Partnership for Market Readiness

Design Document

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Carbon Finance at the World Bank

pmr | PARTNERSHIP FOR MARKET READINESS

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Summary

The Clean Development Mechanism (CDM) and Joint Implementation (JI) have demonstrated the role market instruments can play in supporting the cost-effective reduction of greenhouse gas (GHG) emissions and in channeling mitigation finance to developing countries. As the world seeks to enhance global mitigation efforts post-2012, countries are exploring various means, including innovative market instruments, to scale up emissions reduction. To facilitate these efforts, and to inform the design process for new instruments, opportunities need to be created: for a technical forum to discuss them; for building capacity in-country to get ready for them; and for piloting and exchanging experiences and lessons learned.

With this in mind, the World Bank has established the Partnership for Market Readiness (PMR) to help interested countries, through grant funding and technical assistance, build capacity and pilot market instruments, and to provide a platform for technical discussions, South-South exchange, and collective innovation on market instruments. The body of knowledge on market instruments and lessons learned generated from the PMR will be shared, including with the UN Framework Convention on Climate Change (UNFCCC).

The PMR is country-led and builds on countries' mitigation priorities and considerations of market instruments. It aims to enhance countries' technical and institutional capacities and to demonstrate a portfolio of instruments ranging from domestic tools – such as emissions trading schemes – to scaled-up international offsetting/crediting mechanisms.

As countries are at different stages of development and market readiness, each will approach the use of market instruments in a different way. Some countries may focus on building new systems for measuring, reporting and verification (MRV), data collection, and establishing regulatory institutions; others may go further toward implementation of an appropriate domestic or international market-based scheme. Moreover, regardless of a country's choice, such capacity building and piloting can have cross-cutting benefits relevant to implementing non-market based mitigation actions, designing low emission development strategies and identifying areas of low cost mitigation potential.

The PMR is governed by the Partnership Assembly (PA), which consists of Implementing Country Participants and Contributing Participants. These two groups form the PMR's "Participants" and are the only entities that have decision-making power. Countries wishing to join the PMR as Implementing Country Participants must submit an Expression of Interest (EoI) and have the PA confirm their participation in the PMR. To become a Contributing Participant, a contributor needs to financially contribute to the PMR and enter into an administrative agreement with the World Bank, which serves as the PMR secretariat, trustee of the PMR trust fund and principal delivery partner to countries receiving PMR funding. The PA has limited the number of Implementing Country Participants to 15 given the amount of resources currently available to fund their engagements with the PMR. This number could change in the future.

The PMR also engages other relevant organizations and entities as observers, drawing on their expertise of the design and implementation of market instruments.

The PMR was launched by COP16 in Cancun, Mexico and aims to mobilize US$100 million over time.

I. Background

1. As the international community strives to achieve the long-term goal of limiting global temperature rise to below 2 degrees Celsius above pre-industrial levels, a growing number of developing countries has adopted national climate action plans that align with domestic development strategies. Some of these countries have set voluntary economy or sector-wide domestic mitigation goals, or are in the process of doing so. A number of countries has submitted nationally appropriate mitigation actions (NAMAs) to the UNFCCC and is identifying the means and mechanisms for cost-effective implementation of these national objectives.

2. Developing countries face a number of challenges in achieving these domestic goals and making the transition to a low carbon economy, including putting into place a portfolio of instruments that generate financial flows, encourage investment toward lower carbon alternatives, and ultimately provide a long-term carbon price signal. Policies and public finance will remain essential means to steer the transition. There is, however, a broad recognition that market instruments could play a complementary and supplementary role to other mitigation policies and sources of finance.

A. State of market instruments

3. To date the most prominent market instrument for developing countries has been the Clean Development Mechanism (CDM). The CDM constitutes the largest source of mitigation finance to developing countries and demonstrates the ability of markets to drive the financial flows required to reduce GHG emissions relative to business-as-usual (BAU) trajectories. Developed through a "learning-by-doing" approach, the CDM has achieved impressive results. Currently, there are more than 2,260 registered CDM projects with another 3,350 projects in the global CDM pipeline that are expected to be registered. The overall emissions reduction from CDM is expected to amount to more than 1 billion tons of CO_2e during the Kyoto Protocol's first commitment period. The design of the instrument is such that through the Kyoto Protocol's 1st commitment period, the supply of emission reductions from the CDM roughly matches the demand that is driven by the use of the Kyoto mechanisms by a number of industrialized countries to meet their obligations under the Protocol and by private sector entities from these countries, for whom the EU Emissions Trading Scheme is a key driver.

4. The CDM is on its way to making an important contribution to helping industrialized countries meet their emissions obligations under the Kyoto Protocol. That said, the outlook for the CDM and its ability to scale up, while further enhancing the leverage potential of carbon finance, will critically depend upon a few considerations. Firstly, clarity is needed on the post-2012 international climate change regime and the long-term demand for emissions reduction, as well as on countries' plans to use market-based mechanisms to meet domestic greenhouse gas (GHG) objectives. Secondly, the experience and learning to date need to be consolidated to shape the reforms necessary to enhance the efficiency and effectiveness of the CDM, in particular to reduce delays, streamline the project cycle, and move toward environmentally ambitious yet simplified and pragmatic methodologies and approaches to demonstrating additionality. Furthermore, the capacity developed around the mechanisms should be sustained and built upon.

5. Moving to an emission trajectory consistent with the 2 degrees Celsius goal and fostering the necessary economy- wide transformation to help developing countries move toward low carbon development paths will require mitigation beyond what can be achieved through offset mechanisms such as the current CDM. Consequently, in support of enhancing global mitigation efforts, various proposals for new market instruments and a reformed CDM have been targeted for the post-2012

framework. These proposals, for primarily international mechanisms, include introducing the use of standardized baselines into the CDM or new mechanisms such as sectoral crediting and NAMA crediting, technology-based approaches, and an allowance-type mechanism such as sectoral trading (Annex 1). A transition from project-based CDM to programs of activities (POA) to new mechanisms is a feasible trajectory for scaling up many countries participation in market instruments and mitigation, supported by the appropriate resources (e.g., finance, capacity and institutions).

6. International offset mechanisms play an important role, both by generating financial flows to developing countries to enable climate friendly projects and programs, and by supporting developed countries in meeting their emissions reduction targets in a flexible and cost-effective manner. The ambition of post-2012 mitigation commitments and overall level of effort will be, in large part, influenced by the ongoing debate on how to retain the flexibility and associated efficiency provided by these mechanisms, while scaling up public and private finance flows. The current absence of consistent and comprehensive policy signals on targets and markets is threatening the survival of the existing carbon market and hindering the further development of market instruments due to the lack of demand.

7. In addition to international mechanisms, there has also been interest in pursuing domestic market instruments, such as domestic emissions trading schemes with potential linkages to other trading systems. This can be seen as a means to achieving a baseline or target agreed upon internationally or, purely as a domestic initiative. Furthermore, domestic market instruments can and are being developed in other formats, including for energy efficiency and renewable energy certificates (See Box 1). These primarily support achieving domestic development priorities and energy use optimization cost-effectively. At the same time they lead to emissions reduction and help shift countries away from BAU GHG emission trajectories. It remains to be seen if and how such schemes can be made fungible with carbon market instruments.

