

Document of  
The World Bank

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Report No: 106519-CL

PROJECT PAPER

FOR

SMALL RETF GRANT

US\$3 MILLION

TO THE

REPUBLIC OF CHILE

FOR A

CHILE PARTNERSHIP FOR MARKET READINESS PROJECT

MAY 08, 2014

ENERGY AND EXTRACTIVES GLOBAL PRACTICE

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## FISCAL YEAR

January 1 – December 31

## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of 21st March, 2014)

Currency Unit: US Dollar

USD1.00 = CLP 520.6

CLP 1.00 = USD 0.0019

## WEIGHTS AND MEASURES

Metric System

## ABBREVIATIONS AND ACRONYMS

AGCI	Agencia de Cooperación Internacional de Chile	MAPS	Mitigation Action Plans & Scenarios
BAU	Business As Usual	MoE	Ministry of Energy
CO2	Carbon Dioxide	MRP	Market Readiness Proposal
CDM	Clean Development Mechanism	MRV	Monitoring, Reporting, and Verification
CGE	<i>Consultative Group of Experts</i>	NAMA	Nationally Appropriate Mitigation Action
CONAMA	National Commission for the Environment	OECD	Organization for Economic Co-operation and Development
CPS	Country Partnership Strategy	PA	Partnership Assembly
CQS	Consultants' Qualification	PAD	Project Appraisal Document
DC	Direct Contracting	PC	Project Coordinator
CCGCF	World Bank's Carbon Finance Unit	PDO	Project Development Objective
ETS	Emission Trading System	PIU	Project Implementation Unit
EU	European Union	PMR	Partnership for Market Readiness
GHG	Greenhouse Gases	RETC	Emissions, Transference and Contaminants Registry
GDP	Gross Domestic Product	S	Shopping
IBRD	International Bank for Reconstruction and Development	SC	Steering Committee
IEA	International Energy Agency	SSS	Single-source Selection
IND	Individual Consultant	TA	Technical Assistance
LAC	Latin America and the Caribbean	UNFCCC	United Nations Framework Convention on Climate Change

Regional Vice President:	Jorge Familiar Calderon
Acting Country Director:	Livia Benavides
Global Practice Director:	Anita Marangoly George
Practice Manager:	Malcolm Cosgrove-Davies
Task Team Leader:	Mark Lambrides

**CHILE**  
**Partnership for Market Readiness**

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## DATA SHEET

*Chile*

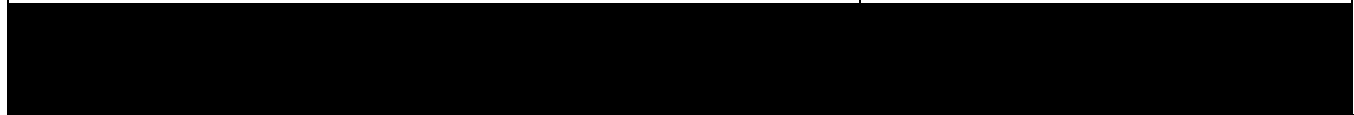
Project for Market Readiness  
**Small RETF Grant Project Paper**

*GEEDR*

Basic Information			
Date:	May 8, 2014	Sectors:	General energy sector (100%)
Country Director:	Livia Benavides	Themes:	Climate change (50%) Environmental Policies and Institutions (50%)
Sector Manager/Director:	Malcolm Cosgrove-Davies/ Anita Marangoly George	EA Category:	C - Not Required
Project ID:	P130378		
Instrument:	Investment Project Financing		
Team Leader(s):	Mark Lambrides		
Recipient: Republic of Chile			
Executing Agency: Ministry of Energy			
Contact:	Mr. Juan Pedro Searle	Title:	Head of Climate Change Unit Sustainable Development Division, Ministry of Energy
Telephone No.:	+56 562 365 6876	Email:	jsearle@minergia.cl
Project Implementation Period:	Start 01-Aug-2014 Date:	End Date:	01-Aug-2017
Expected Effectiveness Date:	01-Aug-2014		
Expected Closing Date:	01-Aug-2017		

<b>Project Financing Data(US\$M)</b>									
<input type="checkbox"/> Loan			<input checked="" type="checkbox"/> Grant			<input type="checkbox"/> Other			
<input type="checkbox"/> Credit			<input type="checkbox"/> Guarantee						
<b>For Loans/Credits/Others</b>									
Total Project Cost :		4.38		Total Bank Financing :		3.00			
Total Cofinancing :		1.38		Financing Gap :		0.00			
<b>Financing Source</b>						<b>Amount(US\$M)</b>			
Borrower/Recipient						1.38			
Partnership for Market Readiness						3.00			
TOTAL						4.38			
<b>Expected Disbursements (in USD Million)</b>									
Fiscal Year	2015	2016	2017						
Annual	0.90	1.60	0.50						
Cumulative	0.90	2.50	3.00						
<b>Project Development Objective(s)</b>									
The objectives of the Project are to provide technical assistance to the Beneficiary in the design and implementation of a Monitoring, Reporting and Verification (MRV) framework and registry, and in the design and preparation of one or more carbon pricing instruments in the energy sector.									
<b>Components</b>									
<b>Component Name</b>						<b>Cost (US\$M)</b>			
1. Regulatory, economic and institutional analyses to assess the viability of one or more carbon pricing instruments for the energy sector						1.81			
2. Design and implementation of an MRV framework and registry						1.56			
3. Stakeholder engagement and communication strategy, and						0.51			

capacity building	
4. PMR Implementation Coordination	0.50
<b>TOTAL</b>	<b>4.38</b>



<b>Compliance</b>
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<b>Policy</b>		
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Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
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Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]
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Have these been approved by Bank management?	Yes [ X ]	No [ ]
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Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
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Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]
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<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
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Environmental Assessment OP/BP 4.01	[ ]	[ X ]
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Natural Habitats OP/BP 4.04	[ ]	[ X ]
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Forests OP/BP 4.36	[ ]	[ X ]
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Pest Management OP 4.09	[ ]	[ X ]
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Physical Cultural Resources OP/BP 4.11	[ ]	[ X ]
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Indigenous Peoples OP/BP 4.10	[ ]	[ X ]
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Involuntary Resettlement OP/BP 4.12	[ ]	[ X ]
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Safety of Dams OP/BP 4.37	[ ]	[ X ]
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Projects on International Waterways OP/BP 7.50	[ ]	[ X ]
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Projects in Disputed Areas OP/BP 7.60	[ ]	[ X ]
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<b>Legal Covenants</b>			
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Name	Recurrent	Due Date	Frequency

**Description of Covenant****Conditions****Name****Type****Description of Condition****Team Composition****Bank Staff**

<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Mark Lambrides	Senior Energy Specialist	Task Team Leader	GEEDR
Adrien de Bassompierre	Senior Carbon Finance Specialist	Carbon Finance Specialist	GCCCF
Luisa F. Pacheco de Vincenzo	Senior Program Assistant	Administration	GEEDR
Andrea Maria Castro Astudillo	Program Assistant	Administration	GEEDR
Bianca Ingrid Sylvester	ET Consultant	Energy Specialist	GCCCF
Cesar Adrian Arreola Croda	ET Consultant	Energy Specialist	GEEDR
Amrita Kundu	ST Consultant	Energy Specialist	GEEDR
Fernando Anaya	ST Consultant	Energy Specialist	GEEDR
Selene del Rocio La Vera	Procurement Specialist	Procurement Specialist	GGODR
Ana Lucia Jimenez Nieto	Financial Management Specialist	Financial Management Specialist	GGODR
Mariana Margarita Montiel	Senior Council	Senior Counsel	LEGLE
Glenn Morgan	Regional Safeguards Coordinator	Safeguards Specialist	OPSOR
Robert Montgomery	Lead Environment Specialist	Environment Specialist	GENDR
José Vicente Zevallos	Senior Social Development Specialist	Social Development Specialist	GURDR

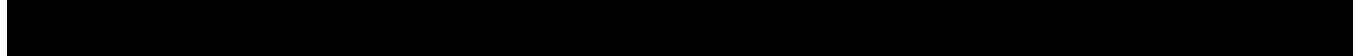
**Non Bank Staff**

Name	Title	Office Phone	City



**Locations**

Country	First Administrative Division	Location	Planned	Actual	Comments





## I. STRATEGIC CONTEXT

### A. Country Context

1. Chile is an upper middle income country with one of the most politically stable systems in Latin America, strong institutions and a solid record of economic growth during the last two and a half decades. Chile's income per capita was US\$14,280 in 2012, the highest among the larger economies of the region. A vibrant private sector, substantial job creation and strong social programs have also led to rising welfare levels and declining poverty rates. Only 14.4 percent (%) of Chileans were under the poverty line in 2011, also one of the lowest rates in the region. In 2010, literacy rate was at 99% and life expectancy at 79 years. As an economy in transition, the Government of Chile has ambitions to achieve a high-income developed status by 2018. It joined the Organization for Economic Co-operation and Development (OECD) in 2010 as a high middle income developing country.
2. Chile's economic growth can be attributed to continuity in sound macro policies, an open trade regime, and a business-friendly environment. Growing exports, a result of sustained trade policy framework of low tariffs and trade barriers, the approval of free trade agreements with partners such as the U.S., European Union (EU), China, and Mexico, and a strong business climate environment has sustained the economic growth. Chile's strong democratic institutions during the past two decades are based on efficient civil service and good governance. This solid institutional platform and above-mentioned fiscal policies has allowed Chile to successfully withstand two large adverse shocks since 2008—the global financial crisis and the devastating earthquake of February 2010.
3. Chile has a presidential political system with a bicameral legislature. The constitutional presidential term is four years and immediate reelection is not allowed. In the elections held in December 2013, Michelle Bachelet<sup>1</sup>, representing the New Majority Coalition, won by the widest margins in eight decades. She succeeded President Piñera who was elected in a second round run-off in January 2010.
4. Chile faces two key challenges going forward: declining growth performance and high inequality. Chile's growth has slowed down from an average of 7.6% during the period of 1986-1997 to 5.5% in the period of 2000-2012 (excluding the negative growth in 2009 during the financial crisis). Productivity growth has been trending downward through much of the last decade and overall investment levels have also declined since the late 1990s. The second challenge relates to the need to tackle inequality. While Chile has made substantial progress in reducing poverty, the average income of the richest 20 percent of Chileans was 12 times that of the poorest 20 percent in 2009.

