Intervention Summary

Title: ICF support for World Bank's Partnership for Market Readiness

What support will the UK provide?
The Partnership for Market Readiness (PMR) is a grant-based, capacity building trust fund that provides funding and technical assistance for the piloting of market-based instruments for greenhouse gas emissions reduction. The Partnership brings together policy makers from governments with experts and stakeholders to provide a platform for piloting market instruments. The PMR is country-led and builds on developing countries' own mitigation priorities. Focus is placed on two elements. First, on improving a country's technical and institutional capacity for using market instruments to scale up mitigation efforts. Market instruments, such as domestic emissions trading and new scaled-up international offsetting mechanisms, will be targeted for pilot efforts. Second, ensuring the essential readiness components for any of these instruments – such as measuring, reporting, and verification systems and the creation of policy and regulatory frameworks – are a crucial part of the work of the PMR. We envisage the following contribution from the UK: **Financial Support:** £7 million in 2011 ($11.4 million). There would also be the potential to contribute additional funds in subsequent years provided value for money has been demonstrated. **Expertise:** The UK has over 10 years of experience of designing and implementing market-based measures that it could helpfully share with developing countries.

Why is UK support required?
The UK is committed to the expansion of carbon markets in both developed and developing countries. A global carbon market makes it cheaper, and therefore more likely, that the world will be able to hit its emissions reduction targets, even in the absence/ delay of a global deal. In its final report, the Advisory Group on Finance concluded that scaled-up carbon markets could deliver around $30billion of financial flows to developing countries. Currently developing countries participate in carbon markets through the Clean Development Mechanism (CDM) but this *project-based* mechanism is limited in its ability to deliver finance at scale. A necessary step is therefore to gain support for the creation of new scaled-up market mechanisms by building institutional and technical capacity and demonstrating their effectiveness and benefits to host countries. The World Bank Partnership for Market Readiness (PMR), launched in Cancun in December 2010, aims at financing capacity building activities and piloting market mechanisms in, initially, around 10-15 middle income countries to promote the expansion of market based instruments. These countries could be good testing grounds for carbon market pilots, which could then be replicated and adapted to other countries including lower income counties. The PMR will lead to emission reductions in these countries, and where linked to international carbon markets, may offer the potential for new scaled-up transfers of carbon market finance from developed to developing countries. Increased financial flows from carbon markets will contribute to the commitment from developed countries under the Copenhagen Accords to transfer $100bn/yr of climate finance to developing countries by 2020.

Several developing countries have expressed an interest in participating in the PMR. Countries and sectors are selected by a Partnership Assembly made up of developed country contributors and developing country participants. To gain a seat on the Partnership Assembly, donor countries have to contribute at least $5 million up-front.

The World Bank is seeking to mobilise a total of $100 million to fund this. The World Bank has already secured pledges of $56million[1] and the UK contribution will bring that to $67million.

A UK contribution of £7m (~$11.4m) would demonstrate our strong commitment to global carbon markets and concrete action on the ground.

What are the expected results?

The expected results from the PMR programme would be:

Impact:

- Substantial cost effective CO_2 abatement as a result of market mechanisms implemented in a broad range of developing countries

Impact indicators:

  - Quantity of emissions reductions (in $MtCO_2e$) resulting from implementation of market mechanisms
  - Revenue raised from carbon related market mechanisms

Outcome:

- Market mechanisms implemented in at least 5 participating developing countries by 2015; resulting in quantifiable emissions reductions

  Outcome indicators:
  - No. of participating countries implementing market mechanisms
  - Quantity of emissions reductions (in $MtCO_2e$) directly resulting from implementation of market mechanisms supported by the PMR
  - Increase in revenue raised from carbon market mechanisms

Outputs:

- Increased knowledge sharing and support between developed and developing country partners to improve new market mechanism design and development
- Enhanced capacity of 10-15 developing countries to design and develop new market mechanisms market
- Number of people trained to deliver and implement market based mechanism that would result in quantifiable emissions reduction
- % of a country's total emissions that will be covered under PMR supported market based mechanisms (based on the preparation stage reports)

[1] From Australia ($10m), the European Commission ($7m), Germany ($7m), Norway ($5m), Japan ($7m), Spain ($5m), Switzerland ($6m), Netherlands ($5m), and the United States ($5m).

- Number of private sector companies involved in a market based mechanism.

Additional outcomes to which the PMR may contribute:

- More productive discussions on new market mechanisms in the international negotiations leading to the creation of an internationally agreed framework for new large scale sectoral mechanisms and the expansion of the global carbon market.

- Improved investment environment for the private sector, through the creation of new low carbon investment opportunities in developing countries and improved market certainty. There will also be a need for development of trading platforms, third party auditors, project developers and other services. The creation of bankable projects and assets that can be used as collateral for debt financing will also arise.

- The sectoral and installation-level MRV structures necessary to gather emissions data and initiate mitigation actions. This will help develop emission baselines, identify abatement opportunities and encourage innovation.

Business Case:

Strategic Case

A. Context and need for ICF intervention

Global carbon trading is key to addressing the failure to put a price on carbon emissions. Modelling has suggested that, under the right conditions, global carbon trading could reduce emissions reduction costs by up to 70% (Global Carbon Trading: A framework for reducing emissions, Lazarowicz et al[2]). These efficiencies could potentially allow the world to reduce global emissions by an additional 40-50% at the same cost and provide substantial financial flows to the developing world to support the move to a low carbon economy with sustainable growth.

