

PARTNERSHIP FOR MARKET READINESS (PMR)

**Third Meeting of the Partnership Assembly
Cologne, May 28-29, 2012**

Resolution No. PA 3/2012-4

Additional Criteria and Modality of Allocation of Implementation Funding

WHEREAS:

1. Participants of the PMR have discussed the Additional Criteria and the modality of allocation of implementation funding.

The PARTNERSHIP ASSEMBLY:

1. Decides to endorse the Additional Criteria presented in paragraphs 26-28 and the modality of allocation described in paragraphs in 29-31, of Note PA 2012-1rev., "Additional Criteria and Modality for Allocation of PMR Implementation Funding" dated May 23, 2012-rev.¹

¹ For ease of reference, the PMR Secretariat will include these paragraphs in the annex to this resolution, once finalized.

ANNEX I

PMR Implementation Funding Additional Criteria and Modality for Allocation

26. The proposed Additional Criteria, which should be considered together in a holistic manner, include:

- A. The scope of the proposal and sound rationale behind the choice of the market instrument and sectors** as reflected in Building Block 2 of the MRP. The scope of the proposal indicates the sectors/programs (or Target Area(s), as defined in the Tool for MRP) that have been proposed for PMR support. A broad scope of the Target Area(s) implies that potentially greater effort and resources are needed for implementation. But equally important is the assessment of whether a market instrument is appropriate for the Target Area(s).

The allocation of additional funding may therefore take into account:

- i. *The scope of the Target Area(s) proposed under an MRP, accompanied by sound analysis on the suitability of using a carbon market instrument for such a Target Area(s).*

- B. Comprehensiveness of Building Block 4 of the Market Readiness Proposal (MRP)** – Planning for a Market-based Instrument. Building Block 4 includes two modules: 4(a) Scaled-up GHG crediting instrument and 4(b) domestic emissions trading. Both modules contain components that are essential to consider for setting up a robust, well-functioning market-based mechanism, including baseline setting, determining coverage of the instrument, defining the MRV framework, etc. As discussed in the MRP Tool, Implementing Country Participants are in different stages of development and have different capacities and objectives with respect to market instruments. Some countries may have already decided which market-based instrument to pursue, while others may be assessing and exploring options. It is understandable that an Implementing Country Participant may decide to leave out some components under the relevant module or only to provide some preliminary analysis due, for example, to political and/or technical factors. Nevertheless the comprehensiveness of the relevant module of this building block and thoroughness of the analytical work, including the examination of various options and approaches, provides an important basis for subsequent implementation and, as such, also signals a country's readiness for implementation.

The allocation of additional funding may take into account:

- ii. *Comprehensiveness and quality of the analysis of the sub-components contained in the relevant module of Building Block 4.*

- C. Mitigation potential** from a proposed activity for PMR support. As part of its elaboration of the MRP, an Implementing Country Participant may include the mitigation potential of the proposed PMR activity to be supported, which should be realistic and based on available information and good analysis.

The allocation of additional funding may take into account:

- iii. *The mitigation potential from a proposed activity and should be considered within the context of a country's circumstances and total emissions.*

D. Identification of milestones and the timetable for implementation. A strong MRP does not necessarily translate into immediate implementation (e.g. to reflect practical realities of political decision-making). Under each building block of the MRP, including Building Block 6, an Implementing Country Participant is required to identify activities for PMR support, and a clear timetable for implementation, or a roadmap for informing policy decisions on implementation.

The allocation of additional funding may take into account:

- iv. *The likelihood that a functioning market instrument will be put into place within a reasonable time (for example, within three to five years). The earlier the time schedule for full piloting and implementation, the more funding may be justified; and*
- v. *Milestones with clearly-defined decision-making junctures.*

E. Ratio of Co-financing. Co-financing is a very important indication of a country's willingness and readiness for piloting and implementation. Types of co-financing may include a country's own resources (funding and in-kind such as human resources) and sources from other initiatives, including bilateral and multilateral programs. Types of co-financing may include a country's own resources (funding and in-kind, such as human resources) and sources from other initiatives, including bilateral and multilateral programs.

The allocation of additional funding may take into account:

- vi. *The ratio of co-financing for the proposed PMR activities for support – the higher the ratio, the stronger the possibility for successful implementation of a proposed market instrument and the stronger the justification for a higher allocation from the PMR.*

Identification of priority areas and funding needs by Implementing Country Participants in their MRPs

27. As set out in the MRP Feedback Process (Resolution PA 2011-6), feedback on an MRP from PMR experts and Participants is critical to helping countries identify potential gaps within an MRP at an early stage. It is also expected that through such a process the Implementing Country Participant would make its own assessment on its funding needs and identify priority areas for PMR support. It is recommended therefore that the Implementing Country Participant, working with the Delivery Partner and the PMR Secretariat and on the basis of the feedback received, specify in the final submission of the MRP the amount of funding needed for PMR support, following the funding categories referred to in paragraph 32. For example, the Implementing Country should clearly indicate in the MRP that it requests US\$3 million, US\$5 million or US\$ 8 million. A timetable for the implementation of the activities included in the MRP should also be specified.

28. As indicated in paragraph 25, the Additional Criteria would only apply to the MRPs that request additional funding beyond the Minimum Amount. A MRP would not be subject to Additional Criteria if an Implementing Country Participant only requests the Minimum Amount; in this case only the General Criteria will apply.

