

Annual Review - Summary Sheet

Title: Partnership for Market Readiness	
Programme Value: £7million	Review Date: February 2016
Review period start date: 1 November 2014	Review period end date: 31 October 2015

Summary of Programme Performance

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

Summary of progress and lessons learnt since last review

Overall the PMR is performing well. This was another strong year of implementation on a range of fronts, as described on page 3. However the overall programme score has slipped from A+ to A in recognition of the ongoing delays in finalising grant agreements, as well as the delays in grant disbursement once grant agreements are finalised. Both threaten to undermine the PMR's core activity: the implementation of Market Readiness Proposals (MRPs). However it is important to note on the grant agreement delays that the PMR Secretariat has taken a range of steps to address the delays in finalising grant agreements, as described on page 4, while on the disbursement delays it is still too early to tell whether they will result in any substantive delays or will merely cause some projects to backload their spending whilst remaining within their agreed overall timelines.

The PMR is currently moving from its MRP-development phase to its implementation phase. All but two implementing countries have now produced MRPs. Implementation has begun, with two countries receiving MRP funding in 2015, which is expected to rise to four in 2016. This shift brings new challenges for delivery, as well as for evaluation, though as described on page 4, adjustments to the logframe to account for these shifts are already planned for 2016.

A number of valuable lessons have been learned in the period covered by this Annual Review. The first is a positive one: while complex challenges such as the delays to finalising grant agreements have multiple causes and a range of contextual factors, through concerted analysis and a clear understanding of the issue, tangible progress can be made. A second lesson is that moving into new areas of activity – such as disbursing MRP funding – can bring new challenges, which need to be proactively managed at the earliest opportunity in order to minimise their impact.

Recommendations for 2016

1. WB to conduct qualitative analysis of the impact of the PMR's technical work programme to understand precisely how it can be of maximum benefit to PMR implementing countries, and more widely.
2. WB to continue to monitor the grant agreement processes and seek ways to streamline the process.
3. WB to explore and address the reasons for MRP grant disbursement delays, sharing information with PMR donors.
4. WB to continue to gather quantitative information about all events, and complement this with additional qualitative assessment, where possible, of the impacts of stakeholder events. This information should be analysed and shared with the PMR countries as part of a PMR-wide annual review cycle.
5. WB to improve financial transparency by publishing full and complete accounts (including operating budget, MRP preparation grants disbursement and MRP implementation grant disbursement), alongside a narrative, on an annual basis. This should start in 2016. If this is not possible then the PMR secretariat should explain why at the earliest date possible.
6. WB to finalise the PMR-wide logframe in 2016 in order to run the first PMR-wide Annual Review in 2017.

A. Introduction and Context (1 page)

Link to Business Case:	https://edrms.decc.gsi.gov.uk/isr/ieu/PNK/layouts/15/DocIdRedir.aspx?ID=DECCISR-C-127-867
Link to Log frame:	See Annex 1, starting on page 12

Outline of the programme

The PMR supports capacity building for the implementation of carbon pricing¹ in developing countries through grant funding and technical assistance. The PMR also provides a platform for technical discussions, facilitates country-to-country exchanges and promotes best practice. By supporting the development of carbon pricing the PMR enables enhanced greenhouse gas mitigation.

There are 13 donors to the PMR², collectively contributing \$126.5m, of which £7m (9% of the total) is from the UK. In addition to financial support, the UK also contributes technical expertise to the PMR, drawing on over a decade's experience in designing and implementing carbon pricing measures.

The PMR also includes 17 developing countries (known as 'implementing countries')³. Through the PMR they can develop Market Readiness Proposals (MRPs), and receive grants of \$3m, \$5m or \$8m for their implementation. In addition there are four technical partners in the PMR (Kazakhstan, California, Québec and Alberta) – which can either (for developing countries) receive financial support up to \$1m for capacity building and/or benefit from shared learning. They can also contribute with their technical expertise and experience with the implementation of carbon pricing instruments. Finally the PMR has a number of observer countries (France, Italy, New Zealand, Singapore, South Korea) and organisations (such as the UNFCCC, EBRD, IDB, CAF and ICAP).

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

The work of the PMR supports UK objectives on climate change because of the potential it has to promote carbon markets around the world. The UK is committed to the expansion of carbon markets in both developed and developing countries to enable cost effective emission reductions. In turn this will increase the likelihood that the world will be able to limit the rise in average global temperatures to two degrees above pre-industrial levels.

The core PMR activity of building institutional and technical capacity for market mechanisms is a necessary first step towards gaining support for market-based approaches and expanding their use.

Interest in participating in carbon markets is high and growing, with over 40 countries or regions implementing some form of carbon pricing. This demonstrates the clear need to provide continued support, in the form of technical and institutional capacity, to the PMR implementing countries, as well as the rich potential for expanding the PMR's membership. Furthermore the prospects for carbon pricing, and hence the PMR, had a significant boost at COP21, which took place immediately after the period under consideration in this Annual Review.

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

² Australia, Denmark, European Commission, Finland, Germany, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, UK, USA. Within the PMR these are referred to 'Contributing Participants'.

³ Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Jordan, Mexico, Morocco, Peru, South Africa, Thailand, Tunisia, Turkey, Ukraine and Vietnam. Within the PMR these are referred to 'Implementing Country Participants'.

Annual outcome assessment

In the year covered by this Annual Review (1 November 2014 – 31 October 2015) the Partnership for Market Readiness (PMR) reached a turning point. This year saw: the first time that the number of Market Readiness Proposal (MRP) applications significantly declined (largely because most countries have now been awarded MRP funding); the first year in which MRP funding was disbursed at scale (i.e. to multiple countries); the first independent evaluation of the PMR; the first major disbursement of ‘upstream policy analysis support’, which supported INDC preparation (and hence boosted the chances of success at COP21); a significant expansion of the PMR’s technical work programme, and; the first speculative request to the join the PMR (from Sri Lanka)⁴. This was all against the backdrop of the preparations for COP21 in Paris, and the expectation that any outcome there could change the context for the PMR.

