

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:	P.R. China
Reporting Period:	From 16/02/2015 to 01/04/2016
Report Date:	10/04/2016
Implementing Agency:	Department of Climate Change, National Development and Reform Commission, PR of China
Contact Person:	MR. Shu WANG Mr. Wenbo LIU

Grant Executed By:	World Bank
Grant Effectiveness and Closing Dates:	03/23/2015 - 06/30/2018
Grant Amount (USD):	USD 8,000,000
Funding Mobilized (USD):	USD 77,000,000
Funding Committed (USD)	USD 85,700,000

2. OVERVIEW

Objectives

The China Partnership for Market Readiness Project (CPMR Project) has been implemented by the Government of China (GOC) in cooperation with the World Bank (WB). China is an Implementing Country Participant in the Partnership for Market Readiness (PMR). The PMR is a partnership of developed and developing countries that provides funding and technical assistance for building technical and institutional capacity for using market instruments to scale up GHG mitigation efforts. The CPMR project is comprised of the following components: (1) enabling design of key building blocks for a National Emissions Trading Scheme (ETS), and (2) China PMR Synthesis Report, Consultations and Project Management.

Indicators

The Project Development Objective will be achieved with a proposal for a national carbon emissions trading system by the NDRC Department of Climate Change.

The project-level intermediate output indicators are:

- 1) Proposal on methodologies of scope, coverage, caps and allocation. Currently the draft proposal has been completed and the NDRC is organizing local governmental sectors to report and verify GHG data from enterprises, which is necessary for allocation. The experts are also doing field investigation to improve the proposal.
- 2) Proposal on legal framework and governing system of the national ETS. The NDRC has completed the draft laws on ETS and submitted them to the State Council in late 2015 for review, approval and issuance. The State Council is currently conducting stakeholders' consultations and collecting the suggestions and other supportive materials.
- 3) Proposal of the MRV system for the national ETS. The NDRC has issued 24 GHG accounting and reporting guidelines for enterprises and drafted a MRV regulation for verification agencies and a GHG reporting rules for enterprises. The experts are currently conducting field investigations for improvement in those rules.
- 4) Proposal to improve the national registry. The consultant is making progress on improvements in national registry for national ETS and operation of CCER registry.
- 5) Thematic research reports on SOEs and power sector. The consultants have completed most of the research activities and conducted related workshops. Based on the initial findings, key issues related to how SOEs and power sector involved in China's ETS have been identified.

Monitoring and evaluation is given high priority at all project levels and the indicators for monitoring and evaluation will be relevant when measuring the effective and timely implementation of all activities and impact of the project intervention. Monitoring of the implementation of the proposed project will involve: (a) monitoring of performance indicators as included in the results framework in Table 4; (b) semi-annual progress reports; and (c) a midterm and a final term evaluation of implementation.

The PMO, with the supervision of Steering Committee, will be responsible for overall monitoring and systematic evaluation of implementation progress including collection of project performance information and reporting on the impact and results of the project. Day-to-day technical and financial monitoring will be a continuous process of the project executed by the PMO and NDRC DCC.

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>
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Implementation Progress by Component