8. While there is broad recognition of the need to strengthen the role of market instruments, increase their scale and deliver larger flows of finance, there is, however, a lack of agreement on which mechanisms can and should be employed to meet these objectives. Specifically, the current, somewhat vague, formulation of the proposed new mechanisms has made it difficult for policy makers from both developing and developed countries to reach a common understanding on how any future new market instruments would contribute to achieving low emissions development strategies. Limited piloting and testing of the concepts to date has been a shortfall in terms of informing the design process of the challenges and practicalities of implementation of the proposed new market instruments on the ground.

9. Moreover, the varying levels of market readiness and a lack of basic "infrastructure", including technical and institutional capacity in many developing countries – essential to the successful scaling up of mitigation efforts – further hinders the potential for moving from a project-based mechanism to any form of scaled-up instrument. Experience with JI has shown that a greater role for national authorities in market instruments requires substantial domestic capacity and strong institutions, relative to the CDM, which is governed by an international regulator – the Executive Board. World Bank experience with Programmes of Activities (PoA) under the CDM suggests that capacity building is needed in host countries to develop the necessary infrastructure and institutional support for PoAs. Moreover, scaling up through PoAs requires clarification of rules to facilitate implementation, simplification of methodologies and additionality rules, as well as more testing to prove the concept.

10. Indeed, prior to implementation, any scaled-up market instruments will likely require, among other things, strong domestic institutional capacity within host countries, the establishment of reliable databases and data management systems, development of legal and policy frameworks, and the

introduction of a credible measurement, reporting and verification (MRV) system. To make all these happen, significant capacity building is needed; this takes time.

Box 1: Emerging capacity and alternative market approaches beyond annex B countries

The complementary role that market instruments could have in supporting and enabling the cost-effective achievement of national priorities is now evident through the development of trading schemes/exchanges, often with indirect links to GHG emission reductions, and overall preparation for introducing market instruments in many countries.

China: Three voluntary environmental exchanges were established in Beijing, Tianjin and Shanghai in 2008 through private sector collaborations with approval from municipal governments. These are pilots for testing the use of domestic emission trading as a tool to support China's climate change mitigation strategy, but do not involve the central government.

- The China Beijing Environmental Exchange (CBEEX) provides a market platform for trading various environmental commodities, including CO_2. Its current operations include developing the voluntary 'Panda standard' for the creation of domestic GHG offset assets in the agriculture and forestry sectors with social co-benefits. The CBEEX also facilitates CDM transactions and is generating market demand for VERs through the China Carbon Neutral Alliance and a VER Carbon Fund of RMB0.5 - 1 billion capitalized by the member companies.

- The Tianjin Climate Exchange (TCX) is China's first integrated exchange for the trading of environmental financial instruments. Its focus is similar to the CBEEX, but also promotes energy efficiency through an intensity-based emissions trading, particularly for heating suppliers. The first transaction was in February 2010. After the pilot phase, the Tianjin plan may be extended to cover all public, commercial and residential buildings and their heating suppliers.

- The Shanghai Environment Energy Exchange (SEEE) provides a platform for trading asset rights, creditor's rights, stock rights, and intellectual property rights, focusing on environment and energy. It is exploring a new market mechanism aligned with the requirements of the Clean Development Mechanism. The exchange is intended to reduce transaction costs and bring more transparency to CER pricing.

India: The National Action Plan on Climate Change included several programs on energy, and specifically the use of market-based instruments to increase energy efficiency and the use of renewable energy. The government is also exploring linking these two schemes.

- The Perform Achieve and Trade (PAT) mechanism for trading energy efficiency certificates is expected to become operational in 2011, with an initial commitment period of three years. The scheme will cover 714 installations in 9 energy-intensive sectors. By 2014 the scheme is expected to generate 98 million tCO_2 in emission reductions per year.

- The Renewable Energy Certificate (REC) mechanism is intended to support an increase in installed renewable capacity from 15–65 GW in five years and is expected to become operational in 2011. RECs will only be issued to renewable energy generators, but will be freely tradable. RECs will be traded through regulator-approved power exchanges, within a price band.

Mexico: The voluntary program for greenhouse gas accounting and reporting (Programa GEI) covered 98 companies in 2009 accounting for 21% of national emissions. The program operates a validation/certification system of GHG inventories, establishes baselines, and develops standards, thereby providing essential capacity building for future participation in the carbon market. In the next two years the coverage will be expanded to 80% of national GHG emissions, with accuracy being enhanced through the use of third party verification. The emissions inventory is stored in a database housed at Semarnat (Ministry of Environment).

Republic of Korea: The Korean Certified Emission Reduction (KCER) Program is a project-based GHG reduction program operated by the government. This has been introduced to assist with meeting the 30% below BAU by 2020 voluntary mitigation target. KCERs are issued by the government for five-year crediting periods to projects with annual reductions of 500 tCO_2e or more and benchmarked using CDM and ISO standards, and IPCC guidelines. The KCERs are either purchased by the government for US$5 per KCER, sold into the voluntary market or banked in preparation for emissions trading. A trading scheme is being developed through the Basic Act for Low Carbon Green Growth and will be finalized by the fall of 2010.

Source: State & Trends of the Carbon Market 2010 – Philippe Ambrosi & Alexandre Kossoy, The World Bank Group

B. Need for capacity building and piloting

11. To date there are no systematic or coordinated efforts in place to support developing countries in preparing for and implementing scaled-up market mechanisms. The World Bank experience with the CDM and JI shows that in the early days of the carbon market, limited knowledge of and experience with market mechanisms posed a real problem for most developing countries and economies in transition. It prevented many countries from operating effectively in this emerging market. This has also been the case with implementing PoAs in many countries. Many governments and organizations[1], including the World Bank,[2] actively engaged in capacity building and promoting learning-by-doing to help overcome the lack of experience and assist host countries in successfully participating in the carbon market. Through early learning, capacity building and project implementation, a significant amount of experience and infrastructure has been built in host countries. These efforts need to be enhanced and sustained and must inform the design of any new mechanisms and policy tools developed in the future.

12. The successful transition of a market instrument from concept to reality requires capacity building before implementation. In some countries, implementation/piloting may focus on building new systems for MRV and data collection and establishing regulatory institutions. In others, this may go further toward implementation of an appropriate market-based scheme designed to reduce emissions in a cost effective manner and generate financial flows, if directed toward international carbon markets. Differences in countries' levels of market readiness are likely to have an impact on where carbon market funds are eventually directed once there is clarity on post-2012 frameworks. This would be consistent with the experience under the CDM where countries with the strongest capacities, enabling environments and mitigation potential have attracted more projects.

13. Moreover, the benefits of such capacity building and piloting can extend beyond carbon markets, as many of the components appropriate for those markets are also relevant to implementing non-market based mitigation actions, designing low emission development strategies and identifying areas of low cost mitigation potential. As countries develop national climate change plans and/or low emission development strategies, this will provide an opportunity to assess and prioritize mitigation potential in terms of costs and the possible role market instruments can play in achieving reductions. This can also provide a trajectory for evolving the scope of market instruments used domestically.

14. In any form, the evolution of market-based instruments should better reflect the practical realities in developing countries and offer meaningful opportunities to support low carbon and sustainable development, as well as to ensure environmental integrity. Market instruments will better contribute to mitigation and sustainable development if they can build on synergies with host country policies and other financial instruments.