The key internal shift within the PMR is that it is reaching the end of its MRP-development phase (typified by MRP preparation) and entering into the implementation phase (typified by MRP implementation and related grant execution). The early implementation phase has seen significant challenges, foremost among which have been delays in finalising grant agreements (as noted in previous Annual Reviews), however a secondary challenge has been disbursing financing. This second challenge is evidenced by the minor delays with the disbursement to the first four countries due to have received PMR implementation funding to date: Turkey and Chile received funding later than originally planned, while China and Morocco had not by this point received any of the amount planned.

The first independent evaluation of the PMR provided a useful basis for further consideration of the PMR’s strengths and weaknesses. While it largely reflected the assessment of the PMR as set out in previous Annual Reviews, the higher profile of the independent evaluation, and the fact that it was commissioned by the PMR as a whole, means that its messages usefully reinforce those contained in this Annual Review. In addition the comprehensive work by the PMR Secretariat to set out concrete actions to address the recommendations in the first independent evaluation, this detailed framework for future action is likely to drive numerous reforms and improvements to the PMR’s ways of working in 2016. Some notable improvements, such as the initiation of the ‘operations monitoring system’, were already implemented in 2015 and are expected to be scaled up in the coming years.

Broadly the PMR enjoyed another successful year in the period covered in this Annual Review: meetings and workshops were run effectively and efficiently; significant advances were made in both the output and the monitoring of take up of the PMR’s technical work programme; valuable assistance was provided through the new ‘upstream policy analysis’ support programme, and; countries made progress in the preparation and implementation of their MRPs.

⁴ Fifteen countries joined the PMR when it began operations in 2011, and since then two have joined under the explicit condition of bilateral support from a donor, bringing the total number of PMR implementing countries to 17. If Sri Lanka joins in 2016 it will become the PMR’s 18th implementing country.

Overall output score and description

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

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

This score is fairly consistent across all three outputs in the UK logical framework for the PMR, reflecting that the PMR has in many areas overachieved on its deliverables, though in one notable area (output indicator 2.3 - Percentage of implementation funding (US\$3m, \$5m, or \$8m per country) disbursed as set out in the grant agreement) has underachieved. It is worth noting that in its MRP-development phase

the PMR consistently over-achieved on its milestones, and was awarded an A+ score in its two previous Annual Reviews. This is largely because the PMR has disbursed preparatory funding and awarded grants faster than anticipated, demonstrating that there is great appetite for PMR support in implementing countries, and that the proposals were of sufficient quality to be approved without delay.

Key actions

The previous Annual Review of the PMR (for 2014-15) included four recommendations:

1. *Continue exploring partnerships to deliver technical work with other reputable organisations (building on the collaborations initiated in 2014 with GIZ, CAF and ICAP).*
Action taken in the last year: As well as further building on the partnerships already established, in the past year the PMR Secretariat developed new partnerships with the 'LEDS Global Partnership', International MRV Partnership, World Resources Institute, and governments and administrations in Spain and California (where workshops were co-organised) and Kazakhstan, Morocco and Jordan (where donor coordination meetings were co-organised). This recommendation has been adequately addressed.
2. *Continue to develop and implement ways of speeding up the grant agreement process, and ensure that the PMR participants are kept fully updated on the situation.*
Action taken in the last year: The PMR Secretariat has implemented a range of measures to accelerate the grant agreement process, primarily by initiating the World Bank's rigorous appraisal processes in parallel with the MRP process, rather than after it. This should reduce future grant agreement processes by a number of months. An additional time-saving measure taken is that in some cases the World Bank is executing the MRPs, rather than this being done by recipient countries. This means that the World Bank is channelling the money directly to the final recipients (such as consultants or contractors), rather than the host country doing so. This can save time because it means that the World Bank's checks on the capacity of the executing agency within the host government are not required. The PMR Secretariat is also exploring expanding its team to include staff with previous World Bank operational experience, in order to be better able to supervise and streamline the grant agreement process. This recommendation has been addressed effectively, however there may be scope for further improvements to the process, which is why a related recommendation (recommendation 2) is included in this year's Annual Review. Given the way that indicator 2.3 of the logframe is structured the PMR will catch up and achieve future milestones (provided that future disbursement occurs as planned).
3. *The PMR Secretariat should consider how to assess the impact of the PMR's stakeholder events, and how that impact could be increased.*
Action taken in the last year: In the past year the PMR Secretariat has begun collecting participant evaluations following workshops and stakeholder events (though no results of these have been requested or shared yet). Download rates for individual technical notes have been gathered and shared with the PMR participants. This recommendation has been partly addressed – the process is incomplete as the results and lessons have yet to be shared – however it should be built upon and has therefore been included as a new recommendation on page 7.
4. *The PMR should improve financial transparency by publishing full and complete accounts, alongside a narrative, on an annual basis.*
Action taken in the last year: In the past year the PMR Secretariat has made some minor improvements in this area. For example progress has been made on some of the reporting relating to budgets which is now slightly more detailed; there is some additional reporting on specific projects throughout the year; and the operations monitoring system requires PMR implementing countries to report on the use of funding. However there is more that could be done in order to ensure that the PMR donors have clear, comprehensive and timely information about the use of PMR funds. This has been set out on page 9.

Has the logframe been updated since the last review?

