



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 11/24/2021 | Report No: ESRSC02285



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Kazakhstan	EUROPE AND CENTRAL ASIA	P177785	
Project Name	Partnership for Market Implementation		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Environment, Natural Resources & the Blue Economy	Investment Project Financing		5/31/2022
Borrower(s)	Implementing Agency(ies)		
Ministry of Ecology, Geology and Natural Resource	Zhasyl Damu of Ministry of Ecology, Geology and Natural Resources, Agency for leading carbon tax studies - to be identified/confirmed		

Proposed Development Objective

To strengthen the Emissions Trading Scheme and develop fiscal instruments such as a carbon tax in Kazakhstan for meeting its updated NDC targets by 2030 and carbon neutrality by 2060.

Financing (in USD Million)	Amount
Total Project Cost	5.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

Kazakhstan has been the economic success story of Central Asia, transitioning from lower-middle-income to upper-middle-income status in less than two decades. Kazakhstan is a mineral and fossil rich middle income country of 18.5 million people, strategically located Central Asian country with Russia to the north and China to its south-east.



Kazakhstan has signed on to ambitious Nationally Determined Contribution (NDC) targets under the Paris Agreement - to reduce GHG emissions from the benchmark 1990 level by 15 percent (unconditionally) and 25 percent (conditional upon international support) by 2030. Energy production and consumption are responsible for 84 percent of Kazakhstan's GHG emissions. Thus, achieving a low carbon path to development will require strong actions, starting with reducing its reliance on coal for power and heating. Kazakhstan has indicated its desire to continue to strengthen its capacity to pursue lower carbon growth and effective adaptation. Kazakhstan already regulates its GHG emissions through the national Emission Trading Scheme (ETS) which is enshrined in its Environment Code. The President of the Republic of Kazakhstan pledged to achieve carbon neutrality by 2060 at the 'Climate Ambition Summit' on December 12, 2020.

Carbon pricing can play a key role in supporting Kazakhstan to meet its NDC targets by 2030 and carbon neutrality goal by 2060. The PMR study highlighted the importance of introducing carbon taxes for emitters not covered by the ETS as one instrument to achieve this. From January 1, 2023 of the "Carbon Border Adjustment Mechanism" (CBAM) in the European Union and other countries will make it more difficult for manufactured goods and products produced energy-inefficiently to find export markets. In other words, it will become increasingly difficult over time, for Kazakhstan to ignore the effects of global decarbonization, and hence preparing its economy for a greener future is at the heart of remaining competitive and attaining the national goal of becoming a high ranking developed economy. Kazakhstan is actively involved in the international process of combating climate change.

The PMI program is a continuation of the PMR completed in Feb. 2021. Based on the various analytical assessments, modeling exercises, and stakeholder consultations that PMR has supported since Kazakhstan joined the PMR as a technical partner in 2014, it was concluded that the country is behind in meeting its existing NDC targets and may not be able to meet future targets unless urgent regulatory actions are taken and required investments are materialized.

The PMI project will build on the key outcomes of the PMR to continue support Kazakhstan in strengthening existing ETS and developing new carbon pricing instruments, such as carbon tax. It will support the following activities, which are subject to adjustment when the full PMI proposal is prepared following the PMI Program Guidance Note:

- a) Improvement of the MRV system.
- b) Improvement of the system of distribution of carbon units.
- c) Improving the potential for launching the initial sale of carbon units (auctions).
- d) Support the IT infrastructure necessary for the operation of the domestic offset program
- e) Explore carbon tax options for non-ETS-regulated sectors and emitters and design/ implementation of carbon tax.
- f) Provide technical assistance to selected emitters (among the top largest 50 emitters that account for 80% of emissions in Kazakhstan) for implementing the prioritized sectoral decarbonization measures and BATs with joint GHG and environmental pollution reduction benefits.
- g) Activities supporting participation in international carbon markets.

