

**OPTIONS FOR FUNDING ADDITIONAL ACTIVITIES UNDER THE PMR: UPDATE AND
PROPOSED WAY FORWARD**

Draft for discussion

PMR Note PA12 2015-4

May 20, 2015

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: Update and Proposed Way Forward* (PMR Note PA12 2015-4). The Note provides a summary and an update on the overall strategic direction discussions held to this date, suggests a way forward to frame discussions on the matter, including a timeline and key milestones, and proposes carrying over the remaining balance for the upstream policy analytical work. The PA is invited to provide feedback on the Note, including on the proposed timeline and key milestones for the discussions on the strategic orientation for the future of the PMR, as well as share ideas on other areas of focus for these discussions. Implementing Country Participants are further invited to indicate their interest in receiving support to be able to fund additional activities under the PMR.

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 the 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. Based on the PA's decision that the PMR strategic discussions would be an ongoing exercise which needed to be carried out regularly and in a participative manner, the PMR Secretariat prepared a number of documents and proposals to facilitate these discussions. The summary of the discussions on strategic direction for the future of the PMR is as follows:
 - A. **PA7 (October 2013, Marrakech)** - The PMR Secretariat presented a draft *Note on the Strategic Orientation of the Future of the PMR* ([PMR Note PA7-2](#)) which outlined ways in which the PMR could be further scaled-up, including through: (a) 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; (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.
 - B. **PA8 (March 2014, Mexico) and PA9 (May 2015, Cologne)** – The PMR introduced a new category of PMR participants – Technical Partners – in order to broaden the reach of the Partnership. In addition, at PA8, the PMR Secretariat presented an initial *Proposal on Upstream Policy Work* ([PMR Note PA8 2014-2](#)) 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 scenarios. This work stream was endorsed by the PA at the following meeting (PA9). Finally, the World Bank began

consultations on the possible creation of a fund to pilot scaled-up greenhouse (GHG) emission reduction crediting mechanisms, including, but not limited to, those that are supported by the PMR.

- C. **PA 10 (November 2014, Santiago)** - The PMR Secretariat [highlighted](#) the main challenges and opportunities facing the PMR, as well as outlined possible ways of deepening, broadening, and strengthening the PMR support to countries. Participants raised a number of observations in response to the presentation. Among others, they emphasized a need to (a) take stock of past and present PMR activities focusing on the implementation (piloting) of Market Readiness Proposals (MRPs), (b) reassess the PMR's original objectives, and (c) provide clarity on the links and interactions between the PMR upstream policy analysis support and the activities in the countries' MRPs. In addition to providing specific feedback to a number of proposals and possible modalities of the PMR operations in the future, Participants also emphasized a need for the discussions on the strategic direction to be country- and demand-driven.
- D. **PA 11 (March 2015, London)** - The PMR Secretariat prepared a *Note on Options for Funding Additional Activities under the PMR* ([PMR Note PA11 2015-2](#)) which further outlined the rationale for deepening readiness support to countries, suggested possible ways for delivering such support in the future and provided the PMR financial outlook up to 2020, demonstrating the funding feasibility of the proposed activities. Participants' feedback stressed that the need to further clarify the differences between three areas for funding additional activities under the PMR, avoid redundancies and overlaps of activities within an Implementing Country, as well ensure that the funding allocation for additional activities would be in line with the PMR's core objectives. Some participants emphasized that the decision on modalities for funding additional activities under the PMR should not be taken before 2016 to take into account the outcomes of COP21 in Paris and that the PMR Secretariat shall put forward a timeline for these discussions for the PA's consideration.

