$ 780,000 out of which US$450,000 will be financed by the grant and US$330,000 by the Government) ➢(Responding to a need to situate the carbon tax clearly as a key policy instrument within a package of measures to promote South Africa➢(competitiveness in the long term while addressing climate change challenges, this component will help the NT communicate with the relevant stakeholders on the objectives and design of the carbon tax and to build a coalition of support for the tax. In addition, it will improve effectiveness of the project implementation for which the NT will be the implementing agency. Specific activities under this component will include:

(i) Design of communication strategy;
(ii) Consultations with the relevant stakeholders, including the government agencies, major emitters, business associations, labor unions and NGOs; and
(iii) Establishment of a Project Steering Committee and related support.

Component Name

Supporting the refinement of the design of the carbon tax through analytical work

Comments (optional)

Component Name

DStrengthening the capacity of the Government to develop and enhance data management and MRV systems

Comments (optional)

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Component Name

Supporting the design of a carbon offset scheme

Comments (optional)

Component Name

Communication, stakeholder engagement and project administration support

Comments (optional)

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project does not raise social issues, including triggering safeguards. There are no social issues related to the proposed technical assistance activities. No social safeguards are triggered by the Project. The activities of the Project are not expected to have either positive or negative impacts on vulnerable groups, nor will they result in involuntary resettlement.

The project is classified as Category C. The proposed project activities focus solely on providing technical assistance and does not include physical infrastructure. All the World Bank safeguard policies will therefore not be triggered. Mitigating and monitoring of emissions inherently have positive implications for the climate and the environment globally, but the specific technical assistance activities contemplated under the Project are expected to be environmentally neutral.

F. Environmental and Social Safeguards Specialists

Kisa Mfalila (GEN01)

II. Implementation

Institutional and Implementation Arrangements

The NT (through its Economic Tax Analysis Unit) is the lead implementing agency. As the NT is leading South Africa➢(s carbon tax design, further activities related to the tax design and implementation are within the NT➢(s mandate. The overall Project is managed by the Economic Tax Analysis Unit in the NT with project administration support and assistance to be obtained as part of the PMR project. Similarly, the NT will be responsible for undertaking procurement under this project through its Treasury Supply Chain Management (SCM) Directorate.

The project will be implemented in close collaboration with the Department of Environmental Affairs (DEA) and the Department of Energy (DoE). The DEA leads the MRV process, collecting the GHG emissions data and incorporating the carbon tax within the National Atmospheric Emissions Inventory System (NAEIS - part of the South African Air Quality Information System, SAAQIS). In the context of the project, the DEA will be responsible for the project activities related to GHG data monitoring, reporting and verification (MRV).

The DoE is developing the Central Energy Database, will supply energy combustion data to the NAEIS. The DoE currently hosts the Designated National Authority (DNA) which will be responsible for administering the offsetting scheme within the carbon tax framework. In the context of the project, the DoE will be responsible for the project activities related to energy use data reporting and management, as well as carbon offset scheme.

NT➢(s International Development Corporation and International & Regional Economic Policy Units are responsible for channeling the majority of the country➢(s bilateral and multilateral funding.

The NT can access the Intergovernmental Committee on Climate Change (IGCCC) for formal engagement with its fellow government departments on issues relating to the carbon tax, and the

National Committee on Climate Change (NCCC) for engagement with other external non-governmental stakeholders. It has additional channels open to it for specific communications such as more direct engagement with stakeholders including business and industry associations which is envisaged as part of the carbon tax bill consultations.

A Project Steering Committee (consisting of the representatives from the NT, DEA and DoE), will be established with the objective to oversee project implementation. The Steering Committee will:

(a) Ensure effective coordination between different agencies (the NT, the DEA, the DoE);
(b) Ensure proper management and oversight of the operational aspects of the activities (preparation of terms of reference, planning, monitoring, etc.); and
(c) Ensure proper management and oversight of the fiduciary aspects of the activities (budgeting, disbursements, accounting, reporting, internal controls and auditing of the Project transactions).

In addition, a project assistant will be hired in order to provide general administration and secretarial support, logistics, project-related budget management and completion of ad hoc tasks assigned by the NT.

Finally, the overall responsibility for financial management for the project rests with the Office of the Accountant General. The project will use the internal control framework of South Africa➢(s Reconstruction and Development Program (RDP) ➢(which is a South African socio-economic policy framework ➢(to ensure that funds of the project will be utilized for the intended purposes.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
N/A
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
N/A
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N/A
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
N/A
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
N/A

B. Disclosure Requirements

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/ Audit/or EMP.
If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ ] No [ ] NA [×]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ ] No [ ] NA [×]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ ] No [ ] NA [×]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ ] No [ ] NA [×]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ ] No [ ] NA [×]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ ] No [ ] NA [×]

V. Contact point

World Bank
Contact: Adrien de Bassompierre
Title: Senior Carbon Finance Speciali

Borrower/Client/Recipient
Name: Republic of South Africa
Contact: Pravin Gordhan
Title: Minister of Finance
Email: Cecil.Morden@treasury.gov.za

Implementing Agencies
Name: National Treasury
Contact: Cecil Morden
Title: Chief Director, Economic Tax Analysis
Email: Cecil.Morden@treasury.gov.za

VI. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

VII. Approval

Task Team Leader(s):	Name: Adrien de Bassompierre	
Approved By		
Safeguards Advisor:	Name: Nathalie S. Munzberg (SA)	Date: 07-Jun-2016
Practice Manager/ Manager:	Name: Magda Lovei (PMGR)	Date: 10-Jun-2016
Country Director:	Name: Guang Zhe Chen (CD)	Date: 24-Jun-2016