No, however changes will be instituted over the coming months and included in the fifth Annual Review of the PMR. These changes will include an increased focus logframe's on MRP implementation, as well as to remove indicators which have been fully met.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	Increased knowledge sharing and support between developed and developing country partners to improve new market mechanism design and development		
Output number per LF	1	Output Score	A+
Risk rating (H, M or L):	L	Impact weighting (%):	25%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	No

Indicator(s)	Milestones	Progress
1.1 Number of knowledge tools created to support implementing country market mechanism development and implementation.	1. (end of Oct 2011) Tool for Market Readiness Proposals finalised 2. (end of Oct 2013) 5 completed Technical Notes or similar knowledge products 3. (end of Oct 2015) 10 completed Technical Notes or similar knowledge products	<u>Ahead of schedule.</u> As of 31 October 2015 the PMR had produced 11 technical notes, of which two were produced in the last year. In addition the PMR produced two sets of guidelines with related templates, one e-learning course, one set of Technical Training Materials and two issues of 'China Carbon Market Monitor'.
1.2 Number of Partnership meetings and workshops held by the PMR annually.	1. (end of Oct 2011) 2 Partnership meetings and one workshop per year 2. (end of Oct 2013) 2 Partnership meetings and three workshops per year 3. (end of Oct 2015) 2 Partnership meetings and three workshops per year	<u>Ahead of schedule.</u> In the year to 31 October 2015 the PMR held three partnership meetings and eight workshops.
1.3 Number of visitors to online tools at the PMR website (www.thepmr.org).	1. (end of Oct 2012) (no target figure) 2. (end of Oct 2013) (no target figure) 3. (end of Oct 2015) 85,000 visits (cumulative)	<u>Achieved</u> - 87,504 visits Of these 60,681 visits from 1 Nov '13 to 21 Oct '15. Of these over half (31,151) were new visitors to the site. Visitors in this period came from 189 countries.

Key Points

- The PMR has been successful on these indicators, reaching all milestones on/ahead of schedule.
- The PMR continues to expand its technical work program, in response to increasing demand from implementing countries. New knowledge products are being prepared at an increasing rate. To increase the impact and the relevance of this work a mapping exercise was undertaken in 2015 to 'cluster' countries around common areas of needs and interests. The results were presented to the PMR meeting in May 2015 and provide clear guidance for the areas of technical knowledge which are most relevant to implementing countries.
- The PMR website, which serves both as a tool to communicate between PMR participants and beyond, and as a knowledge-sharing platform, could be more fully utilised. In response the PMR Secretariat initiated a process to restructure the website's design, improve its user-friendliness and enhance its content. Despite the need to improve the PMR website, it clearly already offers a useful service, as evidenced by the data in output indicator 1.3.

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

- *Recommendation from third Annual Review: Continue exploring partnerships to deliver technical work with other reputable organisations (building on the collaborations initiated in 2014 with GIZ, CAF and ICAP)*
- Status: Closed – As well as further building on the established partnerships, in the past year the PMR Secretariat developed new partnerships with the LEDS Global Partnership, World Resources Institute, the International MRV Partnership, and governments and administrations in Spain and California (where workshops were co-organised) and Kazakhstan, Morocco and Jordan (where donor coordination meetings were co-organised).

Recommendation for 2016

1. WB to conduct qualitative analysis of the impact of the PMR's technical work programme to understand precisely how it can be of maximum benefit to PMR implementing countries, and more widely.

Output Title	Increased developing country capacity to implement market mechanisms		
Output number per LF	2	Output Score	A
Risk rating (H, M or L):	L	Impact weighting (%):	60%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	No

Indicator(s)	Milestones	Progress
2.1 Percentage of allocated preparatory funding (US\$350,000 per country) disbursed	1. (end of Oct 2013) 60% (of US\$3,150,000) 2. (end of Oct 2014) 60% (of US\$5,250,000) 3. (end of Oct 2015) 80% (of US\$5,600,000)	<u>Ahead of schedule.</u> 100% of preparatory funding (\$5.95m) had been disbursed by October 2014.
2.2 Number of countries with approved MRP implementation plans	1. (end of Oct 2013) 5 developing countries have implementation plans 2. (end of Oct 2014) 7 developing countries have implementation plans 3. (end of Oct 2015) 10 developing countries with implementation plans	<u>Ahead of schedule.</u> As of 31 October 2015 13 developing countries had been awarded MRP implementation grants.
2.3 Percentage of implementation funding (US\$3m, \$5m, or \$8m per country) disbursed as set out in the grant agreement	1. (end of Oct 2014) 60% 2. (end of Oct 2015) 80% 3. (end of Oct 2016) 90%	<u>Behind schedule.</u> As of 31 October 2015 60% of the funding as set out in the grant agreement has been disbursed.

Key Points

- The PMR has been successful on two out of these three indicators, reaching milestones on indicators 2.1 and 2.2 ahead of schedule. However a score of A has been awarded because no further progress was made on 2.1 in the past year (this was already at 100% in late 2014) and MRP funding has been significantly delayed. Partly this is due to delays to grant disbursement (as covered in indicator 2.3), while partly this stems from delays in finalising grant agreements. As a result a new logframe indicator will be added next year to reflect this important activity and an internal shift of focus from preparation to implementation of MRPs.
- Indicator 2.3 has been calculated according to a new formula*, which recognises that disbursement schedules are updated over time. However the disbursement delays (even compared to the revised schedules) suggest that implementation is slipping behind schedule even at this early stage. This is a cause for concern and will be closely monitored over the coming year. However the target logframe milestone for 2016, of 90% disbursement, remains within reach.

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

- Recommendation from third Annual Review: Continue to develop and implement ways of speeding up the grant agreement process, and ensure that the PMR participants are kept fully updated on the situation*
- Status: Ongoing – In the period covered by the Annual Review the PMR Secretariat has taken a range of measures to accelerate the grant agreement process, primarily by initiating the WB's rigorous appraisal processes in parallel with the MRP process, which should reduce future grant agreement processes by a number of months (at the time of writing the new approach had yet to be implemented). An additional time-saving measure taken is that in some cases the World Bank is executing the MRPs, rather than this being done by countries.