A. Component 1: Coverage, cap, allocation methodologies and supplementary mechanisms	
Status: Ongoing	<p>The inception report and outline of technical report is completed. Currently, this group of activities is progressing smoothly, and the rate of completion of the project is about 30%. This progress is based on the payments, while the practical aspects of work have a higher completion rate. . The main summary of the activities is are the following:</p> <ol style="list-style-type: none"> 1) Proposed covered sectors by Chinese ETS (8) are: power, petrochemical, chemical, cement, steel, non-ferrous metal, paper-making, aviation. Note: with the GHG emissions above 10,000 ton CO2 per year from 2013-2015. Only covered CO2 emission firstly. 2) Estimated scale: around 7,000 companies, accounting for about 40%-45% in total CO2 emissions. 3) Draft of proposal on allowance allocation: depending on the availability of data, for most of sectors, the benchmark methodology is recommended, but for several other sectors, the grandfathering allocation methodology seems to be a preferred option. In some sectors, two methodologies are likely to be adopted together. 4) The NDRC is working with local governmental sectors to collect the list of covered companies and mobilize these companies to report their GHG emission, which is necessary for allocation. By the end of March, more than 2/3 provinces already reported to NDRC the list of covered companies. 5) Additional field investigation are being conducted in an effort to improve the proposal on allocation, especially in key companies in every sector. 6) NDRC established an experts group under each sector to help consultants finish this proposal from technical aspects.
Comments:	<p>The expected results will be achieved early. According to PIP, the outcome of component 1 would be submitted in 2017. In reality, the national target for initiation of ETS will be in 2017 and the development of ETS is included in the key reforming works led by the Party Central Committee. That implies that the NDRC should complete all related tasks as early as possible. According to schedule of reforming work, the program of allowance allocation has to be finished in this year.</p>
B. Component 2: Legal Framework and supervision system	
Status: Ongoing	<p>The inception report and outline of technical report is completed. Currently, the activities are progressing smoothly. This progress is based on the payments, while the practical aspects of work have a higher completion rate. . The main summary of the activities is are the</p>

	<p>following:</p> <ol style="list-style-type: none"> 1) The majority of research about legislation issues of ETS has been completed, and so was the draft proposal on rules of ETS which is expected to be issued by State Council. 2) The NDRC have submitted the draft proposal of rules on ETS to State Council in late 2015 for review, approval and issuance. 3) The State Council recently put this rules in the waiting list of laws to be issued. 4) The State Council is currently organizing stakeholders' consultations to collect suggestions and supportive materials. The consultant is supporting government to collect feedback and suggestions from different stakeholders and prepare for necessary complementary materials. 5) The rules would be very general so that the basic aspects of ETS can be regulated, including the authority of government, the obligation of GHG emission reduction and allowance surrendering of companies, the requirement for MRV, the basic rules of trading, etc. Based these rules, the NDRC will issue a set of detailed regulations at ministry level.
<p>Comments:</p>	<p>The expected results will be achieved early. According to PIP, the outcome of component 2 would be also submitted in 2017. In reality, the national target for initiation of ETS will be in 2017 and the development of ETS is included in the key reforming works led by the Party Central Committee. That means the NDRC should finish all related tasks as early as possible. The issuance of rules is one of pre-conditions of launching the ETS, so the objective for this activity is to be completed than planned.</p>
<p>C. Component 3: MRV system</p>	
<p>Status: Ongoing</p>	<p>The inception report and outline of technical report is completed. Currently, this group of activities is progressing smoothly, and the rate of completion of the project is about 30%. This progress is based on the payments, while the practical aspects of work have a higher completion rate. . The main summary of the activities is are the following:</p> <ol style="list-style-type: none"> 1) NDRC has issued 24 GHG accounting and reporting guidelines for enterprises, among which 10 guidelines were already upgraded as national standards. The consultant of component 3 is helping NDRC to improve these guidelines and standards to meet very well the requirement of allowance allocation, for example, to add several reporting indicators and tables for the covered 8 sectors. 2) The MRV regulation for verification agencies and a GHG reporting regulation for enterprises has been drafted, in which it is regulated that the qualification of verification companies, the verification procedures, the reporting procedures, etc.

