



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
SOUTH AFRICA PARTNERSHIP FOR MARKET READINESS  
APPROVED ON DECEMBER 21, 2016  
TO  
REPUBLIC OF SOUTH AFRICA

ENVIRONMENT & NATURAL RESOURCES

AFRICA

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## ABBREVIATIONS AND ACRONYMS

CED	Central Energy Database
DEFF	Department of Environment, Forestry and Fisheries
DMRE	Department of Mineral Resources and Energy
PMR	Partnership for Market Readiness
NAEIS	National Atmospheric Emissions Inventory System
NT	South African National Treasury
VAT	Value-Added Tax



**BASIC DATA**

**Product Information**

Project ID P155885	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 21-Dec-2016	Current Closing Date 30-Jun-2020

**Organizations**

Borrower Republic of South Africa	Responsible Agency National Treasury
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**Project Development Objective (PDO)**

Original PDO

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.

**Summary Status of Financing**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Commitment	Net Disbursed	Undisbursed
TF-A2970	03-Mar-2017	03-Mar-2017	03-Mar-2017	30-Jun-2020	5.00	.87	4.13

**Policy Waiver(s)**

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

No



## **I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING**

### **A. Project Status**

1. While project implementation has been slow due to delays in undertaking and finalizing procurement activities, there has been progress on the major activities and the project is on track to achieve its development objective if the updated implementation plan outlined in this paper continues to be adhered to.
2. At present 52% of the funding has been committed under contract and US\$0.87M has been disbursed. Disbursements are expected to grow rapidly this fiscal year as payments occur for the activities recently contracted.
3. There are no outstanding audits.
4. The table below outlines the status of the project activities.



**Status of Current Activities**

Component	Activity	Agency Lead	Estimated Cost (USD)	Status
<b>1. Supporting the design of the carbon tax</b>	1.1 Review of industry benchmarks	NT	230,000	TOR is to be finalized by the end of November 2019. The activity is expected to be implemented within 6 months
<b>2. Data mgt and MRV</b>	2.1 Modification of the NAEIS system to include emissions reporting	DEFF	1,119,502	Procurement is completed. Implementation is ongoing
	2.2 Strengthening the DoE Central Energy Database (CED)	DMRE	793,500	RFP drafted and approved. The RFP is to be published in November 2019.
	2.3 NAEIS-CED institutional set-up and business case	DEFF	280,000	EOI published and candidates shortlisted. RFP developed but yet to be published.
	2.4 Capacity Building for MRV	DEFF	315,000	Procurement to start in November 2019 and will be completed by February 2020.
<b>3. Supporting the design of the offset scheme</b>	3.1 Support for the offsets registry	DMRE	227,897	Procurement is completed. Implementation is ongoing
	3.2 Capacity building and secondment of expertise	DMRE	270,000	Procurement is to start in December 2019
	3.3 Manual for offset scheme users and framework for adopting local standards	DMRE	194,492	Contract being negotiated with selected vendor.
<b>4. Communications, stakeholder engagement and project administration</b>	4.1 Program Coordinator	NT	175,000	Completed
	4.2 Communication and stakeholder engagement	NT	170,000	Activity to start in February 2020 and conclude by July 2020.

**B. Rationale for restructuring**

1. The restructuring proposes changes to some of the activities, which will result in an extension of the project closing date by six months; a reduction in the expected cost by US\$1m; and a modification of some the performance indicators (KPIs) in the results framework.
2. These changes to the activities reflect the changing needs of the South African Government in implementing the carbon tax, particularly given the recent passage of the carbon tax Bill and the start of the carbon tax on June 1, 2019. In addition, some activities were completed using the preparation grant and other funding and so are no longer needed. The reasons for the specific changes to the original activities are:
  - a) Component 1: Supporting the refinement of the design of the carbon tax through analytical work
    - (i) Due to the urgency of the activities in component 1, they were completed during the preparation phase of the project and, therefore, do not need to be undertaken as part of the implementation phase of the project.



