

**MODALITY FOR FUNDING ADDITIONAL ACTIVITIES UNDER THE PMR: DRAFT  
PROPOSAL FOR DISCUSSION**

PMR Note PA13 2015-4

October 14, 2015

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## I. INTRODUCTION

1. In an effort to further facilitate discussions on the PMR strategic direction, the PMR Secretariat prepared this *Note on Options for Funding Additional Activities under the PMR: Draft Proposal for Discussion* (PMR Note PA13 2015-4). The Note is structured in three main parts. The first one – Section II – provides a brief summary and an update on the overall strategic direction discussions held to this date. The second part – Section III – outlines the proposed scope of and considerations for reviewing proposals for funding additional activities under the PMR. The third part – Section IV – suggests a process and modality in this regard. The PA is invited to provide feedback on the Note, and to share ideas on other areas of focus for these discussions, including additional ways of deepening the PMR support to Implementing Country Participants. Discussions on other areas of focus under the strategic direction of the PMR, including options for broadening the reach of the PMR, will be held separately based on the PA’s interest.

## II. SUMMARY AND AN UPDATE ON THE OVERALL STRATEGIC DIRECTION DISCUSSIONS

2. Since its operationalization in 2011, the Partnership for Market Readiness (PMR) has evolved into a key platform for supporting carbon markets and carbon pricing in a broad context of climate change mitigation policies and action. In an effort to ensure that its impacts are maximized and sustained over time, the PMR Secretariat initiated discussions on the strategic direction for the future of the PMR in May 2013 at its sixth Meeting of the Partnership Assembly (PA) in Barcelona. During that meeting, the PA decided that the PMR strategic discussions shall be “carried out regularly and in a participative manner.” In line with that decision, the PMR Secretariat prepared a number of notes and proposals to facilitate these discussions:
  - A. The [Note on the Strategic Orientation of the Future of the PMR](#) (presented at PA7 in October 2013, in Marrakech) 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 the new market-based instruments; and (d) Preparing for the second round of resource mobilization in order to provide long-term and systematic support.<sup>1</sup>
  - B. The [Proposal on Upstream Policy Work](#) (presented at PA8 in March 2014, in Mexico City) outlined options for additional support in order to respond to new domestic and international developments and help countries assess policy options and identify a package of effective and cost-efficient instruments (including carbon pricing instruments) for post-2020 mitigation

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<sup>1</sup> The Note outlined that proposed activities under deepening readiness support to countries (through strengthening and expanding upstream policy analysis, enhancing the PMR technical work program, reinforcing in-time expert support to Implementing Country Participants, and supporting South-South knowledge exchange) and broadening the reach of the PMR could be financed from the existing capital (“second phase of the PMR”), while the proposals outlined under options for supporting piloting would be subject to the second round of resource mobilization (“PMR II”).

scenarios. This work stream was endorsed by the PA at the following meeting (PA9) and subsequently extended at PA12 May.

- C. The presentation on [Strategic Directions for the Future of the PMR](#) (made at PA10 in November 2014, in Santiago) discussed the main challenges and opportunities facing the PMR, and outlined possible ways to deepen, broaden, and strengthen the PMR support to Implementing Countries.
  - D. The [Note on Options for Funding Additional Activities under the PMR](#) (presented at PA11 in March 2015, in London) outlined the rationale for deepening readiness support to Implementing Country Participant, suggested possible ways for delivering such support in the future, and provided the PMR financial outlook up to 2020, which demonstrated the availability of funding to support additional activities.
  - E. The [Note on Options for Funding Additional Activities under the PMR: Update and Proposed Way Forward](#) (presented at PA12 in May 2015, in Barcelona) provided a summary and an update on the overall strategic direction discussions held to date and suggested a way forward to frame discussions on the matter, including proposing a timeline and key milestones.
3. At PA12, the PA generally welcomed the PMR Secretariat proposal and endorsed the proposed milestones to guide the discussions on the strategic directions for the future of the PMR. The first milestone was to prepare a draft proposal, to be presented at PA13, on a procedure for the allocation of additional funding under the PMR, and a draft template for the submission of funding proposals. This proposal and the related template (see Annex) are the object of this Note. The second milestone will be to prepare a revised version of the proposed process and template, by PA14, for the PA's consideration and endorsement. The procedure for the allocation of funding for additional activities under the PMR is expected to be effective in July 2016, i.e. at the beginning of FY17. Implementing Country Participants will then have the possibility to submit new funding proposals for additional activities. The overall implementation period for these activities is expected to run from the beginning of 2017 until the end of 2019. Finally, in addition to the discussions on deepening support to countries using the existing PMR Trust Fund capitalization (up to 2020), the PA also agreed that broader discussions on the future of the PMR (beyond 2020) will be resumed taking into account the outcomes of the UNFCCC Conference in Paris (COP21).

