

## PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

### 1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Colombia
Reporting Period:	From 12/28/2018 to 04/15/2019
Report Date:	04/15/2019
Implementing Agency:	Ministry of Environment and Sustainable Development (MADS); Department of National Planning (DNP).
Contact Person:	<b>DNP/MADS:</b> Silvia Liliana Calderon Diaz, Deputy Director, Sustainable Development (DNP) Francisco Charry Ruiz, Director, Climate Change (MinAmbiente)

Grant Executed By:	World Bank Task Team Lead – Julian Lee, Sr. Environmental Specialist Focal Point PMR Secretariat, Marcos Castro, Sr. Environmental Specialist
Grant Effectiveness and Closing Dates:	12/28/2018- 06/30/2020
Grant Amount (USD):	USD 3,000,000 C1: Support to the Development of an Emissions Trading System: USD 1,150,000 C2: Planning for Implementation of Colombia's Nationally Determined Contribution: USD 950,000 C3: Capacity building, knowledge management, communications: USD 485,000 C4: Project management, technical coordination, others: USD 415,000
Funding Committed (USD)	As of May 10, 2019: USD 771,960

## 2. OVERVIEW

Within the framework of the Paris Agreement, ratified through Law 1844 of 2017, the Government of Colombia presented its Nationally Determined Contribution (NDC), with a commitment to reduce 20% its greenhouse gas emissions (GHG) by 2030 with regard to the 2015 baseline. To implement the NDC, the government considered the use of economic instruments to achieve this goal. Colombia's National Policy on Climate Change states that there are "different mechanisms, including economic and financial instruments, to achieve low-carbon and climate change resilience development" to meet the mitigation objectives. (MADS, 2017).

The Ministry of Environment and Sustainable Development (MADS) and the National Planning Department (DNP), with the support of the Partnership for Market Readiness (PMR), implemented by the World Bank, developed a preliminary road map between 2016 and 2017 for the design of an emissions trading system (ETS), as well as an evaluation of the potential macroeconomic effects of introducing a carbon price setting instrument in Colombia. The evaluation was carried out to inform, in a preliminary manner, on the role and viability of an ETS in the Colombian context.

This technical progress and development of information for the implementation of an ETS was complemented with legal and regulatory changes with regard to climate change, within which the approval of Law 1819 of 2016 should be emphasized, which created the carbon tax; the establishment of a carbon neutrality mechanism (Decree 926 of 2017); the regulation of the Monitoring, Reporting, and Verification System (Resolution 1447 of 2018); and Law 1931 of 2018, which provides the legal basis for Colombia's ETS, the National Program of Tradable Greenhouse Gas Emission Quotas (Programa Nacional de Cupos Transables de Emision de Gases a Efecto Invernadero, PNCTE). Similarly, within the framework of the National Development Plan (NDP) 2018-2022 "Pacto por Colombia, pacto por la equidad," the design of this program is proposed as one of the market instruments to encourage the private sector to reduce its GHG emissions and in this way advance in the fulfillment of the goal included in the plan, which establishes a cumulative reduction of 36 million tons of CO<sub>2</sub> equivalent with respect to the national reference scenario I1.

Taking into account the above, the Implementation Plan described below was designed to inform the decision-making, to continue advancing in the development and implementation of the different policy instruments. In particular, i) the regulation of the PNCTE; ii) the strengthening of the National Inventory System and the Corporate Report on GHG Emissions; and iii) the involvement of different interest groups, through the communications strategy, awareness and capacity building, which was proposed as a transversal axis to components i) and ii).

### IMPLEMENTATION PLAN

The PMR Colombia readiness project has three components:

#### **I) Technical Input to Emissions Trading System design process**

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<sup>1</sup> The target can be adjusted in case there is a modification to the baseline year of the Nationally Determined Contribution.

a) The design of an Emissions Trading System (ETS), as well as accompanying activities to engage stakeholders in the design process, including b) simulations of an ETS and c) ETS courses for the public and private sectors.

### II) Planning for implementation of Colombia's Nationally Determined Contribution (NDC):

a) Technical support for the development of the National System of GHG Inventories; b) Improvements for monitoring achievement of the NDC; c) Review, update and refine sectoral reference emissions scenarios to estimate the contribution of specific actions to meeting NDC targets; and d) Analysis of emerging market-based instruments that could contribute to the implementation of Colombia's NDC- Article 6 Paris Agreement-PA -.

### III) Stakeholder engagement, capacity building, and communications:

a) Stakeholder engagement, capacity building, and communications strategy for ETS development. b) Stakeholder engagement, capacity building, and communications strategy for MRV.

