Annual Review - Summary Sheet

Title: Partnership for Market Readiness	
Programme Value: £7 million	**Review Date:** January 2016
Start Date: 1 November 2015	**End Date:** 31 October 2016

Summary of Programme Performance

Year	2011-12	2012-13	2013-14	2014-15	2015-16		
Programme Score	B	A+	A+	A	A		
Risk Rating	Medium	Medium	Medium	Medium	Moderate		

Summary of progress and lessons learnt since last review

The PMR supports capacity building for the implementation of carbon pricing[1] in developing countries through grant funding and technical assistance. The core PMR activity of building institutional and technical capacity for carbon pricing policies is a necessary first step towards gaining support for market-based approaches in developing countries and expanding their use. The PMR also provides a platform for technical discussions, facilitates country-to-country exchanges and promotes best practice.

The PMR continues to perform well, with significant progress made both in its core area of delivering Market Readiness Proposals and impressive delivery of technical, knowledge and policy analysis products, that contribute to the PMR achieving its expected Impact[2].

Despite exceeding expectations in two of the three Outputs[3], the overall programme score is A. This is because, despite significant progress over the review period, the implementation of Market Readiness Proposals remains behind schedule, and this has had a knock-on impact on the percentage of grant disbursements overall (which remain below the target at 63%, compared with an expected 90% disbursement). However, the actions taken by the PMR Secretariat this year, combined with the continued momentum towards finalising grant arrangements, and the ambitious targets the PMR has set itself for the next review period, means that it will be possible to make up the current time lag and we do not expect that the delays will impact on the expected Outcome of PMR.

Importantly from the UK's perspective, the PMR has readily adapted to cover work related to Article 6 of the Paris Agreement[4] and now includes a Policy Analysis Work Programme to support participating countries in preparing the mitigation component of their Nationally Determined Contributions (NDCs). Our view is that the PMR should continue to orient its work towards facilitating the implementation of the post-2020 framework as an enabler of the Paris goals. PMR also broadened in 2016 by accepting two more implementing countries – Sri Lanka and Argentina – which demonstrates the Secretariat's efforts to maximise the value for money of the fund.

The most important lesson learned in this review period was that, although the grant agreement process does bring challenges, a flexible approach to implementation agreements (i.e. using World Bank executed grant agreements and implementation through different partners), can yield significant results.

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[1] *Carbon pricing can refer to a range of policies, but in the context of the PMR, it primarily denotes emissions trading, scaled-up crediting and carbon taxes.*

[2] *Substantial CO_2 abatement as a result of market mechanisms*

[3] *PMR Outputs set out in detail on pages 7 – 11*

[4] *https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf*

This is applicable to other International Climate Fund (ICF) programmes managed by the World Bank and procedures to facilitate this should be built into programmes from the outset to prevent delays. The Department for Business, Energy and Industrial Strategy (BEIS) will consider how these lessons are best shared. The PMR should continue its work to maintain active linkages with the other World Bank carbon markets projects (in particular the Transformative Carbon Asset Facility), as well as other relevant international climate change developments and initiatives (International Civil Aviation Organisation resolution, Carbon Pricing Leadership Coalition), to promote lessons learned and disseminate best practice.

Summary of recommendations for the next year:

1. The PMR Secretariat should develop and implement options for collecting qualitative information on the usefulness of knowledge products produced (monitoring milestone: June 2017).
2. The PMR Secretariat should continue enhanced efforts to monitor and prioritise the implementation arrangement process and grant disbursements (monitoring milestone: June 2017).
3. The PMR Secretariat should include an indicator which reflects the progress of each country's Market Readiness Proposal (MRP) implementation on the Operating Management System dashboard. BEIS should then incorporate this into the UK logframe (monitoring milestone: June 2017).
4. BEIS will review the milestones and indicators for Output 2 and consider whether they are appropriate. The logframe will be updated with any agreed changes in appropriate time for the next Annual Review (target deadline: June 2017).
5. The PMR Secretariat should explore the options to further broaden outreach activities beyond PMR participating countries (monitoring milestone: June 2017).
6. The PMR secretariat should continue to develop thinking on the future of the PMR (monitoring milestone: June 2017).
7. BEIS should feed in lessons learnt to the PMR-wide logframe in 2017 and the PMR Secretariat should ensure that the PMR-wide logframe is finalised in time for the next independent evaluation (target deadline: June 2017).

A: INTRODUCTION AND CONTEXT

Link to Business Case:	https://aidstream.org/files/documents/PMR-Business-Case.pdf
Link to Log frame:	See Annex 1, starting on page 20

Outline of the programme

The PMR supports capacity building for the implementation of carbon pricing[5] in developing countries through grant funding and technical assistance. The core PMR activity of building institutional and technical capacity for carbon pricing policies is a necessary first step towards gaining support for market-based approaches and expanding their use. The PMR also provides a platform for technical discussions, facilitates country-to-country exchanges and promotes best practice.

There are 13 donors to the PMR[6], collectively contributing $126.5m, of which £7m (~7% of the total) is from the UK. In addition to financial support, the UK also contributes technical expertise to the PMR, drawing on over a decade's experience in designing and implementing carbon pricing measures.

The PMR also includes 19 developing countries known as 'Implementing Countries'[7]. Through the PMR they develop Market Readiness Proposals (MRPs) and receive grants of $3m, $5m or $8m for their implementation. Subnational entities or developing countries that have already implemented a carbon pricing policy that wish to join the PMR do so as 'Technical Partners'. To date, these include Kazakhstan, California, Québec and Alberta. Developing country technical partners are also eligible to receive funding (up to $1m for capacity building). Technical partners contribute with their technical expertise and experience with the implementation of carbon pricing instruments. Finally the PMR has a number of observer countries (France, Italy, New Zealand, Singapore, South Korea) and organisations (such as the UNFCCC, UNDP, EBRD, IDB, IETA, CAF and ICAP).