The UK is committed to the expansion of carbon markets in both developed and developing countries. A global carbon market makes it cheaper, and therefore more likely, that the world will be able to hit its emissions reduction targets. Currently developing countries participate in carbon markets through the Clean Development Mechanism (CDM) but this *project–based* mechanism is limited in its ability to deliver finance at scale and does not contribute to net emission reductions (CDM credits are used as offsets to meet developed country targets and will be limited to Least Developed Countries (LDCs) from 2012).

For some time, the UK and many other developed countries have been pushing for the creation of new, large scale, market mechanisms (e.g. sectoral crediting) that cover entire sectors (as opposed to specific projects) and which could potentially generate much greater flows of finance for developing countries and promote net contribution to emission reductions.

Building institutional and technical capacity for new market mechanisms and demonstrating their

[2]http://www.decc.gov.uk/assets/decc/what%20we%20do/global%20climate%20change%20and%20energy/tackling%20climate%20change/emissions%20trading/lazarowicz%20report/1_20090803173145_e_@@_8368tsoglobalcarbontradingnewbkmk.pdf

effectiveness and benefits to host countries is a necessary first step towards gaining support for these approaches and expanding their use.
Market-based mechanisms could play a key role in domestic mitigation plans and have strong domestic benefits. They are a cost effective way of reducing emissions, help to address the carbon externality by imposing a carbon price on emitters and can help raise revenues for national treasuries, which can then be reinvested in low carbon activities. They can also contribute to energy security and access, job creation and leverage private finance.

B. Impact and Outcome

Please see Annex A for PMR logframe

The intended **impact** of an intervention in this area would be a contribution to **substantial cost effective CO_2 abatement as a result of market mechanisms** implemented in a broad range of developing countries

The intended **outcome** of the intervention would be:

Market mechanisms in at least 5 developing countries by 2015

- **Substantial CO_2 abatement** as a result of building capacity and design and implementing market mechanisms. The magnitude of CO_2 emissions reductions is hard to estimate and will depend on the level of ambition of policies. There will be no restrictions on sectors that could be considered for application of market based approaches but the most likely candidates are the power sector and energy intensive industry (e.g. cement, iron and steel, aluminium, pulp and paper etc.)

- **More productive discussions** on new market mechanisms **in the international negotiations** leading to the creation of new large scale sectoral mechanisms and the expansion of the global carbon market.

- A clear carbon price signal providing a more certain **investment environment for the private sector** looking to invest in low carbon investment opportunities in developing countries.

- **Additional co-benefits**, the nature and scale of which will depend on the type of instruments implemented but may include:

    - **Improving MRV**: Building capacity for market-based instruments implies gathering emissions data both at sectoral level and at installations levels. This will promote the creation of a robust MRV system both domestically and internationally.

    - **Energy security**: Market-based instruments can either directly or indirectly promote energy efficiency and diversify sources of energy supply

    - **Job opportunities**: Carbon market instruments create a new business and employment opportunities in the economy (institutional capacity, financial expertise etc).

    - **Leveraging private finance:** The intervention aims at creating a regulatory framework that has the potential to unlock private finance for low carbon projects, especially through the creation of a carbon price and carbon assets.

Appraisal Case

A. Determining Critical Success Criteria (CSC)

Each CSC is weighted 1 to 5, where 1 is least important and 5 is most important based on the relative importance of each criterion to the success of the intervention.

CSC	*Description*	*Weighting (1-5)*
1	Mitigation action is promoted at scale through the development of market-based instruments	5
2	Developing countries at a high level express interest in piloting market mechanisms	5
3	Countries and organisations with expertise in market mechanisms willing to share this with others.	4
4	Private sector willing to participate in new mechanisms	3

B. Feasible options

Option 1: UK support to the World Bank's Partnership for Market Readiness (PMR). This initiative seeks to address the issues outlined above by:

- Piloting, testing and sequencing new concepts for market instruments, including identifying potential synergies between national market based instruments at the design stage.

- Creating a platform to enable policy makers from both developed and developing countries, and public and private entities to share experiences on market-based instruments.
- Creating a body of knowledge, to include an online document library, blog and tool for developing implementation proposals on market instruments that could be tapped for country specific requirements. This would reside on the PMR website at www.carbonfinance.org. Also included would be summaries of any meetings, workshops, implementation proposals, best practice, lessons learned and comments and advice; and

The PMR aims at raising $100million to enable the sharing of expertise on market mechanisms and build capacity in 10-15 developing countries in order to pilot market mechanisms (around $6-10million per country).

The PMR has received and approved eight country bids for the first round of financing for preparation of the Market Readiness Proposals (MRP). There are also an additional four expressions of interest from other countries wanting to progress to the MRP stage. The eight countries with approval so far will receive $350,000 to draw up market proposals. The PMR Secretariat and Partnership Assembly (PA) (Incl. UK) are developing a guidance tool that helps those countries in designing their proposals. It also defines a set of criteria that the proposals must address.

Once the proposals have been assessed and accepted by the PA they will then be ready for the implementation stage and will receive funding commensurate with their proposals. We will also be working with the PMR Secretariat and PA to draw up harmonised and robust monitoring and evaluation procedures.

Please see the PMR Theory of Change in Annex B.

