

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

The PMR Project Implementation Status Report should be prepared by the Implementing Country or Technical Partner, with the support of the Delivery Partner and/or the PMR Secretariat. For any questions related to the preparation of the PMR Project Implementation Status Report, please contact the PMR Secretariat at: pmrsecretariat@worldbank.org.

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Ukraine
Beneficiary	Ministry of Ecology and Natural Resources of Ukraine
Reporting Period:	From 01/06/2016 to 30/09/2016
Report Date:	30/09/2016
Implementing Agency:	World Bank in Ukraine
Contact Person:	<ul style="list-style-type: none"> • <i>Ms. Olga Yukhymchuk, Head of Division, ETS Implementation and Registry, Ministry of Ecology and Natural Resources of Ukraine (MENR), (yukhymchuk@menr.gov.ua)</i> • <i>Dr. Natalya Parasyuk, PMR Ukraine Project Manager, (nparasyuk@worldbank.org)</i>

Grant Executed By:	World Bank Ukraine office Task Team Lead – Mr. Dmytro Glazkov, Senior Energy Expert, Energy and Extractions, World Bank
Grant Effectiveness and Closing Dates:	07/01/2016 – 06/30/2019
Grant Amount (USD):	USD 3,000,000 + USD 122,000 carried over from the MRP preparation phase
Funding Mobilized (USD):	N/A
Funding Committed (USD)	USD 301,866

2. OVERVIEW

Ukraine PMR Implementation Phase

Step 1: Establishment of Project Implementation Unit

The Project Implementation Unit has been established on August 1, 2016 pursuant to the list of Implementation Phase Activities, indicated in BB5 within the Ukraine's Market Readiness Proposal (MRP), adopted at the PA9 (May 25-27, 2014).

In the implementation phase of the PMR project, the following activities have been designed:

- I. Development of relevant technical and regulatory MRV framework – as the necessary step towards developing the Ukrainian legislation on ETS – with the draft law on MRV to be prepared under the PMR project legal component, and relevant secondary legislation for data monitoring and reporting, development and approval of methodologies, procedures of accreditation and verification.
- II. Development and implementation of MRV pilot projects in selected sectors (potentially including energy, iron & steel, coke, cement, etc.) to facilitate interactions and learning-by-doing for all stakeholders involved in the MRV system (i.e. government, regulated entities, verifiers and experts) with expert assistance, capacity building, and training throughout the complete MRV cycle.
- III. Development of a training program to standardize the trainings (of installations, trainers, verifiers, etc.) and carrying out MRV trainings for installation operators, verifiers and other stakeholders.
- IV. Support for a specifically designated/established body for the MRV system in Ukraine by provision of transitional international backup through the Help Desk. The Help Desk should assist regulated installations in complying with their new obligations under the MRV requirements, and future market-based instruments to be selected by the Government of Ukraine.
- V. Analytical work to support ETS development, upon request of the Ministry of Environment and Natural Resources (MENR), in a close coordination with other technical assistance projects.

Step 2: Review and renewal of project plans, and further activities planning

Upon its establishment, the PIU has reviewed the PMR Project planning, and has commenced preparation of Terms of References for future contractors' selection in order to perform activities envisaged by the MRP. The work packages are to be distributed under the following streams:

1. Preparation of National Legislation required for establishment and functioning of MRV system in Ukraine.
2. Development of methodologies for GHG emissions calculation.
3. Preparation of Monitoring & Reporting guides/templates, planning and preparation of MR training activities, and establishment of Helpdesk.
4. Development and conducting pilot Monitoring & Reporting activities in selected volunteering enterprises.
5. Development and organization of Verification process: development of methodological guidance for verification and verification template, verification of 20 pilot projects, and education of verifiers.
6. Develop a set of GHG emission benchmarks suitable for use as an allowance allocation tool in the sectors considered for an ETS in Ukraine.

Plan on analytical support activities for ETS to be further elaborated upon coordination with GIZ project, and other donor-funded activities, should they cover the undertakings.

Step 3: Preparation of Terms of References for upcoming PMR activities

Legislation development package

The objective of the work is to elaborate National Legislation Package (NLP) the adoption of which will create legal background for putting in place the MRV System in Ukraine in accordance with its obligations under EU-Ukraine Association Agreement. The NLP should be based on analysis of existing national legislation, certain provisions of the EU-Ukraine Association Agreement and EU regulatory acts. The provisions of the corresponding EU legislation should be transferred into NLP in manner that national legislation maintained conceptual framework, essential principles and approaches of MRV system entrenched in EU legislation. At the same time national circumstances

and specifics should be taken into account.