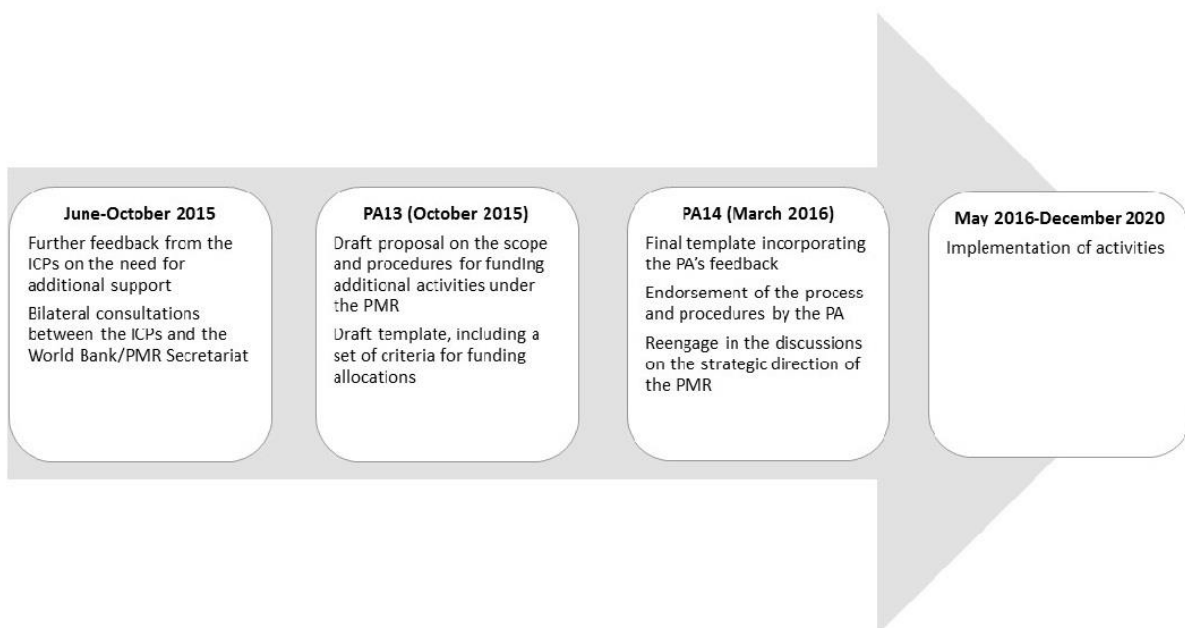
III. IMPLEMENTING COUNTRY PARTICIPANTS' INITIAL DEMAND FOR FUNDING OF ADDITIONAL ACTIVITIES AND PROPOSED WAY FORWARD

- 3. As a follow up to the discussions at PA11 and in an effort to obtain feedback on the options for funding additional activities under the PMR, the PMR Secretariat prepared a Survey for Implementing Country Participants. The survey aimed to identify initial demand and scope for funding additional activities under the PMR for the following activities: (a) Funding allocation to complement MRP activities; (b) Specific support to design and implement ETS, carbon tax or other innovative instruments; (c) Policy analysis and support for establishing post-2020 mitigation scenarios; and (d) Other support.
- 4. Responses to the survey were received from four Implementing Country Participants – namely Colombia, Thailand, Tunisia and Vietnam (for more information on the nature of their requests, see Annex 1) –, reiterating the relevance of the PMR support. Several more countries informed the PMR

Secretariat about their intention to submit the survey results after having had the opportunity to conduct a more systematic and thorough internal coordination process.

5. Responses to the survey from the Implementing Countries Participants and the PA's feedback at PA11 in London suggest that the decision on the strategic direction of the PMR and the use of additional funds may not be well-timed. For these reasons, the PMR Secretariat proposes the following timeline and milestones (as presented in Figure 1) in regard to endorsement of the procedure for funding additional activities under the PMR, as well as in the context of overall discussions on the strategic direction for the future of the PMR:

- June 2015-October 2015 – The Implementing Country Participants are invited to provide further feedback and expressions of interest for funding additional activities under the PMR. The World Bank and the PMR Secretariat would follow up on these requests by carrying out extensive in-country consultations.
- October 2015 (PA13) – Based on the feedback from the Implementing Country Participants and the outcomes of the bilateral consultations, the PMR Secretariat will determine a need for developing the template for allocating additional funding which would include a set of criteria. The draft template will be presented for PA's feedback at PA13 in October.
- March, 2016 (PA14) – Based on the PA's feedback, the PMR Secretariat will present a final template and process for allocating funding for additional activities for PA's consideration and endorsement. The PMR Secretariat will also resume broader discussions on the strategic direction for the future of the PMR based on the outcomes of UNFCCC Paris conference (COP21).
- May 2016-December 2020 – The additional activities requested by the Implementing Country Participants and endorsed by the PA will be implemented.



