

Terms of Reference

Consultancy for Developing a Roadmap for New Carbon Pricing Instruments (CPIs)

Procurement Entity: CLIMATE MITIGATION ACTION SUPPORT PROJECT (CMASP)

1. BACKGROUND

The Partnership for Market Readiness (PMR)

PMR is a grant-based, capacity building trust fund that provides funding and technical assistance for the collective innovation and piloting of carbon pricing instruments (CPIs) that could be reduce greenhouse gas (GHG) emissions. The Partnership brings together experts and stakeholders from developed and developing countries to discuss CPIs, South-South exchange, collective innovation for pilot efforts, and the implementation and scale-up of financial flows.

The Government of Sri Lanka (GoSL) became an Implementing Country Participant of PMR, following the presentation of its Organizational Framework for Scoping of PMR Activities at the PA meeting in Lima, Peru on April 26 – 29, 2016. Upon GoSL's request, the World Bank is currently executing the preparation grant in close consultations with Sri Lanka's PMR focal point, the Climate Change Secretariat (CCS) under the Ministry of Environment and Wildlife Resources (MEWR). GoSL submitted its Market Readiness Proposal (MRP)¹ to the Partnership Assembly (PA) in December 2017, which laid out in detail why, what and how PMR resources would be used to support the country's planned activities to develop the proposed CPI and market readiness components. The MRP has now been approved by the PA, and a grant agreement is currently being drawn up to allocate the US\$ 3 million funding for the MRP implementation phase.

The MRP implementation is being carried out by the World Bank and MEWR in Sri Lanka. Most of the components which were executed by the World Bank have been almost completed. CMASP of MEWR is implementing the assigned components and the development of CPI Roadmap is one of those components which would identify the feasibility of implementing CPIs and develop a roadmap to pilot and implement identified CPIs in Sri Lanka.

Sri Lanka's climate change context

Sri Lanka is a rapidly growing lower middle-income country with a total population of 21.8 million people and per capita income of USD 3,741 in 2019². Sri Lanka is considered to be, in many respects, a development success story. For example, growth has averaged over 5 % per year in the past decade and poverty rates have declined dramatically from 8.9% in 2009 to 4.1% in 2016³.

Sri Lanka's GHG emission in 2012 was approximately 0.78 tCO₂ per capita, far below the world average value of 4.44 tCO₂e⁴. According to Sri Lanka's Second National Communication (SNC) on Climate

¹The MRP may be found here: <https://www.thepmr.org/country/sri-lanka>

² Annual Report, Central Bank of Sri Lanka, 2019

³ Annual Report, Central Bank of Sri Lanka, 2019

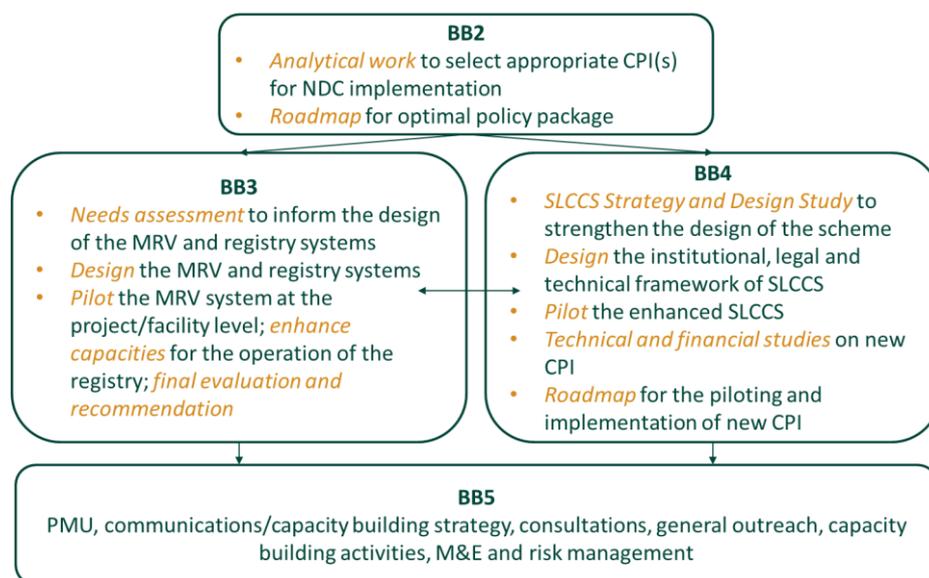
⁴For more information, please refer to Sri Lanka's Organizing Framework for Scoping of PMR activities: https://www.thepmr.org/system/files/documents/Sri%20Lanka_Organizational%20Framework.pdf

