

**DISCUSSION PAPER ON THE NEXT PHASE OF THE PARTNERSHIP FOR MARKET
READINESS (PMR)**

PMR Note PA16-2017-3

March 6, 2017

I. INTRODUCTION

1. The Partnership for Market Readiness' ("PMR") Partnership Assembly ("PA") has concluded the first round of discussions on its strategic direction, which resulted in the endorsement of new criteria and a process for the use of remaining funds under the current operational phase of the PMR through 2020 ("PMR Phase I"). As part of its regular discussions on the strategic direction of the PMR, and at the request of Participants, the PA hosted a first brainstorming session on preparations for a potential next phase of the PMR ("PMR Phase II") during its most recent meeting in October 2016 in Hanoi ("PA15").
2. Following this first brainstorming session and the Participants' request to seek supplementary, targeted feedback on possible "guiding principles" for PMR Phase II during the intersessional period, the PMR Secretariat organized a series of additional consultations with the Contributing Participants and Implementing Country Participants (together referred to as "Participants"). The feedback collected during these consultations has been incorporated in this Discussion Paper.
3. This Discussion Paper outlines a number of principles and options with regards to potential objectives, scope, delivery modes, governance framework and timeline for the discussion on PMR Phase II. The Discussion Paper will be presented and discussed at the next meeting of the Partnership Assembly ("PA16") in New Delhi, to seek further feedback from the Participants. The contents of this Discussion Paper, amended as appropriate following the discussion at PA16, will be reflected in a final Note on PMR Phase II, which, in turn, will serve as a basis for the preparation of a new trust fund with a potentially new governance structure.

II. BACKGROUND

A. STRATEGIC DISCUSSIONS UNDER PMR PHASE I AND SUMMARY OF ACTIONS TAKEN

4. Since its operationalization in 2011, the PMR has been a key platform for technical discussions and the exchange of knowledge and experience on carbon markets and carbon pricing. The initiative has also helped a number of Implementing Country Participants build capacity for scaling up domestic mitigation efforts through carbon pricing instruments, and to pilot instruments appropriate to their domestic contexts.
5. In an effort to ensure that the impacts of the PMR are maximized and sustained over time, since 2013, the PMR Secretariat has carried out recurrent discussions on the strategic direction of the PMR amongst Participants, and has regularly prepared notes and proposals to facilitate these discussions. In broad terms, these discussions and documents have outlined ways in which the PMR could be further scaled-up, including through (a) deepening readiness support to countries, (b) broadening the reach and scope of the PMR, (c) supporting piloting of scaled-up crediting programs; and (d) preparing for a second round of resource mobilization in order to provide long-term and systematic support to Implementing Country Participants.