Option 2: UK support to UNDP Sectoral Market Mechanisms Initiative (SMMI). This UNDP initiative is very similar to the World Bank PMR initiative, but has had more difficulty in attracting interest from donors and potential participants, perhaps due to its more top down approach as opposed to the demand driven approach proposed by the PMR. Reasons for this may be due to launching after the PMR (expected December 2011), its smaller size and possible concerns over whether it would be duplicating the work of the PMR. There are three expected outcomes from the SMMI:

- Enhanced ability of governments to access global carbon markets and readiness for using sectoral market mechanisms
- Development of a reference baseline and performance standards for at least one sector in each participating country
- Operationalisation of the sectoral market mechanism

The project overall budget from 2011 to 2016 is $27.4 million ($5.48 million per country).[3]

Option 3: A continuation of the current approach of engaging with developing countries on carbon markets through the UNFCCC negotiations and others, e.g. International Carbon Action Partnership (ICAP). However, further theoretical discussion is unlikely to lead to the outcomes we are seeking, evidenced by the lack of progress in adoption of market mechanisms so far. We now need concrete demonstration of success of new market mechanisms, as well as showing that the UK is serious about its commitment to the creation of new mechanisms.

Option 4: No intervention

In the table below:

- the quality of evidence for each option is rated as either Strong, Medium or Limited;
- the likely impact on climate change and environment is categorised as A, high potential risk / opportunity; B, medium / manageable potential risk / opportunity; C, low / no risk / opportunity; or D, core contribution to a multilateral organisation.

Option	*Evidence rating*	*Climate change and environment category (A, B, C, D)*
1	*Medium*	*B Medium potential opportunity*
2	*Medium*	*C Low potential opportunity*
3	*Strong*	*C Low potential opportunity*

C. Appraisal of options

Option 1: World Bank PMR

Benefits:

- The World Bank Initiative is **demand-driven**: in order to build the concept, the World Bank has started consulting with a wide range of potential recipient countries through workshops and informal consultations. This has promoted significant recipient and donor country buy-in. **Emission reductions** could be **scaled-up in** developing countries through this initiative, which aims at building capacity in 10-15 countries, with pilots in at least 5 countries by 2015. Exact emission reductions are difficult to assess at this stage as it will depend on the countries and programmes selected and the level of ambition. As an indication of scale of savings, the Indian

[3] Based on UNDP data

government have estimated that their energy efficiency trading scheme (designed with UK support) is estimated to save between 5-7MtCO_2e per year. Five market mechanism pilots implemented on a similar scale could deliver around 25MtCO_2e per year.

Initial country submissions of their scoping studies to the PMR have identified the following potential GHG emissions reductions :

- Indonesia- Emission reduction target identified under the PMR of 30 million tCO_2e.
- Chile- introduction of an ETS is projected to reduce emissions by 31 million tCO_2e in both the regulated and non-regulated sectors by 2020.
- Mexico has identified over 90 million tCO_2e emissions reductions per year under measures that could be supported under the PMR.

- **Poverty Impact:** Depending on the countries and programmes selected, market-based mechanisms can help promote energy efficiency and improve energy access. In addition, market-based policies can create new business opportunities for the private sector (e.g. financial services, low carbon economy sectors) that have the potential to create new job opportunities and expertise in developing countries.

Experience:

- The World Bank has been instrumental in catalyzing the global carbon market[4]. Starting with the Prototype Carbon Fund (PCF), which became operational in 2000, the World Bank has worked to increase participation of private and public buyers in the carbon market. The World Bank has $2.5 billion in capitalised funds with a wide ranging portfolio spanning 57 developing countries and economies in transition and 23 different technologies in a diverse range of projects. These projects range from energy efficient lighting in Senegal, brick making in Bangladesh, solid waste management in Mexico to wind power in China. The World Bank experience is therefore relevant to a broad range of stakeholders.
- More detail of the World Bank's work can be found at www.carbonfinance.org:

DfID's Multilateral Aid Review[5] (MAR) scores the agencies of the World Bank, under value for money for UK aid funding, as good, comparable to the UN agencies. However, the MAR rated the World Bank agencies as stronger than those of the UN under organisational strengths.

Expected costs to the UK:

- **A contribution of £7 million in 2011:** The UK is committed to promoting mitigation action globally, and especially market-based instruments to achieve cost-effective abatement. Through the UK contribution, we should be aiming to maximise the impact on global mitigation while increasing value for money.
- There will also be small **admin costs** in terms of staff to manage the UK's contribution and potentially share expertise, where appropriate, in designing and implementing market-based measures. We estimate around 0.5 full time equivalent will be required (partly G7, partly HEO(D)), which will cost **less than £30K per year**.
-

Expected costs in a PMR country

Value for money of the fund can be assessed by looking at one of the PMR countries as an example. Chile provides a useful illustrative of a country supported through the PMR; Chile is reasonably well developed in terms of its carbon market capacity e.g. Chile approved 49 CDM projects in 2009 but is seeking additional support on developing analysis and implementation of market mechanisms to

[4] http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/10_Years_of_Experience_in_Carbon_Finance_Corrected.pdf

[5] (http://www.dfid.gov.uk/About-DFID/Who-we-work-with/Multilateral-agencies/Multilateral-Aid-Review/)

achieve emissions reduction and promote private sector investment.

