



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
PARTNERSHIP FOR MARKET IMPLEMENTATION
APPROVED ON AUGUST 19, 2022
TO
MINISTRY OF ECOLOGY AND NATURAL RESOURCES

ENVIRONMENT, NATURAL RESOURCES & THE BLUE ECONOMY

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

Bank	The World Bank
CO2	Carbon dioxide
ECA	Europe and Central Asia
FY	World Bank Fiscal Year July 1 -June 30
GOK	Government of Kazakhstan
ESCP	Environmental and Social Commitment Plan
ETS	Emission Trading System
GP	Global Practice
IP	Implementation Progress
JSC	Joint Stock Company
KZT	Kazakhstan Tenge
MENR	Ministry of Ecology and Natural Resources
M&E	Monitoring and Evaluation
PDO	Project Development Objective
PIU	Project Implementation Unit
PMI	Partnership for Market Implementation
TF	Trust Fund
TOR	Terms of Reference
WBG	World Bank Group
ZD	Zhasyl Damu JSC



BASIC DATA

Product Information

Project ID P177785	Financing Instrument Investment Project Financing
Environmental and Social Risk Classification (ESRC) Moderate	
Approval Date 19-Aug-2022	Current Closing Date

Organizations

Borrower The Republic of Kazakhstan	Responsible Agency Ministry of Ecology and Natural Resources, Zhasyl Damu JSC under Ministry of Ecology and Natural Resources
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Financing (in USD Million)

SUMMARY

Total Project Cost	0
Total Financing	0
Financing Gap	0

DETAILS

Project Development Objective (PDO)

Original PDO

To strengthen the effectiveness of Emission Trading Scheme and support carbon pricing expansion to contribute to Kazakhstan's updated 2030 Nationally Determined Contribution targets and 2060 carbon neutrality goals.



Summary Status of Financing (US\$, Millions)

TF	Approval	Signing	Effectiveness	Net	
				Closing Commitment	Disbursed Undisbursed

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

Background

1. The Partnership for Market Implementation (PMI) Project was approved by the Bank on August 19, 2022, to support Kazakhstan’s efforts with strengthening carbon regulations relating to the Emission Trading Scheme (ETS), including updating ETS benchmarks and improving Monitoring, Reporting and Verification system, and broader carbon pricing implementation in the country.
2. The PMI Grant Agreement package was sent to the Ministry of Ecology and Natural Resources for countersignature last September. As of end-September 2023, the Grant Agreement hasn’t been signed yet (the latest letter on this sent to the Ministry in May 2023). There are various reasons why the grant has not been signed, such as, *inter alia*, apprehension of a potential restructuring of the ETS operator, confusion over ownership of the grant, and ratification requirements, etc.
3. Over the past several months, the Ministry and the Bank teams had several technical discussions and reviewed the project activities jointly, to assess their relevance, and, also, to avoid potential duplication with works of other agencies and development partners in Kazakhstan. While the broad areas of work remain relevant, some of the specific tasks under these areas needed adjustments. The revised list of activities brings the total grant amount to US\$ 4.8m, a small reduction from the originally approved amount of US\$ 5.0m. Given the changes in activities and grant amount, the PMI grant would require a restructuring, including simplifying the Grant Agreement format to the Letter Agreement.
4. This is the first restructuring of the project. The PMI secretariat also remains supportive of the restructuring proposal.

Implementation Status

5. As the Grant Agreement hasn’t been signed yet, the PMI Project is not effective yet and no activities have been launched. The PMI grant will be implemented by the Ministry of Ecology and Natural Resources (MENR) through a Project Implementation Unit (PIU) established within the Joint Stock Company (JSC) Zhasyl Damu (ZD). Once effective, the MENR will be responsible for the overall Project coordination and oversight. The day-to-day project activities will be handled through the PIU that will be set up within ZD, which has been operating the ETS in Kazakhstan. For daily implementation of the project, a dedicated project team will be hired for the PIU. The staff of ZD will provide support to the PIU for the successful implementation of the project, namely the unit managers responsible for the ETS, GHG inventory, carbon cadastre, carbon registry, sale and purchase of carbon units,



modeling, analytics. MENR and the PIU Director will lead coordination and collaboration among Ministries and international development partners in the country with support from the PIU team. A Steering Committee will be also established under the project. There is no change to the implementation arrangements.

6. *Environmental and Social.* Most of the ESCP-related commitments are expected to be fulfilled after project effectiveness, including the hiring of an Environmental and social specialist by the PIU, preparing TOR for impact assessment, and preparation of risk management plans. The performance of the project will be reassessed after the project's effectiveness.