The proposed project is aligned with and directly contributes to the Country Partnership Framework FY2020-2025, which was discussed by the World Bank Board on December 12, 2019. Namely, project objectives are a part of the Focus Area 3 (Securing Sustainable, Resilient, and Low Carbon Growth), and Objective 7 of Preserving and Restoring Natural Capital. Explicit carbon pricing instruments, such as an ETS and carbon taxes provide an incentive for sectors to move towards decarbonization by adopting low-carbon technologies. While an ETS provides an emission certainty to industry, taxes provide a price certainty necessary for enterprises to shift practices. These price signals can therefore support Kazakhstan's energy sector transformation and green transition.



D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

This Technical Assistance(TA) RETF provides assistance to the Government of Kazakhstan in order to build on successful outcomes and close relationship that has been achieved and built through the Kazakhstan PMR project implemented during Sept. 2014 and Feb. 2021. The current project only supports TA type activities based on the country's strong commitment to tackling climate change. Supported activities will include inter alia: (i) Training of operators of installations, training of verifiers in the process of validation and verification of greenhouse gases, training of regulatory authorities for greenhouse gas inventory (in terms of checking reports on greenhouse gas inventory, etc.); (ii) Support in the development of national methodologies for calculating greenhouse gas emissions and removals, preparation of specific proposals for improving the MRV system of the ETS of the Republic of Kazakhstan, including reporting forms on greenhouse gas emissions; (iii) Development of a methodology for calculating benchmarks, development of benchmarks for certain types of products; (iv) Enhancement of the draft Rules for trading carbon units, development of proposals for amendments and additions to the national exchange legislation for the possibility of holding primary auctions in the most suitable format (with the provision of mechanisms for stabilizing the carbon market, managing the reserve of the National Allocation Plan, etc.); (v) establishing rules for the approval and creation of offset units, the trade in offset units, and the operation of the unit registry, including the technical upgrades to the registry's software and improvements in the current regulatory documentation; (vi) Advisory support for the design of carbon taxes and piloting, testing and implementation of carbon taxes; (vii) Provide technical assistance to selected emitters; (viii) Support Kazakhstan in preparing for participation in international cooperation mechanisms to purchase additional "carbon units" to achieve its NDC targets. Support on Kazakhstan's ETS to enter international carbon markets to increase the liquidity of carbon trading, create additional opportunities for carbon market entities to achieve commitments to reduce greenhouse gas emissions,

The geographic scope of the project is nationwide.

D. 2. Borrower's Institutional Capacity

Environmental assessment procedures for projects, governed by a State Environmental Expertise Review, are reflected in the country's environmental legislation to deal with environmental issues arising during project preparation and implementation.

The Project's direct beneficiaries will be the Ministry of Ecology, Geology and Natural Resource(MEGNR), Ministry of Finance (MoF), Ministry of National Economy (MNE) , Ministry of Energy (MoE), large Greenhouse Gas (GHG) emitters, and other key stakeholders/industries related to the Emission Trading Scheme (ETS). Zhasyl Damu under MEGNR will likely be the Project Implementing Unit, which has limited knowledge on the Bank's ESF requirements. MoF might be the leading ministry for carbon tax-related studies, however to be discussed and confirmed during project preparation. Given that situation, a training program to develop and expand professional skills and capacity in ESF issues including labor, stakeholder engagement and grievance redress for staff involved in the project will be included in the Environmental and Social Commitment Plan (ESCP) and implemented.



II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Low

The environmental risk from the project activities is expected to be low. The project has no physical dimensions and does not include actions with any material manifestations. It does not have any physical footprint from construction activities that could have the potential to cause potential adverse impacts and or risks on the biophysical environment, human health and safety, and / or valued environmental components. However, the outputs of the project are likely to have indirect positive environmental impacts by providing technical assistance to selected emitters (among the top largest 50 emitters that account for 80% of emissions in Kazakhstan) for implementing the prioritized sectoral decarbonization measures and BATs with joint GHG and environmental pollution reduction benefits. Only the activity related to the support of the infrastructure (electronic devices) necessary for the operation of the domestic offset program through establishing rules for the approval and creation of offset units, the trade in offset units, and the operation of the unit registry, including the technical upgrades to the registry's software and improvements in the current regulatory documentation, might be associated with potential but negligible adverse impacts.