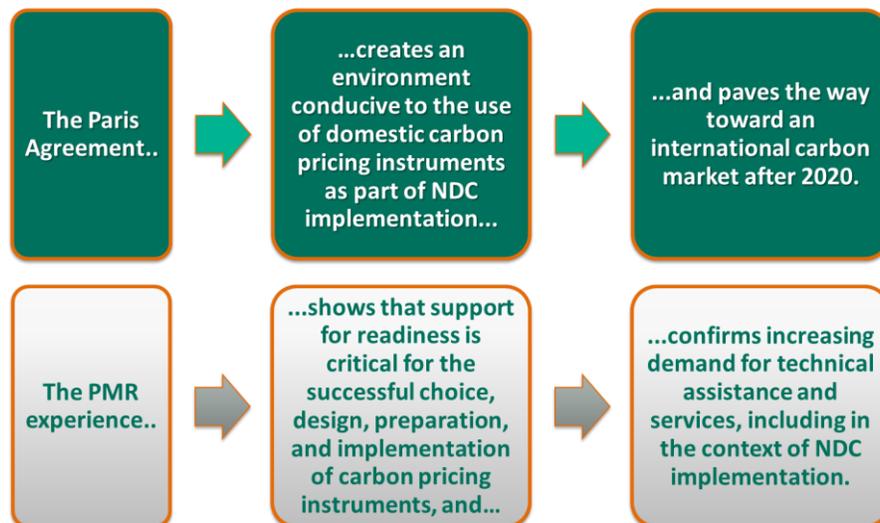
6. Until mid-2016, such discussions focused on PMR Phase I, which runs until the end of 2020. As part of these discussions, a number of activities have been agreed and undertaken to deepen readiness support to countries. This includes, notably, the establishment and deployment of the Policy Analysis Work Program. Initially, this program supported the establishment of post-2020 mitigation scenarios and the preparation of several countries' Intended Nationally Determined Contributions ("INDCs"). Now, it also supports countries to refine the implementation strategies for their respective Nationally Determined Contribution ("NDC"), and helps analyze the impacts of carbon pricing instruments and their interaction with existing or intended policies. Deepening of readiness support also materialized through further ramping up of the PMR Technical Work Program, the reinforcement of in-time expert support to Implementing Country Participants, and the endorsement of a process to allocate the remaining funding under PMR Phase I to support complementary activities related to the initial Market Readiness Proposals (MRPs) and/or new activities related to policy analysis.
7. Several actions were also undertaken to broaden the reach of the PMR under PMR Phase I. These included the endorsement of four new countries as Implementing Country Participants (Peru and Tunisia, and later Sri Lanka and Argentina) and the creation of a new participants category – the Technical Partners – which enabled the involvement of California, Québec and Alberta (as non-assistance receiving Technical Partners) and Kazakhstan (as assistance-receiving Technical Partner). The PMR also developed a number of strategic partnerships through the implementation of joint activities with organizations such as the International Emissions Trading Association (IETA), the International Climate Action Partnership (ICAP), the International MRV Partnership, GIZ, WRI, UNDP's LECB Programme, UNEP's LEDS Global Partnership, etc.
8. With regards to the direct support for piloting scaled up crediting programs, it was agreed that such discussions would be pursued outside the scope of the PMR framework. Separate consultations and negotiations gave rise to the creation and the launch the Transformative Carbon Asset Facility (or "TCAF") which, despite being a separate fund involving a different set of stakeholders, maintains close collaboration with the PMR Secretariat on methodological approaches and capacity building work related to crediting mechanisms and results-based finance programs in general.
9. In addition to the discussions on deepening and broadening support to Implementing Country Participants under PMR Phase I, the PA also agreed that broader discussions on PMR Phase II would be resumed, taking into account the outcomes of the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC) in Paris. These discussions were initiated at PA15 in Hanoi, in October 2016, with a [brainstorming session on the next phase of the PMR](#).

B. EXTERNAL ENVIRONMENT: PMR IN A POST-PARIS WORLD

10. The Paris Agreement, adopted in December 2015 at the conclusion of COP21, represents an important milestone in the global effort to tackle climate change. It demonstrates a strong commitment to keep the increase in global average temperature to well below 2°C above pre-industrial levels, with the aim of limiting it to 1.5°C, and thereby represents a major step forward in raising the collective ambition towards mitigating greenhouse gas (GHG) emissions.

11. The Paris Agreement is exceptional in the way in which it encourages all countries to submit, record and improve over time their respective NDCs to support the global effort of addressing climate change. The bottom-up nature of the Paris Agreement is unique as it inherently offers countries flexibility with respect to the policies and actions they may adopt to reach their NDC targets, based on their overall development and strategic priorities. As part of their NDC, many countries emphasized the possibility of using carbon pricing and carbon markets to help them achieve their climate change mitigation objectives.
12. Thereby, the core mandate of the PMR, namely to help countries build capacity to better understand and test the use of carbon pricing in order to achieve climate change mitigation objectives, has been reinforced. The experience gained through PMR activities in different countries provides a solid foundation for future carbon market developments. Such insights will likely be critical to increasing the collective ambition of the Paris Agreement over time (see Figure 1).
13. In the years to come, as countries face challenges to translate their NDCs into actionable, low-carbon and climate-resilient development plans, the PMR will become even more critical. There will be an increase in demand from countries to help them refine and operationalize their NDC objectives and implementation strategies, including through the use of market-based and other carbon pricing instruments. And while the benefits of these instruments – on the environment, on public revenue, and on innovation and clean technology investments – is widely recognized, and the pace at which carbon pricing initiatives are being introduced around the world is picking up, the challenges that countries face when preparing for and implementing various carbon pricing instruments remain significant. This creates an opportunity to leverage the PMR’s technical knowledge base and to further facilitate and enhance the use of innovative carbon pricing instruments in existing and potentially new Implementing Country Participants.