Change Submissions to the UNFCCC, the energy sector, which accounted for 61.4% of total GHG emissions in 2000, represented the largest share of total national GHG emissions.

Sri Lanka has set the following GHG emission reduction targets under its Nationally Determined Contributions (NDCs) for the Paris Agreement: (a) By 2030, reduce GHG emissions in the energy sector against Business As Usual (BAU) scenario by 4% unconditionally and an additional 16% conditionally; and (b) by 2030, reduce GHG emissions against BAU scenario by 10% in other sectors - 3% unconditionally and an additional 7% conditionally.

Under the NDCs, GoSL has mapped out a comprehensive set of actions to reduce emissions in the five priority sectors, namely, energy (specifically focusing on electricity generation), transport, industry, forestry and waste; and has already developed a number of policies and plans to support their implementation. GoSL is actively seeking opportunities to strengthen the role of CPIs to enhance the efficiency of achieving its NDCs; and has proposed to leverage PMR’s resources to conduct a range of analytical/technical work to support this goal. Activities under the five building blocks (BBs) of the MRP are summarized in **Error! Not a valid bookmark self-reference..**

Figure 1. Summary of BB activities



Carbon pricing can achieve considerable emission reduction and generate significant health benefit with limited economic impacts. Sri Lanka, as part of PMR support, also commissioned a study to evaluate the role of carbon pricing instruments such as Emission Trading System (ETS) and Carbon Tax for meeting NDC targets in power and transport sectors. The study identifies the need for further assessment of complementary policies in order to cost effectively meet climate change goals of the country.

2. RATIONALE FOR THE CPI(S) IMPLEMENTATION IN SRI LANKA

Sri Lanka explores new mechanisms and policy instruments to achieve country’s NDC goals. Carbon Pricing Instruments are identified as possible mechanisms to complement and enhance the role of Sri

Lanka Carbon Crediting Scheme (SLCCS⁵) in supporting the NDC implementation. MEWR aims to evaluate if new CPIs would help Sri Lanka in effectively achieving its NDC goals while also shifting the economy towards a low carbon pathway. In the longer term, the country intends to scale up its mitigation activities by eventually participating in international trading of emission reductions, which could potentially include linking with CPIs in other countries/regions.

3. OBJECTIVE OF THE CONSULTANCY

The objective of this consultancy is to explore the opportunity of developing new CPIs that complement the SLCCS and contribute to Sri Lanka's NDC goals, building on the previous study commissioned under 'Exploring the role of carbon-pricing instruments (CPIs) in decarbonizing the power and transport sectors in Sri Lanka'. The two new CPIs, namely, carbon tax with offset and ETS with offset to achieve 20% emission reduction in energy and transport sectors, both of which have minimum negative impact on the GDP, were identified⁶ for further analysis. This consultancy would first conduct a comparative analysis to understand feasibility of afore-mentioned two CPIs. Secondly, it would develop a roadmap that lays out the plan for further assessment and development of the main components of the selected new CPI, including setting the baseline and targets; developing the legal, institutional, operational and technical frameworks; and identifying options for linking with the enhanced SLCCS as well as potentially with international markets in the future.