C. Need for a platform for technical discussions

15. In addition to capacity building and piloting efforts, there is a strong need to have a continuous forum or process in place that brings together the relevant technical experts and policy makers from

[1] For example UNEP's CD4CDM program at the global level or CAF's Latin American Carbon Program (PLAC) at a regional level.

[2] The World Bank designed and implemented multiple capacity building programs including, 'National Strategies Studies (NSS)', 'PCF Plus' and 'CF-Assist', to support host countries' endeavors to develop an appropriate enabling environment for project-based carbon transactions.

both developed and developing countries to jointly explore market instruments, share experiences and learn from one another – the mistakes to avoid and the examples to emulate. As countries develop systems that match their national circumstances, such a platform for discussion could provide recognition by peers and experts as well as insights on design features that ensure the greatest flexibility for the future evolution of market based mechanisms and for potential linking. Moreover, such a platform could also provide an opportunity for South-South exchange of learning and experience.

16. Early insights and lessons can also be drawn from the REDD+[3] readiness process supported by the Forest Carbon Partnership Facility (FCPF) managed by the World Bank. By providing seed financing to developing countries, the readiness process lays the ground-work and helps build the requisite technical and institutional capacity for countries to access potentially large-scale incentive payments, including via the use of market instruments. Equally important in the FCPF experience is that the readiness process provides a forum for developing and developed countries and other stakeholders to jointly explore innovative ways to tackle deforestation and to identify realistic solutions to meeting the associated challenges. Such two-way information flows and dialogues have created a growing level of confidence and trust among stakeholders, critical to advancing the REDD+ agenda both domestically and internationally.

D. Establishing a Partnership for Market Readiness

17. Taking into consideration the need for capacity building, piloting and technical dialogue, the World Bank, in consultation with a number of developed and developing countries, has established a Partnership for Market Readiness (PMR) supported through a capacity building trust fund. The PMR provides a platform for technical discussions and the exchange of information on market instruments for mitigation, and helps interested countries build capacity for scaling up mitigation efforts through the design, development and piloting of market instruments appropriate to a country's domestic context.

II. Objectives of the PMR

18. The Partnership for Market Readiness (PMR) is intended to achieve the following objectives:

    (a) To provide grant financing to countries for building market readiness components (Box 2);

    (b) To pilot, test and sequence new concepts for market instruments, both for domestic and new international mechanisms, and to identify potential synergies between national market based instruments at an early stage;

    (c) To create a platform to enable policy makers of government agencies, practitioners, and public and private entities to share experiences and information regarding elements of market readiness, to learn from one another, promote South-South cooperation, and explore and innovate together on new instruments and approaches;

    (d) To create and disseminate a body of knowledge on market instruments that could be tapped for country-specific requirements; and

    (e) To share lessons learned, including with the UNFCCC.

[3] REDD+ refers to reducing emissions from deforestation and forest degradation, conservation, sustainable management of forests and enhancement of forest carbon stocks.

19. The underlying premise of the PMR is that as countries are at different stages of development and market readiness, they will approach the use of market instruments at different paces and in different ways. Essentially it is for each country to decide which market instruments, if any, could be employed to achieve mitigation objectives. The PMR will, however, aim to demonstrate a portfolio of instruments ranging from domestic tools – such as emissions trading schemes – to scaled-up international offsetting/crediting mechanisms. Although these approaches all seek to aggregate and scale up emissions reduction, implementation of mitigation activities will often be at the installation/project level, hence it is important to build on existing capacity and experience from the CDM.

20. It should be noted that, regardless of the country's choice(s) on market instruments, capacity building for market readiness will provide cross-cutting benefits – supporting the implementation of host countries' broader climate policy efforts beyond the realm of market instruments as it will help build the foundations to effectively implement and monitor mitigation policies more generally. As such the support given by the PMR to the Implementing Country Participants will not only provide options for access to market instruments, but also facilitate a country's nationally appropriate mitigation actions (NAMAs) and potentially improve its overall long-term capacity for mitigation. Moreover, countries preferring to initially develop capacity and implement domestic market instruments could subsequently in the mid to long term be in a position to develop links between their domestic market and international carbon markets. The core elements needed for a domestic market system (for example, MRV systems or registries) are also pre-requisites for international market instruments.

21. To avoid duplication of the tremendous efforts that have already been taken and are still ongoing or planned by the countries, bilateral partnerships and international organizations (including the World Bank), the PMR will not focus efforts on capacity building of existing CDM activities.[4] The scope of activities eligible for support from the PMR will, however, include capacity building for reformed CDM, in particular for the development and use of standardized baselines, as implementation requires greater domestic capacity and there are potential synergies with other instruments and overall mitigation in terms of data collection, for example.

[4] For the purpose of clarification, the capacity building activities pursued by the PMR do not include REDD+, which is supported by other initiatives, e.g., FCPF and UN-REDD.

Box 2: Components of Market Readiness

"Market readiness" is an evolving concept. Requirements are likely to differ depending on the type, scope, scale and degree of international linkage of the market instrument selected by each host country. The readiness components listed in this box are not comprehensive and are for illustrative purposes only.

Technical components:

- Defining the " boundary", including identifying geographical boundaries, covered sources and sectors, and the eligible activities that are to be encouraged by the market
- Data collection and management at appropriate levels of granularity
- Establishing emissions reference levels using established guidelines such as IPCC and international and domestic industry protocols
- Identifying factors and eligibility criteria for clear, predictable and efficient crediting of activities
- Introducing a robust measurement, reporting and verification system
- Emission (or other) accounting and registry system
- Transactions log

Institutional components:

- Organizing institutional arrangements for:
    - Co-ordination with stakeholders
    - Co-ordination of data collection and processing
    - Regulation of the system, including supervision of MRV
    - Supervision of implementation and compliance and enforcement processes
    - Management of risks and ownership issues associated with financial instruments, contracting between parties, and tracking of carbon assets
    - Accreditation of relevant independent auditing bodies as appropriate

Policy components

- Assessment of mitigation potential within a program or sector "boundary" and suitable policy instruments, including role of market instruments
- Goal setting and adjustments
- Prepare instruments for intervention
- Incentivizing private sector participation and rewarding good performers

III. Scope of activities for support

22. The activities for support by the PMR will be developed on a country-specific basis and build on a country's existing initiatives (Box 3) to meet nationally defined priorities. The menu of activities described below can be tailored to reflect a country's specific needs. As countries' technical and institutional capacities differ, each participating country may undertake, and not necessarily in sequence, some or all of the activities described below, including:

(a) ***Assessment*** - Feasibility and capacity assessment for utilizing market mechanisms within a portfolio of policy instruments in the context of the mitigation strategies, including analysis and appraisal of national, sub-national and sectoral approaches. Not all sectors within a country are suitable for market instruments or for a specific type of market mechanism. Capacity building support will build on a country's national or sectoral mitigation strategies and start with an overall assessment of the GHG inventory system, data availability and accuracy, concentration of emitters, institutional and technical capacity for MRV and cost analysis for implementation of the policy instruments. This assessment will help policy makers to decide on the suitability of a sector or a program and its boundary for a specific instrument.

