

BRAZIL MRP IMPLEMENTATION STATUS REPORT (ISR)

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Brazil
Reporting Period:	From 10/01/2016 to 09/30/2017
Report Date:	09/29/2017
Implementing Agency:	<i>Ministry of Finance</i>
Contact Person:	Aloisio Lopes Pereira de Melo – General Coordinator for Environment and Climate Change of the Secretariat for Economic Policy

Grant Executed By:	<i>World Bank</i>
Grant Effectiveness and Closing Dates:	05/06/2015 – 06/11/2017
Grant Amount (USD):	USD 3,000,000.00
Funding mobilized (USD):	N/A
Funding committed (USD):	<p>USD 1,604,400 (commitments + expenses), including:</p> <ul style="list-style-type: none"> - Component 1: USD 900,000 (committed) - Component 3: USD 550,400 (committed) - Expenses: USD 150,000 <p>Up to USD 1,000,000 must be committed to implement Component 2 (2A: up to USD 700,000; 2B: up to USD 300,000). Further expenses: one seminar, two technical workshops, additional consultation activities for Component 2B.</p>

2. OVERVIEW

Brazil has been involved in the PMR since its operationalization in October 2011. In particular, the Partnership Assembly (PA) approved Brazil's Organizing Framework in May 2012, after which the preparation of the MRP started. The main deliverables of the MRP preparation

phase were the study “Macroeconomic Assessment of Price-based Instruments to Implement a Voluntary National Emissions Reductions Targets in Brazil”, as well as the following three reports: 1) Review of the Economic Literature on the Adoption of Tax as an Instrument of Emissions Pricing; 2) International Experiences with Carbon Taxes; and 3) Design Options for GHG Taxation Mechanisms.

The draft MRP was presented at the 9th meeting of the PA in Cologne, Germany and the PA approved electronically the final MRP and allocated implementation phase funding to Brazil in August 2014. Component 1 of the MRP focuses on analytical studies aiming to develop alternative design options, covering both carbon tax and ETS policy options. Component 2 is designed to apply different tools to assess the impacts of the market-based instrument(s) proposed in the Component 1, while Component 3 is dedicated to the communication, consultation and engagement process.

The grant became effective on May 6, 2015, after the conclusion of the arrangements for its execution through the World Bank directly, following which the implementation phase was initiated. As of now, the activities are following the expected timeline.

The governance framework of the Project was established in October 19, 2015, by an ordinance of the Ministry of Finance which created the Executive Committee, formed by representatives of the World Bank and Ministry of Finance (Secretariat for International Affairs and Secretariat for Economic Policy), who are in charge both to lead and to oversee the implementation of the Project and its accountability.

This ordinance also created a Working Group formed by representatives from each department of the Secretariat for Economic Policy, in order to provide technical support for the Project; and allowed the Executive Committee to establish an Advisory Committee for the project.

The Advisory Committee was then created and consists of the World Bank, Ministry of Finance along with seven other ministries, as well as civil society, research and business organizations, gathering 20 members altogether. There have been two meetings so far, in 09/29/2016 and 03/15/2017.

3. IMPLEMENTATION REPORT BY COMPONENT

Differences between the Objectives/Activities in the Market Readiness Proposal and the Grant Agreement

<p>Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal and endorsed by the Partnership Assembly of the PMR and those agreed to in the Grant Agreement with the Delivery Partner and described in the Project’s Results Framework?</p>	<p>No.</p>
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There are no important differences between the objectives and corresponding activities proposed in the MRP and those agreed in the grant. Nevertheless, for the sake of completeness, some detail will be provided on the planning for procurement of consultant services to support the planned activities in the MRP.

Activity 1 (Mapping sector policies already in place in relevant economic and emissions sectors) of Component 1 (Studies to inform policy design and modeling) is still ongoing now and must be concluded by December 2017. Activity 2 (Design of policy scenarios for carbon tax and ETS) of Component 1 has started and must deliver the proposal of a policy package by May 2018. There are no changes in the outcomes of Activities 1 and 2. Activity 1 will deliver 11 sectoral studies that include mapping policies of the industrial sector (with 7 subsectors), agricultural, (electric) power sector and fuels. Activity 2 will deliver the design of carbon pricing instruments (C-tax and/or ETS) to inform modeling work and regulatory impact analysis on Component 2.

This approach will avoid lack of continuity and loss of information and will ensure alignment between the outcomes, in addition to optimizing time use and costs.