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<sup>1</sup> Michelle Bachelet held the President's office from 2006-2010 as Chile's first woman President

## **B. Sectoral and Institutional Context**

5. According to the International Energy Agency (IEA), Chile ranked 61st in the world for per capita Carbon Dioxide (CO<sub>2</sub>) emissions in 2008, producing 4.35 tons of CO<sub>2</sub> per person, slightly above the global average of 4.23 tons of CO<sub>2</sub> per person. Nevertheless, the country's emissions are growing significantly, mainly as a result of its rapid economic growth.
6. The electricity demand in Chile is projected to double by 2022 due to strong and stable economic growth and demand from services and mining sectors. On a similar trend, Chile's energy intensity stands at 0.15 tons of oil equivalent per US\$1000 of GDP, above Latin America and the Caribbean (LAC) regional average of 0.14. This can be explained by the fact that the Chilean economic sectors that contribute most to GDP are energy intensive and as a consequence, there is a strong link between economic growth and energy consumption pattern. As of 2009, 67% of the electricity produced was consumed by industrial users while the residential and commercial sectors accounted for 16% and 15% respectively.
7. The energy sector is heavily dependent on imported fossil fuels (oil, natural gas and coal), which has resulted in high and volatile electricity prices and raised concern about energy security. The Government's objectives<sup>2</sup> in the energy sector are as follows:
  - a) Increase and improve the level of energy security to meet the increase in demand associated to the expected economic average annual growth rate of 6% up to 2020.
  - b) Improve current regulations governing access to energy resources, in order to increase investment in renewable energies in Chile.
  - c) Improve information availability and research programs that promote energy efficiency and energy saving projects.
8. In January 2009, the National Commission for the Environment (CONAMA) presented the National Climate Change Action Plan, for 2008-2012, as a reference framework for climate change impact analysis, vulnerability, adaptation and mitigation. As a new member of the OECD, Chile is adopting a series of OECD policy recommendations including the "Declaration on Green Growth" (2009) and its "Green Growth Strategy" (2011). To this end, Chile's government has committed to achieving a 20% reduction in GHG emissions below Business as Usual (BAU) by 2020. This was reflected in statements by President Sebastian Piñera in 2010, as well as in pledges made to the United Nations Framework Convention on Climate Change (UNFCCC). Chile's Council of Ministers also approved an ongoing National Climate Change Action Plan in 2008, signaling a political will to limit the country's increase in GHG emissions in a cost-effective manner. Furthermore, in early April 2014, the new government<sup>3</sup> as part of its broad tax reform, has submitted to congress draft legislation that includes, within the proposed green taxes, a carbon tax on large (greater than 50MW) stationary sources in the energy sector.

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<sup>2</sup> As stated in the MRP prepared by Chile

<sup>3</sup> President Michelle Bachelet, installed in March 2014

9. To meet its climate change mitigation goals, the Chilean Government is keen to explore and study a range of low carbon development instruments, including a carbon footprint web tool, Nationally Appropriate Mitigation Actions (NAMAs), enhancements to the Emissions, Transference and Contaminants Registry (RETC), an Emissions Trading Scheme (ETS) and other carbon pricing mechanisms (such as a carbon tax) with possible application in the energy sector. In 2011, the Government embarked on an extensive exercise to prepare long-term mitigation scenarios, known as ‘Mitigation Action Plans & Scenarios (MAPS) Chile’. The main objective of MAPS Chile is to project GHG emissions on a national level for the BAU Scenario and different Mitigation Scenarios, considering a time horizon between 2007 and 2050.
10. Chile has previously used market-based instruments for the management of natural resources, namely water rights, fisheries, and air quality. For instance, the Water Code of 1981 established a decentralized management system for water allocation in all river basins in the country based on the principle of free trade of water rights. There has been some work assessing the performance of the water markets looking at whether the existing allocations have been reasonably efficient or not. Similarly the Ministry of Health and Ministry of Environment’s RETC collects a range of environmental data.
11. As the world seeks to continue global GHG mitigation efforts post-2012, countries like Chile are exploring new innovative and cost-effective ways to scale up emission reductions and foster financial flows, including through market based instruments. To support, facilitate and build “readiness” for such instruments, the World Bank established the PMR<sup>4</sup> in 2011. To date, it has received donor pledges totaling about US\$125 million to enhance countries’ technical and institutional capacities to develop carbon pricing instruments, including domestic ETS, taxes, and/or scaled-up crediting mechanisms.
12. The PMR is a grant-based, capacity building multi-donor trust fund that provides funding and technical assistance for the collective innovation and piloting of market-based instruments for greenhouse gas emissions reduction. The PMR brings together thirteen (13) Contributing Participants and seventeen (17) Implementing Country Participants, as well as several other observer organizations, experts and countries. The PMR is country-led. It provides systemic support to enhance the Implementing Country participants’ technical and institutional capacities in order to implement market-based and carbon pricing instruments, such as a domestic ETS, a scaled-up crediting mechanism or a carbon tax. Implementing Country Participants follow a Preparation Phase and an Implementation Phase, for a total period of 4-6 years depending on the circumstances of the specific country and proposed activities: (a) during the Preparation Phase, with the benefit of a US\$350,000 preparation grant, each PMR Implementing Country Participant formulates a MRP for consideration and feedback from the Partnership Assembly (PA); (b) the Implementing Country Participant begins the PMR

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<sup>4</sup> More information is available on the PMR website [www.thepmr.org](http://www.thepmr.org)

Implementation Phase once the PA allocates Implementation Phase funding for the activities outlined in the MRP.

13. Chile joined the PMR in May 2011, upon the PA approving its Expression of Interest (EOI) and allocating it \$350,000 to prepare its MRP. The preparation grant was used for a series of background analyses and to sponsor the coordinator to assist the Ministry of Energy in the development of its Market Readiness Proposal. Additionally, the preparation grant facilitated several study tours to visit regulators of ETS systems in other countries. The Ministries of Finance and Environment will assist the MoE in its supervision function as part of a newly created body called the *Petit Comité*. Additionally, a Steering Committee was established in March 2012, comprising the ministries of Foreign Affairs, Finance, Economy, Agriculture, Mining, Transport & Telecommunications, Energy and Environment.
14. Chile presented its final MRP at the 5th PA meeting in March 2013. The PA reviewed and approved the MRP, awarding it US\$3 million in Grant Funding to implement the activities contained within it. The World Bank LAC region provided technical support to the MoE to prepare and complete its MRP and the World Bank's Carbon Finance Unit (CCGCF) provided secretariat services, technical support and carbon markets and mechanisms expertise. This involved helping to identify areas of PMR support, supervising the execution of the PMR Preparation Phase funding and providing technical support through regular communications with the consortium of local and international MRP consultants.
15. The current PMR Project for Chile, including the US\$3.0 million small RETF grant and recipient cost-share of US\$1.38 million, is part of the larger market readiness (PMR Implementation Phase) program, envisaged for a period of four years costing US\$ 11.1 million.

### **C. Higher Level Objectives to which the Project Contributes**

16. Chile understands the need to contribute to international efforts in stabilizing global GHG atmospheric concentrations. To this end, the Government officially communicated to the UNFCCC Secretariat its pledge to achieve a 20% deviation below the BAU emissions growth trajectory by 2020, against a 2007 baseline. To accomplish this objective, Chile has indicated a need for relevant level of international support. The PMR is intended to provide technical and financial support to help the Government to achieve this goal by adopting domestic actions and developing new market based instruments to achieve GHG mitigation in a cost-effective manner.
17. In accordance with its commitments under the Copenhagen Accord, Chile considers it necessary to take firm and concrete steps toward achieving a lower carbon economy. As a part of the OECD, Chile has also built new policies on "Declaration on Green Growth"

(2009) and “Green Growth Strategy” (2011). The proposed project will contribute positively to economic and environmental outcomes of the country and will be instrumental in ensuring the success of the above-mentioned policies. By doing so, it will indirectly address the World Bank’s twin goals of eliminating extreme poverty and boosting shared prosperity.

18. As thriving as the Clean Development Mechanism (CDM) has been in Chile, the Government recognizes the need for newer and more aggressive market-driven mechanisms that will have a stronger effect in the decision making of investors. This is particularly relevant to Chile because of its rapid growth rate. And for that, the country has been proactive in studying and evaluating the best market based forms to reduce GHG emissions. The PMR is intended to further strengthen these efforts and assist Chile with selecting its preferred carbon market instruments, milestones and sectorial areas of focus and facilitate the design of domestic carbon market infrastructure.
19. Chile is exploring other carbon pricing instruments. To this end, the carbon tax sent for discussion in Congress in April 2014 would become the first regulation coming to materialize the country’s long standing support to carbon pricing instruments. Although the green tax component would only enter into force in 2017, the Chilean Government expects that a great deal of analytical and preparatory work will be needed to support its implementation. Understanding the interaction (and impacts) of this carbon pricing instrument with existing policies and other carbon pricing instruments (such as an ETS) and its alignment with economic growth and with mid- to long-term mitigation and development goals —especially in the energy sector— would be crucial to support government as well as other stakeholders’ needs during this process. This PMR project therefore comes at a time of substantial political momentum. Using a phased approach, the project will support research and analysis as the government contemplates multiple approaches to carbon mitigation.
20. The PMR project supports the current FY11 to FY16 Country Partnership Strategy (CPS) between the World Bank and Chile. It will directly contribute to meeting the objective of facilitating investments in the productive sectors and improving regulations in the use of natural resources, as mentioned within the strategic objective of ‘Promoting Sustainable Development’ in the CPS.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

21. The objectives of the Project are to provide technical assistance to the Beneficiary in the design and implementation of a Monitoring, Reporting and Verification (MRV) framework and registry, and the design and preparation of one or more carbon pricing instruments in the energy sector.

## **B. Project Beneficiaries**

22. The main project beneficiary is the Ministry of Energy (MoE), as the lead Ministry for implementation of the PMR in Chile. The project will also benefit other relevant Ministries and Government institutions as well as policy makers, including the Council of Ministers for Sustainability, Ministry of the Environment, and Ministry of Finance. Other direct beneficiaries include stakeholders involved in the analysis and subsequent analysis and preparation of the carbon pricing instruments and implementation of an MRV framework and registry: operators of the potentially affected installations, industrial associations, GHG emission verifiers, carbon market consultants and accreditation bodies.
23. For the energy sector in particular, the project will ensure that the proposed analytical work helps inform planning, investment options, and other energy-related policies and regulatory frameworks.
24. Stakeholders are also expected to gain increased awareness on climate change and carbon markets. For example, the PMR will support the private sector in Chile which is already taking interest in climate change issues and voluntarily measuring their carbon footprint. Through workshops and training programs, the project is intended to educate industry of the risks and opportunities under carbon pricing instruments.
25. A part of the PMR project is also to design and establish an MRV framework and to identify the best institutional framework to further the analysis and preparation for the implementation of one or more carbon pricing instrument. Therefore, as the project takes shape, the list of beneficiaries will evolve.

## **C. PDO Level Results Indicators**

26. The following results will be expected by the end of the PMR project<sup>5</sup>:
  - a) One or more carbon pricing instruments and associated infrastructure recommended to the Government and concrete activities to develop specific elements proposed.
  - b) MRV framework and registry established within the energy sector.
  - c) Knowledge, awareness, and capacity developed in the public and private sector in relation to the design and implementation of carbon pricing instruments.