(b) ***Data*** - Building or enhancing capacity for data collection systems and institutional capacity for data reporting and management and for setting up activity reference level. Market instruments require reliable data both at individual installations and at the level of aggregation. The magnitude of the data requirements and associated skills and expertise to manage data for any scaled-up market instrument are substantially more complex than currently required for individual CDM projects within a host country. The support provided would improve technical capacity, data reliability and availability at both a technical and institutional level, examine the data accuracy and its use to set up emissions reference levels, and define the geographic boundary of a sector or NAMA for market instruments.

(c) ***Measurement, Reporting and Verifying (MRV)*** - Design or enhance the existing MRV frameworks to ensure transparency, quality, credibility and consistency with international good practice. A robust MRV system is critical to all types of market instruments. Establishing MRV frameworks requires substantial efforts by governments in setting up a reporting system at the level of sub-national entities, designing consistent reporting formats, managing a database or registry system, putting in place measurement protocols and establishing an independent verification process. Capacity building will provide such support and promote knowledge sharing at national, sub-national and installation levels.

(d) ***Institutional capacity*** - Moving beyond the current project-based CDM requires a high level of engagement and responsibility for the host country government. Implementing Country Participants must play a leading role in technical areas, including data gathering and establishing MRV systems; in the policy domain, setting reference levels for emissions and/or other variables and establishing legal frameworks; and in the regulatory domain, to ensure implementation and the use of appropriate compliance and enforcement. In addition, a government focal point is needed to lead the work and coordinate across government departments to ensure policy coherence. Institutional strengthening can be a long and gradual process. The capacity building activities would aim to engage with key stakeholders early in the planning process and help the responsible government agencies organize cross-agency dialogues and broader consultations. Building a critical mass of human resources with technical, policy and regulatory expertise is essential for successful implementation of any market instrument. For this purpose, capacity building activities should facilitate knowledge sharing across various levels of the government and across various sectors, and should provide training to government officials and relevant stakeholders including those in industry and the private sector and those that are project developers.

(e) ***Policy and legal frameworks*** - Facilitating the design of policy and legal frameworks for implementation of market instruments. Putting in place a market instrument could require, *inter alia*, developing standards, technical guidelines and introducing incentive (or benefit-sharing) systems to promote broad private sector participation and, if relevant, effective use of the carbon price signal. These policy instruments should align with the country's priorities. Upon request, the capacity building activities could include expert support to assist in the preparation and formulation of necessary policy and legal frameworks for implementation of market instruments.

(f) ***Piloting and testing*** - Implementing new instruments and establishing the pre-requisite systems and institutions to generate understanding and early learning. Learning-by-doing is one of the most efficient means to gain experience, improve capacity and develop effective instruments. While for some countries a phased approach may be appropriate, starting with building readiness, moving to implementation of mitigation actions and market instruments, and culminating in transactions of the carbon assets generated, for other countries such sequencing may not be necessary and it may be possible to focus directly on specific components. If a participating country so wishes, a pilot program could be set up to test a market instrument selected by the country. The PMR would be open to a broad range of instruments and approaches being piloted across the Implementing Country Participants; however, the overall scope of implementation and choice of instrument will ultimately depend on the countries selected to participate in the PMR.

23. In addition to government policies and institutions, effective and strong private sector participation is particularly important for ensuring liquidity and the overall success of any market instruments. In particular, it is important to engage the domestic financial sector in order to educate the financial institutions about how a carbon finance revenue stream can help facilitate its bankability and potential for leveraging supplemental investment financing. Most of the activities described above require some level of private sector involvement. Furthermore, depending on the identified policy and market instruments, the capacity building program could include additional activities, such as dedicated consultations and trainings, for engaging the private sector.

Box 3: Maximizing synergies

The capacity building activities supported by the PMR will build on the ongoing efforts by countries to reduce transaction costs and maximize synergies between various initiatives. The following are a few examples of such efforts facilitated through the World Bank from which the activities supported by the PMR may benefit.

Low Carbon Growth Country Studies – A number of countries* have initiated comprehensive country-specific studies to assess their development goals and priorities, in conjunction with mitigation opportunities. These studies examine the opportunities and the financial, technical, and policy requirements to move toward a low carbon growth path. They have generated valuable information and provided recommendations to countries on implementation of their mitigation strategies.
**The studies supported by Energy Sector Management Assistance Program include Brazil, China, India, Indonesia, Mexico and South Africa.*

World Bank Development Policy Lending (DPL) – A number of countries have taken climate related DPLs to improve environment and climate change management and integrate climate consideration into policies and programs of key development sectors. For example, in Mexico there is a strong focus on policy and institutional measures and the $325 million loan specifically targets climate change. The $2 billion sustainable environmental management DPL in Brazil, supports climate change actions at both inter- and intra-sectoral levels, and covers natural resources, water, sanitation, and energy. There have also been series of energy and environment DPLs, including in Turkey and Morocco. Turkey's case illustrates a successful leveraging of Clean Technology Fund resources to promote inclusion of sustainable development principles, including climate change considerations, in sectoral policies, specifically energy. The Moroccan solid waste management DPL is the first development policy operation linked to a carbon finance program – specifically a PoA.

Investment plans on clean technology – As of May 2010, thirteen investment plans under the Clean Technology Fund (CTF)* were approved by the CTF Trustee Fund Committee. In these plans, countries provide analysis of sources of emissions and the shares of the sectors or subsectors in total emissions. On the basis of such analysis, countries identify sector strategies and options for mitigation, including ranking them by costs, savings, emission-reduction potential, and technical and institutional feasibility. In addition, the investment plans also outline the enabling policy and regulatory environment and assess readiness for implementation, including institutional arrangements.
**The investment plans are from Colombia, Egypt, Indonesia, Kazakhstan, Mexico, Morocco, Philippines, South Africa, Thailand, Turkey, Ukraine, Vietnam, and a regional plan for the Middle East and North Africa*

IV. Operating parameters

24. Building on the objectives and scope of activities outlined above, the PMR will operate under the following parameters:

(a) Be country-led and build on nationally defined and prioritized mitigation policies, according to each Implementing Country Participant's national circumstances. As many countries have already prepared mitigation plans or NAMAs, the PMR will assist them in assessing cost-effective options for implementation, and identifying a capacity building package that is embedded in supporting their national strategies.

(b) Coordinate with other readiness efforts to avoid duplication and ensure effective use of resources. The PMR should complement and coordinate with the relevant initiatives both at the international and national levels.

(c) Cooperate with other actors and processes. Many organizations including UNDP, UNEP and other multilateral development banks have experience in building in-country capacity. The PMR intends to collaborate with these agencies to ensure comprehensive and consistent approaches and deliver support to countries through multiple delivery partners when appropriate, on the basis of respective comparative advantages.

(d) Promote learning-by-doing through early and integrated efforts. Learning opportunities will be integrated into every stage of the PMR process. Early piloting should be one of the objectives promoted by the PMR in order to gain on-the-ground experience. The PMR should proactively communicate experience and lessons learned from both successes and failures to other processes, including the UNFCCC.