Recommendations for 2016

- WB to continue to monitor the grant agreement processes and seek ways to streamline the process.
- WB to explore and address the reasons for MRP grant disbursement delays.

* The new formula was initiated and prepared by DECC in order to better reflect the nature of divergences from original disbursement plans. It takes the average of the sum of the original total disbursement and the sum of the latest revised total disbursement. This is then compared to the total actual disbursement to the same date. Up to 31 October 2015 the sum of the original disbursement schedules was \$5.31m, while the sum of the revised disbursement schedules was \$3.23m. The average of the two is \$4.27m. The sum of the actual disbursement was \$2.56m, which is 60% of \$4.27m. Using the old calculation (which did not consider revised budgets) the result would be 48%.

Output Title	Promotion of sustainable, low-carbon development in developing countries		
Output number per LF	3	Output Score	A
Risk rating (H, M or L):	L	Impact weighting (%):	15%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	No

Indicator(s)	Milestones	Progress
3.1 No. of stakeholder outreach and engagement activities, focussing on carbon pricing mechanisms and run in partnership with the PMR, that have taken place in Implementation Countries.	1. (31 Oct 2014) 4 2. (31 Oct 2015) 7 3. (31 Oct 2016) 10	<u>On schedule.</u> As of 31 October 2015 seven stakeholder outreach events have been held, including three in the last year.

Key Points

- The PMR has continued to run outreach activities, which are in most cases jointly organised with implementing countries and feature high-level speakers from the public and private sectors. In the period covered by this Annual Report events were held in Vietnam and Jordan.

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

- *Recommendation from third Annual Review: The PMR Secretariat should consider how to assess the impact of the PMR's stakeholder events, and how that impact could be increased*
- Status: Ongoing – Progress has been made, but there is more to do. For example the PMR Secretariat does now routinely invite participants at workshops and stakeholder events to complete brief evaluation questionnaires, though none of these results have yet been shared. On a related note, and in another positive development, download rates for individual technical notes have been gathered and shared with the PMR participants. This should continue.

Recommendation for 2016

4. WB to continue to gather quantitative information about all events, and complement this with additional qualitative assessment, where possible, of the impacts of stakeholder events. Finally this information should be analysed and shared with the PMR countries as part of a PMR-wide annual review cycle.

Key cost drivers and performance

The PMR's most recent financial year ended on 30 June 2015 (FY15). In that period the PMR spent \$4.42m on operating costs, up from \$3.79m in FY14, \$2.93m in FY13 and \$1.91m in FY12. However FY15 expenditure included \$735,000 on a new line item, 'upstream policy analyses'. This \$735,000 was part of a \$5m envelope agreed in summer 2014, to be spent on supporting countries to develop their INDCs for COP21 in Paris – five countries received support, fewer than expected, which is why there was an underspend. The upstream policy analysis line item represents excellent VfM because it was able to directly and significantly contribute to the likelihood of success at COP21.

Without the upstream policy analysis included the FY15 expenses were \$3.69m, slightly less than in FY14, and delivering a comparable quantity and quality of inputs. Of the \$4.42m spent, 33% went on country support and advisory services, 17% went to upstream policy analysis, 17% on knowledge management, 16% on management and communications, 15% on meetings, and 1% on trust fund management.

This balance of spending (which relates to the operating budget) was largely as predicted, though as in previous years the implementation spending was delayed, in part due to administrative delays within the World Bank, and partly due to delays in the recipient countries. This remains a concern for the PMR donors as well as for the PMR Secretariat, which is now taking a range of steps to remedy the situation. Furthermore monitoring the situation has been hampered by the challenge of accessing accurate and complete financial data, which (other than for operating costs) has so far not been supplied proactively.

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

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

Assessment of whether the programme continues to represent value for money

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

Economy (how effectively costs are managed) – Management costs were more than budgeted, though this was because of unbudgeted expenditure of \$209,000 on the first independent evaluation of the PMR. This was considered necessary to get a fresh perspective on the PMR's work and how it could be improved. Without this management costs would have been almost 20% under budget, while still delivering all of the expected activities. This represents improved economy compared to the previous year (when it was judged to be 'good') because of the growing number of countries in or approaching the implementation phase. Spending performance on the other areas appears consistent with (or in the case of the meetings heading, improved upon) the previous year. There was a modest increase in the knowledge management heading, which was due to the increase in activities, as listed in the logframe output indicator 1.1.

Efficiency (how effectively funds are used to convert inputs to outputs) – Here the PMR also performs moderately well, as evidenced by the logframe (as set out on pages 13-16), and by the UK's experience of how the PMR converts inputs into outputs, in particular through events and technical papers.

Effectiveness (how effectively funds are used to convert outputs to outcomes) – This cannot yet be fully assessed because of the long-term nature of the outcomes the PMR seeks to achieve; actual results are not expected to be reported until 2018 at the earliest (as this is when the first bulk of MRPs are due to conclude). We currently judge the delays in grant disbursement raise a manageable risk to the overall implementation schedule, though this will be closely monitored. However there is early evidence of success here in the references made to the PMR by two heads of state (the Presidents of Chile and Colombia) at the United Nations in September 2014, which shows that the PMR is

influencing decision making at the highest levels. Of the two outcome indicators in the PMR logframe there is a clear trajectory towards achieving the first (on the number of countries with a market mechanism) however further methodological work is required in order to set appropriate milestones for the second (on the quantity of emission reductions achieved).

Quality of financial management

Based on the three Es VfM assessment above, the overall quality of the World Bank's financial management of the PMR is assessed as good. However, the ongoing lack of full and complete accounts being published, as recommended in last year's Annual Review, is a concern.

