

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)
1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Colombia
Reporting Period:	From 04/15/2019 to 04/25/2020
Report Date:	04/25/2020
Implementing Agency:	Ministry of Environment and Sustainable Development (Minambiente) Department of National Planning (DNP).
Contact Person:	DNP/ MinAmbiente : Santiago Aparicio, Deputy Director, Sustainable Development (DNP) Francisco Charry Ruiz, Director, Climate Change (MinAmbiente)
Grant Executed By:	World Bank
Grant Effectiveness and Closing Dates:	12/28/2018- 12/15/2020
Grant Amount (USD):	USD 3,000,000 C1: Support to the Development of an Emissions Trading System: USD 1,150,000 C2: Planning for Implementation of Colombia's Nationally Determined Contribution: USD 950,000 C3: Capacity building, knowledge management, communications: USD 485,000 C4: Project management, technical coordination, others: USD 415,000
Funding Disbursed or Committed	As of March 15, 2020: USD 1,665,721.19

2. OVERVIEW

Within the framework of the Paris Agreement, ratified through Law 1844 of 2017, the Government of Colombia presented its Nationally Determined Contribution (NDC), with a commitment to reduce 20% its greenhouse gas emissions (GHG) by 2030 with regard to the 2015 baseline. To implement the NDC, the government considered the use of economic instruments to achieve this goal. Colombia's National Policy on Climate Change states that there are "different mechanisms, including economic and financial instruments, to achieve low-carbon and climate change resilience development" to meet the mitigation objectives. (MINAMBIENTE, 2017).

The Ministry of Environment and Sustainable Development (MINAMBIENTE) and the National Planning Department (DNP), with the support of the Partnership for Market Readiness (PMR), implemented by the World Bank, developed a preliminary road map between 2016 and 2017 for the design of an emissions trading system (ETS), as well as an evaluation of the potential macroeconomic effects of introducing a carbon price setting instrument in Colombia. The evaluation was carried out to inform, in a preliminary manner, on the role and viability of an ETS in the Colombian context.

This technical progress and development of information for the implementation of an ETS was complemented with legal and regulatory changes with regard to climate change, within which the approval of Law 1819 of 2016 should be emphasized, which created the carbon tax; the establishment of a carbon neutrality mechanism (Decree 926 of 2017); the regulation of the Monitoring, Reporting, and Verification System (Resolution 1447 of 2018); and Law 1931 of 2018, which provides the legal basis for Colombia's ETS, the National Program of Tradable Greenhouse Gas Emission Quotas (Programa Nacional de Cupos Transables de Emisión de Gases a Efecto Invernadero, PNCTE). Similarly, within the framework of the National Development Plan (NDP) 2018-2022 "Pacto por Colombia, pacto por la equidad," the design of this program is proposed as one of the market instruments to encourage the private sector to reduce its GHG emissions and in this way advance in the fulfillment of the goal included in the plan, which establishes a cumulative reduction of 36 million tons of CO₂ equivalent with respect to the national reference scenario I1.

Considering the above, the Implementation Plan described below was designed to inform the decision-making, to continue advancing in the development and implementation of the different policy instruments. In particular: i) the regulation of the PNCTE; ii) the strengthening of the National Inventory System and the Corporate Report on GHG Emissions; and iii) the involvement of different interest groups, through the communications strategy, awareness and capacity building, which was proposed as a transversal axis to components i) and ii).

IMPLEMENTATION PLAN

The PMR Colombia readiness project has three components:

i) Technical Input to Emissions Trading System design process

a) The design of an Emissions Trading System (ETS), as well as accompanying activities to engage stakeholders in the design process, including b) simulations of an ETS and c) ETS courses for the public and private sectors.