	<ol style="list-style-type: none"> 3) Currently, additional field investigations in specific companies are being conducted in an effort to improve drafted regulations. 4) The consultant is helping NDRC to design an electronic GHG reporting system for local government and companies in order to facilitate reporting and verification procedures.. 5) The consultant is helping NDRC to establish an MRV experts group for every sector and a help-desk on MRV, to answer all related questions from companies and local government. 6) The consultant is compiling training materials on MRV for national capacity building activities.
<p>Comments:</p>	<p>The expected results will be achieved early. According to PIP, the outcome of component 3 would be also submitted in 2017. T In reality, the national target for initiation of ETS will be in 2017 and the development of ETS is included in the key reforming works led by the Party Central Committee. . That means the NDRC should finish all related tasks, including the regulations on MRV which should be issued before launch of the national ETS and the reporting platform, which is expected to be used in this year.</p>
<p>D. Component 4: Improvement of registry</p>	
<p>Status: Ongoing</p>	<p>The inception report and outline of technical report is completed. Currently, this group of activities is progressing smoothly, and the rate of completion of the project is about 30%. This progress is based on the payments, while the practical aspects of work have a higher completion rate. . The main summary of the activities is are the following:</p> <ol style="list-style-type: none"> 1) Activity to track the operations of the registry systems in the 7 pilot areas of ETS and the national registry system in the CCER market. Throughout the process, the project team tracked and assessed the operation of the national registry system and registry systems in the 7 pilot areas by discussing with the administration team of the national registry system and users of registries of ETS pilots in several meetings. 2) In regard to analysis of the gap between designed functions of the national registry system and the requirements of the practical operation of the national ETS, the project team identified innovative requirements of the national registry system. 3) The plan for presenting the software of the national registry system has been completed and the project team has completed two phases of system modification. 4) The project team assisted the administration team of the national registry system in modifying the user manuals of the system. 5) NDRC is considering to establish a specific national registry management agency, so the consultant is assisting NDRC in

	designing and planning this program.
Comments:	The expected results will be achieved early. According to PIP, the outcome of component 4 would be also submitted in 2017. In reality, the national target for initiation of ETS will be in 2017 and the development of ETS is included in the key reforming works led by the Party Central Committee. That implies that the NDRC should finish all related tasks as early as possible. The national registry should be improved this year and the management agency is expected to be established in 2017.
E. Component 5: Research on large state-owned enterprises	
Status: Ongoing	<ol style="list-style-type: none"> 1) The inception report and outline of technical report is completed. Currently, this group of activities is progressing smoothly, and the rate of completion of the project is about 30%. The main summary of the activities is as follows: Research on national carbon emission permit trading that covers eight sectors and 18 sub-sectors of petrochemical, chemical industry, building materials, iron & steel, non-ferrous industry, papermaking, electrical power and aviation is ongoing. The analysis includes the central state-owned enterprises directly under the State-owned Assets Supervision and Administration Commission (SASAC) in terms of industrial and regional distribution, general conditions of energy-saving and carbon reduction, participation in trading of carbon emission permits, etc. 2) A field survey focusing on helping central state-owned enterprises better participating in an integrated carbon emission permit trading market in China was conducted. In particular, research on the typical enterprises and their subsidiaries that have been involved in the first-phase work of national carbon emission permit trading, relevant industrial associations and provincial pilot carbon exchanges was conducted. Also, several large- and medium-scale enterprises that have participated in carbon trading were surveyed in order to further understand and examine challenges of national carbon trading and training demand for capacity building. 3) Capacity building events are being organized to accompany the above described activities. As of now, two large-scale capacity building activities have been completed, namely "China's National Carbon Market: An Industry-to-Industry Dialogue" jointly organized by IETA's BPMR and PMR, as well as "ACC Carbon Trading Video Training".
Comments:	The expected results will be achieved a little bit early. In reality, the national target for initiation of ETS will be in 2017 and the development of ETS is included in the key reforming works led by the Party Central Committee. This implies that the NDRC should finish all related tasks as early as possible. According to schedule of reforming work, the

	program of allowance allocation has to be finished in this year.
F. Component 6: Research on power sectors	
Status: Ongoing	<p>The inception report and outline of technical report is completed. Currently, this group of activities is progressing smoothly, and the rate of completion of the project is about 30%. This progress is based on the payments, while the practical aspects of work have a higher completion rate. The main summary of the activities is are the following:</p> <ol style="list-style-type: none"> 1) Initial study on the status quo and characteristics of the power sector was completed 2) Initial study on the type of electricity enterprises participating in nationwide carbon emission trading was completed. 3) Initial study on the quota allocation methods and standards was completed. 4) Initial study on the influences of China's existing pricing mechanism on the participation of electricity enterprises into carbon trading was completed. 5) Initial study on the mechanism of risk prevention and control and quota allocation adjustment for electricity enterprises participating in carbon emission trading was completed. 6) The consultant is helping other components to do investigation in power sector companies, and helping NDRC to push the engagement of big power companies.
Comments:	The expected results will be achieved a little bit early. . In reality, the national target for initiation of ETS will be in 2017 and the development of ETS is included in the key reforming works led by the Party Central Committee. That implies that the NDRC should complete all related tasks as early as possible, including on the power sector.
G. Component 7: Supportive researches from 32 provinces (including Xinjiang Production and Construction Corps)	
Status: Pending	<p>In Chinese ETS, the local government will play important role in allowance allocation, MRV, compliance, market monitoring, and others. Therefore, the CPMR is meant to provide support to 32 provinces in China to help them prepare for joining the national ETS. In practice, the NDRC found that, given the existing capacity and financial resources, it would be more efficient to concentrate in several key provinces. As a consequence, after the extensive consultations, the NDRC will select no more than 10 key provinces to support for them make out necessary preparation work. The PMO is now preparing the TOR of this component.</p>
Comments:	The expected results will be achieved on time. Capacity and progress of provinces is differs, but the PMO will ensure that all of the various requirements from provinces are taken into account and the resources

