REPORT NO.: RES40638

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
CHINA PARTNERSHIP FOR MARKET READINESS
APPROVED ON JUNE 16, 2014
TO
PEOPLE’S REPUBLIC OF CHINA

ENVIRONMENT, NATURAL RESOURCES & THE BLUE ECONOMY
EAST ASIA AND PACIFIC

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I. BASIC DATA

**Product Information**

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>P145586</td>
<td>Investment Project Financing</td>
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<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
</tr>
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<tbody>
<tr>
<td>Not Required (C)</td>
<td>Not Required (C)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tbody>
<tr>
<td>16-Jun-2014</td>
<td>28-Feb-2020</td>
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**Organizations**

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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<tbody>
<tr>
<td>People's Republic of China</td>
<td>National Center for Climate Change Strategy and International Cooperation (NCSC)</td>
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</table>

**Project Development Objective (PDO)**

Original PDO

The Project Development Objective is to enable China to design a national carbon emissions trading scheme.

**Summary Status of Financing**

<table>
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<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Net Commitment</th>
<th>Net Disbursed</th>
<th>Net Undisbursed</th>
</tr>
</thead>
</table>

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No
1. Overall background. The China Partnership for Market Readiness (PMR) Project (P145586; “the Project”) is a US$10 million grant provide by the PMR, a global Trust Fund, that has the objective to build countries’ capacity to develop and implement carbon pricing instruments needed for greenhouse gas (GHG) mitigation and Nationally Determined Contribution (NDC) implementation. The Project was approved on June 16, 2014 and has a current closing date of February 28, 2020.

2. The Project is assisting China to design a national carbon emissions trading system (ETS). In late 2015, at the Paris Conference of the Parties to the Climate Change Convention, China committed to ambitious targets for limiting GHG emissions and to help it do so in a cost-effective way, through establishment of a national ETS. China began piloting an ETS in 2013 in seven cities and provinces across the country, including the cities of Beijing, Tianjin, Shanghai, Shenzhen and the provinces of Guangdong and Hubei. The Project has supported the development of key components of the national ETS (under Component 1), including: (i) national legislation; (ii) the selection of sectors to be covered (including power, iron and steel, nonferrous metals, building materials, paper, chemicals, petrochemicals, and aviation); (iii) design of emissions caps and allowances to provinces and enterprises; (iv) the emissions registry; and (v) measuring, reporting and verification (MRV) protocols. Under Component 2, the Project has supported consultation workshops to ensure that key stakeholders from public and private sectors have engaged in policy design and implementation.

3. In parallel, the Project facilitated China’s technical dialogue with the international community. During this process, best practices from other cap-and-trade systems are being shared with China, while in parallel new experiences and approaches from China are being shared with other developing countries to help shape new global carbon pricing mechanisms.

4. Implementation status. Implementation has made good progress over the past 12 months, with about 75 percent of grant resources disbursed. The PDO is currently rated Satisfactory as the completion of Component 1 has resulted in achievement of key result indicators, with the project on track to achieve the PDO.

- Component 1 (Enable design of key building blocks for a national carbon emissions trading scheme (ETS)). the original US$8 million grant has completed all activities.
- Component 2 (Synthesis report, consultations and project management). Significant results in consultation and capacity building have been achieved by providing trainings to 1,395 government officials and business representatives in four cities (Changchun, Chengdu, Urumqi and Xi’an) in the second half of 2019. The development of the project synthesis report is ongoing with an expected finalization date of July 2020. The synthesis report is an important deliverable, synergizing research process and key recommendations on key aspects on China’s national ETS design. This report will support the client in policy communication.
- Component 3 (Enabling market mechanism and creating investment climate). This is a new component supported by the US$2 million AF (which became effective on April 10, 2019). Six of seven new activities under Component 3 are nearing completion but require additional time for full implementation.

5. Implementation delays. Implementation of the Project had been satisfactory throughout the life of the Project. However, over the past six months, the Project faced delays due to the following reasons, which led to a downgrading of the Implementation Progress rating to Moderately Satisfactory:

- A ministerial level re-organization provided new strategic guidance to the development of the national ETS. The terms of reference (TORs) of the new activities required additional revisions to ensure relevance to the new political landscape.
• A Government reform on budget rules in late 2019 led to project procurement delays of over three months. To address this, the Project Management Office (PMO) developed and adopted an accelerated implementation plan, which foresaw the completion of all activities by February 28, 2020.
• However, an unforeseen leadership change at the Department of Climate Change in late December 2019, resulted in delayed decision-making with respect to critical activities, leading to additional implementation delays. While it was expected that implementation would be back on track in February 2020, the outbreak of the novel Coronavirus (COVID-19) has since caused considerable and additional business disruption.

6. Proposed extension. As outlined above, responding to implementation delays, the client developed an ambitious implementation plan, which outlined a realistic timeline to achieve results by the original February 2020 closing date. Nevertheless, changes in government procedures coupled with an institutional restructuring negatively affected the implementation of said plan, which were compounded by the COVID-19 situation. Therefore, the client requested a six-month extension of the closing date from February 28 to August 31, 2020.

7. Extension rationale. With the extension, ongoing activities will be completed to facilitate meeting the PDO of “enabling China to design a national carbon emissions trading scheme”. Activities include (i) carrying out studies that would support the development of supplementary regulations; (ii) proposing emission allowance allocation mechanisms; and (iii) designing mechanisms to enhance market liquidity.

8. A detailed implementation plan has been developed by the client to ensure implementation will remain on track towards the newly proposed closing date. The extension will allow the continuation of the ongoing policy dialogue through the transitional period of leadership change. The Bank team will provide additional monitoring and implementation support to the client. An action plan was agreed in a recent implementation support mission. Based on the track record of the overall satisfactory performance on DO and IP throughout the implementation, the PDO remains fully achievable.

9. There are no outstanding audits. There is a slight delay of the IFR submission due to the business disruption caused by the COVID-19 outbreak.

II. DETAILED CHANGES

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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