<p>II) Planning for implementation of Colombia’s Nationally Determined Contribution (NDC): a) Technical support for the development of the National System of GHG Inventories; b) Improvements for monitoring achievement of the NDC; c) Review, update and refine sectoral reference emissions scenarios to estimate the contribution of specific actions to meeting NDC targets; and d) Analysis of emerging market-based instruments that could contribute to the implementation of Colombia’s NDC- Article 6 Paris Agreement-PA -.</p> <p>III) Stakeholder engagement, capacity building, and communications</p> <p>a) Stakeholder engagement, capacity building, and communications strategy for ETS development. b) Stakeholder engagement, capacity building, and communications strategy for MRV.</p>

3. IMPLEMENTATION REPORT BY COMPONENT

Differences between the Objectives/Activities in the Market Readiness Proposal and the Implementation Plan

<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>As stated in the overview, policy as it relates to climate change has been changing in the country rapidly, consequently it was necessary initially the proposed operational plan was adjusted. This was due to the fast evolution of policies and to respond in a timely manner to the decision-making processes.</p>
<p>There are no substantive differences between the objectives/activities proposed in the MRP and endorsed by the PA of the PMR and the implementation plan.</p>	

Implementation Progress by Component

<p>A. Component 1: Inputs into the Design of an Emissions Trading System</p>	
<p>Status:</p>	<p>To this date, the national government already has the main inputs to the technical design of the PNCTE. The analysis and discussions have focused on four areas and 11 decisions. These areas are: i) market creation; ii) market operation; iii) decisions beyond the ETS and iv) governance.</p> <p>In terms of market creation, the country has advanced in the definition of the scope, the set of caps and the decision on the use of offsets. Specifically:</p> <p>The scope of application: It included the sectors and gases, points of regulations for each sector and a possible threshold of GHG emissions. Depending on the available data and the mitigation potential of sectors, the government considered that some sectors will be part of the PNCTE in phase 1 and others in phase 2. The gases included are directly related to GHG emitted by the covered sectors by the</p>

	<p>policy.</p> <ul style="list-style-type: none"> • The cap: The technical team analyzed some pathways of the cap, considering different initial points of the policy and the Colombian NDC as long-term goal to the country. The historical data on emissions was crucial in this task and to its set continually. • The offsets: The country studied the impact of the offsets in the ETS and the sources that might generate them (by sectors, projects or jurisdictions). To the government, the quality of the offsets is an important attribute to ensure the integrity of the PNTCE, and for that reason, this aspect was included in the analysis. <p>The discussions about the market operation were concentrated in the distribution of allowances, the price stability, and the flexibility mechanisms.</p> <ul style="list-style-type: none"> • The distribution of allowances: The country considered the auctions as a mechanism to distribute the allowances because they preserve incentives for cost-effective abatement and raise revenue. However, the technical group also analyzed the option to give free allowances, based on the need of reducing the risk of carbon leakage or loss of competitiveness of some sectors and manage the transition into an ETS. In this regard, the government identified the need to study deeply the sectors' competitiveness to make a better decision, even when the government hopes that all sectors participate in the auctions in the long term. • The price stability: The government assessed different mechanisms to manage the risk of price variability, including price ceiling, price floor, soft prices and hard prices, and their relevance to the new Colombian market. • The flexibility mechanisms: In this decision, the technical team analyzed the pros and cons of banking and borrowing allowances between periods (temporal flexibility), but also focused on the design of the secondary market, as a tool that allows purchasing allowances to the agents in any moment of the compliance period. <p>The decisions beyond the ETS included the interaction with other policies, the use of revenues and the monitoring, reporting and verification system of GHG emissions (MRV).</p> <ul style="list-style-type: none"> • The interaction with other policies: Given that Colombia already has a carbon tax, the technical team concentrated on defining the type of interaction that this economic instrument and the carbon neutrality mechanism could have with the ETS. The options analyzed included keeping both tools because they are complements or eliminate the carbon tax because they are substitutes. • The use of revenues: In this point, the national government studied the potential use of the resources that would be generated by the auctions, its important role to improve the political support and the advantages and disadvantages of the fund defined by the climate change law to receive the revenues (FONAM – National Environmental Fund). • The MRV: Taking into account that this system is a key factor for a good
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	<p>operation of an ETS, the country identified the relevance of developing it before phase 1 of the PNCTE. Some tasks to carry out for its implementation are the regulation for monitoring and reporting, the definition of the methodologies to monitor GHG emissions and the generation of templates for monitoring plans.</p> <p>The government has also undertaken efforts to understand what governance would be of the ETS. For that purpose, topics like the institutional framework and sanctions regime have been studied.</p> <ul style="list-style-type: none"> • The institutional framework: Under this issue were identified the possible public and private entities that would be in charge to implement the different aspects of the PNCTE. To do this, the country analyzed the competences of environmental and planning institutions and conducted a couple of surveys to confirm a feasible distribution of liabilities. • The sanctions regime: Based on the climate change law, the government has progressed with the creation of a draft sanctions regime that ensures the compliance of the regulated agents. This regime would consider economic penalties and reputational implications of noncompliance depending on the fault. <p>In the context of the PMR preparation grant, the World Bank is hiring consulting services to support the technical team of the National Planning Department in updating the Colombian Computable General Equilibrium Model for Climate Change (MEG4C, for its acronym in Spanish).</p> <p>Finally, the country already has a schedule with all the main activities to execute previous and during the operation of the ETS.</p>
Comments:	N/A
<p>B. Component 2: Planning for Implementation of Colombia’s Nationally Determined Contribution</p>	
Status:	<p>Mandatory Greenhouse Gas Reporting Program</p> <ul style="list-style-type: none"> • The analysis for designing options for a Mandatory Greenhouse Gas Reporting Program in Colombia initiated in November 2019. • The design is based, among other aspects, on previous studies and initiatives performed in Colombia seeking GHG reporting, and the Guide for Designing Mandatory Greenhouse Gas Reporting Programs (WRI-WORLD BANK GROUP) • The analysis has been done taking into account recommendations about the objectives initially set for the Program by the government entities involved in the PMR project. • For the time being, the objectives of the Program are oriented to: i) collect information on GHG emissions in a standardized, validated and verified manner in accordance with quantification and reporting methodologies,