### III. SCOPE OF ADDITIONAL ACTIVITIES UNDER THE PMR AND CONSIDERATIONS FOR REVIEWING FUNDING PROPOSALS

4. As the focus of PMR activities is gradually shifting from the preparation to the implementation of activities laid out in the Market Readiness Proposals (MRPs), exploring ways of enhancing technical and financial support to existing Implementing Country Participants is critical. In addition, the long-term projection of the PMR funding, which is based on current and expected expenses related to PMR operations and current modalities of country support, reveals a likely funding surplus that could be

used to deepen the support provided to the Implementing Countries (see Annex II for more information on the PMR funding outlook until 2020).

5. This section describes three types of activities that could be funded in order to provide additional support to the Implementing Country Participants: (A) Activities that complement and support existing MRP activities; (B) Activities that are additional to existing MRP activities and that are directly related to the design and implementation of carbon pricing instruments; and (C) Activities that are related to policy analysis (i.e. carrying out modeling work, exploring the economic implications of the implementation of carbon pricing instruments, as well as analyzing the interaction of these instruments with other policies). These three “options” for deepening PMR country support are based on past discussions on the strategic direction for the future of the PMR and a “Survey for Implementing Country Participants”, which aimed to identify initial demand and scope for funding additional activities under the PMR. Several considerations to review funding proposals are also outlined below.

#### **A. Activities to Complement and Support Existing MRP Activities**

6. The current modality of PMR operation is that Implementing Country Participants receive grant funding to carry out activities identified in their MRP. In most cases, this funding typically covers only a portion of the activities required for market readiness. As stipulated in the [Tool for Market Readiness Proposal](#), as well as the [Resolution PA 3/2012-4](#) (“Additional Criteria and Modality of Allocation of Implementation Funding”), Implementing Country Participants were given the option to indicate in their MRPs whether they planned to come back to the PA for a second round of funding. In addition to this, as countries enter the implementation phase, potential gaps between the MRP-funded activities and Implementing Countries’ overall readiness needs are likely to be further identified.
7. In an effort to strengthen the implementation of their MRPs, the PMR Secretariat proposes to establish a process for the Implementing Country Participants to apply for additional funding to complement their MRP activities. The scope of the requests will include additional activities which are directly related to their MRP and new activities identified during the early implementation of their MRP. As such, they will help Implementing Country Participants achieve the objectives identified in their MRPs, as well as generally help improve market readiness. The identification of possible areas for additional support will be mainly based on the review of the MRP progress and identification of the readiness gaps. The progress of the MRP activities will be monitored and incorporated into the PMR Project *Implementation Status Report (ISR)*, which the Implementing Country Participant will prepare annually.<sup>2</sup> The PMR Project ISRs are expected to recognize the readiness gaps and identify the needs for additional funding subject to the progress made during the MRP implementation phase. That said, requests for funding additional activities related to the Implementing Country MRPs will be submitted as part of a separate process (see sections IV and V of this Note).

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<sup>2</sup> The ISR template has been submitted for endorsement by the PA in March 2015, as part of the PMR Operations Monitoring System and circulated at PA12 (see Annex II of the [PMR Note PA12 2015-6](#)).