- (ii) Under this component, a review of industry benchmarks was identified as a priority for the South African Government. Emissions intensity benchmarks are established for each industry as a basis for determining eligibility for a partial tax exemption. The benchmarks that have been submitted by industry need to be reviewed by experts to determine their suitability for use under the carbon tax. This activity has been added to component 1.
  - b) Component 2: Strengthening the capacity of the government to enhance data management and measurement, reporting and verification (MRV) systems:
    - (i) When developing the detailed TORs, it became apparent that there were significant synergies between NAEIS-CED exchange protocols activity and the NAEIS-CED institutional set-up activity. The synergies were such that the activities would be best undertaken together. Therefore, the exchange protocols activity was included in the institutional setup activity. It is believed that the exchange protocols activity can be included without the need to expand the budget for the institutional set up activity. This has resulted in a saving of US\$80,000.
    - (ii) The vessels under pressure registry activity was dropped as the Department of Environment, Forestry and Fisheries (DEFF) could not confirm the participation of the Department of Labor, which is responsible for managing the register for equipment under pressure, in the PMR project.
    - (iii) A review of the capacity building needs of the agencies involved in implementing the carbon tax was undertaken given both the time since the proposal for this project was developed and the imminent start of the carbon tax. As a result, it is proposed that these activities be amended to better target the current needs of Department of Mineral Resources and Energy (DMRE), DEFF and South African Revenues Service (SARS) as they seek to implement the systems and processes needed for the carbon tax implementation.
  - c) Component 3: Supporting the design of the carbon offset scheme:
    - (i) Additional capacity building for DEFF following the review of capacity building needs: The additional capacity building would focus on the implementation and operationalization of the Monitoring and Evaluation System. This entails the coordination of data and information, data processing, quality assurance and quality control, data storage, and the analysis of data and information to feed into national and international reporting as well as support policy development and implementation.
  - d) Component 4: Communication, stakeholder engagement and support to project administration:
    - (ii) It is proposed that rather than hiring a communications expert to develop a communication strategy, this component focuses on engaging stakeholders, particularly businesses, on how the carbon tax works and what is needed for compliance in advance of the first compliance year. This is a priority given that companies will need to prepare for carbon tax compliance in 2019/20.
3. It is proposed that the project closing date be extended by six months from June 30, 2020 to December 30, 2020. This will allow time for the (1) expanded capacity building activities with the DEFF, DMRE and SARS; and (2) the additional engagement with the private sector on compliance with the carbon tax legislation. These two important sets of activities need to happen over time and would take the project a few months beyond the current closing date of June 2020.



4. Value-Added Tax (VAT) was not considered at the time of developing cost estimates as South African law exempts donor-funded projects from paying VAT. It is, however, a World Bank practice for VAT to be paid on projects in South Africa. Therefore, VAT has been added to those activities that have been contracted or are under contractual negotiations (VAT is 15%). VAT will be factored into the bids for the remaining activities and thus within their budget envelope.

