

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Brazil
Reporting Period:	From 10/01/2018 to 09/30/2019
Report Date:	09/23/2019
Implementing Agency:	<i>Ministry of Economy</i>
Contact Person:	<p>Marco Aurélio Araújo - General Coordinator for Global Development Institutions of the Secretariat for International Economic Affairs, Ministry of Economy</p> <p>Ana Luiza Champloni – General Coordinator for Environment and Climate Change of the Secretariat for Economic Policy, Ministry of Economy</p>

Grant Executed By:	<i>World Bank</i>
Grant Effectiveness and Closing Dates:	05/06/2015 – 06/30/2020
Grant Amount (USD):	USD 3,000,000.00
Funding Mobilized (USD):	N/A
Funding Committed (USD)	<p>USD 2,813,512 (commitments + expenses) or approximately 94% of the grant's total value, including:</p> <ul style="list-style-type: none"> - Component 1: USD 1,011,054 (committed) Main contract: USD 900,000 (committed) Contractual amendment: USD 111,054 (committed) - Component 2a: USD 588,000 (committed) - Component 2b: USD 274,200 (cancelled): USD 100,550 (Paid for) New hiring: USD 204,868 (committed via contractual amendment to Component 3) - Component 3: USD 863,908 (committed) Main contract: 550,400 (committed) Addendum: USD 108,640 (committed) - Expenses: USD 250,000 (I, II Seminars; I, II, III, IV Technical Workshops; Technical Coordination; and smaller and more specific workshops)

2. OVERVIEW

Please provide a general description of the progress made towards the Grant's Objectives and Activities (as per the Project Development Objective(s) Indicator(s) and Intermediary Results Indicator(s) included in the World Bank's Project Paper's Results Framework). Please also highlight critical issues as well as pending actions that may require the PA or the PMR Secretariat's attention.

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 in 2014, Germany and the PA approved electronically the final MRP and allocated implementation phase funding to Brazil in August 2014. The MRP has three components: (i) Component 1 of the MRP focuses on analytical studies aiming to develop alternative design options, covering both carbon tax and ETS policy options; (ii) Component 2 is designed to apply different tools to assess the impacts of the market-based instrument(s) proposed by Component 1; and (iii) 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 expected to be completed before the grant's closing date, on May 2020.

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 of the former Ministry of Finance (Secretariat for International Economic Affairs and Secretariat for Economic Policy), who are in charge of both the leadership and oversight of the implementation of the Project and its accountability. Following administrative changes approved in January 2019, the Ministry of Finance has been renamed as Ministry of Economy.

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 Economy along with seven other ministries, as well as civil society, research and business organizations, gathering 20 members altogether. There have been three meetings so far, in 09/29/2016, 03/15/2017 and 08/22/2018.

Project Development Objective(s) Indicator(s):

- A White Paper of policy proposals on carbon pricing instrument(s) (to be approved by the Executive Committee of the MRP and submitted to the Minister of Economy, to inform the decision-making process on the adoption of mitigation instruments as part of the National Climate Change Policy) – Writing the White Paper is the final activity of the MRP, which will start after Component 2 presents its results.

- Knowledge, awareness, and capacity built among relevant stakeholders inside and outside the government, in relation to carbon pricing instruments – 2 seminars and 4 workshops have been held, with a considerable number of participants. Other smaller meetings with representatives of sectoral associations, the government and the civil society have also been held. Additional activities are under consideration, with one more workshop and one more seminar planned until the project's completion in May 2020.

Intermediary Results Indicator(s):

Component 1:

- Studies to map the economic structure and current policies of the industrial sectors (11 subsectors) – these studies have been concluded, submitted for stakeholders' review and revised in light of the feedback received.
- Study to map the economic structure and current policies of the agriculture sector – this study has been concluded, submitted for stakeholders' review and revised in light of the feedback received.
- Studies to map the economic structure and current policies of the energy sector (power generation and fuels) – these studies have been concluded, submitted for stakeholders' review and revised in light of the feedback received.
- Design of Carbon Pricing instruments (Carbon Tax and/or Emissions Trading Scheme) – this report has been concluded and referred to the teams of Component 2.