PMR Contributing and Implementing Participants together make up the PMR's Partnership Assembly (PA), the decision-making body of the PMR. The PA approves the allocation of funding, approves the PMR operating budget, monitors the operations of the PMR against agreed objectives to ensure value for money and serves as a knowledge and experience sharing platform. In the period under review the UK also participated in two PMR working groups, on evaluation and on offset units.

The work of the PMR supports UK objectives to lower global emissions in an economically efficient way, by supporting the take-up of carbon pricing schemes around the world and helping improve existing pricing mechanisms in order to increase the cost effectiveness of global mitigation. An international carbon market will also be an important tool to help deliver the increases in ambition needed globally to meet the Paris goals.

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[5] *Carbon pricing can refer to a range of policies, but in the context of the PMR, it primarily denotes emissions trading, scaled-up crediting and carbon taxes.*

[6] *Australia, Denmark, European Commission, Finland, Germany, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, UK, USA. Within the PMR these are referred to as 'Contributing Participants'.*

[7] *Argentina, Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Jordan, Mexico, Morocco, Peru, South Africa, Sri Lanka, Thailand, Tunisia, Turkey, Ukraine and Vietnam. Within the PMR these are referred to 'Implementing Country Participants'.*

B: PERFORMANCE AND CONCLUSIONS

Annual outcome assessment

In order to understand whether the PMR is likely to achieve it's expected outcome and wider impact, a series of outputs are tracked using measurable indicators. The progress made on these outputs, as well as outcome-specific indicators, allows us to assess whether the PMR is on track. Progress made in the period covered by this Annual Review (1 November 2015 – 31 October 2016), has been very positive for the PMR achieving its Outcome of 'Market Mechanisms in at least 5 developing countries by 2020'.

Ensuring that all PMR Implementing Countries are able to deliver on their Market Readiness Proposals is core to the PMR delivering its expected Outcome, measured by the number of countries implementing market mechanisms and the quantity of CO2 reductions from these mechanisms. To date, no mechanisms have been implemented, but this is consistent with the original schedule. In order to finalise the outstanding Implementation Arrangements and ensure countries are delivering their MRPs, the PMR Secretariat has shown considerable innovation and flexibility in this review period, by tailoring the delivery arrangements to better fit with individual country circumstances. Although a number of arrangements remain ongoing, there is definite momentum towards ensuring that 2017 is a year of significant implementation progress in PMR. Given the first phase of PMR is due to end in 2020, implementing countries that have suffered delays in preparation will need to implement their MRP in shorter timescales than originally expected. We will track implementation progress at a portfolio level throughout the next reporting period to understand if delivery by 2020 remains achievable for all implementing countries. Based on the progress made to date, the original target of five countries implementing a market mechanism by 2020 is considered realistic.

The amount of emissions reductions relating to market mechanisms was zero for this reporting period, as no mechanisms have yet been implemented. Before the next Annual Review consideration should be given to whether it will be possible to attribute CO2 emissions reductions to the mechanisms supported by PMR by 2020, and thus whether this indicator has sufficient credibility.

Alongside the core activity of delivering Market Readiness Proposals, PMR's work on knowledge sharing and disseminating lessons learned is important to achieving the PMR's intended Impact of '*Substantial CO2 abatement as a result of Market Mechanisms'*. Over this Annual Review period, the PMR technical work programme and knowledge management have seen significant growth, with output exceeding expectations for both the knowledge sharing and promotion outputs. The knowledge sharing activities have continued to increase in diversity, covering a broad range of topics and collaborating with a number of technical partners. Most notable has been the publication of *Emissions Trading in Practice: Handbook on Design and Implementation* which was developed by the PMR in collaboration with the International Carbon Action Partnership and 5,000 copies have been downloaded since March 2016. In addition, the Policy Analysis Work Programme (PAWP) has ensured that the PMR remains relevant in light of the Paris Agreement by providing support to 10 countries on preparing the mitigation component of their NDCs. Support has been streamlined to programme- and country-level analytical work and modelling support which looks at interactions between carbon pricing and other policies. These actions are key to ensure that the PMR has the maximum possible impact up to 2020. It is also positive that the PMR Secretariat are actively gathering feedback from participants to inform a strategy for PMR second phase.

KPI11 *Public revenue raised from carbon related market mechanisms* was monitored for the first time in this reporting period. This was almost £1m (attributable to BEIS, with a 50% additionality factor), compared to the £2.3m milestone. It is likely that the delay to implementation arrangements has had an impact on this shortfall and we expect that the actions taken throughout the review period should allow the PMR Secretariat to catch up the lag in 2017.

Overall output score and description

Score	Output Description
A++	Outputs substantially exceeded expectation
A+	Outputs moderately exceeded expectation
A	Outputs met expectation
B	Outputs moderately did not meet expectation
C	Outputs substantially did not meet expectation

The overall output score for the PMR is **A.**

For this review period, both Output 1 and Output 3 scored an A+ as the PMR has over-achieved on all indicators for these Outputs. However Output 2 scored an A, as although the *Number of countries with approved MRP implementation plans* is on track, the *Number of implementation agreements finalised* is behind schedule and the *Percentage of implementation funding disbursed* is still significantly lower than the target, due to the lag caused by the implementation arrangement delay. Output 2, as the core activity of the PMR, carries 55% of the weighting. Therefore, the overall output score is A overall. However it is recognised that significant progress has been made throughout this review period, in particular in mobilising stalled implementation agreements, and the PMR Secretariat has exceeded expectations with the number and range of high-quality knowledge products produced and events undertaken throughout the period, which are essential to the PMR's transformational impact.