## II. DESCRIPTION OF PROPOSED CHANGES

5. The following changes are proposed:
  - a) **Component 1.** Activities in the original plan are replaced with an activity aimed at reviewing the industry benchmarks needed for the carbon tax. This activity is expected to cost US\$230,000 (including VAT). The budget for component 1 would change from US\$550,000 to US\$230,000.
  - b) **Component 2.** Includes the NAEIS-CED exchange protocols activity in the institutional set-up activity. This would save US\$80,000. The support for the vessels under pressure registry activity (US\$400,000) will be dropped. The modification of the NAEIS activity was more expensive than budgeted resulting in an increase in estimated cost from US\$510,000 to US\$973,480 plus VAT of \$146,022 (total of \$1,119,502). VAT was not previously considered in the cost estimate. The capacity building on MRV activity has been amended, resulting in the estimated cost changing from US\$790,000 to US\$315,000. VAT of \$103,500 has been added to the strengthening of the Central Energy Database activity.
  - c) **Component 3.** The estimated cost of developing the technical guidelines and institutional frameworks has increased from US\$100,000 to US\$175,000 (plus \$19,492 for VAT) following detailed development of the TOR and a greater appreciation of work involved. The technical assessment of the registry was cheaper than expected, resulting in a reduction in cost from US\$1,000,000 to US\$200,000 (plus \$27,897 for VAT). The capacity building for staff working on the offsets program has been redesigned resulting in an increase in the estimated cost from US\$150,000 to US\$270,000.
  - d) **Component 4.** The activities of hiring a communications expert and a facilitator (US\$300,000) will be dropped. Instead a more extensive than planned consultation with stakeholders about compliance with the carbon tax will be done. This will result in an increase in the estimated cost of this activity from US\$50,000 to US\$170,000. The Program Coordinator will be extended for a year, resulting in an increase in budget from US\$100,000 to US\$175,000.
  - e) **Budget.** The result of the budget changes outlined above is an aggregate change to the budget from US\$5million to US\$3.8million.
  - f) **Project Closing Date.** The project closing date to be extended by six months to 30 December 2020.
  - g) **Results Framework.** The results framework stays largely the same as the objectives of the components haven't changed and the main activities have remained. The indicators for component 1 to be dropped reflects the dropped activities and will be replaced with an indicator related to the new activity of reviewing the industry benchmarks. In addition, it is proposed that the last intermediate indicator (under component 4) that relates to a training program be dropped as no training program was or is planned for that component.



**Comparison of original plan and proposed plan**

Original Plan in PAD			Latest implementation plan (October 2019)	
	Activity	Estimated Cost (US\$)	Comment	Estimated Cost (US\$)
<b>Component 1</b>	Assessment of existing international competitiveness measures	175,000	Replaced with: Review of industry benchmarks	230,000
	Analysis of private sector and international climate finance resources	175,000	Dropped: No longer needed. Done as part of separate project	n/a
	Carbon tax modeling impact studies	200,000	Dropped: No longer needed. Done as part of separate PMR project	n/a
<b>Component 2</b>	Strengthening of the DoE Central Energy Database (DoE-CED)	690,000	VAT added to cost estimate.	793,500
	NAEIS-CED exchange protocols	80,000	Rolled into the institutional set-up and design activity below. Budget not needed	n/a
	Support to the Vessels under Pressure Registry	400,000	Activity dropped	n/a
	Modification of NAEIS	510,000	Activity kept but more expensive than budgeted and VAT has been added.	1,119,502
	NAEIS-DEA+DoE-CED institutional set-up design	280,000	Includes work on exchange protocols	280,000
	Capacity building on Carbon Tax MRV and training for technical staff	790,000	Scaled down	315,000
<b>Component 3</b>	Developing regulatory and institutional frameworks and technical guidelines for offset scheme	100,000	Kept but budget increased, and VAT added.	194,492
	Carrying out technical assessment for registry and possible establishment	1,000,000	Kept but less expensive than budgeted and VAT added	227,897
<b>Component 3</b>	Providing training for technical and administrative staff and the secondment of technical expertise	150,000	Kept but budget increased	270,000





<b>Component 4</b>	Design of the communication strategy	150,000	Dropped	n/a
	Consultations facilitator with the relevant stakeholders	150,000	Rolled into the consultations activity below	n/a
	Project Coordinator	100,000	Budget increased	175,000
<b>Component 4</b>	Consultations with the relevant stakeholders	50,000	Combined with the facilitator activity above and focused on goods procurement (Venue, travel etc)	170,000
	<b>TOTAL</b>	<b>5,000,000</b>		<b>3,775,391</b>