are used in the most cost-efficient manner.

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

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

Developments:

- 1) In 2014, the central government considered the development of national ETS as one of economic reform works.
- 2) In the Government Work Report of 2015 presented by Premier Minister, it was stated that China would develop national ETS as one of the measures to address climate change.
- 3) In 2015, the Chinese government issued the Program on Ecological Civilization Reform, in which the development of national ETS is considered as one of import means to realize green and low carbon development.
- 4) In 2015, President Xi and Obama announced together the China-U.S. Joint Statement in Climate Change in 2015, in which it was stated that China would launch national ETS in 2017.
- 5) In 2015, in the document of the Fifth Plenary Session of the 18th CPC Central Committee, it is stated that the carbon quota allocation mechanism would be establishe and to raise the trading market.
- 6) In the Thirteen Five Years Plan approved in this March, the development of national ETS and establishment of allowance management is written in the article of climate change, as one of important measures to be implemented in the next 5 years.
- 7) In April 2016, the State Council agreed to put the rules of national ETS in the waiting list of laws to be issued.

Chinese government is very active in pushing forward the development of national ETS, which is considered to be one of the most cost-effective way to reduce GHG emission, and also, a good approach to realize the economy transformation targets set up in the Central Economic Work Conference. In terms international commitments, the development of ETS is also a significant policy instrument which will contribute to achieving targets in China's INDC. This support from government provides a positive environment for the implementation of CPMR, and positively affect the achievement of the Grant's objectives. The outcome of CPMR will also play an import role in the policy making on climate change within the Chinese government. In meantime, there are still some challenges that remain to be tackled.

Challenges:

Challenge 1: The legislation process and procedures are complicated and time-consuming. The CPMR will facilitate these processes. Challenge 2: The question remains whether the allowance allocation plan is reasonable and acceptable. The CPMR will facilitate this discussion by providing support or research on the topic.

Challenge 3: The data statistics and collecting is not good enough in some sectors. The CPMR is expected to propose some solutions in this regar..

Challenge 4: Threre is the lack of financial support for development of the ETS, including for verification, construction and operation of national registry. The NDRC is proposing to establish g a

specific agency for management of registry and try to apply for finance support from the Chinese government.

Challenge 5: Capacity of local government, companies, verifiers, and others is sometimes weak. The CPMR has a strong capacity development aspect which will help address this matter. A lots of capacity building activities are implementing and will implement in future.

Lessons learned:

Lessons 1: Legislation is one of the most important elements, and given the lengthy procedures, it's better to start on legislative processes as soon as possible.

Lessons 2: Historical GHG data is very important for allowance allocation, so it should be noted that a good MRV system is a key.

Lessons 3: Pilot programs are suitable for large countries to find out problems earlier.

Lessons 4: Enough financial support and human resources would be the key engine to push work.

Lessons 5: Capacity building should be one of the priorities.

Lessons 6: Mobilization of enterprises should be put in the schedule.

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

Developments:

The implementation of components 1-6 is ongoing and on track. Component 7 was meant to provide support to 32 provinces in China to help them prepare for joining the national ETS. In practice, the NDRC found that, given the existing capacity and financial resources, it would be more efficient to concentrate in several key provinces. As a consequence, after the extensive consultations, the NDRC will select no more than 10 key provinces to support for them make out necessary preparation work. The PMO is now preparing the TOR of this component.