Recommendation for 2016

5. WB to improve financial transparency by the publishing full and complete accounts (including operating costs, MRP preparation costs and MRP implementation costs), alongside a narrative, on an annual basis. This should start in 2016. If this is not possible then the PMR secretariat should explain why at the earliest date possible.

Date of last narrative financial report	May 2015
Date of last audited annual statement	30 June 2015

E: RISK

Overall risk rating: Medium

Overview of programme risk

As in last year's Annual Review, though the risk ratings in the logframe are low, the overall risk rating is medium for two reasons. The first is that delivery of all of the outputs listed in the logframe would not ensure that the desired PMR outcomes will be achieved. This is because decisions about carbon pricing are politically sensitive and will be taken at the highest levels (i.e. the head of state or government) taking account of a wide range of factors. Therefore the PMR will only ever be one of a number of issues being considered by decision makers.

The second reason is that the outputs listed in the logframe do not cover every aspect of the PMR's performance – such as the length of time taken to finalise a grant agreement, which will be added to the logframe for the fifth Annual Review – where the PMR is experiencing some difficulties. As noted above the PMR logframe will be refined over the coming months in order to better reflect the increased focus on implementation.

Outstanding actions from risk assessment

None.

F: COMMERCIAL CONSIDERATIONS

Delivery against planned timeframe

As noted in last year's Annual Review, and above, there have been delays against the timeline set out in the business case. Most notably the PMR outcome stated in the business case is that market mechanisms are "implemented in at least five participating developing countries by 2015". The actual figure was likely to be one (China). The original target date was judged to have been excessively optimistic, and has been amended to 2020. This is realistic as, besides China, three further countries have firm commitments to implement carbon pricing before 2020 (South Africa, Mexico and Chile), and we can expect at least one other country to join this list.

Performance of partnerships

The World Bank has been a cooperative partner to the UK in the delivery of the PMR, and has had another encouraging year of developing productive working partnerships with third parties. In the year to 31 October 2015 the following partnerships were developed:

- The Low Emission Development Strategies (LEDS) Global Partnership;
- The [International Partnership on Mitigation and MRV](#);
- The World Resources Institute;
- The [International Carbon Action Partnership \(ICAP\)](#);
- Governments and administrations in Spain, Colombia and California (where or with whom workshops were co-organised) and Kazakhstan, Morocco and Jordan (where donor coordination meetings were co-organised).

Asset monitoring and control

The PMR does not monitor or control any assets.

G: MONITORING & EVALUATION

Evidence and evaluation

The PMR is in the process of establishing an annual evaluation cycle (similar to the UK's) building from the experience of the first independent evaluation of the PMR, which concluded in early 2015. The UK was at the forefront of this process, and is an active member in the PMR's Monitoring and Evaluation Working Group, which oversees this work.

As referenced above, modifications will be made to the UK's PMR logframe over the coming months, and be reflected in the UK's fifth Annual Review of the PMR. These changes will increase the focus on the 'implementation'-focussed nature of the PMR. In addition further thought will be given to the 'Impact' and 'Outcome' indicators on the PMR logframe, which is particularly timely as the PMR approaches its originally-envisaged end point (in 2020).

Monitoring progress throughout the review period

As demonstrated in the first independent evaluation of the PMR, stakeholders recognise it as a useful catalyst for change. The PMR continues to be seen as a leader in its field and a valuable source of expertise. In addition the UK's experience of attending PMR meetings and workshops is that they are well-attended and of high quality. One area for improvement would be to achieve greater active participation in PMR meetings from implementing countries, as their representatives are generally disproportionately quiet.

Implementing countries have revealed, both in private and in the first independent evaluation of the PMR, understandable frustration with the delays in grant disbursement, though in some cases this is tempered by an understanding that some of the delays are down to the implementing countries' actions.

H: TRANSFORMATIONAL CHANGE

Rating

3 - Tentative evidence points to likely change

Evidence and evaluation

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

The full assessment of the PMR's transformational change is set out in Annex II.

Monitoring progress throughout the review period

The PMR's KPI 15 methodology was developed in late 2014 for the third Annual Review, and has been reported against results collection. The only other concern against monitoring is that the PMR-wide logframe (as opposed to the UK's logframe of the PMR) is taking longer to be developed and finalised than was hoped. It is expected that this can be completed by the end of 2016.

Recommendation

6. Prioritise the finalisation of the PMR-wide logframe in 2016 in order to run the first PMR-wide Annual Review in 2017.

Annex 1: Logical framework (as revised as part of the first, second and third Annual Reviews, covering 1 November 2011 – 31 October 2014, with fourth Annual Review updates and revisions in red)

PROJECT NAME		World Bank Partnership for Market Readiness (PMR)						
IMPACT	Impact Indicator 1 (KPI 11)		Baseline (May 2011)	Milestone 1 (31 Oct 2016)	Milestone 2 (31 Oct 2018)	Target (31 Oct 2020)		
	Substantial CO2 abatement as a result of market mechanisms.	Public revenue raised from carbon related market mechanisms.	Planned	0	£2.3m	£4.6m		£7m
			Achieved					
		Source PMR Secretariat, Implementation Countries						
	Impact Indicator 2 (Qualitative KPI 15)		Baseline (May 2011)	Milestone 1 (31 Oct 2016)	Milestone 2 (31 Oct 2018)	Target (31 Oct 2020)		
	Extent to which ICF intervention is likely to have a transformational impact.		Planned	1	3	3		4
Achieved								
Source ICF transformational change tool. Scoring: 0 transformation unlikely, 1 not enough evidence, 2-3 transformation likely, 4 transformation very likely								
OUTCOME	Outcome Indicator 1		Baseline (May 2011)	Milestone 1 (31 Oct 2016)	Milestone 2 (31 Oct 2018)	Target (31 Oct 2020)	Assumptions	
Market mechanisms in at least 5 developing countries by 2020.	No. of participating countries implementing market mechanisms.	Planned	0	0	3	5	Not all Implementation Countries within the PMR will choose to implement market mechanisms.	
		Achieved						
		Source PMR Secretariat, Partnership Assembly meetings, PMR website						
	Outcome Indicator 2 (KPI)		Baseline	Milestone 1 (31 Oct 2016)	Milestone 2 (31 Oct 2018)	Target (31 Oct 2020)		
	Quantity of emissions reductions (in MtCO2e) directly resulting from implementation of market mechanisms supported by the PMR.		Planned	0	0	TBC		TBC
			Achieved					
Source PMR Secretariat, Partnership Assembly meetings, PMR website								
INPUTS (£)	DECC (£)		Govt. (£)		Other (£)	Total (£)	DECC SHARE (%)	
	£7m (\$11.4m at time of donation)					\$126.5m (Nov 2015)	9%	
INPUTS (HR)	DECC (FTEs)							
	0.5							
OUTPUT 1	Output Indicator 1.1		Baseline (May 2011)	Milestone 1 (31 Oct 2011)	Milestone 2 (31 Oct 2013)	Target (31 Oct 2015)	Assumption	

