

## BRAZIL MRP IMPLEMENTATION STATUS REPORT (ISR)

### 1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Federative Republic of Brazil
Reporting Period:	From 10/01/2015 to 09/30/2016
Report Date:	10/04/2016
Implementing Agency:	<i>Ministry of Finance</i>
Contact Person:	Aloísio 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):	USD 552,997.22 (commitments + expenses)

### 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 9<sup>th</sup> 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 the 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.

### 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>
<p>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.</p> <p>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) were consolidated. 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.</p> <p>This approach will avoid lack of continuity and loss of information and will ensure alignment</p>	

between the outcomes, in addition to optimizing time use and costs.

### **Implementation Progress by Component**

<b>A. Component 1: Studies to inform policy design and modeling</b>	
Scope	<p>Considering that carbon pricing policies need to take into 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 &amp; steel, chemicals, pulp &amp; 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> <p>The contracting process of the Component 1 (sectors studies and elaboration of options for the design of carbon pricing instruments) is in the stage of evaluation of proposals. This process should be completed by October 2016. Its objective is to make a deep and broad analysis about the main carbon emitting 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.</p>
Status:	<i>Under implementation.</i>
Comments:	<p>The contracting process is ongoing after a delay due to a procurement process which was eventually more complex than initially foreseen. Because of the size and the innovative aspect of this component, the process had to include additional steps:</p> <ol style="list-style-type: none"> <li>1) Brasil 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. As a result, the estimated contract value increased around USD 1 million and, by the rules of the World Bank, the selection process had to be escalated to a higher level of procurement scrutiny in Washington for an additional quality supervision process.</li> </ol>

	<p>2) A phase of questions &amp; answers including a collective session to explain the ToRs to interested firms was co-organized by the World Bank and the Ministry of Finance.</p> <p>The evaluation of proposals and contract awarding is expected by end of October 2016.</p> <p>A new project timeline was established in order to accommodate the delay in the procurement process of Component 1 and its impacts in other project activities. In the new timeline, the conclusion of the Component 1 should be by November, 2017 and all MRP activities should now be concluded around the last quarter of 2018.</p>
<b>B. Component 2: Modeling work on the economic impacts of Carbon Pricing</b>	
Scope	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.
Status:	<i>Planned.</i>
Comments:	This task depends on the deliverables of component 1 related to the design of carbon pricing instruments to be evaluated through the modeling work of Component 2. Regarding this component, ToR preparation will start after the bidding process related to component 1 be completed. This is expected around the end of the second quarter of 2017.
<b>C. Component 3: Awareness Raising and Capacity Building</b>	
Scope	Communication, consultation and engagement through (a) seminars for awareness raising and (b) engagement and technical workshops on economic modeling.
Status:	Ongoing
Comments:	<p>The contracting process for Component 3 of the MRP (awareness raising and stakeholder engagement) was completed in August 2016. The contract for the implementation of Component 3 was awarded to <i>Getúlio Vargas Foundation (FGV)</i>. Thus, the implementation of this component is in its early stage.</p> <p>The economic expert who will be in charge to support the economic assessment and the design of the workshops and seminars is working in the premises of the Ministry of Finance, alongside the project team, and the first delivery (Work Plan) is being prepared by FGV in partnership with the Ministry of</p>

	<p>Finance and the World Bank.</p> <p>In addition, the Project team is already preparing the first Workshop and the first Seminar, which are planned for early December of the current calendar year.</p> <p>The Advisory Committee was established on April 27 and its first meeting took place in September 29, 2016.</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, Michel Temer, on September 12, 2016. 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.

*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 NDC.

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.

##### **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, once is guaranteed that 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 to the selection process. The timeline had to be adjusted, in order to reflect the new deadline for the outputs of Component 1 and its impacts in 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:* 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. 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 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 launched the Project "Sector Plans Programme" which was formalized in July 2016. 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 Environment and 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 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 and Technology; Ministry of Foreign Affairs; Ministry of Industry, Foreign Trade and Services; Institute for Applied Economic Research.
- 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. On 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 main comments received were:

- (i) the project should include studying whether forestry could be among the sectors potentially included in a pricing mechanism in the country,
- (ii) a call for attention to the financial impacts dimension when analyzing the different options for designing the instrument(s); and
- (iii) concerns about the number of participants that were planned to attend the

seminar, which some representatives of the Advisory Committed considered too low (100 people) and asked for more room.

*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.

**Other issues related to the Grant's activities**

None.

## 5. ADDITIONAL INFORMATION

The PMR Secretariat organized in February 2016 a Technical Workshop about "Post-2020 Mitigation Scenarios & Carbon Pricing Modelling". This event provided a relevant opportunity to start the engagement process of Brazilian stakeholders in the implementation of the MRP, in particular for researchers. Presentations and discussions on the international experience on carbon pricing modeling and analysis of policy interactions were highly valued.