

**DEEPENING READINESS SUPPORT: OPTIONS FOR FUNDING ADDITIONAL ACTIVITIES  
UNDER THE PMR**

Draft for discussion

PMR Note PA11 2015-2

February 24, 2015

## I. BACKGROUND

1. Since its operationalization in 2011, the Partnership for Market Readiness (PMR) has evolved into a key platform for supporting carbon markets and carbon pricing in a broad context of climate change mitigation policies and action. In an effort to ensure that its impacts are maximized and sustained over time, the PMR Secretariat initiated the discussions on the strategic direction for the future of the PMR in May 2013 at its sixth Meeting of the Partnership Assembly (PA) in Barcelona.

2. In this context, the PMR Secretariat presented a draft note on the *Strategic Orientation of the Future of the PMR* ([PMR Note PA7-2](#)) in October 2013 at PA7 in Marrakech. The Note outlined ways in which the PMR could be further scaled-up, including: (a) Deepening readiness support to countries through strengthening and expanding upstream policy analysis, enhancing the PMR technical work program, reinforcing in-time expert support to Implementing Country Participants, and supporting South-South knowledge exchange; (b) Broadening the reach and scope of the PMR; (c) Supporting piloting of the new market-based instruments; and (d) Preparing for the second round of resource mobilization in order to provide long-term and systematic support. The Note also stated that options for broadening the reach of the PMR and, even more so, for the piloting of new market-based instruments, would likely require additional resource mobilization.

3. As a follow up to the first round of discussions on the strategic direction for the future of the PMR, the following actions were taken. First, in March 2014 at PA8 in Mexico, the PMR introduced a new category of PMR participants – Technical Partners – in order to broaden the reach of the Partnership. Second, the upstream policy work was launched in May 2014 at PA9 in Cologne in order to respond to new domestic and international developments, and help countries assess policy options and identify a package of effective and cost-efficient instruments (including carbon pricing instruments) for post-2020 mitigation scenarios. Furthermore, the PMR has been supporting corporate readiness activities through collaboration with IETA's Business PMR (B-PMR) and related analytical work on private sector preparation for carbon pricing policies. Finally, the World Bank began consultations on the possible creation of a fund to pilot scaled-up greenhouse (GHG) emission reduction crediting mechanisms, including, but not limited to, those that are supported by the PMR. Based on the PA's decision that the PMR strategic discussions would be an ongoing exercise which needed to be carried out regularly and in a participative manner, PMR Participants were invited to share further ideas on strengthening these lines of actions and other areas for PMR support, including options for broadening the reach of the PMR in the future.

4. Discussions on the strategic direction for the future of the PMR continued in November 2014, at PA10 in Santiago, on which occasion the Secretariat [highlighted](#) the main challenges and opportunities facing the PMR, as well as outlined possible ways of deepening, broadening, and strengthening the PMR support to countries. Participants raised a number of observations in response to the presentation. Among others, Participants emphasized the need to (a) take stock of past and present PMR activities focusing on the implementation (piloting) of Market Readiness Proposals (MRPs), (b) reassess the PMR's original objectives, and (c) provide clarity on the links and interactions between the PMR upstream policy

analysis support and the activities in the countries' MRPs. Following PA10, several Participants – including Finland, Japan, and the United Kingdom – provided written feedback on the presentation. Their comments highlighted a need for the current processes to be strengthened, particularly with regard to the effectiveness of grant agreements and execution, welcomed the gradual transition to the implementation stage of the PMR, and requested an in-depth projection of the PMR funding for the coming years. In addition to providing specific feedback to a number of proposals and possible modalities of the PMR operations in the future, Participants also emphasized a need for the discussions on the strategic direction to be country- and demand-driven.

5. The PMR Secretariat prepared this *Note on Options for Funding Additional Activities under the PMR* (Note PA11 2015-1), which largely focuses on deepening country support, as one of the key areas of the strategic direction for the future of the PMR. The Note outlines the rationale for deepening readiness support to countries, suggests possible ways for delivering such support in the future and provides the PMR financial outlook up to 2020, demonstrating the funding feasibility of the proposed activities. However, the options outlined in this Note do not preclude potential funding support for other areas identified during the discussions on the strategic directions of the PMR, including, for example, broadening the reach of the PMR by accepting new countries into the Partnership.

6. The PA is invited to provide feedback on the PMR Note PA11 2015-2, as well as share ideas on other areas of focus under the strategic direction discussion. Based on the overall feedback by the PA and an indication of demand and scope of the potential support requested by Implementing Country Participants, the Note will be revised and presented for the PA's consideration in May 2015 at PA12 in Barcelona, Spain.