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

27. Chile's PMR project will inform policy makers and stakeholders on the different potential

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<sup>5</sup> Further breakdown of the deliverables mapping to each project component is listed in the MRP document

scenarios involving carbon pricing instruments, their designs and options, associated implications and potential impacts.

28. The four main components of this project are:

Component 1: Regulatory, Economic and Institutional Analyses to assess the viability of –one or more carbon pricing instruments for the energy sector -

- i. Regulatory Analysis for one or more carbon pricing instruments in Chile. This entails review of the current regulatory framework needed for one or more carbon pricing instruments and MRV system, in order to determine what the current laws and regulations allow for and what changes would be necessary to build new capacities.
- ii. Economic Analysis for one or more carbon pricing instruments in Chile. This involves developing both, macro and micro economic analyses of the national situation in order to determine the potential impacts and benefits of one or more carbon pricing instruments in Chile. This research will include modeling that replicates the functioning of the market through a quantitative instrument allowing a visual representation of the aggregate impacts of this market mechanism.
- iii. Institutional Analysis for one or more carbon pricing instruments in Chile. This includes design of an institutional framework that is capable of supporting the implementation of MRV and Registry with their respective compliance systems; that can be utilized at a sectorial level with the capacity to scale up to a national level, at a later date. It also involves exploring the roles, capabilities and needs that existing financial institutions have, regarding oversight of one or more carbon pricing instruments for the energy sector.

Component 2: Design and implementation of MRV framework and Registry system. Given the legal attributes associated with data collection for the RETC as well as its ability to serve as a single platform for emissions reporting, the Chilean Government envisions the PMR to improve and strengthen the reporting and calculation in the specific area of greenhouse gases.

- i. Design and implementation of an MRV framework. This includes review of the MRV platforms that are used in other countries and the lessons learned in this implementation. It will define the scope and breadth of the MRV framework for the energy sector and lay out the legal and technical design and implementation of a web-based platform that takes into account existing capacities and challenges. Steps to train regulated and regulating entities in MRV and to develop accredited verification entities will also be undertaken. To establish this component, the MoE can seek support from the Chilean Voluntary GHG Reporting Program, which was recently launched and is being developed by the Ministry of Environment.
- ii. Development of a Registry. The main objective of this section is to design and implement an appropriate registry system that can be utilized at a sectorial level (starting with the energy sector), keeping track of all GHG emissions and additionally have all the necessary elements for a potential implementation of national-level

emission transaction system. The Government has already begun to build upon these existing RETC systems with the goal of developing a bottom-up GHG emissions registry. The registry will be designed in a two-phase approach:

Phase 1: Enhanced implementation of a bottom-up GHG emissions registry

Phase 2: Design of the emission transaction phase of the registry

Component 3: Communication strategy and stakeholder engagement. This would primarily include development of the most appropriate stakeholder engagement strategy. Their activities will include -

- i. Development and execution of a stakeholder engagement and communication strategy. This involves identifying key stakeholders and developing an outreach strategy for the duration of the PMR activities.
- ii. Participation in trainings and workshops and country-visits by representatives from the public and/or private sector to understand experiences and lessons learned on design and operation of one or more carbon pricing instruments in other countries.
- iii. Technical capacity building services for the public and private sector for the design and implementation of the MRV framework and registry and carbon pricing instruments.
- iv. Other PMR-supported technical assistance and capacity building programs as well as activities from other funding sources will complement this project.

Component 4: Administration of the PMR project. Financing for this component will include hiring of a Project Coordinator at the Ministry of Energy and additional staff support for the activities associated with the technical and policy-making teams, which involves:

- i. The technical execution of Chile's PMR activities through the Ministry of Energy, including coordination and technical and policy advice (energy, emissions and carbon markets).
- ii. Administrative support at AGCI to support disbursement of Chile's MRP Implementation Funding Grant.

## **B. Project Financing**

### Investment Project Financing

29. Chile's MRP was approved by the PA and an implementation grant of US\$3 million was granted to Chile in March 2013. The Government of Chile will also contribute US\$1.38 in co-financing. The Project funds will be channeled through a recipient executed trust fund under the PMR global multi-donor trust fund. Before the PMR Implementation Phase begins, a Grant Agreement between International Bank for Reconstruction and Development (IBRD) and the Government of Chile will be negotiated and executed.



### C. Project Cost

30. The total cost of the project is US\$ 4.38 million. This comprises the US\$3 million PMR Grant and US\$ 1.38 in co-financing. Project costs are tabulated below:

<b>Component</b>	<b>Total estimated cost (US\$M)</b>	<b>PMR Funding (US\$M)</b>
Regulatory, economic and Institutional Analyses needed to study carbon pricing instruments for the energy sector in Chile	1.81	1.20
Design and implementation of MRV and registry system	1.56	1.10
Communication strategy and stakeholder engagement	.51	.40
MRP Implementation Coordination	.50	.30
<b>TOTAL</b>	<b>\$4.38</b>	<b>\$3.0</b>

### D. Program Objective and Phases (*Optional*)

### E. Lessons Learned and Reflected in the Project Design

31. The activities contained within the final MRP have evolved through thorough research and stakeholder consultations. Lessons learnt from ETS design and implementation in other jurisdictions such as the EU, Australia and New Zealand and ongoing initiatives in LAC countries have also been incorporated into the MRP.

32. The PMR preparation phase in Chile included a study on “MRV, compliance and registry”, which provided a general overview on the different aspects of MRV and a stock-taking of key features of MRV, compliance and registry systems for (i) emissions trading systems and (ii) crediting mechanisms as well as lessons learned from existing systems and defined MRV requirements for these two types of market mechanisms based on the international best practice adopted by several systems around the world. For example, the implementation of MRV frameworks in the EU-ETS showed that the early inclusion of key stakeholders such as Ministries, industry associations, service providers, universities, NGOs, etc. are key for a successful implementation of MRV systems. The implementation phase of the PMR in Chile will therefore seek to engage key stakeholders and explore how the MRV system can be phased in.

33. Chile has previously used market based instruments for the management of natural resources, namely water rights, fisheries, and air quality. For instance, the Water Code of 1981 established a decentralized management system for water allocation in all river basins in the country based on the principle of free trade of water rights. There has been some work

assessing the performance of the water markets looking at whether the existing allocations have been reasonably efficient or not. These experiences will be further incorporated in the study of carbon pricing mechanisms under the PMR project. Similarly the Ministry of Health and Ministry of Environment’s RETC collect a range of environmental data, which will direct the design of the MRV system.

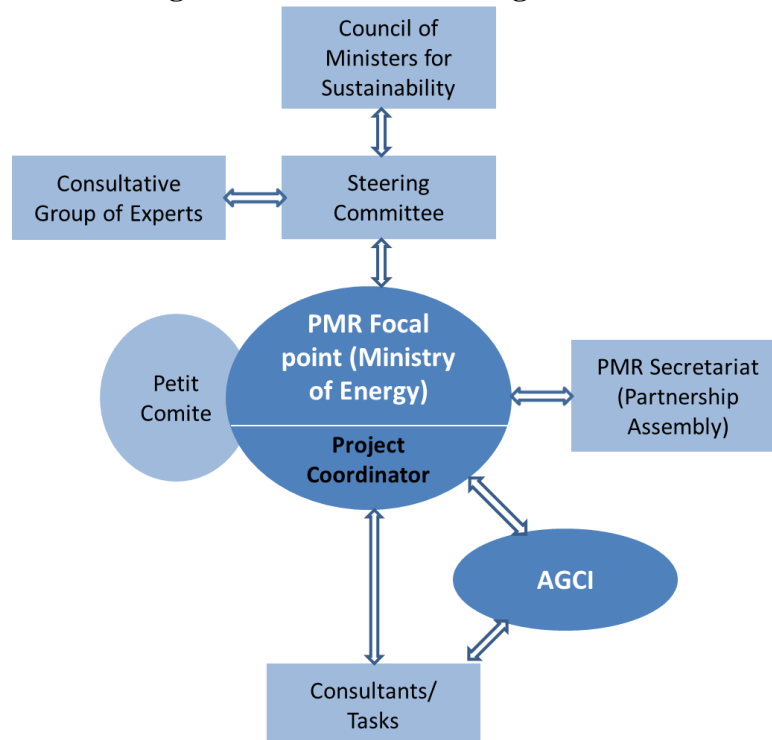
- 34. The PMR project is distinct from many World Bank projects as it focuses not at the project level but provides strong technical input to support a broader national policy on establishing market readiness. Through extensive research and stakeholder consultation, it aims to build a strong carbon policy while reducing future uncertainties and market failures.

#### IV. IMPLEMENTATION

##### A. Institutional and Implementation Arrangements

- 35. The MoE is the lead implementing agency for the technical execution of the PMR activities and day-to-day supervision of the project. Given its mandate and organizational structure, the MoE is well positioned to implement the technical activities contained in the project and engage various stakeholders in consultations and implementation. AGCI is the lead implementing agency to manage the procurement and financial management arrangements of the PMR Activities. A Subsidiary Agreement shall be signed between AGCI and the MoE outlining their respective obligations and arrangements for the project.

**Figure: Institutional Arrangements**



36. Detailed institutional arrangements envisioned for Chile's PMR Implementation Phase, as seen from the diagram are:
- a. *Focal Point*: In this role, the Division of Sustainable Development (DSD) of the MoE is the focal point for the PMR. It will be responsible for the overall day-to-day supervision of the implementation of the PMR tasks. The Focal Point will also coordinate with other participants such as AGCI, Petit Comité, the Steering Committee (SC), the project coordinator, the project consultants, the PMR Secretariat and the World Bank's Energy and Extractives Global Practice.
  - b. *AGCI*: AGCI is a decentralized public institution that channels resources for international cooperation to support Chile's development and carry out cooperation activities with other developing countries. Being familiar with the protocols and procedures of the World Bank, AGCI will undertake the financial and procurement arrangements of the project and overall coordinate the project implementation with MoE. It will prepare and submit timely disbursement requests to the World Bank, prepare financial reports and contract external financial audits.
  - c. *Petit Comité* is a newly created body to assist the MoE in its overall day-to-day supervision function. It comprises of the Ministries of Finance and Environment.
  - d. *Steering Committee*. The SC was established in March 2012 and is headed by the MoE with the participation of the ministries of Agriculture; Economy; Environment; Finance; Foreign Affairs; Mining; and Transportation and Telecommunications. The SC constitutes the primary engagement, collaboration and consultation body in which key Ministries will continue to provide the necessary policy and technical guidance during the implementation of Chile's PMR and reviewing draft and final reports of the implementation phase studies. If any relevant decision arises during the PMR implementation phase that needs to be addressed at a higher political level, the SC will submit this decision to the Council of Ministers for Sustainability in its role of liaison to the Council.
  - e. *Council of Ministers for Sustainability*, created in 2010 is a multi-sectoral body headed by the Ministry of the Environment and includes the ministries of Agriculture; Finance; Health; Economics; Energy; Public Works; Housing and Urbanism; Transportation and Telecommunications; Mining; and Planning. The Council is in charge of proposing to the President of the Republic policies for the sustainable management and use of natural resources. This body will therefore provide high-level policy guidance to the steps planned under the PMR activities, especially during development of the roadmap towards a political decision on the implementation of one or more carbon pricing mechanisms and its overall role in Chile's climate policy.
  - f. *Consultative Group of Experts (CGE)* will be established with the goal of bringing other stakeholders to discuss low carbon development market-based instruments and their suitability and applicability to the Chilean situation. CGE will comprise representatives of industrial associations, research organizations and non-governmental organizations or NGOs. The creation and overall coordination of this group will be done through the

Steering Committee.

