

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Republic of the Philippines
Reporting Period:	From April 6, 2019 to April 3, 2020
Report Date:	April 3, 2019
Implementing Agency:	Department of Finance
Contact Person:	Ms. Paola Sherina A. Alvarez, Assistant Secretary, Department of Finance

Grant Executed By:	Republic of the Philippines
Grant Effectiveness and Closing Dates:	N/A (World Bank Executed Grant.)
Grant Amount (USD):	USD 500,000
Funding Mobilized (USD):	USD 500,000
Funding Committed (USD)	USD 440,000

2. OVERVIEW

The Government of the Philippines joined the Partnership for Market Readiness (PMR) as a Technical Partner in 2017 through the Partnership for Market Readiness (PMR) Partnership Assembly's Resolution No. PA Electronic/2017-4. The Department of Finance (DOF) is the focal agency of the Philippines' engagement with the PMR. On January 17, 2018, the PMR Partnership Assembly approved the Philippines' technical proposal for support in reviewing potential market-based instruments for implementation of the climate mitigation goals under its Nationally Determined Contribution (NDC).

A PMR Technical Working Group (TWG) was formed consisting of the DOF, Department of Energy (DOE), Department of Transport (DOTr), Department of Environment and Natural Resources (DENR), Climate Change Commission (CCC), and National Economic and Development Authority (NEDA).

The overall objective of the project is to assist the Government of the Philippines in determining the most effective and feasible Carbon Pricing Instrument (CPI) options to support the implementation of the energy and transport aspects in the Philippines' NDC mitigation component; and to develop the accompanying implementation and financial plans to implement those identified CPIs and their combination.

The project comprises of three components:

Component 1 Identify carbon pricing instruments for the energy and transportation sectors, and analyze how the country's NDC mitigation targets could be met through CPIs, and develop a plan to implement those instruments;

Component 2 Support capacity building of the target groups in the public and private sectors, facilitation of the stakeholder consultations, and enhancement of the public awareness on the carbon pricing to improve understanding on the effectiveness of carbon pricing instruments for the country's attainment of the mitigation objectives;

Component 3 Support the Project Management Unit (Project Coordinator).

Components 1 and 2 are being delivered by the consortium of the consulting firms led by Economic Consulting Associates (ECA), which is conducting the technical study for the Government of the Philippines and will deliver capacity building activities.

A Project Coordinator was hired by February 2019. She has been engaged for Component 3 to support the work of the Philippine government in implementing the project, i.e. assisting the Department of Finance in coordinating with the TWG members on PMR-related matters/activities, providing updates and assisting coordination between government and the consultant team, preparing related communications and coordinating with other agencies involved regarding scheduled meetings and activities during missions.

The Project is slightly behind the original work plan (by two months) due to the ongoing development of the Coronavirus outbreak in the region as well as the parallel preparation process for the country's NDC in the government. The project has been involving all the key agencies in a timely manner. As of January 2020, the following Technical Working Group (TWG) meetings had been conducted:

- 1) **First Inception Mission** on February 18-22, 2019 to re-affirm details of the scope, approach, key deliverables, and timelines of the project; begin the data collections process; and confirm contact points, roles and responsibilities between the PMR TWG, World Bank, and consultant teams.
- 2) **Second Technical Mission** on April 29– May 3, 2019 to present the draft Options & Analytics Paper to the PMR TWG and conduct capacity building through carbon pricing primer workshop for government staff. The mission was also used to confirm the extension of the existing technical assistance to include modelling of mitigation measures in the transportation sector (not covered with the energy sector case study) and provide advice on the agency's NDC submission and training for its staff. With the endorsement by the TWG, the transportation sector case study was included.
- 3) **Third Technical Mission** on July 19, 2019 to present the results of the high-level modelling task in terms of GHG mitigation potential of different carbon prices and induced costs; and discuss the CPI options to be further analyzed during the detailed modelling phase for the energy and transportation sectors.
- 4) **Fourth Technical Mission** on November 22, 2019 to (i) explain the current findings of both case studies (energy and transport); and (ii) clarify critical pending inputs for finalizing the modelling approach for the scenario-wise GHG projections (GDP forecasts, NDC policy package assumption, national GHG mitigation targets, and carbon offsets/buy-outs) and the next steps in the advisory services & analytics (ASA). During this period, a series of bilateral meetings were held with sector agencies to discuss the possible coordination with the upcoming carbon pricing support from the NDC Partnership Support Facility fund and the PMR successor program, Partnership for Market Implementation (PMI).
- 5) **Fifth Technical Mission** on January 28, 2020, for the energy sector case study, to review the draft quantitative and qualitative assessment results and review the scoring and proposals on a CPI option for further development; for the transportation sector case study, to present and transfer updated model and provide revised estimates of effectiveness and cost of NDC policies.

