CONSULTATION ON THE NEXT PHASE OF THE PARTNERSHIP FOR MARKET READINESS

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I. Background

II. PMR Phase II – Objectives, Scope of Work and Delivery Methods

III. PMR Phase II – Participants, Governance Framework and Process

IV. Synergies with Other WBG Initiatives

V. Proposed Next Steps and Milestones

Discussion Paper on the Next Phase of the PMR (PMR Note PA16-2017-3)
I. Background
Strategic Discussions under PMR Phase I: An Overview

PA7 (Oct 2013): First round discussions on strategic direction of PMR

PA7-PA14 (Oct 2013-Apr 2016): Several documents, proposals & actions put forward to facilitate discussions

PA14 (Apr 2016): Endorsement of process to allocate additional funding & expand Partnership

Focus areas of the PMR’s Strategic Direction:
1. Deepen readiness support
2. Broaden readiness support
3. Support piloting of scaled-up crediting programs
4. Prepare for a discussion on PMR Phase II
Strategic Discussions under PMR Phase I: Actions Taken

Efforts to deepen the PMR:

1. Supplement MRP activities with in-country dialogues
2. Ramp-up the Technical Work Program
3. Deploy the Policy Analysis Work Program
4. Facilitate dialogues responding to evolving sub-regional collaboration on carbon pricing
5. Dialogue on post-2020 carbon markets and recent assessment of the implications of the Paris Agreement for the PMR

Efforts to broaden the PMR:

1. Increased contributions from CPs to allow the participation of two additional countries
2. Endorsed procedure for accepting new countries by the end of 2016
3. Introduced new participant category: “PMR Technical Partners”
4. Developed strategic partnerships through implementation of joint activities
External and Internal Environment: PMR in a Post-Paris World

The Paris Agreement...

...creates an environment conducive to the use of domestic carbon pricing instruments as part of NDC implementation...

...and paves the way toward an international carbon market after 2020.

The PMR experience...

...shows that support for readiness is critical for the successful choice, design, preparation, and implementation of carbon pricing instruments, and...

...confirms increasing demand for technical assistance and services, including in the context of NDC implementation.
Preparing for PMR Phase II

- Initial brainstorming at PA15 in Hanoi (October 2016)

- A series of dedicated consultations
  - With Implementing Country Participants – in San Jose (December 2016), in London (January 2017) and in Bangkok (February 2017)
  - With Contributing Participants – in London (January 2017) and in Tokyo (February 2017)

- Draft Discussion Paper on PMR Phase II
II. PMR Phase II – Objectives, Scope of Work and Delivery Methods
PMR Phase II: Objectives and Scope of Work (1)

PMR Phase I Objectives:

• Build readiness for implementation of carbon pricing instruments;
• Pilot carbon pricing instruments;
• Provide a platform for knowledge exchange and collective innovation on carbon pricing instruments;
• Create and disseminate a body of knowledge on carbon pricing instruments;
• Share insights and lessons learned with the international community.

PMR Phase II Focus on IMPLEMENTATION for existing recipient countries

• To provide technical assistance and funding to countries to implement market-based instruments.
PMR Phase II: Objectives and Scope of Work (2)

Upstream
Conduct policy analysis to enhance policy interaction and facilitate the choice of instrument(s)

Midstream
Design and prepare market-based instruments

Downstream
Implement, and review and refine, existing market-based instruments

- Piloting and implementation of market-based instruments
  1. Emissions Trading Schemes
  2. Carbon Taxes
  3. Scaled-up Crediting Instruments
  4. Offsets

- Establishment of the next generation of int’l carbon markets

- Alignment with NDC implementation cycle
Delivery Methods to Maximize Impacts

◆ Enhancing delivery methods to:
  1. Facilitate integrated support to carbon pricing
  2. Facilitate more systematic support to NDC implementation

◆ Providing support through:
  1. Grant funding to finance activities that contribute to the effective piloting and implementation of market-based instruments in countries
  2. Active facilitation of regional dialogues and common work on market-based instruments
  3. Knowledge creation and management, capacity development and training
III. PMR PHASE II – Participants, Governance Framework and Process
PMR Phase I Participation: An Overview
Demonstrated flexibility: Ability to accommodate growing interest from countries in joining the PMR and to provide tailored support to countries

Implementing Country Participants:
• Originally limited number of Implementing Country Participants (15)
• First “expansion”: Peru and Tunisia (with additional contributions to the TF from Switzerland and Germany)
• Second “expansion”: Sri Lanka and Argentina (following the adoption of the process for additional countries to join the PMR in 2016)