## II. RATIONALE FOR DEEPENING READINESS SUPPORT AND PROPOSED OPTIONS GOING FORWARD

7. As the focus of the PMR activities is gradually shifting from MRP preparation and funding allocation to MRP implementation, deepening country support appears to be essential for ensuring that the implementation is strengthened and that the impacts of the PMR are maximized. In addition, the long-term projection of the PMR funding, which takes into account expenses related to the PMR operations and current modalities of country support up to 2020, demonstrates a likely funding surplus that could potentially be used to deepen the PMR country support. The following paragraphs describe the key considerations for exploring options on how the PMR support to countries could be deepened. While each of the options has distinct features and a specific objective, it is important to note that clear-cut boundaries between them are sometimes difficult to draw. However, by taking a holistic approach and carrying out an integrated assessment of all of the Implementing Country Participants' activities, potential overlapping will be avoided.

### **A. MRP Funding Allocation in the Context of Implementing Countries' "Readiness" Needs**

8. The current modality of PMR operation is that Implementing Countries receive grant funding to carry out activities identified in their MRPs. The amount of funding for each Implementing Country is limited to \$3 million, \$5 million or \$8 million and, in most cases, typically covers a small portion of the activities required for market readiness. To date, 11 out of 17 Implementing Countries were allocated implementation phase funding in the amount of US\$3 million. China and South Africa received funding in the amount of US\$ 8 million and US\$5 million, respectively.<sup>1</sup> As of March 2015, only four countries are yet to present their MRPs for funding consideration.<sup>2</sup>

9. As was envisaged early on, in most cases, the level of funding currently allocated through the PMR will not be sufficient to cover all the readiness needs identified by the Implementing Country Participants in their MRPs. As stipulated in the [Tool for Market Readiness Proposal](#), as well as the [Resolution PA 3/2012-4](#) (Additional Criteria and Modality of Allocation of Implementation Funding), countries had the option to indicate in their MRPs whether they planned to come back to the PA for a second round of funding. Based on this, several Implementing Country Participants already identified activities that could be funded through additional funding in their MRPs. Moreover, as more countries are entering the implementation phase, potential gaps between the MRP-funded activities and Implementing Country Participants readiness needs are likely to be further identified.

10. Accordingly, one of the options for deepening PMR country support – primarily aimed at strengthening the implementation of the MRPs – would be the possibility for Implementing Country Participants to apply for additional funding to complement their MRP activities. Such requests, including the identification of possible areas for additional support, would be based mainly on the review of the MRP progress and, as such, they would be incorporated into the PMR Project *Implementation Status Report (ISR)*, which the Implementing Country Participant will prepare annually with the support of the Delivery Partners and the PMR Secretariat. The ISR template has been submitted for endorsement by the PA in March 2015, as part of the PMR Operations Monitoring System (see Annex II of PMR Note PA11 2015-1).

### **B. Carbon Pricing Instruments in the Context of Implementing Countries' Mid- and Long-term Mitigation Goals**

11. The PMR countries' experience demonstrates that one of the main readiness challenges is a need to carry out economic and policy analysis to inform the selection and introduction of a carbon pricing instrument. In addition, there is broad recognition that carbon pricing instruments should be considered in the context of countries' mid- and long-term mitigation goals. Setting such goals and understanding

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<sup>1</sup> South Africa will present its final MRP for funding allocation in March 2015 at PA11 in London, UK.

<sup>2</sup> Those countries are India, Jordan, Peru and Tunisia.

their development implications are critical in the countries' choice of instrument, so that informed decisions on the choice and the design of a suitable carbon pricing instrument can be made.

12. The PA, through [Resolution No. PA9/2014-3](#) allocated an envelope of US\$5 million for fiscal year 2015 (FY15) to support countries' efforts to establish post-2020 mitigation scenarios and identify a package of effective and cost-efficient policies—including carbon pricing instruments—to achieve mitigation ambition. The PA requested that the Secretariat inform the PA, prior to each resource allocation, on the scope and timelines of the analytical studies and resource allocation. The above-described modality of support was endorsed for FY15 with an understanding that the process of resource allocation would be revised in May 2015. While it was assumed that such PMR support would facilitate the Implementing Countries' work in preparing their mitigation component for "intended nationally determined contributions" (INDCs) under the UNFCCC process, it was also recognized that a systematic and long term support to countries is critical in strengthening their modeling capacity beyond the COP21. In addition to providing support to a number of Implementing Country Participants, this work stream also included development of a "Checklist" of analytical tools for analyzing, designing and presenting emission scenarios that benefits all PMR countries and beyond.