The scope of the consultancy mainly has two tasks, namely, to conduct a comparative analysis to assess feasibility for the afore-mentioned CPIs, select new CPI option, and develop a roadmap for designing, piloting and implementation of the CPI.

4. SCOPE OF THE CONSULTANCY

The scope of the consultancy focuses on conducting a detailed comparative analysis on the afore-mentioned CPI options and developing a roadmap for designing, piloting, and implementing identified CPIs in Sri Lanka. Further, the scope covers some important aspects such as political context, national circumstances, legal framework, policy setup, institutional setup, socio-economic analysis, awareness raising, capacity building and research.

The consultancy firm is expected to:

- I. Conduct a detailed comparative analysis to assess feasibility for each of the two selected CPI options from political, legal, institutional, operational, technical, and financial aspects, namely,
 - Carbon Tax with offset to achieve 20% emission reduction in energy and transport sectors

⁵ SLCCS is the nascent domestic crediting scheme which has a large potential to scale up and incentivize domestic emission reduction projects, and help achieve Sri Lanka's emission reduction targets cost-effectively

⁶ Report on exploring the role of carbon-pricing instruments (CPIs) in decarbonizing the power and transport sectors in Sri Lanka. The report was prepared to fulfill the first component of the BB2 of the PMR project in Sri Lanka

- ETS with offset to achieve 20% emission reduction in energy and transport sectors,

based on the technical report on ‘Exploring the role of carbon-pricing instruments (CPIs) in decarbonizing the power and transport sectors in Sri Lanka’. The study should be carried out for the new CPIs by addressing core design considerations⁷, such as scope; setting price or cap; setting a point of regulation; reporting and verification; risk management policies; and cross border linkages and additional design considerations, namely, price stability, delivery of reduction, flexibility, administrative complexity, required institutional capacity, cost of compliance, governance, use of offsets, national characteristics, role of market, etc.;

- II. Once new CPI is selected for further consideration, develop a roadmap for designing, piloting, and implementation of the selected CPI option: The roadmap shall layout a plan for development of the main components of the new CPI, including setting the baseline and targets; developing the legal, institutional, operational and technical frameworks; and identifying options for linking with the enhanced SLCCS and create demand for SLCCS. The roadmap shall also touch on, to the extent current status of the negotiations on Article 6 of the Paris Climate Agreement allow, how such CPI could potentially be linked to the international carbon trading schemes in the future. The roadmap development process should address the core design considerations which include the scope of the mechanism, regulatory model, baselines and targets, use of offsets, institutional training, system construction etc. The detailed design of the selected CPI still needs to be carried out, which should be followed after the study, but beyond the scope this consultancy service. Throughout the process, stakeholder and expert engagements would be conducted, particularly with the potential private sector actors in the new CPIs (e.g. those entities subject to a carbon tax or part of an ETS);
- III. Analyze and incorporate some important aspects, namely, political context, national circumstances, legal framework, policy setup, institutional setup, socio-economic analysis, analysis of barriers to the effectiveness of the proposed CPIs, awareness raising, capacity building and research which are related to design and implementation of CPIs;
- IV. Develop an action plan for designing, piloting and implementation of activities, a plan for how Sri Lanka would resource the implementation of the new CPI beyond the period of PMR support. It would identify the sources of funding and human resources that would be needed to implement the new CPI, including other sources of international climate finance;
- V. Get the deliverable validated by the Technical Advisory Committee established under the CMAS project and National Expert Committee on Climate Change Mitigation along with any other identified stakeholders;
- VI. Compile the final report on roadmap, intermediate progress reports and an executive summary for policy makers.