- g. *Project Coordinator (PC)*: In addition to the supervision role of the PMR Focal Point, a PC will be hired to help with the activities during the PMR implementation phase. The PC will report directly to the PMR Focal Point and its first task will be the development of a work plan for the implementation of the PMR. A thorough and competitive selection process will be established for the choosing of the PC.
- h. *Project consultants*: The more specific and technical activities will need to be assigned by a public bidding system. The procurement procedures for these assignments will have to comply with the requirements that rule the entity that will administer the PMR Project's funding. Project consultants will report directly to the PC. A selection process will be established for the appointment of these consultants.
- i. *PMR Secretariat and World Bank Energy Global Practice*: Continuing with its role during the preparation phase, the PMR Secretariat and World Bank Energy Global Practice will provide technical advice for all the stages of Chile's PMR project. This assistance will include coordination with the PA, in-country visits, and participation in workshops or training activities and in any other activity related to the PMR in Chile.

## **B. Results Monitoring and Evaluation**

- 37. The MoE Focal Point is responsible for overall day-to-day supervision of the implementation of the PMR tasks. The SC will also monitor the results of the PMR Implementation Phase and advise the project accordingly.
- 38. The World Bank team will provide implementation support for the execution of the PMR grants and implementation of the PMR activities. Project monitoring and evaluation will include the following:
  - a) *Project Results Framework*: PDO and Intermediate Results Indicators as contained in Annex 1.
  - b) *Status Reports*: Implementing Country Participants will provide status reports on the implementation of the PMR activities as part of the terms of the Implementation Grant Agreement. The form, content, and periodicity of this reporting will be determined in the Agreement. The goal of status reporting is to ensure timely support and feedback from the Bank on the activities outlined in the Grant Agreement.
  - c) *Completion Report*: Implementing Country Participants are required to prepare a completion report to ensure objectives outlined in the MRP and the Grant Agreement is met and there is a plan for their sustainable continuation.
  - d) *Financial Statements*: PMR Implementing Country Participants are required to prepare financial statements that reflect the operations, resources, and expenditures related to the activities detailed in the Grant Agreement. Periodic, independent auditing of financial statements will be included in the Grant Agreement.
  - e) *PMR Country Updates*: Implementing Countries may update the PA shortly before or after the PA meetings on the progress of their implementation phase activities. PMR PA

meetings occur a minimum of three times per year. The purpose of these updates is to inform and seek feedback from the PA.

### C. Sustainability

39. The sustainability of the project is anchored in Chile’s overall development agenda, its National Climate Change Action Plan, and political will to reduce carbon emissions in a cost effective manner. Given these solid anchors, it is likely that the activities contained within the PMR activities will yield results that extend beyond the lifetime of the PMR. The MRV system is expected to continue to run indefinitely after the PMR project is completed and will be a key component of any climate change mitigation policy Chile will adopt and implement in the future. Similarly, the results will be reflected in the design and potential implementation of an ETS or other related carbon pricing instrument such as a carbon tax.
40. A developed and robust financial sector, large number of abatement opportunities, and growing interest by the private sector on climate change issues – as indicated by the large number of national companies that are measuring their carbon footprint – can ensure sustainability of a market-based and carbon pricing instruments such as the ETS or carbon tax, which will be designed based on the PMR project.
41. As the project is being financed by multiple sources, including grant and co-financing, financial sustainability of the project is intact. Close involvement of the PMR Secretariat in the project will also ensure its timely progress. Furthermore, the communication, consulting and high level political engagement strategy envisioned by the Government of Chile will be instrumental in ensuring sustainability of the project.

## V. KEY RISKS AND MITIGATION MEASURES

### A. Risk Ratings Summary Table

<b>Project Stakeholder Risks</b>	<b>Rating</b>
- Stakeholder Risk	<b>M</b>
<b>Operating Environment Risks</b>	
- Country	<b>L</b>
- Sector and Multi-Sector	<b>M</b>
<b>Implementing Agency Risk</b>	
- Capacity	<b>M</b>
- Governance	<b>M</b>
<b>Project Risk</b>	
- Design	<b>L</b>
- Social and Environmental	<b>L</b>
- Program and Donor	<b>M</b>

- Delivery Monitoring and Sustainability	<b>M</b>
<b><i>Overall Implementation Risk</i></b>	<b><i>M</i></b>

**B. Overall Risk Rating Explanation**

42. The overall risk rating is moderate. The MRP was approved by the PA at its meeting in March, 2013. The core of the proposed activities involves the design and implementation of an MRV system and design of one or more carbon pricing mechanisms in the energy sector, which are designed to assist Chile in achieving its Chile’s climate change strategy and commitments. The MoE and SC will be supported by various Ministries and have a clear mandate and a structure well suited to carry out the proposed activities. The project is likely to be complemented by activities funded by other donors. Having said that, as a new Ministry established in 2010, the implementation capacity of the MoE may be low. Ineffective coordination between AGCI and MoE can hinder timely disbursement of the grant. Furthermore, the proposed analytical activities aimed at informing policy decisions on the use of carbon pricing instruments may raise some concerns and objections among stakeholders.

**VI. APPRAISAL SUMMARY**

**A. Economic and Financial Analysis**

43. The Project provides funds to Chile to help with designing carbon pricing mechanisms in its energy sector and assist in the implementation of a GHG MRV system with a suitable registry system, consistent with the requirements of international carbon markets. Indirect benefits, although difficult to quantify, are likely to materialize. Besides the benefits of helping Chile in its efforts to achieve sustainable development through green growth, the Project is expected to have positive impact on economic activity and employment through the outreach, training, consultant reports etc. While a cost to the obligated companies, the implementation of the MRV system overall will have a positive impact through creation of business opportunities, notably in the areas of emissions monitoring and verification services. The MRV system will also provide valuable data that the Government can utilize to better target policies and measure and analyze their economic impact. Similarly, the various analytical, modeling, and simulation activities planned will help the Government – as a project component - to conduct economic (and other) cost-benefit analyses on various carbon market policy alternatives, such as an ETS or a carbon tax. The value added of the World Bank’s involvement is expected to involve the expertise in facilitating public-private dialogue as well as the technical expertise provided by the PMR Secretariat.

## **B. Technical**

44. The MoE is well positioned to lead the technical implementation of the PMR activities, including implementation of the MRV and Registry, stakeholder consultations, modeling and the development of a data tracking/registry system. As the lead ministry on energy related issues in Chile, its overall objective is to develop and coordinate plans, policies and standards for the proper functioning and development of the sector, while ensuring compliance and coordination with the Government on all matters related to energy. Given its mandate and organizational structure, therefore, it is well positioned to support the technical execution of the PMR activities. The Petit Comité and SC will support the MoE by providing technical information and political guidance. Technical support from the PMR Secretariat and the World Bank LAC Energy team will further strengthen the project.

## **C. Financial Management**

45. A Financial Management Assessment (FMA) has been performed to evaluate adequacy of AGCI's financial management arrangements to support implementation of the Chile Partnership for Market Readiness Project.

46. Overall project design and planned activities are straightforward. Project implementation will be under MoE -as project executing unit-, and AGCI -as project financial administrator-. Within these arrangements, financial management tasks will be under AGCI's responsibility. For project purposes, a financial management specialist will be required to be contracted/ assigned by AGCI under their Management and Finance Unit. As in other projects prepared with AGCI, grant proceeds and transactions will not be included in their institutional budget; however, project transactions will be processed and accounted for in SIGFE following the "Administración de Fondos" mechanism. Based on the information available, the FM risk is considered moderate.

47. On the basis of the review performed FM team concludes that proposed financial management arrangements are acceptable to the Bank, subject to submission of final version of the format of the financial statements to be used under the project -before the grant agreement is signed-; adopt project operational manual reflecting financial management arrangements -before project effectiveness- and financial management specialist is appointed and ready for project implementation not later than two months after effectiveness. Detailed information is described under Annex 3.

## **D. Procurement**

48. AGCI is the lead implementing agency to manage the procurement and financial disbursement of the PMR Activities. With respect to procurement, the team conducted an

assessment of AGCI. The overall procurement risk has been rated as Moderate (see Annex 3).

49. The Borrower has prepared an acceptable Procurement Plan (PP) which will be made available through a Procurement Plans Execution System (SEPA). Procurement for the proposed Project would be carried out in accordance with the Bank's "Guidelines Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers", dated January 2011; the Bank's "Guidelines Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers", dated January 2011; and the provisions stipulated in the Grant Agreement, which includes the possible use of the national procurement system, "ChileCompra", under specific conditions and thresholds.

#### **E. Social (including Safeguards)**

50. The proposed project does not raise social (including safeguards) issues. The project does not include any gender specific actions and is not expected to have impacts differentiated by gender. Therefore no gender sensitive analysis or monitoring and evaluation will be conducted.

#### **F. Environmental (including Safeguards)**

51. The environmental category of the project is C. Environmental assessment is not required for this project as the project does not finance any physical activity on the ground, but rather consists solely of technical assistance activities, such as piloting, training, background analyses and reports, etc.



## Annex 1: Results Framework and Monitoring

### Chile: Project for Market Readiness

#### Results Framework

#### Project Development Objectives

##### PDO Statement

The objectives of the Project are to provide technical assistance to the Beneficiary in the design and implementation of a Monitoring, Reporting and Verification (MRV) framework and registry, and the design and preparation of one or more carbon pricing instruments in the energy sector.