3. IMPLEMENTATION REPORT BY COMPONENT

Differences between the Objectives/Activities in the Market Readiness Proposal and the Grant Agreement

<p>Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal and endorsed by the Partnership Assembly of the PMR and those agreed to in the Grant Agreement with the Delivery Partner and described in the Project's Results Framework?</p>	<p>No</p>
<p>There are no substantive differences between the objectives/activities proposed in the Targeted Technical Proposal endorsed by the PMR Partnership Assembly and those agreed with the World Bank as a Delivery Partner. Hence, based on the series of discussions, the GOP and Bank agreed to focus on the energy sector. Originally, the transportation sector was agreed to be included within the modeling in so far as it is part of the energy system (as a demand sector, along with other sectors e.g. households, industry). After the First Technical Mission in February 2019, the DOTr requested to extend this support to include modelling of mitigation measures in the transport sector (not covered with the energy sector case study) and accompanying advice on the agency's own submission for the NDC, as well as providing training for its staff. With the endorsement by the TWG, this transportation sector case study was included. Waste sector is dropped out of the scope of the PMR Project.</p>	

Implementation Progress by Component

<p>A. Component 1: Identify carbon pricing instruments (CPIs) for the energy and transportation sectors, and analyze how the country's NDC mitigation targets could be met through CPIs, and develop a plan to implement those instruments</p>	
<p>Status: Ongoing</p>	<p>This component aims to identify and assess the carbon pricing instruments feasible and applicable to the Philippines, and its interaction and consistency with existing and planned sector policies and regulations for the overall attainment of the NDC mitigation targets, focusing on the energy and transportation sectors.</p> <p>Support for Component 1 focuses on three activities, with details on their status as follows:</p> <p>Activity 1. Desk review of international experiences of carbon pricing instruments, mechanics, and functionalities relevant to the Philippine economy</p> <p><i>Task 1. Scoping and Options & Analytics paper</i></p> <p>The Stocktaking report on carbon pricing instrument (CPI) and options study on CPIs were presented during the 2nd PMR Technical Mission on April 29 – May 3, 2019. A carbon pricing primer workshop for government staff from the CCC, DOE, DENR, DOF, NEDA, and the DOTr was also conducted during that period.</p>

Task 2. Energy and transportation sectors and economic modelling

It was agreed during the Inception Mission that the TA would be modified to front load the bottom-up energy system modelling (to run in parallel with Task 1) to align its delivery with the schedule for the revision of the Philippines' NDC. The CPI modelling was subsequently applied to the energy system model results (i.e. energy sector mitigation options and analysis and the NDC scenarios) beginning June 2019.

Since the inception meeting, four (4) TWG meetings have been organized for the following objectives: (1) presentation of the draft Options & Analytics Paper; (2) confirmation of the CPI options to be further analysed during the detailed modelling phase; (3) confirmation of the approach for analysing CPI scenarios and review and of the macro-economic scenarios for detailed modelling; and (4) review of the draft quantitative and qualitative assessment results, including the scoring and proposals on a CPI option for further development.

The consultant team continuously works with the TWG and respective departments to collect, update and validate the input data and assumptions for both the energy and transportation sectors case studies and their CGE modelling components.

Data for the CGE modelling had been provided by the Department of Finance which acted as coordinating office among data sources/national government agencies such as the Philippine Statistics Authority (PSA), the Bureau of internal Revenue and the Department of Budget and Management.

The economic modelling and analysis of the energy sector case study component started in August 2019 based on shortlisted CPI options and modelling approach agreed with the TWG. As an integral part of Task 2, the consultant has drafted the Detailed Model Framework Report which has been finalized based on the inputs of the TWG and the Bank team during the 4th TWG Meeting in November 22, 2019.