Social Risk Rating

Moderate

The project is not expected to involve physical works that may cause land acquisition or resettlements impacts, labor influx risks, community health and safety risks or impacts on cultural heritage. However While implementation of the proposed policies and decarbonization measures are targeted at increasing modernization and competitiveness of industry, grow GDP, and foster investments in green technologies, higher energy prices would also adversely impact poor and vulnerable households as result of the potential downstream risks associated with the implementation of policies arising from the TA which will be further assessed during the project implementation through the proposed social impact assessment. Therefore, appropriate measures must be devised to minimize such impacts. There would likely also be job losses, and related loss of income. A strong focus on skill diversification, retraining, and growth of new and greener industries should be a part of the overall package of measures that the government considers minimizing impacts on individuals as result of sectoral reform. To ensure a more detail understanding of the long-term social impacts and to inform initiatives to address effects on vulnerable workers and communities a social impact assessment will be undertaken during the project implementation. The ToRs for the mentioned social assessment will need to be developed prior to appraisal. The project will require stakeholder engagement and information disclosure, which will require the establishment of a robust GM system for project beneficiaries and direct or indirect stakeholders. The overall social risk rating is moderate.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment



ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

This Standard is relevant. The project supports capacity building activities such as training of operators of ETS covered installations/enterprises in the sectors of electric power, oil and gas, mining, metallurgical, chemical and manufacturing in construction, training of verifiers in the process of validation and verification of greenhouse gases, training of regulatory authorities for greenhouse gas inventory. It also finances the development of national methodologies for calculating greenhouse gas emissions and removals, preparation of specific proposals for improving the MRV system of the ETS of the Republic of Kazakhstan, including reporting forms on greenhouse gas emissions. Other activities such as Development of a methodology for calculating benchmarks, development of benchmarks for certain types of products and Enhancement of the draft Rules for trading carbon units, development of proposals for amendments and additions to the national exchange legislation for the possibility of holding primary auctions in the most suitable format are part of the project. The operation aims also at establishing rules for the approval and creation of offset units, the trade in offset units, and the operation of the unit registry, including the technical upgrades to the registry's software and improvements in the current regulatory documentation as well as advisory support for the design of carbon taxes and piloting, testing and implementation of carbon taxes. Providing technical assistance to selected emitters and supporting Kazakhstan in preparing for participation in international cooperation mechanisms to purchase additional "carbon units" to achieve its NDC targets are also funded by the current project. However, the project will not support any construction related activities. Due to the TA nature and design, the project is not expected to lead to any potential adverse environmental and social impacts. There are, though, potential risks of labor-related issues among project workers, such as SEA/SH. Furthermore, the social impact of the project is considered to be moderate due to the social risk that could derive from potential downstream risks associated with the implementation of policies arising from the TA which will be further assessed during the project implementation through the proposed social impact assessment

The project will not prepare free-standing environmental assessment documents. However, the project will undertake a social impact assessment during the project implementation to further assess the possible social impacts of the large-scale transition to a low-carbon economy that will influence economic and health inequalities. Considering there are no significant social impacts anticipated under the project such as land acquisition, labor influx, impacts on cultural heritage. However, the project should promote transparency through extensive stakeholder participation and public information disclosure. This can be achieved through inclusive planning which will provide a platform to promote broader stakeholder engagement and participation through strategic planning initiatives such as focus groups, engagement of academia, private sector, relevant government entities and expert panels discussions on project activities during implementation as part of the project environmental and social commitment plan (ESCP). The ESCP needs to be finalized, cleared and disclosed prior to project appraisal.