Rationale for Restructuring

7. Based on the request № 04-14/3359-И dated September 14, 2023 from the Ministry of Ecology and Natural Resources, this restructuring seeks revision of (i) costs within the components, and, thus (ii) total grant amount, from US\$ 5.0m to US\$ 4.8m. The proposed restructuring is critical for the successful and timely implementation of the PMI grant. The proposed changes will allow not only to actualize the scope of work but should also help in simplifying the bureaucratic intergovernmental procedure for the signing given that the grant agreement format will be amended with the decreased amount. The amended format of the grant agreement is more familiar to the MENR based on the recent grants approved by the Bank, such as PROGREEN Kazakhstan Resilient Landscapes Restoration Project (P179008) in FY23, as well as GEF Kazakhstan Resilient Landscape Restoration Project (P171577) back in FY21.
8. Earlier confusion over ownership of the grant was caused by misunderstanding of the implementation arrangements in terms of fiduciary procedures (such as establishment of the designated account) and responsibilities. The Bank team has further clarified the implementation arrangements for the PMI grant, with the MENR being responsible for the overall project coordination and oversight, while all day-to-day fiduciary procedures are carried out by the PIU established within JSC ZD. As a result of these technical discussions, both MENR and JSC Zhasyl Damu remain fully committed to ensuring the successful launch and implementation of the PMI and achievement of its PDO, which is *“to strengthen the effectiveness of Emission Trading Scheme and support carbon pricing expansion to contribute to Kazakhstan's updated 2030 Nationally Determined Contribution targets and 2060 carbon neutrality goals”*.

II. DESCRIPTION OF PROPOSED CHANGES

9. This Restructuring Paper proposes the following changes: (i) change in costs of the components; and (ii) reduction in the amount of the grant by US\$200,000, given the PMI scope adjustments. The proposed changes will also imply updates in the disbursement estimates and implementation schedule. There are no changes in the PDO or the Results Framework.
10. While the components remain unchanged, the main proposed adjustments to the activities and costs include the following (please, also refer to Annex 1 for detailed description of proposed changes):

Table 1. Overview of proposed cost estimates changes

PMI Components and Activities	
Change in cost	Reason for change
Component 1. ETS Improvement	
Sub-total (original): US\$3,200,000 (revised): US\$2,700,000	<ul style="list-style-type: none"> • Focus remains on studies related to the climate framework and ETS, incl. through modelling work; technical support to implement auctions of allowance allocation; deep dive into the energy sector; update and development of benchmarks; improvements to the GHG inventory, MRV and registry; as well as capacity building for carbon pricing and climate



	policy. However, activities were updated with more focused analytical work and studies, including revision of some costs based on the market review. Complemented with flexible technical support for the climate policy framework and carbon pricing.
Component 2. Expanding carbon pricing	
Sub-total (original): US\$950,000 (revised): US\$900,000	<ul style="list-style-type: none"> Focus remains on expanding climate relevant fiscal policies. However, activities were updated with more focused analytical work and studies, including revision of some cost estimates. Technical support to deepen offset market brought under Component 2 as well as support to prepare a Guidance Note on Article 6 & Article 6 readiness assessment.
Component 3. Stakeholder Engagement and Just Transition	
Sub-total (original): US\$350,000 (revised): US\$550,000	<ul style="list-style-type: none"> Focus remains on stakeholder engagement and communication plan for carbon pricing and climate ambition. Activities were updated with more focused analytical work and studies, including revision of some cost estimates.
Component 4. Project Management and M&E	
Sub-total (original): US\$500,000 (revised): US\$650,000	Overall project management, M&E, and communication, including technical oversight and coordination. Revision of cost estimates based on the market review.
Total (original): US\$5,000,000 / (revised): US\$4,800,000	

III. SUMMARY OF CHANGES

	Changed	Not Changed
Components and Cost	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Results Framework		✓
Loan Closing Date(s)		✓
Additional Financing Proposed		✓
Disbursements Arrangements		✓



Change in Overall Risk Rating		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
ETS Improvement	3200000.00	Revised	ETS Improvement	2700000.00
Carbon Pricing Expansion	950000.00	Revised	Carbon Pricing Expansion	900000.00
Stakeholder Engagement and Just Transition	350000.00	Revised	Stakeholder Engagement and Just Transition	550000.00
Project Management and M&E	500000.00	Revised	Project Management and M&E	650000.00
TOTAL	5,000,000.00			4,800,000.00

CANCELLATIONS

TF	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
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REALLOCATION BETWEEN DISBURSEMENT CATEGORIES



Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
DISBURSEMENT ESTIMATES				
Change in Disbursement Estimates				
Yes				
Expected Disbursements (In US\$)				
Fiscal Year		Annual	Cumulative	
2022		0.00	0.00	
2023		0.00	0.00	
2024		500,000.00	500,000.00	
2025		2,000,000.00	2,500,000.00	
2026		1,500,000.00	4,000,000.00	
2027		800,000.00	4,800,000.00	



Annex 1. Detailed proposed adjustments to the PMI activities and costs

Nr	Components & Activities	Objectives and detailed description of activities
Component 1. ETS Improvement		
1.1	Climate framework and ETS - Design and Implementation Study.	<p>Focus on ETS design evolution till 2035 and further, sectoral interaction, etc., role of ETS and other carbon pricing instruments in climate policy:</p> <ol style="list-style-type: none"> 1. Medium-term vision and fundamental review of ETS design and Kazakhstan’s climate framework: understanding synergies, discrepancies, interactions with sectoral policies (i.e., ETS, carbon tax, electricity market, power sector capacity deployment plan, hydrogen, BAT, environmental policies), climate finance pipeline and economic policies; understanding alignment of ETS with R&D. 2. Conceptual “supply-demand” analysis for ETS (decommissioning capacity, new low-carbon and renewable energy capacity, electricity\output forecasts, energy efficiency measures vs ETS caps – input-output); similar analysis and comparison with other countries. 3. Understanding risks and costs of shifting burden from power sector to industry and hard-to-decarbonize sectors, quantification of costs, cost benefit analysis for different scenarios of sectoral allocation. 4. Options for introducing carbon price pass-through for non-liberalized markets with impact on supply side, cost benefit analysis of implementation options (energy costs vs actual emission reduction), options for promotion of short-term ETS trade in long-term perspective. 5. ETS specifics: differentiated sectoral allocation, intersectoral differentiated allocation; expansion of ETS to other sectors or implementation of carbon tax through ETS, role of ETS in NDC and NZ; introduction of Market Stability Reserve options; Options for stimulating short-term trade for ETS. 6. Assessment of social and economic consequences: distributional impact analysis to assess impact on households of various carbon price scenarios, modeling inflation expectations due to increased energy prices. Assessment of options to integrate air pollution and carbon pricing, and cost-benefit analysis of potential pathways. 7. Comprehensive modeling support: Detailed enterprise-level MACCs in TIMES and power plant level power sector model (PLEXOS, PowerFactory, and PyPSA\other may be considered). 8. Transfer of MACCs into models. Forecasting fundamental\technology-dependent CO2 quote price based on agent-based modelling
1.2	Technical support to implement auctions of allowance allocation.	<p>Implementing Auctioning of Allowances:</p> <ol style="list-style-type: none"> 1. Assess and select mechanisms for auctioning, including detailed process design, development of legal documents. 2. Develop technical and functional requirements for the IT infrastructure needed to run the auctions. 3. Establish the IT infrastructure. 4. Conduct auction training for participants, develop user guidance on IT system, provide support for implementation. <p>ETS trade/auction simulations exercise for stakeholders and policy makers.</p>
1.3	Deep dive into the key sectors	<p>Detailed energy-related sectors study:</p> <ol style="list-style-type: none"> 1. Stocktaking of emission strategies of large enterprises and comparison with ETS cap and NDC target. Stocktaking of national research and innovation ecosystem and assessment of gaps and synergies with national, sectoral, enterprise strategies and plans. 2. Stocktaking and development of enterprise-level marginal abatement cost curves (MACCs).