The ToR foresees NLP package consisting of:

- Draft Framework Law of Ukraine on Monitoring Reporting and Verification;
- Draft legal act of the Cabinet of Ministers of Ukraine on procedure of monitoring and reporting of greenhouse gas emissions;
- Draft legal act of the Cabinet of Ministers of Ukraine on procedure of the verification and accreditation of verifiers of greenhouse gas emission reports;
- Amendments to the legislation of Ukraine (draft laws, draft legal acts of Cabinet of Ministers, draft legal Acts of related Ministries and Authorities) conditioned by the NLP.

#	Task	Deliverables	Estimated deadline
Task 1	Analysis of existing National and EU legislation regarding MRV of GHG emissions and elaboration of the draft NLP	1 st draft NLP	March 2017
Task 2	Further improvement and finalization of 1 st draft NLP	complete draft NLP	August 2017
Task 3	Reconciliation procedure, hearings, support of the draft NLP	Submission of the draft NLP by MENR for consideration by the Cabinet of Ministers of Ukraine	To be determined

Development of activity-specific monitoring/calculation methodologies related to installations

Methodologies for activity-specific monitoring for installations component has been divided into three main logical tasks.

- I. Analysis of the existing methodological approaches for GHG emissions monitoring on the installation level in accordance with the preliminary list of activities provided below:
 1. Combustion of fuels
 2. Refining of mineral oil
 3. Production of iron and steel
 4. Production of coke
 5. Metal ore roasting and sintering
 6. Production or processing of ferrous alloys and non-ferrous metals
 7. Determination of nitrous oxide (N₂O) emissions from nitric acid, adipic acid, caprolactam, glyoxal and glyoxylic acid production
 8. Production of cement clinker
 9. Production of lime and calcination of dolomite and magnesite
 10. Production of ammonia
 11. Manufacture of glass, glass fiber or mineral wool insulation material
 12. Production of soda ash and sodium bicarbonate
 13. Production of gypsum products and plaster boards
 14. Manufacture of ceramic products
 15. Production of pulp and paper
 16. Production of carbon black
 17. Production of bulk organic chemicals
 18. Production of hydrogen and synthesis gas

Based on the preliminary list of activities, the final list of types of activities should be determined and specified for development of quantification methods. First stage report should specify:

- 1) The proposal regarding the list of activities to be covered by the GHG emissions quantification methodologies;

2) Summary of the best available GHG emissions quantification methodologies for each type of activity identified in the coverage proposal.

II. Development of the Guidelines for activity-specific monitoring methodologies

Based upon the deliverables provided under the Task 1, the Guidelines for activity-specific monitoring methodologies should be developed, providing in-depth instructions for the installation-level reporting of the greenhouse gas emissions. For each of the types of activities the Guidelines shall provide at least the following information:

- Source Definition;
- Greenhouse Gas Reporting Requirements;
- Approaches to GHG Emissions Calculations;
- Requirements for sampling, analysis, and measurement;
- Procedures for estimating the missing data;
- References.

III. Presentation of the Guidelines for activity-specific monitoring methodologies to Installations and Relevant Stakeholders

Communication of results under Task 1 and Task 2 to the relevant stakeholders, including installations, business associations, and verifiers should be performed.

Task list and schedule:

#	Task	Deliverables	Estimated deadline
Task 1	Analyze the existing methodological approaches for GHG emissions monitoring on the installation level	Summary of the best available GHG emissions quantification methodologies for each type of activity identified	March 2017
Task 2	Development of the Guidelines for activity-specific monitoring methodologies	Draft Guidelines for activity-specific monitoring methodologies	July 2017
Task 3	Communication with stakeholders	- Workshop for relevant stakeholders conducted - Final Guidelines	August 2017

Development of MRV Guides and Training

Under the scope of this assignment the Contractor is expected to deliver the following results:

- Templates for standardised and simplified monitoring plans and emissions reports;
- Monitoring and reporting guidance, tools and examples;
- Trainings for operators of the installations;
- MRV Helpdesk.

The preliminary list of the type of activities to be covered by the trainings is provided below:

- Fuel combustion (including electricity generation and heat production);
- Oil refinery;

- Production of iron and steel;
- Production of ferrous alloys;
- Production of cement;
- Production of ammonia;
- Production of coke;
- Production of lime.