Component 2:

- Integrated economic modelling to assess the socioeconomic impacts of the implementation of the proposed policy packages – the consultant firm finished the literature review, the scenarios description and the methodology definition and is working on model adjustments to incorporate the carbon pricing scenarios from Component 1. The final results are expected by December 2019.
- Regulatory Impact Analysis of Carbon Pricing Instruments – the initially hired consultant firm failed to deliver products that met the quality standards of the project's Executive Committee and, therefore, the contract had to be early terminated. Another firm was hired and is working on the scenarios' description and methodological development for assessing the impacts of the carbon pricing scenarios.

Component 3:

- 3 Seminars for raising awareness and engagement – 2 Seminars have been held.
- 5 Technical workshops on economic modeling – 4 Technical Workshops have been held. One extra workshop was identified as required and therefore was added to the contractual amendment.

All components are scheduled to be complete by the end of March 2020.

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	No
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<p>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>There are no important differences between the objectives and corresponding activities proposed in the MRP and those agreed in the grant. Nevertheless, the Executive Committee, based on contributions from stakeholders, has found necessary to add to the MRP a study on offsets from the forestry sector. The developments of the Forest Code implementation are leading to the creation of mechanisms that can promote reforestation and the conservation of forest land that could be legally converted into agricultural land, i.e., measures that can demonstrate additionality in climate change mitigation, such as the Environmental Reserve Quote. REDD-related measures are not included in the study.</p> <p>Moreover, a fifth Technical Workshop (still to be held) will promote the robustness of the White Paper, coordinating the contributions and understanding from all Components.</p>	

Implementation Progress by Component

<h4>A. Component 1: Studies to inform policy design and modeling</h4>	
<p>Status:</p>	<p>Under implementation</p> <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), the Center for Territorial Intelligence of the University of Minas Gerais and Volga Consultoria, as well as with international firms, Vivid Economics and Ricardo Energy and Environment.</p> <p>Component's 1 main contract has the following deliverables:</p> <ul style="list-style-type: none"> - Product 1: Report on results of the diagnosis for the Electricity and Fuels subsectors; - Product 2: Report on results of the diagnosis for the Agriculture and Industry sectors, separating the latter into the seven subsectors of the Industry Plan (Aluminum, Cement, Iron and Steel, Pulp & Paper, Chemical, Lime and Glass), plus four additional subsectors with significant potential mitigation contributions (namely Mining, Ceramic, Textile and Food & Beverages); - Product 3: Report on results of the analysis of interactions between policy instruments, propositions and recommendations for the Electricity and Fuels subsectors; - Product 4: Report on results of the analysis of interactions between policy instruments, propositions and recommendations for the Agriculture and Industry sectors; - Product 5: Report presenting recommendations for alternative scenarios of carbon pricing instrument packages, which may include one or various carbon pricing instruments, combined—or not—with proposed adjustments to instruments of