Expected costs in Chile include:

- Funding for the preparation stage from:
  - the PMR ($350,000 over 1 year); and
  - economic costs to Chile in the form of a policy official's time to coordinate the project and consultation. This is estimated to be $39,000 based on information from Chile's framework submission and Ecofys assessment of capacity building for carbon markets[6]

- Upfront funding for the implementation stage (3 years). On average this could be $6.4mn, assuming a fund size of $100m and 15 participating countries
- Ongoing operating and maintenance costs which cover the economic/administrative costs related to complying and reporting to the system. Studies on the EU Emissions Trading System have estimated that this is £0.07/tCO_2e abated. This figure may vary in Chile owing to differences in capacity and labour market costs. Given the uncertainty on these two factors, the same ratio has been assumed in calculating the net present value of the fund ($0.11/$tCO_2e$ when converted to US$)
- Additional economic costs paid for by the Chilean Government. We do not have information on this yet but would expect this information to be covered and explored in the preparation phase.

Expected benefits in Chile include:

- Carbon emission reductions once the market mechanisms are up and running. Chile's framework document estimates that these could be up to 31$MTCO_2$ by 2020, 23$MTCO_2$ of which are delivered through an emissions trading scheme (ETS). Chile's framework document assumes that 97% of Chile's emissions would be covered under an ETS and that 20% of BAU would be abated through this scheme in 2020[7]. Not all of these benefits can be attributed to the fund; it is assumed that Chile would have achieved some abatement to achieve their targets without the support of the PMR.
- Additional (non-quantifiable) benefits such as knowledge transfer, increased private sector investment and potentially enhanced energy security.

Potential NPV of the PMR

- The NPV of the PMR will depend on the ratio between the total preparatory and implementation costs and the expected *additional* emissions reduction arising from the support of the PMR[8]. Without information on the full economic costs or coverage of the market mechanisms to discern the proportion of emission reductions that could be counted as additional, an NPV calculation of a median country is not very informative.

- Provided that at least 0.5% of the emissions reductions from an ETS are additional, then based on the current information available for Chile, as highlighted above, the fund represents value for money. This ratio will depend on the level of upfront implementation costs and an assessment of the *additional* emissions saved. This will need to be monitored throughout the lifetime of the fund and should be re-visited once the preparation phase has been completed. This additional information will allow to fund stakeholders to steer the implementation funding towards those sectors that can deliver the most cost effective emissions reduction.

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[6] See Ecofys's "Linking developing countries to carbon markets" page 41

[7] Quantification of the carbon benefits uses the DECC carbon values, converted to $ using August exchange rates.

[8] All costs have been discounted at 8% following guidance from the World Bank. All carbon benefits have been discounted at 3.5% owing to their global public good characteristics.

Option 2: UNDP SMMI

This initiative is very similar to the WB PMR, however, it is at a much smaller scale (SMMI is around a third of the size of the PMR) and has less interest from developing countries owing to its top down, rather than bottom up strategy and delivery. The top down nature of the fund means it is less likely to deliver at the scale and pace of the PMR due to not engaging the high level buy-in within target countries and therefore lacking the same strength of drivers as the PMR. A top-down approach also risks resulting programmes not tackling national conditions in the most appropriate ways. With less demand from developing countries it is arguable whether it will have as great an impact as the PMR. Fewer donor countries involved also means that there is a reduced opportunity to share lessons learned from countries with experience of market mechanisms.

Expected costs to the UK:

- **If we contribute £3m in 2011** we would probably be the top contributor to the fund, mainly because not many countries have pledged to participate (. This is mainly due to the fact that the concept is limited to testing new sectoral crediting and trading mechanisms, and does not really focus on domestic policies, which are a prerequisite before contemplating the implementation of a sectoral crediting/trading scheme.
- **Admin costs** would be small and comparable to the ones incurred with the WB PMR, that is around 0.5 full time equivalent, which costs less than £30k/yr.

Benefits:

- Each country could receive around $5.5m. Informal discussions with the UNDP suggest that a limited number of countries have expressed interest in the initiative, some of which are not part of our ICF priority country list at this stage.
- Because it focuses on a small number of countries (no more than 5-6 countries), this initiative could lead to more in-depth work with each recipient countries.
- By testing sectoral crediting and trading mechanisms, this initiative could promote these mechanisms and accelerate their adoption in the international negotiations.

Disadvantages:

- As no initial scoping studies have been undertaken we have no figures for the potential emissions reductions that could take place under this programme.

DfID's Multilateral Aid Review scores the UNDP, under value for money for UK aid funding, as good. This is comparable with the World Bank organisations examined under the Review. However, the MAR rated the World Bank agencies as stronger than those of the UN under organisational strengths.

Option 3: Continue current approach

A key challenge to this option is that given the restructuring process, there is unlikely to be enough capacity to carry on outreach activities as we used to, let alone scale it up and work with more countries.

In addition to resource constraints, an approach undertaken by the UK only would not have the economies of scale associated with teaming up with other donors and sharing funding commitments and knowledge and experience. This is a key output of the PMR.

Expected costs to the UK:

- **As DECC does not have the administrative resource to pursue this option, it has not been explored in greater depth.**

Benefits:

- More control over the capacity building activities and more direct influence in the country
- Build a good relationship at working levels with these countries
- Promote creation of mitigation policies domestically and new mechanisms internationally
- At this stage, before scoping studies are conducted it isn't possible to estimate the amount of emissions reductions that could result from this approach.