⁷ Carbon Tax Guide: A Handbook for Policy Makers (<http://documents.worldbank.org/curated/en/728421535605566659/Carbon-Tax-Guide-A-Handbook-for-Policy-Makers>)

5. DELIVERABLES

The duration of the assignment is 20 weeks. The consulting firm will be expected to work in close collaboration with Sri Lankan experts and government officials to develop a ‘Roadmap for new CPIs’ under the PMR project. The deliverable will include

- a) Comparative analysis report on the selected CPI options;
- b) Roadmap for designing, piloting and implementation of new CPIs, including possible link to the enhanced SLCCS and NDCs;
- c) Executive Summary for Policy Makers.

The table below describes the assignment’s timeline and payment schedule. Dates are provided for indicative purposes and may be subject to change.

Deliverable	Date of Completion	Payment
<u>Deliverable 1:</u> Inception report which includes not least proposed methodology, workplan, stakeholder engagement plan, team composition etc.,	2 nd week	10%
<u>Deliverable 2:</u> 2.1. First stakeholder workshop (kick-off workshop) and draft comparative analysis report on selected CPIs options (submit one week before the workshop) 2.2. Stakeholder consultation workshops to finalize and validate the comparative analysis report	8 th week	20%
<u>Deliverable 3:</u> Validated comparative analysis report with incorporation of inputs from the first stakeholder consultation workshop	10 th week	
<u>Deliverable 4:</u> Preliminary draft report of the roadmap for new CPI (submit one week before the workshop)	14 th week	20%
<u>Deliverable 5:</u> Second stakeholder consultation workshop to review the roadmap for new CPI	15 th week	
<u>Deliverable 6:</u> Draft final report on roadmap for new CPI with incorporation of inputs from the second stakeholder consultation workshop	17 th week	20%
<u>Deliverable 7:</u> Validation workshop and final roadmap for new CPI with an executive summary for policy makers	20 th week	30%

6. ORGANIZATION AND LOGISTICS

- The assignment shall start immediately following signing of the contract.
- The composition of the consultancy firm will include team leader and experts. The team should ensure smooth communication and facilitation of the work with MEWR, relevant government ministries and agencies, stakeholders, and the World Bank.
- CMASP of MEWR (procuring entity) will facilitate to coordinate with stakeholders in government sector and provide necessary reports of other consultancies which have been already completed under CMASP and other projects. CMASP of MEWR will not provide any human resources, office space, office furniture, computer equipment, the internet and other

telecommunication facilities, vehicles or transport services and any other equipment or service which would be required to provide this consultancy service.

- Consultancy firm and its consultants shall themselves cover their travel, accommodation and per diem expenses which will be occurred for performing the consultancy. Dates and venue(s) of the meetings are to be determined in consultation with the CMASP of MEWR.
- The consultancy firm should pay an expert input allowance for the professionals who participate in workshops and provide their technical inputs and comments for the improvement of the task carried out by the consultancy firm.
- The consultancy firm should bear the travelling cost of stakeholders/experts and Technical Advisory Committee members. All the training sessions and stakeholder meetings should be held in a convenient place with all the logistics arrangements.
- Deliverables must be mutually satisfactory to MEWR and the World Bank. It is advisable to submit some of the sub deliverables before the given deadline to avoid unnecessary delays.
- The consultancy firm will provide biweekly updates of tasks carried out and participate in regular meetings or teleconference discussions upon request from either the CCS of MEWR or the World Bank.
- The consultancy firm is required to make a request for MEWR's participation in meetings or workshops at least 14 days in advance. Schedules for conducting workshops and meetings will need to be agreed with the CCS of MEWR.

7. TIMEFRAME OF WORK

The duration of the assignment will be 20 weeks upon signature of the contract.

Estimated Contract Start Date: (this will be added later)

Estimated Contract Completion Date: (this will be added later)

8. REQUIRED CONSULTANCY STAFF QUALIFICATIONS

The consultancy firm shall, at minimum, demonstrate the following qualifications of the firm and team of experts to perform the required services. (Minimum team composition including the team leader shall be 6)

Consultancy Firm

- Scope of the consultancy firm as mentioned in the business registration/certificate of incorporation;
- Legal status and administrative setup;
- Experience in climate change related activities/projects. Experience of undertaking similar type of consultancies will be an advantage;
- Experience in involvement of international projects or foreign funded projects in government sector;
- Financial capacity and recently audited accounting reports of the last consecutive three (03) years.