	<p>existing policies in Brazil, in order to maximize synergies, mitigate conflicts and/or prevent undesirable effects;</p> <ul style="list-style-type: none"> - Product 6: Synthesis report on the content of Products 1-5, containing the revised version of the recommended alternative scenarios for carbon pricing instrument packages. The report will be prepared after the interaction with the impact assessment teams, using the results of the economic modeling and the feedbacks from the regulatory impact analysis performed under Component 2. <p>A first approach on the sectors' key characteristics has been delivered for all sectors, in Products 1 and 2. They were submitted to stakeholders' review. The incorporation of stakeholders' comments and suggestions was part of a contract amendment, being carried out by the consultant firm.</p> <p>Products 3 and 4 have been approved by the Executive Committee. These deliverables focus on the interactions between the sectoral policies in place and potential 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. The products also survey the international experience on the subject. Product 5 was approved by the Executive Committee and referred to the consultants of Component 2.</p> <p>Products 3, 4 and 5 are still to be submitted to stakeholders' review. The incorporation of stakeholders' comments and suggestions was part of a contract amendment due to additional work needed, which is being carried out by the consultant firm.</p> <p>This amendment also includes a new study on carbon offsets from the forestry sector (not related to REDD, as stated above), to be incorporated in the design solutions of Product 6 and by the consultants of Component 2, which corresponds to the main Project Development Objective.</p> <p>The contractual amendment to Component 1 has the following deliverables:</p> <ul style="list-style-type: none"> - Products A.1.1 & A.1.2 - Systematization, analysis and elaboration of responses to comments received during the stakeholder consultation process of products 1 and 2. - Products A.2.1-A.2.4: Final versions of Products 1-4, incorporating the feedbacks from the consultations and from the interactions with the impact assessment teams. - Product A.3 – Detailing of the technical support provided to the impact assessment teams in incorporating the design aspects of the carbon pricing instrument packages in their analyzes. - Products B.1.1 & B.1.2 – Inception report and main report mapping and analyzing the methodologies for the generation of forest-based carbon assets and providing recommendations on the accounting, quantification and types of forest-based assets to be considered.
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	<p>- Products B.2.1 & B.2.2 – Inception report and main report on the quantification of the potential generation of carbon assets by forestry activities, as well as their application in carbon pricing systems.</p> <p>Products A.1.1, A.1.2, B.1.1 and B.1.2 have been approved by the Project’s Executive Committee. Other products are pending approval or yet to be delivered.</p>
<p>Comments:</p>	<p>There has been a certain delay in the achievement of the expected results due to the number and complexity of the adjustments needed in the deliverables to make them satisfactory for approval. In addition, the restrictions due to the Brazilian national elections and the transition period for the new Federal Government delayed the public consultation of reports – such consultations couldn’t be carried out during the electoral period or without the approval of higher instances of the Ministry of Economy.</p>
<p>B. Component 2: Impact assessment of Carbon Pricing</p>	
<p>Status:</p>	<p>Under implementation</p> <p>Implementation progress per contract:</p> <ul style="list-style-type: none"> • Component 2a: Integrated economic modelling to assess the socioeconomic impacts of the implementation of the proposed policy packages – the consultant firm is carrying out the activities as planned, currently working on model adjustments to incorporate the carbon pricing scenarios from Component 1. The final results are expected by December 2019. In addition to the inception report, the contract has the following deliverables: <ul style="list-style-type: none"> - Product 1: Literature review, focused on state of the art articles on the economic modeling and analysis of climate policy instruments. - Product 2: Analysis of the scenarios to be modelled, explaining how the design details will be represented and highlighting the limitations and necessary assumptions. - Product 3: Description of the methodology to be used - the process of model integration, the database and its usage and an analysis of the format of the results to be incorporated in the Regulatory Impact Analysis (RIA). - Product 4: Detailing and analysis of the simulations results, summary of the methodology and databases used, referrals to the RIA. - Product 5: Training of indicated personnel, dissemination of results. <p>Product 1 has been approved by the Project’s Executive Committee. Products 2 and 3 are being revised and pending approval. Products 4 and 5 are yet to be delivered.</p> <ul style="list-style-type: none"> - Component 2b: Regulatory Impact Analysis (RIA) of implementation of the proposed policy packages – the contract of the consultant firm initially hired to carry out the RIA had to be early terminated, since the team was experiencing difficulties in delivering products that met the quality standards of the Project’s Executive Committee and the perceived risk of non-delivery

	<p>was growing among the Project’s team. Also, the communication between parts had become a struggle.</p> <p>Since the RIA is seen by the Project’s team, as well as by every single stakeholder consulted, as a crucial step of the project - the one that would make the bridge between the technical studies performed and the political process behind the elaboration of public policy proposals – another vendor needed to be selected.</p> <p>It was decided by the Project’s Executive Committee, that the best way forward would be to elaborate a contractual amendment to Component 3, in order for the consortium to carry out the implementation of the RIA. The main reason was the level of knowledge required both in relation to RIA methodologies, which are at the heart of the contract, and in relation to the Brazil PMR Project. Considering that the Project had already been going on for two and a half years and was in its final year, it was considered that the effort to integrate a team extraneous to the Project could jeopardize the progress of the work. As Component’s 3 team had been involved in the Brazil PMR Project since its inception and the consultants have experience in RIA work (for example, having recently developed a RIA about the implementation of water markets as a possible solution to water scarcity in the Northeast of the country for the National Water Agency (ANA), it was recognized that the team would be a viable solution. Moreover, already being involved in the axis of communication and stakeholder engagement of the project, which has a strong relationship with the RIA consultation axis and having a great knowledge about the stakeholders of the project were differentials of the team that will make the referral of activities smoother. The amendment was signed and activities are currently ongoing. The final results are expected by March 2020. The contract has the following deliverables:</p> <ul style="list-style-type: none"> - Product A.1: Description of the regulatory scenarios and definition of the strategy of implementation of the RIA. - Product A.2: Definition of the methodology to be used, both for the consultations processes and gathering of additional information and for the analysis and comparison of scenarios. - Product A.3: Summary of the consultation processes, including the strategies used, the questionnaires’ applied, the stakeholders consulted, and the feedback received and its usage on the RIA. - Product A.4: Main report of the RIA, containing the analysis and comparison of scenarios and the consolidation of the main results. - Product A.5: Synthesis of the RIA process and its results and proposal of ex-post evaluation strategy. <p>All products are pending approval or yet to be delivered.</p>
<p>Comments:</p>	<p>The process of cancelling 2B’s contract and hiring the new team to carry out the work has taken more time than initially estimated. The new team has considerably less time to perform the studies than the previous one, so that the scope of work had to be adjusted and priorities had to be set. Nonetheless, the main objectives of the RIA remain unchanged and the results should be robust.</p>

