# 1. SUMMARY INFORMATION

<table>
<thead>
<tr>
<th>Implementing Country/Technical Partner:</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Period:</td>
<td>From 10/01/2019 to 09/30/2020</td>
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<tr>
<td>Report Date:</td>
<td>09/28/2020</td>
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<tr>
<td>Implementing Agency:</td>
<td>Ministry of Economy</td>
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</table>
| Contact Person:                        | Marco Aurélio Araújo - General Coordinator for Global Development Institutions of the Secretariat for International Economic Affairs, Ministry of Economy  
                                      Gustavo Fontenele – Coordinator of ‘Green Economy’ of the Special Secretariat for Productivity, Employment and Competitiveness, Ministry of Economy |
| Grant Executed By:                     | World Bank |
| Grant Effectiveness and Closing Dates: | 05/06/2015 – 12/31/2020 |
| Grant Amount (USD):                    | USD 3,000,000.00 |
| Funding Mobilized (USD):               | N/A |
| Funding Committed (USD)                | USD 2,995,500 (commitments + expenses) or approximately 99.9% of the grant’s total value, including: |
|                                        | **Component 1**: USD 1,011,054  
|                                        | Main contract: USD 900,000  
|                                        | Contractual amendment: USD 111,054 |
|                                        | **Component 2a**: USD 588,000 |
|                                        | **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 532,500 (I, II Seminars; I, II, III, IV, V Technical Workshops; Technical Coordination and Technical Support; and smaller and more specific workshops and engagement activities) |
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 December 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 and the Secretariat for Economic Policy has been replaced by the Secretariat for Productivity, Employment and Competitiveness as project’s coordinators.

This ordinance also created a Working Group, formed by representatives from each department of the Secretariat for Economic Policy, 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 five meetings so far, in 09/29/2016, 03/15/2017, 08/22/2018, 02/04/2020 and 09/14/2020.

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 is underway. The White Paper will be put to public consultation in October.
- Knowledge, awareness, and capacity built among relevant stakeholders inside and outside the government, in relation to carbon pricing instruments – 2 seminars and 5 workshops have been held, with a considerable number of participants. Other smaller meetings, webinars and capacity building/knowledge dissemination events with representatives of sectoral associations, the government and the civil society have also been held, mostly via webinars due to the current covid-19 crisis. Additional activities are under consideration, with one more seminar planned until the project’s completion in December 2020 – the be held online.

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.
- Studies to map the economic structure and current policies of the agriculture and forestry sectors – these studies have 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 – these studies have been concluded and referred to the Regulatory Impact Analysis team.
- 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 worked on the scenarios’ description, methodological development for assessing the impacts of the carbon pricing scenarios the gathering of additional information through rounds of stakeholder consultations and on the final evaluation and comparison of regulatory scenarios – these studies have been concluded.

Component 3:

- 3 Seminars for raising awareness and engagement – 2 Seminars have been held.
- 5 Technical workshops on economic modeling – 5 Technical Workshops have been held.
All components are scheduled to be complete by the end of December 2020.

### 3. IMPLEMENTATION REPORT BY COMPONENT

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

<table>
<thead>
<tr>
<th>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?</th>
<th>No</th>
</tr>
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</table>

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.

Moreover, a fifth Technical Workshop promoted the robustness of the White Paper, coordinating the contributions and understanding from all Components.

**Implementation Progress by Component**

### A. Component 1: Studies to inform policy design and modeling

**Status:** Concluded

Component 1 studies were carried out by a group of firms led by WayCarbon. They have worked 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.

Component’s 1 main contract has the following deliverables:

- **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 existing policies in Brazil, in order to maximize synergies, mitigate conflicts and/or prevent undesirable effects;

- **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.

A first analysis of the main Brazilian sectors’ key characteristics was performed under Products 1 and 2. These were submitted to stakeholder review. The incorporation of stakeholders’ comments and suggestions was part of a contract amendment and was carried out by the consultant firm.

Products 3 and 4 focused 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 based on Products 1-4 and its main insights were referred to the consultants of Component 2.

Products 3, 4 and 5 were submitted to stakeholder review. The incorporation of stakeholders’ comments and suggestions was part of a contract amendment due to additional work needed, which was carried out by the consultant firm. This amendment also included a new study on carbon offsets from the forestry sector, which was incorporated in the design solutions of Product 6 and by the consultants of Component 2, which corresponds to the main Project Development Objective.