	<p>and in accordance with national information systems, ii) facilitate the evaluation of interventions to reduce GHG emissions and the identification of new mitigation opportunities, iii) support national decision-making on GHG mitigation, and iv) enhance transparency continuously.</p> <ul style="list-style-type: none"> • Currently, the following aspects are being defined based on pros and cons analysis of different options for each aspect: <ol style="list-style-type: none"> i. <u>Scope and coverage of the program</u>: definition of the type of facilities and companies that will be part of the program, the type of emissions to be reported (direct and / or indirect), the type of gases, the thresholds, among others. ii. <u>Methodology (s) for estimating GHG emissions at the facility/company level</u>: definition of technical guidelines for emissions quantification according to emissions sources, company activities, measurement and calculation methods, emission factors, data quality and accuracy levels. iii. <u>Mechanisms for collection and management of GHG information</u>: definition of the type and structure of reporting information including aspects such as the frequency of reporting, associated documents, management of documentation archive, among others. • These aspects are being analyzed jointly with the technical team in the Ministry of Environment in the Division of Climate Change with the support of people of IDEAM (Institute of Hydrology, Meteorology and Environmental Studies). • The design has considered simultaneously the information systems and platforms already existing in Colombia within the environment and climate change framework, in order to develop a technical proposal for the architecture to operationalize the conceptual and logical model of the Platform according, including the calculator for estimating GHG emissions. • The final component of this analysis will be addressed to design the components associated to quality assurance and control procedures, roles and functions of the actors involved, costs for preparation, implementation and administration of the program, financial resources, and analysis of normative and regulatory aspects. <p>Cooperative Approaches under the Paris Agreement</p> <ul style="list-style-type: none"> • The process of reviewing opportunities & challenges for Colombian engagement in Cooperative Approaches under the Paris Agreement and other emerging market-based instruments, initiated in August 2019. • The aim of this process is giving government of Colombia technical elements to address the international cooperation mechanisms presented by Article 6 of the Paris Agreement in its strategy to meet national development and climate policy objectives. • Through different analysis moments, and the permanent interaction within the coordinator entities of PMR in Colombia, the country has the following results: i) understanding of the potential of Article 6 mechanisms
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	<p>to support domestic mitigation measures (including market mechanisms, NDC implementation and increased ambition, and regional cooperation), ii) assessment of the challenges and opportunities for the CDM transition and development of recommendations to best manage that transition and embrace SDM, and iii) understanding of pros and cons on CORSIA participation and supply of offsets to the CORSIA market</p> <ul style="list-style-type: none"> • The next step is preparing a consolidated document proposal, with the objective of provide basis for government of Colombia to maximize its successful engagement with international market-based climate change mitigation measures. The output of this step will be roadmap for the orderly and articulated implementation of market-based economic instruments. <p>Carbon Tax and Offset Mechanism</p> <ul style="list-style-type: none"> • The evaluation of Colombia's Carbon Tax and Carbon Neutrality Mechanism initiated in March 2020. • The work plan for this process is completed, which permits to clarify the methodology of the work and to ensure an effective and efficient start to the study • The next activities to perform are the following: <ol style="list-style-type: none"> i. evaluate the GHG mitigation initiatives presented to the Ministry of Environment for offsetting the national carbon tax, to determine the level of compliance with the legal requirements established by the Decree 926 of 2017 and Resolution 1447 of 2018 ii. evaluate the administrative procedure for the national carbon tax offsetting mechanism for recommending improvements and proposing an information management system iii. analysis of the supply of mitigation projects generated within the framework of the carbon tax offsetting mechanism, the demand for the corresponding carbon credits, and the relation between demand-supply iv. assessment of the economic and environmental impacts of the carbon tax and its offsetting mechanism, and v. recommendations on how to improve the procedural aspects of the carbon tax offsetting mechanism as well as suggestions on how the carbon tax impact can be optimized. <p>Update and consolidation of national GHG emissions and mitigation scenarios</p> <ul style="list-style-type: none"> • The analysis for updating and aggregation of national GHG emissions and mitigation scenarios is in process to be initiated. With the support of this process, Colombia aims to have following outcomes: <ol style="list-style-type: none"> i. aggregation of GHG emissions reference scenarios (sector baseline scenarios)
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	<ul style="list-style-type: none"> ii. aggregation of GHG emission mitigation scenarios (decarbonization scenarios) iii. integrate and consolidate information on costs associated with sectoral GHG emission mitigation measures, and iv. analysis of the changes with respect to the first NDC defined by the country and propose improvement actions.
<p>Comments:</p>	<p>The design of the Mandatory Greenhouse Gas Reporting Program in Colombia has been performed under interaction with the design of the Emissions Trading Scheme.</p> <p>Both designs have had inputs and feedback from the Ministry of Environment, National Planning Department, and Ministry of Finance.</p> <p>The analysis derived from assessments of article 6 of Paris Agreement and from assessments of carbon tax and its offset mechanism, are also oriented to enhance the analysis associated to the design of the Emissions Trading Scheme.</p>

