

BRAZIL MRP IMPLEMENTATION STATUS REPORT (ISR)

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Federative Republic of Brazil
Reporting Period:	From 05/06/2015 to 09/30/2015
Report Date:	10/09/2015
Implementing Agency:	Ministry of Finance
Contact Person:	Aloísio Lopes Pereira de Melo – General Coordinator for Environment and Climate Change of the Secretariat for Economic Policy

Grant Executed By:	World Bank
Grant Effectiveness and Closing Dates:	05/06/2015 – 06/11/2017
Grant Amount (USD):	USD 3.000.000,00

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 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 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.

On November 3, 2014, the Secretariat of Economic Policy of the Ministry of Finance, through *Ofício* nº 3/2014/SPE, provided the World Bank Office in Brazil with the assessment that the

most effective implementation arrangement for Brazil's MRP would be as a Bank-executed project. Building upon this consultation, it was established by both the World Bank and the Ministry of Finance that the Brazilian MRP grant could be implemented directly by the World Bank with the support of and in coordination with the Ministry of Finance.

The World Bank indicated its acceptance of the proposed implementation arrangements in February 2015. At that time, it also provided more details about the roles of the different actors involved and governance arrangements, including the suggestion to establish an Executive Committee to oversee the implementation of the MRP. Subsequently, the Vice Minister of Finance answered the World Bank through "Ofício nº 10.361/SE" of May 6, 2015 expressing his agreement with the terms that had been put forward by World Bank, including on the accountability process among Executive Committee powers, in order to follow up the disbursement of the Project and demonstrate transparency about the resources used.

The grant became effective on May 6, 2015, following which the implementation phase was initiated. The grant was funded with US\$ 3.000.000,00 and will last 30 months from May 2015 to November 2017. As of now, the activities are following the expected timeline.

First, the PMR Executive Committee will be set up through an ordinance of the Ministry of Finance, which is being finalized and is expected to come into force before the end of 2015.

In July 2015, the bidding process to contract Component 3 of the MRP (awareness raising and stakeholder engagement) began. The first stage of this process, a call for expressions of interest, was concluded and the second stage, which includes an invitation to firms selected from the first stage to submit proposals, will begin in October 2015.

The preparation of the Terms of Reference for Component 1 (sector studies and elaboration of options for the design of carbon pricing instruments) is in final review, and the procurement process is expected to start in early November. Its objective is to make a deep and broad analysis about main carbon emissions sectors of the Brazilian economy and gather information needed to input the Component 2, which will deliver the impact assessment of the carbon pricing instruments on the economy and a regulatory impact analysis of them. The deliverables of this component will be input for the Component 2, in order to provide the information needed to make the impact assessment and the regulatory impact analysis of the carbon pricing instruments on the economy.

Regarding component 2, ToR preparation will start after the bidding processes related to components 1 and 3 are completed. This is expected during the second quarter of 2016.

3. IMPLEMENTATION REPORT BY COMPONENT

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

Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal	No.
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<p>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>	
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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, we would like to provide some detail on the planning for procurement of consultant services to support the planned activities in the MRP. We 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). There are no changes in the outcomes of Activities 1 and 2. Activity 1 will deliver 9 sectoral studies that include mapping policies of the industrial sector (with 7 subsectors), agricultural and energy sectors. Activity 2 will deliver the design of carbon pricing instruments (C-tax and/or ETS) to inform modeling work 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	<p>Considering that carbon pricing policies need to take account interactions among the sectors involved, the first component of the MRP is to commission a set of nine sector studies about the policies already in place in each sector. The sectors that will be studied are industry, including seven subsectors (aluminum, lime, glass, cement, iron & steel, chemicals, pulp & paper), energy and agriculture. Furthermore, this component will also include policy options for the design of carbon pricing instruments (C-tax and/or ETS) to inform modeling work under Component 2, as mentioned above.</p>
Status:	Under implementation.
Comments:	<p>The ToR for Component 1 is in the final stages of preparation. The procurement process for contracting consultants is expected to be launched in early November 2015.</p>
B. Component 2: Modeling work on the economic impacts of Carbon Pricing	
Scope	<p>Impact assessment which includes adoption of Economic Forecasting Equilibrium System – Computable General Equilibrium (EFES CGE) model and/or development of a Partial Equilibrium (PE) model and a regulatory impact analysis of carbon pricing instruments. Its objective is to assess the economic impacts of the policy designs that are eventually recommended by activity 2 of component 1.</p>