Based on the rationale outlined above, the discussions on the strategic direction for the future of the PMR in general, and scope and process for funding additional activities under the PMR in particular may be postponed.

6. In addition, the PMR Secretariat proposes to carry over the balance of the funding allocated by the PA to support the upstream policy work (including the INDC-related analytical work) to FY16, following the same procedure which was adopted in May 2014 at PA9 in Cologne.
7. The PA, through [Resolution No. PA9/2014-3](#) (see Annex 2 for more information) allocated an envelope of US\$5 million for fiscal year 2015 (FY15) to support countries' efforts to establish post-2020 mitigation scenarios and identify a package of effective and cost-efficient policies—including carbon pricing instruments—to achieve mitigation ambition. While this work facilitates the Implementing Countries' efforts in preparing their mitigation component for “intended nationally determined contributions” (INDCs) under the UNFCCC process, it was also recognized that a systematic and long term support to countries in strengthening their modeling capacity is critical and goes beyond COP21. Moreover, there is broad recognition that a holistic approach to mid- and long-term scenario setting – including understanding development implications of the mitigation goals – is necessary for making informed decisions on the choice and the design of a suitable carbon pricing instrument.
8. The PA approved the procedure at PA9, with the understanding that the scope of the work would cover upstream policy analytical work and should assist in the analysis of carbon markets or other carbon pricing instruments. The PMR Secretariat was requested to inform the PA, prior to each resource allocation, on the scope and timelines of the analytical studies and resource allocation related to this work stream. The above-described modality of support was endorsed for FY15 with an understanding that the process of resource allocation would be revised in May 2015. Following the agreed process, the PMR Secretariat has prepared regular updates on the progress of the work and it is also expected that all six countries which received funding allocation in the first phase will report back to PA on its work progress and key findings in the course of 2015.
9. In FY15, under this work stream and allocated funding, the following activities have been carried out:
 - Development of the “Checklist on Establishing Post-2020 Emission Pathways” which aims to contribute to countries' efforts to establish post-2020 mitigation scenarios and identify a package of effective and cost-efficient policies - including carbon pricing instruments - to achieve mitigation ambition. The “Checklist” was well-received by the PMR Implementing Country Participants; it is seen as a useful tool for developing and presenting medium- and long-term emission pathways.
 - Analytical work to support Brazil, China, Colombia, Costa Rica and Peru to help them to establish their post-2020 mitigation scenarios and identify a package of effective and cost-efficient instruments (including carbon pricing instruments) to achieve mitigation and development goals.

- In-country and international technical and consultation workshops.
- Analytical work to support Chile to pursue the design and implementation of a carbon tax.

Activity	Expected Completion Date	Total Cost (US\$)
I. Development of checklist	March 2015	80,000
II. Country support	June/September 2015	1,300,000
Brazil	June 2015	150,000
China	June 2015	300,000
Colombia	June 2015	250,000
Costa Rica	June 2015	150,000
Peru	September 2015	200,000
Chile	June 2015	250,000
III. International and National Workshops and technical consultations	June 2015	130,000
IV. WB country support cost	N/A	80,000
TOTAL		1,600,000

10. As presented in the table above and taking into account estimated expenses of US\$ 1.6 million up until June 30, 2015, the remaining balance of the approved funding under the upstream policy work is approximately US\$ 3.4 million. In addition to the country-specific work and development of the “Checklist”, this amount includes funding needed for the consultation workshops, as well as the dissemination efforts.

11. The upstream policy analytical support proved to be very useful for the countries that benefited from it. It helped them to formulate and present their INDC, as well as to establish their post-2020 mitigation scenarios irrespectively from the UNFCCC process. In addition, a number of Implementing

Country Participants have indicated their interest in receiving technical assistance to carry out scenario analysis, including carbon pricing scenarios. Such assistance is part of a systematic and long term support to countries, and as such, is needed beyond COP21. With that in mind and in an effort to ensure continuation of the this work stream and associated funding for all other Implementing Participant Countries that are interesting in obtaining support in this area, the PMR Secretariat proposes to continue the current modality of the country support for the remaining funds (approximately US\$3 million) under the Upstream Policy Analysis work stream based on the [Resolution No. PA9/2014-3](#) (as attached in Annex 2 of this Note).