Part III Modality for Implementation of the Funding Allocation

29. The PMR aims to mobilize US\$100 million. As of April 2012, following the commitment and pledge from Denmark², the PMR trust fund totals US\$71 million.³ In the previous version of the PMR long-term plan (LTP), which was presented at the first PA meeting, US\$20 million was identified as the PMR's operational budget to cover costs associated with the PMR meetings, expert process, country delivery support, secretariat services and trust fund management for a five-year period. Based on actual spending in FY12, the Secretariat has revised down this portion of the LTP to US\$17.5 million (over a five-year period) (Annex I), which means that an additional US\$2.5 million is available for allocation to countries for Implementation Phase grants. In addition to the PMR operational budget, US\$5.25 million is earmarked for preparation phase grants; together these fixed cost items total US\$22.75. Assuming full capitalization, this leaves a US\$77.25 for implementation funding.
30. Given the PMR's current pledges of US\$71 million, the total amount of implementation funding available for allocation is US\$48.25. It is important to note that this amount will could increase as a result of additional contributions from existing donor countries and new donor countries may join the PMR.
31. On the basis of the principles agreed at the EOM and the feedback received from PMR Participants, the PMR Secretariat proposes the following process and modality for allocation of the implementation funding:
- **Set aside minimum funding for all Implementing Country Participants.** As described in paragraph 1 above, a total of US\$45 million will be set aside on the basis of the Minimum Amount of US\$3 million for each of the Implementing Country Participant.⁴
 - **Establish three categories of funding size.** To simplify the funding allocation, the PA would allocate implementation funding on the basis of the following three categories:
 - i. US\$3 million (Minimum Amount);
 - ii. US\$5 million; or
 - iii. US\$8 million.

The decision on allocation of the funding range will be based on (i) the request by the Implementing Country Participant; (2) the General Criteria; and (iii) the proposed Additional Criteria in cases where more than the Minimum Amount is requested.

- **Allocation of Additional Amount in the face of funding shortfall.** The "setting aside" approach means that, as of this date, there is about US\$3.25 million available for allocation above any Minimum Amount ("Additional Allocation"). It is important to note that the amount available for Additional Allocation changes as fundraising evolves. In

² Denmark has pledged US\$5 million and is in the process of finalizing the contribution agreement with the World Bank.

³ Spain has informed the PMR Secretariat that its pledge of US\$5 million may not materialize in the near term and that, going forward, Spain intends to participate in the PMR as an observer. Previous PMR Secretariat documents that indicated total pledges to the trust fund of US\$76 million included the pledge from Spain.

⁴ US\$3 million is set aside for each Implementing Country Participant. However, the PA makes the decision on the funding provided that the MRP has gone through the feedback process and the MRP meets the General Criteria.

the event that the available Additional Allocation is exhausted, the PA may still allocate an additional amount to an Implementing Country Participant and establish an order for receiving such additional amount once funding becomes available. For example, in a scenario in which the PA allocates US\$5 million to more than one MRP in light of the current funding availability, the PA would establish a priority list for the receipt of funding that is more than the Minimum Amount. The priority would be established on the basis of consultations with the concerned Implementing Country Participants and where relevant, the timetable for implementation as specified in the MRP.

MRPs that are considered for funding decisions at a later PMR meeting and that receive an allocation of more than the Minimum Amount should not have priority over those that are considered at previous PMR meetings in receiving the additional amount.

As the World Bank, in its capacity as a Delivery Partner under the PMR, will not enter into a grant agreement that is conditional upon availability of funding, the Implementing Country Participant and the Delivery Partner would need to decide whether to process the grant agreement arrangement based on the Minimum Amount of US\$3 million or wait until the full amount of allocated funding is available to process the agreement.

- **Second-round Funding.** As the pace of implementation and readiness vary across countries, it is proposed that the PA allow an Implementing Country Participant, after having disbursed its allocated implementation funding, to request further funding from the PA in order to implement the activities described in the MRP endorsed by the PA (“second-round funding”) if there is strong justification to receive continuous financial support from the PMR. Applying for second-round funding would not be limited to those participants that received the minimum amount during the first allocation; any Implementing Country Participant could make a case for second-round funding. The PA may consider the proposal on the basis of the availability of funding, Additional Criteria and the merit of the proposal. However, an Implementing Country Participant that has not received implementation funding yet and is still within the deadline for submission of its MRP referenced in the paragraph below should have priority in receiving funding over an Implementing Country Participant that requests second-round funding.

32. **Deadline for the submission of the draft MRPs for the purpose of seeking feedback.** There should be a deadline for the submission of the draft MRP, after which the set aside approach referred to in paragraph 31 would expire and any funds still included in the “set aside pot” would be available for Additional Allocation, including for second-round funding referred to above. After taking into account various factors and the current experience, the PMR Secretariat proposes that this deadline be set at two years, starting after the decision on allocation of the Preparation Funding (US\$350K) by the PA to an Implementing Country Participant. A table of the indicative deadlines for each Implementing Country Participant based on its Preparation Funding schedule is included in Annex II. However, under exceptional circumstances, an Implementing Country Participant may, with justification, request the PA to extend the deadline.