Implementation Progress by Component

A. Component 1: Studies to inform policy design and modeling	
Scope	The sectoral studies have been redivided into 4 groups: industry, including seven sectors (aluminum, lime, glass, cement, iron & steel, chemicals, pulp & paper), electricity, fuels and agriculture sectors.
Status:	<i>Ongoing</i>
Comments:	<p>Component 1 studies are being carried out by a group of firms led by WayCarbon, that is working together with national partners from the Federal University of Rio de Janeiro (UFRJ), the Center for Advanced Studies on Applied Economics of University of São Paulo (CEPEA) and Volga Consultoria, as well as with international firms, Vivid Economics and Ricardo Energy and Environment.</p> <p>Component 1 has the following deliverables:</p> <ul style="list-style-type: none"> - Product 1: Mapping of market structure, GHG emissions, mitigations options and policies for electricity and fuels; - Product 2: Mapping of market structure, GHG emissions, mitigations options and policies for industry and agriculture; - Product 3: Interactions between existing policies and carbon pricing instruments; international experience and recommendations for electricity and fuels; - Product 4: Interactions between existing policies and carbon pricing instruments; international experience and recommendations for industry and agriculture.

	<p>A first approach on the sectors' key characteristics has been delivered for all sectors, in Products 1 and 2. The national and international teams are now working on Products 3 and 4, focusing on the interactions between the sectoral policies and carbon pricing instruments (CPI) and on proposals of packages of CPIs (C-tax and/or ETS) and policy adjustments needed to create synergies and reduce undesirable interactions and side effects.</p>
B. Component 2: Impact assessment of Carbon Pricing	
Scope	<p>Economic, social and environmental impact assessment, which includes adaptation of a Economic Forecasting Equilibrium System – Computable General Equilibrium (EFES CGE) model and/or development of Partial Equilibrium (PE) model(s) and a Regulatory Impact Analysis (RIA) of carbon pricing instruments. Its objective is to assess the economic impacts of the policy designs that are recommended by Activity 2 (proposal of a package of CPIs and policy adjustments) of Component 1.</p> <p>Component 2 has been divided into 2 contracts: 2a, which consists of economic modeling and 2b, which consists of the RIA.</p>
Status:	<i>Procurement process</i>
Comments:	<p>The contracting processes of Component 2 (2a and 2b) are in the stage of evaluation of proposals.</p> <p>The contracting processes are ongoing after an initial delay. Firstly, a thorough revision of the ToRs was carried out in order to avoid the lack of sufficient proposals submitted in the tender. Secondly, a delay in approving the shortlists after the stage of expression of interest, which, in the case of Component 2a, incurred the need to postpone the call for ToR clarifications.</p> <p>Both processes should be completed by November 2017.</p>
C. Component 3: Awareness Raising and Capacity Building	
Scope	<p>Communication, consultation and engagement through (a) seminars for awareness raising and (b) engagement and technical workshops on economic modeling.</p>
Status:	<i>Ongoing</i>
Comments:	<p>The Project team has produced the I Seminar (Dec., 2016), I Workshop (Dec., 2016) and II Workshop (May, 2017).</p> <p>The II Seminar took place on October 5th and 6th of 2017, brought to the public more international experiences, recalled the previous work done on MRV systems, addressed competition issues and debated further on sector approaches of CPIs, with the participation of the Component 1 team.</p>

	<p>The Advisory Committee established on April 27, 2016 and consists of the World Bank, the Ministry of Finance along with seven other ministries, as well as civil society, research and business organizations, gathering 20 members altogether. There have been two meetings so far, in 09/29/2016 and 03/15/2017.</p>
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4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

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

Developments: Brazil submitted its INDC to the UNFCCC Secretariat in September 2015, intending to commit to an absolute, economy-wide target of reducing 37% of its 2005 GHG emissions by 2025, with indication of a subsequent reduction of 43% below 2005 levels by 2030. Brazil is considering the mechanisms under article 6 of the Paris agreement as part of the package of instruments that will be mobilized to meet the targets. This approach reinforces the importance and the strategic role of Brazil's MRP for the definition of possible carbon pricing mechanisms in Brazil in the post-2020 period.

The Paris Agreement was approved by the Brazilian Federal Senate on August 11, 2016, and was ratified by the President of Brazil (Decree 9073, June 5, 2017). The fast and consensual approval process highlighted the priority given by the Brazilian government (both the Executive and Legislative branches), as well as stakeholders from civil society and the private sector, for the climate change agenda.