Figure 1 - Rationale for the PMR Phase II



C. INTERNAL ENVIRONMENT: UNDERSTANDING READINESS

14. The experience from PMR Phase I shows that developing “carbon pricing readiness” is not a uniform and linear process. For many countries, the decision-making process surrounding the choice of an appropriate carbon pricing approach is an extensive and politically-sensitive endeavor. Governments need to make the case in their countries for the use of carbon pricing instruments, establish an enabling environment, by building technical and institutional capacity, and a regulatory framework for their use, and then, when they become effective, they need to directly address implementation challenges related to the review and refinement of instruments. This diversity of activities implies that, depending on their readiness stage, countries need differentiated support in the future.
15. Carbon pricing readiness can be a “no-regret measure,” as improvements in technical and institutional capacity have cross-cutting benefits that can support other climate and development policy objectives beyond actual implementation of a given emissions pricing instrument. This is particularly true when it comes to the promotion of good practice and the facilitation of efforts to establish credible, compatible and consistent standards and approaches for GHG mitigation (e.g. for data management and MRV systems), as well as economic and policy analysis to inform the selection and introduction of a carbon pricing instrument, as well as its future revisions and refinement.
16. Finally, the PMR provides a beneficial and unique partnership that serves as a platform that allows countries to leverage political momentum and share knowledge and lessons learned on a range of critical technical and policy challenges faced during the design and implementation of market-based and other carbon pricing instruments. By bringing together more than 30 countries, including the world’s major economies and largest emitters, various international organizations and technical experts, the PMR enables and facilitates enhanced cooperation and innovation. Feedback from Participants consistently indicates the importance of maintaining and even enhancing the exchange of knowledge and experience that takes place amongst peers within the PMR.

D. PREPARING FOR PMR PHASE II

17. In light of the evolving external environment described above and the insights gained through PMR Phase I, Participants agreed to initiate discussions in 2016 on PMR Phase II. During the first brainstorming session at PA15 in Hanoi, Participants exchanged and provided initial feedback on the [long-term future of the Partnership](#). They welcomed the discussions and reiterated strong support for the continuation of the Partnership after the end of its first phase in 2020. PMR Participants also provided extensive initial feedback on the possible scope of activities for PMR Phase II. While Participants shared different views and priorities on possible options to further deepen and broaden PMR support, Participants overall recognized the need, going forward, to offer differentiated support to countries depending on their level of readiness. Furthermore, several Participants noted the high quality and relevance of technical work and country-specific activities that are currently being carried out and emphasized the importance of continuing such work in the future.
18. As an extension of the discussions at PA15, PMR Participants requested the Secretariat to carry out additional consultations, in smaller groups, during the first quarter of 2017 and, based on the

feedback received, to prepare a draft proposal to be submitted and discussed at the next PA meeting in March 2016. Several consultations were held with representatives from PMR Contributing Participants and Implementing Country Participants over the course of December 2016, and January and February 2017.¹ The main purpose of the consultations was to seek input from Participants on the objectives, scope of work, delivery methods and governance framework options for PMR Phase II. The feedback received from the Participants on each of these elements was taken into consideration and is discussed in detail in the following sections.