Option 4: No intervention:

- Although this approach would save money we would not be demonstrating our commitment to carbon markets. These represent a key area for meeting pledges for emissions reductions as well providing the finance needed to fund low-carbon, sustainable development. Without our support for the PMR there is a risk that other donors may decide not to pledge funds to the scheme thereby reducing the effectiveness in developing carbon markets and demonstrating their effectiveness in developing country emissions reductions.

D. Comparison of options

The same weighting is used as for CSC above. The score ranges from 1-5, where 1 is low contribution and 5 is high contribution, based on the relative contribution to the success of the intervention.

Analysis of options against Critical Success Criteria (CSC)							
		Option 1		Option 2		Option 3	
CSC	Weight (1-5)	Score (1-5)	Weighted Score	Score	Weighted Score	Score	Weighted Score
1	5	4	20	3	15	1	5
2	5	3	15	2	10	2	10
3	4	4	16	2	8	1	4
4	3	3	9	2	4	2	4
Totals			**60**		**37**		**23**

Option 1 is recommended. The PMR has the potential to offer significant value for money it is driven by host country demand and is robust to different global deal outcomes.

E. Measures to be used or developed to assess value for money

A DECC- commissioned study by Ecofys (2009)[9] (suggested that building capacity for market readiness to implement a cap and trade scheme in a country like Chile could cost around $14-25m and that implementation of sectoral crediting would cost less. This research would suggest that $100m is a sensible estimate of the costs of building capacity in 5-10 countries (depending on selected countries).

The approach for assessing value for money will include outcome and output indicators which can be found in the PMR logframe in Annex A.

[9] http://www.decc.gov.uk/assets/decc/what%20we%20do/global%20climate%20change%20and%20energy/tackling%20climate%20change/emissions%20trading/lazarowicz%20report/1_20090720133430_e_@@_capacitybuildingcostfordevelopingcountries.pdf

Commercial Case

Direct procurement – NA

A. Clearly state the procurement/commercial requirements for intervention

Intervention title:	Partnership for Market Readiness	
Sub-project procurement route:	Funding support for preparation of Market Readiness Proposals (MRPs)	Indirect- funded through the PMR Secretariat (World Bank)
Sub-project procurement route:	Funding support for implementation of MRPs	Indirect- funded through the PMR Secretariat (World Bank)

As the World Bank will manage the programme, we will make sure that their procurement rules and processes[10] are applied in the context of the PMR.

B. How does the intervention design use competition to drive commercial advantage for DFID?

The decision about the Delivery Partners (i.e. non-World Bank) will have to be made by Implementing Countries. Although the World Bank will be the default Delivery Partner, it is expected that Implementing Countries will engage other Delivery Partners through competitive tendering processes.

C. How do we expect the market place will respond to this opportunity?

The private sector has already expressed interest in participating in this programme, providing support to Implementing Countries and assisting the World Bank to fulfil its delivery function.

The guidance document being developed by the PMR Secretariat and Partnership Assembly strongly suggests that extensive stakeholder engagement is carried out to gauge the level of private sector support and mitigate any risks identified. The level and extent of stakeholder engagement undertaken during preparation of the Market Readiness Proposal will also be assessed against a set of criteria that are under development with the PMR Secretariat and Partnership Assembly.

D. What are the key underlying cost drivers? How is value added and how will we measure and improve this?

The key cost drivers will be:

- The existing level of capacity in the Implementing Countries: the higher the existing capacity, the lower the cost.
- The coverage of the market-based policy being implemented: the more sectors and installations covered, the higher the capacity building and information gathering costs will be

Further detail can be found in the logframe in Annex A.

E. What is the intended Procurement Process to support contract award?

The procurement process will follow the World Bank standard procurement guidelines.

[10] http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,pagePK:84271~theSitePK:84266,00.html

There are four considerations that generally guide the Bank's procurement requirements:

(a) the need for economy and efficiency in the implementation of the project, including the procurement of the goods, works, and non-consulting services involved;
(b) the Bank's interest in giving all eligible bidders from developed and developing countries the same information and equal opportunity to compete in providing goods, works, and non-consulting services financed by the Bank;
(c) the Bank's interest in encouraging the development of domestic contracting and manufacturing industries in the Borrowing country; and
(d) the importance of transparency in the procurement process.

These procurement practices are used for a number of HMG funded programmes and are considered fit for purpose by DfID/HMG.

F. How will contract & supplier performance be managed through the life of the intervention?

Supplier performance will be monitored by the World Bank, acting as the PMR Secretariat, and assessed by the Partnership Assembly, which the UK will sit on. Success indicators and clear deliverables will have to be defined up-front for each project financed by the PMR.

A. Why is the proposed funding mechanism/form of arrangement the right one for this intervention, with this development partner? The World Bank has been consulting with various stakeholders including developing and developed countries to gather views on the scope of the PMR in order to maximise the value of this new initiative while avoiding duplication with other initiatives (e.g. Global Environment Facility, UNEP, Clean Development Mechanism capacity building programmes, etc). The proposal is tailored to the specific capacity needs identified by developing countries as well as to broader international objectives of expanding carbon markets and carbon finance flows. While other donor-supported market readiness initiatives are focused on the CDM (e.g. World Bank's carbon partnership facility, UNEP Risoe's Capacity Development for CDM (CD4CDM)) or are more discussion based and targeted at developed countries wanting to learn more about emissions trading (e.g. the International Carbon Action Partnership (ICAP)). There are currently few programmes looking to build readiness for new market mechanisms. In addition, the World Bank, through their Carbon Finance Unit has a strong track record in building carbon market capacity in developing countries. It has built a network of experts globally and is an appropriate delivery body for market readiness activities.
B. Value for money through procurement The procurement process will follow the World Bank standard procurement guidelines which DfID adhere to for other multilateral programmes. The Multilateral Aid Review stated that DfID will disburse £3.7 billion of UK aid as core funding through multilateral organisations; about 30% of which will be channelled through the World Bank. The World Bank's new Access to Information Policy shifts the Bank to a position of full disclosure and is a significant step forward in Bank transparency.