**I. SUMMARY OF CHANGES**

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
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)
Supporting the refinement of the design of the carbon tax through analytical work	0.75	Revised	Supporting the refinement of the design of the carbon tax through analytical work	0.23
Strengthening the capacity of the government to enhance data management and measurement, reporting and verification (MRV) systems	2.47	Revised	Strengthening the capacity of the government to enhance data management and measurement, reporting and verification (MRV) systems	2.51
Supporting the design of the carbon offset scheme	3.00	Revised	Supporting the design of the carbon offset scheme	0.69
Communication, stakeholder engagement and support to project administration	0.78	Revised	Communication, stakeholder engagement and support to project administration	0.35
<b>TOTAL</b>	<b>7.00</b>			<b>3.78</b>

**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A2970	Effective	30-Jun-2020		31-Dec-2020	30-Apr-2021



**CANCELLATIONS**

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
TF-A2970-001	Disbursing	USD	5,000,000.00	1,200,000.00	08-Jul-2019	3,800,000.00	BORROWER'S REQUEST FOR COUNTRY REASONS

**REALLOCATION BETWEEN DISBURSEMENT CATEGORIES**

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
TF-A2970-001   Currency: USD					
iLap Category Sequence No: 1   Current Expenditure Category: Gds, NCS, CS, Training					
	5,000,000.00	27,218.75	3,800,000.00	100.00	100.00
<b>Total</b>	<b>5,000,000.00</b>	<b>27,218.75</b>	<b>3,800,000.00</b>		

**DISBURSEMENT ESTIMATES**

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2017	0.00	0.00
2018	0.00	0.10
2019	0.00	0.90
2020	0.00	1.80
2021	0.00	1.00
2022	0.00	0.00



Results framework

COUNTRY: South Africa

South Africa Partnership for Market Readiness

Project Development Objectives(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.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
<b>To strengthen the readiness of the government to implement a carbon tax</b>			
Impacts of carbon pricing approach analyzed and modelled (Yes/No)		No	Yes
<i>Action: This indicator has been Marked for Deletion</i>			
Satisfaction by main stakeholders with engagement on impacts and implementation of carbon pricing (Percentage)		0.00	75.00
<i>Action: This indicator has been Marked for Deletion</i>			
Carbon offset scheme designed according to defined criteria and approved by the National Treasury (Yes/No)		No	Yes
Share of targeted entities that report GHG emissions to the Government in accordance with the relevant monitoring and reporting protocols (Percentage)		0.00	75.00
Direct project beneficiaries, of which female (Number)		0.00	250.00



**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline	End Target
<b>1. Supporting the refinement of the design of the carbon tax through analytical work</b>			
Additional analysis and modelling of impacts of carbon pricing approach prepared by the National Treasury and validated with the main stakeholders (Yes/No)		No	Yes
<i>Action: This indicator has been Marked for Deletion</i>			
Industry benchmarks reviewed (Yes/No)		No	Yes
<i>Action: This indicator is New</i>			
<b>2. Strengthening the capacity of the government to enhance data management and MRV systems</b>			
Monitoring and reporting protocol for GHG reporting by the targeted entities prepared and validated with the main stakeholders (Yes/No)		No	Yes
Verification mechanism established for GHG emissions monitoring and reporting system (Yes/No)		No	Yes
<b>3. Supporting the design of the carbon offset scheme</b>			
Definition of the rules and procedures and technical guidelines for the carbon offset scheme by the Department of Energy (Yes/No)		No	Yes
Functional registry to support the carbon offset scheme established by the Department of Energy (Yes/No)		No	Yes
<b>4. Communication, stakeholder engagement and support to project administration</b>			
Stakeholder engagement plan prepared and implemented according to defined criteria (Yes/No)		No	Yes
Training plan prepared and implemented according to defined criteria (Yes/No)		No	Yes



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Indicator Name	DLI	Baseline	End Target
<i>Action: This indicator has been Marked for Deletion</i>			

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