



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 16-Nov-2018 | Report No: PIDISDSA26060



**BASIC INFORMATION**

**A. Basic Project Data**

Country China	Project ID P166983	Project Name China Partnership for Market Readiness	Parent Project ID (if any) P145586
Parent Project Name China Partnership for Market Readiness	Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 11-Oct-2018	Estimated Board Date 30-Nov-2018
Practice Area (Lead) Environment & Natural Resources	Financing Instrument Investment Project Financing	Borrower(s) People's Republic of China	Implementing Agency National Center for Climate Change Strategy and International Cooperation (NCSC)

Proposed Development Objective(s) Parent

The Project Development Objective is to enable China to design a national carbon emissions trading scheme.

Components

Enable design of key building blocks for a national carbon emissions trading scheme (ETS)  
China PMR synthesis report, consultations and project management  
Enabling Market Mechanism and Creating Investment Climate

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	2.00
<b>Total Financing</b>	2.00
<b>of which IBRD/IDA</b>	0.00
<b>Financing Gap</b>	0.00

**DETAILS**

**Non-World Bank Group Financing**

Trust Funds	2.00
Partnership for Market Readiness	2.00



Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

## B. Introduction and Context

### Country Context

1. **China's National Emissions Trading Scheme (ETS).** As climate change mitigation is a cross-sectoral issue, the ETS has been identified as one of the means by the government of China (GoC) to facilitate a shift towards lower-carbon development and contribute to meeting its nationally determined contribution (NDC) targets under the Paris Agreement. Alongside the signing of the Paris Agreement, the president of China announced the plan to launch a nationwide ETS by 2017. The presidential announcement was built upon years of concrete planning and piloting on the ground. Seven cities and provinces, including Beijing, Tianjin, Shanghai, Shenzhen, Chongqing, Guangdong and Hebei provinces, launched their ETS pilot schemes in 2011. Fujian Province started its pilot scheme in late 2016. This was a part of the central government's exploration of market-based policy tools since the 12<sup>th</sup> Five Year Plan (FYP 2011-2015). In the past, administrative measures with public subsidies have played an instrumental role in achieving significant energy efficiency improvement and emissions reductions. However, as the lower hanging fruits have been picked, mitigation abatement cost has become higher. Furthermore, as environmental pollution emerged as an urgent issue over the past few years, the GoC had to look for broader range of interventions. Therefore, the GoC started contemplating market mechanisms for innovation and effectiveness. The cap-and-trade system as a means to allocate resources cost-efficiently is a timely tool to support the acceleration of modernizing China's industrial sector. The development of a national ETS was included as one of the specific tasks of the central government's economic reform task plan. This also takes advantage of the initial capacity built through the early years of China's successful experience in the international Clean Development Mechanism (CDM) under the United Nations Frameworks of Climate Change Convention (UNFCCC).

2. In December 2017, the national ETS was launched according to schedule. In the first phase (from 2018 to 2019), the national ETS covers only the power sector. This initial coverage accounts for about 3 gigatonnes of carbon dioxide equivalent (GtCO<sub>2</sub>e) emissions per annum. During the initial phase, allocation and simulation trading will take place covering 1,700 power sector enterprises. Taking account of the system complexity and high data quality requirement, the rollout of the national scheme to include other key sectors will be a gradual process. Nevertheless, the other key sectors to be included in the ETS have been identified, including petroleum, chemicals, iron and steel, building materials, nonferrous metals, paper making, and aviation. From 2020 onwards, the national ETS will enter its full-fledged phase. It is expected to cover 40 to 50 percent of nationwide emissions, accounting for 4 to 6 GtCO<sub>2</sub>e per annum. With its sheer scale and potential, China has evolved its position to a key contributor and leader of climate change mitigation solutions in the new era of global climate change efforts.