The transportation sector modelling is almost complete with the acceptance of the DOTr of the modelling approach and the model revisions undertaken by the consultant team. DOTr requested to incorporate the modelling of an alternative policy based around mandatory retirement at a given vehicle age and of the option for improved efficiency in freight transport. A training workshop as well as an accompanying simple model guide were requested by the DOTr during the final handover of the model.

DOE and DOTr have been involved in the highly collaborative and coordinated process of developing the sector case studies, with the outputs of PMR support being integrated into the DOTr's NDC revision process. Based on the PMR's output, DOTr has submitted to the CCC the final list of Climate Change Mitigation Options for NDC inclusion and the 2010 Sectoral Greenhouse Gas for the Transport Sector.

	<p>The energy and transportation sectors case studies are now being finalized and are anticipated to be completed by March 27, 2020.</p> <p>Activity 2. Map out existing/planned sector policies in the energy and transportation sectors of the Philippines, which would have complementary, overlapping, and countervailing impacts of the carbon pricing instruments. This includes identification of the relevant development partners' initiatives for supporting the government of Philippines in mitigation.</p> <p>Literature reviews of existing/planned sector policies in the energy and transportation sectors of the Philippines was undertaken to identify existing or planned national and sectoral policies that would complement, overlap, or countervail the GHG mitigation impact of the identified CPI options; and to clarify the structure of the Philippines' first NDC, i.e. use of scenarios and calculation of targets. This will be covered with the deliverables under Activity 1.</p> <p>Activity 3. Develop an implementation and financing plan for select priority measures (in energy, transportation), identifying actions and timelines</p> <p>A set of recommendations for CPIs and/or their combinations shall be provided based on the results of the model, the evaluation of the included CPI approaches, and feedback from key stakeholders. These would support the country's 1stNDC and would include an estimate of the total costs and financing needs to achieve NDC sectoral targets. An implementation plan (including institutional framework) will also be generated to be incorporated in the NDC roadmap.</p> <p>The recommendation, together with the transport and energy sector case study reports, as well as the implementation plan were submitted to and the Bank team by March 31, 2020 for the Bank's initial review.</p>
<p>Comments:</p>	<p>The project implementation is behind schedule by two months since the Filipino counterpart agencies needed longer time than planned to review the draft documents. This is quite understandable considering that the government agencies have been preparing their own sector mitigation plans for the country's first NDC in parallel and need to ensure consistency of our analytical findings with their work for the NDC preparation. The Bank and the Government of the Philippines will discuss the revised work plan.</p>
<p>B. Component 2: Support capacity building of the target groups in the public and private sectors, facilitation of the stakeholder consultations, and enhancement of the public awareness on the carbon pricing to improve understanding on the effectiveness of carbon pricing instruments for the country's attainment of the mitigation objectives</p>	
<p>Status: Ongoing</p>	<p>This component aims to enhance public awareness and understanding on the role of carbon pricing in achieving the country's achievement of the NDC targets. Understanding carbon pricing instruments, and assessing its impacts and barriers,</p>

	<p>will provide timely analytical inputs in the development and finalization of sectoral mitigation action and financing plans, and the overall NDC roadmap implementation.</p> <p><u>Activity 1: Awareness and information campaign</u></p> <p>The DOF requested the use of a workshop event to inform government officials about CPIs. In response to this, a ‘carbon pricing’ primer-type workshop will be conducted (their timing is to be decided. Please see “Comments” below.) . Said workshop aimed to raise awareness on CPIs and carbon price theory of relevant government staff.</p> <p><u>Activity 2. Policy development consultation</u></p> <p>N/A</p>
<p>Comments:</p>	<p>Both activities will be planned and discussed between the TWG and the Bank team after the completion of the case studies and recommendation. Due to the two-month delay in the tasks of Component 1 and Coronavirus outbreak in the region, the workshop many need to be rescheduled to the summer/early autumn 2020. The timing will be discussed with DOF.</p>