C. Component 3: Awareness Raising and Capacity Building	
Status:	<p>Under implementation</p> <p>The Project team has produced the 1st Seminar (Dec., 2016), 1st Workshop (Dec., 2016), 2nd Workshop (May, 2017), 2nd Seminar (Oct., 2017), 3rd Workshop (May, 2018) and 4th Workshop (December, 2018).</p> <p>The 4th Workshop took place on December 5th and 6th of 2018 and aimed at promoting coordination and coherence among all Project's components, defining interaction points between the teams and the main next steps of each team, once all of them had been contracted.</p> <p>Regarding the events that the component must organize:</p> <ul style="list-style-type: none"> • 3 Seminars for raising awareness and engagement – 2 Seminars have been held. • 5 Technical workshops on economic modeling – 4 Technical Workshops have been held. <p>Initially only four Technical Workshops were planned. However, the project's team identified the need for one further workshop in order to guarantee the quality and cohesion of the works under each of the project's components. This extra workshop, along with an extension of term of the technical support provided to the Ministry of Economy team and an additional support to the consultation processes of Component 2B, were subject of a contractual amendment.</p> <p>Presently, only three products (out of 34) - related to the last project's workshop and seminar – are yet to be delivered. All other products have already been approved by the Executive Committee.</p>
Comments:	<p>The team of Component 3 is also carrying out the RIA, as described above. Such contract was implemented through a second contractual amendment.</p>

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important policy or regulatory developments related to the Grant's objectives and activities:
<p>Developments:</p> <p>During the reporting Period Brazil's Ministry of Mines and Energy program Renovabio was launched. It consists of a mechanism akin to a carbon market restricted to the liquid fuels sector, involving the transport sector. Renovabio makes it compulsory for fuel distributors to purchase biofuel "decarbonization" credits (CBIO) proportionally to their respective market share in the distribution of fossil fuels. In turn, each biofuel producer or importer that chooses to generate CBIO credits will be allowed to issue these credits reflecting the emissions hypothetically avoided in the biofuel lifecycle relative to the CO₂ that would be emitted in the lifecycle of its substitute fossil fuel, in case consumers chose the substitute fossil fuel instead and in case there were no compulsory biofuel blending mandates in force. The National Commission on Energy Policy shall establish each year the annual total target of CBIO credits that all fuel distributors will have to purchase. The credits are to be traded in the stock market and, at the moment, financial institutions are working on operationalizing the financial asset.</p>

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 is under development, aiming at improving the coordination of initiatives and providing a high-level decision-making process.

The fiscal crisis affecting Brazil in recent years also had some impact on the Project. A public expenditures ceiling was approved in Congress, which needs to be considered in the project's analyzes. Moreover, after the Brazilian General elections in 2018, a new government took office in 2019, with a clear goal of achieving fiscal sustainability without increasing the tax burden on the Brazilian population and private sector. Thus, the CPIs under consideration had to be adjusted to meet this requirement, i.e., the scenarios analyzed must display fiscal neutrality.

Challenges:

The first challenge is the coordination of the analytical work under the MRP with the elaboration of the NDC implementation strategy – developed primarily by the Ministry for the Environment -, 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 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. An additional study specific for the forestry sector was hired to address these concerns.