C. Component 3: Stakeholder Engagement, Capacity Building, and Communications

<p>Status:</p>	<p>Readiness process for implementation:</p> <p>Component 3: Stakeholder Engagement, Capacity Building, and Communications</p> <p>To date the progress has been made in the following activities as they relate to the contracting processes:</p> <ul style="list-style-type: none"> • A baseline built from a documentary review and different qualitative tools that includes the description of communication processes and public awareness of current environmental policies, and a review and evaluation of communication strategies and public awareness of prioritized policies. This was complemented with a press review using the same methodological tools. • A stakeholder mapping, presenting their scope and classifying by groups and subgroups in an influence-interest matrix and their characterization. • A market research including the main results of the survey of the general public and focus groups in Bogotá, Medellín and Cali. • Based on different qualitative tools and results of an online questionnaire, an analysis of training and capacity building needs, addressing their scope and objectives, as well as a gap evaluation • A stakeholder engagement and communications strategy, which were prepared based on the previous activities. The communications piece contains main objectives and positioning strategy, focusing on communication and public awareness related to an ETS. Some of the contents of this strategy are audience segmentation (categorized by internal, key interested actors, general public, and communicators), narratives and sub-narratives with their explanations, communication and participation channels for each audience, communicators selection, and risk management. It also proposed a list of arguments against and possible answers to them. • A capacity building strategy that has its own objectives and learning
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	<p>modules scheme for creating the institutional, networking, leadership, and knowledge capacities for an ETS. This strategy was designed to be articulated with an ETS design for Colombia.</p> <ul style="list-style-type: none"> • Beyond the strategy, some other capacity building activities were implemented. Colombia hosted the “ICAP Regional Training Course on Emissions Trading 2019” with the participation of Governmental and other leaders on carbon pricing in the region. • Four Government representatives participated in the “PMR Communicating carbon pricing course” in Costa Rica. • In terms of Communications, during the annual “Climate Finance Event” in Colombia, the PMR prepared an ETS dynamic game to make aware the country’s climate finance leaders about the ETS concept.
Comments:	Additional activities were done as stated in the last bullets above