Team Leader

- Master's degree or higher academic qualifications in economics, environment/climate change, engineering, agriculture, management obtained from a recognized university (mandatory);
- Minimum ten (10) years of experience and strong capability to analyse policies, regulatory frameworks and barriers related to energy and transport sector related to climate change mitigation;
- Minimum three (03) years of working experience and strong capacity to design carbon pricing instruments or any other activity related to carbon trading mechanisms;
- Minimum three (03) years of experience in working with diverse range of stakeholders including government and private sector agencies;
- Excellent capacity to communicate and carry out sectoral and plenary consultations with key decision-makers such as relevant ministries, and national and local government agencies, and key stakeholder in the private sector, NGOs, academia, etc.
- Background knowledge on national commitments under the Paris Agreement, Sri Lanka Carbon Crediting Scheme and Carbon Pricing Instruments;
- Good knowledge on Article 6 of the Paris Agreement
- Good leadership and interpersonal skills;
- Fluency in English and local languages.

Team Member: An Economist

- Master's degree or higher academic qualifications in economics or relevant field obtained from a recognized university (mandatory);
- Minimum five (05) years of working experience in the field of expertise and out of this three (03) years should be in climate change related activities or projects;
- Minimum five (05) years of experience in analysing policy instruments connected to climate change mitigation;
- Experience in using economics or related modelling tools for performing assessment of policies and their interactions, political, economy and climate policy optimization will be an added qualification;
- Excellent capacity to communicate and carry out sectoral and plenary consultations with key decision-makers such as relevant ministries, and national and local government agencies, and key stakeholder in the private sector, NGOs, academia, etc.;
- Background knowledge on national commitments under the Paris Agreement, Sri Lanka Carbon Crediting Scheme and Carbon Pricing Instruments;
- Good leadership and interpersonal skills;
- Fluency in English and local languages.

Team Member: A Socio-economist

- Master's degree or higher academic qualifications in economics or relevant field obtained from a recognized university (mandatory);

- Minimum five (05) years of working experience in the relevant field of expertise and out of this three (03) years should be in environment/climate change related socio-economic analysis, activities or projects;
- Minimum three (03) years of experience in analysing policy instruments connected to socio-economic impacts due to climate change;
- Experience in using economics or related modelling tools for performing assessment of policies and their interactions, political, economy and climate policy optimization will be an added qualification;
- Excellent capacity to communicate and carry out sectoral and plenary consultations with key decision-makers such as relevant ministries, and national and local government agencies, and key stakeholder in the private sector, NGOs, academia, etc.;
- Background knowledge on national commitments under the Paris Agreement, Sri Lanka Carbon Crediting Scheme and Carbon Pricing Instruments;
- Good leadership and interpersonal skills;
- Fluency in English and local languages.

Team Member: An expert on Energy

- Master's degree or higher academic qualifications in engineering, science or relevant field obtained from a recognized university (mandatory);
- Minimum five (05) years of working experience in the relevant field of expertise and out of this three (03) years should be in climate change related activities or projects;
- Minimum five (05) years of experience in analysing policy instruments connected to GHG emissions reduction or mitigation goals in relevant field;
- Experience in using economics or related modelling tools for performing assessment of policies and their interactions, political, economy and climate policy optimization will be an added qualification;
- Excellent capacity to communicate and carry out sectoral and plenary consultations with key decision-makers such as relevant ministries, and national and local government agencies, and key stakeholder in the private sector, NGOs, academia, etc.;
- Background knowledge on national commitments under the Paris Agreement, Sri Lanka Carbon Crediting Scheme and Carbon Pricing Instruments;
- Good leadership and interpersonal skills;
- Fluency in English and local languages.