### ***B. China Partnership for Market Readiness Project***

3. ***China Partnership for Market Readiness Project.*** China has sought support from the World Bank through the cooperation of the China Partnership for Market Readiness Project (CPMR Project). The PMR is a multidonor trust fund administrated by the Bank. With a US\$8 million grant allocated from the PMR, the CPMR Project was prepared and under implementation based on China's comprehensive proposal. With the project development objective (PDO) to enable China to design a national carbon emissions trading scheme, the CPMR Project provides direct analytical support to ETS policy development at the national level. The CPMR Project became effective in February 2015. And it has since launched studies on the key elements of the ETS, including the legal framework, allowance allocation, monitoring, reporting and verification (MRV), registry, thematic studies on the power sector and China's specific circumstances of the centrally state-owned enterprises, as well as supporting provincial level policy development. The project is currently implemented by a project management office (PMO) established within the National Center for Climate Change Strategy and International Cooperation (NCSC), under the supervision of Department of Climate Change (DCC). The DCC has delivered important policy outputs forming the fundamental structure of the recently launched ETS. The CPMR Project has played an important role in supporting China to design the policy framework of the national ETS. With the support of the CPMR Project, the overall building blocks and framework of the national ETS has taken shape. The CPMR is comprised of the following components: (i) enabling design of key building blocks for a national ETS, and (ii) China PMR synthesis report, consultations and project management. However, as a complex policy system, many detailed operational regulations, rules and guidelines will need to be further developed and continuously refined and updated over time.

4. ***Implementation status.*** Project implementation is on track. There has been delay in disbursement due to two rounds of institutional change, including the change of designated account (DA) and PMO and the relocation of the DCC (along with the NCSC and the PMO) from the National Development Reform Commission (NDRC) to the Ministry of Ecology and Environment (MEE). Disbursement has picked up as the institutional restructuring settles. All key consultancy contracts (at both national and provincial level) have been procured and are under implementation. The core contracts have already delivered important outputs supporting policy development and they are now reaching the final stage of drafting formal research reports.

5. ***Ratings.*** Progress towards achievement of PDO is satisfactory, given the significant impacts delivered by the interim outputs of the project. The overall rating of Implementation Progress (IP) is moderately satisfactory. Adjustment may be revisited in the next supervision mission given implementation has picked up.

### ***C. Rationale for the Borrower to Request the Additional Financing***

6. ***Remaining challenges.*** Despite of the national launch, much work is still needed before the national ETS can become fully operational as a robust trading market. The key technical challenges that need to be addressed are:



- Legal and regulatory framework is still under development. To date, a large set of policies and regulations have been promulgated at both the central and local level. Nevertheless, a comprehensive regulatory framework would be required to build up an enabling environment for the market to start to operate. For example, in the absence of relevant accounting rules, businesses would not be able to account for carbon as assets; consequently, allocations may not be relevant to investment decision making.

- Effectiveness of preliminary cap-setting and allocation remains untested. While a preliminary version of allocation methodologies has been developed, these sectoral methodologies were developed with time and data constraints and would benefit significantly from enhanced data basis and testing in the sectors. Cap and allocation sends a key signal to the carbon price. Through the power sector simulation phase, impact on the sector and behavior change shall be analyzed to inform effectiveness of the design. Further sectoral inputs would be required from business side to ensure robustness of the methodologies.

- MRV system has significant room for improvement. Historically, data has been collected and reported following the national statistics reporting rules. Whereas in a carbon market monetary value is attached to emissions, the quality of data and the disclosure system play a critical role in building transparency and credibility of the market. A considerable amount of system refinement is needed to close the data quality gap.

- Capacity and awareness of participants needs to be built. There are significant capacity building needs in the nonpilot areas where business is accustomed to the old culture of resource management and accounting. Given the size of the market, there is significant capacity gap to be filled across the country.

7. ***Rationale for the additional financing.*** As listed in the abovementioned remaining challenges, a number of issues remain to be urgently addressed to complement the existing CPMR Project for the initial phase of the national ETS. The DCC submitted a proposal to the PMR trust fund and has been granted an additional grant of US\$2 million. Given the complexity of the ETS system design and a wide range of activities for its preparation, the additional grant could only target the aspects that are most critical and urgent for establishment of the initial phase of the national ETS.

### C. Proposed Development Objective(s)

#### Original PDO

The Project Development Objective is to enable China to design a national carbon emissions trading scheme.

#### Current PDO

The additional activities are to complement the CPMR Project activities to achieve the original PDO. (No change.)

#### Key Results

The PDO indicator is submission of a proposal for the national ETS design. (No change.)



Intermediate results indicators include:

Proposal on methodologies of scope, coverage, cap setting and allocation. (No change.)

Proposal on legal framework and oversight system. (No change.)

Proposal on MRV system for the national ETS. (No change.)