The contractual amendment to Component 1 has the following deliverables:

- **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.
<table>
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<tr>
<th><strong>- Product A.3</strong></th>
<th>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.</th>
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<tbody>
<tr>
<td><strong>- Products B.1.1 &amp; B.1.2</strong></td>
<td>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.</td>
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<tr>
<td><strong>- Products B.2.1 &amp; B.2.2</strong></td>
<td>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.</td>
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All of the Component’s products have been delivered and approved.

| Comments: | 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 current 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. |

**B. Component 2: Impact assessment of Carbon Pricing**

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<th>Status:</th>
<th>Concluded</th>
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Implementation progress per contract:

- **Component 2a**: Integrated economic modelling to assess the socioeconomic impacts of the implementation of the proposed policy packages – the consultant firm carried out the activities as planned. In addition to the inception report, the contract has the following deliverables:
  - **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.

All products have been delivered and approved.
- **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 was growing among the Project’s team. Also, the communication between parts had become a struggle.

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.

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 made the referral of activities smoother.

The amendment was signed and activities were completed according to schedule. The contract had the following deliverables:

- **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 questionaries’ 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.
<table>
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<tr>
<th>All products have been delivered and approved.</th>
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<tr>
<td>Comments: The process of cancelling Component 2B’s former contract and hiring the new team to carry out the work has taken more time than initially estimated. The new team had 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 remained unchanged and the robust results were generated.</td>
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C. **Component 3: Awareness Raising and Capacity Building**

<table>
<thead>
<tr>
<th>Status:</th>
<th>Under implementation</th>
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<tbody>
<tr>
<td>Regarding the communication, knowledge dissemination and stakeholder engagement events promoted by Component 3: the 1st Seminar (Dec., 2016), 1st Workshop (Dec., 2016), 2nd Workshop (May, 2017), 2nd Seminar (Oct., 2017), 3rd Workshop (May, 2018), 4th Workshop (Dec., 2018), 5th Workshop (Dec., 2019 and Apr. 2020) have been held successfully.</td>
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<tr>
<td>Regarding the events that the component must organize, only one remain:</td>
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<tr>
<td>• 3 Seminars for raising awareness and engagement – 2 Seminars have been held.</td>
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<tr>
<td>• 5 Technical workshops on economic modeling – 5 Technical Workshops have been held.</td>
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<tr>
<td>The 5th Workshop took place on December 18th, 2019 and April 15th, 2020. It was the first technical workshop composed by two non-consecutive days, since the objectives of the first and second days were different and the optimal timing for each of them diverged. The first one was an internal workshop between the project’s technical teams and aimed at aligning some key aspects of the final steps of the technical studies, particularly the inputs produced by Components 1 and 2a that would be used in the RIA. The event promoted coordination and coherence among all Project’s components, defining interaction points between the teams and the main next steps of each team. The second day was dedicated to a central activity of the RIA process. It was a workshop attended by several project’s stakeholders and aimed at gathering primary information to complement the modelling results and compose the RIA evaluation.</td>
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<td>Initially only four Technical Workshops were planned. However, the project’s team identified the need for one further workshop 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.</td>
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<td>Presently, only one product (out of 34) - related to the last project’s seminar – is yet to be delivered. All other products have already been delivered and approved.</td>
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<tr>
<td>Comments: The team of Component 3 is also carrying out the RIA, as described above. Such contract was implemented through a second contractual amendment.</td>
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4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<table>
<thead>
<tr>
<th>Important policy or regulatory developments related to the Grant’s objectives and activities:</th>
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<tr>
<td><strong>Developments:</strong></td>
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<tr>
<td>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 (when consumers can chose the substitute fossil fuel instead and there are no compulsory biofuel blending mandates in force). The National Commission on Energy Policy shall establish each year the annual target of CBIO credits that all fuel distributors will have to purchase. The credits are to be traded in the stock market. The program was inspired by Californian Low carbon fuel standard (LCFS), with some differences. 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.</td>
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<tr>
<td><strong>Challenges:</strong></td>
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<td>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. The inclusion of forest-based carbon assets on the scope of eligible offsets in the carbon pricing system and the recycling of a share of the pricing revenues to help combat deforestation are two of the alternatives discussed. 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 some concern about a double regulation on the 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</td>
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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. Such implementation has had some problems, since the specific definitions for the instrument’s operationalization are subject to several technical and political discussions and these are taking a lot of time and generating sub-optimal choices.

Therefore, finding the right balance between comprehensive, transparent ex-ante analyses & definitions and the political strategy to approve the Bill in congress – for which the more definitions you include, the more room you generate for potential criticism – seems to be key. However, it is a great challenge to find such balance.

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

Developments:
Within this reporting period, there were no significant changes in the technical design or approach related to the Grant’s activities. The only notable modifications were related to the social distancing measures in force due to the current covid-19 crisis, which made it necessary to change the knowledge dissemination and engagement activities to an online format.

However, throughout the project’s implementation, the project’s Executive Committee has worked on amendments for the contracts of Components 1 and 3. For Component 3, the amendment did not include significant technical changes, building upon previous work.