IV. ACTION BY THE PA

12. The PA is invited to provide feedback on the PMR Note PA12 2015-4, including on the proposed timeline and key milestones for the discussions on strategic orientation for the future of the PMR. The PA is also invited to share ideas on other areas of focus related to the strategic orientation of the PMR. Implementing Country Participants are invited to indicate their interest in receiving support for funding additional activities under the PMR.

ANNEX 1: SUMMARY OF RESPONSES BY IMPLEMENTING COUNTRY PARTICIPANTS TO SURVEY ON FUNDING ADDITIONAL ACTIVITIES UNDER THE PMR

Area of Support/Country	Funding Allocation to Complement MRP Activities	Specific Support to Design and Implement ETS, Carbon Tax or Other Innovative Instruments	Policy Analysis and Support for Establishing Post-2020 Mitigation Scenarios	Other Support
<p>Colombia</p>	<p>Activities: To set up information systems for MRV as well as for developing a national Compensation fund as one of our MBI. This may include Hardware and software acquisition.</p> <p>To make emphasis on capacity building at local/regional level, in order to enhance local abilities for implementing, monitoring, evaluating and verifying impacts of market-based instruments. This may include workshops with other Latin-American decision makers in order to share good institutional, technical and financial practices among similar countries. Moreover, capacity-building programs could be held in association with local universities, to enhance.</p> <p>To conform a multidisciplinary team for managing the development and implementation of Colombian MBIs. This includes a project coordinator who articulates technical issues as well as administrative procedures with local World Bank offices. Meanwhile, national government should conform a national coordination group for MBI's implementation, but in the short term it seems to be difficult to commit functionaries to work exclusively on MBI implementation.</p>	<p>Activities: To explore a ETS specially design for electric energy generation and distribution at regional level (Andean Region). Colombia is expanding its electrical grid Beyond national boundaries and so a regional ETS could be strategic for promote clean energy distribution among the neighbor countries.</p> <p>To deeply assess carbon tax impacts on private sector's finance, and public financial and budget planning. This is key in order to give technical and Political support to tax reforms which should be passed by parliament to approve.</p> <p>Timeline: Taking Into account that Colombian MRP will be implemented between 2015 and 2017, additional activities should be carried on from 2017 and 2020, but may Be prepared simultaneously with initial MRP.</p> <p>Budget: Budget should be further discussed with other national partners (Ministry of Environment,</p>	<p>[To be provided by the Ministry of Environment]</p>	<p>Activities: To engage politicians and private Stakeholders (automobile industry - gas/oil specially) via capacity building activities and business strategic planning in order to face adequately a carbon pricing economic environment.</p>

	<p>Timeline: Taking into account that Colombian MRP will be implemented between 2015 and 2017, additional activities Should be carried on from 2017 And 2020, but may be prepared Simultaneously with initial MRP.</p> <p>Budget: Budget should be further discussed with other national partners (Ministry of Environment, i.e.) but it is estimated that an additional USD 0,8 Million grant allocation will be needed.</p>	<p>i.e.) but it is estimated that an additional USD 0,5 Million grant allocation will be needed.</p>		
<p>Thailand</p>	<p>Activity: Study on how to scale-up the LCC program from project-based to city-based. One of the components under Thailand MRP focuses on LCC program. The LCC program aims to support municipalities and communities in achieving the national goal to shift towards a low carbon society by implementing GHG emission reduction activities. “Low Carbon City” refers to a province, city, municipality, or community that pursues a systematic process to achieve GHG emission reductions but in the first stage, municipalities are targeted to participate in the LCC program. The projects developed by municipalities may apply the Thailand Voluntary Emission Reduction Program (T-VER) for certifying and issuing carbon credits, TVERs credits, generated under the LCC program (LCC-TVERs). In Thailand there are more than 2,200 municipalities, in order to expand the LCC program from pilot municipalities to cover more municipalities, the study on possible</p>	<p>N/A</p>	<p>N/A</p>	<p>N/A</p>