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

<p>Important policy or regulatory developments related to the Grant’s objectives and activities:</p>
<p><i>Developments:</i></p> <p>The decree 926, 2017, stimulated the formulation and implementation of initiatives to reduce or remove GHG emissions in exchange for non-causation of the carbon tax. Likewise, the decree encouraged the development of new carbon standards at the national level and the creation of a local registration platform. It is also important to mention that new business opportunities have been generated around the initiatives to reduce or remove GHG emissions.</p> <p>The decree 926, 2017, is finalizing the process of being modified in order to consider the Colombian context of the installed capacity around the validation and verification processes.</p> <p>Likewise, in order to support the registration of GHG emissions reduction or removal initiatives that seek non-causation of the carbon tax, progress has been made in the implementation of the RENARE platform (National Registry of Emission Reductions), which is waiting to be released soon.</p> <p><i>Challenges:</i></p> <p>The timeframe for the PNCTE regulation is three years starting in 2018. The challenge implies challenges regarding the effective connection of the interest groups, involved in the design process of the PNCTE and the institutionalization, at the public and private level.</p> <p>Another challenge is for the actors to appropriate and make use of the RENARE platform. It is expected to achieve coherence between the design of the platform and the information system of which this platform is part. Likewise, the entire information system is expected to contribute to accounting purposes with transparency according to the criteria of the Paris Agreement.</p>

Lessons learned:

The design of regulations and public policies must consider the existing capacities in the country to implement and maintain those policies or regulations, and the transitions required until full implementation. Transition times should also be considered within the design.

It is necessary to give national validation and verification bodies tools to strengthen them; the coherence between the credentials that the validation and verification bodies have, must also be considered.

The joining of the different government parts is key, so the process is not an isolated initiative before the challenges faced by the country. The sustainability agenda will be considered transversal to the development, as established in the Bases of the National Development Plan 2018-2022 “Pacto por Colombia, pacto por la equidad”.

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

As a result of the notable progress shown by the Colombian government, in terms of execution of activities, the World Bank decided to extend the technical support that the PMR has given to the country until November 2020 (the initial close date was June 2020). Under this context, the national entities involved in this project have planned to implement the communications and capacity building strategy developed in this process and endorses the update of MEG4C.

Other important changes to consider in the operational plan are related to carrying out a consultancy for assessing the carbon tax and its carbon neutrality mechanism instead of supporting the strengthening of the SINGEI.

Challenges:

The main challenge that the government technical team has had to face is related to feedback the considerable volume of information that is been produced in the different topics, according to the schedules. This situation has produced some delays in the sending of comments and the lack of the total appropriation of the issues within the government.

Lessons learned:

There are two of the reasons that explain the goods results of Colombia: i) the establishing of a project institutional arrangement that ensures the coordination work between the three national entities involved in this process (DNP, MINAMBIENTE and the Ministry of finance -MINHACIENDA); ii) the contracting of consultants that form part of the DNP, MINAMBIENTE and MINHACIENDA, with the unique dedication to the project to coordinate and follow up of the activities of the operational plan.