III. PMR PHASE II – OBJECTIVES, SCOPE OF WORK AND DELIVERY METHODS

A. OBJECTIVES AND SCOPE OF WORK

19. The objectives of the current phase of the PMR are to (i) provide grant funding to build readiness components that support the implementation of carbon pricing instruments—including market-based approaches—for GHG mitigation, (ii) pilot carbon pricing instruments, e.g., domestic emissions trading systems (ETS), scaled-up crediting mechanisms, or carbon taxes, (iii) provide a platform for discussions, networking, and collective innovation on carbon pricing instruments—in particular new market-based approaches—for GHG mitigation, (iv) create and disseminate a body of knowledge on carbon pricing instruments, in particular market-based approaches, that could be tapped for country-specific requirements, and (v) share insights and lessons learned with the international community, including the UNFCCC.
20. There is a clear consensus among Participants that the objectives for PMR Phase II should remain broadly unchanged going forward. This is in line with the view that the Paris Agreement has reinforced the objectives of the PMR and that expanded support should be provided in order to scale up the impact of carbon pricing activities around the world, particularly in the PMR’s existing Implementing Countries.
21. During the consultations on PMR Phase II, Participants agreed with the overall assessment that the demand for financing and technical assistance related to carbon pricing is likely to increase as a result of the Paris Agreement and the central role that it can play in the implementation of NDCs, and the PMR, given its recent experience and extensive network of stakeholders, is well positioned to respond to that demand.
22. Participants also agreed that the readiness process for the use of carbon pricing instruments is an iteration of several phases, combining activities focused on (i) policy analysis to facilitate the choice of an instrument (upstream activities), (ii) the establishment of core technical elements to underpin the design and use of carbon pricing instruments (midstream activities) and the implementation, review and refinement of instruments (downstream activities). These phases cannot always be clearly

¹ Consultations were held with PMR Implementing Country Participants from the Latin America and the Caribbean region in San José, Costa Rica, on December 9, 2016, from the Europe and Central Asia, Middle East and North Africa, and Africa regions in London, United Kingdom, on January 31, 2017, and from the South Asia, and East Asia and the Pacific regions in Bangkok, Thailand, on February 24, 2017. Consultations were held with PMR Contributing Participants in London, United Kingdom, on January 30, 2017, and in Tokyo, Japan, on February 27, 2017.

distinguished and are often intertwined, hence the need for differentiated support from countries going forward.

23. Finally, Participants stressed the fact that maintaining an active and dynamic platform to leverage political momentum and share valuable knowledge and experience on technical and policy challenges related to carbon pricing is vital, and that it can be instrumental in helping to develop the next generation of carbon markets and informing the UNFCCC negotiations on the operationalization of Article 6 of the Paris Agreement.
24. There is an acknowledgement that increased and more systematic support needs to align with and contribute to the NDC implementation cycle in each of the PMR's Implementing Countries. Yet, while there is a general recognition that the current objectives of the PMR remain very relevant for PMR Phase II, it will be important to build on the lessons learned and achievements of PMR Phase I, to refine and to align them with the new external and internal environment described in the previous sections.
25. In particular, there is a general consensus that the main focus for PMR Phase II should be on "implementation," i.e. to help countries increase their climate mitigation ambition and move towards the piloting and implementation of fully-fledged carbon pricing. At the same time, Participants recognize that certain countries will still need support to complete or complement their readiness phase, for which reason differentiated avenues of support (and possibly related Participant categories, as describe in Section IV.b below) may be needed.
26. In terms of the scope of work for PMR Phase II, in addition to the current focus on emissions trading, carbon taxation, and scaled-up crediting and offsetting, PMR Participants indicated a strong interest in focusing on the next generation of international carbon markets, including issues around accounting, transparency and international cooperation (e.g., MRV systems, compatibility of registry systems, etc.). In this regard, it was also emphasized that any future scope of work would benefit from building on the current work and from ensuring continuity and sustainability of efforts.

B. DELIVERY METHODS TO MAXIMIZE IMPACT

27. Building on the potential objectives and scope of work for PMR Phase II, consideration has also been given to potential options for enhancing delivery methods going forward, which would in turn facilitate integrated support to carbon pricing in Implementing Countries, as well as more systematic support to NDC implementation. In this regard, the discussions mainly focused on the ways in which technical assistance could be provided in the future. In general, in PMR Phase II, the PMR could provide grant funding to support activities that contribute mainly to the effective piloting and implementation of carbon pricing policies in Implementing Countries. The support could also include the active facilitation of regional dialogues and common analytical and technical work on carbon pricing, while ensuring synergies with other World Bank Group ("Bank") initiatives, such as the Carbon Pricing Leadership Coalition (CPLC), the Networked Carbon Markets (NCM) initiative, the Transformative Carbon Asset Facility (TCAF), the NDC Partnership Facility, etc.