PDO Level Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR 1	YR 2	YR3			
One or more carbon pricing instruments and associated infrastructure recommended to the Government and concrete activities to develop specific elements proposed.	<input type="checkbox"/>	Yes/No	No	No	No	No	Once	MoE	MoE
MRV framework and registry established within the energy sector.	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Once	MoE	MoE
Knowledge, awareness, and capacity developed in the public and private sector in relation to the design and implementation of carbon pricing instruments.	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Once	MoE	MoE

<b>INTERMEDIATE RESULTS</b>									
<b>Intermediate Result (Component One):</b>									
<b>Results Indicators</b>	<b>Core</b>	<b>Unit of Measure</b>	<b>Baseline</b>	<b>Cumulative Target Values</b>			<b>Frequency</b>	<b>Data Source</b>	<b>Responsibility for Data Collection</b>
				<b>YR1</b>	<b>YR2</b>	<b>YR3</b>			
Regulatory Analysis for carbon pricing mechanisms in Chile	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Once	MoE	MoE
Economic Analysis for carbon pricing mechanisms in Chile	<input type="checkbox"/>	Yes/No	No	No	No	No	Once	MoE	MoE
Institutional Analysis for carbon pricing mechanisms in Chile		Yes/No	No	No	No	Yes	Once	MoE	MoE
<b>Intermediate Result (Component Two):</b>									
Design and Implementation of MRV system	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Once	MoE	MoE
Design and implementation of a bottom up Registry	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Once	MoE	MoE
<b>Intermediate Result (Component Three):</b>									
Development and execution of a stakeholder and communication strategy	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Once	MoE	MoE
Participation of public and private stakeholders in trainings and country visits	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Once	MoE	MoE

Technical capacity building services for public and private sector	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Once	MoE	MoE
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## **Annex 2: Detailed Project Description**

### **Chile: Project for Market Readiness**

#### *Project Development Objective*

52. In accordance with the PDO, the project provides funds to Chile to help with assessment of the viability of an ETS and other carbon pricing frameworks (including a carbon tax) in the energy sector and assist in the implementation of a GHG MRV system with a suitable registry system, consistent with the requirements of international carbon markets.
53. Chile has the essential fundamentals to establish a market based instrument in the country, namely an appropriate and solid institutional and economic foundation, a dynamic private sector and a working legal framework, which was validated in the MRP Preparation Phase. However, in order to implement a major reform like implementing one or more carbon pricing instruments, Chile will need additional assistance for further research, capacity building, engagement of the decision makers, and development of new instruments that will facilitate its implementation.
54. To achieve the desired outcomes of market readiness, this PMR project will finance consultants with the overall ambition to assist the MoE in:
- a. Building understanding and technical and institutional capacities across all stakeholders for design and implementation of Market-Based Mechanisms and their MRV systems. This includes the simulation and evaluation of the impacts of the implementation of one or more carbon pricing instruments in Chile by the use of economic modeling tools and other evaluation instruments.
  - b. Preparing the necessary regulation to implement one or more carbon pricing instruments in Chile, including a general law allowing for the trading of local and global emissions, as well as for the implementation of an MRV framework and Registry.
  - c. Drafting a regulatory decree that regulates the reduction of greenhouse gases, in a phased implementation approach that builds up from a sectoral level to eventually the entire economy.
  - d. Designing and implementing MRV framework and a Registry system that allows for the recording and tracking of emissions and emission permit transactions in the energy sector.
  - e. Studying complementary instruments (i.e., energy efficiency and renewable energy certificates, innovative finance, offsetting system) to fit with the carbon pricing instruments to enhance their effectiveness.
55. Carbon Pricing Instrument: Chile has a great potential to develop one or more carbon pricing instruments such as ETS and carbon tax for the energy sector, however, further research needs to be done in order to establish the right attributions to the different institutions to have

a more complete picture of what establishing such an instrument, as well as complementary mechanisms, implies for the whole economy. Specifically, Chile's primary focus for further policy making oriented activities and research should be focused on:

- a. The design of carbon pricing instruments, including the appropriate type, scope and scale.
- b. Quantifying the emissions reduction that will be achieved by the system.
- c. Determining the potential impact on the economy, paying special attention to impact on economic growth and the structural elements of the economy.
- d. Developing necessary institutional tools and financial instruments that will facilitate the implementation of the carbon pricing instruments.
- e. Establishing a measurement, report and verification system (MRV) with a suitable registry system that is consistent with the requirements of international carbon markets.
- f. Complementary mechanisms, boosting programs for energy efficiency and renewable energy markets, scaled-up crediting instruments (such as a NAMA crediting mechanism), etc.
- g. Create capacity building to carry on further research, deliver and operate the resulting carbon pricing instruments.
- h. Developing a platform to carry on a permanent discussion on all technical issues.

56. MRV/Registry: Quantifying GHG emissions using robust systems for their MRV are an indispensable pre-requisite to the monetization of GHG reductions and the creation of carbon markets. The PMR activities will aim to design and implement an appropriate registry system that can be utilized at a sectorial level, keeping track of all GHG emissions and additionally having all the necessary elements for a potential implementation of national-level emission transaction system in the country. This would require:

- a. Stocktaking and analysis of legal and institutional capacity needed to establish a policy setting authority or regulatory body.
- b. The capacity to fully develop and administer an MRV framework and registry systems for an ETS needs to be created. Existing capacities and resources that exist today in the Ministries of Health and Environment can provide direction.
- c. Training in MRV approaches in all relevant sectors; stakeholder consultation; capacity building with industry associations related to the opportunities and threats for ETS.
- d. Evaluation of availability of data and information systems for emissions and activity data.

57. The overall budget estimated for the market-readiness (PMR Implementation Phase), envisaged for a period of four years, is US\$ 11.1 million. In order to start get started on the same, Chile requested partial funding for the list of activities considered for the first two years. The PMR activities and budget for the first two years are expanded below:

PMR activities in first two years	Budget (US\$M )		
	Year 1	Year 2	Total
<b>1. Regulatory, Economic and Institutional Analyses</b>			
A. Regulatory Analysis for one or more carbon pricing instruments in Chile			
i. Comparative analysis of existing regulations	.05		.05
ii. Identification and mapping of regulatory capabilities for MRV & Registry	.10		.10
iii. Draft needed protocols & standards for reporting and trading of emissions	.14	.10	.24
G. Economic Analysis for one or more carbon pricing instruments in Chile			
i. In depth survey of emitting industries	.15		.15
ii. Analysis of existing data	.06		.06
iii. Micro/macroeconomic modeling	.21	.28	.49
iv. Analysis of co-benefits	.02	.10	.12
H. Institutional Analysis for one or more carbon pricing instruments in Chile			
i. Assessment of existing and required institutional capacities for a carbon pricing instrument	.10		.10
ii. Proposed design of institutional arrangements for a carbon pricing instrument	.20		.20
iii. Assessment of existing and required capacities of financial institutions	.10		.10
iv. Report with estimated full budget for implementation and operation of one or more carbon pricing instruments		.20	.20
<b>Total</b>	<b>1.13</b>	<b>.68</b>	<b>1.81</b>
<b>2. Design and implementation of MRV framework and a Registry</b>			
A. Design and implementation of an MRV framework			
i. Definition of the scope and breadth of the MRV framework	.03	.03	.06
ii. Definition of types of emission sources	.025	.025	.05
iii. Determining general MRV requirements & develop methodologies & technics	.20	.20	.40
iv. Design and Implementation of a tiered approach to reporting	.05	.05	.10
B. Enhanced implementation of a bottom-up emissions phase of the registry			
i. Initiatives to increase completeness of information reported under RETC	.15		.15
ii. Initiatives to improve accuracy of information reported to RETC	.10	.10	.20
iii. Improvement of a compliance system associated to GHG emission in RETC	.05	.05	.10
C. Design of the emission transaction phase of the registry			
i. Develop key functions and components for a transaction registry	.05	.05	.10
ii. Basic design for transaction phase including logic & minimum	.05	.15	.20

requirements			
iii. Software/hardware for an emissions transaction registry	.05	.15	.20
<b>Total</b>	<b>.755</b>	<b>.805</b>	<b>1.56</b>
<b>1. Communication, Consultation and Engagement</b>			
Capacity building for public and private sectors and political engagement			
i. Design and execution of stakeholder engagement and communication strategy	.15		.15
ii. High level visits to understand lessons learnt internationally on one or more carbon pricing instruments	.05	.10	.15
iii. Technical capacity building services for the public and private sector	.075	.135	.21
<b>Total</b>	<b>.275</b>	<b>.235</b>	<b>.51</b>
<b>2. Administration of the PMR Project</b>			
i. Project Coordination	.10	.10	.20
ii. Technical teams	.10	.10	.20
iii. Policy-making team	.05	.05	.10
<b>Total</b>	<b>.25</b>	<b>.25</b>	<b>.50</b>
<b>Grand Total</b>	<b>2.41</b>	<b>1.97</b>	<b>4.38</b>

### *The Partnership for Market Readiness*

58. The PMR is a grant-based, multi-donor trust fund. It has received donor pledges totaling about US\$125 million as of April 2013. Contributing Country Participants to the trust fund include Australia, Denmark, European Commission, Finland, Germany, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, United States, and United Kingdom. Implementing Country Participants that receive grant assistance include: Brazil, Chile, China, Costa Rica, Colombia, India, Indonesia, Jordan, Mexico, Morocco, Peru, South Africa, Thailand, Turkey, Ukraine and Vietnam. The PMR fosters North-South and South-South exchange to facilitate financial flows that lead to scaled-up GHG mitigation actions. PMR decision making, including criteria for and allocation of funding, is made by the Partnership Assembly PA (consisting of both the Contributing and Implementing Participants).

59. The PMR provides capacity building, technical assistance, and grant funding for innovating and piloting market-based instruments to reduce greenhouse gas (GHG) emissions. Most developing countries lack the technical and policy capacity to fully engage in the design and development of these new instruments. The essential building blocks for creating new

market-based systems to mitigate GHG emissions are often missing from these countries' governments and relevant institutions. Thus, the PMR provides a platform for technical discussions, policy exchange, and collective innovation on new market instruments. It helps developing countries partners, through funding and technical assistance, build capacity and pilot market instruments for scaling-up their mitigation efforts. The PMR also creates and shares knowledge products on market instruments and lessons learned. The World Bank provides secretariat and technical support for the day-to-day operations of the PMR. The secretariat maintains a PMR website with all relevant documentation and details regarding meetings. The World Bank also serves as the trustee of the PMR trust fund, and it is the principal delivery partner.