V. Coordinating with other organizations

25. Recognizing the broad range of activities necessary to build market readiness and the sizeable scale of support needed, many initiatives have been and are being launched both bilaterally and internationally to facilitate this. For example, the International Carbon Action Partnership provides capacity building and training for emissions trading through its summer school, but as yet does not support on-the-ground implementation. UNDP is launching an effort to pilot sectoral crediting in developing countries. The World Bank Institute's Carbon Finance Assist program is launching a regional capacity building initiative on low emissions development plans and implementation through markets utilizing the Global Development Learning Network as a platform to bring countries together remotely to train and share experiences. The IEA is doing an in-depth analysis of market readiness, while the Centre for Clean Air Policy, Ecofys and McKinsey have each done detailed sectoral and capacity analyses in several countries. Each of these initiatives has a particular area of focus; and it is important to ensure coordination and coherence to avoid duplication of efforts and to minimize complexity and conflicting requirements for participating countries, as well as to build synergies where possible. With this in mind, the PMR seeks to work closely alongside these entities and invites them to participate as observers and experts in the PMR meetings. Participation in the meetings will facilitate transparency on existing and planned efforts, thereby minimizing duplication of activities.

VI. Participation and contribution

26. As a forum for knowledge sharing, the PMR is open for participation to countries that have submitted expressions of interest (EoI) and whose participation have been confirmed by the Partnership Assembly (Section VIII A). Based on an expected trust fund of US $100 million, the PMR plans to provide packages of capacity building and implementation support to 15 countries, with priority being given to the developing countries that have some capacity in place; the greatest emissions reduction potential; and willingness to pilot new market readiness components and, ultimately, introduce market instruments to achieve mitigation objectives. The overall enabling environment and existing level of capacity in these countries is likely to be higher, thereby creating opportunities for earlier demonstration of readiness outcomes and learning-by-doing through implementation.

27. The PMR will also include those that contribute financially to the trust fund. A contributor will be required to make a commitment through an administration agreement with the World Bank.

28. All participants of the PMR will be expected to contribute their technical expertise and experience to the knowledge sharing forum.

29. Appropriate international, regional and domestic organizations and private entities are invited to participate in the relevant meetings of the PMR as observers and experts.

VII. Governance

30. The Partnership Assembly (PA), as the ultimate decision-making body of the PMR, consists of the following participants: (i) all countries that have submitted an EoI to participate in the PMR and whose participation has been confirmed at the organizational meeting of the PMR or any meeting of the PA (the “Implementing Country Participants”), and (ii) all donors that have contributed financially to the PMR and that have entered into an administration agreement with the International Bank for Reconstruction and Development (the “Contributing Participants”) (the Implementing Country Participants and the Contributing Participants will be collectively referred to as the “PMR Participants”). Decisions of the PA will be made on a consensus basis, and any PMR Participant who holds a different view may request to record its view as a note to the decisions. If all efforts to reach consensus have been exhausted and no decision has been reached, decision will be taken by two-thirds majority of the Contributing Participants and two-thirds majority of the Implementing Country Participants present and voting at the meeting of the PA, on the basis of one (1) vote per PMR Participant.

31. Once there are ten Contributing Participants and ten Implementing Country, the PA may consider establishing a smaller decision-making group, the Partnership Committee (PC), consisting of an equal number of representatives from the Implementing Country Participants and the Contributing Participants, for the purposes of approving funding allocations and performing other functions as may be designated by the PA. The establishment of the PC is meant to create a leaner decision-making body to streamline the decision-making process. Only Contributing Participants that have made a financial contribution to the PMR of the equivalent of US $5 million or more will be eligible to represent the Contributing Participants on the PC. Decision making by the PC will follow the same procedure as that of the PA.

32. The countries, organizations and entities relevant to the activities of the PMR and the delivery partners (as described in paragraph 35 below) may be invited to attend the meetings of the PMR as observers, without voting rights.

33. In addition, experts, including those drawn from the roster of experts established by the PMR Secretariat, may be engaged to facilitate the work of the PMR, including attending the meetings of the PMR to provide expert advice, and may provide technical assistance to Implementing Country Participants for readiness preparation and implementation. The roster of experts includes, for example, representatives from organizations active in capacity building, consultants specializing in carbon markets, and academics and practitioners that have been involved in designing and implementing carbon market instruments. The roster serves two objectives: (i) act as a staffing resource for technical expertise for capacity building associated with the PMR; (ii) serve as a single source of information on professionals operating in climate change and carbon related fields. Support to PMR activities from this group will be supplemented by local expertise that will handle design and implementation in country. The roster is in Excel format and is maintained by the PMR Secretariat; it will be available to all PMR participants via the PMR website.

34. The World Bank provides secretariat and technical support for the day-to-day operations of the PMR. The secretariat maintains a PMR website with all relevant documentation and details regarding meetings. The World Bank also serves as the trustee of the PMR trust fund.

35. In addition, the World Bank is the principal delivery partner for the PMR. In some cases, the PMR may rely on other multilateral development banks (MDBs) and UN agencies to provide support for grant implementation, as some of these agencies may have pre-existing relationships or ongoing work in countries also working with the PMR. The selection of delivery partners for a specific country/activity will be determined on a case-by-case basis. All delivery partners will be responsible for collaborating with the agreed Implementing Country Participants to assist them in carrying out the activities of the PMR, supervising grant implementation and providing technical support as needed. Each Delivery Partner will be responsible for the use of funds transferred to it under the PMR and the activities carried out therewith in accordance with its own policies and procedures. Each of them will report, and be directly accountable, to the PA and/or PC, as applicable.

36. Further details on the governance arrangement are set forth in the PMR Governance Framework adopted at the Organizational Meeting of the PMR held in Bangkok, Thailand on April 10-11, 2001, as included in Annex II.

VIII. Modalities of operation (process for programming)

A. PMR Process

37. **To achieve the objectives of the PMR**, a three-step process is envisioned:

(a) **Submission of Expression of Interest (EoI)**: The EoI, which includes an official cover letter and policy statements, provides an opportunity for a country to formally seek support from the PMR and to describe its interest in using market instruments as a potential tool to achieve climate mitigation actions within its national political context. Supporting the EoI is a questionnaire that can be used to provide further detailed, technical information on a country's current capacity related to the implementation of market mechanisms. The questionnaire is not mandatory, but interested countries are encouraged to complete it as appropriate in order to explain their domestic contexts and provide an understanding of their respective market readiness capacity.

(b) **Preparation phase**: An Implementing Country Participant formulates its Market Readiness Proposal[5]. The Market Readiness Proposal is supported by PMR funding allocated by the governing body of the PMR[6] (PMR Funding for the Preparation Phase); and

(c) **Implementation phase**: An Implementing Country Participant implements readiness components outlined in the Market Readiness Proposal, including piloting the proposed market instrument(s). The implementation is supported by PMR funding allocated by the governing body of the PMR (PMR Funding for the Implementation Phase).

B. PMR meetings

38. An Organizational *Meeting* was held on April 10-11, 2011 to discuss and agree to the modalities of operation of the PMR. At the Organizational Meeting, participants adopted the (i) PMR Governance Framework (ii) Rules of Procedures for PMR meetings (iii) participation guidelines for the Implementing Country Participants and (iv) the amount of funding to be distributed during the preparation phase ($350,000/Implementing Country Participant).

[5] The Market Readiness Proposal is expected to lay out a road map for putting into place a market instrument(s). A Tool for the Market Readiness Proposal is being developed by the PMR Secretariat (feedback and input from PMR Participants will be sought).

[6] Refers to the PA or the PC, as per the PMR Governance Framework.