In 2016, the Brazilian Forum of Climate Change (FBMC) launched a consultation process to collect and systematize proposals for the NDC implementation strategy. FBMC gathers government agencies, academia, private sector and civil society organizations in order to advise the President of Brazil in issues related do Climate Change. The consultation process was structured in 9 thematic groups and must deliver a first set of recommendations by the end of 2017.

A review of the National Policy on Climate Change governance was launched in 2017. Under the guidance of the Civil Cabinet of the Presidency, a new framework should be concluded by the end of 2017, aiming at improving the coordination of initiatives and providing a high level decision making process.

Challenges: The coordination of the analytical work under the MRP with the elaboration of the NDC implementation strategy, which may include a range of policy instruments (regulation, voluntary agreements, incentives), besides carbon pricing instruments.

Another challenge for the MRP, given the central role of forests in the Brazilian post-2020 mitigation agenda, is the definition of the role of and suitable approaches to carbon pricing instruments for activities such as the promotion of reforestation, as well as recovery of pastures and climate-smart technologies in agriculture.

Since the end of 2016, the Ministry of Mines and Energy has been developing a trade scheme based on emissions avoided by biofuels relative to a 100 percent fossil scenario. This scheme is still in development, but it can closely interact with a CPI.

The Ministry of Mines and Energy is also envisaging a power sector reform, aiming at reforming tariffs and improving energy security. The measures haven't been established yet, and so it is difficult to understand how they may interact with a carbon pricing instrument.

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

Developments: As informed in the last ISR, Brazil's MRP Executive Committee decided to consolidate Activities 1 (Mapping sector policies already in place in relevant economic and emissions sectors) and 2 (Design of policy scenarios for carbon tax and ETS) of Component 1 (Studies to inform policy design and modeling) into one single Term of Reference, with no changes in the outcomes. This approach will avoid lack of continuity and loss of information, as both activities will be implemented by the same Consultants, and will ensure alignment between the outcomes, in addition to optimizing time use and costs.

Challenges: The consolidation of Activities 1 and 2 of Component 1 impacted the procurement process, due to the increase of the contract value and, as a consequence, the requirement of a high WB's Procurement Committee located in Washington to participate in the selection process. The timeline had to be adjusted to reflect the new deadline for the outputs of Component 1 and its impacts on other activities, especially Component 2.

Lessons learned: The new timeline also reflects a more realistic view of length of the procurement processes.

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

Developments: Regular capacity building activities will be necessary to endow the Ministry of Finance team with the knowledge and skills necessary for monitoring and following up on PMR implementation. In this regard, team members' participation in technical workshops and courses related to carbon pricing instruments, climate change issues and sharing of experiences with other partners will be very important.

Challenges: No bottlenecks related to capacity issues have been observed to date. The project team is mindful of the need to build the specific skills necessary to assess the outcomes of the studies undertaken as part of the MRP and to discuss these issues with experts and society. All of the activities supported by the PMR (and in particular Component 3) are expected to contribute to improving these capacities – both those activities carried out under the MRP as well as other activities carried out by PMR and other support tracks, such as technical workshops.

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

Developments: The Project "Mitigation Options of Greenhouse Gas Emissions in Key Sectors in Brazil" (MOP) has been underway since 2013, under the leadership of the Ministry of Science, Technology and Innovation (MCTIC) and supported by the Global Environment Facility (GEF). The MRP team in the Ministry of Finance is part of the MOP Technical Committee and has been following the development of that Project, to be concluded in the next few months. Activity 1 of Component 1 (Sectoral studies) of the MRP already made use

of information consolidated by the MOP. Besides, as indicated in the MRP, it is expected that the assessment of social and economic impacts of carbon pricing instruments (Component 2) will be made through a package of models based on the previous work developed under the MOP. In order to facilitate further exchange of databases and other relevant information, a technical cooperation agreement between Ministry of Finance and MCTIC was established in July 2017.

Additionally, the Brazilian Government and the Federal Republic of Germany launched the Project “Policies on Climate Change Programme (PoMuc)” which was formalized in July 2016. One of the Project’s Outputs (Output 6) is the development of the fundamentals for a National GHG Reporting Program and the resulting national GHG emissions/removals registry, which is one of the building blocks for implementing carbon pricing instruments. The project is implemented by GIZ under the coordination of the Ministry of Environment and the Ministry of Finance. Activities of Output 6 will begin in November 2017 and will be closely integrated with MRP activities.