Finally, since Renovabio already resembles a carbon pricing instrument for the liquid fuels sector and may represent an extra cost component on fossil fuels to Brazilian consumers, there may be a risk of duplication of regulation on this sector, which requires attention to mitigate impacts and to try to envisage eventual complementarities, if possible.

In 2017, the Ministry of Mines and Energy envisaged a power sector reform, aiming at restructuring tariffs and improving energy security. This reform would eventually have an impact in the carbon pricing strategy. However, the reform initiative has not been completed so far, and its details are still under discussion.

Lessons learned:

There are lessons to be learned from the communication strategy that the biofuels sector used to approve the Renovabio bill in Congress. An alleged GHG emissions mitigation potential was highlighted by its supporters and the details of the complex mechanism involved haven't been fully discussed during the legislative process. This mechanism was left out of the legislation and has demanded further regulation by the Executive branch for its full implementation.

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

Developments:

Within this reporting period, the Executive Committee has worked on amendments for the contracts of Components 1 and 3. For Component 3, the amendment does not include significant technical changes, building upon previous work.

For Component 1, the amendment broadens the sectoral scope of the analysis, since it includes the forestry sector on it. The amendment also reinforces the project's connection with its stakeholders and the connection between the project's components, since it provides for the revision of reports

based on the feedbacks received during the public consultation process and for the support, by Component 1 consultants, to the impact assessment teams. This amendment was only signed in 2019, after a few months delay due to unforeseen clarifications requested by the World Bank's Procurement Committee.

Another amendment was done to Component 3, for the execution of the RIA under Component 2b. As mentioned above, the original contract of Component 2b had to be cancelled and the Project's Executive Committee decided that amending the contract of Component 3 to perform the RIA was the best way forward. The main technical aspects of the work to be performed were not modified, but some requirements had to be softened, since the new team has approximately half as much time to complete the studies.

Challenges: Update and adapt the Components' timelines in view of the amendments needed and the delays observed. Since the project's components are interdependent, delays in any component have a ripple effect on the others and the teams need to be flexible in this regard.

Lessons learned: Keep some margin of maneuver on the project's timelines, to be able to better adapt to unforeseen situations. Map risks and identify possible solutions ex-ante.

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

Developments:

Regular capacity building activities are necessary to endow the Ministry of Economy 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 are very important. 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 (in particular the technical support, the technical workshops and the seminars of Component 3 and the training activity of Component 2a) have contributed or are expected to contribute to improving these capacities.

As a Bank Executed Project, all contract-related procedures are subject to the scrutiny of the Bank's Procurement Committee. The implementation of the project has been somewhat delayed due to a lack of knowledge by the project's team in Brazil about the main thresholds, requirements and processes of the World Bank's Procurement Committee. Both the process of amending Component's 1 contract and the one of cancelling and re-hiring the Regulatory Impact Analysis were revised by the Procurement Committee, who requested a diverse set of additional information in order to approve them. The information had to be inserted in a closed form presentation and the amendments had to be cleared in a procurement's meeting that only happens once a week.

Challenges:

Knowing in which occasions the procurement will intervene, what kind of information will need to be clarified and how to expedite the process.

During the period of interest of this report, two members of the Project's Executive Committee had to be replaced. Mr. Christophe de Gouvello was replaced by Ms. Patricia Huidobro as the Project's TTL (Mr. Giovanni Ruta is now the Co-TTL), and Mr. Aloisio Melo was replaced by Ms. Ana Luiza Champloni as the representative of the Secretariat of Economic Policy of the Ministry of Economy. Since Mr. de Gouvello and Mr. Melo were involved in the Project since its inception, their departures represent both a technical and a political challenge for the Project. Nevertheless, both replacements were properly briefed and have a very good understanding about the Project. Ms. Champloni, in particular, was also involved in the project since its inception. In addition, Mr. Guido Guimarães became more involved in the Project's technical coordination to support this new phase of the project.

Lessons learned: Having flexibility to accommodate unexpected events is key. Again, having some margin of maneuver on the timeline – to postpone the term of the studies - is essential to the adaptations that might be needed.

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

Developments:

The sector studies carried out in the first deliverables of Component 1 have used data on emissions marginal abatement costs produced by the Project "Mitigation Options of Greenhouse Gas Emissions in Key Sectors in Brazil" (MOP) led by the Ministry of Science, Technology, Innovation and Communications (MCTIC), which established a technical cooperation agreement with the Ministry of Economy in order to facilitate the exchange of databases and other relevant information between both projects. 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 using inputs that are based on the previous work developed under the MOP.