39. The PA will meet regularly (at least twice per year), operating as a technical working group, to discuss common policies, progress of implementation of the capacity building packages and piloting of market instruments, and other implementation issues. The frequency and form of the PC meetings will be determined by the members of the Committee once it is established.

IX. Size of PMR funding

40. While the overall size of the fund will be determined by a number of factors, such as the types of activities to be covered, depth of capacity building and piloting, and the number of participating countries, the initial target size of the fund is US$100 million for grant financing. While this amount is small relative to the likely overall need for capacity building in order for developing countries to participate in carbon markets[7], this is expected to provide a good starting point for initiating implementation of market readiness and pilots. The proposed scale of the PMR will not sustain covering the full costs of implementation. It is anticipated that countries will be able to use the grant financing to leverage other sources of support to meet the remaining costs.

41. The operational threshold of financing would potentially provide for development of detailed capacity building support packages and piloting proposals for market instruments and the initial development of data collection and management systems in all Implementing Country Participants. The size of each grant will be determined by the Partnership Assembly and will be contingent on various factors including, for example, the size of the country, sectors covered, and the scale of implementation.

X. Timing for fund termination

42. The PMR can provide support as long as there is demand from countries for market readiness capacity building and piloting. It is expected that the PMR will operate until June 2021, unless otherwise decided by the PA, the World Bank and other entities serving as the delivery partners, if any.

XI. Expected outcomes

43. The outcomes achieved through the PMR will, to a large extent, depend on the participants, the scale of capacity building gaps identified, the willingness to design and implement market-based schemes to support mitigation actions, and the overall level of funding provided to the PMR. That said, it is possible to identify the following outcomes that would indicate successes for the PMR:

    (a) The overall capacity of Implementing Country Participants to develop and implement cost-effective mitigation measures through market based mechanisms is improved. It is expected that, as a result of capacity building, the Implementing Country Participants would be able to utilize market instruments to generate high-quality emission reductions.

    (b) Depending on demand, a number of countries undertake implementation of market readiness components and piloting of market instruments. This is likely to include testing of new market instruments such as sectoral crediting and NAMA crediting, and developing domestic market instruments such as emissions trading schemes.

[7] Ecofys estimates that this need will reach US $5.1 billion by 2020. Linking Developing Countries to Carbon Markets: Cost assessment of capacity building requirements, ECOFYS, April 2009

(c) A forum for continuous discussion is established for stakeholders from developed and developing countries to share experience on carbon and other related market mechanisms, improving overall knowledge and understanding of relevant stakeholders about new market instruments.

(d) Training workshops are organized at national, regional and international levels with the objective of helping Implementing Country Participants build up a pool of expertise.

XII. Relationship to other World Bank initiatives

A. Linkage to the Carbon Partnership Facility (CPF)

44. The Carbon Partnership Facility (CPF), which was established by the Bank in 2008,[8] has broad objectives to support mitigation strategies through development and purchase of carbon assets from large emission reduction programs. The CPF has two funds: the Carbon Asset Development Fund (CADF) and the Carbon Fund. The CADF, for which the contributions come from donors, and buyers and sellers of carbon credits, provides financing to program developers and, in some cases, host country governments, to enable them to prepare emission reduction programs. The Carbon Fund, which is funded by buyers of carbon credits, will subsequently purchase the emission reduction credits generated by those programs.

45. The CPF is primarily focused on developing specific program-level carbon transactions, such as PoAs that are linked to the UNFCCC process. As such, the PMR will benefit from the experience gained through such transactions and the cooperation between public and private entities of the CPF. The intention is to explore the synergies between the CPF and the PMR to ensure cross-fertilization and a two-way flow of information. In the future it may be possible to sell the emissions reductions generated through piloting of new market instruments to one of the tranches of the Carbon Fund of the CPF, if a PMR Implementing Country Participant has built sufficient capacity and become market "ready" and wishes to do so. This would require that new tranches be established under the Carbon Fund, depending on demand from countries and private entities and the outcomes of the international negotiations on post-2012 policy directions, as well as the design of new market instruments.

B. Synergies with other programs

46. The World Bank has been working with several countries to undertake detailed analysis of the additional costs and benefits of lower carbon growth. This has involved examining various development pathways, including policy and investment options that contribute to growth and development objectives, while moderating increases in GHG emissions. (Box 3). The benefit of such a structured engagement across a country's economy on growth and GHG mitigation is the resulting framework for policy, planning, and decision making that can help attract international concessional funding to co-finance programs in energy, industry, transport, and natural resource management, which have carbon reduction implications. Such analysis, particularly when coupled with (sub-) sector specific investment plans, such as those prepared for accessing the Clean Technology Fund, can be a rich source of information for the PMR to draw on and complement.

C. Other carbon funds and facilities

47. While the World Bank manages 11 Carbon Funds and Facilities, the majority of these are focused on implementing CDM projects and programs and do not focus on capacity building for broader market

[8] The Carbon Asset Development Fund (CADF) has been operational since December 2008 and the First Tranche of the CPF became operational in May 2010.

readiness *per se*. The FCPF is focused on REDD+ activities, which are outside of the scope of the PMR. That said the experience gained through the funds on capacity building for CDM and insights into how market instruments can be improved and rationalized in future should feed into the work of the Partnership. Similarly, the experience from the FCPF in building readiness can also inform the broader market readiness work undertaken by the PMR.

XIII. Relationship with United Nations Framework Convention on Climate Change (UNFCCC)

48. The UNFCCC is the forum for developing the rules and modalities for international market instruments. Though the PMR is not part of the UNFCCC negotiation process, it will follow the guidance of the UNFCCC to ensure countries retain the option to associate domestic actions with international instruments if they so chose. The PMR will focus on technical discussions with the objective of providing capacity building and of sharing practical experiences, including sharing lessons learned with the UNFCCC process.

XIV. Administrative arrangements

A. Trustee

49. The International Bank for Reconstruction and Development (IBRD) is Trustee for the PMR trust fund. As Trustee, the IBRD has established a multi-donor trust fund (“the Trust Fund”) to receive contributions from contributors to the PMR, and holds in trust, as a legal owner and administer the funds, assets and receipts that constitute the Trust Fund, pursuant to the terms of the administration agreements entered into with the contributors in respect of their contributions to the PMR.

50. In the event a delivery partner other than the World Bank (the “Additional Delivery Partner”) is agreed upon, the Trustee will enter into a transfer agreement with such Additional Delivery Partner to set forth the terms and conditions of the arrangement and the transfer of PMR funds, based on the decisions of the Partnership Assembly and/or the Partnership Committee, as applicable.

51. Upon transfer of funds to a delivery partner, the Trustee has no responsibility for the use of PMR resources transferred and activities carried out therewith. Each delivery partner is responsible for the use of funds transferred by the Trustee and activities carried out therewith in accordance with own policies and procedures. Each of them will report, and be directly accountable to, the PA and/or PC, as applicable.

B. Contributions

52. In making a contribution to the PMR, each contributor enters into an Administration Agreement with the World Bank. The contributions will be administered by the Trustee in accordance with the terms of the Administration Agreements.