Areas where "Use of Borrower Framework" is being considered:

The Borrower's Framework is/ will not be considered.

ESS10 Stakeholder Engagement and Information Disclosure



The project will develop stakeholder engagement plan (SEP) which will include Grievance Mechanism (GM) and communication strategy with the relevant stakeholders such Ministry of Ecology, Geology and Natural Resources, Ministry of Finance, Ministry of National Economy, Ministry of Energy, Ministry of Industry and Infrastructure Development, academia, large GHG emitters, and other key stakeholders/industries related to the ETS and carbon taxes. The SEP and communication strategy will need to be consulted with key stakeholders prior to finalization, clearance and disclosure prior to the project appraisal. The SEP will also address timing and methodology for meaningful and participatory consultation, including arrangements for information disclosure to all stakeholders. The SEP is considered as a living document which will be updated throughout the project life cycle. The project will also include measures to strengthen the social accountability and citizen engagement. This will include: (i) effective consultations, (ii) establishing a functional grievance mechanism (GM) and most importantly a social impact assessment during the project implementation. Furthermore, the client Ministry will need to agree on institutional arrangements for complaint resolution and the required physical infrastructure for complaint management and registration to ensure there is a sufficient capacity and resources in place to ensure the proposed GRM system will be able to respond to project related complaints on timely manner.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

This standard is relevant as the project's TA activities will be delivered by the PIU, and possibly individual consultant experts to be engaged under the project. The TA beneficiaries are likely to be government civil servants, government agencies and large Greenhouse Gas (GHG) emitters, and other key stakeholders/industries related to the Emission Trading Scheme (ETS). and other agencies. There may be labor-related risks, such as SEA and SH risks. But the risk level is considered low among its teams given the TA nature and types of activities to be supported under the project. The project teams will remain subject to the terms and conditions of their existing public sector employment agreements and arrangements. The requirements of a labor management procedure will be reflected in the ESCP.

ESS3 Resource Efficiency and Pollution Prevention and Management

This standard is not relevant. Use of natural resources, generation of emissions and waste, and significant GHG production are not anticipated.

ESS4 Community Health and Safety

This standard is not relevant. No community health and safety issues are expected through project activities; nor will activities affect ecosystem services.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is not relevant, because the project doesn't involve any physical work which may cause land acquisition or involuntary resettlement.



ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant. The project will not impact biodiversity or living natural resources.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

This standard is not relevant as there are no Indigenous Peoples in the project area.

ESS8 Cultural Heritage

This standard is not relevant. The project will not impact tangible or intangible cultural resources.

ESS9 Financial Intermediaries

This standard is not relevant. The project will not include any financial intermediaries.

B.3 Other Relevant Project Risks

None

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

Not applicable

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

- Environmental and Social Commitment Plan (ESCP)
- Stakeholder Engagement Plan (SEP),
- Labour Management Procedures (LMP)
- ToR for Social Impact Assessment

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

Public Disclosure



The Borrower will implement the committed action points outlined in the ESCP including the implementation of SEP, LMP and SIA.

IV. CONTACT POINTS

World Bank

Contact:	Qing Wang	Title:	Senior Environmental Specialist
Telephone No:	+1-202-458-5023	Email:	qwang1@worldbank.org
Contact:	Sandeep Kohli	Title:	Senior Energy Specialist
Telephone No:	+1-202-473-9707	Email:	skohli@worldbank.org

Borrower/Client/Recipient

Borrower: Ministry of Ecology, Geology and Natural Resource

Implementing Agency(ies)

Implementing Agency: Zhasyl Damu of Ministry of Ecology, Geology and Natural Resources

Implementing Agency: Agency for leading carbon tax studies - to be identified/confirmed

V. FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

VI. APPROVAL

Task Team Leader(s): Sandeep Kohli, Qing Wang

Practice Manager (ENR/Social) Varalakshmi Vemuru Recommended on 08-Oct-2021 at 08:38:31 GMT-04:00