28. Another important element for the delivery of support is related to the creation and management of knowledge, the development of capacity, and training. In this regard, the PMR's important role may be maintained and further scaled up in the future. PMR Phase II may deepen technical knowledge and increase the ability to provide in-country support.
29. Finally, regarding the possible way forward to expand the reach of the PMR, this has been recognized, to largely depend on the scope of work decided for PMR Phase II. Based on the increased demand and interest in the PMR from other developing countries and emerging economies, it may be relevant to consider adding new participants, according to pre-established criteria.
30. While the growing demand for country support appears to be certain, the imperative will be to ensure coordination and complementarity among all existing and forthcoming initiatives and ultimately facilitate in a timely, efficient and streamlined manner the implementation of carbon pricing policies around the world.

IV. PMR PHASE II – PARTICIPANTS, GOVERNANCE FRAMEWORK AND PROCESS

A. LESSONS LEARNED FROM EXISTING PMR PARTICIPATION AND EFFORTS MADE TO BROADEN THE REACH OF THE PMR

31. Since its operationalization in 2011, the PMR has evolved into a key platform for supporting carbon markets and carbon pricing initiatives worldwide. As the PMR was growing and drawing positive reactions from the international community, additional developing countries and emerging economies demonstrated interest in joining the PMR, therefore providing a foundation for both expanding its reach, as well as for adding additional Participants' categories. The PMR flexibility in this regard was critical in its efforts to address the growing demand globally. Likewise, given diverse readiness needs that countries have, the PMR flexibility in engaging various jurisdictions and countries and providing country-tailored support was important broadening its reach and maximizing its impacts.
32. The PA originally decided to limit the number of Implementing Country Participants to 15. With additional contributions to the PMR Multi-Donor Trust Fund from Switzerland and Germany, Peru and Tunisia formally joined the Partnership in 2012 and 2014, respectively, as Implementing Country Participants. Following the adoption of the process for additional countries to join the PMR in 2016, Sri Lanka and Argentina became new Participants, thereby bringing the total number of Implementing Country participants to 19.
33. In an effort to respond to the changing environment and growing interest in the PMR, the PA also decided to broaden its reach by creating a new PMR participants category, namely the Technical Partners. Technical Partners are countries or sub-national jurisdictions that already have an effective carbon pricing instrument in place or that are at an advanced stage of preparation to establish one. They engage with the PMR through various collaborative activities and, if needed under specific circumstances, receive funding for technical assistance. As of now, 4 Technical Partners have joined

the PMR: Alberta, California, Kazakhstan and Québec. Kazakhstan is the only Technical Partner that receives funding for targeted technical support.

B. GOING FORWARD: REFLECTING NEED FOR DIFFERENTIATED SUPPORT AND GROWING COUNTRY DEMAND

34. PMR Phase II would maintain and possibly even broaden the existing PMR membership, which would include Contributing Participants (that would contribute financially to the PMR Phase II) and Implementing Country Participants (that would benefit from financial and technical assistance from the PMR). Depending on their stage of readiness and the types of activities that they focus on, the Implementing Country Participants would be categorized further into two groups: (i) those that receive technical and financial assistance mainly for the activities supporting the implementation of carbon pricing instruments in their countries and (ii) those that receive technical and financial assistance for activities aimed at enhancing technical and institutional capacity for the design and preparation of carbon pricing instruments. Therefore, each sub-category of Implementing Country Participants would be eligible to receive funding to carry out activities related mostly to either implementation or design and preparation, respectively. Both categories of Implementing Country Participants would also be eligible to receive funding to support upstream activities, as described in Section III.a above, to enable them to regularly assess the impact of their (existing or future) carbon pricing policies and to adjust their NDC targets accordingly over time. This approach allows the PMR to assist countries in scaling-up the activities related to the piloting and implementation of carbon pricing instruments, while simultaneously allowing for new or existing Implementing Country Participants that have not yet reached the implementation phase to potentially receive technical and financial assistance to advance or complete their readiness roadmaps and therefore finalize the design of forthcoming carbon pricing instruments. Such differentiated approach towards the Implementing Country Participants would accommodate specific country contexts and demand by providing tailor-made, country-specific support.
35. Moreover, this approach would address the expected growing demand from additional countries to join the PMR. By including a provision to continue providing readiness assistance, as needed, in PMR Phase II, new countries potentially interested in developing and implementing carbon pricing instruments would also be eligible to join the PMR and receive such support from the PMR. As a result, by adopting an option to expand its participants base in Phase II, through the addition of Implementing Country Participants and/or Technical Partners, the PMR would continue to operate as one of the key initiatives for supporting countries' efforts to achieve and raise their climate mitigation ambition through the use of carbon pricing instruments.
36. While hoping that current Contributing Participants would be interested in providing funding support to PMR Phase II, there is also an expectation that new Contributing Participants could join the Partnership. Such countries or institutions would be invited to start taking part in the discussions on PMR Phase II as soon as the Design Document is being drafted, i.e. after the adoption of the final version of this Discussion Paper.
37. In addition to the Contributing and Implementing Country Participant categories (as described above), PMR Phase II would also include other stakeholders. As opposed to the existing category of Technical

