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

Report No.: PIDISDSC15268

Date Prepared/Updated: 25-Sep-2015

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		
Concept Review Decision:	Track I - The review did authorize the preparation to continue		
Is this a Repeater project?	No		
Other Decision (as needed):			

B. Introduction and Context

Country Context

South Africa has been actively involved in the global climate arena. In 2009 South Africa made a voluntary commitment to reduce greenhouse gas (GHG) emissions below business-as-usual by 34 percent in 2020 and by 42 percent by 2025. 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.

To reach its GHG targets, South Africa has proposed a package of policies and economic instruments, including appropriate carbon pricing scheme. One area of focus for advancing the carbon pricing policy will be the implementation of an economy wide carbon tax. The National Treasury (NT) has, since 2013, initiated the preparations for developing a carbon tax scheme that would apply to all major emitters.

Sectoral and Institutional Context

South Africa is the 12th largest emitter of CO2 in the world, accounting for about 1.6 percent of global emissions. The majority of South Africa's GHG emissions come from the energy sector, which contributed 85 percent to the total GHG inventory in 2010, of which electricity production alone takes up about 60.6 percent of the 85 percent. The total GHG emissions from the energy sector increased by almost 30 percent from 2000 to 2010. The largest proportion of this increase can be attributed to emissions from fossil fuel combustion (main coal) for electricity generation.

Moreover, 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 MtCO2-eq. and 61.4 MtCO2-eq. in the 12 months ending in March 2012, respectively.

The NCCRP has put forward a suite of policy interventions and considers carbon pricing as one of the major instruments to nudge South Africa's GHG emissions towards low-carbon trajectory. The NT published a Carbon Tax Discussion Paper in 2010 and a subsequent Carbon Tax Policy Paper in 2013, which lays out the rationale and design of the proposed carbon tax:

- The carbon tax will be implemented as part of a package of measures that aim to reduce GHG emissions.
- The carbon tax itself is also a risk-mitigation strategy, protecting South African producers and consumers from higher costs over the long-term in the possible event of, for instance, border carbon adjustments or similar measures by trade partners.
- The carbon tax design will strive to minimize adverse impacts on the poorest parts of society and, at the same time, protect the competitiveness of the South African industry.

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

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). The DEA will work closely with the

DoE, as a joint implementation partner in the carbon tax MRV work. The DoE, which 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.

The design of carbon tax is largely completed and the NT announced its plan to submit the law for adoption by the Parliament in 2015 and to start tax implementation in late 2016. The NT envisages a phased approach for implementation: the first phase covers 2016 to 2020 with effective tax rate per ton of emissions between US$0.5 to US$4; and the second phase, to be initiated in 2021, with progressively higher tax rate to US$12.

Relationship to CAS/CPS/CPF

The proposed project is fully consistent with the Country Partnership Strategy (CPS) FY2014-17 for South Africa, which is centered on knowledge and technical cooperation, as well as supporting the implementation of the ongoing lending program, particularly in theenergy and environment sectors.

The proposed project is also in line with the Bank's longstanding model of supporting assessments of policy options to inform policy dialogue. The Bank undertook a significant number of policy research programs, Working Paper "Tax Policy to Reduce Carbon Emissions in South Africa" and "Climate Change Economic Modeling of Climate Change Mitigation: A Pilot Study." The Bank has a long-standing involvement in environmental issues in South Africa, mainly built around a substantial Global Environmental Facility (GEF)-funded program.

Finally, the proposed project is in line with other global and national initiatives that aim at fostering a high-level dialogue on carbon pricing, including the WBG's Carbon Pricing Leadership Coalition (CPLC). The CPLC will also facilitate engagement with the private sector and other stakeholders with their international counterparts to help contextualize the international imperative and developments of carbon pricing. For more information, see the supplemental note on the CPLC's intended engagement in South Africa.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Project Development Objective (PDO) is to facilitate the introduction and implementation of the planned carbon tax in South Africa, thereby helping the Government to achieve its climate change mitigation targets.

Key Results (From PCN)

1) Improved understanding and technical knowledge on carbon tax design components;
2) Design and implementation of a data management and Monitoring, Reporting and Verification (MRV) system;
3) Built capacity on data management and MRV;
4) Establishment of core technical components for a GHG emissions offset scheme which will serve as a flexibility mechanism that will enable industry to deliver least cost mitigation and lower their tax liability;
5) Increased understanding and support for the carbon tax among key public and private stakeholders.