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<p>Important policy or regulatory developments related to the Grant’s objectives and activities:</p>
<p>Developments:</p> <ol style="list-style-type: none"> 1. The first NDC development process: The Philippine government’s NDC development process is still ongoing. The original submission schedule of December 2019 had been moved to 2020: <ul style="list-style-type: none"> • The different sector departments (e.g. waste, industry, transportation, forestry, and energy) will provide their sectoral contributions to the NDC (showing GHG emissions projections through 2030 under BAU and mitigation scenarios). DOTr has already submitted its transport sectoral contribution to the NDC based on the preliminary input from this project; • The CCC will then integrate these inputs into its Long-Range Energy Alternatives Planning (LEAP) model to produce a draft economy-wide NDC; • Following that process is the governmental review and agreement on the NDC, followed by official UNFCCC submission. 2. Form of NDC scenarios: Discussions with CCC of whether the NDC would likely be split according to conditional and unconditional contributions suggest that there will not be a clear split between the two (i.e. each with separate % targets). In addition to the BAU baseline scenario, NDC mitigation scenarios will likely be based on ‘prioritised’ and ‘additional’ mitigation policies and measures.

3. **NEDA work on updated economic forecasting.** At the request of the CCC, the NEDA developed an updated long-term economic outlook (incl. GDP projections) which was used as an input to the NDC analysis undertaken by sector ministries. This was completed in October 2019 with technical assistance coordinated through the NDC Partnership. The most recently provided long-term GDP growth projections by NEDA (2019-2040) were used for the modelling analysis.
4. Congresswoman Loren Legarda filed a bill proposing a cap-and-trade mechanism for GHG emissions of the industry sector (HB 02184) and was tabled for a hearing on 24 February 2020. In said hearing, a Technical Working Group headed by the Climate Change Commission was formed to discuss the details of the bill. PMR TWG members were invited as resource persons during the committee hearing. DOF's Assistant Secretary Paola Alvarez volunteered to share a copy of the PMR reports to the TWG.

Challenges:

The Philippine NDC has yet to be finalized, with no definite submission deadline communicated by the government as of this writing. Considering that the NDC submission process in the Philippines is now behind schedule, no clear target has been identified yet and the mechanism with which to deal with the CPI in terms of the NDC mitigation goal attainment.

Lessons learned:

Under the fluid situation of preparing the country's NDC, close coordination and communication with the key government agencies is critical to ensure the outcome of the project. In this sense, having the TWG consisting of the key agencies and the strong initiative of DOF as a chair of TWG as well as a responsible agency for international climate finance is quite important.

Important changes in the technical design or approach related to the Grant's activities:

Developments:

After the First Technical Mission in February 2019, the DOTr requested to extend this support to include modelling of mitigation measures in the transport sector (not covered with the energy sector case study) and accompanying advice on DOTr's own submission for the NDC, as well as providing training for DOTr staff. With the endorsement by TWG, this transport sector case study was included.

Challenges:

The above-mentioned minor change will not affect the implementation of the TA. However, due to the fluid situation of the Coronavirus outbreak in the region and ongoing process for the NDC preparation, the overall project timing is now expected to end in September 2020.

Lessons learned:

N/A

Key capacity issues (implementation, technical, financial management, procurement) related to the Grant's activities:

Developments:

N/A

<p>Challenges: N/A</p> <p>Lessons learned: N/A</p>
<p>Coordination with other carbon pricing initiatives, including those funded by other donors:</p>
<p>Developments: With a fund from the NDC Partnership Support Facility, the Government of the Philippines and the World Bank are planning to provide support for the following proposed activities:</p> <ol style="list-style-type: none"> 1. Support Government in preparing for the implementation of the chosen CPI option for the energy and transport sectors under this PMR project, including the process of building consensus for the proposed option and securing formal commitment to the implementation plan; and 2. Extension of similar analytical work on the sectors not covered by the PMR support, such as the waste sector. <p>Challenges: N/A</p> <p>Lessons learned: N/A</p>
<p>Stakeholder engagement related to the Grant's activities:</p>
<p>Developments: N/A</p> <p>Challenges: N/A</p> <p>Lessons learned: N/A</p>
<p>Other issues related to the Grant's activities</p>
<p>N/A</p>

5. ADDITIONAL INFORMATION

The Government of the Philippines is interested in participating as one of the two pilot countries in the PMR's new support for MRV systems and registries: Supporting countries in developing infrastructure for carbon pricing instruments implementation. This new support is quite timely in terms of NDC implementation as well as for facilitating discussions on the possible CPI implementation in the country with the support from the Partnership for Market Implementation based on the recommendations by this PMR project.