Proposal to improve the ETS registry. (No change.)

Thematic report on SOEs. (No change.)

Thematic report on the power sector. (No change.)

Synthesis report. (No change.)

Supplementary regulatory system informed. (New)

Allocation methodologies and mechanisms informed. (New)

Forward looking policies for a liquid market informed. (New)

#### D. Project Description

8. The main purpose of the AF is to improve the effectiveness, efficiency, and sustainability of the project objective by adding activities intended to strengthen market mechanisms and enhance the investment climate in which the planned ETS will operate. The key changes to incorporate these activities are (a) addition of a new project component, (b) revision of the results framework by adding indicators for three new intermediate outputs, and (c) extension of the closing date by eight months to allow their completion. Corresponding changes will also be made to component costs, allocation of proceeds between disbursement categories, and other routine elements of the grant agreement.

9. **Project Development Objective.** The additional activities are to complement the CPMR Project activities to achieve the original PDO: to enable China to design the national carbon emissions trading scheme. (No change.)

10. **Component 1: Enabling Design of Key Building Blocks for a National Emissions Trading Scheme (ETS).** The component supports technical assistance, studies, including policy research and analysis, and workshops that aim to assist the DDC in developing the key ETS building blocks. Studies are organized by sub-components under key elements of the ETS system. Each sub-component delivers recommendations for each element. Key elements of the ETS framework include the legal framework and an oversight supervision system, scope and coverage of the ETS and its allocation methodologies, a monitoring, report and verification (MRV) system to ensure data quality, and the infrastructure of a registry and trading platform. Stakeholder consultation is built into the process to ensure relevant governmental agencies, industries and civil societies' inputs and comments are taken into account. (No change.)

11. **Component 2: China PMR Synthesis Report, Consultations and Project Management.** This component supports: (i) project management, including incremental operating costs, (ii) stakeholder and expert consultations; (iii) workshops and study tours; and (iv) a synthesis report for the project summarizing proposals and analysis supporting the national ETS scheme design. The component finances consulting services and consultation expenses to ensure appropriate quality control is provided for terms of reference and outputs. Financing for this component will be increased by US\$0.1 million to cover project management of the additional activities. (component cost is the only change.)



12. **Component 3. Enabling Market Mechanism and Creating Investment Climate.** As Component 1 has provided support to develop the initial policy framework of the national ETS, to further operationalize the system detailed operational rules and technical guidelines are required. This component focuses on supporting the most critical elements to further complete the national system’s design of allocation mechanisms, regulatory framework and system, and forward planning of policies beyond 2020. (New)

13. **Subcomponent 3.1: Allocation mechanisms.** The activities will specifically complement the ongoing CPMR Project’s study on scope, coverage, cap setting, and allocation. The CPMR study has supported the design of the general allocation methodology of the national ETS that will use the sectoral benchmarking approach for most of the sectors where data is available. The activities will support the next steps of operationalizing the methodologies by conducting deep-dives into each sector to refine, calibrate, and enhance the data used to establish benchmarks. Ultimately the sectoral benchmarks will be updated to enhance effectiveness of allocations through improved data quality and further modelling. The supervision system on allowance auctioning and trading will be further reviewed based on the initial phase experience from the power sector. Information disclosure requirements for robust allocation will also be analyzed to provide policy recommendations. The outputs of the subcomponent will be practical policy recommendations to the further refined allocation methodologies and allocation guideline at the national level. The research activities will also incorporate considerations that the national climate mitigation target setting may evolve over time so that the ETS allocation system shall address the policy need accordingly.

14. **Subcomponent 3.2: Regulatory framework and system.** The sub-component intends to support development of the regulatory system based on the current framework. The activities will look into detailed regulations that would require operationalizing the system. Evaluation will be done at the national level registry and the trading platform and their linking with the local level platforms. Recommendations will be made for the detailed supervision rulebooks of the infrastructure. Analytical support will help to inform developing of a set of rules that facilitate ETS trading for compliance companies. Examples include corporate level bookkeeping, taxation, and information disclosure rules.