Increased knowledge sharing and support between developed and developing country partners to improve new market mechanism design and development	Number of knowledge tools created to support implementing country market mechanism development and implementation	Planned	No Tools	Tool for Market Readiness Proposals finalised	5 completed Technical Notes or similar knowledge products	10 completed Technical Notes or similar knowledge products	<u>Indicator 1.1:</u> The knowledge tools created will be relevant to PMR Implementation Countries and improve their ability to design and develop stronger market mechanisms and mechanism implementation plans. <u>Indicator 1.2:</u> Partnership meetings and workshops provide lesson learning which influences Implementation Countries. <u>Indicator 1.3:</u> The number of visits to the PMR.org website is an indicator of the use of the PMRs knowledge tools.	
		Achieved		Achieved – Tool was also amended in Oct. 2012	Achieved – 6 Technical Notes, 2 sets of guidelines with related templates, 1 E-Learning Course, and 1 set of Technical Training Materials have been finalized	Achieved – 11 Technical Notes, 2 sets of guidelines with related templates, 1 E-Learning Course, 1 set of Technical Training Materials and 2 issues of China Carbon Market Monitor		
		Source						
		PMR Secretariat, PMR website						
	Output Indicator 1.2		Baseline (May 2011)	Milestone 1 (31 Oct 2011)	Milestone 2 (31 Oct 2013)	Target (31 Oct 2015)		
Number of Partnership meetings and workshops held by the PMR annually	Planned	Initial PA Meeting	2 Partnership meetings and one workshop per year	2 Partnership meetings and two workshops per year	2 Partnership meetings and two workshops per year	2 Partnership meetings and two workshops per year		
	Achieved		Achieved	Achieved – surpassed in 2012 with the initiation of tri-annual meetings. Three technical workshops also held in 2012	Achieved – surpassed in 2015 when three partnership meetings and eight workshops were held			
	Source							
PMR Secretariat, Partnership Assembly meetings, PMR website								
IMPACT WEIGHTING (%)	Output Indicator 1.3		Baseline (May 2011)	Milestone 1 (31 Oct 2011)	Milestone 2 (31 Oct 2013)	Target (31 Oct 2015)		
25%	Number of visitors to online tools at the PMR website (www.thepmr.org)	Planned	PMR website live	Total no. of visits to website	Total no. of visits to website	85,000 visits to website		
		Achieved		<i>Unknown</i>	26,823 visits from Nov '12 to Oct '13, 11,858 of which were new visits. Visitors came from 140 countries.	Achieved - 87,504 visits Of these 60,681 visits from 1 Nov '13 to 21 Oct '15. Of these over half (31,151) were new visitors to the site, from 189 countries		
		Source						
PMR Secretariat, Partnership Assembly meetings, PMR website							RISK RATING	
							Low	
OUTPUT 2	Output Indicator 2.1		Baseline	Milestone 1 (31 Oct 2013)	Milestone 2 (31 Oct 2014)	Target (31 Oct 2015)	Assumptions	

Increased developing country capacity to implement market mechanisms	Percentage of allocated preparatory funding (US\$350,000 per country) disbursed	Planned	0% - No funding disbursed	60% (of US\$3,150,000, \$350,000 times nine, the number of PMR implementing countries expected at the time)	60% (of US\$5,250,000, \$350,000 times 15, the number of PMR implementing countries expected at the time)	80% (of US\$5,950,000, \$350,000 times 17, the number of PMR implementing countries expected at the time)	<u>Indicator 2.1:</u> That Implementing Countries will use slightly less than the full US\$350,000 of preparatory funding they are allocated for MRP development within the 2-year time frame. That disbursement rates will lag more in earlier years rather than later years. <u>Indicator 2.2:</u> That not all of the 16 Implementing Countries will follow through and develop MRPs. That countries which do will not all finalise their MRPs within the allotted 2-year time frame. <u>Indicator 2.3:</u> That Implementation Countries will face some delays in implementing their MRP leading to lower than estimated disbursement of funds. Also that given the uncertainty surrounding the process for disbursement at the start, the first years will have lower than average disbursement rates.	
		Achieved		Achieved – by 30 June 2013 the PMR had allocated 100% of preparatory funding for the 16 implementing participants (\$5.6m)	Achieved – by October 2014, the PMR had allocated 100% of preparatory funding for the 17 implementing participants (\$5.95m)	Achieved – by October 2014, the PMR had allocated 100% of preparatory funding for the 17 implementing participants (\$5.95m)		
		Source						
		PMR Secretariat, Partnership Assembly meetings, PMR website						
	Output Indicator 2.2		Baseline	Milestone 1 (31 Oct 2013)	Milestone 2 (31 Oct 2014)	Target (31 Oct 2015)		
	Number of countries with approved MRP implementation plans	Planned	No implementation plans	5 developing countries have implementation plans	7 developing countries have implementation plans	10 developing countries with implementation plans		
		Achieved		Achieved – 6 developing countries (China, Chile, Costa Rica, Mexico, Turkey and Indonesia) have finalized implementation plans.	Achieved - 11 developing countries (the previous six plus another five: Brazil, Colombia, Morocco, Thailand and Ukraine) have finalized implementation plans. (A twelfth developing country, Vietnam, had their finalized implementation plan in the first week of November.)	Achieved - 13 developing countries (the previous 11 plus another two: Vietnam and South Africa) have finalised implementation plans.		
		Source						
	PMR Secretariat, Partnership Assembly meetings, PMR website							
	IMPACT WEIGHTING (%)	Output Indicator 2.3		Baseline	Milestone 1 (31 Oct 2014)	Milestone 2 (31 Oct 2015)		Target (31 Oct 2016)
60%	Percentage of implementation funding (US\$3m, \$5m, or \$8m per country) disbursed as set out in the grant agreement	Planned	0% - No funding disbursed.	60%	80%	90%		
		Achieved		Achieved – 66% In FY14, only Turkey had signed a grant agreement which had	Not achieved – 60% In FY14 Chile joined Turkey in receiving MRP funding. China and			