Key actions

The previous Annual Review of the PMR (for 2015-16) included six recommendations:

1. *WB to conduct qualitative analysis of the impact of the PMR's technical work programme to understand precisely how it can be of maximum benefit to PMR implementing countries, and more widely.*
   <u>Action taken since last review:</u> The PMR Secretariat takes several steps to assess the quality of its Technical Work Program (TWP), including through participant surveys, monitoring of downloads and users of e-learning courses, and solicitation of feedback on the program or guidance on the future of the program from participants themselves. The PMR Secretariat has highlighted a number of lessons learned from this process and demonstrated where they have adapted in line with feedback. For example, by providing immediate access to workshop materials, incorporating more time for questions and participant interaction into workshops or translating some knowledge products into Chinese and/or Spanish. In this Annual Review period, the PMR Secretariat has hosted two technical workshops that are independent of Partnership Assembly meetings. This allows the Secretariat to 'get the right people in the room' by better targeting country experts relevant to the particular topic of the workshop. The downside to this approach is that participation by Contributing Participants is weaker and so more work is needed to ensure that they remain connected to the progress of the Technical Work Program. The PMR Secretariat has also taken steps to boost dissemination of knowledge products, by using the World Bank's Open Knowledge Repository (OKR).This makes it easier to track the use of specific publications. All knowledge products are also featured in the PMR newsletter and on the PMR website and printed in hard copy when requested. All evidence is that dissemination has greatly improved. This recommendation has been effectively addressed.

2. *WB to continue to monitor the grant agreement processes and seek ways to streamline the process.*
   <u>Action taken since last review</u>: The PMR Secretariat has taken several steps to streamline the process toward implementation arrangement and this has shown significant progress in 2016, with four implementation arrangements being finalised, building on the three agreed in 2015. Steps included aligning internal WB procedures for programme approval with the timing of the Market Readiness Proposal (MRP) design and improving the amount of detail that countries provide in their MRPs on financial management and institutional arrangement to better align the MRP with the internal WB program documents. A good example of how this streamlined the implementation arrangement is the MRP of Jordan, which was approved by the Partnership Assembly (PA) and, one

month later, finalized as a grant agreement with the WB. The World Bank has also taken a more flexible approach to the implementation arrangements of the MRPs, by giving Implementing Countries the option to enter into a Bank-executed implementation arrangement. This has unblocked the stalled progress on implementation arrangements for the Ukraine, Brazil and Costa Rica. In addition, where the World Bank has not been a suitable partner for implementation, the PMR Secretariat has facilitated an alternative delivery partner. In 2016, the Secretariat facilitated this alternative arrangement for three countries: Indonesia, Peru and Tunisia (preparation phase only). This recommendation has been effectively addressed and has allowed the PMR to make significant progress on agreeing grant agreements, which would have otherwise presented significant concerns in PMR delivering its objectives. Lessons can be learnt here for other World-Bank managed ICF projects

3. *WB to explore and address the reasons for MRP grant disbursement delays, sharing information with PMR donors.*
   Action taken since last review: The PMR Secretariat has identified some of the reasons for slow grant disbursement, including delays associated with finalizing implementation arrangements. These challenges and steps to mitigate them have been shared with the Partnership Assembly at each meeting in a systematic way through the launch of the Operating Management System, which includes a dashboard that tracks Implementing Country Progress and Implementation Status Reports that are presented by Implementing Countries at Partnership Assemblies. Information on disbursement of PMR funds has also been made more clear in the PMR's budget reporting. Due to the delay to grant agreements, the grant disbursements are still behind schedule. The PMR Secretariat has planned for grant disbursements to significantly increase over the next Annual Review period and this should be something that is monitored closely to understand the effectiveness of the measures taken.

4. *WB to continue to gather quantitative information about all events, and complement this with additional qualitative assessment, where possible, of the impacts of stakeholder events. This information should be analysed and shared with the PMR countries as part of a PMR-wide annual review cycle.*
   Action taken since last review: The PMR Secretariat now collects and aggregates survey responses following all PMR Technical Work Program knowledge events. Beginning in April 2016, these qualitative results where shared with PA participants as part of the annual reporting on the Technical Work Program. The PMR Secretariat has found this feedback important to both improve its knowledge events but also as a way to inform the topics and themes of future events. This recommendation has been adequately addressed.

5. *WB to improve financial transparency by publishing full and complete accounts (including operating budget, MRP preparation grants disbursement and MRP implementation grant disbursement), alongside a narrative, on an annual basis. This should start in 2016. If this is not possible then the PMR secretariat should explain why at the earliest date possible.*
   Action taken since last review: The PMR operating budget (and expense report) is publically available in the PMR Annual Report and the PMR Secretariat budget presentations, which are presented to the PA annually each year. The budget reporting has been improved, with an enhanced methodology for categorizing spending items, in particular to highlight and clarify the level of funding disbursement. In 2016, disbursement status was also presented at each PA meeting. The budget, alongside information about PMR preparation and implementation grant disbursement, is also publically available on the PMR website. Details on the status of countries' MRP implementation (including funding disbursement) is also available through country Implementation Status Reports, which are updated annually (and publically available). This recommendation has been effectively addressed.

6. *WB to finalise the PMR-wide logframe in 2016 in order to run the first PMR-wide Annual Review in 2017.*

Action taken since last review: The PMR logframe was not finalized in 2016. Work on the logframe has been progressed through the Monitoring and Evaluation working group and is scheduled to be completed before the end of June 2017. It is important that the logframe is finalised as soon as possible, to allow it to be used as a meaningful evaluation tool for PMR and inform decisions about a second phase. Lessons from the UK Annual Review could be usefully fed into this process. This recommendation has not been addressed.