Partners – which comprises countries and sub-national jurisdictions that receive targeted technical support to enhance their domestic carbon pricing policies and/or collaborate with the PMR by sharing their experience and engaging in capacity development activities –, the definition of Technical Partners in PMR Phase II may be limited to countries or jurisdictions that are at advanced stage of preparation or implementation of a carbon pricing instrument, but do not contribute financially to the initiative. As such, their contribution would be “limited” to PMR activities related to knowledge and experience sharing, and to capacity development.

38. The definition of other PMR membership categories, such as Observers, Experts and Delivery Partners would remain unchanged from PMR Phase I. The Bank would continue to serve as the PMR Secretariat and as Trustee of the PMR Multi-Donor Trust Fund. As such, it would continue providing secretariat and technical support for day-to-day operations and administering the funds, assets and receipts that constitute the trust fund. The Bank would also continue to serve as the principal Delivery Partner, with the possibility of other multilateral development banks and UN agencies acting as additional Delivery Partners under specific circumstances.

C. OVERVIEW AND MAIN PRINCIPLES OF EXISTING PMR GOVERNANCE ARRANGEMENTS AND PROCESS

39. The existing PMR governance structure and related processes are based on a shared governance approach. The main guiding principles of this governance structure include: (i) agreement among Participants on the objectives through a program of activities over years; (ii) funding allocation decisions on a consensus basis; (iii) agreement on the detailed governance arrangements, such as approval of criteria and conditions by the governing body; and (iv) regular progress reporting by the PMR Secretariat. These principles are reflected and built upon in the PMR Design Document, Governance Framework and Rules of Procedures, with collective decision-making underpinning the PMR processes.
40. The PA is currently the main decision-making body of the PMR and consists of the Contributing Participants and Implementing Country Participants. Technical Partners, Observers, Expert and Delivery Partners actively participate in the PA meetings but do not have voting rights. In an effort to streamline the decision-making process, the current PMR Governance Framework also includes a provision to establish a Partnership Committee, which would consist of an equal number of representatives from the Contributing Participants and the Implementing Country Participants. Until now, the PA has not decided to use this provision and establish a Partnership Committee.
41. In principle, all the decisions of the PA are made on a consensus basis. However, the PMR Governance Framework includes a provision that allows decisions to be made on a double two-thirds majority (among both Contributing Participants and Implementing Country Participants) when all efforts to reach consensus have been exhausted and no decision has been reached.
42. Countries can join the PMR as Implementing Country Participants and receive financial and technical assistance by the PMR through the following process:
 - The submission to the PA of an Expression of Interest to join the PMR as Implementing Country Participant which provides an opportunity for a country to formally seek support

- from the PMR and describe its interest in using carbon pricing instruments as a potential tool to achieve climate mitigation actions within its national political context;
- The submission to the PA of a request for PMR Preparation Phase Funding, seeking funding and technical support from the PMR (to be allocated by the PA) for the formulation of a Market Readiness Proposal (MRP); and
 - The submission to the PA of a request for PMR Implementation Phase Funding, seeking funding from the PMR (to be allocated by the PA) for the implementation of the “readiness” activities outlined in its MRP.