13. In order to support countries to take a holistic approach to mitigation goal setting, identify cost-effective and suitable package of mitigation policies and measures, and to analyze impacts and interactions of these policy choices, one of the options for deepening the PMR country support would be to continue to carry out policy analytical work. In this regard, the "Checklist on Establishing post-2020 Emission Pathways" that is designed to help countries in the development and presentation of medium- and long-term emission pathways could serve as a useful "tool" for the identification of possible areas of support, while ensuring complementarity rather than overlapping of the various in-country activities. Moreover, Implementing Country Participants that are currently receiving technical assistance and support under this work stream are expected to identify further gaps and assess the needs for the continuation of such work in the future. Finally, Implementing Country Participants which have requested for technical assistance for post-2020 analytical work in its first phase would also have an opportunity to submit their requests for support, based on the interest and demand.

### ***C. National Developments Related to Carbon Pricing Instruments***

14. Only few PMR countries have made a decision on the type of carbon pricing instrument they will want to pursue. The majority focuses on readiness building which will facilitate both decisions about carbon pricing instruments, as well as future design and implementation. Nevertheless, some PMR countries have experienced rapid domestic policy developments since the submission of their MRPs. This has resulted in an increasing demand for additional support outside of the direct scope of the countries' MRPs.

15. These domestic developments demonstrate that both political leadership and "readiness" support are needed for advancing carbon a pricing agenda, reiterating the relevance of the PMR support.

They also present an opportunity for the PMR to leverage and expand on its past work and substantially contribute to the domestic dialogues on carbon pricing by being able to adapt and respond to an increasing demand from countries.

16. In an effort to help Implementing Country Participants advance their domestic carbon pricing agendas and ultimately support them in achieving their climate change mitigation goals, one of the options for deepening the PMR country support would be to help countries address specific issues regarding carbon pricing instruments design and implementation. As such, requests for support would be primarily targeted at the activities which emerged following recent domestic policy developments (e.g., the enactment of new legislation) and are therefore outside of the scope of the previously defined MRP activities. However, by facilitating country-level dialogues on the design and implementation of carbon pricing instruments, this support will ultimately strengthen the MRP implementation and national mitigation policies in general.

**D. PMR Funding Outlook up to 2020**

17. Based on the previous use of funds, the PMR Secretariat conducted a long-term projection of the PMR budget, up until the end of 2020. The long-term budget is intended to provide the expected implications of the options for deepening support to the PMR countries outlined above. Taking into account actual expenses of the PMR operations and country support from 2011 to 2014 and the estimated budgets for 2015 to 2020, the long-term budget demonstrates that, without further fund capitalization, the projected amount for funding additional activities under the PMR is approximately US\$10 million, with the possibility of being higher (up to US\$15-US\$20 million).<sup>3</sup> For more information, please see the Annex on the long-term budgetary projections, including the assumptions used and interpretations of each of the budget categories.

**III. CRITERIA AND PROCESS FOR FUNDING ADDITIONAL ACTIVITIES UNDER THE PMR: PRELIMINARY IDEAS AND NEXT STEPS**

18. The options for deepening the PMR country support outlined above are presented to the PA for discussion and feedback. The PA is invited to share further ideas and suggestions on possible ways to deepen the PMR country support, as well as other areas of focus under the strategic direction of the PMR, including options for broadening the reach of the PMR.

19. Subject to the feedback received from the PA and based on the discussions at PA11, the PMR Secretariat will develop a template(s) for Implementing Country Participants' applications for additional funding, which will be presented for the PA's endorsement at PA12 in May 2015. In order to ensure that

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<sup>3</sup> The estimated amount of unused funds under the PMR is currently US\$10 million. The estimate for the FY15 budget will be revised based on the actual expenses at the end of the fiscal year. In addition, in case some of the funding set aside for the Implementing Country Participants that have not yet submitted their MRP is not allocated entirely, the amount of unused funds could potentially be even higher (up to US\$15-\$20 million).

proposed additional activities and those implemented under the MRPs are complementary and mutually reinforcing, the template(s) for additional funding applications will take a holistic approach and include an integrated assessment of Implementing Country Participants funded activities. Such an approach should avoid potential overlapping, while ensuring effective and timely support to countries.

20. Finally, the template(s) will include a set of criteria for funding allocations (including modalities of implementation, eligibility principles and funding amounts), and propose a streamlined process for allocation. It is envisioned that electronic decision making – as outlined in the *Note on PA Background Note on Decision-making through Electronic Means* ([PMR Note PA10 2014-2](#)) and further refined in the [PA10 Co-Chairs' Summary](#) – could be used for approving any additional allocation of funding.