Has the logframe been updated since the last review?

There are a number of changes to the Logframe that were recommended in the 2015 Annual Review, that have been implemented. These are set out in the table below:

Outcome 1: Increased knowledge sharing and support between developed and developing country partners to improve new market mechanism design and development	
Change: Change of Impact Weighting from 25% to 30%	*Rationale:* Increase in recognition of the importance of the PMR's knowledge generation role.
Output Indicator 1.1: Number of knowledge tools created to support implementing country market mechanism development and implementation	
Change: Addition of milestone and target	*Rationale:* Necessary to record progress going forward.
Output Indicator 1.2: Number of downloads of technical reports	
Change: The indicator has been changed from 'Number of Partnership meetings and workshops held by the PMR annually' to 'Number of downloads of technical reports'	*Rationale:* It was considered that the 'Number of Partnership meetings and workshops held by the PMR annually' is of limited value. As the Secretariat as begun report the number of report downloads, this information is available and gives a clearer indication of the rate that PMR information is being disseminated.
Output Indicator 1.3: Number of visitors to online tools at the PMR website (www.thepmr.org)	
Change: Addition of new milestone and target	*Rationale*: Necessary to record progress going forward.
Outcome Indicator 2: Increased developing country capacity to implement market mechanisms	
Change: Change of Impact Weighting from 60% to 55%	*Rationale*: Decrease to balance the increase in recognition of the importance of the PMR's knowledge generation role.
Output Indicator 2.1: Number of approved grant agreements	
Change: The indicator has been changed from 'Percentage of allocated preparatory funding (US$350,000 per country) disbursed' to 'Number of approved grant agreements'.	*Rationale:* Based on previous concerns with the time taken for grant agreements and its potential impact, this is now considered an appropriate indicator.
Output Indicator 2.2: Number of countries with approved MRP implementation plans	
Change: Addition of milestone and target	*Rationale:* Necessary to record progress going forward.
Output Indicator 2.3: Percentage of implementation funding (US$3m, $5m, or $8m per country) disbursed as set out in the grant agreement	
Change: Addition of milestone and target	*Rationale:* Necessary to record progress going forward.

C: DETAILED OUTPUT SCORING

Output Title	Increased knowledge sharing and support between developed and developing country partners to improve new market mechanism design and development		
Output number per LF	1	**Output Score**	**A+**
Risk rating (Min, Mod, Maj, Sev)	Min	Impact weighting (%):	30%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	Yes (increased from 25%)

Indicator(s)	**Milestones**	**Progress**
1.1 Number of knowledge tools created to support implementing country market mechanism development and implementation.	1. (end of Oct 2011) Tool for Market Readiness Proposals finalised 2. (end of Oct 2013) 5 completed Technical Notes or similar knowledge products 3. (end of Oct 2015) 10 completed Technical Notes or similar knowledge products **4. (end of Oct 2017) 15 completed Technical Notes or similar knowledge products** 5. (end of Oct 2020) 20 completed Technical Notes or similar knowledge products.	In 2016: Ahead of schedule Total no. of knowledge tools this review period: **15** (including 4 technical notes, 3 newsletters, 4 E-Learning & Webinars and 4 pieces of Policy Analysis work)
1.2 Number of downloads of technical reports	**1. (end of Oct 2017) 36,000 report downloads for Annual Review period** 2. (end of Oct 2020) 63,000 report downloads for Annual Review period.	In 2016: On track A total of 26,800 downloads were recorded for this review period. This is on track to meet or likely exceed the 2017 milestone.
1.3 Number of visitors to online tools at the PMR website (www.thepmr.org).	1. (end of Oct 2012) (no target figure) 2. (end of Oct 2013) (no target figure) 3. (end of Oct 2015) 85,000 visits (cumulative) **4. (end of Oct 2017) 105,000 visits (cumulative)** 4. (end of Oct 2020) 130,000 visits (cumulative)	In 2016: On track The PMR website had a cumulative total of 96,802 visits by the end of Oct 2016.

Key Points

- Although the milestones are not until the end of 2017, the PMR is ahead of schedule on all three indicators for Output 1.
- The PMR has produced an impressive 15 knowledge tools in the review period, in a range of different formats. This includes four technical notes (50% more than last review period), three issues of Carbon Market Monitor and four E-Learning/Webinar sessions on topics from designing MRV systems to carbon leakage (both increases on the last review period).
- One notable knowledge tool launched in March 2016 is the *Emissions Trading in Practice: Handbook on Design and Implementation*, which was developed in collaboration with the International Carbon Action Partnership (ICAP), showing the continued collaboration of PMR with other initatives. More than 5,000 copies of this Handbook have been downloaded since its launch.
- In 2016, the PMR also made significant progress on its Policy Analysis Work Programme (PAWP), which supports PMR Implementing Countries in the refinement and implementation of

NDCs through capacity building analysis and modelling of policy instruments that focus on carbon pricing. Six countries are currently participating in the PAWP (Chile, Colombia, Costa Rica, Morocco, Turkey, and Vietnan) and 3 outreach events were held in 2016. The PAWP does not currently have a stand alone indicator under Output 1 and this should be considered for the next review period.

Summary of responses to issues raised in previous annual reviews (where relevant)

- *Recommendation from 2015 Annual Review: WB to continue to gather quantitative information about all events, and complement this with additional qualitative assessment, where possible, of the impacts of stakeholder events. This information should be analysed and shared with the PMR countries as part of a PMR-wide annual review cycle.*
- Status: Closed – The PMR Secretariat has built collecting feedback into both the Technical and Policy work programmes and has shown that it is using the feedback to refine and target future products. The qualitative results from surveys were shared with PMR participants, via annual reporting and intends to continue this for all future events.