15. **Subcomponent 3.3: Preparing for a liquid market.** The sub-component intends to support generating market liquidity in the next stage of the national system. Research will be done to provide policy recommendations for the roadmap of developing carbon as a trading product. An in-depth round of review on innovative products and instruments at the pilots will be done to distill experiences and lessons learned. Policy development will be informed of how the trading scheme would change business behavior and push for investment and financing innovations. The component will support studies from the business sector prospective on how the market would create challenges as well as opportunities. Necessary support will be provided to prepare the readiness of the financial market to effectively play a role in the ETS at the earliest possible stage.

16. **Change of costs by components:** The table below summarizes the change of costs for each component after AF. The table only reflects grant financing (the AF proposal does not increase the original counterpart financing of US\$0.6 million, which is allocated to Component 2).

Components	Costs (US\$ million)
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	Original	AF	Final
1. Enabling Design of Key Building Blocks for a National Emissions Trading Scheme (ETS)	6.5	-	6.5
2. China PMR Synthesis Report, Consultations and Project Management.	1.5	0.1	1.6
3. Enabling Market Mechanism and Creating Investment Climate	-	1.9	1.9
Total	8.0	2.0	10.0

17. **Revision of results framework:** The results framework will be revised by adding three new intermediate outputs that are the key deliverables of the activities to be carried out under the new Component 3.

18. **Extension of closing date:** The client requests an 8-month extension of the project closing date, from 30 June 2019 to 28 February 2020, for implementation of the additional activities.

### E. Implementation

#### Institutional and Implementation Arrangements

19. **Change in administrative location of implementing agency:** The AF/restructuring documents the already completed transfer of the Department of Climate Change (DCC), which houses the NCSC and the PMO, from the National Development and Reform Commission (NDRC) to the Ministry of Ecology and Environment (MEE). There is no change of implementation arrangements within the PMO or DCC themselves. The grant agreement is revised to reflect this administrative reorganization, but it is not considered a change in implementing agency or implementation arrangements for project restructuring purposes.

### F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

This is a national technical assistance project with no physical footprint, nor will it lead to subsequent physical investments.

### G. Environmental and Social Safeguards Specialists on the Team

Peishen Wang, Environmental Specialist  
 Aimin Hao, Social Specialist  
 Xiaodan Huang, Environmental Specialist





**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	
Performance Standards for Private Sector Activities OP/BP 4.03	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	

**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:

Associated Safeguards Risks. The technical assistance project funds the design of a national carbon emissions trading scheme, which will assist mitigation of greenhouse gas emissions in a cost-effective manner. Project activities are policy research and analysis, technical studies, workshops and training to enable China to design a national carbon emissions trading scheme. The project does not include any physical works, nor will it result in any immediate direct physical investments. The project is likely to have minimal or no adverse impacts. It is anticipated to have positive impacts. Therefore, the project was classified as Category C during the PCN review and clearance of the project as per OP4.01.

No separate safeguards instrument is required. As a result, the Bank’s safeguard policy does not require a formal environmental assessment to be produced. However, the counterpart will be asked to incorporate directly environmental and social safeguards policies into the relevant project activities such as sub-component 1.1. and sub-component 1.2. Screening for the application of safeguards policies will be done for each sub-components studies and term of reference developed as needed. The key Terms of Reference will be reviewed by the Bank.



The restructuring in September 2017 only involves change of PMO and relocation of DA, the project activity contents remain unchanged. Therefore, there is no change of environmental and social safeguards category and no need for any further action.

The aforementioned safeguards approach has been implemented for the original project, no environmental or social impact has been created during its implementation. Therefore it can be continued under the AF.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:  
See section 1.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.  
See section 1.

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.

The borrower and involved agencies have very good to limited knowledge and experience in applying the World Bank policies. The Bank will ensure when reviewing TOR that the adequate safeguards expertise is associated to activities and studies taking into account safeguard policy issues.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The project design aims to enable China to design national carbon emissions trading scheme that will cap carbon emissions, a mitigation instrument that is expected to control carbon emissions in China. As such, the studies will investigate design options based on international and domestic experience. The project design includes through its studies workshops, interviews and analysis that incorporates views of relevant stakeholders that may be involved in the emissions trading scheme. The final outcome of the project is a proposal by the NDRC Department of Climate Change to the Vice Chairman of NDRC. The proposal is expected to be processed through an internal vetting process involving a wide range of central government agencies.

**B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)**

**Environmental Assessment/Audit/Management Plan/Other**

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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**"In country" Disclosure**



**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)**

**CONTACT POINT**

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**APPROVAL**

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