		<p>Expert visits to industrial sites and consultation with local engineers. Detailed analysis on non-power energy sector\hard-to-decarbonize sectors.</p> <p>3. Risk and technology assessment of MACCs. Assessment of potential impact of carbon pricing (ETS and carbon tax) on enterprise willingness to decarbonize.</p> <p>4. Electricity and heating tariff setting reform options for harmonization with ETS and carbon-price passthrough. Power sector and renewable energy financing strategies for cheaper energy prices. Supported by financial and energy modeling.</p>
1.4	Update and development of benchmarks	<p>1.Data collection and analysis for relevant sectors</p> <p>2.Allocation of emission among different production types (i.e., heat, electricity and other relevant sectors)</p> <p>3.Capacity building of local experts for replicability</p> <p>Stakeholder engagement and hard talks.</p>
1.5	Improvements to the GHG inventory, MRV and registry	<p>1.Development of new methodologies for calculating GHG emissions and removals.</p> <p>2.Improvement of E-Systems of GHG Cadaster and Carbon Registry, and procedures for validation and verification of GHG emissions (Design)</p> <p>3.Development of brand new\complete overhaul or upgrade of existing IT systems with replicability for Article 6, in line with recommendations from the above study on strengthening of GHG inventory, MRV and Registry (Implementation).</p> <p>4.Any needed improvements to the corporate reporting system and inventory development.</p> <p>Overhaul of emission inventories, comparison of national emission and enterprise-level reporting for questionable practices. Development of recommendations for national emission coefficient and verification.</p>
1.6	Capacity building for carbon pricing and climate policy	<p>Comprehensive training for carbon pricing, climate policy and sectoral specifics:</p> <p>1. Topic coverage should include MRV, inventory methodologies, carbon pricing, article 6 related topics and climate basics.</p> <p>2. Online platform for MRV related training,</p> <p>3. Participation in knowledge exchange programs, study tours, international conferences relating to carbon pricing.</p> <p>4. Developing pipeline and pathways, and ensuring sustainability for local capacity development (integration with Bolashak and university programs, national research decarbonization strategy)</p> <p>Using various modeling tools and software (e.g.PLEXOS).</p>
1.7	Flexible technical support for the climate policy framework and carbon pricing	<p>On-demand technical assistance during project implementation, for instance new scenarios for NDC update requested by government reflecting the role of ETS and other carbon pricing instruments.</p>
	Sub-Total	2,700,000
Component 2. Expanding carbon pricing		
2.1	Expand climate relevant fiscal policies	<p>1. Assessment of options for covering transport sector under carbon pricing either through expansion of the ETS or through a tax using the excise system and evaluate and recommend the institutional and MRV requirements for the same.</p> <p>2. Assessment of options to cover methane emissions under carbon pricing</p>
2.2	Technical support to deepen offset market	<p>1.Improvement of land use and forest inventories, development of carbon models for offsets for forecasting emissions. Stocktaking of potential offset capacity. Satellite-based imagery for inventories and forecasting. Production sharing agreement study: land use and forest modeling and stocktaking, and financial modeling for share cutoff. Development of non-energy sectors</p>



		<p>related marginal abatement cost curves, and list of potential pilot projects.</p> <p>2.Improve legal and institutional framework for the implementation of carbon offsets through the development of draft regulations governing the eligibility, environmental integrity, and process of implementing offsets from beginning to end, including the development of methodologies for calculating the reduction of emissions / increase in removals of greenhouse gases, as well as providing advisory support to potential investors of carbon offsets on their design and registration in the country.</p> <p>3.Assess how to maintain the environmental integrity of the domestic carbon offset system and develop related guidelines.</p> <p>4.Support the digital end-to-end IT infrastructure necessary for the operation of the domestic offset program, including the technical upgrades to the registry’s software and improvements in the current regulatory documentation.</p> <p>Support training and capacity building of relevant stakeholders in developing and processing offset projects.</p>
2.3	Support to prepare a Guidance Note on Article 6 & Article 6 readiness assessment	<p>1. Article 6 interaction as a source of revenue for Article 6.</p> <p>2. Options for forward contracts.</p> <p>3. Climate fund/fund for forestry design (REDD/REDD+ as a starting point)</p> <p>4. Readiness assessment and recommendations for operationalization of Article 6 in Kazakhstan Article 6 on-demand technical support.</p>
	Sub-Total	900,000
Component 3. Stakeholder Engagement and Just Transition		
3.1	Stakeholder engagement plan	<p>1. Preparation of a broader stakeholder engagement plan and its implementation covering the design and implementation of ETS in its different phases</p> <p>Dedicated programming for youth, citizens, civil society, and associations to understand potential benefits of climate policy and ways to be engaged (i.e., tackling air pollution through climate policy\ETS); should include professional exchanges.</p>
3.2	Developing and executing communication plan for carbon pricing and climate ambition	<p>Shift to more comprehensive coverage of climate policy and interconnectedness:</p> <ul style="list-style-type: none"> • Development of communication strategy on climate and carbon pricing. • Undertake market research into public attitude and potential messaging to inform the communication strategy. • Increased media coverage including explainers, policy briefs, opinion pieces, videos, etc.
	Sub-Total	550,000
Component 4. Project Management and M&E		
4.1	Operating Cost	Project Management Unit Incremental Operating Cost (incl. travel)
4.2	PMU staff	PMU Project Team Leader, Technical Head, Financial management Specialist, Procurement Specialist, Env. and Social Specialist, Project assistant and translator
4.3	A single audit at the end of project	
4.4	Project launch and completion workshops, Steering Committee, and other meetings	
	Sub-Total	650,000
	Total	4,800,000