D. LESSONS LEARNED FROM EXISTING PMR GOVERNANCE ARRANGEMENTS AND PROCESS

43. Different contexts and circumstances call for different governance models. The existing shared governance approach under PMR Phase I, as specified in the current PMR Governance Framework and related processes, relies on collective decision-making. While this approach is an effective way of ensuring legitimacy and ownership of PMR activities, and of facilitating consensus building for funding decisions, it also implies more time-consuming and costly administration of activities and, in some cases, risks of delay in MRP implementation. These views were also reflected in the First Independent Evaluation of the PMR (March 2015), which concluded that while the PMR Governance Framework is working well overall, the speed of MRP implementation is one of the shortcomings of the existing governance approach.
44. Regarding the PMR process in general and the MRP preparation in particular, the experience shows that it is critical to build up in-country capacity, benefiting from the knowledge and experience of other Participants and Experts, before a decision by the PA can be made on the allocation of PMR Implementation Phase Funding. However, the experience also shows that, at times, the preparation phase leading to the actual implementation phase of PMR activities can be relatively lengthy. This process can be further delayed if there are long intervals between PA meetings. This is the main reason why the PMR Secretariat proposed to adopt a process allowing for inter-sessional decisions to be made electronically, which was adopted at PA10.

E. GOING FORWARD: WAYS OF ENSURING TIMELY, EFFICIENT AND STREAMLINED DELIVERY

45. For the purpose of this Discussion Paper, possible governance arrangements for PMR Phase II refer to decision-making processes related to trust fund operations, including issues around strategic directions of the trust fund and allocation of funds to Implementing Country Participants, projects and activities. The proposed governance framework is expected to be further refined and determined prior to establishment of a new and separate trust fund initiative (or a new tranche under the current PMR framework) for PMR Phase II. In any case, PMR Phase II would need to be reflected in the Administrative Agreements with the PMR Phase II Contributing Participants as well as in related governance documents.

46. In an effort to ensure a more timely, efficient and streamlined delivery of results, the proposed PMR Phase II governance framework would be underpinned by the principles of a “collaboration engagement.” This governance model is expected to support a more efficient transition from funding to implementation, faster decision-making, more cost-effective TF administration and ever more transparent allocation of funds for supported activities. Such governance arrangements are also consistent with the Bank’s commitment, as trustee of the funds, to meet clear expectations and ensure efficient governance terms.
47. The features of the proposed governance arrangements would include the establishment of a programmatic trust fund that would allow for the allocation of funding for Bank-executed work and for the allocation of grant funding for Recipient-executed work under a two-stage mechanism. The first stage would include an agreement with the Contributing Participants to commit funds to this programmatic trust fund to achieve well-defined fund objectives, through a program of activities over multiple years. Similarly, a results framework, along with the approval criteria and conditions for fund allocations, would also be agreed accordingly. The second stage would include a process with different decisions made by specific entities (either the Bank, a PMR Phase II Steering Committee or the PA), based on pre-defined criteria and specific funding allocation thresholds.
48. The PA under PMR Phase II, consisting of Contributing and Implementing Country Participants, would meet once per year to review the strategic direction of PMR Phase II, its achievements, use of resources and funding requirements. In addition, the PA would make funding decisions for amount that are above a certain threshold and related to specific types of activities. Such threshold and related scope would be determined through further consultations. Technical Partners, Observers and Delivery Partners would not be eligible to vote in the PA meeting under PMR Phase II nor would they be represented in the Steering Committee.
49. In addition, a PMR Phase II Steering Committee, consisting of one or more representative(s) from Contributing Participants, Implementing Country Participants and the Bank (as the PMR Phase II Secretariat, Trustee and the main Delivery Partner) would be established. While the additional structure and participation in the Steering Committee would still need to be determined, it would be governed by the principles of representation and rotation, i.e. each relevant PMR Phase II participants’ category would need to be adequately represented and members would need to rotate on a regular basis, to allow for an opportunity for each PMR Phase II participant to sit at some time on the Steering Committee. The role of the Steering Committee would be to advise on and endorse the PMR Phase II work program and corresponding budgets, and to make funding decisions when the amounts are below a given threshold (above which a decision by the PA would be required, and to be determined through further consultations). Technical Partners, Observers and Delivery Partners (other than the Bank) would not be represented on the Steering Committee.
50. Lastly, the Bank would serve as the PMR Phase II Secretariat and Trustee. As such, it would be responsible for day-to-day operations and funding allocations below a given threshold (above which a decision by the PA or the Steering Committee would be required, and to be determined through further consultations). Finally, the Bank would provide progress reporting against the key strategic priorities and thematic areas of focus and against the agreed results framework. Such progress

reporting would be shared with the PMR Phase II participants through the Steering Committee and annual PA meetings under PMR Phase II.