Indirect procurement

Financial Case

A. How much it will cost

The intervention would require UK finance, from DECC's ICF funds, of £7m ($11.4) in 2011.

After the initial scoping studies, eight countries have had approval of funding, for $350,000 each, to undertake their Market Readiness Proposals which will outline their implementation plans.

Indirectly, we anticipate the need for approximately 0.5 FTEs to manage the programme.

B. How it will be funded: capital/programme/admin

This will be funded from the RDEL (Resource Departmental Expenditure Limit).

C. How funds will be paid out

The World Bank will serve as a trustee of the trust fund for the PMR (the Trustee). The Bank as Trustee will establish a trust fund to receive contributions from donors to the PMR, and will hold in trust, as a legal owner and administer the funds, assets and receipts that constitute the trust fund, pursuant to the terms of the administration agreements entered into with the donors with respect to their contributions to the PMR.

The UK will provide the £7m in the form of a promissory note lodged at the Bank of England, from which the PMR Secretariat can draw upon when needed. To formalise this agreement DECC will enter into a legal agreement with, and drawn up by, the World Bank within which will be included an expected schedule of payments.

Although not physically supplied to the WB, the outstanding amount under the promissory note would be included in the current year's (2010-11) spend target and would therefore be immediately recognised in our accounts.

D. How expenditure will be monitored, reported, and accounted for

The PMR Secretariat will be in charge of proposing a budget every year, which will track spend and will have to be agreed by all participating countries, both implementing and donor countries including the UK.

The Partnership Assembly, of which the UK will be part of and play an active role, will consist of all donors to the PMR as well as all countries that have submitted an expression of interest and have been subsequently confirmed at a meeting of the Partnership Assembly.

The Partnership Assembly will approve the allocation of resources to the Implementing Country Participants, approve the budget for the operation of the PMR and monitor the operation of the PMR against objectives and value for money.

Once there are ten Contributing Participants and ten Implementing Country Participants in the Partnership Assembly, the Partnership Assembly may consider establishing a Partnership Committee to perform the functions designated to the Partnership Assembly

Management Case

A. Oversight

The Governance Structure of the World Bank PMR will be a Partnership Assembly (comprised of all donor countries who have contributed financially and all implementing countries), a Partnership Committee (to be set up by the Partnership Assembly once donor and implementing countries reach a certain number and consisting of balances donor/ implementing country representatives), the World Bank Secretariat, World Bank Trustee, Observer Countries and a Roster of Experts. Delivery Partners will also be responsible for assisting implementing countries in carrying out the activities of the PMR, supervising grant implementation and providing technical support and will directly report and be accountable to the Partnership Assembly and Partnership Committee.

We are working, along with other partner countries, in developing reporting processes with the World Bank and will ensure that robust and harmonised monitoring and evaluation processes are instituted. It will be necessary to ensure that these accord with and are measurable against our own outcome and output indicators.

The current governance arrangements can be found at http://www.CarbonFinance.org.

B. Management

DECC (Global Carbon Markets Team) will lead on this intervention with involvement from DFID (Climate and Environment Department) and other government departments where appropriate.

DECC will manage both the budget and the project in order to make most effective use of resources and expertise across Whitehall and achieve better value for money. Whilst both DFID and DECC have an interest in the project, we envisage DECC taking the lead on management of the project. This is because:

1. DECC has the UK policy lead on carbon markets
2. A swap of DfID RDEL for DECC CDEL would achieve greater value for money and be cost effective as the project would then require less civil service time/input if delivered through one department.

One DECC and one DFID official are on the World Bank's Roster of Experts for the PMR. A UK representative (from DECC) will be nominated to attend the biannual meetings of the Partnership Assembly and be part of the consensus decision making process.

HMG engagement will be managed through the cross-Whitehall carbon markets group.

SRO: David Capper

C. Conditionality

NA

D. Monitoring and Evaluation

Please see logframe attached in Annex A.

Key Indicator 1: Increased capacity of stakeholders in 10-15 developing countries to design and implement market-based instruments. 10 – 15 countries conduct a comprehensive assessment of their capacity building need through 'capacity building support packages'.

Key Indicator 2: Testing and piloting of new markets mechanisms in a minimum of 5 developing countries by 2015 as a result of successfully approved 'capacity building support packages'.

Key Indicator 3: Creation of a forum to enable experts on market mechanisms from different countries and organisations to share experience and transfer knowledge. The forum will be web-based and operational by the end of 2011.

In the first instance, monitoring will be carried out by the implementing country and the World Bank at the country level and reported to the Partnership Assembly (PA) in annual reports. Evaluation will be carried out by a combination of the Partnership Assembly countries, implementing country and the World Bank.