D. Concept Description

The proposed project is to be financed by a US$ 5 million grant from the Partnership for Market Readiness (PMR). The PMR supports countries to assess, prepare and implement carbon pricing instruments in order to scale up GHG mitigation. The PMR includes 13 Contributing Participants, which provide financial support to the PMR trust fund, and 17 Implementing Country Participants, which receive funding to finance the assessment, technical ground work, design, and piloting of market-based approaches to GHG mitigation. (www.thepmr.org). The World Bank, which is the Secretariat of the PMR, administers the recipient executed trust funds. South Africa, through the NT and DEA, participates in the PMR as an Implementing Country. In March 2015, the Partnership Assembly, the PMR governing body, allocated a US$5 million grant to South Africa based on its Market Readiness Proposal to support the refinement of the design and implementation of a carbon tax. The MRP provides a basis for this PCN and the outline of the following proposed project components:

Component 1: Analytical work to support the refinement of the design and consultation on carbon tax (indicative grant financing US$550,000)

The design of carbon tax is well-advanced and has been completed to a large extent by the efforts led by the NT. However, 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 (a) the contribution and alignment of the carbon budgets with the carbon tax; (b) assessing existing international competitiveness measures; (c) analyzing how private and international climate finance can complement domestic sources of climate finance (i. e. carbon tax revenue) and (d) possible follow up work on previous carbon tax modeling impact studies. .

Component 2: Data management system and MRV (indicative grant financing US$ 2,200,000)

This component will support the development and strengthening of the technical capacity of the DEA and DoE related to GHG/energy data management and MRV systems, as well as provide capacity building to some companies that are subject to GHG reporting. These activities will build a technical foundation for the implementation of carbon tax. By the same token, they are also considered to be “no regret” actions since improvements in technical and institutional capacity supported by this project will have cross-cutting benefits that support South Africa’s implementation of its Climate Change Response Policy. The activities regarding the data management system and MRV will include the following sub-components:

(i) Development of the DoE Central Energy Database (DoE-CED);
(ii) NAEIS-DEA data exchange protocols;
(iii) Support to the Atmospheric Emissions Licensing System;
(iv) Review and developments of IT solutions for the MRV system and support for SARS;
(v) NAEIS+DoE-CED Institutional set-up design ; and
(vi) Capacity building on Carbon Tax MRV.

Component 3: Design of a Carbon Offset scheme (indicative grant funding US$1,800,000)

The carbon offset scheme serves as a flexibility mechanism that would enable industry to deliver least cost mitigation and therefore lower their tax liability. The carbon offset scheme has been outlined in the 2014 Carbon Offsets Policy 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 include:

(i) Developing regulatory and institutional frameworks for offset scheme;
(ii) Developing methodologies, protocols and tools for offset scheme;
(iii) Carrying out technical assessment for registry and possible establishment; and
(iv) Providing training for technical staff and the secondment of technical expertise.

Component 4: Communication, stakeholder engagement and support to project coordination (indicative grant funding US$450,000)

The NT has already undertaken extensive consultations, in particular, with industry that would be subject to the carbon tax. Despite these efforts, a level of misunderstanding and the lack of clarity remains. Therefore, there is 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 carbon tax and to build a coalition of support for the tax. In addition, in order to improve effectiveness of the project implementation for which the NT will be the implementing agency, this component will help create and operationalize the Project Implementation Coordinator/Unit. The Coordinator/Unit will support the NT in day-to-day project implementation, including the preparation of the Terms of Reference (TORs) for the project-related activities, coordination with other stakeholders involved in the project implementation (including with the Project Steering Committee comprised of the NT, DoE and DEA representatives) and coordination with the World Bank. Specific activities under this component will include:

(i) Design of communication strategy;
(ii) Consultations with the relevant stakeholder, including the government agencies, major emitters, business associations, labor unions and NGOs;
(iii) Establishment of the Project Implementation Unit/Coordinator; and
(iv) Operationalization of the Project Implementation Unit/Coordinator.

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II. SAFEGUARDS

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

The project will only finance technical assistance activities limited to analytical studies, assessments, training programs, and consultations aimed at helping South Africa design, prepare and build institutional capacity for the implementation of a carbon tax. The activities under this recipient-executed grant will therefore mainly take the form of consulting services. As such the project will not have any direct adverse impacts on the environment and society.

Delivery of the technical assistance activities, including training, capacity building, assessments, may be carried out in various locations throughout South, but primarily in Pretoria.

B. Borrower's Institutional Capacity for Safeguard Policies

The South Africa National Treasury is the leading government institution responsible for designing and implementing the carbon tax policy in close collaboration with the Department of Environmental Affairs (DEA) which is the custodian of the National Environmental Management Act with the sole responsibility to ensure environmental compliance for all initiatives. DEA has a world class system and strong institutional capacity to oversee Environmental Assessments including compliance with World Bank Safeguard Polices.

C. Environmental and Social Safeguards Specialists on the Team

Kisa Mfalila (GEN01)

D. 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	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

15-Dec-2015

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

N/A

III. Contact point

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V. Approval

Task Team Leader(s):	Name: Adrien de Bassompierre	
Approved By		
Safeguards Advisor:	Name: Nathalie S. Munzberg (SA)	Date: 03-Jun-2016
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Country Director:	Name: Guang Zhe Chen (CD)	Date: 07-Jun-2016

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.