Recommendations

1. The PMR Secretariat should develop and implement options for collecting qualitative information on the usefulness of knowledge products produced (monitoring milestone: June 2017).

Output Title	Increased developing country capacity to implement market mechanisms		
Output number per LF	2	**Output Score**	**A**
Risk rating (Min, Mod, Maj, Sev):	Mod	Impact weighting (%):	55%
Risk revised since last AR?	Yes – increased from Min	Impact weighting % revised since last AR?	Yes (reduced from 60%)

Indicator(s)	Milestones	Progress
2.1 Number of implementation arrangements finalised	**1. (end of Oct 2016) 15 implementation arrangements finalised.** 2. (end of Oct 2018) 19 implementation arrangements finalised.	Behind schedule: As of 31 October 2016, 11 implementation arrangements have been finalized. A total of 4 have been signed this review period, with Thailand (Feb 2016), Ukraine (April 2016), and Jordan (May 2016) implementing through the World Bank, and Indonesia (Oct 16) has finalised agreements with UNDP.
2.2 Number of countries with approved MRP implementation plans	1. (end of Oct 2013) 5 developing countries have implementation plans 2. (end of Oct 2014) 7 developing countries have implementation plans 3. (end of Oct 2015) 10 developing countries with implementation plans **4. (end of Oct 2017) 17 developing countries with implementation plans** 5 (end of Oct 2020) 19 developing countries with implementation plans	On track: 15 countries have approved MRP implementation plans. Currently, four countries are outstanding: Argentina, India, Sri Lanka, and Tunisia. India's MRP will be presented for final decision at the Partnership Assembly in March 2017.
2.3 Percentage of implementation funding (US$3m, $5m, or $8m per country) disbursed as set out in the grant agreement	1. (end of Oct 2014) 60% 2. (end of Oct 2015) 80% **3. (end of Oct 2016) 90%** 4. (end of Oct 2017) 90% 5. (end of Oct 2020) 90%	Behind schedule: As of 31 October 2016 63% of the funding as set out in the grant agreement has been disbursed.

Key Points

- Over this review period, the PMR has finalised an additional four implementation arrangements, taking this to a total of 11 of the 19 Participant countries. This is significant progress, given that some arrangements had been stalled for a number of years. We are aware that there is also momentum in this area, with a number of implementation arrangements completed just beyond the review period (Peru, Nov 16) or expected in early 2017 (South Africa). Actions taken by the PMR Secretariat to both streamline the grant agreement process and facilitate the use of other delivery partners for PMR Participants were key to this progress. With finalised arrangements, countries can move ahead with its core activity of implementing Market Readiness Proposals (MRPs), which is fundamental to the PMR achieving its target outcome and impact.
- 15 of 19 PMR Participant countries now have approved MRP implementation plans, which is on schedule for the milestone of 17 by 2017. Of the four outstanding countries, India presented its draft PMR in 2016 and Tunisia has finalised a preparation phase agreement with UNDP. Sri Lanka and Argentina, as the newest joiners are expected to present their MRPs in 2017.
- Despite the notable process improvements in the review period, delays to date have caused a lag in the disbursement of implementation funding, resulting in this remaining behind schedule at

63%. The PMR Secretariat has scheduled three times the amount of disbursements in FY17 than FY16, in order to ensure that Participant countries are able to implement their MRPs by 2020. Implimentation progress should be monitored closely by the Secretariat, to ensure that this remains on track and Participant countries are supported to implement their MRPs within the time available.

- Milestones 2.1 and 2.3 are linked and therefore effectively report the same delay, which means although important to monitoring progress, this delay is emphasised disproportionately to other indicators. Due to this and the significant progress made by the Secretariat this review period, it is considered that this indicator should on balance be scored as an A.

Summary of responses to issues raised in previous annual reviews (where relevant)

- *Recommendation from 2015 Annual Review: WB to continue to monitor the grant agreement processes and seek ways to streamline the process.*
- Status: closed. The PMR Secretariat has taken a number of steps in the review period of streamline the process of agreeing implementation arrangements. This includes aligning internal WB procedures for program approval with the timing of the MRP design, increasing the amount of upfront information countries provide on financial management and giving implementing countries the option to enter into a Bank-executed implementation arrangement or using an alternative delivery partner.

- *Recommendation from 2015 Annual Review: WB to explore and address the reasons for MRP grant disbursement delays, sharing information with PMR donors.*
- Status: closed. The PMR Secretariat has identified some of the reasons for slow grant disbursement, including delays associated with finalizing implementation arrangements. These challenges and steps to mitigate them have been shared at each PA meeting in a systematic way through the Operating Management System, which includes a dashboard of country progress and Implementation Status Reports that are presented by a selection of Implementing Countries at each Partnership Assembly. Information on disbursement of PMR funds has also been made more clear in the PMR's budget reporting.

Recommendations

2. The PMR Secretariat should continue enhanced efforts to monitor and prioritise the implementation arrangement process and grant disbursements (monitoring milestone: June 2017).

3. The PMR Secretariat should include an indicator which reflects the progress of each country's MRP implementation on the Operating Management System dashboard. BEIS should then incorporate this into the UK logframe (monitoring milestone: April 2017).

4. BEIS will review the milestones and indicators for Output 2 and consider whether they are appropriate. The logframe will be updated with any agreed changes in appropriate time for the next Annual Review (target deadline: June 2017).