V. SYNERGIES WITH OTHER BANK INITIATIVES: INTEGRATED APPROACH FOR MAXIMIZED IMPACTS

51. The Bank's Climate Change Action Plan, adopted by the Board in April 2016, aims to help developing countries accelerate efforts to tackle climate change and deliver on their NDCs. In particular, the Climate Change Action Plan reconfirms the Bank's commitment to increase the climate-related share of its portfolio from 21 to 28% by 2020, with total financing (including leveraged co-financing) of potentially \$29 billion per year by 2020. To achieve that goal, the Climate Change Action Plan identifies actions along four top-level priorities and related objectives, including by supporting transformational policies and institutions, leveraging resources, scaling up climate action and aligning internal processes and working with others.
52. In an effort to ensure that the delivery of the Climate Change Action Plan is being effectively supported, the Bank's Climate Change Group ("CCG") has undertaken an organizational realignment with the objectives to keep the Bank on the frontier edge of climate and development work and create an organizational structure that facilitates the implementation of the Climate Change Action Plan and the realization of related opportunities.
53. The vision of the CCG's Carbon Markets and Innovation (CMI) Unit, wherein the PMR is housed, is to empower client countries to enhance their climate action ambition by leveraging carbon pricing and market-based instruments to transition to low-carbon economies. This vision translates into several objectives, namely (i) monetizing climate co-benefits in Bank investments, (ii) piloting climate asset transactions, (iii) providing global thought leadership and (iv) delivering an integrated approach to support clients on carbon pricing and market-based instruments. PMR Phase II would be fully consistent with the CMI Unit's third and fourth objectives.
54. Through its several climate change initiatives, the Bank already provides a range of services which integrate country-level solutions and global experience and advocacy. Given the expected further increase in country demand for financial and technical support to help them translate their NDCs into specific implementation plans and activities, going forward, the proposed scope and delivery modes for PMR Phase II would build on the existing experience, leverage synergies and reveal new opportunities for cooperation among existing and forthcoming partnerships and initiatives.

VI. PROPOSED NEXT STEPS AND MILESTONES

55. The PMR Secretariat proposes the following timeline and milestones for the discussions on PMR Phase II:
 - **April-September 2017:** Additional consultations with PMR Participants and other stakeholders on this Discussion Paper, and drafting of a final corresponding PMR Note on PMR Phase II. Launch of the Second Independent Evaluation of the PMR.

- **October 2017 (PA17):** Presentation and endorsement of the final PMR Note on PMR Phase II.
- **November 2017-April 2018:** Consultations with interested Contributing and Implementing Country Participants, and drafting of the *“PMR Phase II Design Document.”*
- **April 2018 (Margins of PA18):** Presentation of the *“PMR Phase II Design Document”* to interested Contributing Participants.
- **May 2018-December 2018:**
 - Additional consultations with interested Contributing Participants for PMR Phase II and revisions to the *“PMR Phase II Design Document.”*
 - Negotiation of Administrative Agreements with relevant Contributing Participants for PMR Phase II.
- **December 2018 (COP24):** Announcement of PMR Phase II, and signature of Administrative Agreements with the first Contributing Participants for PMR Phase II.
- **April 2019:** Launch on PMR Phase II. Organizational Meeting of PMR Phase II, including adoption of the PMR Phase II Governance Framework and Rules of Procedure. Expression of Interest from Implementing Country Participants for PMR Phase II.

56. Based on the outcome of discussions regarding this Discussion Paper and the finalization of a corresponding PMR Note on PMR Phase II, the PMR Secretariat will propose a trust fund structure for PMR Phase II that, depending on the level of deviation from the current PMR Phase I governance structure, may involve the establishment of a new and separate trust fund (with a new governance framework and rules of procedure) or the establishment of a second tranche under the current PMR Multi-Donor Trust Fund (with a modified governance framework and rules of procedure). In this regard, potential legal arrangements would be elaborated in the final PMR Note on PMR Phase II, which is expected to be presented at PA17, in October 2017.

VII. ACTION BY PA

57. The PA is invited to provide feedback on this Discussion Paper, including on the proposed timeline and key milestones for the discussions on the PMR Phase II.