60. The PMR is country-led. As the Implementing Country Participants are at different stages of development and preparedness for such instruments, each approaches the design and implementation of such instruments in different ways. Some focus on building core “readiness” components, such as new systems for MRV, data collection, baseline setting, and establishing regulatory institutions; others are prepared to go further and pilot an appropriate domestic or international instrument. Regardless of a country’s choice, capacity building and piloting can have cross-cutting benefits relevant to implementing non-market-based mitigation actions, designing low emission development strategies, and identifying areas of low cost mitigation potential.
61. Implementing Country Participants follow a Preparation Phase and an Implementation Phase, for a total period of 4-6 years depending on the circumstances of the specific country and proposed activities. The Preparation and Implementation Phases have the following roles:
  - a. Preparation Phase: With a benefit of a US\$350,000 preparation grant, each PMR Implementing Country formulates a MRP for consideration and feedback from the PA. The Implementing Country may also use the preparation grant for activities that continue into and overlap with the Implementation Phase.
  - b. Implementation Phase: The Implementing Country Participant begins the PMR Implementation Phase once the PA allocates Implementation Phase funding for the activities outlined in the MRP. Each Implementing Country Participant is required to present its draft MRP within two years after the award of the preparation grant (with a possibility of extension of six months in extraordinary circumstances). PMR implementation funding is allocated in grant sizes of US\$3, 5 or 8 million. The size of the funding is determined by the PA in accordance with a set of criteria and the availability of funding. Implementing Country Participants are invited to return to the PA to ask for additional funding when they can demonstrate further need. With the benefit of the Implementation Grant, the Implementing Country puts in place the readiness components outlined in the MRP, including, where applicable, piloting the proposed market instrument. The criteria to determine the size of the implementation phase grant are as follows:



- i. Final MRPs are considered based on the following criteria for consideration of minimum PMR Implementation funding (US\$3m): (1) role and relevance of market instruments within a country's overall mitigation strategy and rationale for the target sector(s); (2) level of political support within the country, and clarity on the institutional arrangements for implementation; (3) clear planning, sound technical analysis and rationale behind the proposed activities in the MRP; (4) synergies among PMR activities and with other relevant initiatives; (5) budget; and (6) output/results of the implementation.
- ii. Final MRPs seeking more than minimum funding (US\$5m – US\$8m) are considered based on the following additional criteria: (1) comprehensiveness of Building Block 4 (the “Market Instrument Block”) in the MRP; (2) scope of the proposal, and sound rationale behind the choice of the market instruments and sectors; (3) mitigation potential (considered within a country's circumstances and total emissions); (4) clear identification of milestones and timetable for implementation; and (5) ratio of co-financing from the Country.

62. Chile joined the PMR in May 2011, upon the PA approving its EOI and allocating it \$350,000 to prepare its MRP. The Implementing Agency, the MoE, used this funding to: organize consultations, meetings, training events and outreach to stakeholders, as well as to establish effective project management capacity. It also established a Steering Committee in March 2012, comprising the ministries of Foreign Affairs, Finance, Economy, Agriculture, Mining, Transport & Telecommunications, Energy and Environment. Five different consulting groups were also hired to contribute to the preparation of the following components of the MRP:

- a. MRV, compliance and registry.
- b. Design proposal for an ETS.
- c. Scaled-up crediting and carbon pricing stabilization mechanisms.
- d. Study into the national situation- including a general economic profile and GHG profile.
- e. Coordination of the four components and drafting of the final MRP.

63. Chile presented its final MRP at the 5<sup>th</sup> PA meeting in March 2013. The PA reviewed and approved the MRP, awarding it \$3 million in Grant Funding to implement the activities contained within it.

### **Annex 3: Implementation Arrangements (optional)**

Chile: Project for Market Readiness

#### **Project Institutional and Implementation Arrangements**

66. The MoE is the lead implementing agency for the technical execution of the PMR activities. The MoE is also the lead ministry on energy related issues in Chile and its overall objective is to develop and coordinate plans, policies and standards for the proper functioning and development of the sector, while ensuring compliance and coordination with the Government on all matters related to energy. Given its mandate and organizational structure, therefore, it is well positioned to support the technical execution of the PMR activities, including stakeholder consultations, modeling and the development of a data tracking/registry system.
67. AGCI is the lead implementing agency to manage the procurement and financial disbursement of the PMR Activities. A Subsidiary Agreement shall be signed between AGCI and the MoE outlining their respective obligations and arrangements for the project. Close coordination between the Bank team and the PIU as well as with the Bank's procurement and financial management specialists will ensure that procurement and disbursement takes place in accordance with the World Bank's Procurement guidelines. Further details will be reflected in the Appraisal documentation.

#### **Financial Management, Disbursements and Procurement**

##### *Financial Management and Disbursements*

68. As part of project preparation, a Financial Management Assessment (FMA) was carried out to evaluate adequacy of the proposed financial management arrangements for the implementation of the Chile Partnership for Market Readiness Project.
69. Overall project design and planned activities are straightforward. As per institutional arrangements, project implementation will be under the Ministry of Energy (MoE), as project executing unit, and Agency for International Cooperation (AGCI) as project financial administrator. Within these arrangements, financial management tasks will be under AGCI's responsibility; however, some tasks will require close coordination with the Ministry of Energy (MoE) (i.e review/authorization before payment processing) to avoid delays in project implementation. AGCI is a well-established entity, has developed expertise implementing IDB financed projects and will be shortly implementing other WB-financed projects recently approved by the Bank, but not yet effective. For project purposes, AGCI's Management and Finance Unit lead by the Chief of the Administration and Finance Department will implement the project; however, for project purposes, this unit will be strengthened by contracting an experienced financial management specialist. As in other projects, grant proceeds and transactions will not be included in the national budget of AGCI; however, project transactions will be processed and accounted for in SIGFE following the "Administración de Fondos" mechanism.

70. Based on the information available, the FM risk is considered moderate, mainly because: i) project design requires close interaction between AGCI and MoE to avoid delays in project implementation; and ii) even AGCI is slightly familiar with Bank policies and procedures, as they have participated in projects preparation, AGCI has not yet implemented WB-financed projects.
71. On the basis of the review performed FM team concludes that proposed financial management arrangements are acceptable to the Bank, subject to submission of final version of the format of the financial statements to be used under the project - before the grant agreement is signed-; adopt project operational manual reflecting financial management arrangements -before project effectiveness- and financial management specialist is appointed and ready for project implementation not later than two months after effectiveness.

### ***Summary of financial management arrangements***

72. Organization and staffing. Financial management tasks will be under the responsibility of AGCI; however, some tasks will depend on the information, review and approval of the Ministry of Energy. To this end, the Ministry of Energy as the executing entity, would be in charge of (i) preparing terms of reference; revise contracting process and authorize contracting; (ii) will prepare project's budget, operational annual plan and procurement plan in coordination with AGCI; (iii) review/approve products/services before authorizing payments; and (iv) controlling and monitoring of overall project implementation. AGCI would be responsible for: (i) managing the Designated Account and a local currency account to process payments; (ii) processing and recording project transactions in SIGFE; (iii) managing procurement and contracting processes; (iv) preparing and submitting withdrawal application requests; (v) preparing annual and interim project financial statements; and (vi) coordinating audit reviews. AGCI has well-established financial unit staffed with experienced and qualified staff, which will be in charge of accounting, treasury, reporting and auditing tasks. For project purposes, a Financial Management Specialist would be hired by AGCI, under ToRs approved by the Bank, and whose salary would be financed out of grant proceeds. Main duties and responsibilities will be specified in the Operational Manual.
73. Programming and Budgeting. MoE in coordination with AGCI, will be responsible for: preparation of annual operation program (AOP) and procurement plan, all of them to be reviewed by the Bank, and which will be used for monitoring purposes. As in other projects under AGCI financial administration, project transactions will not be incorporated under their entity's budget and project transaction will be only controlled and recorded following the "Administración de Fondos" mechanism.
74. Accounting Policies and Information System. The regulatory FM framework in Chile includes: (i) the *Ley Orgánica de la Administración Financiera del Estado*, Decreto ley N° 1263 de 1975; (ii) Accounting procedures manual for the Public Sector (*Manual de Procedimientos Contables*) issued by the Supreme Audit Institution (CGR); (iii) the annual Law of the General Budget of the State; and (iv) the Ministry of Finance regulations and manuals. Within such framework, project transactions will be accounted for in the

government’s integrated financial management system SIGFE, following the Accounting Procedures Manual under the account Administración de Fondos. The use of SIGFE would be complemented by Excel to record project transactions by type of expenditure and linked to each component. Excel records would be used by AGCI to prepare monthly financial reports in the format and content described below.

75. Processes and procedures (including Internal Controls). AGCI and MoE have to comply with local requirements related to financial management, including internal controls and internal procedures to adequately control, record, carry out of payments and generate timely information. Overall AGCI and MoE have adequate controls including adequate segregation of duties to control, recording and financial reporting. Within such framework and for project purposes, roles and responsibilities of both entities, funds flow arrangements and reporting arrangements have been reviewed and will be reflected in the Simplified Operational Manual.
76. Financial Reporting and Monitoring. Considering accounting and information system section, AGCI would be main responsible for preparing project financial statements (including interim financial reports and disbursement reports). Project financial reports will be prepared under the cash basis, and based on Excel records on project expenditures and reconciled with general information provided by SIGFE. The form and main content of these reports is under review with AGCI. Specific financial reporting arrangements include:
- a. *Project-Interim financial reports (IFRs)* will be prepared in U.S dollars and submitted to the Bank on a semi-annual basis, but no later than 45 days after the end of each calendar semester. They will include: i) a statement of sources (incomes) and uses of funds (expenses), and cash balances; (ii) statement of cumulative investments; (iii) designated account reconciliation; and (iv) explanatory notes to the financial statements. The core content and format of the reports are being agreed with AGCI.
  - b. *Annual financial statements* for the project (with the content and format described above) will be prepared by AGCI to be audited, as specified below.
77. Audit Arrangements. Annual audit reports on the Project financial statements, including management letter, would be submitted to the Bank within six months of the end of the Borrower’s fiscal year. The audit will be conducted by the Supreme Audit Institution of Chile (CGR) in accordance with International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) and the audit will include visits to AGCI and MoE. If due to any unforeseeable circumstances, where CGR is not able to perform the audit of the project, an independent private auditor -acceptable to the Bank- may be hired. Under these circumstances audit terms of reference will require Bank’s no objection and audit costs would be financed out of grant proceeds. The scope of the audit would be defined by the project in agreement with the Bank. Audit requirements would include the following:

<b>Table: Audit report</b>	
<b>Audit Report</b>	<b>Due date</b>
Project financial statements	June 30
Management Letter	June 30

78. Funds Flow and Disbursement Arrangements (TBC). The Bank will disburse grant proceeds using the disbursement methods of reimbursement, advance and direct payment. Under the advance method, a Designated Account (in US Dollars) will be opened and maintained in the Banco Estado by AGCI. Funds deposited into the DA as advances, will follow Bank's disbursement policies and procedures -as described in the Disbursement Letter-. AGCI will also open a local currency bank account in pesos at Banco Estado, where funds withdrew from the DA will be deposited and subsequently utilized to exclusively make payments under the project. Payments of eligible expenditures will be made by AGCI subject to authorization of the MoE. The project envisages in-kind intellectual local counterpart financing which will not be able to measure and will be not part of the project financial statements.
79. Partial advances may be made to the DA as long as the aggregate amount advanced does not exceed the ceiling of US\$300,000. AGCI will prepare traditional Statements of Expenditure (SOEs) to support withdrawal requests. This report will be prepared in Excel on the basis of payments on eligible expenditures carried out by AGCI and recorded in their information system and complementary Excel records.
80. Funds flow arrangements under the project will be detailed in the Operational Manual, as well as AGCI's obligation to maintain records evidencing eligible expenditures, copies of receipts and supplier invoices, etc of the project for ex-post reviews from the Bank and external auditors.
81. Retroactive Financing would be available for payments made prior to the date of the Grant Agreement (12 months before this date), the project has to assure that payments have been procured in accordance with applicable Bank procurement procedures; and such payments do not exceed 20 percent of the grant amount.
82. Grant proceeds would be disbursed against the following expenditures categories:

<b>Table of Grant Proceeds (TBC)</b>		
<b>Category</b>	<b>Amount of the Grant Allocated (expressed in US dollars)</b>	<b>Percentage of Expenditures to be financed (inclusive of taxes)</b>
Goods, training, consulting services, non-consulting services and operational costs under Part 1, 2, 3, and 4 of the Project.	3,000,000	100%
<b>TOTAL AMOUNT</b>	<b>3,000,000</b>	

83. Supervision Plan. Financial Management supervision would include on-site and off-site supervisions. On site supervision missions will be carried once a year to the extent possible, to review project implementation. Off-site supervisions will comprise desk reviews of interim financial reports and audited financial statements.