C. Administrative costs

53. The World Bank will charge administrative fees, in accordance with its policies and procedures, for establishing and administering the PMR trust fund. In addition, the Word Bank will submit to the PA, for approval, a proposal for compensation for the administrative services and other activities agreed to be provided for the upcoming fiscal year. The amounts of compensation are subject to an end-of-year adjustment based on actual costs incurred.

Annex 1

Market Instruments Being Discussed Internationally

The market instruments listed below include proposals that have been put forward by countries and organizations as a potential way to scale-up mitigation efforts beyond the scope of the clean development mechanism (CDM) in its current form. This is an indicative list and is not exhaustive, nor does it prejudge any further development of the instruments or discussions under the UNFCCC. As yet there is no international agreement on the design and use of these instruments. The definitions provided below have also not been agreed upon internationally. Hence this list is also not intended to be prescriptive in terms of the types of market instruments countries could choose to pursue through piloting supported by the PMR.

Offsetting Mechanism

Reformed CDM – Introducing standardized baselines to create consistent performance thresholds that can be applied across multiple projects of the same project type.

Crediting Mechanisms

Sectoral Crediting – a baseline and (ex-post) credit mechanism where a government is responsible for surpassing its sector specific crediting baseline. If the crediting baseline is set below the business-as-usual (BAU) level of emissions, then the difference between the two represents the country's domestic abatement effort ('own action'). Any abatement beyond the agreed baseline would be eligible for crediting, with the credits equal to the reductions being issued at the end of the crediting period. The government would need to agree to a sectoral emissions baseline at the outset, and then use a portfolio of domestic policy instruments to reduce actual emissions below that baseline. The government could choose to devolve the target across firms or specific installations. Sectoral crediting is sometimes also referred to as a 'sector no lose target', where the "target" could be expressed in the form of absolute reductions or emissions intensity.

Technology based approach – a technology diffusion goal would be established for a specific sector, for example, the share of the physical capacity of a sector could be fitted with a certain technology by a specific date or could increase the capacity of a certain technology by a specified amount or rate. Countries would then receive emission credits for technology performance beyond the initial goal.

NAMA crediting – credits would be issued for the verifiable emission reductions from the nationally appropriate mitigation actions (NAMAs) undertaken by developing countries. Eligible NAMAs would be supported through full or discounted crediting in the carbon market for activities beyond the baseline or NAMA level.

Allocation Mechanisms

Sectoral Trading – a cap and trade mechanism where a government is responsible for meeting an agreed upon, sector-specific emissions target. Emissions allowances would be allocated to the government ex-ante, up to the level of the target. The government would then need to ensure that installations within the sector limit their emissions to the level of the cap during the specified period. Sectoral Trading would involve the issuance of carbon units (allowances) at the start of the period, and the government would ultimately purchase extra carbon units from abroad if the sector is unable to meet the target domestically.

Domestic Emissions Trading – a cap is set on emissions and allowances are provided ex-ante, either through allocation or auction, to emitters covered by the cap. These emitters are required to submit allowances equal to the amount of greenhouse gases emitted over a predetermined period. The difference between expected emissions and the cap creates a price for the allowances. Emitters who can reduce emissions for less than the price of an allowance will do so. If, however, abatement costs more than the price of an allowance, it makes sense to purchase additional allowances from other emitters with surplus allowances. The relative difficulty of abatement or scarcity of allowances sets the price of carbon. In theory, those that can reduce emissions most cheaply will do so, achieving the reductions at the lowest possible overall cost to the country.

Sources: Information is drawn from: Global Carbon Trading: a Framework for Reducing Emissions - Mark Lazarowicz & Office of Climate Change (2009), and submissions to the UNFCCC.

Annex 2

PMR Governance Framework

I. Objectives of the PMR

1.1 The PMR aims to provide a platform for technical discussions and the exchange of information on market instruments for mitigation, and to help interested countries build capacity for scaling up their mitigation efforts through market instruments[9], and to pilot instruments appropriate to their domestic context.

1.2 The PMR intends to achieve the following objectives:

(a) to provide grant financing to countries for building market readiness components;

(b) to pilot, test and sequence new concepts for market instruments, both for domestic and new international mechanisms, and to identify potential synergies between national market based instruments at an early stage;

(c) to create a platform to enable policy makers of government agencies, practitioners, and public and private entities to share experiences and information regarding elements of market readiness, to learn from one another, promote south-south cooperation, and explore and innovate together on new instruments and approaches;

(d) to create and disseminate a body of knowledge on market instruments that could be tapped for country-specific requirements; and

(e) to share lessons learned, including with the UNFCCC.

II. Operating Principles

2.1 Building on the objectives, the PMR will operate in accordance with the following principles:

(a) to be country-led and to build on nationally defined and prioritized mitigation policies, according to each implementing country's national circumstances;

(b) to coordinate with other readiness efforts to avoid duplication and ensure effective use of resources;

(c) to cooperate with other actors and processes that are undertaking similar initiatives, such as UN agencies and other multilateral development banks; and

(d) to promote learning-by-doing through early and integrated efforts.

III. Activities for Support

[9] For the purpose of the PMR, market instruments refer to domestic instruments (e.g., emissions trading scheme) and, without prejudging the outcomes under the United Nations Framework Convention on Climate Change (UNFCCC) negotiations, scaled-up market mechanisms.

3.1 The activities to be supported by the PMR will be developed on a country-specific basis and will build on the country's existing initiatives to meet nationally defined priorities. As countries' technical and institutional capacities differ, the PMR resources may be used to undertake the activities that serve the objectives of the PMR set out in Section I (*Objectives of the PMR*) above, which may include some or all of the following activities:

(g) *Assessment* – Carrying out a feasibility and capacity assessment for utilizing market mechanisms within a portfolio of policy instruments in the context of the country's mitigation strategies, including analysis and appraisal of national, sub-national and sectoral approaches.

(h) *Data* – Building or enhancing capacity of data collection systems and institutional capacity for data reporting and management and for setting up activity reference level.

(i) *Measurement, Reporting and Verifying (MRV)* – Designing or enhancing existing MRV frameworks to ensure transparency, quality, credibility and consistency with international good practice.

(j) *Institutional capacity* – Carrying out capacity building activities that aim to engage with key stakeholders early in the planning process and help the responsible government agencies organize cross-agency dialogues and broader consultations.

(k) *Policy and legal frameworks* – Facilitating the design of policy and legal frameworks for implementation of market instruments.

(l) *Piloting and testing* – Learning-by-doing is one of the most efficient means to gain experience, improve capacity and develop effective instruments. If a country so wishes, a pilot program could be set up to test a market instrument selected by the country.

IV. Participation and Governance Structure

4.1 The participation and governance structure of the PMR include a Partnership Assembly, a Partnership Committee (if established by the Partnership Assembly), Observers, Experts, a Secretariat, a Trustee and Delivery Partners.

Partnership Assembly

4.2 The Partnership Assembly will consist of the following participants:

(a) all donors that have contributed financially to the PMR and that have entered into an administration agreement with the International Bank for Reconstruction and Development (the Bank) (the Contributing Participants); and

(b) all countries that have submitted an expression of interest to participate in the PMR and whose participation have been confirmed at the organizational meeting or any meeting of the Partnership Assembly (the Implementing Country Participants) (the Contributing Participants and the Implementing Country Participants will be collectively referred to as the PMR Participants).