Challenges:

It is important to ensure continued complementarity between the activities under the MRP and the projects referred to above. More specifically, it is intended that products elaborated by these projects will serve as inputs to component 2 of the MRP.

Considering the active participation of the PMR team in the implementation of the MOP project, the risk of lack of compatibility between the products developed by the MOP and the inputs necessary for the MRP is mitigated.

Regarding the “Policies on Climate Change Programme (PoMuc)”, the main challenge was related to the uncertainty on the timing of the delivery of products that will feed into the MRP activities. However, this issue was mitigated since PoMuc Output 6 is starting activities and its deadlines were adjusted to a timely delivery of inputs to the MRP.

Stakeholder engagement related to the Grant’s activities:

Developments: Since the MRP approval, many Brazilian institutions and experts have been in contact with the Ministry of Finance in order to understand the Project and its outcomes. Discussions on market mechanisms under the UNFCCC and the advance of domestic initiatives in Latin-America and other regions also increased the interest from private sector organizations on the carbon pricing agenda. The MRP team in MoF has participated in several meetings and events to present the MRP and to coordinate its implementation with other initiatives in Brazil. Also, the Advisory Committee was established with a broad participation of the Federal Government, private sector and civil society.

The Advisory Committee includes:

- i) Representatives of the Federal Government: Ministry of Agriculture, Livestock and Food Supply; Ministry of Environment; Ministry of Mines and Energy; Ministry of Science, Technology, Innovation and Communication; Ministry of Foreign Affairs; Ministry of Industry, Foreign Trade and Services; Ministry of Planning, Development and Management; Institute for Applied Economic Research; and Energy Research Agency.

- ii) Representatives of relevant stakeholders from the private sector: National Confederation of Agriculture and Livestock (CNA); National Confederation of Industry (CNI); Brazilian Federation of Banks (FEBRABAN)
- iii) Representatives from relevant organizations currently involved with climate change issues in Brazil: Rede Clima; Brazilian Business Council for Sustainable Development (CEBDS); Platform of Companies for Climate (EPC); Ethos Institute; Brazil Climate Observatory.

The main role of this committee will be supporting the PMR Project reaching its goal of raising awareness and building capacity among the different stakeholders attending the workshops, as well as to provide inputs to the seminars planned under Component 3.

The first meeting of the Advisory Committee was held in Brasilia, in September 29, 2016, and all representatives nominated attended it. The first part of the meeting was dedicated to present an overview of the PMR initiative and the activities to be implemented under the Brazilian MRP. In the second half of the meeting, the proposals for dates and agenda of the first seminar were presented, in order to collect comments and suggestions from the audience.

The second meeting of the Advisory Committee was held in Brasilia, in March 15, 2017, also with the attendance of the representatives plus additional participants (Civil Cabinet of the Presidency, Secretariat of Economic Monitoring MoF, leading team of MRP Component 1). The agenda comprised the update on the MRP implementation; the workplan and analytical scope of Component 1; evaluation of the first round of Component 3 activities (I Seminar, I Technical Workshop) and preparation of the second round (II Technical and II Seminar).

Challenges:

The main challenge is to bridge the gap between a broad range of expectations of all stakeholders and also to deal with the different levels of knowledge on what a carbon pricing instrument really is and what it is able to do.

The I Workshop held in December 2016 gathered experts in economic modeling to debate carbon pricing and help shape the ToR of Component 2a. The I Seminar also held in December 2016 gathered participants from the government, society and the private sector in an effort to understand the basics of carbon pricing and learn from the international experience. The II Workshop held in May 2017 gathered government and private sector participants in an effort to debate the characteristics of the different sectors involved in the MRP and to contribute in a first approach brainstorming on potential interactions between sector policies and carbon pricing.

The II Seminar (Brasilia, October 5 and 6) was the result of a closer cooperation between the Brazilian MRP and other initiatives related to carbon pricing in Brazil. The event was organized jointly by the MRP team, the National Confederation of Industry and the Carbon Pricing Leadership Coalition – CPLC in order to optimize efforts and resources and to allow the engagement of new stakeholders, both in government and the private sector.

Other issues related to the Grant's activities

None.

5. ADDITIONAL INFORMATION