Output Title	Promotion of sustainable, low-carbon development in developing countries		
Output number per LF	3	**Output Score**	**A+**
Risk rating (Min, Mod, Maj, Sev):	Min	Impact weighting (%):	15%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	No

Indicator(s)	Milestones	Progress
3.1 No. of stakeholder outreach and engagement activities, focussing on carbon pricing mechanisms and run in partnership with the PMR, that have taken place in Implementation Countries.	1. (31 Oct 2014) 4 2. (31 Oct 2015) 7 **3. (31 Oct 2016) 10**	Ahead of Schedule: 16 stakeholder outreach engagement activities took place during the review period in Kazahkstan (3), Turkey (4), Chile (5),Morocco (1), Vietnam (1), Peru (1) and Switzerland (1)

Key Points

- The PMR is ahead of schedule, undertaking 16 stakeholder outreach engagement activities during the review period, compared to 7 in the previous review period.
- A number of the outreach activities have been in conjunction with other events, whilst others have been independently arranged. The location and subject of the events are Participant country driven and therefore we can be confident that their focus is appropriate.
- With the PMR Secretariat now issuing surveys at the end of each session, the feedback has been that country workshops have greatly improved. This qualitative data captured will continue to help shape outreach and engagement activities going forward.

Recommendations

5. The PMR Secretariat should explore the options to further broaden outreach activities beyond PMR participating countries (monitoring milestone: June 2017).

D: FUND PERFORMANCE NOT CAPTURED BY OUTPUTS

In addition to the progress outlined above, in April 2016 the Partnership Assembly endorsed a process to broaden the PMR and welcome new Implementing Country Participants. Since then Sri Lanka and Argentina have joined the PMR, bringing the total of Implementing Country Participants to 19. With only three years now remaining for the first phase of PMR, the Secretariat must ensure that the process to endorse the Market Readiness Proposals for Sri Lanka and Argentina is optimised, whilst maintaining the robust scrutiny that other Implementing Country Participants have benefitted from.

The PMR Secretariat has started to collect feedback from participants about the PMR strategy post-2020. There has been a general feeling that the PMR is performing well and should continue beyond 2020. The nature of the PMR phase 2 will be discussed throughout 2017 and the UK will engage in these discussions.

Over the reporting period, the PMR has also strengthened its interactions with the private sector, primarily by inviting private sector representatives to join most PMR workshops. Links have been consolidated with IETA, with a joint workshop on China's National Carbon Market: An Industry-to-industry dialogue and the development of training material to support private sector readiness collaboratively with IETA's Business-PMR are planned for 2017. As the confidence of business is very important to the establishment of a well-functioning market, the engagement of the private sector in the work of the PMR should be continued.

Recommendations

6. The PMR secretariat should continue to develop thinking on the future of the PMR (monitoring milestone: June 2017).

E: VALUE FOR MONEY & FINANCIAL PERFORMANCE

Key cost drivers and performance

The PMR's most recent financial year ended on 30 June 2016 (FY15). In that period the PMR spent $6.4m on operating costs, up from $5.2 in FY15, $3.79m in FY14, $2.93m in FY13 and $1.91m in FY12. Operating expenses are around 85% of the total budgeted, and this is primarily caused by lower-than-budgeted spend on the Policy Analysis Work Programme, although spend here is higher than in FY15.

Of the $6.4m spent, 28% was on country support and advisory services, 31% on upstream policy analysis, 19% on knowledge management, 11% on management and communications, 11% on workshops, and there was no spend on trust fund management.[8] In addition to significantly lower-than-expected spend on policy analysis, spend was lower-than-expected for workshops and higher-than-expected for knowledge management.[9] Spend was also lower-than-expected for management and communications.

Table 1: FY16 Operating Expenses and FY17 Budget (In $ thousand)

Use of Funds	FY16 Budget	FY16 Actual Expenses*	FY17 Proposed Budget
PA Meetings, Workshops	850	701	656
Country Delivery Support and Advisory Services	1,685	1,806	2,543
MRP Expert Feedback Process	102	51	70
Country Delivery Support	1,583	1,755	2,473
o/w: Secretariat Country Support	808	985	1,513
Delivery Partner Support	775	770	960
Knowledge Management	1,000	1,200	1,303
Policy Analysis Work Program	3,071	1,966	2,004
Management and Communications	753	728	768
Trust Fund Management	65	0	0
Contingency	150	0	150
Total Use of Funds	7,574	6,401	7,424

*The reporting period covers actual expenses from July 1, 2015 to April 30, 2016. The expenses during the period from May 1 to June 30, 2016 are estimated.

VfM performance compared to the original VfM proposition in the business case

The original VfM proposition in the business case states that *"The approach for assessing value for money will include outcome and output indicators which can be found in the PMR logframe".* In addition *"The procurement process will follow the World Bank standard procurement guidelines which DfID adhere to for other multilateral programmes".* The logframe has been adjusted annually since the business case was adopted, principally because the unprecedented nature of this project made appropriate impact and output forecasts challenging, but also to reflect that different milestones are required at different programme stages. While revisions to the logframe have moved some milestones downwards and others upwards, the overall scope of the milestones remain as originally envisaged, and against the revised logframe the programme continues to represent VfM. However, as mentioned above, progress to mitigate the existing delays to disbursements need to be continually monitored to ensure realisation of expected benefits.