## 1. IMPLEMENTATION REPORT BY COMPONENT

### *Differences between the Objectives/Activities in the Market Readiness Proposal and the Implementation Plan*

<p>Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal and endorsed by the Partnership Assembly of the PMR and those agreed to in the Grant Agreement with the Delivery Partner and described in the Project's Results Framework?</p>	<p>As stated in the overview, policy as it relates to climate change has been changing in the country rapidly, consequently it was necessary initially the proposed operational plan was adjusted. This was due to the fast evolution of policies and to respond in a timely manner to the decision-making processes.</p>
<p>There are no substantive differences between the objectives/activities proposed in the MRP and endorsed by the PA of the PMR and the implementation plan.</p>	

### *Implementation Progress by Component*

<b>A. Component 1: Inputs into the Design of an Emissions Trading System</b>	
<p>Status:</p>	<p><b>Component 1 has the following deliverables:</b></p> <p>Suggest the sectors and GHGs that will be part of the PNCTE. The scope of application proposal must include the following elements:</p> <ul style="list-style-type: none"> <li>Principles and criteria for inclusion of sectors, gases, based on the threshold of the GHG emissions proposal, number of facilities which could be incorporated into the PNCTE.</li> </ul>

	<ul style="list-style-type: none"> <li>• Norms and technical guides for monitoring and verification of emissions and those participating depending on the application defined.</li> <li>• Assignment of schemes and programming mechanism: i) Proposal for the establishment or programming of the number of schemes to be issues; ii) Procedures for the free assignment of the emission trading schemes ; iii) Administrative manual of the primary market.</li> <li>• Price control and flexible mechanism: i) proposal for market intervention and risk analysis associated with this intervention, considering interaction with other economic instruments, taking into consideration the legal nature of the ETS; (ii) Characteristics and guidelines of the compensation program that makes up part of the PNCTE; (iii) temporary flexible elements considering MRV of the PNCTE; iv) requirements of the reduction of emissions initiatives to promote in the framework of the PNCTE</li> <li>• Sanctioning regime: analysis of the sections in which the agents Will have to follow that do not abide by the obligations or go against the system.</li> </ul>
Comments:	N/A
<b>B. Component 2: Planning for Implementation of Colombia's Nationally Determined Contribution</b>	
Status:	<ul style="list-style-type: none"> <li>• As of this reports date, the objectives, activities and deliverables are being adjusted for this component, to harmonize with the needs of the PNCTE in terms of monitoring and evaluation.</li> <li>• A meeting will be carried out on April 12, 2019, to adjust the terms of reference mentioned.</li> <li>• The TORs Will be submitted prior to April 25, 2019 to the World Bank.</li> </ul>
Comments:	N/A
<b>C. Component 3: Stakeholder Engagement, Capacity Building, and Communications</b>	
Status:	<p><b>Readiness process for implementation:</b></p> <p><b>Component 3: Stakeholder Engagement, Capacity Building, and Communications</b></p> <p>To date the progress has been made in the following activities as they relate to the contracting processes:</p> <ul style="list-style-type: none"> <li>• Terms of Reference</li> <li>• EOI</li> <li>• Proposals of interested firms</li> </ul> <ul style="list-style-type: none"> <li>• <b>Component 3 has the following deliverables:</b></li> </ul>

	<ul style="list-style-type: none"> <li>• Inception report with the understanding of national circumstances surrounding the development of and PNCTE, MRV, and NDC.</li> <li>• Design for the stakeholder mapping exercise and the tool(s) to carry out the market research.</li> <li>• Stakeholder mapping report, including summary of main groups and positions</li> <li>• Market research report.</li> <li>• Inventory of existing internal and external communications channels, and analysis of past climate change policy communications and stakeholder engagement processes.</li> <li>• Draft stakeholder engagement, capacity building, and communications strategy.</li> <li>• Final stakeholder engagement, capacity building, and communications strategy.</li> </ul>
Comments:	N/A