Organization and support the MRV helpdesk operation, will include the following documents:

1. Operational mode, including the number of experts involved and their time allocated to support the helpdesk operation, where experts are located, how they take questions and how to answer the questions - telephone, e-mail, Skype, forums, and so on.
2. Coordination procedures between the helpdesk, the MENR and installations.
3. Frequently asked questions manual.
4. Procedure for transferring the helpdesk to the MENR upon the contract expiration, including position description, duty instructions and on-the-job training for the MENR's Helpdesk staff.

#	Task title	Deliverables	Delivery period
Task 1	Develop templates for standardized and simplified monitoring plan and emission report	Templates for the monitoring plan, emissions report and improvement report	March 2017
Task 2	Develop monitoring and reporting guidance documents, tools and examples for installations	MR guidance documents, tools and examples for installations	May 2017
Task 3	Training on monitoring and reporting for the installation operators	About 20 trainings delivered for the installation operators; Training materials	March 2017 – December 2017
Task 4	Organize and support the MRV helpdesk operation	- Helpdesk established; - Accompanying documents.	March 2017 – December 2018

ETS Benchmarks Development

The overall objective of this assignment is to develop a set of GHG emission benchmarks suitable for use as an allowance allocation tool in the sectors considered for an ETS in Ukraine. The approach taken for benchmarks development has to reflect in a proper way the economic situation and technical conditions in potential ETS sectors and the country as a whole. The benchmarks are expected to provide the basis for informed decision-making process and, as such, need to be based on sound data collection and calculation methodologies. Both the conceptual approach and the final findings will become a subject for extensive stakeholder consultations to provide necessary feedback and ensure better understanding and acceptance of the benchmarks by the industries which may be affected by the ETS implementation.

The following key results shall be achieved:

- Input data for benchmarks development in potential ETS sectors collected;
- Appropriate benchmarks for potential ETS sectors developed;
- Relevant guidance notes prepared;

- Sufficient stakeholder consultations conducted.

#	Task title	Deliverables	Delivery period
Task 1	Input data for benchmarks development in potential ETS sectors	a) Inception report (joint for Task 1 and Task 2) b) Data Collection Report	a) two months from contract signing b) middle of contract period
Task 2	Appropriate benchmarks for potential ETS sectors	a) Inception report (common with Task 1) b) Interim Report on Benchmarks Development c) Benchmarks Calculation Report	a) two months from contract signing b) middle of contract period c) three months before the end of contract period
Task 3	Relevant guidance notes	Guidance notes	two months before the end of contract period
Task 4	Sufficient stakeholder consultations	Summary report	end of contract period

3. IMPLEMENTATION REPORT BY COMPONENT

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

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?	As the result of negotiations with donors there has been made a joint decision to move data management system component to the GIZ project.
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Implementation Progress by Component

A. Administrative component	
Status:	PIU has been established and functioning
Comments:	PMR team has been selected and contracted on August 1, 2016: Project Manager – Dr. Natalya Parasyuk International expert – Ms. Kerstin Dietrich Legal coordinator – Mr. Mykhailo Koval

	Technical Coordinator for ETS and Trainings – Mr. Pavel Shestopal PMR Technical Coordinator for MRV – Mr. Yevgen Groza Project Assistant – Ms. Ganna Korniyenko
B. Terms of Reference for the work packages (work streams)	
Status:	Draft Terms of references have been developed for the upcoming activities, and submitted for further review to the World Bank team. Upon agreeing, the draft ToRs will finalized in cooperation with the MENR.
Comments:	The PMR team has developed the draft ToRs for legal, MRV and benchmark components. Drafts have been discussed during the World Bank team mission in Kyiv (September 2016), update process is ongoing.
C. Donor coordination activities	
Status:	Ongoing
Comments:	Coordination meetings with potentially overlapping donor activities of GIZ project for ETS support and EBRD have been conducted in presence of the respective MENR representative. PMR team has agreed on the further donor coordination activities, and regular updates with the GIZ, EBRD, USAID Municipal Energy Reform Project and Clima East. Implementation timelines and tasks distribution has been discussed, further guidance and coordination planned with the MENR.
D. Communication Component (including carrying out stakeholder training, consultation engagement and public awareness activities, including conferences and workshops to support the project activities, consultation meetings with stakeholders, public awareness activities (media, high level public/private meetings, etc.).	
Status:	Project kick-off meeting has been performed. PMR team has started stakeholder mapping activities and will proceed with the Stakeholder engagement plan.
Comments:	The dissemination and outreach activities will focus on key local stakeholders such as the relevant government agencies, the private sector (i.e. future regulated industry and potential other market participants) and relevant NGOs. The results will feed directly into the Ministry's design and implementation plans, regulations, and technical guidance for the upcoming MRV and ETS programs. During the World Bank mission visit to Kyiv , September 12 – 16, 2016, the PMR held a meeting with the MENR on September 12, 2016 . During the initial meeting with the MENR, the PMR team presented <u>the</u> project structure and ensured the MENR on coordination and cooperation with the Ministry and other donors. The Ministry has requested the PMR project to prepare executive summary on MRV and ETS with a view of best European and international practices, and a background note on proposed activities. During the PMR Kickoff meeting on September 14, 2016 , the stakeholders voiced their concerns over the costs of MRV system implementation, and whether they will become void. Addressing these concerns, the MENR and