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

Developments:

The technical committee of the PMR in Colombia has attended two training workshops:

- How to communicate carbon pricing policies: the committee strengthened its capabilities to socialize carbon pricing instruments, considering the values and priorities of the different actors, in order to achieve stakeholder involvement as required by the process.
- ICAP Academy on Emission Trading Schemes: The committee had the opportunity to receive training in the main aspects that are part of the design, the relation between them, the experiences of different systems in the world and the application of knowledge through various practical exercises

Additionally, a PMR consultant for Ministry of Finance has been hired in order to give more support to the engagement of this Ministry in the PMR process.

Challenges:

An important challenge is the gap of time in the establishment of the regulation of the PNCTE due to the law and the time necessary for the capacity building of actors in relevant institutions of the program.

It is necessary to understand in detail all the legal and regulatory implications associated with the concept of carbon, and to adequately socialize to the relevant actors the understanding reached in the concept of carbon, given that for many actors the concept of carbon is relatively new and represents an intangible that is difficult to understand for some actors. It is necessary to increase the capacity of professionals (lawyers) to address and develop jurisprudence around the concept of carbon.

It is expected for IDEAM (Institute of Hydrology, Meteorology and Environmental Studies) as the entity in charge of GHG emissions information in the country, to increase its participation in the design of the different policies and its feedback for the different technical studies,

It is also expected to generate the national framework for national validation and verification bodies to strengthen their capacities in order to give the appropriate support to the Emission Trading Scheme and the Mandatory Program for GHG Reporting.

Lessons learned:

It is important for technical people involved in technical studies of policy formulation or in policy design, to strengthen their technical and communication skills, in order to generate better feedbacks and better manage feedback from different actors.

As part of capacity building, it is important to consider all possible aspects to be strengthened, for example, improvements in the general equilibrium model (MEG4C), the implementation of priority

<p>activities established in the communications strategy, and the implementation of the first capacity building modules.</p>
<p>Coordination with other carbon pricing initiatives, including those funded by other donors:</p>
<p><i>Developments:</i></p> <p>The establishment of an institutional agreement for the project ensures the coordination work (DNP, Minambiente and the Ministry of Finance -Minhacienda) and takes into account the relevant and specific initiatives of the central government and other actors.</p> <p>The current ETS design includes a proposal for interaction between the carbon tax and the ETS, the definition of the methodologies to monitor GHG emissions and the generation of templates for monitoring plans (MRV component) take into account other initiatives and developments in charge of Minambiente.</p> <p><i>Challenges:</i></p> <p>Regarding interaction with other initiatives, the challenges are to agree on the type of interaction between the carbon tax, the carbon neutrality mechanism and the proposed ETS. To update the NDC defined by the country and its improvement actions, coordination with sectoral mitigation plans is necessary.</p> <p>And the MRV proposal must take into account the development and requirements of the information system of others, and at the same time specify its own characteristics. It is expected for other entities to increase its participation in the design of the different policies</p>
<p>Stakeholder engagement related to the Grant's activities:</p>
<p><i>Development:</i></p> <p>The project successfully implemented its Component III Stakeholder engagement, capacity building, and communications direct activities with interest groups which included a current estate assessment and Communications and Capacity building Strategies. Beyond what was planned, some additional training and communications activities were implemented with main stakeholders.</p> <p><i>Challenges:</i></p> <p>Communicating an ETS policy is a very challenging task, not only because of its technical complexity, but because it can have lots of opposition. There are many risks associated to this process. At the same time, Implementing an ETS requires many capacities in the country for having an effective implementation.</p> <p><i>Lessons learned:</i></p> <p>Communicating an ETS is successful if a proper narrative is used for each audience segment. This</p>

understanding has been key for planning PMR's next steps, which include the production of marketing and digital content material, and the implementation of capacity building activities.

Another lesson from this process is that there are many ETS training tools around, like the PMR trainings on carbon pricing communications and ETS design, that can be used by the Colombian Government to build capacity in their public and private institutions that will be involved in an ETS.

Other issues related to the Grant's activities

N/A

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5. ADDITIONAL INFORMATION

Overview of project implementation arrangements