We will work with the Partner countries and the World Bank in developing a harmonised and robust programme for monitoring and evaluation. The Tool for the Market Readiness Proposals is being developed jointly between the Partnership countries and the PMR Secretariat. This will provide guidance and criteria for the development of the Market Readiness Proposals (MRPs). Once the MRPs have been developed the PA will ensure that a stringent M&E process, appropriate to the mechanisms to be developed is instituted.

E. Risk Assessment

The PMR will undertake work in up to 15 countries across a variety of industries and sectors; therefore at this stage it is not possible to undertake a detailed risk assessment before we have seen the full Market Readiness Proposals that outline the implementation plans.

The guidance tool and the assessment criteria for these proposals that we are working on with the World Bank, other donors and implementing countries, provide advice and requirements for risk assessment. In their proposals, implementing countries will have to fully identify all the risks and barriers, social, political, economic, legal, regulatory and institutional that would affect implementation. The World Bank is currently working on how risk management strategies could be designed under the detailed implementation proposal and taken forward during the implementation phase.

We have considered wider risks to the programme below:

Risk 1: Developing countries are not forthcoming in putting forward expressions of interest due to lack of capacity.

- Mitigating action: Process of submitting an Expression of Interest has been developed in a two stage approach, with the option of completing only a short note ahead of receiving support for completion of a more comprehensive review (preparation grant of up to $350,000).
- Residual risk: LOW (to date, 8 countries are officially implementing countries within the PMR and an extra 4 have sent expressions of interest)

Risk 2: PMR funding is approved for work which duplicates that done by existing organisations/ national governments.

- Mitigating Action: The PMR initiative will build on existing work to reduce costs and maximise

synergies. Collaboration with other organisations including UNDP, UNEP and other Multilateral Development Banks who have experience in building in-country capacity. The PMR has already started liaising with ICAP to create synergies on capacity building related to Emission Trading Systems (ETS).
In the original Expression of Interest, countries are required to specify all existing work / initiatives underway on market readiness and to specify current capacity level in detail.

- Residual risk: LOW

State aids and competition risks: **PROVISIONAL ADVICE**: we have not identified any material state aid or competition risks.

F. Results and Benefits Management

Please see logframe attached in Annex A.

The overarching outputs expected from the PMR are:

1. Increased capacity of stakeholders in 10-15 developing countries to design and implement market-based instruments. 10 – 15 countries' ' comprehensive assessments of their capacity building need through 'capacity building support packages' are approved for further funding.
2. Testing and piloting of new markets mechanisms in a minimum of 5 developing countries by 2015 as a result of successfully approved 'capacity building support packages'.
3. Creation of a forum to enable experts on market mechanisms from different countries and organisations to share experience and transfer knowledge. The forum will be web-based and operational by the end of 2011.

   - Funding for preparation phase agreed, based on developed and agreed criteria, at the First Meeting of the Partnership Assembly (end-May 2011). At the Assembly the initial eight countries to receive the $350k preparation grants were decided upon and there was further agreement to develop a guidance and assessment tool for the working up and evaluation of the eight proposals.

Within a year of this funding agreement (by end-May 2012) expect Implementing country participants to have submitted Market Readiness Proposals (to go to Partnership Assembly for approval for implementation funding).

By Q3 2012 expect approval agreed for 10-15 projects to be implemented in developing countries based on previously agreed criteria.

Annex A: PMR logframe

PROJECT NAME	**World Bank Partnership for Market Readiness (PMR)**					
IMPACT	**Impact Indicator 1**		**Baseline May 2011**	**Milestone 1 (end of 2013)**	**Milestone 2 (end of 2014)**	**Target (end of 2015)**
Substantial CO2 abatement as a result of market mechanisms	Quantity of emissions reductions (in MtCO2e) resulting from implementation of market mechanisms	**Planned**				
		Achieved				
			Source			
	Impact Indicator 2		**Baseline**	**Milestone 1 (end of 2013)**	**Milestone 2 (end of 2014)**	**Target (end of 2015)**
	Revenue raised from carbon related market mechanisms	**Planned**				
		Achieved				
			Source			

OUTCOME	Outcome Indicator 1		Baseline (May 2011)	Milestone 1 (end of 2012)	Milestone 2 (end of 2013)	Target (end of 2015)	Assumptions
Market mechanisms in at least 5 developing countries by 2015	No. of participating countries implementing market mechanisms	**Planned**	0	0	3	5	
		Achieved					
			Source				
			PMR Secretariat, Partnership Assembly meetings, PMR website				
	Outcome Indicator 2		**Baseline**	**Milestone 1 (end of 2013)**	**Milestone 2 (end of 2014)**	**Target (end of 2015)**	
	Quantity of emissions reductions (in MtCO2e) directly resulting from implementation of market mechanisms supported by the PMR	**Planned**	0				
		Achieved					
			Source				
			PMR Secretariat, Partnership Assembly meetings, PMR website				
INPUTS (£)	**DECC (£)**		**Govt (£)**	**Other (£)**	**Total (£)**	**DECC SHARE (%)**	
	£ 7m ($11.4m)		**£34m ($56m)**	**N/A**	**c£41m ($67m)**	**17%**	
INPUTS (HR)	**DECC (FTEs)**						
	0.5						