Team Member: An expert on Transport

- Master's degree or higher academic qualifications in engineering, science, transport management or relevant field obtained from a recognized university (mandatory);
- Minimum five (05) years of working experience in the relevant field of expertise and out of this three (03) years should be in climate change related activities or projects;
- Minimum five (05) years of experience in analysing policy instruments connected to GHG emissions reduction or mitigation goals in relevant field;

- Experience in using economics or related modelling tools for performing assessment of policies and their interactions, political, economy and climate policy optimization will be an added qualification;
- Excellent capacity to communicate and carry out sectoral and plenary consultations with key decision-makers such as relevant ministries, and national and local government agencies, and key stakeholder in the private sector, NGOs, academia, etc.;
- Background knowledge on national commitments under the Paris Agreement, Sri Lanka Carbon Crediting Scheme and Carbon Pricing Instruments;
- Good leadership and interpersonal skills;
- Fluency in English and local languages.

Team Member: A Lawyer

- LLB and/or Attorney at Law or higher academic qualifications in law or relevant field obtained from a recognized university/institution;
- Minimum eight (08) years of working experience in the relevant field of expertise and out of this four (4) years should be in government or private sector organization
- Three (03) years experience in environment/climate change related activities or projects;
- Thorough knowledge on environment related policies, regulations and acts shall be a distinct advantage (Proof should be provided);
- Excellent capacity to communicate and carry out sectoral and plenary consultations with key decision-makers such as relevant ministries, and national and local government agencies, and key stakeholder in the private sector, NGOs, academia, etc.;
- Background knowledge on national commitments under the Paris Agreement, Sri Lanka Carbon Crediting Scheme and Carbon Pricing Instruments;
- Good leadership and interpersonal skills;
- Fluency in English and local languages.

9. REPORTING LANGUAGE

The reporting language is English. All the reports shall be submitted electronically on or before the given deadline. Reports will be reviewed by a technical evaluation committee (TEC) comprising a team of experts, and payment for each deliverable will be made upon recommendation of the TEC. Printable version of softcopy and hardcopy of the finalized reports shall be submitted once the CCS accepts the report after reviewing and corrections.

10. CONFIDENTIALITY MATTERS

The consultancy firm along with its employees, consultants and experts will be subject to a confidentiality arrangement that will outline restriction of information and data gained throughout the assignment with other or third parties. All the data and information collected for this purpose should be handed over to the CCS.

11. COORDINATION WITH THE MINISTRY OF ENVIRONMENT AND WILDLIFE RESOURCES (MEWR)

- The consultancy firm will require to ensure that the firm is fully guided by the MEWR's PMR Core Team and this core team is informed of the consultancy firm's day-to-day operations in relation to the assignment, specifically of all meetings being held with relevant line ministries;
- The consultancy firm requires to make a request for the MEWR's participation in meetings or interviews, at least 14 days in advance.

12. PRIMARY CONTACTS AND CONTACT POINT

An officer of the CCS/MEWR has been appointed as the contact point of CMASP to maintain the sustainability of consultancy services after completion of the project period. The Project Director of the Climate Mitigation Action Support Project and Director of the Climate Change Secretariat can be contacted by email at cmasprojects1@gmail.com and climatesec@gmail.com respectively.

13. RESPONSIBILITY OF THE CONSULTANCY FIRM

Consultancy firm should strictly adhere to the given deadlines of the deliverables. Failure to submit deliverables or delaying of submitting deliverables one to six on the given deadline, a penalty of 0.5% will be charged per day from the particular payment of the deliverable and failure to submit final deliverable on or before the deadline consultancy will be terminated and payment shall not be made. All information, data and reports obtained from the CCS and respective parties in the execution of the services of the consultancy shall be properly reviewed and analyzed by the consultancy firm. All such information, data and reports shall be treated as confidential. MEWR will have the intellectual property rights of all the deliverables of this consultancy service.