Challenges:

The small change above mentioned will not affect the implementation of the CPMR. On the contrary, it will ensure cost-effective use of resources and maximized the project impacts.

Lessons learned:

The project would likely go through necessary adjustments based on the real status on the ground. Correspondingly, the implementation activities and timelines should adapted.

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

Developments:

Institutional:

- 1) Many local DRCs established climate change division to deal with ETS and other climate change tasks.
- 2) The NDRC established MRV experts group to help companies to finish GHG reporting work.
- 3) Through the implementation of the CPMR, a strong experts team was brought together to support for Chinese government.

- 4) Some large state-owned enterprise groups already set up a specific carbon asset management company.

Technical: N/A

Financial management:

- 1) The PMO employed a professional finance manager to help PMO's financial management. And PMO often organizes the training on finance management for all consultants.
- 2) The Ministry of Finance is managing the budget.

Procurement: N/A

Challenges:

- 1) The payment procedure is sometimes lagging behind due to the heavy workloads of MoF.
- 2) The capacity of newly established agencies is sometimes inadequate and needs to be enhanced.

Lessons learned:

Lesson 1: Good communication and coordination among different sectors is necessary.

Lesson 2: Change of the current domestic financial management structure is expected.

Lesson 3: The role of the PMO in project management is key.

Lesson 4: Delivery partner knowledge of the country processes is a factor that facilitates the implementation.

Lessons 5: The lack of human resources is likely to occur.

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

Developments:

- 1) China is cooperating with the EU on capacity building in ETS, with aim to enhance all stakeholders' capacity, including government sectors, companies, verification companies. Now the EU is hoping to expand the cooperation to the stage II.
- 2) China-UNDP-Norwegian cooperation is helping China to design national registry, to develop GHG reporting guidelines, to make capacity building training. Now this project is going to the second stage to support for improving allocation methodologies, developing provincial implementation program, enhancing capacity building, designing information sharing platform on ETS.
- 3) China is cooperating with Australia to develop GHG accounting and reporting guidelines in several sectors, and to assist several provinces to finish GHG reporting work.
- 4) Chinese government is also establishing bilateral dialogue mechanism with EU, Germany, South Korean, Russia, etc. in which the ETS is always one of exchange topics.
- 5) China is participating the carbon trading round table of Asian-Pacific region, and to contribute our experiences and lessons.
- 6) China is implementing south-south capacity training for other developing countries, and the development of ETS is one of training courses.

Challenges:

- 1) The coordination and harmonization of different initiatives is necessary.

2) The lack of human resources to attend all the relevant meetings under each of the initiatives.

Lessons learned:

- 1) Learning experiences related to coordination of different initiatives is useful.
- 2) It is important to identify which initiative is most relevant to which scheme/instrument.
- 3) Understanding both sides is the catalyst for cooperation.
- 4) Concrete progress is always the most convincing for donors.

Stakeholder engagement related to the Grant's activities:

Developments:

- 1) In the procedure of making the ETS rules, the NDRC has organized large scale stakeholder consultation meeting to collect feedback and suggestions from different stakeholders.
- 2) The State Council is consulting all stakeholders' comments on the ETS rules.
- 3) For some important policies, the NDRC would invite related stakeholders to collect their comments and suggestions.
- 4) The NDRC is using the capacity building events to also conduct wider stakeholders' consultation.
- 5) The NDRC is often invite stakeholders from 7 pilot regions to discuss the design of national ETS.

Challenges:

- 1) The level of stakeholder engagement is not sufficient yet.
It is challenging to integrate different opinions of different stakeholders

Lessons learned:

- 1) Stakeholders consultation is useful.
- 2) Identification of stakeholders is important.
- 3) Stakeholders' consultation could be integrated other activities, which will make the procedure smoother.

Other issues related to the Grant's activities

Please describe any developments, challenges and lessons learned regarding any other issue related to the achievement of the Grant's objectives and the implementation of the Grant's activities.

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.