OUTPUT 1	**Output Indicator 1.1**		**Baseline (May 2011)**	**Milestone 1 (end of July 2011)**	**Milestone 2 (Aug 2011)**	**Target (end of October 2011)**	**Assumption**
Increased knowledge sharing and support between developed and developing country partners to improve new market mechanism design and development	Development of a knowledge tool for Market Readiness Proposals	**Planned**	No Tool for Market Readiness Proposals	1st draft of Tool	2nd draft of Tool	Final draft agreed	
		Achieved					
		Source					
		PMR Secretariat					
	Output Indicator 1.2		**Baseline (May 2011)**	**Milestone 1 (end of October)**	**Milestone 2 (April/May 2012)**	**Target (end of 2015)**	
	Partnership meeting established to discuss best practise and provide advice	**Planned**	Initial Partnership Assembly Meeting	2nd Partnership Meeting	3rd Partnership Meeting	Bi-annual meetings until 2015	
		Achieved					
		Source					
		PMR Secretariat , Partnership Assembly meetings, PMR website					
IMPACT WEIGHTING (%)	**Output Indicator 1.3**		**Baseline 2011**	**Milestone 1 (end of 2011)**	**Milestone 2 (end of 2013)**	**Target (2015)**	
25%	Online blog, document library and tool	**Planned**	PMR website live	Online blog and tool set up	Total no. of visits to the website	Total no. of visits to website	
		Achieved					
		Source					**RISK RATING**
		PMR Secretariat, Partnership Assembly meetings, PMR website					
INPUTS (£)	**DECC (£)**		**Govt (£)**	**Other (£)**	**Total (£)**	**DFID SHARE (%)**	
INPUTS (HR)	**DECC (FTEs)**						

OUTPUT 2	Output Indicator 2.1		Baseline	Milestone 1 (end of 2012)	Milestone 2 (end of 2013)	Target (end of 2014)	Assumptions
Increased developing country capacity to implement market mechanisms	Implementation plans for X no. of countries	**Planned**	No implementation plans	5 developing countries have implementation plans	10 developing countries have implementation plans	15 developing countries with implementation plans	
		Achieved					
		Source					
		PMR Secretariat, Partnership Assembly meetings, PMR website					
	Output Indicator 2.2		**Baseline**	**Milestone 1 (end of 2012)**	**Milestone 2 (end of 2013)**	**Target (end of 2015)**	
	Agreement of funding for the implementation stage	**Planned**	No funding	Agreement to fund 5 developing countries implementation plans	Agreement to fund 10 developing countries' implementation plans	Funding of implementation plans in 15 developing countries	
		Achieved					
		Source					
		PMR Secretariat, Partnership Assembly meetings, PMR website					
IMPACT WEIGHTING (%)	**Output Indicator 2.3**		**Baseline**	**Milestone 1 (2013)**	**Milestone 2 (2014)**	**Target (2015)**	
60%	No. of people trained to deliver and implement market based mechanisms that would result in quantified emissions reductions	**Planned**	0				
		Achieved					
		Source					**RISK RATING**
		PMR Secretariat, Partnership Assembly meetings, PMR website					
INPUTS (£)	**DECC (£)**		**Govt (£)**	**Other (£)**	**Total (£)**	**DFID SHARE (%)**	
INPUTS (HR)	**DECC (FTEs)**						

<table>
<tr><td>OUTPUT 3</td><td>Output Indicator 2.1</td><td></td><td>Baseline (May 2011)</td><td>Milestone 1 (2012)</td><td>Milestone 2 (2013)</td><td>Target (2015)</td><td>Assumptions</td></tr>
<tr><td rowspan="9">Promotion of sustainable, low-carbon development</td><td rowspan="4">No. of stakeholder activities that have taken place</td><td>Planned</td><td>0</td><td></td><td></td><td></td><td rowspan="13"></td></tr>
<tr><td>Achieved</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Source</td></tr>
<tr><td colspan="5">PMR Secretariat, Partnership Assembly meetings, PMR website</td></tr>
<tr><td>Output Indicator 2.2</td><td></td><td>Baseline (May 2011)</td><td>Milestone 1 (2013)</td><td>Milestone 2 (2015)</td><td>Target (2020)</td></tr>
<tr><td rowspan="4">No. of businesses involved in PMR countries' carbon market plans</td><td>Planned</td><td>0</td><td></td><td></td><td></td></tr>
<tr><td>Achieved</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Source</td></tr>
<tr><td colspan="5">PMR Secretariat, Partnership Assembly meetings, PMR website</td></tr>
<tr><td>IMPACT WEIGHTING (%)</td><td>Output Indicator 2.3</td><td></td><td>Baseline (May 2011)</td><td>Milestone 1 (2013)</td><td>Milestone 2 (2015)</td><td>Target (2020)</td></tr>
<tr><td rowspan="4">15%</td><td rowspan="4">Growth in private finance investment in carbon markets in PMR countries (% and capital)</td><td>Planned</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Achieved</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Source</td><td>RISK RATING</td></tr>
<tr><td colspan="5">PMR Secretariat, website www.CarbonFinance.org</td><td></td></tr>
<tr><td rowspan="2">INPUTS (£)</td><td>DECC (£)</td><td></td><td>Govt (£)</td><td>Other (£)</td><td>Total (£)</td><td colspan="2">DFID SHARE (%)</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td colspan="2"></td></tr>
<tr><td rowspan="2">INPUTS (HR)</td><td>DECC (FTEs)</td><td></td><td colspan="5" rowspan="2"></td></tr>
<tr><td></td><td></td></tr>
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Annex B: Theory of change