8. Concerning the timing for the submission of requests for funding additional activities which are complementary and supporting the MRPs, it is important to keep in mind that initial funding needs will be identified based on the implementation progress and, as such, they will be included in the PMR Project ISRs. For that reason, Implementing Country Participants are expected to submit a request for additional funding allocation only after completion of at least the first ISR.
9. Implementing Country Participants will submit their requests for additional funding allocations to complement their MRP activities using a template which will highlight clearly defined rationale, objectives, description of activities, budget, timeline and implementation arrangements (see Annex I for more information on the draft template for applying for additional funding allocations). The proposals will be reviewed based on the following considerations:
  - i. Demonstration of political support within a country and clarification of the implementation arrangements;
  - ii. Identification of the main readiness gaps based on the assessment of MRP implementation progress (or ISR);
  - iii. Explanation of a rationale behind requesting additional funding and reasons for the PMR support;
  - iv. Identification of synergies with ongoing MRP activities;
  - v. Inclusion of indicative costs for each activity in the budget proposal;
  - vi. Identification of expected outputs and the links with the MRP objectives.

### **B. Specific Activities for the Design and Implementation of Carbon Pricing Instruments**

10. Only few PMR countries have made a decision on the type of carbon pricing instrument they want to pursue. The majority focuses on readiness building which will facilitate both decisions about carbon pricing instruments, as well as future design and implementation. Nevertheless, some PMR countries have experienced rapid domestic policy developments since the submission of their MRPs, which have resulted in a need for additional support to address a range of specific issues regarding carbon pricing instruments design and implementation.
11. In an effort to help Implementing Country Participants advance their domestic carbon pricing agendas and ultimately support them in achieving their climate change mitigation goals, the PMR Secretariat proposes to establish a process for the Implementing Country Participants to apply for additional funding in order to address specific activities directly related to carbon pricing instruments design and implementation that are additional to MRP activities. These requests for additional funding will be primarily targeted at the activities which emerged following recent domestic policy developments (e.g., the preparation or the enactment of new legislation) in regard to carbon pricing instruments design and implementation and are therefore outside of the scope of the previously defined MRP activities. However, by facilitating country-level activities on the design and implementation of carbon

pricing instruments, this support will ultimately strengthen the MRP implementation and national mitigation policies in general.

12. Implementing Country Participants will submit their requests for additional funding allocations to receive specific support for the design and the implementation of carbon pricing instruments using a template which will highlight clearly defined rationale, objectives, description of activities, budget, timeline and implementation arrangements (see Annex I for more information on the draft template for applying for additional funding allocations). The proposals will be reviewed based on the following considerations:

- i. Demonstration of political support within a country and clarification of the implementation arrangements;
- ii. Demonstration of recent policy developments in regard to carbon pricing instruments that fall outside of the scope of the PMR activities;
- iii. Explanation of a rationale behind requesting additional funding and reasons for the PMR support;
- iv. Identification of synergies with ongoing MRP activities;
- v. Inclusion of indicative costs for each activity in the budget proposal;
- vi. Identification of expected outputs and the links with the MRP objectives (if applicable).

### **C. Policy Analysis Activities**

13. The PMR experience demonstrates that one of the main readiness challenges is a need to carry out economic and policy analysis to inform the selection and introduction of a carbon pricing instrument. In addition, there is broad recognition that carbon pricing instruments should be considered in the context of countries' mid- and long-term mitigation goals. In order for countries to take a holistic approach to mitigation goal and policy setting, there is a need for countries to carry out modeling and analytical work in order to identify a suitable package of policies and measures, and understand their interactions, impacts and potential barriers.

14. The PMR Secretariat proposes to establish a process for Implementing Country Participants to apply for additional funding allocation for the activities aimed at carrying out modeling work, exploring the economic implications of the implementation of carbon pricing instruments, as well as analyzing the interaction of these policy options with other policies. These activities would be outside of the scope of the Implementing Country Participants' MRPs and build on the work that has been done as part of the Upstream Policy Analysis in FY15 and FY16, including the "Checklist on Establishing post-2020 Emission Pathways" – which will serve as the primary "tool" for the identification of possible areas of support, while ensuring complementarity of the various in-country activities – and country-specific work.