For Component 1, the amendment broadened the sectoral scope of the analysis, since it included the forestry sector. The amendment also reinforced the project’s connection with its stakeholders and the connection between the project’s components, since it provided 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 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, the changes in the Government’s personnel, the covid-19 pandemics restrictions and delays observed.
Since the project’s components are interdependent, delays in any component have ripple effects on the others and the teams needed 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. Also, a strong need for awareness and knowledge dissemination on carbon pricing in Brazil was identified. The project’s team worked on a series of open online workshops on the theme, which had significant participation.

Also, 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 to be able 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, the main counterpart of the project in the Ministry of Economy changed. The Secretariat for Economic Policy, which had been involved since the beginning of the project, was replaced by the Secretariat for Productivity, Employment and Competitiveness, and the whole team in charge of the technical part project in the government changed. The engagement and updating of such new team was a great challenge.

In addition, in 2019 there were also changes in the project coordinators of both the World Bank and the Ministry of Economy. 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 sectoral 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 and Innovations (MCTI), which established a technical cooperation agreement with the Ministry of Economy to facilitate the exchange of databases and other relevant information between both projects.

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) developed 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 was 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 2017 and was finalized last year, and were related to the MRP activities. The debates on the MRV system are now led by the MCTI, who is responsible for the National GHG Emissions Registry System (SIRENE) and is developing a platform for organizational GHG reporting. The PMR team has been in close contact with them.

More recently the project’s team has engaged on talks with representatives from the private sector that support the carbon pricing agenda in Brazil. Several in person and online meetings and were held with representatives of sectoral associations and private sector companies. There were also meetings with civil society organizations.

Challenges:
The most important challenge of this last semester of the project is the high-level stakeholder engagement, mainly within the Ministry of Economy. To reach this objective, the project’s team has had regular meetings with the Ministry of Economy team and focused on aligning the project’s narrative with some of the governments most prominent objectives, such as the effort to increase the efficiency of Brazil’s economy. The use of a market-oriented instrument – a CPI – in comparison with the alternatives for climate policy (such as top-down regulations on technologies) has been highlighted as a more efficient option. Moreover, the abovementioned connections with private sector institutions are also meant to spur higher level engagement.

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. However, a strong political engagement strategy is also key for the successful implementation of CPIs. Further efforts to communicate the results and proposals of the project are important at the current stage. The process related to the elaboration, consultation and revision of the white paper should help in this regard.

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<th>Stakeholder engagement related to the Grant’s activities:</th>
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<tr>
<td>Developments:</td>
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<tr>
<td>On December 18th, 2019 and April 15th, 2020, the PMR Project held a Technical Workshop (5th Workshop). The first day had the participation of the project’s technical teams to align</td>
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understandings and make any final adjustments to the technical studies needed. The second day had the participation of approximately 50 stakeholders from the private and public sectors, the academia and civil society. The workshop aimed at gathering primary information to complement the modelling results and compose the RIA evaluation.

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. Recently, many private sector companies and associations have been demanding meetings to better understand the scope and objectives of the project and, in particular of its white paper. Also, the project’s team has had several meetings with governmental stakeholders.

In terms of events to the broader public, the project’s team worked on a series of open online webinars on the theme\(^1\), which had significant participation.

**Challenges:**
The restrictions to in person activities due to the covid-19 pandemics forced the modification of the engagement activities planned, which had to be done remotely, via online meetings. The public webinars and consultation activities have definitely contributed to increase stakeholder engagement in the carbon pricing agenda. Sectors interested in an ETS have been pressing government authorities to advance in the agenda and industry subsectors that tend to have concerns about competitiveness impacts, 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 sectors in the agenda.

The main challenges in engaging stakeholders and political figures are related to current crisis situation and the intense reform agenda undertaken by the Brazilian government, which are demanding the full focus of the Ministry of Economy higher-level stakeholders. The team is working towards emphasizing the convergence between the opportunity to develop a CPI in Brazil and the ministry’s priority agendas, focusing on increasing overall economic efficiency. The team is also working on enhancing private sector engagement.

**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.

\(^1\) The main webinars were named ‘Carbon pricing 101’ and ‘Carbon pricing: from theory to implementation’, and focused on awareness raising, knowledge sharing and capacity building.
A legal analysis of the requirements for the successful implementation of a CPI in Brazil and of the institutional developments needed for the operation of an ETS in the country was developed to complement the Brazil PMR Project’s results. The project’s team guaranteed the elaboration of such studies through a pro bono support from a legal firm in Brazil. After a couple of in person engagement meetings, ‘Stocche Forbes’ law firm agreed to provide pro bono support to the project. The legal analyses have already been concluded and complements the project’s previous work. They looked at the legal instrument to create the regulation; the legal nature of the ETS’ main asset, the emission allowances; and at the institutional framework options for the operation of the ETS.