				<p>disbursement schedule covering the period until October 2014. By the end of October 2014 US\$ 329,635 had been disbursed, while the disbursement schedule anticipated US\$500,000 by the end of the FY, ending on 30 June 2015.</p>	<p>Morocco were also originally scheduled to receive a disbursement, but this did not happen. In total, until 31 October 2015, \$5.13m was originally scheduled to have been disbursed, which was revised to \$3.23m. The actual amount was \$2.56m. This is 60% of the average of the original and revised planned disbursement totals.</p>		
Source							RISK RATING
Implementing Country MRP Plans, PMR Secretariat, PA meetings, PMR website							Low

OUTPUT 3 <i>(with additional revisions marked in red)</i>	Output Indicator 3.1		Baseline (May 2011)	Milestone 1 (31 Oct 2014)	Milestone 2 (31 Oct 2015)	Target (31 Oct 2016)	Assumptions	
Promotion of sustainable, low-carbon development in developing countries	No. of stakeholder outreach and engagement activities, focussing on carbon pricing mechanisms and run in partnership with the PMR, that have taken place in Implementation Countries.	Planned	0	4	7	10	Stakeholder outreach and engagement includes consultations and trainings conducted by Implementing Country groups in the course of their MRP implementation. Increased stakeholder engagement builds support for low carbon development and market mechanisms adoption.	
		Achieved		Achieved – 5 Stakeholder outreach events held: 1. ETS in Operation (2012); 2. Pricing carbon to achieve mitigation (2013); 3. Emissions trading in North America (2013); 4. Scaling up Domestic Climate Action and Carbon Pricing Instruments (2014); 5. A Business-Government Dialogue on carbon pricing (2014).	Achieved – 7 Two additional stakeholder outreach events held: 6. Vietnam Carbon Pricing Event, Vietnam, September 2015; 7. Aligning Energy Reform and Climate Policies in the Middle East and North Africa (MENA): Challenges and Opportunities, Jordan, October 2015.			
		Source						RISK RATING
IMPACT WEIGHTING (%)		PMR Secretariat, Partnership Assembly meetings						Low

Annex II: Transformational change in the PMR

The PMR's progress in achieving transformational change will be judged against criteria derived from the PMR Theory of Change, the log frame, and the monitoring and evaluation plan.

An annual qualitative assessment of the likelihood of the PMR achieving a transformational impact will be made by considering the seven indicators, grouped under three criteria, as set out below. A box marking will be given to the criteria overall to provide an assessment of the likelihood that transformation linked to UK support will occur. As in the KPI 15 methodology note, the box markings are:

0	Transformation judged unlikely
1	No evidence yet available - too soon to revise assessment
2-3	Tentative evidence points to likely change
4	Clear indication of change - transformation judged likely

1. Criteria

1. Fostering political will and enhancing local capacities to act on climate change

The PMR will build domestic support for market mechanisms through capacity building efforts and the exchange of technical expertise between developed and developing countries, with the goal to increase domestic carbon mitigation efforts by providing more cost effective solutions.

This will be assessed by the following **indicators**:

- 1.1. Percentage of allocated preparatory funding disbursed, number of countries with approved MRPs¹, and percentage of MRP implementation funding disbursed;
- 1.2. A qualitative assessment of the number and type of implementing country government ministries involved in the development and/or implementation of the MRPs.

2. Encouraging innovation

The PMR will help countries develop nationally appropriate plans to incorporate market mechanisms into their domestic mitigation strategy which utilise innovative and untried programmes for reducing emissions. These plans should be country specific and will aim to drive low carbon development cost effectively.

This will be assessed by the following **indicators**:

- 2.1. Number of types of mechanisms proposed through the PMR, varying in sectors covered or mitigation approach (tax, sectoral, project based, etc.) – this will involve a qualitative assessment based on the range of the proposals brought forward but also taking into account their feasibility and the level of variation, i.e. no two market mechanisms are identical but some are more innovative than others;
- 2.2. Number of market mechanisms piloted – this will involve a qualitative assessment based on the range of the proposals piloted but also taking into account their feasibility and the level of variation, i.e. no two market mechanisms are identical but some are more innovative than others.

3. Influencing future carbon markets, and encouraging replication by others.

¹ The Market Readiness Proposal (MRP) is the detailed grant request that PMR implementing countries must prepare in order to receive funding.

The PMR will help countries develop nationally appropriate plans to incorporate market mechanisms into their domestic mitigation strategy. It is a goal of the PMR that these plans, where successfully implemented, be able to act as models for other developing countries to replicate.