15. Implementing Country Participants will submit their requests for additional funding allocations to receive specific support under the policy analysis stream using a template which will highlight clearly defined rationale, objectives, description of activities, budget, timeline and implementation arrangements (see Annex I for more information on the draft template for applying for additional funding allocations). The proposals will be reviewed based on the following considerations:
- i. Demonstration of political support within a country and clarification of the implementation arrangements
  - ii. Demonstration of the relevance of analytical support to examine economic implications of carbon pricing instruments and their interaction with other policies
  - iii. Explanation of a rationale behind requesting additional funding and reasons for the PMR support
  - iv. Identification of synergies with ongoing MRP activities
  - v. Inclusion of indicative costs for each activity in the budget proposal
  - vi. Identification of expected outputs and the links with the MRP objectives (if applicable)

#### **IV. PROPOSED MODALITY AND PROCESS FOR ADDITIONAL FUNDING ALLOCATION**

16. The following allocation amounts are proposed for each type of activity described in the previous section:
- A. For activities that complement and directly support existing MRP activities, the amount of additional funding to support an Implementing Country Participant's proposal will be between US\$1 and US\$2 million;
  - B. For activities that are additional to existing MRP activities and that are directly related to the design and implementation of carbon pricing instruments, the amount of additional funding to support an Implementing Country Participant's proposal will be between US\$100,000 and US\$500,000; and
  - C. For activities aimed at carrying out modeling work, exploring the economic implications of the implementation of carbon pricing instruments, as well as analyzing the interaction of these policy options with other policies, the amount of additional funding to support an Implementing Country Participant's proposal will also be between US\$100,000 and US\$500,000.
17. For the three types of activities, independent of the amount, the implementation period would start between July 2016 and December 2017 (i.e., in FY17 or the first half of FY18), and would not last more than two years. In addition, the maximum amount of additional funding that an Implementing Country Participant could request to the PA, for any combination of activities, would be capped at US\$2 million. The exact amount(s) allocated to any given Implementing Country Participant for each type of activities will be defined based on the consultations with the PMR Participants and an understanding of the Implementing Country Participants' demand for the potential support in this regard. Moreover, the allocated amount(s) will also depend on the overall availability of funds under

the current capitalization of the PMR (see Annex II on more information about the estimated availability of the PMR funding up to 2020).

18. For activities that complement and directly support existing MRP activities, Implementing Country Participants will be expected to maintain the same implementation arrangements as for the existing MRP activities, regardless of the amount of additional funding allocated. For all other activities (specific activities for the design and implementation of carbon pricing instruments, and policy analysis activities), it is suggested that the grants be executed by the World Bank, at the request of and in close collaboration with the Implementing Country Participants, as was the case for most countries during the PMR preparation phase. Given the relatively small size of the additional grant funding allocations envisaged for these types of activities, this proposed modality would facilitate the provision of timely support to countries, and ensure the effective delivery of technical assistance.
19. In order to facilitate and accelerate future decisions by the PA on additional funding allocations, the PMR Secretariat proposes to apply the electronic decision-making process, as outlined in the Note on Decision-making through Electronic Means ([PMR Note PA10 2014-2](#)), and further refined in the [PA10 Co-Chairs' Summary](#). This process will allow for the timely implementation of activities proposed by the Implementing Country Participants, and will be facilitated by the existence of already defined eligibility criteria. It will also avoid delay caused by the reduced frequency of PA meetings in the future (reduced from three to two per calendar year) and enable the prompt allocation of the remaining Fund capitalization of the PMR.
20. The proposed modality for the allocation of additional funding through electronic means will be as follows:
  - (i) An Implementing Country Participant submits its proposal to the PMR Secretariat for circulation to the PA, using the agreed template. Its proposal will provide relevant information on the rationale and objectives for additional PMR support, an analysis of the context, the scope and description of proposed activities, the budget required, the timetable and implementation arrangements (see Annex I for more information on the proposed template for applying for additional funding under the PMR).
  - (ii) The three-week no-objection period for the PA to review the proposal and provide comments will be in effect. During this period, the Implementing Country Participant would avail itself to clarify any concerns or to answer any question that the PA might have. In an event of comments or questions raised by the PMR Participants during the three-week no-objection period, the Secretariat will facilitate the communication between the concerned parties, in order to provide clarifications and ensure smooth decision-making process.<sup>3</sup>

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<sup>3</sup> Section IX of the PMR Rules and Procedure specifies that, in case of electronic decision-making, the Secretariat shall invite each PMR Participant to review and approve the proposed decision, including providing all the relevant documents. The Rules of



(iii) Upon the end of the three-week no-objection period, the resolution on the additional funding allocation will be deemed adopted unless explicit objection is raised by a PMR participant. In such case, the decision would be postponed to the next PA meeting.