Status:	<i>Planned.</i>
Comments:	This task depends on the deliverables of component 1. Based on the timeline of the project, this task is expected to start in the second quarter of 2016.
C. Component 3: Awareness Raising and Capacity Building	
Scope	Communication, consultation and engagement through (a) seminars for awareness raising and (b) engagement and technical workshops on economic modeling.
Status:	Ongoing.
Comments:	The procurement process for this component began in July 2015. Six firms expressed interest and were then included in the short list for the request for proposals, which will be issued in October 2015.

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 use of market mechanisms under 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.

Challenges: One important challenge is the coordination of the analytical work under the MRP with the design and assessment of other policy instruments (regulation, voluntary agreements, incentives) that shall integrate the implementation package of the INDC. Another challenge for the MRP, given the central role of LULUCF 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 control of deforestation and promotion of reforestation (included in REDD+), as well as recovery of pastures and climate-smart technologies in agriculture.

Lessons learned: N/A

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: As Brazil is in the beginning of the project, 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. The activities supported by the PMR 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 and supported by the Global Environment Facility (GEF). As indicated in the MRP, it is expected that the assessment of social and economical impacts of carbon pricing instruments will be made through the package of models developed under the MOP. The MRP team in the Ministry of Finance is part of the MOP Technical Committee and has been following the development of that Project.

Additionally, the Brazilian Government and the Federal Republic of Germany have formally agreed to launch the Project “Sector Plans Programme,” which is expected to be signed before the end of the year. One of the Project’s Outputs is the development of the fundamentals for a National GHG Reporting Programme and the resulting national GHG emissions/removals registry, which is one of the building blocks for implementing carbon pricing instruments. This project will be implemented by GIZ under the coordination of the Ministry of Finance.

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 “Sector Plans Programme” project, the main challenge relates to the uncertainty on the timing of the delivery of products that will feed into the MRP activities. However, this issue is mitigated by the fact that inputs from the GIZ-implemented project will only converge with the MRP activities in later stages, towards the end of MRP implementation.

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 the region and abroad also increased the interest from private sector organizations on the carbon pricing agenda. The MRP team in MoF has been participating in several meetings and events to present the MRP and to coordinate its implementation with other initiatives in Brazil. Once approved, the ordinance establishing the MRP governance (see more detail below) will allow the institution of an Advisory Committee, with participation of private sector and civil society representatives, besides national and subnational agencies.

Challenges:

The main challenges will be defining an appropriate composition of the Advisory Committee, as well as its role and functioning.

5. ADDITIONAL INFORMATION

Brazil decided, in consultation with the World Bank, that its MRP should be a Bank-executed project. This arrangement will streamline administrative processes and facilitate the quick start of implementation, compared with other execution arrangements. In addition, this approach will allow for the World Bank to provide focused support closely linked to its technical expertise, helping in the effective delivery of the results expected in the MRP. As part of the agreement for the MRP to be Bank executed, it has been decided that all decisions that the Bank must make to execute activities will first be discussed and agreed upon with the Ministry of Finance.

In particular, to maintain ownership over the program, Brazil will adopt a system of governance established by an ordinance signed by the Ministry of Finance. This ordinance will create an MRP Executive Committee, that is composed of representatives from the Secretariat for Economic Policy; Secretariat for International Affairs (both from the Ministry of Finance); and the World Bank project manager. The execution of activities under the MRP will be coordinated and oriented by the Executive Committee, which will also be responsible for the elaboration and revision of the workplan and timetables; monitoring of the budget and financial execution; and the approval of ToRs and products delivered by consultants. The ordinance will also allow for the creation of an Advisory Committee to support the implementation of the MRP.