[8] *The PMR Secretariat have advised that the way that the World Bank recovers trust fund management costs changed on July 1, 2015 and this is why the cost is recorded as zero in Table 1. Previously, trust fund management was a direct cost charged by the trust fund management unit. However, now trust fund management costs are integrated into a general services fee charged annually on all World Bank trust funds.*

[9] *This discrepancy in budgeted versus actual expenses for policy work has to do with the legacy envelope of money allocated for this work. Below budget expenditure on workshops reflects uncertainties surrounding costs in different locations. Costs for knowledge management were higher than budgeted because more knowledge products were produced than originally expected – this is reflected in output indicator 1.1 being assessed as ahead of schedule.*

Assessment of whether the programme continues to represent value for money

BEIS employs the 'three Es' assessment of value for money:

Economy (how effectively costs are managed)

Overall, operating costs are around 23% higher than in 2015, reflecting higher spend on the Policy Analysis, Knowledge Management and Country Delivery Support. At $6.4m, administrative costs are in line with expectations of a fund of this size, as set out in the original business case. Lower-than-budgeted management costs in 2016 continues the trend of good performance as identified in previous annual reviews. The underspend on the Policy Analysis Work Programme (PAWP) reflects legacy funding which was rolled over to FY2016.

Efficiency (how effectively funds are used to convert Inputs to Outputs)

Here the PMR performs reasonably well, as evidenced by the results for Outputs 1 and 3 in the logframe (Annex 1). The evidence above shows that the PMR effectively converts Inputs into Outputs, in particular through high quality events and knowledge products, where a number of outputs have been achieved ahead of schedule. Higher-than-budgeted spend on knowledge management has been matched with more knowledge products than was originally expected, helping to demonstrate good value for money. PAWP outputs are not currently included in our milestones and this should be addressed going forward. The management and communication costs were lower than budgeted. As the fund is currently delivering the majority of its expected outputs, it is therefore considered that the fund is being managed efficiently.

Delays to funding disbursements follow directly from fewer than expected implementation agreements, as reflected in previous annual reviews. These ongoing delays are reflected in a higher risk score for Output 2 compared with FY15. Good progress has been made on implementation agreements in this annual review period, and the PMR Secretariat plans to significantly increase disbursements in the next financial year.

Effectiveness (how effectively funds are used to convert Outputs to Outcomes)

For Outcomes, this cannot yet be fully assessed because of the long-term nature of the outcomes the PMR seeks to achieve. Actual results are not expected to be reported until 2018 at the earliest (as this is when the first bulk of MRPs are due to conclude). There is a clear trajectory towards achieving the first Outcome indicator (on the number of countries with a market mechanism), however further methodological work is still required in order to set appropriate milestones for the second (on the quantity of emission reductions achieved).

For Impact, there are milestones in 2016 which track the potential Impact of PMR. As shown in the logframe (Annex 1), delays in the disbursements have caused Impact Indicator 1 (public finance mobilised) to miss it's target, with a figure of £1.4m compared with the target of £2.3m (Annex 2 provides accompanying analysis). We currently judge the delays in grant disbursement raise a manageable risk to the overall implementation schedule: the PMR Secretariat has taken steps to identify the causes of delay and has planned for grant disbursements to significantly increase over the next Annual Review period. Although the delayed country programmes were for the smaller PMR programmes ($3m), India's MRP is likely to be larger (and is not yet approved). The PMR Secretariat will need to support all countries where a lag has been created by closely monitoring disbursement and general progress of MRP implementation over the next review period.

Quality of financial management

Based on the three Es VfM assessment above, the overall quality of the World Bank's financial management of the PMR is assessed as good. Last year's Annual Review cited a lack of full and complete published accounts. This has been addressed in this review period with the budget, alongside information about PMR preparation and implementation grant disbursement, now made publically available on the PMR website.

Date of last narrative financial report	April 2016
Date of last audited annual statement	April 2016

F: RISK

Overall risk rating: Moderate

Overview of programme risk

As in previous years, the overall risk rating for the Annual Review is Moderate. Although the risk ratings for Output 1 and 3 are Minor, the risk rating for Output 2 has been increased to Moderate. This is because despite the commendable work that has been undertaken to streamline the implementation agreement process, there is still a lag of the disbursement of implementation funding. With only three years remaining for the first phase of PMR, it is now critical that every effort is made to catch up this lag and ensure that MRP's are implemented effectively. As proposed under Output 2, a new indicator should be developed that captures how country-level programmes are progressing and this should be monitored closely throughout the next Annual Review period to mitigate the risk that delays at this stage effect the effective implementation of an MRP.

In addition, the risk rating remains Moderate as the delivery of all of the outputs listed in the logframe would not ensure that the desired PMR outcomes will be achieved. This is because decisions about carbon pricing are politically sensitive and will be taken at the highest levels (i.e. the head of state or government) taking account of a wider range of factors. Therefore the PMR will only ever be one of a number of issues being considered by decision makers.

Outstanding actions from risk assessment

None.

G: COMMERCIAL CONSIDERATIONS

Delivery against planned timeframe
As noted in previous Annual Reviews, and above, there have been delays against the timeline set out in the Business Case. Although the finalisation of implementation arrangements has made significant progress this year, the delay of grant disbursements remains and 2017 will be a critical year to assess the impact of the delays to date on implementation. It is not considered that the target milestones for grant disbursements were set too optimistically and therefore these targets should remain.

As described in the previous Annual Review, the Outcome has been amended to ‘Market mechanisms in at least 5 developing countries by 2020’. Although previously the Chinese ETS was expected in 2015, it is now more likely to be operationalised in late 2017. Chile and South Africa are also expecting to launch carbon taxes in 2017, therefore the target remains realistic. However, the wording should be changed from ‘market mechanisms’ to ‘carbon pricing mechanisms’ to reflect the range of mechanisms that PMR Participating Countries will be implementing.