	<p>PMR team reassured the introduction of market-based mechanism is within the plans. Since MRV is a solid basement for ETS establishment, the PMR project will be mostly dealing with this issue, in a close coordination and cooperation with the other donor-funded activities, in particular the upcoming GIZ project on ETS support.</p>
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4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important policy or regulatory developments related to the Grant's objectives and activities:

Developments:

- **Ukraine submitted its INDC to UNFCCC on 30/09/2015 with a target not to exceed 60% of 1990 GHG emissions level in 2030.**
Upon submission of the INDC, the Ministry will have to agree upon furthering NDC development ahead of the 2020 submission deadline.
- **The Ukraine Government's action plan for implementation of on EU-Ukraine Association Agreement implementation** approved with Governmental Decree #847-p of September 17, 2014.
- **The Ukraine Government's action plan for implementation of Directive 2003/87/EC**, approved by the Decree of Cabinet of Ministers #371 of April 15, 2015.
- **Ministry of Energy and Coal Industry of Ukraine has announced development of draft New Energy Strategy by 2035**, which will have major impact on climate policy.

Challenges:

Development and introduction of MBIs, for which MRV is a crucial component, has faced several challenges over the recent years. Political turmoil has led to frequent alterations within the Government, which in turn, has led to significant reduction of institutional capacities. Liquidation of the State Environmental Investment Agency and delegation of its functions to the Department of Climate Change and Ozone Layer Protection within the MENR indicated decreased attention to the climate change issue in the Government, given the reduced status of responsible institution. The reduced attention can also be seen from reduced level of representation of the governmental bodies in the interagency working group on climate change, members of which currently do not have sufficient authority to coordinate necessary components of climate policy and actions.

Position of climate change issue within the national policy framework remains in low priority, and lacks proper positioning in existing strategic documents. Proper inclusion and coordination with the decision-makers and law-makers necessary.

Institutional capacities on the side of MENR remain limited. Institutional stability is uncertain, due to the governmental turnover.

This, in turn, does not allow to prioritize long-scale ambitions and plans at the Governmental level, and limit implementation to relatively short-scale activities.

Lessons learned:

The PMR team should cooperate with other donor-funded activities, and support the MENR in MRV development and introduction, and provide with necessary support on further MBIs development and implementation. The PMR team also shall establish sufficient links with the business associations and enterprises, promote MRV system roll-out and facilitate capacity building in all major MRV stakeholders in Ukraine.

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

Developments:

Since approval of the Ukraine's MRP in September 2014, the country has ratified the EU-Ukraine association

agreement, taking on the obligations for MRV system development and introduction, and subsequent introduction of the Ukrainian ETS.

The PMR project is fully aligned with Ukraine’s development goals, the objectives of important policy and strategy documents, as well as key legislation on energy efficiency and renewable energy. The proposed activities and the objectives of Ukraine’s PMR Project accord with the climate change related goals identified within several policy and strategy documents, including the National Plan for the Implementation of Provisions of the UNFCCC and the Kyoto protocol, the Strategy of National Policy for Environmental Protection until 2020, the National Action Plan on Environmental Protection for 2011-2015, the National Energy Strategy 2030, the Renewable Energy and Energy Efficiency Policy, the Environmental Strategy for 2020, and the recent Association Agreement with the EU. The implementation of an MRV system will provide Ukraine with accurate data on GHG emissions in key sectors of the economy, as well as on the technologies, fuels, and emission factors at the various installations. The data can thus be used to significantly increase the quality of the Ukrainian National Inventories to the UNFCCC. The data and knowledge generated through MRV can also help Ukraine in its negotiations on the future international climate change regime under the UNFCCC. Analytical activities related to ETS will also support the establishment of Ukraine’s ETS.