	<p>options to scale-up the project-based to city-based are required.</p> <p>Timeline and budget: At the present, Thailand is in the grant agreement signing process. TGO plans to start the activities under LCC component in Q3/2015 so the proposed study should start in 2016 after receiving some data from municipalities. The budget required for this activity is estimated at USD 300,000.</p>			
<p>Tunisia</p>			<p>Activity: Tunisia is currently preparing its INDC in order to be submitted before COP 21 in Paris. Carbon pricing is one of the instruments considered in the Tunisian mid-and long-term mitigation goals. Indeed, Tunisia has built upon existing relevant mitigation activities namely those planned within the PMR. However, some additional activities will need to be planned. There is a need to analyze the impacts and interactions between all the considered mitigation policy choices in a way that helps strengthening the integration of climate change into existing planning processes. In addition, some rule changes may occur according to the COP 21 results, on the other hand, evolution of the national circumstances is possible. For all these reasons, an additional support is needed to: (1) Adjust and/or update the Tunisian post-2020 mitigation goals; and (2) Assess the impact of the mitigation goals on the social and macroeconomic aspects</p>	

			<p>Budget: The estimated budget needed is: \$2 million (\$1million for the first point & \$1million for the second point).</p> <p>Timeline: :2016-2017</p>	
Vietnam			<p>Activity: Some relevant activities proposed in the VNMRP for receiving the supports of the Bank but others additional needs to require further support for connecting the results of VNPMR or during VNPMR implementation that is some assessments of ongoing policies relating to mitigation and recommendations national standards for mitigation in some key/potential sectors; Identifying and analysis on cost-effective of mitigation options in the key/potential sectors post 2020. The tentative activities should be on reviewing and analysis of relevant policies such as Energy efficiency regulations and the Law; Laws related to mitigation, international experiences relating to mitigation law/regulations.</p> <p>Cost-effective of mitigation options in the key/potential sectors post 2020 such as electric generation, manufacturing industrial process, textile and garment, beer and beverage industries, pulp and paper, sub-industrial of chemical sectors such as rubber,..; clean technology transferring.</p> <p>Budget: The tentative budget should be: around 1/2 million USD</p> <p>Timeline: 2016-2017</p>	

ANNEX 2: Resolution No. PA9/2014-3

Resolution No. PA9/2014-3 Authorizing Budget for Fiscal Year 2015

WHEREAS:

1. Pursuant to Section 4.3(d) of the PMR Governance Framework, the Partnership Assembly's roles and responsibilities include approving the budget for the operation of the PMR; and
2. The PMR Secretariat presented the proposed budget for Fiscal Year 2015 for consideration by the Partnership Assembly at this meeting.

THE PARTNERSHIP ASSEMBLY:

1. Approves the budget for PMR operation for Fiscal Year 2015, presented by the PMR Secretariat at this meeting and attached as Annex to this resolution.
 2. Regarding the allocation of US\$ 5 million to support 'Upstream Policy Analytical Work', the Partnership Assembly:
 - a) Takes note of PMR Note PA8 2014-2 on 'Strategic Orientation for the Future of the PMR: Upstream Analytical Work to Support Development of Policy Options for Mid- and Long-term Mitigation Objectives', with the understanding that the scope of the work would cover upstream policy analytical work, which should assist in the analysis of carbon markets or other carbon pricing instruments;
 - b) Requests the PMR Secretariat to inform the Partnership Assembly, prior to each resource allocation, on the scope and timelines of the analytical studies and resource allocation; and
 - c) Invites the countries that participate in such studies, in cooperation with the World Bank and the PMR Secretariat, to share with the Partnership Assembly the progress and outcomes of the upstream policy analytical work, while respecting confidentiality of the information that may be identified by the participating country.
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Budget for Fiscal Year 2015

Use of Funds	FY14 Budget	FY14 Actual Expenses* (July 1, 2013 – June 30, 2014)	FY15 Proposed Budget
PA Meetings and Workshops	696	830	850
Country Delivery Support and Advisory Services	2,143	1,919	2,100
<i>MRP Expert Feedback Process</i>	490	271	500
<i>Country Delivery Support</i>	1,653	1648	1600
<i>o/w: Secretariat Country Support</i>	900	688	820
<i>World Bank Regional Support</i>	753	960	780
Knowledge Management	1,000	958	1,000
PMR Management and Communications	690	615	650
Upstream Policy Analytical Work			5,000
Trust Fund Management	65	88	75
Contingency	150		150
Total Use of Funds	4,744	4,410	9,825