Performance of partnership (s)
The World Bank, as PMR Secretariat, remains a cooperative partner for the UK in the delivery of the PMR. In particular this review period, the World Bank has demonstrated considerable flexibility to progress a number of implementation agreements by facilitating alternative delivery partnerships. The PMR continues to effectively consolidate ongoing strategic partnerships, in particular through joint working with the International Carbon Action Partnership (ICAP) and the International Emissions Trading Association (IETA). Attendance of countries, multi-lateral development banks, UN organisations and non-governmental organisations attend as observers at PMR meetings and events continues to allow knowledge and experience sharing in these fora. The NDC Partnership will be particularly important for PMR going forward, to ensure that the work of the PAWP is well-focused and complimentary. The PMR Secretariat should continue to raise the profile of the PMR, including the profile of donors. In 2017, BEIS will re-engage in the Monitoring and Evaluation working group, to feed in lessons learnt from the Annual Review and logframe to date and encourage the development of a PMR-wide logframe in 2017.

Asset monitoring and control
The PMR does not monitor or control any assets.

H: MONITORING & EVALUATION

Evidence and evaluation

The PMR has not yet established an annual evaluation cycle (similar to the UK's), as was aimed for in the previous Annual Review. The logframe has also not yet been finalised, as was one of the recommendations in the previous Annual Review. The PMR Secretariat has reported that the PMR-wide logframe is 90% established and the Monitoring and Evaluation workstream (a subset of contributing participants, working with the PMR Secretariat) will be reconvened in 2017 to complete this work. We consider that there should be no further delay to the finalisation of the logframe as effective monitoring of the PMR remains a concern whilst this logframe is outstanding.

This logframe will be used in the 2017 periodic programme level evaluation (World Bank-led). Although currently scheduled for 2019, the date for the second independent evaluation will be raised at the next Partnership Assembly. Ideally the evaluation should take place late 2017/ early 2018 to allow its results to inform the last couple of years of PMR's first phase and its future direction. The first evaluation was effectively managed by the PMR Secretariat and we will ensure any lessons learned from this are flagged early to optimise the second.

This Annual Review has been informed by qualitative and quantitative data provided by the PMR Secretariat in conjunction with a live scoring exercise, which included independent feedback from other donors (Norway, Germany and the EU Commission).

Monitoring progress throughout the review period

The bi-annual Partnership Assemblies remain the primary fora for in-year progress reporting and the opportunity for both Implementing and Contributing Countries to feed back to the PMR Secretariat. In the review period, 9 countries[10] presented their Project Implementation Status Reports during the Partnership Assemblies as part of the Secretariat's Operations Monitoring System. The PMR Secretariat have reported that oral feedback on the OMS during PA15 was generally positive, with the Implementing Status Reports satisfying participants, who enjoyed the the format of a forum for sharing the results.

The Partnership Assemblies remain well attended both by PMR participants and stakeholders and are considered of high quality. The positive response towards a second phase of PMR, from both Implementing and Contributing Countries demonstrates how the PMR continues to be seen as a leader in its field and a valuable source of expertise. Knowledge product and event collaborations with ICAP and IETA reinforce this.

The logframe was updated in 2016 to take into account recommendations made from the previous Annual Review and add additional milestones towards 2020.

Recommendations

7. BEIS should feed in lessons learnt to the PMR-wide logframe in 2017 and the PMR Secretariat should ensure that the PMR-wide logframe is finalised in time for the next independent evaluation (target deadline: June 2017).

[10] PA14: Chile, China, Costa Rica, Turkey
PA15: Brazil, Kazakhstan, Morocco, Thailand, Ukraine

I: TRANSFORMATIONAL CHANGE

Rating

3 – Tentative evidence of change – transformation judged likely

Evidence and evaluation

The UK's assessment of the PMR's capacity for transformational change relies on three critera and seven indicators. The three criteria are: *(1) Fostering political will and enhancing local capacities to act on climate change (2) Encouraging innovation, and (3) Influencing future carbon markets, and encouraging replication by others.* The evidence presented shows that the PMR achieves a score of 3 in two out of three criteria and therefore a 3 is considered appropriate overall. The principle challenge for the PMR in demonstrating a reasonable likelihood for achieving transformational change is that its policy objectives are long-term but also highly political, and therefore unpredictable.

Annex 1: Log Frame

Please see separate file.

Annex 2: KPI 11

KPI 11: Volume of public finance mobilised for climate change purposes as a result of ICF funding (Outcome Indicator 2)

The PMR logical framework provides milestones for Key Performance Indicator 11 (KPI 11), *volume of public finance mobilised for climate change purposes as a result of ICF funding.* The first milestone in the logframe is for £2.3m in public funding mobilised by the end of 2016 and as a result of ICF funding. Between 2014 and 2020, the PMR Secretariat estimates that the PMR will mobilise $81m in public finance.[11] Public finance mobilised by UK funding is proportionate to its burden share of 8.7% over the six year period, this means that UK funding is expected to mobilise around $7m in public finance.

The table below shows public finance leveraged over the period FY14-FY16. Over this period, the PMR Secretariat reports that the PMR mobilised nearly $US22m. Given a UK burden share of 8.7%, US$1.9m of this mobilised finance can be attributed to UK funding: this is equivalent to approximately £1.4m.[12]

Actual and Expected Public Finance Mobilised (US$)								
	FY14	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**Total**
Public finance mobilised	$265,000	$159,000	$21,482,500	$21,804,400	$34,022,300	$2,394,500	$683,300	$80,811,000
UK attributed public finance mobilised	$23,200	$13,900	$1,878,400	$1,906,600	$2,974,900	$209,400	$59,800	$7,066,100

[11] Public finance is assumed to be leveraged in proportion to funds disbursed.
[12] Conversted using annual average exchange rates. Source: Bank of England.