*Procurement*

84. Procurement for the proposed Project would be carried out in accordance with the World Bank's "*Guidelines Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*", dated January 2011; the World Bank's "*Guidelines Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*", dated January 2011; and the provisions stipulated in the Grant Agreement. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Borrower, through AGCI, has prepared a Preliminary Procurement Plan for the entire scope of the Project. The Procurement Plan will be available at the Procurement Plans Execution System (SEPA). Goods, works, and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding, National Competitive Bidding, Shopping, Direct Contracting and Framework Agreements. Consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection, Quality-Based Selection, Selection under a Fixed Budget, Least Cost Selection, Selection Based on the Consultants' Qualifications, Single Source Selection, Mercado Público and, Procedures set forth in Section V of the Consultant Guidelines for the Selection of Individual Consultants, including single-source Selection for Individual Consultants.

85. Assessment of the agency's capacity to implement procurement:

- a. **Country.** The risk associated with the Bank portfolio in Chile should be considered low. Government contracts in Chile are conducted transparently and efficiently thanks, in part, to a modern and transparent electronic procurement system (the Public Market of ChileCompra); although procurement processes, outside the use of this system could be lengthy at times, the robustness and capacity of institutions in charge of procurement make Chile one of the countries with the most reliable and transparent procurement system in the region.
- b. **Agency.** In accordance with the implementation arrangements, AGCI will be responsible for the fiduciary activities of the Project, including procurement, financial management and disbursement. AGCI is adequately staffed and will maintain its capacity to conduct Procurement under this new operation. For procurement. AGCI counts on an Administrative and Financial Management Unit lead by the Chief of the Administration and Finance Department, which is supported by: (a) one person in charge of Procurement (Encargado de Adquisiciones), (b) Purchase Executives (Ejecutivos de Compras), (c) a person in charge of reception and storage of goods and supplies (Encargado de Abastecimiento), and (d) Contract Administrators (Administradores de Contratos). As part of the Project preparation, AGCI and MoE have prepared the Operational Manual which provides detailed procurement information for the Project's implementation. An assessment of the implementation agency's capacity to implement procurement actions

for the Project was finished on March 2014. The capacity assessment looked into AGCI's: (a) organizational structure, (b) facilities and support capacity, (c) qualifications and experience of the staff that will work in procurement, (d) record-keeping and filing systems, (e) procurement planning and monitoring/control systems used, and (f) capacity to meet the Bank's procurement contract reporting requirements. It also reviewed the procurement arrangements proposed in the Procurement Plan.

86. Considering the country's and the agency's capacity to implement procurement, as outlined above, the overall project risk for procurement is **Moderate** (M).

87. The corrective mitigating measures proposed are:

<b>Mitigating Measure</b>	<b>Stage</b>
Configure SEPA as the system to expedite and monitor Procurement Plan	Before effectiveness
Adjust sample bidding documents for NCB and shopping	Before effectiveness
Adopt an Operational Manual satisfactory to the Bank	Before effectiveness

88. Procurement Special Provisions: In addition and without limitation or restriction to any other provisions set forth in this Section or the Procurement Guidelines, for procurement of goods and non-consulting services, *ChileCompra* may be used as an alternative to National Competitive Bidding and Shopping, as determined by the World Bank, provided that: (a) the specific bidding process under this method does not restrict foreign competition, (b) the lowest evaluated bid shall be selected for contract award, (c) there shall be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded, and (d) bidding documents and contracts include the fraud and corruption provisions set forth in the Procurement Guidelines.

89. In addition and without limitation or restriction to any other provisions set forth in this Section or the Consultant Guidelines, the following principles of procurement shall expressly govern all employment of consultants:

- a. There shall be no prescribed minimum number of proposals to be submitted in order for a contract to be subsequently awarded.
- b. For consultant services, contracts estimated to cost below US\$ 300,000 equivalent, *ChileCompra* may be followed as a consultant's selection method acceptable to the World Bank, provided that Request for Proposals and contracts include the fraud and corruption provisions set forth in the Consultant Guidelines.
- c. The call for expression of interest and award of contracts for consulting services costing US\$ 300,000 equivalent or more, and which are selected following the procedures set forth in Section shall be published in Mercado Público.

90. Procurement Plan

- a. General

**Bank’s approval Date of the procurement Plan** (To be updated)

**Date of General Procurement Notice:** (To be updated)

**Period covered by this procurement plan:** (To be updated)

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank, except for those contracts terminated by the recipient’s agency for which the Borrower shall seek the Bank’s no objection prior to the proposed termination.

b. Goods, Works and non-consulting services

*Prior Review Thresholds:* Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the “Guidelines: Procurement of Goods, Works and Non-Consulting Services by World Bank Borrowers”:

<b>Thresholds for procurement methods and prior review (thousands of USD)</b>			
<b>Contract Category</b>	<b>Contract Value (Thresholds) US \$ thousands</b>	<b>Procurement Method</b>	<b>Contracts Subject to Prior Review</b>
<b>1. Goods and Non-consulting Services</b>	>350	ICB	All
	100-350	NCB or FA*	First
	<100	Shopping or FA*	First
	Regardless of value	DC	All
<b>Note:</b>	ICB = International Competitive Bidding NCB = National Competitive Bidding FA: Framework Agreement DC = Direct Contracting *Mercado Publico of ChileCompra		

c. Selection of Consultants

i. *Prior Review Thresholds:* for Consulting Services: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers”:

<b>Thresholds for procurement methods and prior review (thousands of USD)</b>			
<b>Contract Category</b>	<b>Contract Value (Thresholds) US \$ thousands</b>	<b>Procurement Method</b>	<b>Contracts Subject to Prior Review</b>
<b>2.Consulting Services</b>			
<b>Firms</b>	>=300	QCBS, QBS, FBS, LCS	All
	<300	QCBS, QBS, FBS, LCS, CQS, CCompra**	First contract of each procurement method
	Regardless of value	SSS	All
<b>Individuals</b>		3CVs	>=50 or First
		SSS	All



Thresholds for procurement methods and prior review (thousands of USD)			
Contract Category	Contract Value (Thresholds) US \$ thousands	Procurement Method	Contracts Subject to Prior Review
Note:	QCBS = Quality- and Cost Based Selection QBS = Quality-Based Selection FBS = Fixed Budget Selection LCS = Least-Cost Selection CQS = Consultants' Qualifications Selection SSS = Single-Source Selection **CCompra: ChileCompra		

- ii. Short list comprising entirely of national consultants: Short list of consultants for services, estimated to cost less than \$500,000 equivalent per contract, may consist entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

91. Frequency of Procurement Supervision:

In addition to the prior review supervision to be carried out by Bank offices, the capacity assessment of AGCI has recommended one full annual procurement supervision mission, including field visits, post-reviews of procurement actions.

*Environmental and Social (including safeguards)*

92. The proposed project does not raise social (including safeguards) issues. The project does not include any gender specific actions and is not expected to have impacts differentiated by gender. Therefore no gender sensitive analysis or monitoring and evaluation will be conducted. The main stakeholders include those involved in the design of the proposed ETS and implementation of the MRV framework (operators of the potentially obligated installations, industrial associations, GHG emission verifiers, carbon market consultants, accreditation body). In addition to the MoE, these institutions include, but are not limited to, the Inter-Ministerial Committee on Climate Change, Council of Ministers for Sustainability, Ministry of the Environment, and the Ministry of Agriculture. The obligated sectors and industries were consulted with during the Preparation Phase of the PMR project and in separate consultations, and their main concern relates to the information, practice and capacity to implement any forthcoming regulations. The PMR is intended to help alleviate this concern.

93. The environmental category of the project is C. Environmental assessment is not required for this Project, as the Project does not involve any physical activity but rather consists solely of technical assistance activities, such as training, background analyses, modeling, etc.

**Monitoring & Evaluation and the Role of Partners**

94. The World Bank team will provide implementation support for the execution of the PMR grants and implementation of the PMR activities. Specific carbon markets related expertise will be included in the Bank project team, either from the LAC region or the PMR Secretariat.
95. Project monitoring and evaluation will include the following:
- a) *Project Results Framework*: PDO and Intermediate Results Indicators as contained in Annex 1.
  - b) *Status Reports*: PMR Implementing Countries are required to prepare status reports on the progress of their PMR activities. The form, content and periodicity of this reporting will be determined in the PMR Implementation Grant Agreement. The goal of status reporting is to ensure timely support and feedback from the Bank on the activities outlined in the Grant Agreement.
  - c) *Completion Report*: Implementing Countries are required to prepare a completion report to ensure objectives outlined in the MRP and the Grant Agreement are met and that there is a plan for their sustainable continuation.
  - d) *Financial Statements*: PMR Implementing Countries are required to prepare financial statements that reflect the operations, resources and expenditures related to the activities detailed in the Grant Agreement. Periodic, independent auditing of financial statements will be included in the Grant Agreement.
  - e) *PMR Country Updates*: Implementing Countries may update the Partnership Assembly shortly before or after the PA meetings on the progress of their implementation phase activities.