This will be assessed by the following **indicators**:

- 3.1. Number of observers attending PMR Partnership Assembly meetings;
- 3.2. Number and quality of engagement events run by the PMR;
- 3.3. The number of activities (e.g. workshops, key publications) delivered by the PMR Secretariat to disseminate programme experience. *(This can include benefits extending beyond participating countries.)*

2. Assessment of PMR's transformational change for fourth Annual Review

0	Transformation judged unlikely
1	Not enough evidence available
2-3	Tentative evidence points to likely change
4	Clear indication of change - transformation judged likely

Overall score: 3 - Tentative evidence points to likely change

Overall the evidence tentatively points to the PMR achieving transformational change. This is because it is fostering political will and enhancing local capacities in a very clear and direct way, through the delivery of technical assistance and allocation of grant funding (notwithstanding some delays in grant disbursement), faster than expected. This demonstrates that demand for PMR technical assistance and grant funding from implementing countries is relatively high. Finally the PMR is also considered to be encouraging innovation, as can be seen from the wide range of proposals that implementing countries have contained in their MRPs.

Criterion 1. *Fostering political will and enhancing local capacities to act on climate change. PMR will build domestic support for market mechanisms through capacity building efforts and the exchange of technical expertise between developed and developing countries with the goal to increase domestic carbon mitigation efforts by providing more cost effective solutions.*

Criteria score: 3 (Tentative evidence points to likely change)

Indicator 1.2 has been weighted more heavily because implementation is more likely to demonstrate political will than the preliminary steps listed in indicator 1.1

Indicator 1.1 *Percentage of allocated preparatory funding disbursed, number of countries with approved MRPs, and percentage of MRP implementation funding disbursed*

Indicator score: 3 (Tentative evidence points to likely change)

Out of the 17 implementing countries in the PMR, 14 countries have now had MRPs approved, with another two or three expected in the next 12 months. This is faster than expected and demonstrates the high appetite for carbon markets around the world. Two of the three milestones for output 2 of the logframe have been exceeded, though the delays with the disbursement of MRP funds resulted in a lower score for output indicator 2.3.

Indicator 1.2 *A qualitative assessment of the number and type of implementing country government ministries involved in the development and/or implementation of the Market Readiness Proposal.*

Indicator score: 3 (Tentative evidence points to likely change)

As noted last year, most countries are represented by their environment ministries, however a small number are also (or solely) represented by their foreign ministries, and most significantly a small but growing number are now also being represented by their finance ministries. This indicates that their plans to implement carbon pricing mechanisms are credible and at a relatively advanced stage (as is the case with South Africa, for example).

Criterion 2. *Encouraging innovation.* *PMR will help countries develop nationally appropriate plans to incorporate market mechanisms into their domestic mitigation strategy which utilise innovative and untried programmes for reducing emissions. These plans should be country specific and will aim to drive low carbon development cost effectively.*

Criteria score: 3 (Tentative evidence points to likely change)

Indicator 2.1 *Number of distinct mechanisms (market models) proposed through the PMR, varying in sectors covered or mitigation approach (tax, sectoral, project based, etc.), (a qualitative assessment based on the range of the proposals brought forward but also taking into account their feasibility and the level of variation, i.e. no two market mechanisms are identical but some are more innovative than others).*

Indicator score: 3 (Tentative evidence points to likely change)

There is a distinct heterogeneity among the 14 MRPs approved. For example some focus on establishing emissions trading systems, others focus on carbon taxes, while others focus on scaled-up crediting. Furthermore each MRP focusses on a distinct range of sectors. This diversity suggests that the PMR is a viable route for stimulating impactful innovation.

Indicator 2.2 *Number of market mechanisms piloted (a qualitative assessment based on the range of the proposals piloted but also taking into account their feasibility and the level of variation, i.e. no two market mechanisms are identical but some are more innovative than others).*

Indicator score: 3 (Tentative evidence points to likely change)

As noted last year, the systems proposed in the MRPs approved so far are wide ranging, including full national ETS (China), carbon tax with offsets (South Africa), carbon tax without offsets (Chile). In addition the scaled-up crediting work, which remains a focus for a number of PMR implementing countries, demonstrates a wide range of policy approaches (including voluntary vs mandatory scheme; schemes based on domestic/international demand for credits, etc.).

Criterion 3. *Influencing future carbon markets, and encouraging replication by others.* *PMR will help countries develop nationally appropriate plans to incorporate market mechanisms into their domestic mitigation strategy. It is a goal of the PMR that these plans, where successfully implemented be able to act as models for other developing countries to replicate.*

Criteria score: 3 (Tentative evidence points to likely change)

Indicator 3.1 *Number of observers attending PMR Partnership Assembly meetings.*

Indicator score: 3 (Tentative evidence points to likely change)

In the last year three observers have attended PMR meetings (Alberta, New Zealand, Singapore). In addition Alberta became a 'technical partner' of the PMR, as other former observers (California, Kazakhstan, Québec) did in previous years.

Indicator 3.2 *Number and quality of engagement events run by the PMR*

Indicator score: 3 (Tentative evidence points to likely change)

Two high level engagement events were run by the PMR Secretariat during this period, in Vietnam and Jordan. They were attended by 1 DG (Vietnam) and 2 Secretary Generals (Jordan).

Indicator 3.3 *The number of activities (e.g. workshops, key publications) delivered by the PMR Secretariat to disseminate programme experience. (This can include benefits extending beyond participating countries.)*

Indicator score: 3 (Tentative evidence points to likely change)

As in the last year, the PMR has been active in producing publications and running workshops in this period, and the training events have been well attended. This high demand for the PMR's knowledge products (as evidenced in the number of visitors to the PMR website and the number of downloads for PMR knowledge products) is taken as evidence of the potential for transformational change.