#### **IV. ACTION BY PA**

21. The PA is invited to provide feedback on the PMR Note PA11-2015-2. Implementing Country Participant are invited to indicate the interest in receiving support for funding additional activities under the PMR. Based on the overall feedback by the PA and indication of demand and scope of the potential support requested by Implementing Country Participants, the Note will be revised and presented for PA's consideration in May 2015 at PA12 in Barcelona, Spain.

**ANNEX: PMR FUNDING OUTLOOK BY 2020**

22. The implications on the existing PMR capital up until FY2020 are estimated in the budget below. The budget represents PMR actual expenditures for FY2011 – FY2014 and the estimated expenses for FY2015 – FY2020. The estimate for FY2015 reflects the budget that the PA approved in May 2014 at PA9 in Cologne. The long-term budget includes the following categories:

a. **The PMR Operations** include the costs of the PMR meetings and workshops, PMR Management and Communications day-to-day operating costs of the PMR Secretariat in managing and coordinating PMR activities), Country delivery support (including MRP Expert Feedback groups and the technical assistance provided by Delivery Partners and the PMR Secretariat to Implementing Country Participants for the preparation and implementation of their MRPs); Trust Fund Management (including legal, budgeting, and accounting services; World Bank Central Units costs and Contingency.

b. **PMR Support to Countries** include PMR country grant support (funds allocated for the preparation of the MRPs, implementation grants, and targeted country support to technical partners) and PMR complementary support to countries (including technical work program and upstream policy analysis). In the estimate, the amount for the implementation grants of US\$66,000 include allocated funding for MRPs so far amounts to US\$41 million. Since the MRP grant size ranges from \$3 million to \$8 million, a proxy of US\$5 million was used to for the remaining 5 MRPs, amounting to US\$25 million.

23. This long-term budget is meant to provide the expected implications on the PMR funding of the proposed activities presented in this Note. Taking into account estimates for the PMR operations and country support up to 2020, as well as an assumption of no further fund capitalization, the available amount for funding additional activities under the PMR is approximately US\$10 million. The estimated amount of unused funds under the PMR is currently US\$10 million. The estimate for FY15 budget will be revised based on the actual expenses at the end of the FY. In addition, in case some of the funding set aside for the Implementing Country Participants that have not yet submitted their MRP is not allocated entirely, the amount of unused funds could potentially be even higher (up to US\$15-\$20 million).



**PMR Estimated Expenditures, FY2015-FY2020**  
(in US\$ thousands)

<b>PMR Activities</b>	Actual	Actual	Actual	Actual	Est.	Est.	Est.	Est.	Est.	Est.	
<b>PMR Operations</b>	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	sub totals
<b>PMR Operations</b>											
PMR PA Meetings + Workshops	305	773	676	799	850	850	700	700	700	700	<b>7,053</b>
PMR Management	342	180	350	457	650	750	750	750	750	750	<b>5,729</b>
Country Delivery Support	165	879	1,124	1,761	2,100	1,900	1,800	1,700	1,700	1,700	<b>14,829</b>
<b>Trust Fund Management</b>	24	79	58	105	75	85	85	85	85	85	<b>766</b>
<b>WB Central Units Cost (1% of contributions)</b>	127	127	127	127	127	127	127	127	127	127	<b>1,270</b>
<b>Contingency</b>	-	-	-	150	150	150	150	150	150	150	<b>1,050</b>
<b>PMR Operations Subtotal</b>	<b>929</b>	<b>2,004</b>	<b>2,301</b>	<b>3,365</b>	<b>3,918</b>	<b>3,728</b>	<b>3,478</b>	<b>3,378</b>	<b>3,378</b>	<b>3,378</b>	<b>30,697</b>
<b>PMR Support to Countries</b>											sub totals
<b>PMR Country Grant Support</b>											
Preparation Grant											5,950
Implementation Grant											66,000
Targeted Country Support to Technical Partners											2,000
<b>PMR Country Grant Support Subtotal</b>											<b>73,950</b>
<b>PMR Complementary Support to Countries</b>											
Knowledge Management & Technical Work Program	-	-	238	664	1,000	1,000	1,000	1,000	1,000	1,000	6,902
Upstream Policy Analysis	-	-	-	258	5,000						5,258
<b>PMR Complementary Support to Countries Subtotal</b>	-	-	238	922	2,570	1,000	1,000	1,000	1,000	1,000	<b>12,160</b>
<b>PMR Support to Countries</b>											<b>86,110</b>
<b>Additional Support to Implementing Countries</b>											<b>10,000</b>
<b>PMR Activities Total</b>											<b>126,807</b>