Challenges:

The main challenge remains with the approaching deadline for provisional implementation of the EU Ukraine Association agreement.

Lessons learned:

Contingency planning is essential, and can be reached through wide participatory approach, and ensuring public information dissemination and feedback process.

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

Developments:

To mitigate potential issues with institutional changes, the World Bank and MENR have adopted the joint decision to proceed with the bank-executed project, as an exception. The PMR team has been established, and operationalised as of early August 2016.

Challenges:

Even though no Governmental changes are expected, project activities planning and implementation is highly sensitive both to political and economic conditions.

Lessons learned:

N/A

Coordination with other carbon pricing initiatives, including those funded by other donors:

Developments:

PMR and GIZ projects are set to become major donor-funded activities supporting development, implementation and capacity-building support for MRV/ETS system in Ukraine during 2016 - 2019. The donor organizations and representatives of the MENR ensure coordination of efforts to ensure maximum synergy and to avoid any tasks duplication between projects. Other donor-funded activities ongoing at the time of PMR start include climate policy component of USAID-funded Municipal Energy Reform Project, and EU-funded Clima East Project, covering seven countries in the Eastern European and Caucasus, and EBRD FINTECC.

MENR and the PMR team have already engaged in close donor coordination in order to coordinate work, avoid any potential overlaps and agree on division of responsibilities. Several meetings/sessions were taken to agree on coordination and Action plan previously put together has been discussed. Further amendments are to be made under the coordination of the MENR.

As two large donors - the PMR and GIZ projects will further cooperate to ensure synergies and avoid any potential overlaps. While PMR focuses on MRV, and primary focus of GIZ lies within the ETS implementation, a clear roadmap for ETS implementation provides for continuous and more efficient donor coordination.

Results of this work will also be presented and shared with the local donor community also working on Ukraine's MRV and ETS (many of whom are also represented in the PMR Participating Assembly).

The outcomes of this work will be presented at the PMR's Partnership Assembly (PA) meetings – which occur twice times each year, as well as regular PMR Technical Workshops and Training. This will enable Ukraine to receive feedback and guidance from the global network of PMR participant countries and experts.

Challenges:

While a lot of efforts were invested in coordination at the planning stage, in case of delays in project implementation, some drawbacks are expected given the complementarity of activities between the different projects.

Lessons learned:

Good synergies among the donor-funded activities have been achieved during 2012 – 2015. A living document (the ETS Workplan) has been developed under the supervision of the MENR.

Risks related to tight linkages between the MRV developments and timeline and the establishment of ETS can be mitigated by continuous joint work/coordination between PMR/GIZ and other Donors.

Stakeholder engagement related to the Grant's activities:

Developments:

During this reporting period, the PMR project has organized a kickoff meeting with participation of major stakeholders including: representatives of MENR, business associations and donor organizations.

Support to stakeholder engagement and consultation will be fully integrated to each part of the project (i.e. though meetings, roundtables, seminar etc.), and a detailed stakeholder mapping and engagement strategy will be elaborated to ensure stakeholders are identified and provide input to the project in a coordinated and inclusive manner.

Stakeholder engagement plan including participation in events, roundtable discussions, and trainings is under development in coordination with the other donor-funded activities. The PMR team is currently looking into organizing a range of trainings for enterprises that fall under the sectoral coverage of proposed MRV system, as well as high-level events.

Future plans

Stakeholder mapping, and engagement strategy to be developed by the end 2016. A detailed stakeholder mapping and engagement strategy will be elaborated to ensure stakeholders are identified and provide input to the project in a coordinated and inclusive manner.

The outcomes of this work will be presented at the PMR's Partnership Assembly (PA) meetings – which occur twice each year, as well as regular PMR Technical Workshops and Training. This will enable Ukraine to receive feedback and guidance from the global network of PMR participant countries and experts.

Challenges:

The main challenge for the stakeholder engagement activities is the uncertain institutional and political landscape. Also, despite the EU - UA association agreement, some challenges might appear in mobilising industry for the activities of future compliance due to absence of legal provisions (no obligations and enforcement to comply with upcoming requirements).

Lessons learned:

N/A

Other issues related to the Grant's activities

N/A

5. ADDITIONAL INFORMATION

In this Section, please provide any additional information that may be relevant for the achievement of the Grant's objectives and/or the implementation of the Grant's activities. Please also provide any relevant information related to carbon pricing and the use of market-based instruments for climate change mitigation.

N/A