Technical Partners:
• Creation of new category of Participants
• Differentiated support/engagement
• Potential expansion to further broaden the Partnership and include additional TPs (subject to PA’s decision at PA16)
PMR Phase II Participation: Options

Need to continue to provide differentiated support and accommodate growing interest and demand from other countries

1. Contributing Participants
   • Financial contribution to the PMR Trust Fund

2. Implementing Country Participants – 2 categories
   • Those that receive assistance to pilot and implement carbon pricing instruments
   • Those that receive assistance to assess, design and prepare carbon pricing instruments

3. Other stakeholders
   • Revised definition of Technical Partners: No financial contribution and “limited” engagement to knowledge, experience sharing, and capacity development activities;
   • Same definition of observers, experts and delivery partners
Principles of Shared Governance Approach:
1. Agreement among Participants on the objectives through a program of activities over years
2. Funding allocation decisions on a consensus basis
3. Agreement on the detailed governance arrangements, such as approval of criteria and conditions by the governing body
4. Regular progress reporting by the PMR Secretariat

PA role:
1. Main decision-making body of the PMR (in principle by consensus)
2. Consists of CPs and ICPs
3. TPs, Observers, Expert and Delivery Partners have no voting rights
4. Provision to establish a Partnership Committee

Main features of the PMR Process:
1. Submission of an EoI
2. Submission of a request for allocation of preparation phase funding
3. Submission of a request for allocation of implementation phase funding
PMR Phase I Governance and Process: Lessons Learned

- Advantages

  1. Legitimacy and ownership of PMR activities, leading to increased engagement
  2. Consensus building for funding decisions

- Disadvantages:

  1. Relatively time-consuming and costly administration of activities
  2. Risks of delay in MRP implementation

- Other important lessons learned:

  1. The exchange of knowledge and experience from other Participants and Experts is crucial to build up in-country capacity
  2. The lead time between the preparation and implementation phases of PMR activities can be relatively lengthy
PMR Phase II Governance Arrangement and Process (1)

Need to ensure a more timely, efficient and streamlined delivery of results – by moving towards a “collaboration engagement”

Rationale:

1. More efficient transition from preparation to implementation, and faster decision-making
2. More cost-effective administration of funds
3. More transparent allocation of funds for supported activities
4. In line with World Bank’s commitment, as trustee of the funds, to meet clear expectations and ensure efficient governance terms
PMR Phase II Governance Arrangement and Process (2)

1. Establishment of a programmatic TF

2. Two-stage mechanism for allocation of funding
   - Agreement on the well-defined objectives, results framework and criteria for funding allocations
   - Various decision making processes (WB – Steering Committee – PA)

3. Role of the PA:
   - Consisting of ICPs and CPs
   - Review strategic direction of PMR Phase II, its achievements, use of resources and funding requirements
   - Funding decisions for amount that are above a certain threshold and related to specific types of activities

4. Establishment of Steering Committee
   - Representative(s) from ICPs, CPs and the WBG
   - Governed by the principles of representation and rotation
   - 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

5. WBG Role
   - Serve as a Secretariat, Trustee and Principle Delivery partner
   - Make funding allocations below a given threshold
   - Provide progress reporting
IV. Alignment with Bank’s Climate Change Action Plan
Alignment with Bank’s CCAP and Synergies with Other Initiatives

- Organizational realignment of the Bank’s Climate Change Department to facilitate the implementation of its CC Action Plan and the realization of related opportunities
- CMI’s vision = Empower client countries to enhance their climate action ambition by leveraging carbon pricing and market-based instruments to transition to low-carbon economies
  - Monetizing climate co-benefits in Bank investments
  - Piloting climate asset transactions
  - Providing global thought leadership
  - Delivering an integrated approach to support clients on carbon pricing and market-based instruments
- Bank already provides a range of services which integrate country-level solutions and global experience and advocacy
- 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
IV. Proposed Next Steps and Milestones
Next Steps Towards the Design and Operationalization of PMR Phase II

- **April-September 2017**: Additional consultations with PMR Participants and other stakeholders and 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**: Additional consultations and drafting of the “PMR Phase II Design Document.”
- **April 2018 (Margins of PA18)**: Presentation of the “PMR Phase II Design Document” to interested CPs
- **May 2018-December 2018**: Additional consultations with interested CPs and revisions to the “PMR Phase II Design Document” and Negotiation of Administrative Agreements
- **December 2018 (COP24)**: Announcement of PMR Phase II, and signature of Administrative Agreements with the first CPs
- **April 2019**: Launch on PMR Phase II and Organizational Meeting, including adoption of the PMR Phase II Governance Framework and Rules of Procedure.
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