4.3 The Partnership Assembly will have the following roles and responsibilities:

(a) provide strategic guidance for the operation of the PMR;

(b) confirm the participation of countries that have submitted an expression of interest to participate in the PMR as described in Section 4.2(b) above;

(c) in the absence of the establishment of a Partnership Committee described in Sections 4.6 and 4.7 below, approve the allocation of PMR resources to the Implementing Country Participants;

(d) approve the budget for the operation of the PMR;

(e) monitor the operation of the PMR;

(f) decide on other matters related to the operation of the PMR;

(g) provide guidance to the Partnership Committee, if established; and

(h) exercise such other functions as the Partnership Assembly may deem appropriate to fulfill the purposes of the PMR.

4.4 The Partnership Assembly will meet twice a year or at any other frequency as may be decided by the Partnership Assembly on the basis of recommendation by the Secretariat.

4.5 (a) Decisions of the Partnership Assembly will be made by PMR Participants on a consensus basis, and any PMR Participant who holds a different view may request to record its view as a note to the decisions. If all efforts to reach a consensus have been exhausted and no decision has been reached, decision will be taken by two-thirds (2/3) majority of the Contributing Participants and two-thirds (2/3) majority of the Implementing Country Participants, present and voting at the meeting of the Partnership Assembly, on the basis of one (1) vote per PMR Participant.

(b) Unless the Partnership Assembly decides otherwise, the Bank will chair the meetings of the Partnership Assembly at the initial stage of the operation of the PMR, which may cover the first two (2) meetings, and subsequent meetings will be co-chaired by a representative elected from the Contributing Participants and another representative elected from the Implementing Country Participants.

(c) Further details on the conduct of the meetings of the Partnership Assembly will be set forth in the Rules of Procedure, to be adopted at the organizational meeting or any subsequent meeting of the Partnership Assembly.

Partnership Committee

4.6 Once there are ten (10) Contributing Participants and ten (10) Implementing Country Participants in the Partnership Assembly, the Partnership Assembly may consider establishing a Partnership Committee to perform the functions identified in Section 4.3(c) above and other functions as may be designated by the Partnership Assembly.

4.7 (a) The Partnership Committee will consist of an equal number of representatives from the Contributing Participants and the Implementing Country Participants. The Partnership Assembly will decide on the size of the Partnership Committee. In order to be elected as a member of the Partnership Committee representing the Contributing Participants, the Contributing Participant will be required to make a financial contribution to the PMR in no less than the minimum amount of five million United States dollars (US$ 5,000,000) or equivalent.

(b) Decisions of the Partnership Committee will be made by its members on a consensus basis, and any member of the Partnership Committee who holds a different view may request to record its view as a note to the decisions. If all efforts to reach a consensus have been exhausted and no decision has been reached, decision will be taken by two-thirds (2/3) majority of the members of the Partnership Committee representing the Contributing Participants and two-thirds (2/3) majority of the members of the Partnership Committee representing the Implementing Country Participants, present and voting at the meeting of the Partnership Committee, on the basis of one (1) vote per member.

(c) Further details on the conduct of the meetings of the Partnership Committee will be set forth in the Rules of Procedure, to be adopted at the organizational meeting or any subsequent meeting of the Partnership Assembly.

Observers

4.8 The countries, organizations and entities relevant to the activities of the PMR and the Delivery Partners described in Sections 4.13 to 4.15 below may be invited to attend the meetings of the PMR as observers (the Observers), and may participate in the meetings without the right to vote. Further details on the Observers' participation in the meetings of the PMR will be set forth in the Rules of Procedure, to be adopted at the organizational meeting or any subsequent meeting of the Partnership Assembly and, where necessary, in the decisions of the Partnership Assembly.

Experts

4.9 Experts, including those drawn from a roster of experts established by the Secretariat (the Experts), will facilitate the work of the PMR, including attending the meetings of the PMR to provide expert advice, and may provide technical assistance to the Implementing Country Participants for readiness preparation and implementation. Where necessary, the modality of the expert support to the work of the PMR may be further developed by the Secretariat for consideration by the Partnership Assembly.

Secretariat

4.10 The Bank will serve as the secretariat of the PMR (the Secretariat) to provide secretariat services and technical support for day-to-day operations of the PMR.

4.11 The Secretariat will have the following roles and responsibilities:

(a) to propose a provisional agenda for the meetings of the PMR;

(b) to provide secretariat services to meetings of the PMR;

(c) to develop guidelines for allocation of funding for consideration by the Partnership Assembly;

(d) to review funding proposals for completeness and quality;

(e) to propose a budget for approval by the Partnership Assembly;

(f) to prepare updates or consolidated progress reports on the individual activities of the PMR and on the PMR as a whole, for the meetings of the Partnership Assembly;

(g) to maintain a website with details and relevant documentation about the PMR;

(h) to disseminate knowledge gained under the PMR; and

(i) to perform other functions necessary for facilitating the operation of the PMR.

Trustee of PMR trust fund

4.12 The Bank will serve as the trustee of the trust fund for the PMR (the Trustee). The Bank as Trustee will establish a trust fund to receive contributions from donors to the PMR, and will hold in trust, as a legal owner and administer the funds, assets and receipts that constitute the trust fund, pursuant to the terms of the administration agreements entered into with the donors with respect to their contributions to the PMR.

Delivery Partners

4.13 The delivery partners of the PMR (the Delivery Partners) will be responsible for (a) collaborating with the agreed Implementing Country Participants to assist them in carrying out the activities of the PMR, including providing technical assistance for preparing market readiness proposals and grant implementation; (b) supervising grant implementation in such Implementing Country Participants; and (c) providing technical support as needed for activities financed by the PMR. Each Delivery Partner will be responsible for the use of funds transferred to it under the PMR and the activities carried out therewith in accordance with its own fiduciary, safeguard and operational policies and procedures. Each Delivery Partner will report, and be directly accountable, to the Partnership Assembly and/or the Partnership Committee, as applicable.

4.14 The Bank will serve as the principal Delivery Partner. Where the Bank agrees to serve as the Delivery Partner for an Implementing Country Participant, the Bank may, at its discretion, enter into grant agreement(s) with such Implementing Country Participant to implement the agreed activities.

4.15 At the request of the Implementing Country Participant, the Partnership Assembly may decide, with agreement of the Bank as the Trustee, on a case-by-case basis for one or more multilateral development banks and UN agencies other than the Bank to serve as additional Delivery Partners. In the event an additional Delivery Partner has been agreed upon, the Bank as the Trustee will enter into a transfer agreement with such additional Delivery Partner to set forth the terms and conditions of the arrangement and the transfer of PMR funds, based on the decision of the Partnership Assembly and/or the Partnership Committee, as applicable. Following disbursement by the Trustee of the funds from the PMR trust fund to an additional Delivery Partner, the additional Delivery Partner will be responsible for the use of the funds transferred to it and the activities carried out therewith as described in Section 4.13 above, and the Trustee will have no further responsibility for the additional Delivery Partner's use of the funds and activities carried out therewith.

V. Amendment to the PMR Governance Framework

5.1 The provisions of this PMR Governance Framework may be amended with the prior consent of all PMR Participants; provided that, any amendments that would affect the rights or obligations of the Bank or the additional Delivery Partners will only be effective upon the agreement of the Bank or the additional Delivery Partners, respectively.