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 with the participation of the Ministry of Economy. Activities of Output 6 began in November 2017 and are closely integrated with MRP activities.

More recently the project's team has engaged on talks with representatives from the private sector that support the carbon pricing agenda in Brazil. Meetings were held with representatives of the chemical sector (ABIQUIM), the National Confederation of Industries (CNI) and of the Brazilian Business Council for Sustainable Development (CEBDS).

CEBDS has a proposal for a carbon market regulating the industrial sector in Brazil and has presented its proposal to the former Minister of Finance and several other high-level Brazilian government agents. The objective of the meeting was to align the proposals, finding converge points and consensual elements to communicate the agenda.

On the other hand, CNI highlighted their constituency's concerns on the issue of competitiveness, transaction costs and additional burden on companies, topics that will merit the full attention of the project team as the RIA is carried out.

Challenges:

It is important to ensure continued complementarity between the activities under the MRP and the projects referred to above (MOP and PoMuC). 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. However, researchers who were involved in the MOP project have found inconsistencies in the first PMR Component 1 reports, an important input for improving the consultant's reports. Also, private sector stakeholders have criticized the PMR reports for using data produced in the MOP project that, as they argue, do not represent a realistic estimate of the mitigation technologies' costs and potentials. The review of reports in light of the feedbacks received in the public consultation process is supposed to mitigate this concern.

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 is being mitigated by means of a strong coordination of the activities of both projects. The 3rd and 4th Technical Workshop aimed at this coordination, once all components of the MRP had been contracted.

Lastly, perhaps the most important challenge in this last semester of the project is high-level stakeholder engagement, mainly within the Ministry of Economy. With this objective, the project's team has focused on aligning the project's narrative with some of the governments most prominent ones: the effort to increase the efficiency of Brazil's economy, which may be complementary to the use of a market-oriented instrument – a CPI – in comparison with the alternatives for climate policy (such as top-down regulations on technologies). Moreover, the abovementioned connections with private sector institutions are also meant to spur higher level attention.

Lessons learned: Comprehensive and high quality technical inputs are necessary to support decision makers in the consideration of the proper role of CPIs in the country. Further efforts to communicate the findings from the project are key at the current stage.

Stakeholder engagement related to the Grant's activities:

Developments:

On December 5 and 6, 2018, the PMR Project held a Technical Workshop (4th Workshop), with the participation of the consultants from the PoMuC project. The workshop was intended to promote the integration between components and the alignment of roles, responsibilities and objectives of the teams, as well as of the timelines. Moreover, the proposed packages of instruments – the main output of Component 1, which needs to be incorporated by Components 2a and 2b – were presented and debated.

Representatives of the project have presented it in several events and meetings with a diverse set of stakeholders, aiming at disseminating information and engaging a broader public. Examples of such presentations are: 'Zero Carbon Connection' event, in São Paulo; UNFCCC Latin America and Caribbean Climate Week, in Salvador; presentation to the board of the Brazilian chemical sector association (ABIQUIM), in São Paulo; the Low Carbon Industry Technical Chamber (CTIBC), in Brasilia; presentation to leaders of the CEBDS (videoconference).

Challenges:

The consultation initiatives definitely have contributed to increase stakeholder engagement in carbon pricing. Subsectors interested in an ETS have been pressing government authorities to advance in the

agenda and industry subsectors that tend to lose competitiveness already claim not to oppose an ETS, as long as they are protected against carbon leakage. There's still a need to involve the agriculture and the electricity sector in the agenda.

The main challenge in engaging stakeholders and political figures is related to the intense reform agenda undertaken by the current government, which is demanding the attention of Ministry of Economy higher-level stakeholders – such as the social pensions reform. The team is working towards emphasizing the convergence between the opportunity to develop a CPI in Brazil and the agenda focused on increasing overall economic efficiency, including through enhanced engagement with the private sector.

Other issues related to the Grant's activities

None.

5. ADDITIONAL INFORMATION

In this Section, please provide any additional information that may be relevant for the achievement of the Grant's objectives and/or the implementation of the Grant's activities. Please also provide any relevant information related to carbon pricing and the use of market-based instruments for climate change mitigation.

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