## 2. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<p><b>Important policy or regulatory developments related to the Grant’s objectives and activities:</b></p>
<p><i>Developments:</i></p> <p>During the reporting period laws and policy that support the continuity of the initial phase of the PNCTE (Law 1931 2018) and the regulation of the Monitoring, Reporting and Verification System (Resolution 1447 2018) have been issued.</p> <p>The following advances are based on what was established in the National Climate Change Policy, which shows which economic instruments will allow for the development of low-carbon and resilient climate. On the other hand, chapter IV of the National Development Plan 2018-2022 “Pacto por Colombia, pacto por la equidad” the design for this program is envisioned, which is one of the market strategies to incentivize the private sector to reduce its greenhouse gas emission. Finally, the development of the governance framework for the project will be fundamental for the coordination and the achievement of the proposed objectives in each of the components established.</p> <p><i>Challenges:</i></p> <p>The timeframe for the PNCTE regulation is three years starting in 2018. The challenge implies challenges regarding the effective connection of the interest groups, involved in the design process of the PNCTE and the institutionalization, at the public and private level.</p> <p><i>Lessons learned:</i></p> <p>The joining of the different government parts is key so the process is not an isolated initiative before the challenges faced by the country. The sustainability agenda will be considered transversal to the</p>

development, as established in the Bases of the National Development Plan 2018-2022 “Pacto por Colombia, pacto por la equidad”.

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

*Developments:*

Due to the changes to the framework of the climate change policy in the country it was necessary to refocus the structure of the operational plan. These developments are reflected in the new components under the grant. This refocus aligns with the objectives in the climate change policy, established by the Government of Colombia.

*Challenges:*

The different components are inter-related and require close coordination among the technical groups and the activities that are being carried out. Additionally, there is a need to have quality and timely Information for the design of the different elements that make up the PNCTE.

On the other hand, it is necessary to show to the sectors that the market mechanism contributes to improvements in productivity and technological changes, beneficial to the economic undertakings, independent of benefits associated with the Greenhouse Gases

According to the profile of emissions in the country, the main source of emissions in the forestry and other land uses sector. An additional technical challenge that needs to be evaluated in the medium-long term is to incorporate the agricultural sector in the PNCTE, so it’s a system that is more equal in terms of the regulation.

*Lessons learned:*

*Not applicable yet*

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

*Developments:*

The legal framework of the Law 1931 (2018) not only generates uncertainty in the development of the PNCTE, but facilitates communication required among the different parts of the government and in the private sector. The references to the process of the design of the ETC as a strategy of the Sustainability Agreement in the National Development Plan 2018-2022, reflects the political will to advance in the development of this instrument.

Lastly, it’s important to highlight the technical and financial support that the country will receive from the PMR with the contracting of two consultants that will form part of the DNP and MADs team, they will be in charge of the coordination and follow up of the activities that will be developed in the work plan established in the framework of the project.

*Challenges:*

An important challenge is the gap of time in the establishment of the regulation of the PNCTE due to the law and the time necessary for the capacity building of actors in relevant institutions of the program.

*Lessons learned:*

*Not applicable yet*

<p><b>Coordination with other carbon pricing initiatives, including those funded by other donors:</b></p> <p><i>Developments:</i></p> <p>Related to the PNCC framework planning development programs in the short, medium and long term have been established. The Colombian Carbon Development Strategy (ECDBC) aims to delink national economic growth from emission of greenhouse gas trying to maximize carbon efficiency of the economic activity of the country.</p> <p><i>Challenges:</i></p> <p>To achieve the Coordination of the teams that make up the ECDBC, the teams will take part in the design process of the ETS, MRV and Communications Strategy, Capacity Building and outreach to the public. The aim is to send coordinated messages with the objectives of the program together thus avoiding where possible distortions, redundancy with the government and non-government interest groups.</p> <p><i>Lessons learned:</i> Not applicable yet</p>
<p><b>Stakeholder engagement related to the Grant's activities:</b></p> <p><i>Development:</i></p> <p>The project foresees in its Component III <i>Stakeholder engagement, capacity building, and communications</i> direct activities with interest groups. To date there are TORs, EOIs and proposals by the interested firms and have been presented.</p> <p><i>Challenges:</i></p> <p>Effectively communicate the relevance of the ETS as a mechanism not only for the mitigation of greenhouse gas but also as the drive of transformational changes in the country's economy.</p> <p>Achieve to integrate the technical aspects of the ETS design with the negotiated model of the regulated agents in a way that one can begin to see the tangible results in the short, medium and long term that contribute to the economic and social development of the country.</p> <p>Identify mechanism for the capacity building and operational development that transcends the workshops, meetings with interest groups. In other words, find new ways of involving the interest groups in these types of exercises.</p> <p>.</p> <p><i>Lessons learned:</i> Not applicable yet</p>
<p><b>Other issues related to the Grant's activities</b></p> <p>N/A</p>

### 3. ADDITIONAL INFORMATION

#### Overview of project implementation arrangements / esquema de gobernanza del proyecto