**V. ACTION BY THE PA**

21. The PA is invited to provide feedback on this note (PMR Note PA13 2015-4), including on the proposed scope, considerations to review proposals, process and modality for funding additional activities under the PMR by November 20<sup>th</sup>, 2015. Based on the PA's feedback, the PMR Secretariat will revise the proposal and present it for the PA's endorsement at PA14.

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Procedure also stipulate a period of at least fourteen (14) days, during which any PMR Participant may object proposed decision. At the end of the prescribed period, the proposed decision is deemed approved.

## PROPOSAL FOR ADDITIONAL FUNDING ALLOCATION UNDER THE PMR

### 1. Overview of proposed activities for additional funding allocation

#### a. Brief description / Scope of activities

#### b. Objectives

#### c. Context

- Summary of MRP Implementation Status Report (ISR) presenting the progress and identifying the main readiness gaps
- Major policy developments in regard to carbon pricing instruments that fall outside of the scope of the PMR activities
- Policy context outlining the relevance of analytical support to examine economic implications of carbon pricing instruments and their interaction with other policies

#### d. Reasons for seeking PMR funding to support additional readiness activities

### 2. Proposed activities for the PMR support

#### a. Main activities and deliverables

#### b. Budget

#### c. Timeline

#### d. Implementation arrangements

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## ANNEX 2: PMR FUNDING OUTLOOK UP TO 2020

The PMR Secretariat prepared a long-term plan (LTP) for the expected use of funds for the remainder of the life of the fund. Unless otherwise decided by the PA and the World Bank, the end date for the PMR is December 31, 2020. Each year the LTP is revised to ensure that the PMR will remain solvent given its envisioned activities. The FY16 version of the LTP is based on the following assumptions:

- a) **The PMR Operations** include the costs of the PMR meetings and workshops, PMR Management and Communications day-to-day operating costs of the PMR Secretariat in managing and coordinating PMR activities), Country delivery support (including the technical assistance provided by Delivery Partners and the PMR Secretariat to Implementing Country Participants for the implementation of the activities laid out in their MPRs and MRP Expert Feedback groups for the remaining MRP preparation); Trust Fund Management (including legal, budgeting, and accounting services; World Bank Central Units costs and Contingency.
  
- b) **PMR Support to Countries** include PMR country grant support (funds allocated for the preparation of the MPRs, implementation grants, and targeted country support to technical partners) and PMR complementary support to countries (including technical work program and policy analysis support). In the estimate, the amount for the implementation grants of US\$66,000 includes allocated funding for MPRs so far amounts to US\$46 million. Since the MRP grant size ranges from \$3 million to \$8 million, a proxy of US\$5 million was used to for the remaining 4MRPs, amounting to US\$20 million.<sup>4</sup>

The table below shows a breakdown of total expected expenditures per activity over the life of the PMR between July 2015 and December 2020. This estimate is based on an assumption that no additional funding will be provided to the PMR trust fund,<sup>5</sup> and it takes into account the costs related to the PMR operations and country support up to 2020. The estimate also includes the projected surplus (“Additional Country Support”) to be used for other categories of country support, based on the outcomes of the discussions on strategic direction for the future of the PMR.

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<sup>4</sup> The funding allocation of US\$46M included the following countries: Brazil (US\$3 million), Chile (US\$3 million), China (US\$8 million), Colombia (US\$3 million), Costa Rica (US\$3 million), Indonesia (US\$3 million), Mexico (US\$3 million), Morocco (US\$3), South Africa (US\$5 million), Turkey (US\$3 million), Thailand (US\$3 million), Ukraine (US\$3 million), and Vietnam (US\$3 million).

<sup>5</sup> The assumption of the PMR is based on the total committed contributions (US\$126,500,000) and the total investment income earned (US\$ 980,254).

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