## Annex 4: Operational Risk Assessment Framework (ORAF)

### Chile: Partnership for Market Readiness ( P130378)

#### Stage: Appraisal

### Risks

#### 1. Project Stakeholder Risks

<b>1.1 Stakeholder Risk</b>	Rating	Medium			
<p><b>Risk Description:</b></p> <p>Should Chile decide to implement one or more carbon pricing instruments, impacted industries and enterprises may raise concerns and objections. This could lead to controversy around the proposed PMR activities and/or delays in their implementation. The Bank may be exposed to some reputational risk by association.</p>	<p><b>Risk Management:</b></p> <p>In the last decade, the Government of Chile has been active in establishing a suitable regulatory framework to mitigate GHG emissions in the energy sector, which is the target sector for PMR activities. Ongoing stakeholder dialogue, roundtables, and consultations will be part of preparatory and implementation work to ensure all parties fully understand the planned project activities and appropriately benefit from the capacity building and technical assistance provided by the PMR. The team will hire strategy/communications consultants that will help develop the most appropriate engagement strategy for public and private sector stakeholders. Under PMR activities, the impact of the implementation of this market mechanism on the economy and specific sectors will also be evaluated.</p> <p>Furthermore, the core of the activity is technical assistance, predominantly involving building institutional capacity. To this end, the PMR is only expected to lead to the first set of actions that facilitate the design of domestic carbon pricing infrastructure and it is not envisioned that the PMR, alone, will result in measurable changes in carbon markets.</p>				
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:

#### 2. Operating Environment Risks

<b>2.1 Country</b>	Rating	Medium				
<p><b>Risk Description:</b></p> <p>Government commitment to climate change weakens or there are unclear mandates and responsibilities that delays or hinders the implementation of one or more carbon pricing instruments and MRV registry in Chile.</p>	<p><b>Risk Management:</b></p> <p>There is a clear, shared vision on climate change in Chile, captured in the National Climate Change Action Plan, Declaration on Green Growth, and its Green Growth Strategy. In 2010, Chile voluntarily committed to UNFCCC to achieve a 20% deviation below the Business as Usual emissions growth trajectory by 2020. The sector governance is robust with clear delineation of the policy making and regulatory functions, with Ministry of Energy as the lead government body and the Steering Committee and Council of Ministers for Sustainability providing the forum for inter-ministerial and stakeholder coordination. Given the Council of Ministers’ direct link to the President of Chile, this body will provide high-level policy guidance in political decision on the implementation of one or more carbon pricing instruments and its overall role in Chile’s climate policy. The overall transparency and accountability of the sector is also robust.</p> <p>Furthermore, some of the components of the PMR activities are considered “no regrets” activities that ought to be conducted regardless, such as the activities involving MRV, Registry and institution-building. The PMR is the first step towards assessing the viability of one or more carbon pricing instruments for energy sector in Chile; its implementation is however, out of the scope of this particular project.</p>					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:
<b>3. Implementing Agency (IA) Risks (including Fiduciary Risks)</b>						
<b>3.1 Capacity</b>	Rating	Moderate				
<p><b>Risk Description:</b></p> <p>Defining the implementation arrangements between the MoE (as the agency in charge of technical execution) and AGCI (as the agency in charge of procurement and financial management), may cause delays in execution and disbursement.</p>	<p><b>Risk Management:</b></p> <p>Overall project design and planned activities are straightforward. Project implementation will be under MoE as project executing unit, and AGCI as project financial administrator. A Subsidiary Agreement shall be signed between AGCI and the MoE outlining their respective obligations and arrangements for the project. There will be continuous implementation support from the Bank, including technical expertise in the PMR Secretariat at CCGCF.</p> <p>The Bank will also provide FM training and supervise the project’s FM arrangements as follows: (i) financial management and disbursement arrangements will be reviewed to ensure compliance with the Bank’s minimum requirements; and (ii) a Bank-accredited FM specialist will supervise the Project’s FM</p>					

	arrangements.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:	Frequency:
<b>3.2 Governance</b>	Rating	Low				
Risk Description: Climate change ceases to be a policy priority and MoE Climate Change Unit is integrated to other departments or otherwise loses its mandate or ability to operate effectively.	<b>Risk Management:</b> The PMR activities are anchored in Chile's national goals and commitments to mitigate climate change. The Government recognizes the need for newer and more aggressive market-driven mechanisms, especially given Chile's rapid growth. The Emissions, Transference and Contaminants Registry (RETC) and previously used market based instruments for the management of natural resources in Chile give an existing platform the proposed PMR activities. However, if Chile faces economic or political stress in other sectors, decisions and resources might be allocated away from climate change, thus the risk is rated as moderate.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent:	Due Date:	Frequency:
<b>3.3. Fraud and Corruption</b>	Rating	Low				
Risk Description: Procurement is undertaken in a fraudulent or corrupt manner.	<b>Risk Management:</b> Government contracts in Chile are conducted transparently and efficiently thanks, in part, to a modern and transparent electronic procurement system (the Public Market of ChileCompra); although procurement processes, outside the use of this system could be lengthy at times, the robustness and capacity of institutions in charge of procurement make Chile one of the countries with the most reliable and transparent procurement system in the region. Only relatively simple consultant and services contracts are expected. There will be prior reviews for larger contracts, ex-post reviews for smaller contracts, and close supervision. There will be support from World Bank procurement specialist who working closely with the PMU throughout the Project implementation.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:	Frequency:
<b>4. Project Risks</b>						
<b>4.1 Design</b>	Rating	Low				
Risk Description: Improper implementation of the PMR activities or poor quality of contract	<b>Risk Management:</b> The project design is straightforward with only one implementing agency, the MoE, in charge of the technical execution, supported by AGCI for the procurement and financial disbursement of the PMR					

<p>deliverables and delay to project processing and implementation due to lack of proper planning.</p>	<p>Grant. The activities follow PMR criteria and the Market Readiness Proposal is structured in accordance with a template adopted by the PMR Participants Assembly. The project scope and scale are also similar to the PMR activities in a number of other PMR Implementing Countries. To this end, the PMR is only expected to lead to the first set of actions that facilitate the design of domestic carbon pricing infrastructure and it is not envisioned that the PMR, alone, will result in measurable changes in carbon markets.</p> <p>The activities involving implementation of the nation-wide MRV and Registry, do not require policy reforms and will be based on the existing RETC framework. If Chile decides to implement one or more carbon pricing instruments, additional policy/regulatory reforms could be needed even though the environmental law foresees use of market based instruments to control GHG emissions.</p> <p>The World Bank team will provide implementation support for the execution of the PMR grants and implementation of the PMR activities in all of their technical, procurement, and financial management aspects.</p>					
<p>Lack of coordination between the technical implementing agency (MoE) and different ministries involved in decision making on carbon regulations.</p>	<p>Resp: Both</p>	<p>Status: Not Yet Due</p>	<p>Stage: Implementation</p>	<p>Recurrent:</p>	<p>Due Date:</p>	<p>Frequency:</p>
<p><b>4.2 Social and Environmental</b></p>	<p>Rating</p>	<p>Low</p>				
<p>Risk Description: Negative environmental or social impacts. Social and environmental safeguards are not followed.</p>	<p><b>Risk Management:</b> As this is TA with the activities consisting of consultant reports, outreach/consultation events, training etc. the environmental and social impacts of the project are negligible or absent and can be easily avoided/mitigated. Implementation of the MRV will enable Chile to better plan its climate change actions as the emissions in key sectors are better known and monitored and verified on an annual basis.</p>					
<p><b>4.3 Program and Donor</b></p>	<p>Rating</p>	<p>Moderate</p>				

<p><b>Risk Description:</b></p> <p>Activities of other donors in Chile cause delay to implementation of PMR activities or vice versa.</p>	<p><b>Risk Management:</b></p> <p>Other donors' activities are expected to be complementary to the PMR project. Close donor coordination will be pursued to mitigate risk, including those related to timelines and potential duplication. Ways to build synergies and e.g. coordinate training activities (as the respective targeted entities and personnel may be the same in some cases) will be explored. The Bank may help in donor coordination, but the MoE should be well equipped to convene the relevant donors as needed. As the project is being financed by multiple sources, including grant and co-financing, financial sustainability of the project is intact.</p>					
Resp: Both		Status: In Progress	Stage: Both	Recurrent:	Due Date:	Frequency:
<p><b>4.4 Delivery Monitoring and Sustainability</b></p>	Rating	Moderate				
<p><b>Risk Description:</b></p> <p>MRV or carbon pricing instrument is not continued after the PMR activities are completed.</p>	<p><b>Risk Management:</b></p> <p>Core PMR activities are based on the implementation of a MRV and study of carbon pricing instruments. The MRV system is expected to continue to run indefinitely after the PMR project is completed and will be a key component of any climate change mitigation policy. Similarly, the results from studies described in the MRP will be reflected in the design and potential implementation of an ETS or other related market-based mechanism. MoE has full ownership and commitment to continuing the project activities.</p>					
Resp: Client		Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:
<p><b>5. Project Team Proposed Rating Before Review</b></p>						
<p><b>Overall Risk: Moderate</b></p>						
<p><b>Risk Description:</b></p> <p>The overall risk rating is moderate. The MRP was approved by the PA at its meeting in March 2013. The core of the proposed activities involves the design and implementation of an MRV system and assessment of viability of one or more carbon pricing instruments in the energy sector, to assist Chile in achieving its Chile's climate change strategy and commitments. The MoE and SC are to be supported by various Ministries and have a clear mandate and a structure well suited to carry out the proposed activities. The project is likely to be complemented by activities funded by other donors. Having said that, as a new Ministry established in 2010, the implementation capacity of the MoE may be low. Lack of coordination between MoE and AGCI can affect the timeliness of the project. Furthermore, the proposed analytical activities aimed at informing policy decisions on the use of market-based instruments may raise some concerns and objections among stakeholders.</p>			<p><b>Risk Description:</b></p>			

## 6. Overall Risk

**Overall Risk:** **Moderate**

The overall risk rating is moderate. The MRP was approved by the PA at its meeting in March, 2013. The core of the activity is technical assistance, predominantly involving building institutional capacity. To this end, the PMR is only expected to lead to the first set of actions that facilitate the design of domestic carbon pricing infrastructure and it is not envisioned that the PMR, alone, will result in measurable changes in carbon markets.

As outlined in its MRP, Chile proposes to use PMR funds to support the design of one or more carbon pricing instruments in the energy sector and assist in the implementation of a GHG MRV system with a suitable registry system, consistent with the requirements of international carbon markets, which are intended to assist Chile in achieving its climate change strategy and commitments. The MoE and Steering Committee are to be supported by various Ministries and have a clear mandate and a structure well suited to carry out the proposed activities. AGCI, the financial agent of the project has previously worked with the World Bank and is aware of its protocols and procedures, which increases the likelihood of funds being disbursed swiftly and efficiently. The project is likely to be complemented by activities funded by other donors. Having said that, the proposed analytical activities aimed at informing policy decisions on the use of market-based instruments may raise some concerns and objections among stakeholders. For this reason, the MoE established the Steering Committee, comprising a cross-section of different Ministries and Interest Groups to coordinate training events stakeholder outreach, and to establish effective project management capacity. This process of engagement is intended to promote political buy-in. Specific carbon markets related expertise will also be included in the Bank project team, both from the LCR region and the PMR Secretariat.

Nondisclosable Information for Management Attention (Optional)

**Risk Description:**



**Annex 5: Implementation Support Plan (optional)**